**APPENDIX 'B'**

**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.

Role extended by the revised CIPFA Treasury Management and Prudential Codes 2017as set out below.

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

## APPENDIX ‘C’ - COUNTERPARTY LIST 2021/22

| 2021/22 Counterparty/Bank List | Fitch Rating | | | | | Moody's Ratings | | | S&P Ratings | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Long Term Status | Long Term | Short Term | Viability Status | Viability | Long Term Status | Long Term | Short Term | Long Term Status | Long Term | Short Term | Suggested Duration | Suggested Duration (Watch/Outlook Adjusted) | CDS Price | Invest. Limit |
| **Australia** | NO | AAA | | | | SB | Aaa | | NO | AAA | | Not Applicable | Not Applicable | 13.48 | £5m |
| Australia and New Zealand Banking Group Ltd. | NO | A+ | F1 | | a+ | SB | Aa3 | P-1 | NO | AA- | A-1+ | O - 12 mths | O - 12 mths | 23.46 | £5m |
| Commonwealth Bank of Australia | NO | A+ | F1 | | a+ | SB | Aa3 | P-1 | NO | AA- | A-1+ | O - 12 mths | O - 12 mths | 24.68 | £5m |
| Macquarie Bank Ltd. | NO | A | F1 | | a | SB | A2 | P-1 | NO | A+ | A-1 | R - 6 mths | R - 6 mths | | £5m |
| National Australia Bank Ltd. | NO | A+ | F1 | | a+ | SB | Aa3 | P-1 | NO | AA- | A-1+ | O - 12 mths | O - 12 mths | 24.68 | £5m |
| Westpac Banking Corp. | NO | A+ | F1 | | a+ | SB | Aa3 | P-1 | NO | AA- | A-1+ | O - 12 mths | O - 12 mths | 25.67 | £5m |
| **Belgium** | NO | AA- | | | | SB | Aa3 | | SB | AA | | Not Applicable | Not Applicable | 8.20 | |
| BNP Paribas Fortis | NO | A+ | F1 | | a | SB | A1 | P-1 | NO | A+ | A-1 | R - 6 mths | R - 6 mths | | £5m |
| KBC Bank N.V. | NO | A+ | F1 | | a | SB | Aa3 | P-1 | SB | A+ | A-1 | O - 12 mths | O - 12 mths | | £5m |
| **Canada** | SB | AA+ | | | | SB | Aaa | | SB | AAA | | Not Applicable | Not Applicable | 37.87 | |
| Bank of Montreal | NO | AA- | F1+ | | aa- | SB | Aa2 | P-1 | SB | A+ | A-1 | O - 12 mths | O - 12 mths | | £5m |
| Bank of Nova Scotia | NO | AA- | F1+ | | aa- | SB | Aa2 | P-1 | SB | A+ | A-1 | O - 12 mths | O - 12 mths | | £5m |
| Canadian Imperial Bank of Commerce | NO | AA- | F1+ | | aa- | SB | Aa2 | P-1 | SB | A+ | A-1 | O - 12 mths | O - 12 mths | | £5m |
| National Bank of Canada | NO | A+ | F1 | | a+ | SB | Aa3 | P-1 | SB | A | A-1 | R - 6 mths | R - 6 mths | | £5m |
| Royal Bank of Canada | NO | AA | F1+ | | aa | SB | Aa2 | P-1 | SB | AA- | A-1+ | O - 12 mths | O - 12 mths | | £5m |
| Toronto-Dominion Bank | NO | AA- | F1+ | | aa- | SB | Aa1 | P-1 | SB | AA- | A-1+ | O - 12 mths | O - 12 mths | | £5m |
| **Denmark** | SB | AAA | | | | SB | Aaa | | SB | AAA | | Not Applicable | Not Applicable | 6.12 | |
| Danske A/S | NO | A | F1 | | a | NO | A2 | P-1 | SB | A | A-1 | R - 6 mths | R - 6 mths | 28.30 | £5m |
| **Finland** | SB | AA+ | | | | SB | Aa1 | | SB | AA+ | | Not Applicable | Not Applicable | 9.35 | |
| Nordea Bank Abp | NO | AA- | F1+ | | aa- | SB | Aa3 | P-1 | NO | AA- | A-1+ | O - 12 mths | O - 12 mths | | £5m |
| OP Corporate Bank plc | | WD | WD | | | SB | Aa3 | P-1 | NO | AA- | A-1+ | O - 12 mths | O - 12 mths | | £5m |
| **France** | NO | AA | | | | SB | Aa2 | | SB | AA | | Not Applicable | Not Applicable | 9.50 | |
| BNP Paribas | NO | A+ | F1 | | a+ | SB | Aa3 | P-1 | NO | A+ | A-1 | O - 12 mths | O - 12 mths | 35.06 | £5m |
| Credit Agricole Corporate and Investment Bank | NO | A+ | F1 | | WD | SB | Aa3 | P-1 | NO | A+ | A-1 | O - 12 mths | O - 12 mths | 24.69 | £5m |

| 2021/22 Counterparty/Bank List | Fitch Rating | | | | | Moody's Ratings | | | S&P Ratings | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Long Term Status | Long Term | Short Term | Viability Status | Viability | Long Term Status | Long Term | Short Term | Long Term Status | Long Term | Short Term | Suggested Duration | Suggested Duration (Watch/Outlook Adjusted) | CDS Price | Invest. Limit |
| Credit Agricole S.A. | NO | A+ | F1 | | a+ | SB | Aa3 | P-1 | NO | A+ | A-1 | O - 12 mths | O - 12 mths | 28.31 | £5m |
| Credit Industriel et Commercial | NO | A+ | F1 | | a+ | SB | Aa3 | P-1 | NO | A | A-1 | R - 6 mths | R - 6 mths | | £5m |
| Societe Generale | SB | A- | F1 | | a- | SB | A1 | P-1 | NO | A | A-1 | R - 6 mths | R - 6 mths | 37.33 | £5m |
| **Germany** | SB | AAA | | | | SB | Aaa | | SB | AAA | | Not Applicable | Not Applicable | 7.61 | |
| Bayerische Landesbank | NO | A- | F1 | | bbb | SB | Aa3 | P-1 | | NR | NR | R - 6 mths | R - 6 mths | | £5m |
| Commerzbank AG | NO | BBB | F2 | | bbb | SB | A1 | P-1 | NO | BBB+ | A-2 | G - 100 days | G - 100 days | 41.56 | £5m |
| Deutsche Bank AG | NO | BBB | F2 | | bbb | SB | A3 | P-2 | NO | BBB+ | A-2 | N/C - 0 mths | N/C - 0 mths | 60.76 | £5m |
| DZ BANK AG Deutsche Zentral-Genossenschaftsbank | NO | AA- | F1+ | | | NO | Aa1 | P-1 | NO | AA- | A-1+ | O - 12 mths | O - 12 mths | | £5m |
| Landesbank Baden-Wuerttemberg | NO | A- | F1 | | bbb | SB | Aa3 | P-1 | | NR | NR | R - 6 mths | R - 6 mths | | £5m |
| Landesbank Berlin AG | | | | | | SB | Aa2 | P-1 | | | | O - 12 mths | O - 12 mths | | £5m |
| Landesbank Hessen-Thueringen Girozentrale | NO | A+ | F1+ | | | SB | Aa3 | P-1 | NO | A | A-1 | O - 12 mths | O - 12 mths | 54.43 | £5m |
| Landwirtschaftliche Rentenbank | SB | AAA | F1+ | | | SB | Aaa | P-1 | SB | AAA | A-1+ | P - 24 mths | P - 24 mths | | £5m |
| Norddeutsche Landesbank Girozentrale | NO | A- | F1 | | bb | SB | A3 | P-2 | | NR | NR | G - 100 days | G - 100 days | | £5m |
| NRW.BANK | SB | AAA | F1+ | | | SB | Aa1 | P-1 | SB | AA | A-1+ | P - 24 mths | P - 24 mths | | £5m |
| **Netherlands** | SB | AAA | | | | SB | Aaa | | SB | AAA | | Not Applicable | Not Applicable | 7.36 | |
| ABN AMRO Bank N.V. | NO | A | F1 | | a | SB | A1 | P-1 | SB | A | A-1 | R - 6 mths | R - 6 mths | | £5m |
| Bank Nederlandse Gemeenten N.V. | SB | AAA | F1+ | | | SB | Aaa | P-1 | SB | AAA | A-1+ | P - 24 mths | P - 24 mths | | £5m |
| Cooperatieve Rabobank U.A. | NO | A+ | F1 | | a+ | SB | Aa3 | P-1 | NO | A+ | A-1 | O - 12 mths | O - 12 mths | 21.24 | £5m |
| ING Bank N.V. | NO | AA- | F1+ | | a+ | SB | Aa3 | P-1 | SB | A+ | A-1 | O - 12 mths | O - 12 mths | 21.24 | £5m |
| Nederlandse Waterschapsbank N.V. | | | | | | SB | Aaa | P-1 | SB | AAA | A-1+ | P - 24 mths | P - 24 mths | | £5m |
| **Sweden** | SB | AAA | | | | SB | Aaa | | SB | AAA | | Not Applicable | Not Applicable | 9.10 | |
| Skandinaviska Enskilda Banken AB | NO | AA- | F1+ | | aa- | SB | Aa2 | P-1 | SB | A+ | A-1 | O - 12 mths | O - 12 mths | | £5m |
| Svenska Handelsbanken AB | NO | AA | F1+ | | aa | SB | Aa2 | P-1 | SB | AA- | A-1+ | O - 12 mths | O - 12 mths | | £5m |
| Swedbank AB | SB | A+ | F1 | | a+ | SB | Aa3 | P-1 | SB | A+ | A-1 | O - 12 mths | O - 12 mths | | £5m |
| **Switzerland** | SB | AAA | | | | SB | Aaa | | SB | AAA | | Not Applicable | Not Applicable | 19.00 | |

| 2021/22 Counterparty/Bank List | Fitch Rating<br>Long Term Status | Long Term | Short Term | Viability Status | Viability | Moody's Ratings<br>Long Term Status | Long Term | Short Term | S&P Ratings<br>Long Term Status | Long Term | Short Term | Suggested Duration | Suggested Duration (Watch/Outlook Adjusted) | CDS Price | Invest. Limit |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Credit Suisse AG | SB | A | F1 | | a- | PO | A1 | P-1 | SB | A+ | A-1 | R - 6 mths | R - 6 mths | 46.92 | £5m |
| UBS AG | NO | AA- | F1+ | | a+ | SB | Aa2 | P-1 | SB | A+ | A-1 | O - 12 mths | O - 12 mths | 27.10 | £5m |
| **United Kingdom** | NO | AA- | | | | SB | Aa3 | | SB | AA | | Not Applicable | Not Applicable | 13.83 | |
| Abbey National Treasury Services PLC | NO | A+ | F1 | | | SB | A1 | P-1 | | | | R - 6 mths | R - 6 mths | | £5m |
| Al Rayan Bank Plc | | | | | | SB | A1 | P-1 | | | | R - 6 mths | R - 6 mths | | £5m |
| Bank of Scotland PLC (RFB) | NO | A+ | F1 | | a | SB | A1 | P-1 | NO | A+ | A-1 | R - 6 mths | R - 6 mths | 49.66 | £5m |
| Barclays Bank PLC (NRFB) | NO | A+ | F1 | | a | SB | A1 | P-1 | NO | A | A-1 | R - 6 mths | R - 6 mths | 56.24 | £5m |
| Barclays Bank UK PLC (RFB) | NO | A+ | F1 | | a | NO | A1 | P-1 | NO | A | A-1 | R - 6 mths | R - 6 mths | | £5m |
| Close Brothers Ltd | NO | A- | F2 | | a- | NO | Aa3 | P-1 | | | | R - 6 mths | R - 6 mths | | £5m |
| Clydesdale Bank PLC | NO | A- | F2 | | bbb+ | SB | Baa1 | P-2 | NO | BBB+ | A-2 | N/C - 0 mths | N/C - 0 mths | | £5m |
| Co-operative Bank PLC (The) | NW | B- | B | NW | b- | SB | B3 | NP | | | | N/C - 0 mths | N/C - 0 mths | | £5m |
| Goldman Sachs International Bank | NO | A+ | F1 | | | SB | A1 | P-1 | SB | A+ | A-1 | R - 6 mths | R - 6 mths | 51.28 | £5m |
| Handelsbanken Plc | NO | AA | F1+ | | | | | | SB | AA- | A-1+ | O - 12 mths | O - 12 mths | | £5m |
| HSBC Bank PLC (NRFB) | NO | AA- | F1+ | | a | SB | A1 | P-1 | SB | A+ | A-1 | O - 12 mths | O - 12 mths | 33.63 | £5m |
| HSBC UK Bank Plc (RFB) | NO | AA- | F1+ | | a | NO | Aa3 | P-1 | SB | A+ | A-1 | O - 12 mths | O - 12 mths | | £5m |
| Lloyds Bank Corporate Markets Plc (NRFB) | NO | A+ | F1 | | | SB | A1 | P-1 | NO | A | A-1 | R - 6 mths | R - 6 mths | | £5m |
| Lloyds Bank Plc (RFB) | NO | A+ | F1 | | a | SB | A1 | P-1 | NO | A+ | A-1 | R - 6 mths | R - 6 mths | 35.97 | £5m |
| NatWest Markets Plc (NRFB) | NO | A+ | F1 | | WD | PO | Baa2 | P-2 | NO | A- | A-2 | G - 100 days | G - 100 days | 56.95 | £5m |
| Santander UK PLC | NO | A+ | F1 | | a | SB | A1 | P-1 | NO | A | A-1 | R - 6 mths | R - 6 mths | | £5m |
| Standard Chartered Bank | NO | A+ | F1 | | a | SB | A1 | P-1 | SB | A | A-1 | R - 6 mths | R - 6 mths | 33.16 | £5m |
| Sumitomo Mitsui Banking Corporation Europe Ltd | NO | A | F1 | | | SB | A1 | P-1 | SB | A | A-1 | R - 6 mths | R - 6 mths | 35.86 | £5m |
| Coventry Building Society | NO | A- | F1 | | a- | NO | A2 | P-1 | | | | R - 6 mths | R - 6 mths | | £5m |
| Leeds Building Society | NO | A- | F1 | | a- | NO | A3 | P-2 | | | | G - 100 days | G - 100 days | | £5m |
| Nationwide Building Society | NO | A | F1 | | a | SB | A1 | P-1 | SB | A | A-1 | R - 6 mths | R - 6 mths | | £5m |
| Nottingham Building Society | | | | | | NO | Baa2 | P-2 | | | | N/C - 0 mths | N/C - 0 mths | | £5m |

| 2021/22 Counterparty/Bank List | Fitch Rating | | | | | Moody's Ratings | | | S&P Ratings | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Long Term Status | Long Term | Short Term | Viability Status | Viability | Long Term Status | Long Term | Short Term | Long Term Status | Long Term | Short Term | Suggested Duration | Suggested Duration (Watch/Outlook Adjusted) | CDS Price | Invest. Limit |
| Principality Building Society | NO | BBB+ | F2 | | bbb+ | NO | Baa2 | P-2 | | | | N/C - 0 mths | N/C - 0 mths | | £5m |
| Skipton Building Society | NO | A- | F1 | | a- | SB | Baa1 | P-2 | | | | G - 100 days | G - 100 days | | £5m |
| West Bromwich Building Society | | | | | | NO | Ba3 | NP | | | | N/C - 0 mths | N/C - 0 mths | | £5m |
| Yorkshire Building Society | NO | A- | F1 | | a- | NO | A3 | P-2 | | | | G - 100 days | G - 100 days | | £5m |
| National Westminster Bank PLC (RFB) | NO | A+ | F1 | | a | SB | A1 | P-1 | NO | A | A-1 | B - 12 mths | B - 12 mths | | £5m |
| The Royal Bank of Scotland Plc (RFB) | NO | A+ | F1 | | a | SB | A1 | P-1 | NO | A | A-1 | B - 12 mths | B - 12 mths | | £5m |
| **United States** | NO | AAA | | | | | Aaa | | SB | AA+ | | Not Applicable | Not Applicable | 7.58 | |
| Bank of America N.A. | SB | AA- | F1+ | | a+ | SB | Aa2 | P-1 | SB | A+ | A-1 | O - 12 mths | O - 12 mths | | £5m |
| Bank of New York Mellon, The | SB | AA | F1+ | | aa- | SB | Aa1 | P-1 | SB | AA- | A-1+ | P - 24 mths | P - 24 mths | 40.35 | £5m |
| Citibank N.A. | NO | A+ | F1 | | a | SB | Aa3 | P-1 | SB | A+ | A-1 | O - 12 mths | O - 12 mths | 48.73 | £5m |
| JPMorgan Chase Bank N.A. | NO | AA | F1+ | | aa- | SB | Aa1 | P-1 | SB | A+ | A-1 | O - 12 mths | O - 12 mths | | £5m |
| Wells Fargo Bank, NA | NO | AA- | F1+ | | a+ | NO | Aa1 | P-1 | SB | A+ | A-1 | O - 12 mths | O - 12 mths | 54.54 | £5m |

| ***Yellow*** | ***Purple*** | ***Blue*** | ***Orange*** | ***Red*** | ***Green*** | ***No Colour*** |
|---|---|---|---|---|---|---|
| | | | | | | |
| *Up to 5yrs* | *Up to 2yrs* | *Up to 1yr (semi nationalised UK bank NatWest/RBS)* | *Up to 1yr* | *Up to 6 months* | *Up to 100 days* | *Not to be used* |

**Watches and Outlooks:** *SB- Stable Outlook; NO- Negative Outlook; NW- Negative Watch; PO- Positive Outlook; PW- Positive Watch; EO- Evolving Outlook; EW- Evolving Watch; WD- Rating Withdrawn.*

| **Non-Specified Investments:** | | | |
|---|---|---|---|
| | **Minimum credit Criteria** | **Maximum Investments** | **Period** |
| UK Local Authorities | Government Backed | £2m | 2 years |

## APPENDIX ‘D’

**ECONOMIC BACKGROUND**

The Link Treasury Services Limited Economic & Interest Rate Forecast and underlying assumptions are:

- **UK.** The key quarterly meeting of the Bank of England Monetary Policy Committee kept **Bank Rate** unchanged on 5.11.20. However, it revised its economic forecasts to take account of a second national lockdown from 5.11.20 to 2.12.20 which is obviously going to put back economic recovery and do further damage to the economy. It therefore decided to do a further tranche of **quantitative easing (QE) of £150bn**, to start in January when the current programme of £300bn of QE, announced in March to June, runs out. It did this so that “announcing further asset purchases now should support the economy and help to ensure the unavoidable near-term slowdown in activity was not amplified by a tightening in monetary conditions that could slow the return of inflation to the target”.
- Its forecasts appeared, at 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”.
- Significantly, there was no mention of **negative interest rates** in the minutes or Monetary Policy Report, suggesting that the MPC remains some way from being persuaded of the case for such a policy, at least for the next 6 -12 months. However, rather than saying that it “stands ready to adjust monetary policy”, the MPC this time said that it will take “whatever additional action was necessary to achieve its remit”. The latter seems stronger and wider and may indicate the Bank’s willingness to embrace new tools.
- One key addition to **the Bank’s forward guidance in August** was a new phrase in the policy statement, namely that “it does not intend to tighten monetary policy until there is clear evidence that significant progress is being made in eliminating spare capacity and achieving the 2% target sustainably”. That seems designed to say, in effect, that even if inflation rises to 2% in a couple of years’ time, do not expect any action from the MPC to raise Bank Rate – until they can clearly see that level of inflation is going to be persistently above target if it takes no action to raise Bank Rate. Our Bank Rate forecast currently shows no increase, (or decrease), through to quarter 1 2024 but there could well be no increase during the next five years as it will take some years to eliminate spare capacity in the economy, and therefore for inflationary pressures to rise to cause the MPC concern. **Inflation** is expected to briefly peak at just over 2% towards the end of 2021, but this is a temporary short-lived factor and so not a concern.
- However, the minutes did contain several references to **downside risks**. The MPC reiterated that the “recovery would take time, and the risks around the GDP projection were judged to be skewed to the downside”. It also said, “the risk of a more persistent period of elevated unemployment remained material”. Downside risks could well include severe restrictions remaining in place in some form during the rest of December and most of January too. **Upside risks** included the early roll out of effective vaccines.
- **COVID-19 vaccines.** We had been waiting expectantly for news that various COVID-19 vaccines would be cleared as being safe and effective for administering to the general public. The Pfizer announcement on 9th November was very encouraging as its 90% effectiveness was much higher than the 50-60% rate of effectiveness of flu vaccines which might otherwise have been expected. However, this vaccine has demanding cold

storage requirements of minus 70c that impairs the speed of application to the general population. It has therefore been particularly welcome that the Oxford University/AstraZeneca vaccine has now also been approved which is much cheaper and only requires fridge temperatures for storage. The Government has 60m doses on order and is aiming to vaccinate at a rate of 2m people per week starting in January, though this rate is currently restricted by a bottleneck on vaccine production; (a new UK production facility is due to be completed in June).

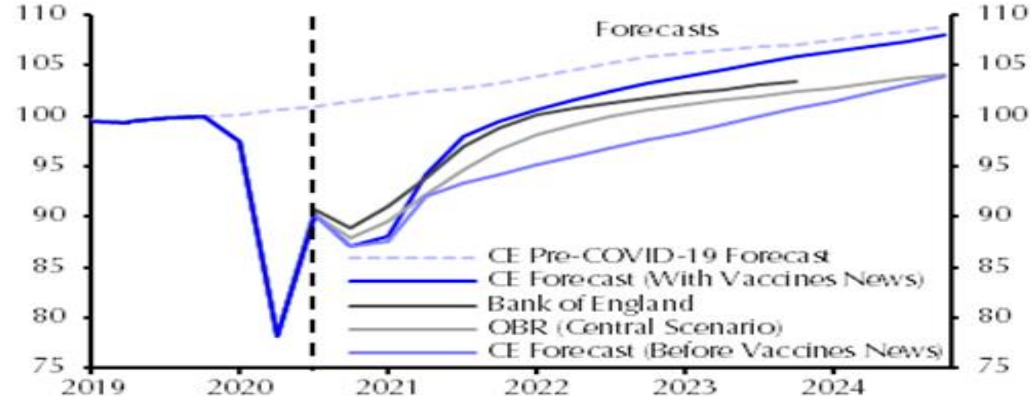
- These announcements, plus expected further announcements that other vaccines could be approved soon, have enormously boosted confidence that **life could largely return to normal during the second half of 2021**, with activity in the still-depressed sectors like restaurants, travel and hotels returning to their pre-pandemic levels; this would help to bring the unemployment rate down. With the household saving rate having been exceptionally high since the first lockdown in March, there is plenty of pent-up demand and purchasing power stored up for these services. A comprehensive roll-out of vaccines might take into late 2021 to fully complete; but if these vaccines prove to be highly effective, then there is a possibility that restrictions could start to be eased, beginning possibly in Q2 2021 once vulnerable people and front-line workers have been vaccinated. At that point, there would be less reason to fear that hospitals could become overwhelmed any more. Effective vaccines would radically improve the economic outlook once they have been widely administered; it may allow GDP to rise to its pre-virus level a year earlier than otherwise and mean that the unemployment rate peaks at 7% in 2021 instead of 9%.
- **Public borrowing** was forecast in November by the Office for Budget Responsibility (the OBR) to reach £394bn in the current financial year, the highest ever peace time deficit and equivalent to 19% of GDP. In normal times, such an increase in total gilt issuance would lead to a rise in gilt yields, and so PWLB rates. However, the QE done by the Bank of England has depressed gilt yields to historic low levels, (as has similarly occurred with QE and debt issued in the US, the EU and Japan). This means that new UK debt being issued, and this is being done across the whole yield curve in all maturities, is locking in those historic low levels through until maturity.
- In addition, the UK has one of the longest average maturities for its entire debt portfolio, of any country in the world. Overall, this means that the total interest bill paid by the Government is manageable despite the huge increase in the total amount of debt. The OBR was also forecasting that the government will still be running a budget deficit of £102bn (3.9% of GDP) by 2025/26. However, initial impressions are that they have taken a pessimistic view of the impact that vaccines could make in the speed of economic recovery.
- Overall, **the pace of recovery** was not expected to be in the form of a rapid V shape, but a more elongated and prolonged one. The initial recovery was sharp 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 5th 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.
- **December 2020 / January 2021**. Since then, there has been rapid backtracking on easing restrictions due to the spread of a new mutation of the virus, and severe restrictions were imposed across all four nations. These restrictions were changed on 5.1.21 to national lockdowns of various initial lengths in each of the four nations as the NHS was under extreme pressure. It is now likely that wide swathes of the UK will remain under these new restrictions for some months; this means that the near-term outlook for the economy is grim. However, the distribution of vaccines and the expected consequent removal of COVID-19 restrictions, should allow GDP to rebound rapidly in

the second half of 2021 so that the economy could climb back to its pre-pandemic peak as soon as late in 2022.

- Provided that both monetary and fiscal policy are kept loose for a few years yet, then it is still possible that in the second half of this decade, the economy may be no smaller than it would have been if COVID-19 never happened. The significant caveat is if another mutation of COVID-19 appears that defeats the current batch of vaccines. However, now that science and technology have caught up with understanding this virus, new vaccines ought to be able to be developed more quickly to counter such a development and vaccine production facilities are being ramped up around the world.

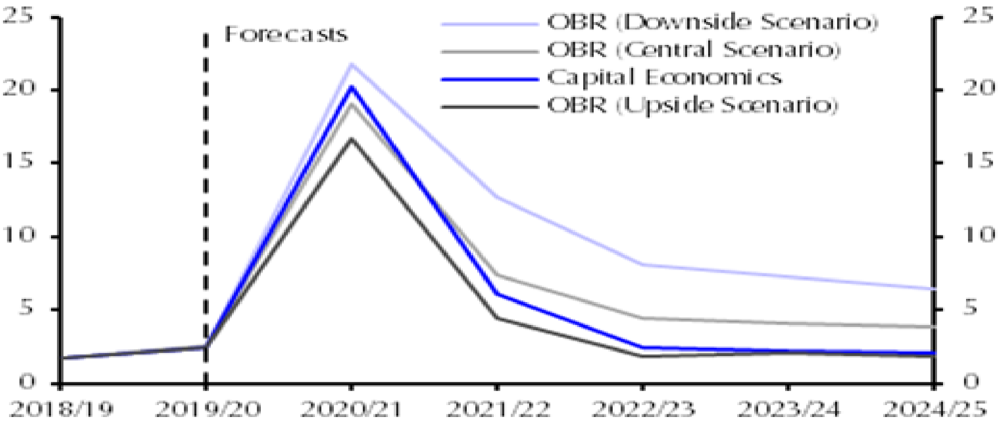
Chart: Level of real GDP (Q4 2019 = 100)

Cha




- This recovery of growth which eliminates the effects of the pandemic by about the middle of the decade would have major repercussions for public finances as it would be consistent with the government deficit falling to around 2.5% of GDP without any tax increases. This would be in line with the OBR's most optimistic forecast in the graph below, rather than their current central scenario which predicts a 4% deficit due to assuming much slower growth. However, Capital Economics forecasts assumed that there is a reasonable Brexit deal and also that politicians do not raise taxes or embark on major austerity measures and so, (perversely!), depress economic growth and recovery.

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




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

- **Brexit.** While the UK has been gripped by the long running saga of whether or not a deal would be made by 31.12.20, the final agreement on 24.12.20, 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. As the forecasts in this report were based on an assumption of a Brexit agreement being reached, there is no need to amend these forecasts.

- **Monetary Policy Committee meeting of 17 December.** All nine Committee members voted to keep interest rates on hold at +0.10% and the Quantitative Easing (QE) target at £895bn. The MPC commented that the successful rollout of vaccines had reduced the downsides risks to the economy that it had highlighted in November. But this was caveated by it saying, "Although all members agreed that this would reduce downside risks, they placed different weights on the degree to which this was also expected to lead to stronger GDP growth in the central case." So, while the vaccine is a positive development, in the eyes of the MPC at least, the economy is far from out of the woods. As a result of these continued concerns, the MPC voted to extend the availability of the Term Funding Scheme, (cheap borrowing), with additional incentives for small and medium size enterprises for six months from 30.4.21 until 31.10.21. (The MPC had assumed that a Brexit deal would be agreed.)

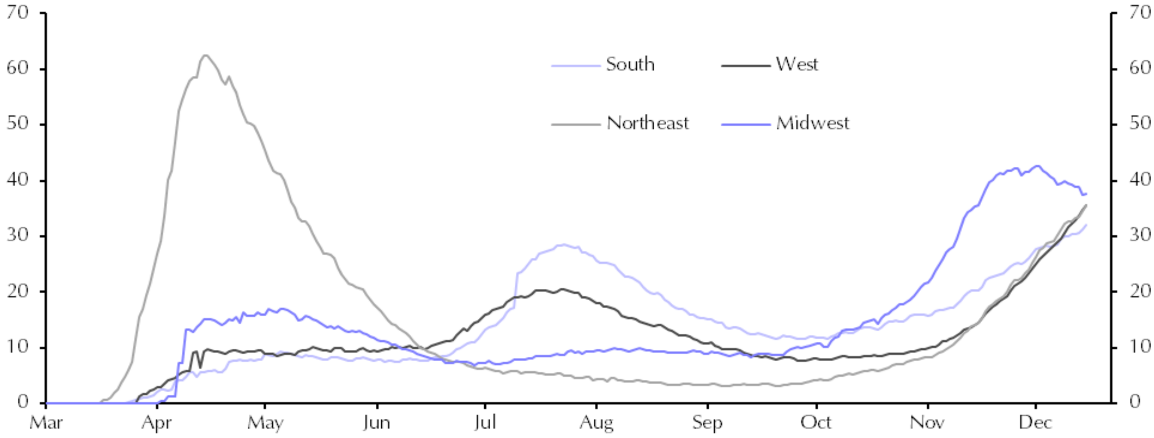
- **Fiscal policy.** In the same week as the MPC meeting, the Chancellor made a series of announcements to provide further support to the economy: -
  - An extension of the COVID-19 loan schemes from the end of January 2021 to the end of March.
  - The furlough scheme was lengthened from the end of March to the end of April.
  - The Budget on 3.3.21 will lay out the "next phase of the plan to tackle the virus and protect jobs". This does not sound like tax rises are imminent, (which could hold back the speed of economic recovery).

- The **Financial Policy Committee** (FPC) report on 6.8.20 revised down their expected credit losses for the banking sector to "somewhat less than £80bn". It stated that in its assessment, "banks have buffers of capital more than sufficient to absorb the losses that are likely to arise under the MPC's central projection". The FPC stated that for real stress in the sector, the economic output would need to be twice as bad as the MPC's projection, with unemployment rising to above 15%.

- **US.** The result of **the November elections** meant that while the Democrats gained the presidency and a majority in the House of Representatives, it looks as if the Republicans could retain their slim majority in the Senate provided they keep hold of two key seats in Georgia in elections in early January. If those two seats do swing to the Democrats, they will then control both Houses and President Biden will consequently have a free hand to determine policy and to implement his election manifesto.
- **The economy** had been recovering quite strongly from its contraction in 2020 of 10.2% due to the pandemic with GDP only 3.5% below its pre-pandemic level and the unemployment rate dropping below 7%. However, the rise in new cases during quarter 4,

to the highest level since mid-August, suggests that the US could be in the early stages of a fourth wave. While the first wave in March and April was concentrated in the Northeast, and the second wave in the South and West, the third wave in the Midwest looks as if it now abating. However, it also looks as if the virus is rising again in the rest of the country. The latest upturn poses a threat that the recovery in the economy could stall. This is **the single biggest downside risk** to the shorter term outlook – a more widespread and severe wave of infections over the winter months, which is compounded by the impact of the regular flu season and, as a consequence, threatens to overwhelm health care facilities. Under those circumstances, states might feel it necessary to return to more draconian lockdowns.

COVID-19 hospitalisations per 100,000 population




- The restrictions imposed to control the spread of the virus are once again weighing on the economy with employment growth slowing sharply in November and retail sales dropping back. The economy is set for further weakness in December and into the spring. However, a $900bn fiscal stimulus deal passed by Congress in late December will limit the downside through measures which included a second round of direct payments to households worth $600 per person and a three-month extension of enhanced unemployment insurance (including a $300 weekly top-up payment for all claimants). GDP growth is expected to rebound markedly from the second quarter of 2021 onwards as vaccines are rolled out on a widespread basis and restrictions are loosened.

- **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%. That was much better than had been expected earlier in the year. However, growth is likely to stagnate during Q4 and in Q1 of 2021, as a second wave of the virus has affected many countries: it is likely to hit hardest those countries more dependent on tourism. The €750bn fiscal support package eventually agreed by the EU after prolonged disagreement between various countries, is unlikely to provide significant support, and quickly enough, to make an appreciable difference in the countries most affected by the first wave.

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

- **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, especially high-tech areas and production of rare earth minerals used in high tech products. It is achieving this by massive financial support, (i.e. subsidies), to state owned firms, government directions to other firms, technology theft, restrictions on market access by foreign firms and informal targets for the domestic market share of Chinese producers in the selected sectors. This is regarded as being unfair competition that is putting western firms at an unfair disadvantage or even putting some out of business. It is also regarded with suspicion on the political front as China is an authoritarian country that is not averse to using economic and military power for political advantage. The current trade war between the US and China therefore needs to be seen against that backdrop. It is, therefore, likely that we are heading into a period where there will be a **reversal of world globalisation and a decoupling of western countries** from dependence on China to supply products. This is likely to produce a backdrop in the coming years of weak global growth and so weak inflation.

**Summary**

- Central banks are, therefore, likely to support growth by maintaining loose monetary policy through keeping rates very low for longer. Governments could also help a quicker recovery by providing more fiscal support for their economies at a time when total debt is affordable due to the very low rates of interest. They will also need to avoid significant increases in taxation or austerity measures that depress demand in their economies.
- If there is a huge surge in investor confidence as a result of successful vaccines which leads to a major switch out of government bonds into equities, which, in turn, causes government debt yields to rise, then there will be pressure on central banks to actively manage debt yields by further QE purchases of government debt; this would help to suppress the rise in debt yields and so keep the total interest bill on greatly expanded government debt portfolios within manageable parameters. It is also the main alternative to a programme of austerity.

## INTEREST RATE FORECASTS

**Brexit.** The interest rate forecasts provided by Link in paragraph 3.3 were predicated on an assumption of a reasonable agreement being reached on trade negotiations between the UK and the EU by 31.12.20. There is therefore no need to revise these forecasts now that a trade deal has been agreed. Brexit may reduce the economy's potential growth rate in the long run. However, much of that drag is now likely to be offset by an acceleration of productivity growth triggered by the digital revolution brought about by the COVID crisis.

**The balance of risks to the UK**

- The overall balance of risks to economic growth in the UK is probably now skewed to the upside, but is still subject to some uncertainty due to the virus and the effect of any mutations, and how quick vaccines are in enabling a relaxation of restrictions.
- There is relatively little UK domestic risk of increases or decreases in Bank Rate and significant changes in shorter term PWLB rates. The Bank of England has effectively ruled out the use of negative interest rates in the near term and increases in Bank Rate are likely to be some years away given the underlying economic expectations. However, it is always possible that safe haven flows, due to unexpected domestic developments and those in other major economies, could impact gilt yields, (and so PWLB rates), in the UK.

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

- **UK government** takes too much action too quickly to raise taxation or introduce austerity measures that depress demand in the economy.
- **UK - Bank of England** takes action too quickly, or too far, over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- A resurgence of the **Eurozone sovereign debt crisis.** The ECB has taken monetary policy action to support the bonds of EU states, with the positive impact most likely for "weaker" countries. In addition, the EU agreed a €750bn fiscal support package. These actions will help shield weaker economic regions for the next two or three years. However, in the case of Italy, the cost of the virus crisis has added to its already huge debt mountain and its slow economic growth will leave it vulnerable to markets returning to taking the view that its level of debt is unsupportable. There remains a sharp divide between northern EU countries favouring low debt to GDP and annual balanced budgets and southern countries who want to see jointly issued Eurobonds to finance economic recovery. This divide could undermine the unity of the EU in time to come.
- Weak capitalisation of some **European banks**, which could be undermined further depending on extent of credit losses resultant of the pandemic.
- **German minority government & general election in 2021.** In the German general election of September 2017, Angela Merkel's CDU party was left in a vulnerable minority position dependent on the fractious support of the SPD party, as a result of the rise in popularity of the anti-immigration AfD party. The CDU has done badly in subsequent state elections, but the SPD has done particularly badly. Angela Merkel has stepped down from being the CDU party leader, but she will remain as Chancellor until the general election in 2021. This then leaves a major question mark over who will be the major guiding hand and driver of EU unity when she steps down.
- **Other minority EU governments.** Austria, Sweden, Spain, Portugal, Netherlands, Ireland and Belgium also have vulnerable minority governments dependent on coalitions which could prove fragile.

- **Austria, the Czech Republic, Poland and Hungary** now form a strongly anti-immigration bloc within the EU, and they had threatened to derail the 7-year EU budget until a compromise was thrashed out in late 2020. There has also been a rise in anti-immigration sentiment in Germany and France.
- **Geopolitical risks,** for example in China, Iran or North Korea, but also in Europe and other Middle Eastern countries, which could lead to increasing safe haven flows.

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

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

**APPENDIX 'E'**

# Capital Strategy

## 1. Introduction

1.1 This capital strategy report gives a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services in Eastbourne Borough Council (EBC) 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 and the key objectives are to deliver a capital programme that:

- Ensure the Council's capital assets are used to support the Council's vision;
- Reduce ongoing commitments/schemes;
- Reduce the current and projected level of borrowing;
- Reduce borrowing impacts on the Council's revenue budget;
- Increase capital programme partnership/support opportunities;
- Links with the Council's asset management/disposal plan;
- Is affordable, financially prudent and sustainable;
- Ensure the most cost-effective use of existing assets and new capital investment.

1.2 The Capital Strategy is a 'living document' and will be periodically, usually annually, updated to reflect changing local circumstances and other significant developments. The Strategy outlines the council's approach to capital investment, ensuring that it is in line with the council's corporate priorities. It is good practice that capital strategy and asset management/disposal plans are regularly reviewed and revised to meet the changing priorities and circumstances of the Council.

1.3 The strategy provides an important link between the ambitions set out in the Council's longer term vision and Council Plan and the important investment in infrastructure that will help turn that vision into a reality. The economic climate and financial challenges due to COVID-19 are thought-provoking. However, the Council is committed to investing now for the longer term and financing that commitment will be made possible by the Council's financial resilience that continue to be developed through various themes and ongoing initiatives, including –

- Recovery and Reset Programme/Best use of Assets review;
- Medium Term Financial Strategy;
- Prudential Code/Treasury Management Strategy, etc.

## 2. Capital Expenditure and Financing

### 2.1 Expenditure

2.1.1 Capital expenditure occurs when the Council spends money on assets such as property or vehicles, which 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 assets. The Council has some limited discretion on what counts as capital expenditure, for example assets costing below a deminimis level are not capitalised and are charged to revenue in year.

2.1.2 Further details on the Council's capitalisation policy can be found in the Statement of Accounts.

2.1.3 In 2021/22, EBC is planning capital expenditure of £39.9 million (and £28.9 million over the next two years) as summarised in Table 1 below:

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

| Capital Expenditure | 2020/21 Estimate | 2021/22 Estimate | 2022/23 Estimate | 2023/24 Estimate |
|---|---|---|---|---|
| | £m | £m | £m | £m |
| General Fund | 11.2 | 12.5 | 7.4 | 5.3 |
| HRA | 12.0 | 19.8 | 30.8 | 22.7 |
| Commercial Activities/non-financial investments | 15.5 | 6.9 | 5.0 | 2.2 |
| **Total** | **38.7** | **39.2** | **43.2** | **30.2** |

2.1.4 The main General Fund capital projects scheduled for 2021/22 are as follows:

| **Scheme** | **£m** |
|---|---|
| Loan Facility to Commercial Companies | 3.2 |
| Commercial Activities | 3.7 |
| Asset improvements | 5.5 |
| COVID-19 Capitalisation direction | 6.0 |
| Other schemes | 1.0 |
| **Total** | **19.4** |

2.1.5 The Housing Revenue Account (HRA) is a ring-fenced account which ensures that the Council's housing does not subsidise, or is itself subsidised, by other local services. HRA capital expenditure is therefore recorded separately and includes £49.7 million allocated to the New Build Programme over the (four-year) forecast period, which is expected to deliver 24 new homes.

**Governance**

2.1.6 The evaluation, prioritisation and acceptance of capital schemes onto the Capital Programme is carried out in accordance with strict criteria that ensures that added schemes reflect Council priorities and can be delivered within available resources (e.g. due priority is given to schemes yielding savings and/or generating income as well as meeting a Council priority).

2.1.7 The draft Capital Programme is then subject to formal Scrutiny prior to setting the budget (followed by Cabinet and full Council approval).

## 2.2 Financing

2.2.1 All capital expenditure must be financed, either from external sources (Government grants and other contributions), the Council's own resources (revenue, reserves and capital receipts) or debt (borrowing and leasing). The planned financing of the above expenditure is presented in Table 2 below.

*Table 2: Capital Financing*

| Description | 2020/21 budget | 2021/22 budget | 2022/23 budget | 2023/24 budget |
|---|---|---|---|---|
| | £m | £m | £m | £m |
| External sources | 3.9 | 5.2 | 1.7 | 1.7 |
| Own resources | 25.8 | 14.7 | 11.9 | 10.9 |
| Debt | 9.0 | 19.3 | 29.6 | 17.6 |
| **TOTAL** | **38.7** | **39.2** | **43.2** | **30.2** |

2.2.2 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 and use of capital receipts are presented in Table 3 below.

*Table 3: Repayment of Debt Finance*

| | 2020/21 budget | 2021/22 budget | 2022/23 budget | 2023/24 budget |
|---|---|---|---|---|
| | £m | £m | £m | £m |
| Own resources | 0.9 | 0.8 | 1.1 | 1.4 |

2.2.3 The Council’s annual MRP statement can be found within Appendix A (Section 8) above.

2.2.4 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 and capital receipts used to replace debt. The CFR is expected to increase by £22.6 million in 2021/22. Based on the above figures for expenditure and financing, the Council’s estimated CFR is presented in Table 4 below.

*Table 4: Prudential Indicator: Estimates of Capital Financing Requirement (CFR)*

| | 31.3.2021 budget | 31.3.2022 budget | 31.3.2023 budget | 31.3.2024 budget |
|---|---|---|---|---|
| | £m | £m | £m | £m |
| General Fund services | 68.0 | 71.6 | 71.7 | 71.2 |
| Council housing (HRA) | 46.8 | 54.6 | 77.9 | 92.4 |
| Capital investments | 65.9 | 72.8 | 77.8 | 80.0 |
| **TOTAL CFR** | **180.7** | **199.0** | **227.4** | **243.6** |

## 3. Asset Management

### 3.1 Asset Management Strategy

3.1.1 The Council recognises the importance of ensuring that capital assets continue to be of long-term use especially in a rapidly changing operational and technological backdrop. Consequently, at the time of preparing this Capital Strategy, a new Asset Management Strategy (AMS) is under development. Led by the Asset Management team and backed by a comprehensive review of Council assets, the AMS will take a longer-term view comprising:

- 'Good' information about existing assets;
- The optimal asset base for the efficient delivery of Council objectives;
- The gap between existing assets and optimal assets;
- Strategies for purchasing and constructing new assets, investment in existing assets, transferring of assets to other organisations and the disposal of surplus assets; and
- Plans for individual assets.

### 3.2 Asset Disposals

3.2.1 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 takes a prudent approach of assuming future capital receipts only when there is a high probability of realisation.

## 4. Treasury Management

### 4.1 Introduction

4.1.1 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 not cash rich as it utilises all of its available cash before borrowing which in the current climate is more economic.

4.1.2 As at 31 December the Council had borrowing of £156.4 million at an average interest rate of 2.09% and cash balances of £14.3 million of which £5m was held on call at a rate of 0.17% and £5m was held in a fixed term deposit at a rate of 0.16%.

### 4.2 Borrowing

4.2.1 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 0.9%) and long-term fixed rate loans where the future cost is known but higher (currently 2.0 to 3.0%).

4.2.2 Projected levels of the Council's total outstanding debt (which comprises borrowing and leases) are shown below in Table 6, compared with the Capital Financing Requirement (Table 4 above).

*Table 6: Prudential Indicator: Gross Debt and the Capital Financing Requirement*

| | 31.3.2021 budget | 31.3.2022 budget | 31.3.2023 budget | 31.3.2024 budget |
|---|---|---|---|---|
| | £m | £m | £m | £m |
| Debt (incl. leases) | 160.0 | 179.3 | 208.8 | 226.4 |
| Capital Financing Requirement | 180.7 | 199.0 | 227.4 | 243.6 |

4.2.3 Statutory guidance is that debt should remain below the Capital Financing Requirement, except in the short-term. As can be seen from Table 6, the Council expects to comply with this in the medium term.

*Affordable Borrowing Limit*

4.2.4 The Council is legally obliged to set an affordable borrowing limit (also termed the "Authorised Limit" for external debt) each year. In line with statutory guidance, a lower "Operational Boundary" is also set as a warning level should debt approach the limit.

*Table 7: Prudential Indicators: Authorised Limit and Operational Boundary for External Debt*

| | 2020/21 limit | 2021/22 limit | 2022/23 limit | 2023/24 limit |
|---|---|---|---|---|
| | £m | £m | £m | £m |
| Authorised limit – total external debt | 199 | 219 | 250 | 268 |
| Operational boundary – total external debt | 180.7 | 199.0 | 227.4 | 243.6 |

4.2.5 Further details on borrowing are contained in the Treasury Management Strategy.

## 4.3 PWLB Loan

4.3.1 The government recognises the valuable contribution that local authorities make to the social and economic infrastructure and supports local investment in part by offering low cost loans to local authorities through the Public Works Loan Board (PWLB).

4.3.2 In compliance with the HM Treasury guidance, the Council need to ensure that the capital programme/investments are compliant with the ongoing access to the PWLB under the lending terms published in November 2020, which include an assurance from the Chief Finance Officer (Section 151 Officer) that **the Council is not borrowing in advance of need and does not intend to buy investment assets primarily for yield**.

4.3.3 The purpose of the PWLB is to offer long-term, affordable loans to support local authority investment in the following areas –

- Service spending, i.e. activities that would normally be captured in the following areas in the MHCLG Capital Outturn Return (COR): culture & related services, environmental & regulatory services, etc.
- Housing, i.e., activities normally captured in the HRA and General Fund housing sections of the COR, or housing delivered through a local authority housing company.
- Regeneration projects would usually have one or more of the following characteristics:
    - the project is addressing an economic or social market failure by providing services, facilities, or other amenities;
    - the Council is making a significant investment in the asset beyond the purchase price:
    - the project involves or generates significant additional activity that would not otherwise happen without the Council's intervention;
    - the project may generate rental income, these rents are recycled within the project or applied to related regeneration projects, rather than being applied to wider services.

- Preventative action with the following characteristics - intervention that prevents a negative outcome, there is no realistic prospect of support from a source other than the Council; has an exit strategy, and does not propose to hold the investment for longer than is necessary; the intervention takes the form of grants, loans, sale and leaseback, equity injections, or other forms of business support that generate a balance sheet asset.
- Treasury management covers refinancing or extending existing debt from any source, and the externalisation of internal borrowing.

4.3.4 Individual projects and schemes may have characteristics of several different categories. In these cases, the Chief Finance Officer would use professional judgment to assess the main objective of the investment and consider which category is the best fit.

4.3.5 If the Council wishes to on-lend money to deliver objectives in an innovative way, the government expects that spending to be reported in the most appropriate category based on the eventual use of the money. The Council must not pursue a deliberate strategy of using private borrowing or internal borrowing to support investment in an asset that the PWLB would not support and then refinancing or externalising this with PWLB loans.

4.3.6 Under the prudential code, the Council cannot borrow from the PWLB or any other lender for speculative purposes, and must not use internal borrowing to temporarily support investments purely for yield, which would usually have one or more of the following characteristics:

- buying land or existing buildings to let out at market rate;
- buying land or buildings which were previously operated on a commercial basis which is then continued by the local authority without any additional investment or modification;
- buying land or existing buildings other than housing which generate income and are intended to be held indefinitely.

4.3.7 The decision over whether a project complies with the terms of the PWLB is for the Chief Finance Officer. This decision will be final unless the Treasury has concerns that issuing the loan is incompatible with HM Treasury's duty to Parliament to ensure that public spending represents good value for money to the Exchequer and aligns with relevant legislation. In practice such an eventuality is highly unlikely and would only occur after extensive discussion with the local authority in question – but a safeguard is necessary to protect the taxpayer.

### 4.4 Investments

4.4.1 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.

*Treasury Management) Investment Strategy*

4.4.2 The Council's Investment Strategy is to prioritise security and liquidity over yield; focussing on minimising risk rather than maximising returns. Cash that is likely to be spent in the near term is invested securely in selected high-quality banks, to minimise the risk of loss.

**Risk management:**

4.4.3 The effective management and control of risk are prime objectives of the Authority's treasury management activities. The treasury management strategy therefore sets out various indicators and limits to constrain the risk of unexpected losses and details the extent to which financial derivatives may be used to manage treasury risks.

### 4.5 Governance

4.5.1 Treasury management decisions are made on a daily basis and are therefore delegated to the CFO, who must act in line with the Treasury Management Strategy approved by the Council. Annual outturn reports on treasury management are also approved by the Council (following recommendation from Eastbourne Borough Council Audit and Governance Committee), whereas mid-year updates are reported exclusively to the Eastbourne Borough Council Audit and Governance Committee. Quarterly performance reports are also submitted to Cabinet.

## 5. Investments for Service Purposes

5.1 The Council will sometimes make investments for service delivery purposes where there is a strategic case for doing so, for example the new Waste Company. Given its public service objectives, the Council is willing to take more risk than with treasury investments, nevertheless the arrangements feature cost reduction incentives, from which the Council will benefit.

*Governance*

5.2 Decisions on service investments are made by the Council's Cabinet and require the support of a full business case.

## 6. Commercial Investments

6.1.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) defines investment property as property held solely to earn rentals or for capital appreciation or both. Returns from property ownership can be both income driven (through the receipt of rent) and by way of appreciation of the underlying asset value (capital growth). The combination of these is a consideration in assessing the attractiveness of a property for acquisition. In the context of the Capital Strategy, the council is using capital to invest in property to provide a positive surplus/financial return.

6.1.2 Local authorities will be prohibited from accessing the PWLB if they plan debt-for-yield commercial investments. Commercial activity must be secondary priority to economic regeneration and housing provision. There will be more monitoring of what it is that local authorities are delivering by way of a capital scheme and Section 151 officers are required to formally validate those policies to HM Treasury/PWLB.

6.1.3 The Council can fund the purchase of investment property through various means **excluding borrowing** money, normally from the Debt Management Office as part of HM Treasury. The rental income paid by the tenant/annual surplus then supports the council's budget position and enables the council to continue to provide services for local people. The reasons for buying and owning property investments are primarily

- Financial returns to fund services to residents
- Market and economic opportunity.
- Economic development and regeneration activity in the District.

6.1.4 Historically, property has provided strong investment returns in terms of capital growth generation of stable income. Property investment is not without risk as property values can fall as well as rise and changing economic conditions could cause tenants to leave with properties remaining vacant. The strategy makes it clear that the council will continue to invest prudently on a commercial basis and to take advantage of opportunities as they present themselves, supported by our robust governance process.

### 6.2 Current Investments

6.2.1 In recent years, the Council has invested in commercial property in the borough on a selective basis, usually where there is a fit with corporate priorities and a positive financial return that can be used to contribute towards the protection of local services. As at 31st March 2020, the commercial property portfolios include a retail park, sports complex, members club and commercial units with an estimated Fair Value of £27.2 million. Estimated gross income for 2020/21 is £2.3 million.

### 6.3 Commercial Investment Strategy

6.3.1 However, in recognition of the continued shortfall in local government funding and commitments, the Council Commercial Investment Strategy will support achieving a step change increase in commercial investment and trading by the Council.

6.3.2 CIPFA's guidance has made clear that Councils should not borrow to invest commercially, and their Capital Investment Strategy must make it clear as to where they depart from this principle and why. However, it has been recognised that local investments that are primarily designed for regeneration or service delivery purposes and which have a knock-on positive impact to the revenue budgets are not intended to be covered by this principle.

6.3.3 Councils have to demonstrate that such investments are "proportionate" to their resources. The Council's approach will incorporate the CIPFA guidance when it is published; this will enhance the other risk management features that are being developed; this includes a strict governance framework, the use of real estate investment experts and diversified portfolios. The aim is to offset principle risks such as falling capital values and 'voids'. However, (within a tightly controlled framework) the Council ultimately accepts a higher risk on commercial investments compared to its prudent treasury investment that has primarily focused to date on protecting the principal.

6.3.4 The Council considers investing in housing properties and commercial investments within the borough to be related to its temporary accommodation strategy and local regeneration. It will invest commercially but in relation to the services it provides or to build and strengthen the local economy, with the related benefit of increased business rates.

**6.4 Governance**

6.4.1 The Governance arrangements are stipulated within the Commercial Investment Strategy.

## 7. Other Liabilities

**7.1 Outstanding Commitments**

7.1.1 The Council also has the following outstanding commitments:

- Business Rates - Since the introduction of Business Rate Retention Scheme effective from 1 April 2013, Local authorities are liable for successful appeals against business rates charged to businesses in 2012/13 and earlier financial years in their proportionate share. Therefore, a provision has been recognised for the best estimate of the amount that businesses have been overcharged up to 31 March 2020. The estimate has been calculated using the Valuation Office (VAO) ratings list of appeals and the analysis of successful appeals to date when providing the estimate of total provision up to and including 31 March 2020. There is a risk that future appeals will exceed the estimation. A 1% increase in successful appeals would result an increase in the provision required of £19,000.

**7.2 Guarantees**

7.2.1 A 30-year Business Plan for the Council's HRA has been developed, which is currently generating sufficient rental income each year to run an efficient and effective housing management service, whilst at the same time servicing the outstanding debt. However, if the HRA is unable to repay the outstanding debt at any point in the future, the Council (through its General Fund) is liable to repay any remaining balance. The remaining balance on HRA debt as at 31st March 2020 was £42.6 million).

**7.3 Governance**

7.3.1 Decisions on incurring new discretionary liabilities are taken by Directors and Heads of Service in consultation with the CFO. For example, in accordance with the Financial Procedure Rules credit arrangements, such as leasing agreements, cannot be entered into without the prior approval of the CFO.

## 8. Revenue Implications

### 8.1 Financing Cost

8.1.1 Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and 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 8: Prudential Indicator: Proportion of Financing Costs to Net Revenue Stream (General Fund)

| **Description** | **2020/21 Estimate** | **2021/22 Estimate** | **2022/23 Estimate** | **2023/24 Estimate** |
|---|---|---|---|---|
| | **£m** | **£m** | **£m** | **£m** |
| Financing Costs (£m) | 1.6 | 2.3 | 2.5 | 2.6 |
| Proportion of Net Revenue Stream | 11.7 | 17.4 | 18.7 | 19.7 |

Table 9: Prudential Indicator: Proportion of Financing Costs to Net Revenue Stream (HRA)

| **Description** | **2020/21 Estimate** | **2021/22 Estimate** | **2022/23 Estimate** | **2023/24 Estimate** |
|---|---|---|---|---|
| | **£m** | **£m** | **£m** | **£m** |
| Financing Costs (£m) | 1.5 | 1.7 | 2.2 | 2.6 |
| Proportion of Net Revenue Stream | 11.4 | 13.1 | 17.0 | 19.4 |

8.1.2 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 many [occasionally up to 50] years into the future.

### 8.2 "Prudence, Affordability and Sustainability"

8.2.1 The CFO is satisfied that the proposed Capital Programme (Section 2) is prudent, affordable, and sustainable based on the following:

*Prudence*

- Prudential indicators 8 and 9 presented above (Paragraph 8.1.1) are within expected and controllable parameters. Thus:
  - *Prudential Indicator 8 (General Fund) - Proportion of Financing Costs to Net Revenue Stream* – the growth in financing costs reflects the Council's ambitions for capital investment in its strategic priorities over the medium-term.
  - *Prudential Indicator 9 (HRA) - Proportion of Financing Costs to Net Revenue Stream* – the indicator profile mirrors the HRA 30-Year Business Plan.

- *Underlying Prudent Assumptions* – a prudent set of assumptions have been used in formulating the Capital Programme. This is illustrated in the approach to capital receipts whereby the proceeds are not assumed within projections until the associated sale is completed and the money received by the Council; and

- *Repairs and Maintenance* – the approach to asset maintenance is professionally guided with assets maintained in a condition commensurate with usage and expected life, addressing those items that could affect ongoing and future maintenance, in the most appropriate and cost effective manner.

*Affordability*

- The estimated 'revenue consequences' of the Capital Programme (£105.5 million over three years) have been included in the 2021/22 Budget and Medium-Term Financial Strategy (MTFS), extending to 2023/24; and

- The MTFS includes a reserves strategy, which includes contingency funds in the event that projections are not as expected (further supported by CFO report to Council under Section 25 of the Local Government Act 2003 on the robustness of estimates and the adequacy of financial reserves and balances).

*Sustainability*

- Capital schemes that are expected to deliver long-term revenue savings/generate income are given due priority. For example, the Hampden Retail Park.

- As explained in Section 3.1 above, the Asset Management Strategy will represent an enhancement to the Council approach to asset planning through (especially) taking a longer-term view. This includes providing for future operational need, balancing the requirement to achieve optimal performance, whilst taking account of technological change and managing the risk of obsolescence.

## 9. Prioritisation Principles and Obligations to deliver a scheme

9.1 The capital investment process is to ensure that money available for capital expenditure is prioritised in the way that best meets the Council's objectives and must be achieved within the constraints of the capital funding available. The Council need to demonstrate that it uses a clear, understandable method of comparing projects in order to prioritise expenditure and continue to allow schemes to be ranked according to Council's need, while ensuring the best allocation of the Council scarce resources in the most efficient/sustainable way and thus ensuing value for money.

9.2 Therefore, it is important that there is a strict definition of what is included within the scheme. Demand for capital resources to meet investment needs and aspirations will exceed the resources available to the Council and rolling programme items are the first call on available resources to ensure that existing approved service levels can continue to be delivered. New resource development bids will need to be prioritised as follows:

| Projects Prioritisation for Capital Programme Inclusion | |
|---|---|
| **Priority 1** | Projects which enable compliance with Health & Safety and the Council's legal/statutory duties including projects which address any infrastructure deficits related to statutory compliance. |
| **Priority 2** | Projects that generate revenue savings through the delivery of a new business strategy or service transformation proposals or invest to save and cost avoidance. |
| **Priority 3** | Projects where a major proportion of the capital funding from external sources will be lost if the project fails to go ahead but subject to consideration of future revenue requirements. |
| **Priority 4** | Projects that contribute to the delivery of a smaller property portfolio through increased co-location or space utilisation or adaptation of new ways of working. |
| **Priority 5** | Projects that facilitate improvement, economic development, regeneration and housing growth |
| **Priority 6** | Projects that address cross-cutting issues, facilitate joint-working with partners or generate new/additional income. |

9.3 The Council's financial and service planning process need to ensure decisions about the allocation of capital and revenue resources are taken to achieve a corporate and consistent approach. The funding of capital schemes is via the following hierarchy:

- External grants and contributions;
- Capital receipts from the disposal of fixed assets;
- Leasing finance; (where applicable);
- Revenue contributions;
- External Borrowing.

9.4 The strategy will be to employ 'Whole Life Costing' that will demonstrate the systematic consideration of all relevant costs and revenues associated with the acquisition and ownership of an asset, i.e., encourages decision-making that takes account of the initial capital cost, running cost, maintenance cost, refurbishment requirements and disposal cost.

## 10. Knowledge and Skills

### 10.1 Officers

10.1.1 The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. Most notably:

- *Finance* - the Chief Finance Officer (CFO) and the Deputy Chief Finance Officers (DCFO's) are qualified (ACCA/ CIPFA) accountants with many years of public and private sector experiences. The Council sponsors junior staff to study for relevant professional qualifications including AAT, CIPFA and ACCA. The Council also supports training courses and conferences across all aspects of accounting.

- *Property* – the Head of Property and Facilities Shared Service (PFSS) – a qualified property expert - is responsible for Asset Management within the Council. PFSS comprises the Asset Development, Building and Maintenance, Corporate Landlord and development functions of the Council. Each area has appropriately qualified professionals within their individual specialism. The Head of PFSS plays a key role in the Council's approach to commercial investment and trading (highlighted above in Section 6).

10.1.2 The Council also has a separate Housing team that is responsible for overseeing social housing developments within the borough.

### 10.2 External Advisors

10.2.1 Where the Council does not have the relevant knowledge and skills required, judicious use is made of external advisers and consultants that are experts/specialists in their field. The Council currently employs Link Asset Services as Treasury Management advisers, and the Asset Management team will commission property advisors as appropriate (e.g. development managers, valuers etc.) to support their work where required to ensure that the Council has access to knowledge and skills commensurate with risk.

### 10.3 Councillors

10.3.1 Duly elected councillors will all be receiving training appropriate to their role within the Council.

10.3.2 Specifically with regard to Treasury Management, the Council acknowledges the importance of ensuring that members have appropriate capacity, skills and information to effectively undertake their role. To this end, newly elected Eastbourne councillors with Treasury Management responsibilities will receive tailored training sessions from the Council's Treasury Management advisors (Link Asset Services).

## 11 CFO Statement on the Capital Strategy

### 11.1 Prudential Code

11.1.1 Paragraph 24 of the recently updated Prudential Code determines that…."the Chief Finance Officer should report explicitly on the affordability and risk associated with the Capital Strategy".

11.1.2 Accordingly, it is the opinion of the CFO that the Capital Strategy as presented is affordable, and associated risk has been identified and is being adequately managed.

### 11.2 Affordability

11.2.1 The Capital Strategy is affordable and there is a range of evidence to support this assertion, including:

- *Capital Programme* – the Programme as presented above (in Section 2.1) is supported by a robust and resilient MTFS extending through until 2022/23 that contains adequate revenue provision, including sufficient reserves in the event that plans and assumptions do not materialise as expected.

- *Asset Management* – as presented above (in Section 3.1) a new Asset Management Strategy is under development, which is taking a strategic longer-term (i.e. beyond 2022/23) view of the Council's asset base. A fundamental aim of the Strategy is to achieve the optimum balance between future operational need and affordability, which will be reflected in its component parts including strategies for purchasing and constructing new assets, investment in existing assets, transferring of assets to other organisations and the disposal of surplus assets.

- *Commercial Investment* – as presented above (in Section 6.2) the Commercial Investment Strategy is also under development. The primary aim of the Strategy long-term is income generation to replace the shortfall in Government funding. The Strategy is progressing positively towards the delivery stage and its success will be critical to the long-term affordability of the Capital Strategy.

### 11.3 Risk

11.3.1 The risk associated with the Capital Strategy has been identified and is being adequately managed. Evidence to support this assertion includes:

- *Treasury Management Strategy* – the Council will formally approve a Treasury Management Strategy for 2021/22, at the Council meeting on 24 February 2021, in accordance with CIPFA's "Treasury Management in the Public Services: Code of Practice 2017". That Strategy was developed by the Council's (professionally qualified and experienced) Finance team and informed by specialist advisors Link Asset Services and other relevant and extant professional guidance.

- *Investment Strategy* – the Council will also formally approve an Investment Strategy for 2021/22, at the Council meeting on 24 February 2021, in accordance with MHCLG's "Statutory Guidance on Local Government Investments". As with the Treasury Management Strategy, the Investment Strategy was developed by the Finance team and informed by specialist advisors Link Asset Service and other relevant and extant professional guidance.

- *Commercial Activities* – as noted above (in Paragraph 6.0) the Council is committed to significantly expanding the scale of its commercial activities in the medium-term as part of its Commercial Investment Strategy. It is recognised and accepted that increased commercial activity brings with it additional risk. The Strategy is therefore being developed in accordance with contemporary best practice. This includes the engagement of professional advisors on the commercial, financial and legal aspects of the project and the preparation of full supporting business cases prior to the commencement of both in-house and arm's length trading activities, strictly in accordance with HM Treasury's 'five-case model' ("The Green Book: Central Government Guidance on Appraisal and Evaluation").