COUNCIL
31 MARCH 2021

MID SUSSEX
DISTRICT COUNCIL

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23 March 2021

Unless a majority of the Council resolve to extend the meeting before 9.00 pm it will automatically end at 9.00 pm in accordance with Council Procedure Rule 17.2.

New regulations came into effect on 4 April 2020 to allow Councils to hold meetings remotely via electronic means. As such, Council and Committee meetings will occur with appropriate Councillors participating via a remote video link, and public access via a live stream video through the Mid Sussex District Council's YouTube channel.

To all Members of the Council,

You are hereby summoned to attend a meeting of the **MID SUSSEX DISTRICT COUNCIL** to be held **VIA REMOTE VIDEO LINK** on **WEDNESDAY, 31ST MARCH, 2021 at 6.00 pm** to transact the following business:

Yours sincerely,

KATHRYN HALL
Chief Executive

		Pages
1.	Roll Call and Virtual Meeting Explanation.	
2.	Opening Prayer.	
3.	To receive questions from members of the public pursuant to Council Procedure Rule 9.	
4.	To confirm Minutes of the meeting of Council held on 3 March 2021.	**5 - 16**
5.	To receive declarations of Interest from Members in respect of any matter on the Agenda.	
6.	To consider any items that the Chairman of the Council agrees to take as urgent business.	
7.	Chairman's Announcements.	

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8.	Haywards Heath Town Centre Masterplan - Supplementary Planning Document.	**17 - 28**
9.	Programme of Meetings 2021/22.	**29 - 34**
10.	Standards Committee Annual Report 2020.	**35 - 38**
11.	Treasury Management Strategy Statement and Annual Investment Strategy 2021/22 to 2023/24.	**39 - 74**
12.	To receive the Leader's Report.	
13.	Report of Cabinet Members, including questions pursuant to Council Procedure Rule 10.1	
14.	Questions from Members pursuant to Council Procedure Rule 10.2	

To: **Members of Council:** Councillors C Trumble (Chairman), M Belsey (Vice-Chair), G Allen, J Ash-Edwards, R Bates, J Belsey, A Bennett, L Bennett, A Boutrup, P Bradbury, P Brown, H Brunsdon, R Cartwright, P Chapman, R Clarke, E Coe-Gunnell White, P Coote, M Cornish, R Cromie, J Dabell, R de Mierre, B Dempsey, S Ellis, R Eggleston, A Eves, L Gibbs, I Gibson, S Hatton, J Henwood, S Hicks, S Hillier, T Hussain, R Jackson, J Knight, C Laband, Andrew Lea, Anthea Lea, J Llewellyn-Burke, A MacNaughton, G Marsh, J Mockford, A Peacock, C Phillips, M Pulfer, R Salisbury, S Smith, A Sparasci, L Stockwell, D Sweatman, N Walker, R Webb, N Webster and R Whittaker

Minutes of a meeting of Council held on Wednesday, 3rd March, 2021 from 6.00 pm - 7.15 pm

Present: C Trumble (Chairman)
M Belsey (Vice-Chair)

G Allen	B Dempsey	A MacNaughton
J Ash-Edwards	S Ellis	G Marsh
R Bates	R Eggleston	J Mockford
J Belsey	A Eves	A Peacock
A Bennett	L Gibbs	C Phillips
L Bennett	I Gibson	M Pulfer
P Brown	S Hatton	R Salisbury
R Cartwright	J Henwood	S Smith
P Chapman	S Hicks	A Sparasci
R Clarke	S Hillier	L Stockwell
E Coe-Gunnell White	T Hussain	D Sweatman
P Coote	R Jackson	R Webb
M Cornish	J Knight	N Webster
R Cromie	C Laband	R Whittaker
J Dabell	Anthea Lea	
R de Mierre	J Llewellyn-Burke	

Absent: Councillors A Boutrup, P Bradbury, H Brunsdon, Andrew Lea and N Walker

1. ROLL CALL AND VIRTUAL MEETING EXPLANATION.

The Chairman welcomed everyone to the meeting. A roll call of Members present was taken. The Head of Regulatory Services provided a virtual meeting explanation.

2. OPENING PRAYER.

The opening prayer was read by the Vice-Chairman.

3. TO RECEIVE QUESTIONS FROM MEMBERS OF THE PUBLIC PURSUANT TO COUNCIL PROCEDURE RULE 9.

The following question was received from Mr Brooks:

As the UK takes the Presidency of the G7 and we head towards COP26, PM Boris Johnson has announced an ambitious Ten Point Plan for a Green Industrial Revolution. The Environment Bill is passing through Parliament and, building on the world leading pledge to meet net-zero emission by 2050, Johnson has set a target of a 68% fall in emissions by 2030. Does the council have its own clear 'roadmap' in line with this? And what plans are there to show direction and leadership at a local level to support community engagement?

Response from the Cabinet Member for Environment and Service Delivery, Councillor J Belsey

Thank you for your question.

The Council has had a Sustainability Strategy in place since 2018. This strategy sets out the leadership role the Council has in encouraging and enabling sustainable initiatives and developments. Importantly it also sets out the Council's own contribution to sustainability.

However, we recognise that we can go further particularly in post Covid recovery but also in the light of the emerging Environment Bill which we hope will receive Royal Assent in Autumn this year.

You will hopefully be aware that our current Corporate Plan commits to the development of a new Sustainable Economy Strategy. This will bring together two strategies that need refreshing in the light of the pandemic but that are also critical to our Covid recovery. This will provide a clear roadmap to the delivery of the full potential of our District without compromising the needs of our future communities and of course it will take account of new and emerging legislative requirements including those set out in last year's Environment Bill which is currently working its way through the Parliamentary process. I am sure all members and residents will welcome that the Bill is intended to provide a legal framework for environmental governance as well as making provision for specific improvements of the environment, including measures on waste and resource efficiency, air quality, water, nature, biodiversity and conservation.
Your question is timely in that the first steps towards the development of this new Council strategy will be presented to the Scrutiny Committee for Leader Finance and Performance next week.

Mr Brooks was unable to pose a supplementary question due to experiencing technical difficulties during the virtual meeting.

4. TO CONFIRM MINUTES OF THE MEETING OF COUNCIL HELD ON 27 JANUARY 2021.

The minutes of the meeting of Council held on 27 January 2021 were agreed as a correct record of the meeting.

5. TO RECEIVE DECLARATIONS OF INTEREST FROM MEMBERS IN RESPECT OF ANY MATTER ON THE AGENDA.

None.

6. TO CONSIDER ANY ITEMS THAT THE CHAIRMAN OF THE COUNCIL AGREES TO TAKE AS URGENT BUSINESS.

None.

7. CHAIRMAN'S ANNOUNCEMENTS.

None.

8. RECOMMENDATIONS FROM CABINET HELD ON 8 FEBRUARY 2021.

The Deputy Leader moved the item, noting that the recommendations are made against a projected net overspend of £1.93m at end of this financial year. She summarised the recommendations, drawing attention to the variations to the Capital Programme which include £1.4m to purchase 5 properties for temporary accommodation, the upgrading of the property management system, playground improvements at Scaynes Hill and St Johns Park and Hurst Farm development costs. She noted that revenue projects included in the report are the 'About the Place' public art project and electronic access gates to John Pears recreation ground tennis courts. The final recommendation is regarding the debt in respect of Horsham District Council's £115,000 contribution to the Census Partnership. The recommendations were seconded by the Leader.

The Chairman took Members to a vote on the recommendations which were approved with 46 in favour.

RESOLVED

That Council approve:

(i) that £500,000 be transferred to a Leisure Covid Support Reserve from General Reserve as detailed in paragraph 19 of the Cabinet report;

(ii) that £38,170 grant income relating to Rough Sleepers Initiative be transferred to Specific Reserve as detailed in paragraph 32 of the Cabinet report;

(iii) that £76,500 grant income relating to New Burdens funding to cover the cost of administering the new Business grants in respect of Covid be transferred to Specific Reserve as detailed in paragraph 33 of the Cabinet report;

(iv) that £48,631 grant income relating to Local Authority Compliance and Enforcement grant be transferred to Specific Reserve as detailed in paragraph 34 of the Cabinet report;

(v) that £9,663 grant income relating to New Burdens funding for Housing Benefit Accuracy Award Initiative and Severe Disability Premium Gateway Initiative be transferred to Specific Reserve as detailed in paragraph 35 of the Cabinet report;

(vi) that £75,000 grant income relating to support in respect of Covid-19 preventative interventions delivered by Environmental Health teams be transferred to Specific Reserve as detailed in paragraph 36 of the Cabinet report;

(vii) that £61,418 grant income in respect of Journey to Work funding, to fund work being undertaken by the Employment Projects Co-ordinator be transferred to the Revenues and Benefits New Burdens Specific Reserve as detailed in paragraph 37 of the Cabinet report;

(viii) that £26,026 grant income to Implement the Test and Trace Support Payment scheme be transferred to the Revenues and Benefits New Burdens Specific Reserve as detailed in paragraph 38 of the Cabinet report;

(ix) the variations to the Capital Programme contained in paragraph 48 of the Cabinet report in accordance with the Council's Financial Procedure rule B3;

(x) that prior year debtors in respect of Horsham District Council's Contribution to the Census Partnership be written off as detailed in Appendix A of the Cabinet report.

9. CORPORATE PLAN AND BUDGET FOR 2021/22.

The Leader moved the item, noting that Members had received an updated report which corrects Council Tax figures for the year ahead. He noted that Members last met in person a year ago to debate the Corporate Plan and had asked about scenario planning in the face of the impending pandemic. The Leader's reply at the time noted the Council's ability to be agile in its response and this year has proven this to be the case.

He noted that over the last year, the Council has worked to an unprecedented scale in establishing new services such as the business grants programme and support for vulnerable and shielding residents, as well as continuing existing services with rising demand. It has also had to respond to an ever-changing landscape as Leisure Centres and the local economy closed and reopened as multiple lockdowns were imposed. He acknowledged the cost of the pandemic both to the country and the Council and noted that the current year will result in over £2m deficit which will need to be funded from reserves, even after the support received from Government has been utilised.

The Leader confirmed that a balanced budget is presented, but only as a result of windfall income from business rates retention and the Council's finances are not on a sustainable footing over the medium term and the Council's reserves will reach a perilous position within the next four years. Regrettably therefore, a 2.9% increase to the District Council's share of Council Tax is necessary next year but the Council Tax Support Scheme means that those residents on the lowest incomes are supported with the cost of this bill.

The Leader drew Members attention to the clear priorities contained in the Corporate Plan which include supporting the economic recovery, with work being done alongside Mimms Davis M.P. and the Department of Work and Pensions at Haywards Heath College, and the rollout of the Council's infrastructure programme including the Northern Arc and gigabit speed full fibre. Other key priorities include ensuring that the Council has an environmentally friendly recovery by developing a Sustainable Economy Strategy, continuing to help vulnerable people in the communities and the critical task of beginning to rebuild the Council's finances after the impact of the pandemic

The Deputy Leader seconded the item reiterating the need to build towards the future even if it is uncertain.

Several Members congratulated Officers on the work involved to present a balanced budget in difficult circumstances.

A Member queried what plans are in place to respond to the call on reserves over years 2-5 of the budget, particularly regarding the proposed Science and Technology Park and ways to bring manufacturing back into the District. The Leader acknowledged that it was hard to know at this stage the true effect of the deficit, but he expected improvements to be evident once the Government restrictions begin to lift. The Council will continue to provide services as efficiently as possible and seek to diversify its income base as quickly and sustainably as possible. He noted that the District is well located with a talented and skilled population and the key is to encourage and develop this potential.

A Member noted that some areas had to take a back seat over the past year but looked forward to the progression of the sustainability agenda. A query was raised on whether the Council would apply for a Cultural Recovery Grant for Clair Hall or any other venue in the District, following the Government's recent announcement in the Budget. The Leader acknowledged that full details of the fund have not yet been publicised, but the Council would consider it carefully and make a bid if it is appropriate and the criteria are met.

Councillor Hicks proposed an amendment to the recommendations drawing Member's attention to potential disparities within Council Tax which he stated were unfair. This was seconded by Councillor Jackson who highlighted that the aim was to have fairness in the scheme with those that can afford to pay more doing so. The proposed amendment is detailed below:

> 'To add a further recommendation 3.1.2 that at a time when many of our residents are facing static or falling incomes it is particularly important that we are able to demonstrate fairness in how the burden of paying for local services is shared. That the Council recognises that council tax is out of date, and often arbitrary and regressive, the burden of which unfairly falls on Mid Sussex households with limited incomes. Consequently, increases in council tax, together with other authorities' precepts, will fall disproportionally on those least able to pay.
>
> The Council notes that any change to the current council tax bands and charging structure needs to be sanctioned by Parliament.
>
> The Council therefore agrees that:
> The Leader of the Council to write to the Secretary of State for Housing, Communities and Local Government requesting that the current council tax bands and charging structures in England be reviewed, as a matter of urgency, so they better reflect people's ability to pay the tax.'

The Leader noted that any reform of Council Tax could mean that Mid Sussex residents would pay more, and that policy amendment is for Government and not for the Council. He reiterated that the Council Tax Support Scheme does insulate people on the lowest level by providing an uplift of £150 for those least able to pay.

A Member noted that the Council Tax Band system could not be reformed without looking at the Social Care budget too. It was also noted that this proposed amendment was not raised at the recent Scrutiny Committee where a full debate of the Corporate Plan and Budget took place.

A Member expressed concern that over the last 4 years the Council's budget has increased along with the budget of the PCC (Police & Crime Commissioner) and County Council which resulted in unstainable Council Tax pressure on certain residents within the District. A Member also noted that Council Tax reform is not related to political difference, noting that there is a group of Conservative MPs within the Government's Property Reform Group committed to reforming property duties.

The Chairman took Members to a vote on the amendment which was lost with 16 in favour and 28 against.

The Chairman then took Members to a vote on the recommendations contained in the report. A recorded vote was taken, and the recommendations approved with 46 in favour and 2 abstentions.

	For	Against	Abstain		For	Against	Abstain
Allen, G.	✓			Henwood, J.	✓		
Ash-Edwards, J.	✓			Hicks, S.	✓		
Bates, R.	✓			Hillier, S.	✓		
Belsey, J.	✓			Hussain, T	✓		
Belsey, M.	✓			Jackson, R.	✓		
Bennett, A.	✓			Knight, J.	✓		
Bennett, L.	✓			Laband, C.	✓		
Brown, P.			✓	Lea, Anthea	✓		
Cartwright, R.	✓			Llewellyn-Burke, J.	✓		
Chapman, P.	✓			MacNaughton, A.	✓		
Clarke, R.	✓			Marsh, G	✓		
Coe-Gunnell White, E.	✓			Mockford, J	✓		
Coote, P.	✓			Peacock, A	✓		
Cornish, M.	✓			Phillips, C.	✓		
Cromie, R	✓			Pulfer, M.	✓		
Dabell, J.	✓			Salisbury, R	✓		
Dempsey, B	✓			Smith, S.	✓		
de Mierre, R.	✓			Sparasci, A.	✓		
Eggleston, R.	✓			Stockwell, L	✓		
Ellis, S.	✓			Sweatman, D.	✓		
Eves, A			✓	Trumble, C.	✓		
Gibbs, L.	✓			Webb, R	✓		
Gibson, I.	✓			Webster, N.	✓		
Hatton, S.	✓			Whittaker, R.	✓		

RESOLVED

Council agrees:

3.1 Corporate Plan and Budget 2021/22

3.1.1 That the Corporate Plan and Budget for 2021/22 set out in this report be approved;

3.2 Mid Sussex District Council Budget 2021/22

3.2.1 Revenue Spending and MSDC council tax levels for 2021/22:

(a) That Revenue Spending summarised below (see Section 2 for details) is approved:

	£'000
Service Net Expenditure	17,617
Balance Unallocated	20
Council Net Expenditure	17,637
Revenue Spending	17,637

(b) That with respect to pensions, the employer's contribution rate should be 21.4% for 2021/22

(c) That the Mid Sussex District Council element of the Council Tax be increased by 2.9% to £175.41, with no requirement to hold a local referendum in accordance with the Act.

3.2.2 Capital Programme 2021/22 (see Section 3 for details):

(a) That the Capital Programme for 2021/22 (as set out in Section 3) is approved.

3.2.3 Usable Reserves and other balances

(a) That the estimates for cash balances (see Section 4 for details) are noted.

3.2.4 Financial Strategy & Medium-Term Financial Plan:

(a) That the summary Medium Term Financial Plan to 2024/25 (see Section 5 for details) is noted.

3.2.5 Collection Fund:

(a) That the estimated surplus on the Collection Fund for Council Tax totalling £1,288,000 for the year ended 31 March 2021, of which the Mid Sussex District Council share is £167,430 (see Section 6 for details) is noted.

(b) That the estimated deficit on the Collection Fund for Business Rates totalling £20,503,000 for the year ended 31 March 2021, of which the Mid Sussex District Council share is £8,632,556 (see Section 6 for details) is noted.

3.3 Council Taxes for The Mid Sussex Area:

3.3.1 It be noted that at its meeting held on 9th December 2020 the Council calculated the following amounts for the year 2021/22:

(a) 62,223.8 being the amount calculated, in accordance with the Local Authorities (Calculation of Council Tax Base) Regulations 2012, as its council tax base for the year; and

(b) for dwellings in those parts of its area to which a Parish precept relates as set out in Table 3 Section 7 of this report.

3.3.2 £10,914,679 being the amount calculated as the Council Tax Requirement for the Council's own purposes for 2021/22 (excluding Parish Precepts).

3.3.3 That the following amounts be calculated by the Council for the year 2021/22 in accordance with Section 31 to 36 of the Local Government Finance Act 1992 (as amended by The Localism Act 2011):

(a) £68,037,040 being the aggregate of the amounts, which the Council estimates for the items set out in Section 31A(2) of the Act taking into account all precepts issued to it by Parish Councils;

(b) £52,452,000 being the aggregate of the amounts, which the Council estimates for the items set out in Section 31A(3) of the Act;

(c) £15,585,040 being the amount by which the aggregate at 3.3.3(a) above exceeds the aggregate at 3.3.3(b) above, calculated by the Council, in accordance with Section 31A(4) of the Act, as its Council Tax requirement for the year;

(d) £250.47 being the amount at 3.3.3(c) above, all divided by the amount at 3.3.1(a) above, calculated by the Council, in accordance with Section 31B of the Act, as the basic amount of its Council Tax for the year (including Parish precepts);

(e) £4,670,361 being the aggregate amount of all special items (Parish Precepts) referred to in Section 34(1) of the Act (see Section 7 for details);

(f) £175.41 being the amount at 3.3.3(d) above less the result given by dividing the amount at 3.3.3(e) above by the amount at 3.3.1(a) above, calculated by the Council, in accordance with Section 34(2) of the Act, as the basic amount of its Council Tax for the year for dwellings in those parts of its area to which no Parish precept relates;

(g) Part of the Council's area

Parish area	band A	band B	band C	band D	band E	band F	band G	band H
	£	£	£	£	£	£	£	£
Albourne	149.23	174.10	198.97	223.84	273.58	323.32	373.07	447.68
Ansty & Staplefield	166.01	193.67	221.34	249.01	304.35	359.68	415.02	498.02
Ardingly	194.86	227.34	259.81	292.29	357.24	422.20	487.15	584.58
Ashurst Wood	178.91	208.72	238.54	268.36	328.00	387.63	447.27	536.72
Balcombe	176.58	206.01	235.44	264.87	323.73	382.59	441.45	529.74
Bolney	156.22	182.26	208.29	234.33	286.40	338.48	390.55	468.66
Burgess Hill	167.15	195.01	222.87	250.73	306.45	362.17	417.88	501.46
Cuckfield	209.47	244.38	279.29	314.20	384.02	453.84	523.67	628.40
East Grinstead	175.68	204.96	234.24	263.52	322.08	380.64	439.20	527.04
Fulking	160.42	187.16	213.89	240.63	294.10	347.58	401.05	481.26
Hassocks	173.40	202.30	231.20	260.10	317.90	375.70	433.50	520.20
Haywards Heath	154.18	179.88	205.57	231.27	282.66	334.06	385.45	462.54
Horsted Keynes	168.31	196.37	224.42	252.47	308.57	364.68	420.78	504.94
Hurstpierpoint & Sayers Common	173.35	202.25	231.14	260.03	317.81	375.60	433.38	520.06
Lindfield	157.19	183.39	209.59	235.79	288.19	340.59	392.98	471.58
Lindfield Rural	144.51	168.59	192.68	216.76	264.93	313.10	361.27	433.52
Newtimber	120.67	140.79	160.90	181.01	221.23	261.46	301.68	362.02
Poynings	151.79	177.08	202.38	227.68	278.28	328.87	379.47	455.36
Pyecombe	179.36	209.25	239.15	269.04	328.83	388.61	448.40	538.08
Slaugham	167.79	195.75	223.72	251.68	307.61	363.54	419.47	503.36
Turners Hill	201.28	234.83	268.37	301.92	369.01	436.11	503.20	603.84
Twineham	156.78	182.91	209.04	235.17	287.43	339.69	391.95	470.34
West Hoathly	170.19	198.56	226.92	255.29	312.02	368.75	425.48	510.58
Worth	157.77	184.07	210.36	236.66	289.25	341.84	394.43	473.32

being the amounts given by multiplying the amounts at as set out in Table 3 Section 7 of this report by the number which, in the proportion set out in Section 5(1) of the Act, is applicable to dwellings listed in a particular valuation band divided by the number which in that proportion is applicable to dwellings listed in valuation band D, calculated by the Council, in accordance with Section 36(1) of the Act, as the amounts to be taken into account for the year in respect of categories of dwellings listed in different valuation bands.

3.3.4 That it be noted that for the year 2021/22, West Sussex County Council have stated the following amounts in precept issued to the Council, in accordance with Section 40 of the Local Government Finance Act 1992, for each of the categories of dwelling shown below:

Valuation band	£	Valuation band	£
band A	1,007.04	band E	1,846.24
band B	1,174.88	band F	2,181.92
band C	1,342.72	band G	2,517.60
band D	1,510.56	band H	3,021.12

3.3.5 That it be noted that for the year 2021/22 the Sussex Police and Crime Commissioner have stated the following amounts in precept issued to the Council, in accordance with Section 40 of the Local Government Finance Act 1992, as amended by the Police Reform and Social Responsibility Act 2011, for each of the categories of dwellings shown below:

Valuation band	£	Valuation band	£
band A	143.27	band E	262.67
band B	167.15	band F	310.43
band C	191.03	band G	358.18
band D	214.91	band H	429.82

3.3.6 That, having calculated the aggregate in each case of the amounts as at 3.3.3(g), 3.3.4 and 3.3.5 above, the Council in accordance with Sections 30 and 36 of the Local Government Finance Act 1992, hereby sets the following amounts as the amounts of Council Tax for the year 2021/22 for each of the categories of dwellings shown below:

Parish area	band A	band B	band C	band D	band E	band F	band G	band H
	£	£	£	£	£	£	£	£
Albourne	1,299.54	1,516.13	1,732.72	1,949.31	2,382.49	2,815.67	3,248.85	3,898.62
Ansty & Staplefield	1,316.32	1,535.70	1,755.09	1,974.48	2,413.26	2,852.03	3,290.80	3,948.96
Ardingly	1,345.17	1,569.37	1,793.56	2,017.76	2,466.15	2,914.55	3,362.93	4,035.52
Ashurst Wood	1,329.22	1,550.75	1,772.29	1,993.83	2,436.91	2,879.98	3,323.05	3,987.66
Balcombe	1,326.89	1,548.04	1,769.19	1,990.34	2,432.64	2,874.94	3,317.23	3,980.68
Bolney	1,306.53	1,524.29	1,742.04	1,959.80	2,395.31	2,830.83	3,266.33	3,919.60
Burgess Hill	1,317.46	1,537.04	1,756.62	1,976.20	2,415.36	2,854.52	3,293.66	3,952.40
Cuckfield	1,359.78	1,586.41	1,813.04	2,039.67	2,492.93	2,946.19	3,399.45	4,079.34
East Grinstead	1,325.99	1,546.99	1,767.99	1,988.99	2,430.99	2,872.99	3,314.98	3,977.98
Fulking	1,310.73	1,529.19	1,747.64	1,966.10	2,403.01	2,839.93	3,276.83	3,932.20
Hassocks	1,323.71	1,544.33	1,764.95	1,985.57	2,426.81	2,868.05	3,309.28	3,971.14
Haywards Heath	1,304.49	1,521.91	1,739.32	1,956.74	2,391.57	2,826.41	3,261.23	3,913.48
Horsted Keynes	1,318.62	1,538.40	1,758.17	1,977.94	2,417.48	2,857.03	3,296.56	3,955.88
Hurstpierpoint & Sayers Common	1,323.66	1,544.28	1,764.89	1,985.50	2,426.72	2,867.95	3,309.16	3,971.00
Lindfield	1,307.50	1,525.42	1,743.34	1,961.26	2,397.10	2,832.94	3,268.76	3,922.52
Lindfield Rural	1,294.82	1,510.62	1,726.43	1,942.23	2,373.84	2,805.45	3,237.05	3,884.46
Newtimber	1,270.98	1,482.82	1,694.65	1,906.48	2,330.14	2,753.81	3,177.46	3,812.96
Poynings	1,302.10	1,519.11	1,736.13	1,953.15	2,387.19	2,821.22	3,255.25	3,906.30
Pyecombe	1,329.67	1,551.28	1,772.90	1,994.51	2,437.74	2,880.96	3,324.18	3,989.02
Slaugham	1,318.10	1,537.78	1,757.47	1,977.15	2,416.52	2,855.89	3,295.25	3,954.30
Turners Hill	1,351.59	1,576.86	1,802.12	2,027.39	2,477.92	2,928.46	3,378.98	4,054.78
Twineham	1,307.09	1,524.94	1,742.79	1,960.64	2,396.34	2,832.04	3,267.73	3,921.28
West Hoathly	1,320.50	1,540.59	1,760.67	1,980.76	2,420.93	2,861.10	3,301.26	3,961.52
Worth	1,308.08	1,526.10	1,744.11	1,962.13	2,398.16	2,834.19	3,270.21	3,924.26

The meeting finished at 7.15 pm

Chairman

HAYWARDS HEATH TOWN CENTRE MASTERPLAN – SUPPLEMENTARY PLANNING DOCUMENT

REPORT OF:	Judy Holmes, Assistant Chief Executive
Contact Officer:	Sally Blomfield – Divisional Leader for Planning and Economy
Wards Affected:	All Haywards Heath Wards
Key Decision:	No
Report to:	Council
Date of meeting:	31st March 2021

Purpose of Report

1. This report recommends the Council adopts the Haywards Heath Town Centre Masterplan Supplementary Planning Document (SPD) (in Appendix 1) as a material consideration in the determination of planning applications.

Summary

2. This report:

 a) Recommends that the SPD is adopted by the Council for use in the consideration and determination of planning applications.

Recommendations

3. That Council:

Adopt the Haywards Heath Masterplan (attached in Appendix 1) as a Supplementary Planning Document (SPD) for use in the consideration and determination of planning applications.

Background

4. Town centres are at the heart of local communities. They are the retail, community, leisure and business focus for the town. It is vital that town centres remain vibrant and prosperous, supporting economic recovery and growth.

5. The Council's **Economic Development Strategy** (adopted 2018) contains an objective to create "*viable and vibrant town and village centres with their own identity which meet the retail, leisure and employment needs of the growing population*". One of the actions to meet this objective is to "*Develop a Masterplan to help shape the strategic long-term vision for Haywards Heath as a destination and to co-ordinate development and investment to deliver that vision*".

6. This is reinforced in the Council's **Economic Recovery Plan 2020-21** which contains an action to adopt a Haywards Heath Town Centre Masterplan to set a framework and guiding principles for town centre growth and recovery and to assist stakeholders with investment decisions.

7. Planning Policy recognises the importance of Town Centres. The National Planning Policy Framework states that “Planning policies and decisions should support the role that town centres play at the heart of local communities, by taking a positive approach to their growth, management and adaptation.”

8. The Mid Sussex District Plan (adopted 2018) supports the regeneration and renewal in Town Centres. Policy **DP2: Town Centre Redevelopment** notes that this should be in accordance with Town Centre Masterplans, where adopted.

9. The Haywards Heath Town Centre Masterplan provides a framework for planning and investment decisions, with the aim of supporting economic recovery and growth.

10. Once adopted, the SPD will provide additional guidance to Policy DP2: Town Centre Development and will be a material consideration in making planning decisions within the Masterplan boundary. Upon adoption the Masterplan will supersede the current Haywards Heath Town Centre Masterplan which was adopted in 2007.

What is the role of a Town Centre Masterplan?

11. The primary role of a Town Centre Masterplan is to provide a framework for economic vitality, recovery and growth. An adopted Masterplan demonstrates the Town’s intentions for regeneration and renewal which in turn provides more clarity for the community, potential investors and those planning development and infrastructure. It can also provide evidence to support bids for future investment and help prioritise investment priorities and decisions.

12. The Masterplan cannot set additional planning policy or allocate sites for development or specific uses. Its role is to set a framework and guiding planning principles, should development opportunities arise within the lifetime of the Masterplan. Therefore, it does not include detailed designs for any scheme because it is not the delivery vehicle for any of the proposals set out within it. The identification of a particular proposal, scheme or opportunity site within the Masterplan does not guarantee it will be delivered: any implementation will be subject to further and separate detailed work.

13. Any future redevelopment proposals arising from the Masterplan will be to be subject to further public consultation on detailed designs, through the usual planning application process.

Content

14. The Haywards Heath Town Centre Masterplan is at **Appendix 1**.

15. The Masterplan contains the following 8 objectives to achieve the Vision of re-enforcing Haywards Heath’s role as a vibrant and connected town that attracts business and people:

1	Attracting people to visit, work, and live in the Town Centre
2	Retaining and strengthening the distinct character areas
3	Providing opportunities for sustainable travel and improving public realm
4	Exploring and providing opportunities to improve parking provision
5	Protecting the town’s significant green spaces (e.g. Victoria Park and Clair Park)

6	Creating positive ‘gateway moments’ to define arrival into the Town Centre
7	Providing a framework for enhancing opportunities to live in the Town Centre
8	Providing a framework for ‘meanwhile uses’ such as pop-ups to increase vibrancy

16. To help deliver these objectives, the Masterplan contains a series of Public Realm and Transport Infrastructure Improvements as well as identifying Opportunity Sites for potential regeneration.

17. Section 4 of the Masterplan identifies the Public Realm and Transport Infrastructure Improvements. These relate to Commercial Square and Station, Perrymount Road, Muster Green Gyratory, The Broadway, South Road, Sussex Road and Victoria Park. A series of proposals are suggested to improve connectivity between these locations for pedestrians and cyclists. Other proposals included relate to speed limits, parking, wayfinding/signage, and meanwhile uses to improve public realm to ensure Haywards Heath remains an attractive place to live, work and visit.

18. Section 5 of the Masterplan identifies “Opportunity Sites” within the Town Centre boundary that have potential for regeneration and renewal and which could help deliver the Vision for the town centre. The identification of these sites does not imply they are available or viable, and additional work will be required to establish the precise opportunities these sites could provide. Therefore, the Masterplan does not contain specific detailed proposals. It seeks to set broad aims and principles which would apply should any redevelopment be proposed for these sites.

19. Section 6 of the Masterplan includes policy interventions that will be considered as part of the District Plan Review process. This will ensure that the Council has an appropriate policy framework in place to ensure town centres are able to thrive. Section 7 sets out an Implementation Strategy. This seeks to provide an indicative timescale and the identification of further work required for each of the projects.

Public Consultation

20. The draft Haywards Heath Town Centre Masterplan was considered by Scrutiny Committee for Housing, Planning and Economic Growth on 22nd October 2020 which resolved to delegate authority to the Cabinet Member for Housing and Planning to approve the document for public consultation. Public consultation was held for 6 weeks between 9th November – 21st December 2020. The consultation was carried out in accordance with the Council’s adopted Statement of Community Involvement (SCI) and the Community Involvement Plan (CIP).

21. A total of **243** respondents made 424 comments on the draft Haywards Heath Town Centre Masterplan. These were considered in detail by the Scrutiny Committee for Housing Planning and Economic Growth on the 20th of January 2021.

22. In total, 70% of questionnaire respondents agreed with the key aim of the Masterplan, to encourage economic recovery, growth and investment. The public realm and transport improvements were largely supported, as were the principles set out for the Orchards opportunity site. Whilst feedback on Clair Hall and the MSDC Car Parks received the most objections, many of these were due to a lack of clarity about the role of a Masterplan in relation to opportunity sites and the status of the hall on the Clair Hall site.

23. At the meeting the Solicitor to the Council advised that Clair Hall was open and therefore the document must reflect the current situation. He confirmed that the Masterplan would be amended accordingly. In addition, on the 13 January 2021 the Deputy Leader agreed that any consideration of the future use of the facility would be preceded by ‘further public consultation to add to the feedback already received through the Haywards Heath Masterplan consultation…’.

24. The Scrutiny Committee for Housing Planning and Economic Growth resolved to recommend to Council that the Masterplan be adopted subject to the proposed modifications.

25. The revised Masterplan incorporating all proposed amendments is included in **Appendix 1**. A schedule setting out the details of all the changes that have been made to the Masterplan as a result of responses to the consultation and other factual updates is set out in **Appendix 2**.

Adoption

26. The Haywards Heath Town Centre Masterplan is at **Appendix 1**. This is the final version of the Masterplan and includes all amendments listed in **Appendix 2**. Subject to Council’s recommendations, this is the version of the Masterplan to be adopted.

27. Upon adoption, the Haywards Heath Town Centre Masterplan will be a Supplementary Planning Document (SPD). It will be a material consideration in the consideration and determination of planning applications. It will also be used to stimulate inward investment and to inform any investment funding opportunities, as an adopted Masterplan demonstrates the Council’s aspirations and agreed position.

Financial Implications

28. The costs of preparing the Haywards Heath Town Centre Masterplan have been funded from the Development Plan Reserve.

Risk Management Implications

29. The Government’s focus is on economic recovery and growth, and ensuring vitality of Town Centres, which this Masterplan supports.

Equality and Customer Service Implications

30. The draft Masterplan was subject to an Equalities Impact Assessment. This concluded that the document does not discriminate against any members of the community that have ‘protected characteristics.’

Other Material Implications

31. Strategic Environmental Assessment (SEA) and Habitats Regulations Assessment (HRA) Screening have been carried out on the draft Masterplan, in consultation with the Statutory Environmental Bodies. Both Screening reports conclude that SEA and HRA are not required.

Appendices

- **Appendix 1** - Haywards Heath Town Centre Masterplan – Final Draft for Adoption

- **Appendix 2** - Schedule of Amendments to the Haywards Heath Town Centre Masterplan

Background Papers

- Report to Scrutiny Committee for Housing, Planning and Economic Growth on 22nd October 2020

- Report to Scrutiny Committee for Housing, Planning and Economic Growth on 20th January 2021

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Appendix 2 – Schedule of Amendments to the Haywards Heath Town Centre Masterplan

The draft Haywards Heath Town Centre Masterplan was subject to a 6-week consultation in November-December 2020. The table below documents the changes that have been made to the Masterplan as a result of consultation responses and other factual updates since the draft Masterplan was published (discussed at Scrutiny Committee for Housing, Planning and Economic Growth on 20th January 2021).

New text is shown underlined, deleted text is shown as ~~strikethrough.~~

[…] Indicates existing, unchanged text which precedes/follows the paragraph or bullet point that contains a change.

Section	Page	Amendment	Reason
1.2 Town Centre Objectives	6	[…] **3.** To provide opportunities for sustainable travel (including public transport) throughout the town centre, particularly between the town centre's character areas, by improving public realm so that walking and cycling are attractive options for residents and visitors alike, and discouraging unnecessary traffic from using key routes such as South Road and The Broadway.	To address a point raised during the consultation
3.1 Context	19	The role of Clair Hall. Clair Hall ~~was~~ is a cultural and community facility within the town centre boundary. The site is owned by the District Council, who will need to consider all future viable options for this site.	Factual amendment.
4.3 Perrymount Road	43	For pedestrians ~~and cyclists~~, an alternative route~~s~~ to the town centre core exists via Clair Park yet the entrance to Clair Park and the pedestrian~~/cycle~~ route lacks signposting. There is also no complete formal cycle route via Clair Park parallel to Perrymount Road and there are issues with suitable path widths, gradients, lighting and surveillance, making Perrymount Road a potentially more suitable cycle route option. **Recommended Proposals** • ~~Opportunity~~ Consider options for ~~to provide advisory cycle lane~~providing a cycle route on Perrymount Road; linking with new off-road routes through Clair Park and improving cycle/pedestrian connectivity between the station, The Broadway and South Road, subject to meeting required design standards in consultation with West Sussex County Council. […]	To address points made during the consultation by West Sussex County Council.

4.4 **Muster Green Gyratory**	44	[…] The traffic implications of different junction arrangements would need to be modelled and considered alongside the optimal crossing arrangements to serve pedestrians and cycle movements. This will need to take place at the design stage, to assess the impact of any proposed scheme on road users (including public transport), cyclists and pedestrians. Detailed costings would need to be provided to assess the viability of this scheme.	To address points made during the consultation by residents, Metrobus and West Sussex County Council.
4.6 **South Road**	50	**Recommended Proposals** […] • Visually reduce road in width for example by the addition of a central median strip and side channel to reduce speeds and emphasise the place function of the high street setting, subject to meeting required design standards in consultation with West Sussex County Council and bus companies.	To address points made during the consultation by Metrobus and West Sussex County Council.
4.9 **Cycling**	55	**4.9 Cycling, Walking and Non-Motorised Users** Future commercial and residential development in Haywards Heath have the potential to increase vehicular trips. This can be mitigated by the provision of improved public transport, walking and cycling facilities which will support development, by providing active travel opportunities as an alternative to car use. A Local Cycling & Walking Infrastructure Plan (LCWIP) for Mid Sussex is being developed. […] In addition, reconfiguring South Road and The Broadway, as part of the proposed transport infrastructure and public realm improvements, will reduce vehicular speeds and create a less intimidating environment for cyclists, pedestrians and non-motorised users. […]	To address a point raised during the consultation by a resident and West Sussex County Council

		~~A raised parallel / tiger crossing~~Options for improving crossing facilities between Clair Park and Clair Road, across Perrymount Road, should be explored and will assist cycling crossing at this point and those looking to access the station cycle hub. Perrymount Road also provides an opportunity for ~~advisory cycle lanes~~improved cycling facilities which would require a reconfiguration of parking to the south, as it meets The Broadway. **Recommended Proposals** […] • Provision of appropriately designed cycle parking/storage, in accordance with the Mid Sussex Design Guide SPD	
5.2 Additional Opportunities	67	**G. 2 The Broadway** […] It could ~~comfortably~~ accommodate ~~four~~ a well-designed five ~~storeys~~storey building, with residential or small business units above.	Factual update as a result of recent application (approved), and as a result of a point made during the consultation.
5.2 Additional Opportunities	67	The Masterplan also identifies additional sites where redevelopment could support the vibrancy and vitality of Haywards Heath should landowners choose to bring them forward for redevelopment, particularly as many are located in prominent/gateway site locations (Objective 6). Some of these opportunities could be supported and developed through the BID, should a Haywards Heath BID be formed. The following text briefly sets out the opportunities held by these sites, however this does not imply that these sites are available or viable or that a scheme will be forthcoming. ~~Further work is required to establish if and how these sites could come forward.~~However, the following principles would apply should a redevelopment scheme for any of these locations be progressed in the future.	For clarity, as a response to points made during the consultation.

5.2 Additional Opportunities	67	**N. Stockwell Court** As a prominent gateway at the southern entrance to South Road, opportunity exists to improve shop facades on the ground floor of this building. Improvements to the appearance of floors above ground level would be supported. [plus amendment to corresponding maps]	To address a point raised during the consultation
5.3 The Orchards Shopping Centre	69	[…] Enhanced Town Centre Parking Any proposals for a multi-storey or decked car park must be of high-quality design and account for the design principles set out in the Mid Sussex Design Guide SPD.	To address a point raised during the consultation
5.3 The Orchards Shopping Centre	69	The Council's Parking Strategy (2020) contains an action to prepare a Parking Investment Strategy. The closure of smaller car parks and consolidation of parking spaces focussed at The Orchards will be subject to additional future work through the Parking Investment Strategy, which will consider future capacity and other measures. Any closure of car parks will be subject to the outcomes of this work, and the assurances that sufficient parking capacity exists in the town centre to meet current and demand.	For clarity, as a response to points made during the consultation.
5.4 Clair Hall	72	**Aims and Principles** ~~The important aspects to any redevelopment would be:~~Any redevelopment of this site would be subject to the results of • ~~A~~an assessment to establish the need for such a facility, and whether community facilities could be re-provided on site or elsewhere in the town, in accordance with District Plan policy DP24: Leisure and Cultural Facilities and Activities.	For clarity, as a response to points made during the consultation.

		If the results of the assessment satisfy the requirements of DP24: Leisure and Cultural Facilities and Activities, the following planning principles would apply: • The relationships with adjacent buildings and the open space, particularly in creating a coherent and attractive street scene with frontages to active spaces; […]	
5.4 Clair Hall	72	The Clair Hall site ~~was home to~~includes a community facility. It ~~had~~ has a series of spaces for hire, including a large hall which provides for different activities. The site also includes the Redwood Centre which is hired to local community groups. […] Given these factors, ~~it was decided that Clair Hall should be closed and the site redeveloped~~the site still represents an opportunity site for potential redevelopment. Any ~~R~~redevelopment should follow the principles set out below.	Factual amendment.
5.5 MSDC Owned Car Parks	73	The Council's Parking Strategy (2020) contains an action to prepare a Parking Investment Strategy. The closure of these smaller car parks and consolidation of parking spaces focussed at The Orchards will be subject to additional future work through the Parking Investment Strategy, which will consider future capacity and other measures. Any closure of car parks will be subject to the outcomes of this work, and the assurances that sufficient parking capacity exists in the town centre to meet current and demand. These principles are set out in the Masterplan should decisions be taken in the future to close these Car Parks.	For clarity, as a response to points made during the consultation.
7. Implementation Strategy	78	[…] The Masterplan contains a number of potential projects and opportunities for development. However, the identification of a project or opportunity within the	For clarity, as a response to points made during the consultation.

		Masterplan does not guarantee its delivery – the Masterplan is not a delivery vehicle, instead it ~~it only~~ provides guidance for making investment and planning decisions if proposals are brought forward. The projects set out in the table below are subject to sufficient funding being secured to enable delivery. Potential sources of funding include private or public investments, grant funding (of which the identification of a project within this SPD can help secure), or from contributions received by developers to mitigate the impacts of development (e.g. Section 106 agreements).	
7. Implementation Strategy	79	~~Local Transport Improvement Programme~~ Annual Delivery Programme [*multiple instances]* Medium-Scale Proposals • Schemes for Commercial Square & Station and South Road are ~~I~~identified within WSCC's ~~Local Transport Improvement~~Annual Delivery Programme (updated annually) • […]	For clarity, as a response to points made during the consultation.

PROGRAMME OF MEETINGS 2021/22

REPORT OF:	Tom Clark, Head of Regulatory Services and Monitoring Officer
Contact Officer:	Lucinda Joyce – Senior Democratic Services Officer Email: lucinda.joyce@midsussex.gov.uk Tel: 01444 477225
Wards Affected:	All
Key Decision	No
Report to	Council – 31 March 2021

Purpose of Report

1. To approve the Programme of Meetings for 2021/2022.

Recommendations

2. **It is recommended that the Programme (attached to this report as Appendix 1) be approved.**

Background

3. Each year the Council sets a Programme of Meetings, as attached at Appendix 1, which has been prepared on the same basis as the previous year unless otherwise instructed.

4. Six training sessions for all Members have been included throughout the year.

5. It has been announced that the legislation which allows Councils to hold meetings remotely via electronic means is to come before Parliament, to be extended for a further 6 months from May 2021.

Financial and Other Material Implications

6. This report has no financial or other material implications.

Background Papers

7. None

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Programme of Meetings 2021/22

2021-2022 Programme		
Wed 12 May	**Annual Council**	**6.00 pm**
Thu 13 May	Planning Committee	4.00 pm
Tue 18 May	Member Training	6.00 pm
Wed 19 May	Scrutiny Committee Leader, Finance and Performance	5.00 pm
Thu 20 May	District Planning Committee	2.00 pm
Tues 25 May	Cabinet Grants Panel	4.00pm
Mon 7 Jun	**Cabinet**	**4.00 pm**
Mon 7 Jun	Standards Committee	6.00 pm
Wed 9 Jun	Scrutiny Committee Housing, Planning and Economic Growth	5.00 pm
Thu 10 Jun	Planning Committee	4.00 pm
Wed 16 Jun	Scrutiny Committee Community, Customer Service and Service Delivery	5.00 pm
Thu 17 Jun	District Planning Committee	2.00 pm
Mon 28 Jun	Cabinet Grants Panel	4.00 pm
Tue 29 Jun	Licensing Committee	4.00 pm
Wed 30 Jun	**Council**	**6.00 pm**
Thurs 8 Jul	Planning Committee	4.00pm
Tues 13 Jul	Member Training	6.00 pm
Thu 15 Jul	District Planning Committee	2.00 pm
Mon 26 Jul	**Cabinet**	**4.00 pm**
Tue 27 Jul	Audit Committee	5.00 pm
Thu 12 Aug	Planning Committee	4.00 pm
Thu 19 Aug	District Planning Committee	2.00 pm
Mon 23 Aug	Cabinet Grants Panel	4.00 pm
Tue 7 Sep	Member Training	6.00 pm
Wed 8 Sept	Scrutiny Committee Community, Customer Service and Service Delivery	5.00 pm

Thurs 9 Sept	Planning Committee	4.00pm
Mon 13 Sept	**Cabinet**	**4.00 pm**
Wed 15 Sept	Scrutiny Committee, Leader, Finance and Performance	5.00 pm
Thu 16 Sept	District Planning Committee	2.00 pm
Wed 22 Sept	Scrutiny Committee Housing, Planning and Economic Growth	5.00 pm
Tues 28 Sept	Audit Committee	5.00 pm
Wed 29 Sept	**Charity Trustees (Annual Report)**	**5.45 pm**
Wed 29 Sept	**Council**	**6.00 pm**
Mon 11 Oct	**Cabinet**	**4.00 pm**
Tues 12 Oct	Licensing Committee	5.00 pm
Thu 14 Oct	Planning Committee	4.00 pm
Thurs 21 Oct	District Planning Committee	2.00 pm
Mon 25 Oct	Cabinet Grants Panel	4.00 pm
Tue 2 Nov	Member Training	6.00 pm
Wed 3 Nov	**Council**	**6.00 pm**
Wed 10 Nov	Scrutiny Committee, Leader, Finance and Performance	5.00 pm
Thurs 11 Nov	Planning Committee	4.00 pm
Tue 16 Nov	Audit Committee	5.00 pm
Wed 17 Nov	Scrutiny Committee Community, Customer Service and Service Delivery	5.00 pm
Thurs 18 Nov	District Planning Committee	2.00 pm
Mon 22 Nov	Standards Committee	6.00 pm
Wed 24 Nov	Scrutiny Committee Housing, Planning and Economic Growth	5.00 pm
Mon 29 Nov	**Cabinet**	**4.00 pm**
Thu 9 Dec	Planning Committee	4.00 pm
Mon 13 Dec	Cabinet Grants Panel	4.00 pm
Wed 15 Dec	**Council**	**6.00 pm**
Thu 16 Dec	District Planning Committee	2.00 pm

Tue 11 Jan	Member Training	6.00 pm
Wed 12 Jan	Scrutiny Committee Leader, Finance and Performance	5.00 pm
Thu 13 Jan	Planning Committee	4.00 pm
Mon 17 Jan	**Cabinet**	**4.00 pm**
Wed 19 Jan	Scrutiny Committee Housing, Planning and Economic Growth	5.00 pm
Thu 20 Jan	District Planning Committee	2.00 pm
Wed 26 Jan	**Charity Trustees (if required)**	**5.45 pm**
Wed 26 Jan	**Council**	**6.00 pm**
Wed 2 Feb	Scrutiny Committee Community, Customer Service and Service Delivery	5.00 pm
Tue 8 Feb	Licensing Committee	5.00 pm
Thurs 10 Feb	Planning Committee	4.00 pm
Mon 14 Feb	**Cabinet**	**4.00 pm**
Thu 17 Feb	District Planning Committee	2.00 pm
Mon 21 Feb	Cabinet Grants Panel	4.00 pm
Tue 1 Mar	Audit Committee	5.00 pm
Wed 2 Mar	**Council (budget)**	**6.00 pm**
Mon 7 Mar	Standards Committee	6.00 pm
Tue 8 Mar	Member Training	6.00 pm
Wed 9 Mar	Scrutiny Committee Leader, Finance and Performance	5.00 pm
Thurs 10 Mar	Planning Committee	4.00 pm
Mon 14 Mar	**Cabinet**	**4.00 pm**
Wed 16 Mar	Scrutiny Committee Housing, Planning and Economic Growth	5.00 pm
Thu 17 Mar	District Planning Committee	2.00 pm
Wed 23 Mar	Scrutiny Committee Community, Customer Service and Service Delivery	5.00 pm
Wed 30 Mar	**Council**	**6.00 pm**
Thurs 14 Apr	Planning Committee	4.00 pm
Thu 21 Apr	District Planning Committee	2.00 pm

Mon 9 May	**Cabinet**	**4.00 pm**
Wed 11 May	**Annual Council**	**6.00 pm**

STANDARDS COMMITTEE ANNUAL REPORT 2020

REPORT OF:	Solicitor & Head of Regulatory Services
Contact Officer:	Tom Clark, Solicitor & Head of Regulatory Services Email: Tom.Clark@midsussex.gov.uk - Tel: 01444 477459
Wards Affected:	All
Key Decision	No
Report to:	Council Wednesday 31st March 2021

Purpose of Report

1. To report the work of the Standards Committee in 2020. It has been a busier year for complaints and the Standards Committee itself has been looking at the LGA draft Code of Conduct which has been produced following the recommendations of the Committee on Standards in Public Life. The LGA Code of Conduct was published in December but the guidance to go with it has been delayed and is now expected to be published in April 2021.

Recommendations

2. Council is requested to note the report.

Introduction

3. There were two Committee meetings in 2020. The first dealt with the approval of the 2019 Annual Report and the second, in August, commented on the draft Members Code of Conduct produced by the LGA. The final version of that new Code of Conduct was published in December 2020 and the Committee looked at it initially at its meeting in January 2021.

4. Virtual meetings are not conducive to the interactive training that is normally done for both District and Parish Members but we expect this to resume when Covid restrictions permit.

5. It has been a busier year for complaints about Members and you are referred to the Appendix sheet setting out the nature of these complaints. There has been little activity on the Neighbourhood Plan front which is where many of the complaints have come from in recent years. However, there have been complaints about Member behaviour generally, the use of Social Media by Members, the breakdown in relationships at one Parish Council, the self-reporting of a District Councillor for his own conduct, advice given to a Councillor who was also a property developer and has since recognised the difficulty in being both and resigned, the performance generally of Councillors during lockdown and the result of much earlier complaints ending up as threatened physical assault by Parish Members on the complainants.

6. Three of the listed complaints involved District members and other five were from Town and Parish Councils.

7. It seems the remoteness of Zoom meetings and isolation has not improved relations between people or understanding of other points of view.

Financial Implications

8. Only one of the complaints resulted in a full independent investigation at a cost to the District Council.

Risk Management Implications

9. When relationships break down, there is a risk of Councils becoming dysfunctional and the interests of the Public being forgotten.

Equality Implications

10. The Public seem content to use the email for making their written complaints. There was one complaint that came in by letter.

Schedule

1. A District Member who was also a property developer found it difficult to carry out both roles and resigned.

2. A Member involved in the funding of a possible new community facility was thought to have an interest which had been undeclared. Concerns were raised publicly and the District Member self-reported. The outcome was that the Member did have an interest to declare, but that interest was not a prejudicial interest and therefore matters that had occurred at the Town Council were in order.

3. There were a few complaints about the behaviour of Councillors in a private capacity. The Code of Conduct does not currently cover private actions, but Members must make it clear that they are acting in a private capacity.

4. The biggest number of complaints all related to Councillors on one Parish Council who reported each other as relationships broke down over the allocation of one or more sites in the village in the District Councils Site Selection Document. A number of meetings were held, but these did not improve the situation and outside help was sought from private solicitors. The matter seemed to be finally resolved once the District Council had been able to approve the Site Selection Document to go forward for further consultation and consideration by an Independent Inspector this Spring. This action had been delayed by the start of the Pandemic which unfortunately resulted in this long argument at one Parish Council to the detriment of other issues the Council might need to address for the public benefit.

5. There was a complaint following quite extreme comments by a Member from East Grinstead Town Council both in the press and on social media. This happened on two occasions. The Sub-Committee found the Member in breach of the Code of Conduct, but, at present, little can be done unless the Member chooses to resign. The Town Council has tried to take up these equality issues, but the Member was not keen to recognise there is an issue.

6. The performance of some Councillors during the Lockdown was questioned. Allegedly, Councillors were difficult to get hold of. How Councillors conduct their business is a matter for them subject to the Public being asked to re-elect them every four years.

7. There was an allegation that a Member from a Parish Council had sought to use his position as a Councillor to get a vehicle parked on the highway moved. The exact factual position was unclear, but it was clear that there were neighbour disagreements over parking.

8. Code of Conduct complaints do not frequently resolve matters and, on two occasions, those that had been reported in the past confronted those that had reported them. In one case, the Councillor resigned and in the other case, the Councillor asked for the past provocation to be taken into account. If these matters had gone to a Sub-Committee, it was unlikely that the situations had arisen while the Councillor was purporting to carry out Council business. This makes it outside the present Code of Conduct.

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TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY 2021/22 TO 2023/24

REPORT OF:	Head of Corporate Resources
Contact Officer:	Peter Stuart
	Email: peter.stuart@midsussex.gov.uk Tel: 01444 477315
Wards Affected:	All
Key Decision:	No
Report to:	Council, 31 March 2021

Purpose of Report

1. This report sets out the Council's investment and borrowing strategy for the forthcoming three years and reports the counterparty list with whom investments may be made. It also sets out the Prudential Limits that provide the parameters for approved future lending and borrowing, including the incidental cost of so doing.

Summary

2. The purchase of the Orchard Shopping Centre head lease in November 2016 necessitated borrowing of £22m from other Local Authorities. £17m has already been repaid, using the cash flow generated by matured fixed term deposits. The final £5m will be repaid in November 2021.

   Lending is restricted to the same counterparties and within the same limits as in the previous strategy approved in March 2020 except for the following proposed amendments:

   (i) Appendix D details the criteria for non-specified investments. Deposits with banks, building societies and local authorities currently are within one category with a maximum total limit of 50% of funds. Local authorities will be given a separate limit to allow flexibility to enable the service to take advantage of the best investment returns based on the liquidity needs of the Council.

   (ii) Al Rayan Bank will be added to the specified investments in Appendix C, with a maximum investment duration of 1 year. Al Rayan Bank is the UK's oldest and largest Sharia compliant retail bank and has a current credit rating of A1 from the rating agency Moodys. It operates an ethical model which excludes non-Sharia compliant investments such as in gambling, alcohol, pornography, tobacco and arms.

3. The Audit Committee considered this Strategy Statement at its meeting on 2nd March and, after some questions which were satisfactorily answered, were content to recommend its agreement by Council.

Recommendations

4. **The Committee is recommended to propose that Council agree:**

   (i) the proposed Treasury Management Strategy Statement (TMSS) for 2021/22 and the following two years,

(ii) the Annual Investment Strategy (AIS) and the Minimum Revenue Provision Statement (MRP) as contained in Sections 4 and 2.3 respectively of the report;

(iii) the proposed amendments to the specified and non-specified investment appendices;

(iv) the Prudential Indicators contained within this report.

Background

5. The Council applies and upholds the Chartered Institute of Public Finance and Accountancy's Code of Practice for Treasury Management in Public Services (the "CIPFA TM Code"). CIPFA has defined Treasury Management as:

   "the management of the organisation'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."

6. The Code requires local authorities to produce an annual Treasury Management Strategy Statement (TMSS), which documents the Council's approach to capital financing and investments for the forthcoming financial year (2021/22) and the following two years. This report fulfils that requirement.

7. In producing the TMSS, The Local Government Act 2003 (the Act) and supporting regulations require the Council to 'have regard to' the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice to set Prudential and Treasury Indicators for the next three years. The indicators are established to ensure that the Council's capital investment plans are affordable, prudent and sustainable.

8. Additionally, the Act and its subsequent Investment Guidance require the Council to set out its treasury management strategy for borrowing, and to prepare an Annual Investment Strategy (AIS). The Council's borrowing position is reported in Section 3, with arrangements for making Minimum Revenue Provision (MRP) for repayment of debt explained in Section 2.3. The AIS is contained in Section 4 of this report, and describes the Council's policies for managing its investments, and for giving priority to the security and liquidity of those investments.

9. Statute requires that the AIS, MRP Statement, and Prudential Indicators are approved by full Council before the start of the new financial year.

Policy Context

10. Providing transparency and approval of the strategies contained in this report is an important part of the Council's statutory role. Treasury Management has become increasingly topical given the nature of the world's financial markets in recent years, and Members are expected to have a basic understanding of how the Council uses its reserves and cash flows which are in the stewardship of the Head of Corporate Resources.

Other Options Considered

11. None – this report is statutorily required.

Financial Implications

12. This report has no quantifiable financial implications. Interest payable and interest receivable arising from treasury management operations, and annual revenue provisions for repayment of debt, form part of the revenue budget but are not required to support the provision of services.

Risk Management Implications

13. This report has no specific implications for the risk profile of the Authority.

Equality and Customer Service Implications

14. None.

Background Papers

- Treasury Management Strategy Statement & Annual Investment Strategy 2020/21 to 2022/23 (March 2020)
- Annual Review of Treasury Management 2019-20 (September 2020)
- Review of Treasury Management Activity 1 April – 30 September 2020 (Nov. 2020)
- Treasury Management in the Public Services: Code of Practice and Cross Sectoral Guidance Notes (CIPFA)
- The Prudential Code for Capital Finance in Local Authorities (CIPFA, December 2017)
- MHCLG Investment Guidance (Revised for April 2018) and MRP Guidance
- Link Asset Services report template (January 2021)

Treasury Management Strategy Statement & Annual Investment 2021/22 to 2023/24

INTRODUCTION

1.1 Background

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

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

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

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

1.2 Reporting requirements

1.2.1 Capital Strategy

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

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

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

1.2.2 Treasury Management reporting

The Council is required to receive and approve, as a minimum, three main 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 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).

The approval of the Treasury Management Strategy and Annual Investment Strategy is the function of the Council, however the Head of Corporate Resources shall also report to the Audit Committee on treasury management activity performance as follows:

b. A mid year treasury management report – This will update Members with the progress of the capital position, amending prudential indicators as necessary, and whether any policies require revision. The report will be submitted as soon after 30 September as practically possible.

c. An annual treasury report – This provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy. The report will be submitted no later than 30 September after the financial year end.

1.2.3 Scrutiny

The above reports are required to be adequately scrutinised before being recommended to the Council. This role is undertaken by the Audit Committee, which may make recommendations regarding any aspects of treasury management policy and practices it considers appropriate in fulfilment of its scrutiny role. Such recommendations, as may be made shall be incorporated within the above named reports and submitted to meetings of the Council for consideration at the next available opportunity. The Council's Scheme of Delegations is set out in Appendix E.

1.3 Treasury Management Strategy for 2021/22

The strategy for 2021/22 covers two main areas:

Capital issues

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

Treasury management issues

- the current treasury position;
- treasury indicators which limit the treasury risk and activities of the Council;
- prospects for interest rates;
- the borrowing strategy;
- policy on borrowing in advance of need;
- debt rescheduling;
- the investment strategy;
- creditworthiness policy; and
- policy on use of external service providers.

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

1.4 Training

The CIPFA Code requires the responsible officer to ensure that Members with responsibility for treasury management receive adequate training. This especially applies to Members responsible for scrutiny. Training was supplied by Link Asset Services on the 2nd July 2019, however it was not possible to arrange a similar event during 2020/21 to date due to the Covid-19 pandemic. Appropriate treasury management training will be provided to the Audit Committee as soon as possible. The training needs of the treasury management officers at Adur District Council, who provide the shared treasury service to Mid Sussex District Council, are periodically reviewed. Officers attend courses provided by appropriate trainers such as CIPFA and Link Asset Services. These courses have been delivered on-line during the Covid-19 period.

1.5 External Service Providers

The Council obtains treasury management services under a Shared Services Arrangement (SSA) from the in-house treasury management team formed out of the partnership working between Adur District and Worthing Borough Councils. The operation for all three Councils' treasury management is based at Worthing Town Hall, utilising similar banking arrangements. The SSA is provided under a Service Level Agreement (SLA) that commenced in October 2019 and which defines the respective roles of the client and provider authorities for a period of three years.

The SSA uses Link Group, Treasury Solutions as its external treasury management advisors. The Council recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources.

In making this arrangement the Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that reliance beyond the terms and arrangements specified in the SLA is not placed upon the shared service providers. The Council will ensure that the terms of the appointment of the shared services providers, and the methods by which their value will be assessed, are properly agreed and documented and subjected to regular review.

2. THE CAPITAL PRUDENTIAL INDICATORS 2021/22 – 2023/24

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

2.1 Capital expenditure

This Prudential Indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. The figures exclude other long term liabilities, such as leasing arrangements which already include borrowing instruments. Members are asked to approve the capital expenditure forecasts:

Capital expenditure £m	2019/20 Actual	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
General Fund	9.492	7.981	5.195	1.958	1.080

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 £m	2019/20 Actual	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
Capital receipts	0.086	1.833	2.980	0.050	0.050
Capital grants, Contributions & S106 receipts	6.165	4.530	1.927	1.746	0.900
General Reserves, Specific Reserves & Revenue Contributions	3.241	1.618	0.288	0.162	0.130
Net financing need for the year	0.000	0.000	0.000	0.000	0.000

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

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

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

The CFR includes any other long term liabilities (e.g. finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility and so the Council is not required to separately borrow for these schemes. The Council currently has one finance lease taken out in 2018 and ending in 2028.

The Council is asked to approve the CFR projections below:

Capital Financing Requirement £m	2019/20 Actual	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
Total CFR at 31/03	27.438	26.916	26.382	25.835	25.435
Movement in CFR	(0.510)	(0.522)	(0.534)	(0.547)	(0.400)
Movement in CFR represented by:					
Net financing need for the year (above)	0.000	0.000	0.000	0.000	0.000
Less MRP and other financing movements	(0.510)	(0.522)	(0.534)	(0.547)	(0.400)
Movement in CFR	(0.510)	(0.522)	(0.534)	(0.547)	(0.400)

2.3 **Minimum revenue provision (MRP) policy statement**

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

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

The Council's policy for MRP relating to unfunded capital expenditure is to provide for MRP on an annuity basis over the life of the loans (except as detailed below for the Orchard Shopping Centre). As an annuity is a fixed annual sum comprising interest and principal, the MRP for repayment of debt will increase each year over the asset life as the proportion of interest calculated on the principal outstanding reduces as the debt is repaid.

The purchase of the Orchard Shopping Centre head lease in November 2016 increased the Capital Financing Requirement. However, as the Council is forecasting capital receipts of over £24m, MRP will only be provided on £5m. This will be done on a level basis of £100,000 per year.

2.4 **Funds available for investment**

The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.). Detailed below are estimates of the year-end balances excluding the investment in the Local Authorities' Property Fund, which the Council views as a long term investment.

Investments	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
	£m	£m	£m	£m
Balance at 1 April	28.465	46.115	39.800	38.792
Capital Expenditure	(7.981)	(5.195)	(1.958)	(1.080)
Grants, capital receipts & other new funds & expenditure	28.053	4.314	1.396	1.251
Loan repayments/adjustments	(2.422)	(5.434)	(0.446)	(0.301)
Balance at 31 March	46.115	39.800	38.792	38.662

3.0 BORROWING

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

3.1 **Current portfolio position**

The overall treasury management portfolio as at 31 March 2020 and for the position as at 31 December 2020 are shown below for both borrowing and investments.

	Principal at 31.03.20 £m	Actual 31.03.2020 %	Principal at 31.12.20 £m	Actual 31.12.2020 %
External Borrowing				
PWLB	(0.437)	4%	(0.368)	5%
Other Borrowing	(7.000)	70%	(5.000)	65%
Finance lease	(2.541)	26%	(2.330)	30%
TOTAL BORROWING	**(9.978)**	100%	**(7.698)**	100%
Treasury Investments:				
Local Authority Property Fund	5.730	17%	5.730	10%
In-house:				
Banks	5.005	15%	13.999	24%
Building societies - unrated	13.000	38%	17.000	29%
Building societies - rated	1.000	3%	9.000	16%
Local authorities	0.000	0%	2.000	3%
Money market funds	9.460	27%	10.440	18%
TOTAL INVESTMENTS	**34.195**	100%	**58.169**	100%
NET INVESTMENTS	**24.217**		**50.471**	

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

External Debt £m	2019/20 Actual	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
Debt at 1 April	13.571	7.437	5.298	0.152	0.000
Expected change in Debt	(6.134)	(2.139)	(5.146)	(0.152)	0.000
Other long-term liabilities (OLTL)	2.818	2.541	2.258	1.970	1.676
Expected change in OLTL	(0.277)	(0.283)	(0.288)	(0.294)	(0.301)
Actual gross debt at 31 March	9.978	7.556	2.122	1.676	1.375
The Capital Financing Requirement	27.438	26.916	26.382	25.835	25.435
Under/(over) borrowing	17.460	19.360	24.260	24.159	24.060

The Council's debt comprises one loan from the Public Works Loan Board (PWLB), which matures on 1 March 2023 and 1 loan with another local authority for £5m, which matures in November 2021 and was arranged to fund the purchase of the Orchard Shopping Centre head lease. The local authority loan is at a rate (1.3%) lower than those that were available from the PWLB and it will be repaid using capital receipts and maturing investments. The "other long term liability" is in respect of capital assets acquired by finance leases.

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.

The Head of Corporate Resources 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 report.

3.2 **Treasury Indicators: limits to borrowing activity**

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	2020/21	2021/22	2022/23	2023/24
	£m	**£m**	**£m**	**£m**
Debt	£28.0m	£28.0m	£28.0m	£28.0m
Other long term liabilities	£4.0m	£4.0m	£4.0m	£4.0m
Total	**£32.0m**	**£32.0m**	**£32.0m**	**£32.0m**

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. The Council is asked to approve the authorised limit:

Authorised Limit	2020/21	2021/22	2022/23	2023/24
	£m	**£m**	**£m**	**£m**
Debt	£30.0m	£30.0m	£30.0m	£30.0m
Other long term liabilities	£4.0m	£4.0m	£4.0m	£4.0m
Total	**£34.0m**	**£34.0m**	**£34.0m**	**£34.0m**

2. 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.

The Head of Corporate Resources has delegated authority, within the total limit for any individual year, to effect movement between the separately agreed limits for borrowing and other long term liabilities. Decisions will be based on the outcome of financial option appraisals and best value considerations. Any movement between these separate limits will be reported to the next meeting of the Council at the earliest opportunity.

3.3 **Prospects for interest rates**

The Council's shared service provider uses Link Group as its treasury advisor. Link has provided the following forecast for the certainty interest rate (gilt yield plus 80bps):

Link Group Interest Rate View 9.11.20													
These Link forecasts have been amended for the reduction in PWLB margins by 1.0% from 26.11.20													
	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
BANK RATE	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
6 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
12 month ave earnings	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20
5 yr PWLB	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
10 yr PWLB	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
25 yr PWLB	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
50 yr PWLB	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 January 2021, 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. These forecasts were based on an assumption that a Brexit trade deal would be agreed by 31.12.20: as this has now occurred, these forecasts do not need to be revised.

Gilt yields / PWLB rates

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

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

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

Investment and borrowing rates

- **Investment returns** are likely to remain exceptionally low during 2021/22 with little increase in the following two years.

- **Borrowing interest rates** fell to historically very low rates as a result of the COVID crisis and the quantitative easing operations of the Bank of England: indeed, gilt yields up to 6 years were negative during most of the first half of 20/21. The policy of avoiding new borrowing by running down spare cash balances has served local authorities well over the last few years. The unexpected increase of 100bps in PWLB rates on top of the then current margin over gilt yeilds of 80bps 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.

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

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

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

- **Borrowing for capital expenditure** As Link’s long-term forecast for Bank Rate is 2.00%, and all PWLB rates are under 2.00%, there is now value in borrowing from the PWLB for all types of capital expenditure for all maturity periods, especially as current rates are at historic lows. However, greater value can be obtained in borrowing for shorter maturity periods so, if borrowing is required, the Council will assess its risk appetite in conjunction with budgetary pressures to reduce total interest costs.

- This authority does not plan any borrowing to finance new capital expenditure, or to replace maturing debt. If borrowing **is** undertaken there will be a cost of carry, (the difference between higher borrowing costs and lower investment returns), to any new short or medium-term borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost.

3.4 **Borrowing strategy**

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

Against this background and the risks within the economic forecast, caution will be adopted with the 2021/22 treasury operations. The Head of Corporate Resources will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- if it was felt that there is a significant risk of a sharp FALL in borrowing rates, then borrowing, if required, will be postponed.

- if it was felt that there is 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. As stated, there are no current plans to borrow, but if this changes, it is most likely that fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.

Any decisions will be reported to the appropriate decision making body at the next available opportunity.

3.5 **Policy on borrowing in advance of need**

The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds. Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism

3.6 **Debt rescheduling**

The Council has one loan from the Public Works Loan Board, repaid by fixed annuities over the life of the loan. As it would not be possible to prematurely repay the existing loan without incurring a premium charge for early settlement, there is currently no intention to redeem the loan early. The loan for the purchase of the Orchard Shopping Centre head lease will be repaid in November 2021. Any rescheduling will be reported to the Council at the earliest meeting following its action.

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

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

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

Our advisors will keep us informed as to the relative merits of each of these alternative funding sources if any borrowing is required.

4.0 ANNUAL INVESTMENT STRATEGY

4.1 Investment policy – management of risk

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

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

The Council's investment priorities will be security first, portfolio liquidity second and then yield, (return).

The Head of Corporate Resources, under delegated powers, will undertake through the Shared Service Arrangement the most appropriate form of investments in keeping with the investment objectives, income and risk management requirements, and Prudential Indicators. In the current economic climate it is considered appropriate to keep investments short term to cover cash flow needs. However, where appropriate (from an internal as well as external perspective), the Council will also consider the value available in periods up to 12 months with high credit rated financial institutions, as well as wider range fund options. As conditions in the financial markets remain uncertain, the proposed Specified and Unspecified investments will remaing the same as for 2020/21 except for:

(i) Appendix D details the criteria for non-specified investments. Deposits with banks, building societies and local authorities currently are within one category with a maximum total limit of 50% of funds. Local authorities will be given a separate limit to allow flexibility to enable the service to take advantage of the best investment returns based on the liquidity needs of the Council

(ii) Al Rayan Bank will be added to the specified investments in Appendix C, with a maximum investment duration of 1 year. Al Rayan Bank is the UK's oldest and largest Sharia compliant retail bank and has a current credit rating of A1 from the rating agency Moodys. It operates an ethical model which excludes non-Sharia compliant investments such as in gambling, alcohol, pornography, tobacco and arms.

Investment instruments identified for use in the financial year are listed in Appendices C and D under the 'specified' and 'non-specified' investments categories. Counterparty limits will be as set through the Council's treasury management practices.

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

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

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

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

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

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

5. **Lending limits**, (amounts and maturity), for each counterparty are set out in Appendices C and D.

6. This authority will set a limit for the amount of its investments which are invested for **longer than 365 days**, (see paragraph 4.8).

7. Investments will only be placed with counterparties from countries with a specified minimum **sovereign rating**, (see paragraph 4.5). The UK is excluded from this limit because it will be necessary to invest in UK banks and other institutions even if the sovereign rating is cut.

8. Through the shared service, this authority has access to **external consultants**, to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of this authority in the context of the expected level of cash balances and need for liquidity throughout the year.

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

10. As a result of the change in accounting standards for 2020/21 under **IFRS 9**, this authority will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. In November 2018, the Ministry of Housing, Communities and Local Government, [MHCLG], concluded a consultation for a temporary override to allow English local authorities time to adjust their portfolio of all pooled investments by announcing a statutory override to delay implementation of IFRS 9 for five years ending 31 March 2023. Consequently any fluctuations in the value of the Council's investment in the Local Authorities' Property Fund will not be taken through the general fund for the period of the override.

    However, this authority will also pursue **value for money** in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance, (see paragraph 4.14). Regular monitoring of investment performance will be carried out during the year.

Changes in risk management policy from last year

The above criteria are unchanged from last year other than the changes set out in 4.1.

4.2 **Creditworthiness policy**

The primary principle governing the Council's investment criteria through the Shared Services Arrangement (SSA) is the security of its investments, although the yield or return on the investment is also a key consideration. After this main principle, the SSA 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 in Appendices C and D; and

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

The SSA will maintain a counterparty list in compliance with the criteria in the Appendices 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.

Credit rating information is supplied to the SSA by the Link Group, 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 the SSA almost immediately after they occur and this information is considered before dealing. For instance, a negative rating Watch applying to a counterparty at the minimum Council criteria will be suspended from use, with all others being reviewed in light of market conditions.

Use of additional information other than credit ratings

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

The officers of the shared service recognise that ratings should not be the sole determinant of the quality of an institution and that it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets, the government support for banks, and the credit ratings of that government support. Accordingly, the shared service will exercise discretion to deviate from Link's suggested durational bands – for example the Council approves the use of Building Societies as set out in the Appendices.

4.3 **Creditworthiness**

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

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

4.4 **The Council's Minimum Investment Creditworthiness Criteria**

The minimum credit ratings criteria used by the Council generally will be a short term rating (Fitch or equivalents) of F1, and long term rating A-. There may be occasions when the counterparty ratings from one or more of the three Ratings Agencies are marginally lower than the minimum requirements of F1 Short term, A- Long term (or equivalent). Where this arises, the counterparties to which the ratings apply may still be used with discretion, but in these instances consideration will be given to the whole range of topical market information available, not just ratings.

The Council includes **Building Societies** with asset size in excess of £1 billion in its approved counterparty list. It is recognised that they may carry a lower credit rating than the Council's other counterparties, or no rating, therefore the lending limits for the building societies shall be £4m each for the top 3 and £3m for the others.

4.5 **Other limits**

Due care will be taken to consider the exposure of the Council's total investment portfolio to non-specified investments, countries, groups and sectors. The shared service has determined that it will only use approved counterparties from countries (other than the UK) with a minimum sovereign credit rating of AA- from Fitch Ratings (or equivalent from other agencies if Fitch does not provide one). The list of countries that qualify using these credit criteria as at the date of this report is reflected in the counterparty approved lending list at Appendix C. This list will be added to, or deducted from, by officers should ratings change, in accordance with this policy. No more than 25% of investments shall be placed in non-UK financial institutions for more than 7 days.

4.6 **Investment strategy**

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

- 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.

The Head of Corporate Resources, through the shared service, will undertake the most appropriate form of investments in keeping with the investment objectives, income and risk management requirements and Prudential Indicators. Decisions taken on the core investment portfolio will be reported to the meetings of the Audit Committee and the Council in accordance with the reporting arrangements. The shared service will take into account the ethical, social or climate change policies of counterparties.

Investment returns expectations

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

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

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

- The overall balance of risks to economic growth in the UK is probably now skewed to the upside, but is subject to major uncertainty due to the virus and how quickly successful vaccines may become widely administered to the population. It may also be affected by the operation of the deal the UK agreed as part of Brexit.

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

4.7 **Negative investment rates**

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

As for money market funds (MMFs), yields have continued to drift lower. Some managers have already resorted to trimming fee levels to ensure that net yields for investors remain in positive territory where possible and practical. Investor cash flow uncertainty, and the need to maintain liquidity in these unprecedented times, has meant there is a surfeit of money swilling around at the very short end of the market. This has seen 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.

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.

4.8 **Investment treasury indicator and limit - 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. There are currently no fixed term deposit investments with a remaining duration of more than 365 days, although the Local Authorities' Property Fund investment of £6m is expected to be held for more than 365 days.

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

Maximum proportion of principal sums invested > 365 days	2021/22	2022/23	2023/24
Principal sums invested > 365 days	50%	50%	50%

4.9 In any sustained period of significant stress in the financial markets, the default position is for investments to be placed with The Debt Management Account Deposit Facility of the Debt Management Office (DMO) of the UK central government. The rates of interest are below equivalent money market rates, however, the returns are an acceptable trade-off for the guarantee that the Council's capital is secure.

4.10 The Council's proposed investment activity for placing cash deposits in 2020/21 will be to use:

- AAA rated Money Market Funds with a Constant Net Asset Value (CNAV) or a Low Volatility Net Asset Value (LVNAV) under the new money market fund regulations

- other local authorities, parish councils etc.

- bank business reserve accounts and term deposits. These are primarily restricted to UK institutions that are rated at least A- long term.

- Building Societies with asset size in excess of £1 billion

4.11 **Other Options for Longer Term Investments**

To provide the Council with options to enhance returns above those available for short term durations, it is proposed to retain the option to use the following for longer term investments, as an alternative to cash deposits:

a) **Supranational bonds** greater than 1 year to maturity

b) **Gilt edged securities** with a maturity of greater than one year. These are Government bonds and so provide the highest security of interest and the repayment of principal on maturity. Similar to category (a) above, the value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity.

c) **Building Societies** not meeting the basic security requirements under the specified investments, but on the list in Appendix C (b). The operation of some building societies does not require a credit rating, although in every other respect the security of the society would match similarly sized societies with ratings.

d) Any **bank** that has a minimum long term credit rating of A- for deposits with a maturity of greater than one year (including forward deals in excess of one year from inception to repayment).

e) Any **non-rated subsidiary** of a credit rated institution included in the specified investment category. These institutions will be included as an investment category subject to a guarantee from the parent company, and exposure up to the limit applicable to the parent.

g) **Property Investment Funds** for example the Local Authorities' Property Fund. The Councils will consult the Treasury Management Advisors and undertake appropriate due diligence before investment of this type is undertaken. Some of these funds are deemed capital expenditure – the Councils will seek guidance on the status of any fund considered for investment.

h) Other **local authorities**, parish councils etc.

i) Other investments listed in Appendices C and D - the Council will seek further advice on the appropriateness and associated risks with investments in these other categories as and when an opportunity presents itself.

4.12 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, the accounting implications of new transactions will be reviewed before they are undertaken.

4.13 The Council will not transact in any investment that may be deemed to constitute capital expenditure (e.g. Share Capital, or pooled investment funds other than Money Market Funds), without the resource implications being approved as part of the consideration of the Capital Programme or other appropriate Committee report.

4.14 **Investment risk benchmarking** – The shared service will subscribe to Link's Investment Benchmarking Club to review the investment performance and risk of the portfolios.

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

4.16 **External fund managers**

The Council does not use external fund managers, (other than the Local Authorities' Property Fund) but reserves the option to do so in future should this be deemed to be appropriate. Should consideration be given to exercising this option in the future, the relevant Committee will be advised of the reasons for doing so and the Council requested to consider whether it wishes to proceed with the selection and appointment of external fund managers.

4.17 **The monitoring of investment counterparties –** The credit rating of counterparties will be monitored regularly. The shared service receives credit rating information (changes, rating watches and rating outlooks) from Link Group as and whent ratings change, and counterparties are checked promptly. On occasion ratings may be downgraded when an investment has already been made. The criteria used are such that a minor downgrading should not affect the full receipt of the principal and interest. Any counterparty failing to meet the criteria will be removed from the list immediately by the shared service, and if required, new counterparties which meet the criteria will be added to the list.

Officers of the shared service met in September 2020 with representatives of the Local Authorities' Property Fund for a presentation on the activity and outlook of the Fund to supplement the regular reports and dividend statements.

Appendix A

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

1.1 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.

Capital expenditure	2019/20 Actual	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
	£m	£m	£m	£m	£m
General Fund	9.492	7.981	5.195	1.958	1.080

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
	%	%	%	%	%
Ratio	0.32%	1.37%	1.06%	0.98%	0.20%

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

1.3 Maturity structure of borrowing

These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits. However as the Council currently has only two significant loans, the upper limits need to be set very high. The Council does not have any variable rate borrowing.

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

Maturity structure of fixed interest rate borrowing 2021/22		
	Lower	Upper
Under 12 months	0%	80%
12 months to 2 years	0%	70%
2 years to 5 years	0%	80%
5 years to 10 years	0%	80%
Over 10 years	0%	60%

Appendix B

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

The MHCLG issued Investment Guidance in 2018, and this forms the structure of the Council's policy below. These guidelines do not apply to either trust funds or pension funds which operate under a different regulatory regime.

The key intention of the Guidance is to maintain the current requirement for councils to invest prudently, and that priority is given to security and liquidity before yield. In order to facilitate this objective the guidance requires this Council to have regard to the CIPFA publication Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes, which will apply to all investment activity. In accordance with the Code, the Council will comply with the treasury management practices (TMPs). This part, TMP 1(1), covering investment counterparty policy requires approval each year.

Annual investment strategy - The key requirements of both the Code and the investment guidance are to set an annual investment strategy, as part of the annual treasury strategy for the following year, covering the identification and approval of the following:

- The strategy guidelines for choosing and placing investments, particularly non-specified investments.
- The principles to be used to determine the maximum periods for which funds can be committed.
- Specified investments that the Council will use. These are high security (i.e. high credit rating, although this is defined by the Council, and no guidelines are given), and high liquidity investments in sterling and with a maturity of no more than a year.
- Non-specified investments, clarifying the greater risk implications, identifying the general types of investment that may be used and a limit to the overall amount of various categories that can be held at any time.

Strategy guidelines – The main strategy guidelines are contained in the body of the treasury strategy statement.

SPECIFIED AND NON SPECIFIED INVESTMENTS

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

Specified Investments will be those that meet the criteria in the MHCLG Guidance, i.e. the investment

- is sterling denominated

- has a maximum maturity of 1 year or where the Council has the right to be repaid within 12 months or where the investment would have been classified as specified apart from originally being for a period longer than 12 months, once the remaining period to maturity falls to under 12 months

- meets the "high" credit criteria as determined by the Council or is made with the UK government or is made with a local authority in England, Wales and Scotland

- the making of which is not defined as capital expenditure under section 25(1)(d) in SI 2003 No 3146 (i.e. the investment is not loan capital or share capital in a body corporate).

These are considered low risk assets where the possibility of loss of principal or investment income is small.

“Specified” Investments identified for the Council’s use are:

- The UK Government such as the Debt Management Account deposit facility
- Deposits with UK local authorities
- Deposits with banks and building societies
- *Certificates of deposit with banks and building societies
- *Gilts : (bonds issued by the UK government)
- *Bonds issued by multilateral development banks
- Pooled investment vehicles such as AAA Money Market Funds with a Constant Net Asset Value (Constant NAV) or appropriate Low Volatility Net Asset Value (LVNAV) that have been awarded an AAA rating by Standard and Poor’s, Moody’s and/or Fitch rating agencies.
- Other Money Market Funds and Collective Investment Schemes– i.e. credit rated funds which meet the definition of a collective investment scheme as defined in SI 2004 No 534 and SI 2007 No 573.

* Investments in these instruments will be on advice from the Shared Service’s treasury advisor.

For credit rated counterparties, the minimum criteria, excepting for the Council’s own banker and the specified building societies, (see below) will be the short-term / long-term ratings assigned by various agencies which may include Moody’s Investors Services, Standard and Poor’s, Fitch Ratings, being:

Long-term investments (over 365 days): minimum: A- (Fitch) or equivalent
Or
Short-term investments (365 days or less): minimum: F1 (Fitch) or equivalent

For all investments the Shared Service will also take into account information on corporate developments of, and market sentiment towards, investment counterparties.

If the Council’s own banker (currently Lloyds Bank) falls beneath the specified criteria, it will still be used for transactional purposes.

Within these bodies, and in accordance with the Code, the Council has set additional criteria to set the time and amount of monies which will be invested in these bodies, as detailed below.

Non Specified Investments

These are any investments which do not meet the specified investment criteria.

APPENDIX C

APPROVED INVESTMENT INSTITUTIONS

Specified Investments identified for use by the Council

New specified investments will be made within the following limits:

(a) Banks

Major U.K. and European Banks and their wholly-owned subsidiaries meeting the Council's approved investment criteria. RFB refers to Ring Fenced Bank – the separate core retail banking service.

	Counterparty	Group	Maximum Sum	Maximum Period *
1	HSBC UK Bank PLC (RFB)	N/A	£4m	5 years
2	The Royal Bank of Scotland Group:	£5m		
	The Royal Bank of Scotland PLC (RFB)		£4m	5 years
	National Westminster Bank PLC (RFB)		£4m	5 years
3	Lloyds Group::	£5m		
	Lloyds Bank PLC (RFB)		£4m	5 years
	Bank of Scotland PLC (RFB)		£4m	5 years
4	Barclays Bank UK PLC (RFB)	N/A	£4m	5 years
5	Santander UK PLC	N/A	£4m	5 years
6	Clydesdale Bank PLC	N/A	£4m	5 years
7	Handelsbanken PLC	N/A	£4m	1 year
8	Goldman Sachs International Bank	N/A	£4m	5 years
9	Close Brothers Ltd	N/A	£4m	5 years
10	Al Rayan Bank Plc	N/A	£3m	1 year

*Specified investments are for a maximum period of 1 year, the maximum limits shown in this column are for non-specified investments with these institutions.

(b) Building Societies

Building Societies (Assets in excess of £1 billion):

Rank	Name of Counterparty	Individual	
		Sum	Period*
1	Nationwide	£4m	3 years
2	Coventry	£4m	3 years
3	Yorkshire	£4m	3 years
4	Skipton	£3m	3 years
5	Leeds	£3m	3 years
6	Principality	£3m	3 years
7	West Bromwich	£3m	3 years
8	Newcastle	£3m	3 years
9	Nottingham	£3m	3 years
10	Cumberland	£3m	3 years
11	National Counties (Family)	£3m	3 years
12	Progressive	£3m	3 years
13	Cambridge	£3m	3 years
14	Monmouthshire	£3m	3 years
15	Newbury	£3m	3 years
16	Leek United	£3m	3 years
17	Saffron	£3m	3 years

(c) Money Market Funds

Counterparty	Sum	
Invesco Aim – Sterling	£3m	For Short Term Operational Cash Flow Purposes
Blackrock Institutional Sterling Liquidity Fund	£3m	
Goldman Sachs Sterling Liquidity Reserve Fund	£3m	
Fidelity Institutional Cash Fund plc – Sterling	£3m	
CCLA Public Sector Deposit Fund	£3m	
JP Morgan GBP Liquidity LVNAV Fund	£3m	
Federated Short-Term Sterling Prime Liquidity Fund	£3m	

The limit for investing in any one Money Market Fund is £3 million. Total investments in Money Market Funds shall not exceed the higher of £9m or 25% of the total investment portfolio, for more than one week at any one time.

(d) Local Authorities

Details	Individual	
	Sum	Period*
All Local Authorities	£3m	5 years

*Specified investments are for a maximum period of 1 year, the maximum period limits shown in (b) and (d) are for non-specified investments with these institutions.

NON-SPECIFIED INVESTMENTS DETERMINED FOR USE BY THE COUNCIL

Having considered the rationale and risk associated with Non-Specified Investments, the following have been determined for the Council's use.

	In-house use	Use by Fund Managers	Maximum Maturity	Maximum % of portfolio or £m	Capital Expenditure?
• Deposits with banks and building societies and • Certificates of deposit with banks and building societies	√ √	 √	5 years	The higher of £10m or 50% of funds	No
• Deposits with Local Authorities	√		5 years	The higher of £10m or 50% of funds	No
Gilts and Bonds: • Gilts • Bonds issued by multilateral development banks • Bonds issued by financial institutions guaranteed by the UK government • Sterling denominated bonds by non-UK sovereign governments	√ √ √ √ (on advice from treasury advisor)	√ √ √ √	5 years	The higher of £3m or 25% of funds	No
Money Market Funds and Collective Investment Schemes (pooled funds which meet the definition of a collective investment scheme as defined in SI 2004 No. 534 and SI 2007, No. 573), but which are not credit rated.	√ (on advice from treasury advisor)	√	These funds do not have a defined maturity date.	The higher of £9m or 25% of funds	No
Government guaranteed bonds and debt instruments (e.g. floating rate notes) issued by corporate bodies	√ (on advice from treasury advisor)	√	5 years	The higher of £2m or 10% of funds	Subject to test
Property Funds approved by HM Treasury and operated by managers regulated by the Financial Conduct Authority – specifically the Local Authorities' Property Fund	√	√	These funds do not have a defined maturity date.	The higher of £6m or 25% of funds	No
Non-guaranteed bonds and debt instruments (e.g. floating rate notes) issued by corporate bodies	√ (on advice from treasury advisor)	√	5 years	The higher of £2m or 10% of funds	Subject to test
Collective Investment Schemes (pooled funds) which do not meet the definition of collective investment schemes in SI 2004 No. 534 or SI 2007, No. 573.	√ (on advice from treasury advisor)	√	These funds do not have a defined maturity date	The higher of £2m or 20% of funds	Subject to test

In determining the period to maturity of an investment, the investment is regarded as commencing on the date of the commitment of the investment rather than the date on which funds are paid over to the counterparty.

The Council will seek further advice on the appropriateness and associated risks with investments in these Non-Specified investment categories, other than those which would be Specified other than for the duration of over 12 months (for example a 2 year fixed term deposits with a bank on the counterparty list).

Accounting treatment of investments

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

The monitoring of investment counterparties - The credit rating of counterparties will be monitored regularly. The Council's Shared Service receives credit rating information (changes, rating watches and rating outlooks) from Link as and when ratings change, and counterparties are checked promptly. On occasion ratings may be downgraded when an investment has already been made. The criteria used are such that a minor downgrading should not affect the full receipt of the principal and interest. Any counterparty failing to meet the criteria will be removed from the list immediately by the Shared Service, and if required new counterparties which meet the criteria will be added to the list.

TREASURY MANAGEMENT SCHEME OF DELEGATION

(i) **Full Council**

- approval of annual treasury management strategy and Annual Investment Strategy
- approval of MRP Statement

(ii) **Executive Committee (e.g. 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) **Audit Committee**

Receiving and reviewing the following, and making recommendations to the Cabinet

- regular monitoring reports on compliance with the Treasury Management Strategy, practices and procedures.

(iv) **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.

ECONOMIC BACKGROUND supplied by Link Group

- **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 due to base effects from twelve months ago falling out of the calculation, and so is not a concern. Looking further ahead, it is also unlikely to be a problem for some years as it will take a prolonged time for spare capacity in the economy, created by this downturn, to be used up.

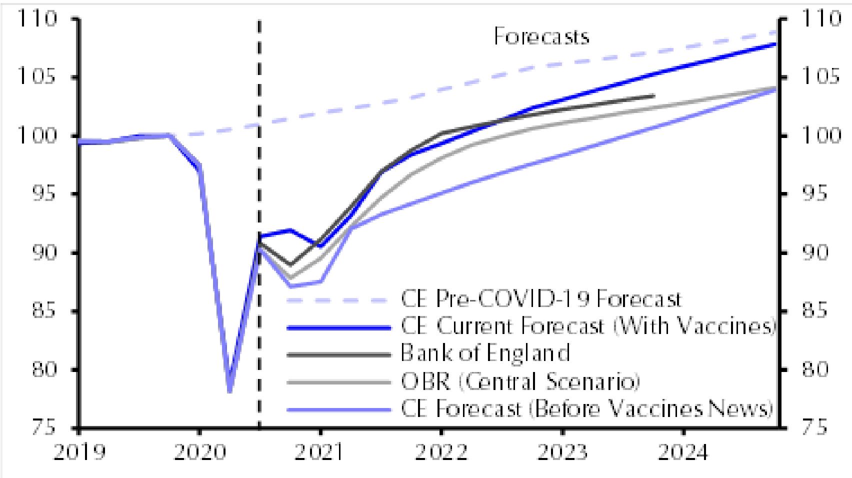
- **Public borrowing** was forecast in November by the Office for Budget Responsibility (the OBR) to reach £394bn in the current financial year, the highest ever peace time deficit and equivalent to 19% of GDP. In normal times, such an increase in total gilt issuance would lead to a rise in gilt yields, 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. While the one month second national lockdown that started on 5th November caused a further contraction of 5.7% m/m in November, this was much better than had been feared and showed that the economy is adapting to new ways of working. This left the economy 'only' 8.6% below the pre-crisis level.

- **Vaccines – the game changer.** The Pfizer announcement on 9th November of a successful vaccine has been followed by approval of the Oxford University/AstraZeneca and Moderna vaccines. The Government has a set a target to vaccinate 14 million people in the most at risk sectors of the population by 15th February; as of mid-January, it has made good, and accelerating progress in hitting that target. The aim is to vaccinate all adults by September. This means that the national lockdown starting in early January, could be replaced by regional tiers of lighter restrictions, beginning possibly in Q2. At that point, there would be less reason to fear that hospitals could become overwhelmed any more. Effective vaccines have radically improved the economic outlook so that it may now be possible for GDP to recover to its pre-virus level as early as Q1 2022. These vaccines have enormously boosted confidence that **life could largely return to normal during the second half of 2021**. With the household saving rate having been exceptionally high since the first lockdown in March, there is plenty of pent-up demand and purchasing power stored up for when life returns to normal.

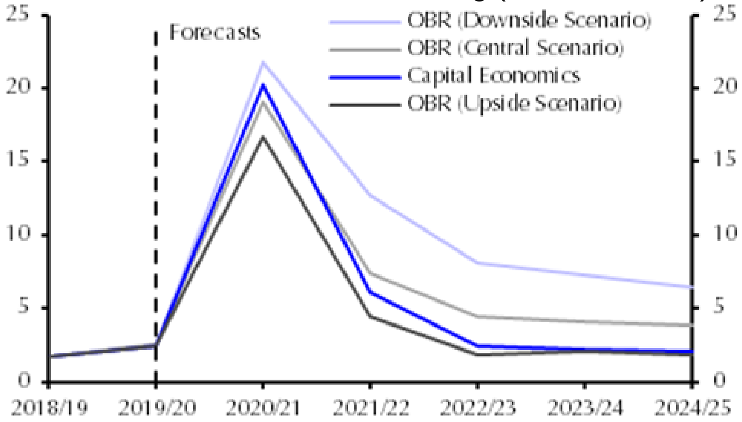
- Provided that both monetary and fiscal policy are kept loose for a few years yet, then it is still possible that in the second half of this decade, the economy may be no smaller than it would have been if COVID-19 never happened. The significant risk is if another mutation of COVID-19 appears that 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)



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 politicians do not raise taxes or embark on major austerity measures and so, (perversely!), depress economic growth and recovery.

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



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

- **Brexit.** The final agreement of a trade deal on 24.12.20 has eliminated a significant downside risk for the UK economy. The initial agreement only covers trade so there is further work to be done on the services sector where temporary equivalence has been granted in both directions between the UK and EU; that now needs to be formalised on a permanent basis. 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 vaccines are a positive development, in the eyes of the MPC at least, the economy is far from out of the woods in the shorter term. The MPC, therefore, 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 Democrats gained the presidency and a majority in the House of Representatives in the November elections: after winning two key Senate seats in Georgia in elections in early January, they now also have a very slim majority in the Senate due to the vice president's casting vote. President Biden will consequently have a much easier path to implement his election manifesto. However, he will not have a completely free hand as more radical Democrat plans may not be supported by all Democrat senators. His initial radical plan for a fiscal stimulus of $1.9trn, (9% of GDP), is therefore likely to be toned down in order to get through both houses.

- **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. 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, individual states might feel it necessary to return to more draconian lockdowns.

- 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 declining in December, and retail sales dropping back. The economy is set for further weakness into the spring. **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.

- After Chair Jerome Powell unveiled the **Fed's adoption of a flexible average inflation target** in his Jackson Hole speech in late August 2020, the mid-September meeting of the Fed agreed by a majority to a toned down version of the new inflation target in his speech - that *"it would likely be appropriate to maintain the current target range until labour market conditions were judged to be consistent with the Committee's assessments of maximum employment and inflation had risen to 2% and was on track to moderately exceed 2% for some time."* This change was aimed to provide more stimulus for economic growth and higher levels of employment and to avoid the danger of getting caught in a deflationary "trap" like Japan. It is to be noted that inflation has actually been under-shooting the 2% target significantly for most of the last decade, (and this year), so financial markets took note that higher levels of inflation are likely to be in the pipeline; long-term bond yields duly rose after the meeting. The FOMC's updated economic and rate projections in mid-September showed that officials expect to leave the fed funds rate at near-zero until at least end-2023 and probably for another year or two beyond that. There is now some expectation that where the Fed has led in changing its inflation target, other major central banks will follow. The increase in tension over the last year between the US and China is likely to lead to a lack of momentum in progressing the initial positive moves to agree a phase one trade deal.

- The Fed's meeting on **5 November** was unremarkable - but at a politically sensitive time around the elections. At its **16 December** meeting the Fed tweaked the guidance for its monthly asset quantitative easing purchases with the new language implying those purchases could continue for longer than previously believed. Nevertheless, with officials still projecting that **inflation** will only get back to 2.0% in 2023, the vast majority expect the Fed funds rate to be still at near-zero until 2024 or later. Furthermore, officials think the balance of risks surrounding that median inflation forecast are firmly skewed to the downside. The key message is still that policy will remain unusually accommodative – with near-zero rates and asset purchases – continuing for several more years. This is likely to result in keeping Treasury yields low – which will also have an influence on gilt yields in this country.

- **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 seriously affected many countries. The €750bn fiscal support package eventually agreed by the EU after prolonged disagreement between various countries, is unlikely to provide significant support, and quickly enough, to make an appreciable difference in the countries most affected by the first wave.

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

- **China.** After a concerted effort to get on top of the virus outbreak in Q1, economic recovery was strong in Q2 and then into Q3 and Q4; this has enabled China to recover all of the contraction in Q1. Policy makers have both quashed the virus and implemented a programme of monetary and fiscal support that has been particularly effective at stimulating short-term growth. At the same time, China's economy has benefited from the shift towards online spending by consumers in developed markets. These factors help to explain its comparative outperformance compared to western economies. However, this was achieved by major central government funding of yet more infrastructure spending. After years of growth having been focused on this same area, any further spending in this area is likely to lead to increasingly weaker economic returns in the longer term. This could, therefore, lead to a further misallocation of resources which will weigh on growth in future years.

- **Japan.** A third round of fiscal stimulus in early December took total fresh fiscal spending this year in response to the virus close to 12% of pre-virus GDP. That's huge by past standards, and one of the largest national fiscal responses. The budget deficit is now likely to reach 16% of GDP this year. Coupled with Japan's relative success in containing the virus without draconian measures so far, and the likelihood of effective vaccines being available in the coming months, the government's latest fiscal effort should help ensure a strong recovery and to get back to pre-virus levels by Q3 2021 – around the same time as the US and much sooner than the Eurozone.

- **World growth.** World growth will has been in recession in 2020 and this is likely to continue into the first half of 2021 before recovery in the second half. Inflation is unlikely to be a problem for some years due to the creation of excess production capacity and depressed demand caused by the coronavirus crisis.

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

Summary

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

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

INTEREST RATE FORECASTS

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 and the pace of recovery of the economy.
- **UK - Bank of England** takes action too quickly, or too far, over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- A resurgence of the **Eurozone sovereign debt crisis.** The ECB has taken monetary policy action to support the bonds of EU states, with the positive impact most likely for "weaker" countries. In addition, the EU agreed a €750bn fiscal support package. These actions will help shield weaker economic regions for the next two or three years. However, in the case of Italy, the cost of the virus crisis has added to its already huge debt mountain and its slow economic growth will leave it vulnerable to markets returning to taking the view that its level of debt is unsupportable. There remains a sharp divide between northern EU countries favouring low debt to GDP and annual balanced budgets and southern countries who want to see jointly

issued Eurobonds to finance economic recovery. This divide could undermine the unity of the EU in time to come.

- Weak capitalisation of some **European banks**, which could be undermined further depending on extent of credit losses resultant of the pandemic.
- **German minority government & general election in 2021.** In the German general election of September 2017, Angela Merkel's CDU party was left in a vulnerable minority position dependent on the fractious support of the SPD party, as a result of the rise in popularity of the anti-immigration AfD party. Angela Merkel has stepped down from being the CDU party leader but she will remain as Chancellor until the general election in 2021. This then leaves a major question mark over who will be the major guiding hand and driver of EU unity when she steps down.
- **Other minority EU governments.** Italy, Spain, Austria, Sweden, Portugal, Netherlands, Ireland and Belgium also have vulnerable minority governments dependent on coalitions which could prove fragile.
- **Austria, the Czech Republic, Poland and Hungary** now form a strongly anti-immigration bloc within the EU, and they had threatened to derail the 7 year EU budget until a compromise was thrashed out in late 2020. There has also been a rise in anti-immigration sentiment in Germany and France.
- **Geopolitical risks,** for example in China, Iran or North Korea, but also in Europe and other Middle Eastern countries, which could lead to increasing safe haven flows.

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

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

APPENDIX G

Approved Countries For Investments (countries with a sovereign rating of AA- or higher) as at 20 January 2021

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

AAA

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

AA+

- Canada
- Finland
- U.S.A.

AA

- Abu Dhabi (UAE)
- France

AA-

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