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MANCHESTER
CITY COUNCIL

Executive

Date: Wednesday, 17 February 2021
Time: 2.00 pm
Venue: Virtual Meeting - https://vimeo.com/509984846

This is a **Supplementary Agenda** containing additional information about the business of the meeting that was not available when the agenda was published.

The Local Authorities and Police and Crime Panels (Coronavirus) (Flexibility of Local Authority and Police and Crime Panel Meetings) (England and Wales) Regulations 2020

Under the provisions of these regulations the location where a meeting is held can include reference to more than one place including electronic, digital or virtual locations such as Internet locations, web addresses or conference call telephone numbers.

To attend this meeting it can be watched live as a webcast. The recording of the webcast will also be available for viewing after the meeting has ended.

Membership of the Executive

Councillors
Leese (Chair), Akbar, Bridges, Craig, N Murphy, Ollerhead, Rahman, Stogia and Richards

Membership of the Consultative Panel

Councillors
Karney, Leech, M Sharif Mahamed, Sheikh, Midgley, Ilyas, Taylor and S Judge

The Consultative Panel has a standing invitation to attend meetings of the Executive. The Members of the Panel may speak at these meetings but cannot vote on the decisions taken at the meetings.

Supplementary Agenda

11.	**Neighbourhoods Directorate Budget 2021/22** The report of the Strategic Director (Neighbourhoods) was to follow and is now enclosed.	**All Wards** 5 - 24
16.	**Housing Revenue Account 2021/22 to 2023/24** The report of the Strategic Director (Growth and Development) and Deputy Chief Executive and City Treasurer was to follow and is now attached.	**Ancoats and Beswick; Charlestown; Cheetham; Crumpsall; Harpurhey; Higher Blackley; Miles Platting and Newton Heath; Moston** 25 - 42
18.	**Treasury Management Strategy Statement 2021/22, including Borrowing Limits and Annual Investment Strategy** The report of the Deputy Chief Executive and City Treasurer was to follow and is now enclosed.	**All Wards** 43 - 96

Information about the Executive

The Executive is made up of nine Councillors: the Leader and Deputy Leader of the Council and seven Executive Members with responsibility for: Children Services & Schools; Finance & Human Resources; Adult Services; Skills, Culture & Leisure; Neighbourhoods; Housing & Regeneration; and Environment, Planning & Transport. The Leader of the Council chairs the meetings of the Executive.

The Executive has full authority for implementing the Council's Budgetary and Policy Framework, and this means that most of its decisions do not need approval by Council, although they may still be subject to detailed review through the Council's overview and scrutiny procedures.

The Council wants to consult people as fully as possible before making decisions that affect them. Members of the public do not have a right to speak at meetings but may do so if invited by the Chair. If you have a special interest in an item on the agenda and want to speak, tell the Committee Officer, who will pass on your request to the Chair. Groups of people will usually be asked to nominate a spokesperson. Speaking at a meeting will require a telephone or a video link to the virtual meeting.

The Council is concerned to ensure that its meetings are as open as possible and confidential business is kept to a strict minimum. When confidential items are involved these are considered at the end of the meeting and the means of external access to the virtual meeting are suspended.

Joanne Roney OBE
Chief Executive
Level 3, Town Hall Extension,
Albert Square,
Manchester, M60 2LA

Further Information

For help, advice and information about this meeting please contact the Committee Officer:

Donald Connolly
Tel: 0161 2343034
Email: donald.connolly@manchester.gov.uk

This supplementary agenda was issued on 12 February 2021 by the Governance and Scrutiny Support Unit, Manchester City Council, Level 3, Town Hall Extension (Lloyd Street Elevation), Manchester M60 2LA

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Manchester City Council
Report for Resolution

Report to: Executive – 17 February 2021

Subject: Neighbourhoods Directorate Budget Proposals 2021/22

Report of: Strategic Director (Neighbourhoods)

Summary

As a result of the COVID-19 Pandemic there has been additional demand for services and reductions to Council's income (as set out in the global monitoring report to Executive 17 Feb 2021). This left the Council facing a significant budget gap for 2021/22 onwards. Funding announcements in the government's spending review on 25 November and provisional local government finance settlement on 17 December mean the Council will not be facing the worst-case scenario for 2021/22, (which was a shortfall of around £100m). The government settlement assumes eligible Councils will increase Council Tax by 3%, for the Adult Social Care precept. After accounting for additional Adult Social care funding through both additional precepts and grant the revised savings proposals from all Directorates total £41m.

This report provides an updated Neighbourhoods Service 2021/21 budget and sets out the Neighbourhoods savings proposals that have been considered by the Communities and Equalities Scrutiny Committee, Neighbourhood and Environmental Scrutiny Committee and Resources and Governance Scrutiny Committee, this reflects any feedback from both the November and January round of Scrutiny committees.

Recommendations

Both Committees and the Executive are each invited to review and comment on the directorate budget report.

The Executive is recommended to approve the budget proposals.

Wards Affected: All

Manchester Strategy Outcomes	Summary of the Contribution to the Strategy
A thriving and sustainable city: supporting a diverse and distinctive economy that creates jobs and opportunities	Providing the leadership and focus for the sustainable growth and transformation of the City's neighbourhoods and highways
A highly skilled city: world class and home-grown talent sustaining the city's economic success	Ensuring residents are connected to education and employment opportunities across the City.

A progressive and equitable city: making a positive contribution by unlocking the potential of our communities	Creating places where residents actively demonstrate the principles of Our Manchester through participation and take responsibility for themselves and their community whilst encouraging others to do the same, supported by strong and active community groups.
A liveable and low carbon city: a destination of choice to live, visit, work	Creating places where people want to live with good quality housing of different tenures and effective use of the highways network; clean, green, safe, healthy and inclusive neighbourhoods; a good social, economic, cultural offer and environmental infrastructure.
A connected city: world class infrastructure and connectivity to drive growth	Ensuring residents, neighbourhoods, businesses and goods connect to local, national and international markets. Through working with partners both internally and externally maximise the impact of the provision of new and enhanced physical and digital infrastructure.

Full details are in the body of the report, along with implications for:

- Equal Opportunities
- Risk Management
- Legal Considerations

Financial Consequences Revenue

The proposals set out in this report will be considered as part of the City Council preparation of the 2021/22 budget which will be submitted to the Executive on 17 February 2021.

Financial Consequences – Capital

There is already an approved capital investment programme for the Directorate, and some capital investment is required to assist in delivering some of the currently identified proposals included within this report.

Contact Officers:

Name: Fiona Worrall
Position: Strategic Director Neighbourhoods
Telephone: 0161 234 3926
Email: fiona.worrall@manchester.gov.uk

Name: Paul Hindle
Position: Head of Finance

Telephone: 0161 234 3025
E-mail: paul.hindle@manchester.gov.uk

Background documents (available for public inspection):

The following documents disclose important facts on which the report is based and have been relied upon in preparing the report. Copies of the background documents are available up to 4 years after the date of the meeting. If you would like a copy please contact one of the contact officers above.

Neighbourhoods Directorate Budget 2020/21 - Executive 12 February 2020
Neighbourhoods Directorate Budget Options 2021/22 – Executive 11 November 2020
Neighbourhoods Directorate Budget Proposals 2021/22 – Executive 20 January 2021

1.0 Introduction

1.1 This report should be read in conjunction with the covering City Council budget report and sets out the budget reductions proposed to support the work required to deliver a balanced budget in 2021/22. As a result of additional demand for services and impact on the Council's income as set in previous meetings to both Executive and scrutiny committees the Council has had to identify budget reductions of c£50m for 2021/22 onwards.

1.2 Following on from previous Scrutiny Committees, all Directorates have continued to develop and work through the budget proposals, and this work has taken into consideration the feedback from the two previous scrutiny committee meetings Original Directorate savings proposals totalled c.£50m, but after accounting for additional Adult Social care funding through both additional precepts and grants the revised savings proposals from all Directorates total around c.£41m. Wherever possible consideration has been given to protecting front line services in order to protect the capacity to support the recovery planning. The Neighbourhoods Directorate has identified savings of **£7.376m** which will require a reduction of 2fte. Due to lead in time around investments etc, the £7.376m would be phased over the period 2021/22-2024/25, with an initial £6.683m being delivered in 2021/22.

1.3 All savings proposals have been considered by the relevant Scrutiny Committee. Further details on the savings and other changes are set out in section 3, with a summary table included in table 3 below.

1.4 The Neighbourhoods Directorate has a revenue budget of circa £95.5m of which £47m relates to waste collection, street cleansing and waste disposal. Outside of these areas the majority of the budget relates to staffing.

1.5 Although it is anticipated that the overall c£41m budget savings will be sufficient to ensure a balanced budget in 2021/22, it is anticipated that there will be a requirement for further savings in future years. As part of developing the current budget reductions, attempts have been made to minimise the impact on residents and communities wherever possible, but this will become even more difficult if further savings are required in future years.

2.0 About the Neighbourhoods Directorate Background and Context

2.1 The Neighbourhood Directorate plays a pivotal role in delivering the Council priorities, working with Manchester's communities to create and maintain clean, safe and vibrant neighbourhoods that residents can be proud of and where businesses and investors want to invest, bringing employment opportunities for our residents.

2.2 Teams work collaboratively with partners and local members within our neighbourhoods to enable people living in our communities to be healthy, well and safe and reduce demand by integrating neighbourhood teams that are connected to other services and assets locally.

2.3 Libraries, art galleries, leisure centres, parks, play areas, events and youth services as well as our cultural activity provide an offer to the city that enhances the experience of people living and working in the city; as well as supporting our children and young people, to be happy, healthy and successful, fulfilling their potential and contributing to their educational attainment.

2.4 Our world class offer also contributes to the vibrancy of the City and its neighbourhoods. Widening participation to ensure that the users of our community services reflect the diverse communities of Manchester remain a key priority.

2.5 The development of commercial activity across our parks and leisure and events have previously reduced the demand on revenue as well as increasing investment in our community assets impacting positively on the perception of the city and the opportunities for our residents.

2.6 The Directorate is fully committed to Zero Carbon Manchester and to reducing carbon throughout all programmes of work and raising awareness of carbon usage and looking for 'greener' alternatives. Key initiatives include driving forward the electric fuelling infrastructure, plant and equipment for all Council services.

2.7 The quality of our highways, number of potholes repaired and gully cleansing remains a priority for our residents and road resurfacing is now happening at a greater scale. We are currently on target to deliver the 5 year highway investment programme. Investment and the maintenance of our highways beyond the current 5 year programme will be an essential consideration in our future strategy.

2.8 Waste and recycling is the largest budget area for the Directorate including both the cost of waste disposal and collection/street cleansing (almost 50%) The current contract for Waste collection and street cleansing will come to the end of the first 8 years in 2023 and decisions on the future delivery model for this service will fall within the timeframe of the 5 year budget strategy. We have achieved our highest overall levels of recycling (40%) and lowest levels of residual waste over the last 10 years. However, as the City grows and as more people work at home this will continue to have an impact on the demand for these services which need to be managed. In addition, the impact of COVID over the last 9 months has led to more people being required to stay at home and this has led to increased levels of waste and contaminated recycling bins.

2.9 Investment in compliance and enforcement resources has led to an increase in business compliance, better managed neighbourhoods and measures to impact on flytipping have seen a positive impact in our neighbourhoods. Demand from anti social behaviour impacting on the quality of the places people live continues to rise and despite investment is still less than 50% of capacity in 2011.

2.10 The impact of COVID has impacted on our Parks, Leisure and Events functions which rely on income as well as the Cultural sector in the city. The latter in particular will take some time to recover if this is even possible in all areas.

2.11 The priority for the Directorate remains supporting communities and building resilience whilst maintaining safe, clean, well managed and connected neighbourhoods in line with the expectations of local members and residents in a city that continues to grow and within the limitations of resources available.

2.12 Developing partnerships to enable more effective models of delivery through The Bringing Services together for People in Places programme remains key to improving the offer at a local level for residents and to support a reduction in demand on key public services.

2.13 Our universal youth, leisure and culture offer combined is an offer to our residents that sets Manchester apart. The refreshed strategy has set out the city's commitment to our young people however this is an area that has struggled with the impact of COVID 19 and will take some time to recover.

3.0 Neighbourhoods Revenue Budget Strategy

3.1 The Neighbourhoods Directorate has a gross budget of £167m, and a net budget of c.£95.5m, with 1,470 FTE's employees. The breakdown by service area is provided in the table below:

Table 1: 2020/21 base budget

Service Area	2020/21 Gross Budget £'000	2020/21 Net Budget £'000	202/21 Budgeted Posts (FTE)
Compliance	12,163	8,581	**248**
Community Safety	4,850	2,322	**49**
Libraries, Galleries and Culture	12,853	9,316	**270**
Management and Directorate Support	1,120	1,120	**18**
Neighbourhood Teams	2,854	2,627	**51**
Other Neighbourhoods	1,649	455	**4**
Parks, Leisure, Youth and Events	19,316	7,563	**83**
Operations and Commissioning	54,849	18,730	**461**
Waste Disposal Levy	30,051	30,051	
Highways	27,403	14,738	**286**
Total	**167,108**	**95,503**	**1,470**

3.2 The 2020/21 cash limit budget is £95.5m, this is net of the £2.324m savings that were approved as part of the 2020/21 budget process.

Current In year forecast Position at December 20 (Period 9)

3.3 As at December 2020 the Directorate is forecasting a net overspend of c£11.163m, although this includes Covid-19 related pressures of c£15.224m, offset by in- year mitigation of £4.091m.

3.4 The Covid-19 pressures are made up of a combination £4.731m increased cost pressures, with the main pressure being the in year financial support of £3.32m being provided to the external leisure operator to fund the ongoing costs of maintaining the City Council leisure assets during the initial closure, and subsequent reduced operations through until March 2021. Sport England have made funding of £100m available to Local Authorities who partner with external providers in delivery of Leisure services. Manchester submitted a bid for c£1.3m financial support and the outcome of the bid should be notified to each local authority before the end of February 2021.

3.5 In addition to the additional costs, there is £10.493m reduced income through sales, fees and charges. This includes a combination of reduced trading income (£5.389m) within operations and commissioning services, reduced Highways income (£3.263m) through reduced off street parking income following lockdown in December, and fees and permit income, reduced sales income (£203k) in libraries because of closure of venues, and subsequent lower footfalls, loss of events and other income (£1.132m) in Leisure, Parks and Events, and reduced income of (£0.506m) from penalty notices and license income in Community Safety and Enforcement.

3.6 As part of the ongoing work seeking to mitigate the above pressures in year forecast savings of £4.091m have been identified, this is largely due to staff savings because of vacant posts, reduced running costs across all services and increased income in some areas.

3.7 The Neighbourhood’s budget broken down over subjective headings is provided at Appendix 1

2021/22 Budget Pressures

3.8 As part of the Neighbourhood service budget planning a key consideration is the projected growth in the number of households across the City. Given the ongoing national response to the Covid-19 pandemic, and the uncertainty around both the level and duration of any restrictions that will apply in 2021/22 there are significant risks of further budget pressures across the Directorate. These will be monitored and reported as part of the monthly budget monitoring process. Detailed below are likely pressure areas that are already known, although they have not yet been quantified.

3.9 **Leisure Services Provision** – The existing leisure operator was appointed in 2019, and as part of their submission they included an initial income forecast of £12m and expected to increase this over the life of the contract and reduce the level of subsidy required from the Council. Due to the initial closure of leisure facilities, and subsequent reduced capacity as part of the conditions on the reopening of facilities which is expected to continue into 2021/22 it is extremely unlikely in light of the impact of COVID 19 that the original income projections as part of the tender submission will be achieved and further support from the Council could be required. Based on work done to date with GLL, indications are that additional costs of c£2.5m funding support may be required in 2021/22, and it is proposed that a budget of £1.2m, along with upto £1.3m of additional support from Sport England is earmarked to fund these costs in 2021/22. Work is ongoing with the contractor to identify any options for mitigating any additional costs.

3.10 **Waste Collection –** Due to the ongoing requirements for individuals to stay at home wherever possible this has led to an increased volume of domestic waste to be collected and disposed of. In addition, and unlike other areas in Greater Manchester it was agreed to collect any additional side waste left out by residents. This has created a pressure on the existing waste collection contractor to collect the increased volumes and has also increased the volume of waste requiring disposal and therefore the costs to the Council. In this financial year the additional costs of waste disposal have been offset by a rebate from the Greater Manchester Waste Disposal Authority (GMWDA). If the current position continues into 2021/22 this will likely result in further cost pressures that will need to be managed as part of the overall Council budget. This will be retained under review during 2021/22. A budget of c£1.2m has been established in 2021/22 and this is held as a Corporate contingency budget, and will be drawn down in year if required.

3.11 **External Income –** As part of the Directorate overall net budget there is an income budget of c£47m. If the restrictions linked to COVID 19 continue or are increased into 2021/22, then the external income budgets will be adversely affected into 2021/22. MHCLG have indicated as part of the recent finance settlement that the support to local authorities through the sales fees and charges return will be extended through until the end of June 2021, and based on the most up to date forecasts, loss of c£4.265m income have been provided for in respect of income losses in quarter 1 that will be claimed as part of the claim to MHCLG.

2021/22 savings Proposals

3.12 The Neighbourhoods Directorate has a net revenue budget of circa £95.5m of which £47m relates to waste collection, street cleansing and waste disposal. Outside of these areas the majority of the budget relates to staffing. In response to the identified Council wide budget gap all budgets have been reviewed in order that any efficiency savings or opportunities for increased income are identified and included for consideration by members. As part of the wider £50m savings The Neighbourhoods Directorate has identified an initial **£6.683m** in 2021/22 increasing to **£7.376m** by 2024/25 with an **FTE impact of 2** across the Neighbourhoods Directorate.

3.13 In seeking to minimise the impact on residents and neighbourhoods, all opportunities for maximising external income sources were considered and the overall Directorate proposals includes £5.985m of increased income generation, and these proposals will be considered by Resources and Governance Scrutiny Committee as part of the budget process. The proposals to be considered in this report total **£1.391m** and further details of the savings under the remit of this Committee are set out in more detail in table 2 below.

3.14 Within the **Compliance and Enforcement function total savings of c£164k** have been identified and this is made up of, the following;

3.15 £80k increased income from a combination of (£60k) fixed penalty notices, and (£20k) from introducing new charges for providing advice to businesses**.**

3.16 As part of looking at the overall staffing costs, savings of £20k are proposed this will be achieved through a small number of staff voluntarily taking up part reductions in their working week. This is forecast to provide savings of up to **£20k**

3.17 The **animal welfare service** is currently provided in house, and it is proposed to look at an alternative delivery model for this service which would impact on **2FTE's**. A tender exercise will be undertaken in order to move the service provision onto a contracted basis which is likely to reduce the flexibility that currently exists but could provide cost reductions of **£64k** subject to tender.

3.18 It is proposed to use additional time limited **grant funding of £137k** to replace existing mainstream budget provision within Compliance and Enforcement, particularly around the food inspection activity at Manchester Airport. This will be a one year saving only because of the time limited funding.

3.19 **Parks and Leisure service have identified** savings of **£0.582m**, these will be delivered through a combination of continuing to develop and increase the level of commercial income generated and increasing collaboration across leisure operators. There would be a lead in time to delivering these proposals with **an initial c£127k** being delivered in 2021/22 and the savings would increase over the following three years, the total £0.582m savings would be achieved through the following;

- Within the current approved capital programme there is c.£12m approved for investment in parks, and as part of developing the business cases to utilise this funding it is proposed that any investment decisions will include the ability to increase the income generation opportunities. Given the need for capital investment, and the time required to implement the required changes the £427k savings will be phased over a four year period, with an **initial £127k in 2021/22.** The year 1 savings are to be achieved based on the investment that has taken place in previous years and the successful commercial activities that already exist within the City's parks. Given the need to generate more commercial income the required capital investment will be focused on the larger parks, rather than the community parks.

- Within the **Leisure sector** there are a number of different arrangements in place, both within Manchester and wider across Greater Manchester, this includes both different operators and different operating arrangements. In an attempt to streamline the existing arrangements and deliver savings through economies of scale work will be undertaken to look at opportunities for collaborating with other Authorities in an effort to generate savings or increase income depending on the model adopted. Initial analysis indicates that savings of **c£155k** could be achieved but given the lead in time this would not be achieved until 2022/23. As part of the work to look at the proposals the impact of Covid-19 on leisure operations would need to be considered, and as referred to above, the likely ongoing support could make this saving more difficult to achieve, but this would be looked at as part of developing any business case.

3.20 Within the **Highways service** significant work has progressed over the last two years to restructure and reorganise the function to enable it to better deliver for the residents of the city. Savings of **c£0.645m** over 2021/22 and 2022/23 have been identified with minimal impact on the quality of service delivered, this includes a combination of reviewing existing charges and ensuring that income is maximised where possible, the initial proposals include identifying further opportunities to make eligible charges to the capital programme - **£270k,** seeking to ensure that any damage to highways infrastructure is recovered from the perpetrator or insurance company - **£25k**, increase the existing rates for permits and other rechargeable works. - **£75k** and increase the volume of commercial arrangements for provision of winter gritting service - **£25k.**

3.21 In addition to the savings above a further saving of **£250k** is proposed through a reduction in costs of accident claims/legal fees over the period. This is due to a combination of the ongoing highways investment and improved roads and footways and the reduced footfall level within the City. This would be phased £100k in 2021/22 and £150k in 2022/23.

3.22 **Operations and Commissioning - £5.985m**, - In continuing to develop the commercial offer and seeking to maximise external income, proposals have been identified that could provide **income of c£5.985m**, although £225k of this will be only realised in 2022/23, this includes:

3.23 Advertising - The tenders for the small format advertising contract were received in September and the new contract went live from January 2021. It is proposed that the income target will be increased by £1.3m per annum, following the award of the new contract.

3.24 Generation of a further £0.5m through advertising revenue. This will include A New large format site at Dawson St (£50k), and the introduction of a large new advertising screen in Piccadilly Gardens. The latter screen will be developed as part of the Piccadilly Gardens community scheme and could generate around £450k per annum. This will require planning permission and if planning approval is granted there will be a lead time of around six months following planning approval.

3.25 The existing **off-street parking** joint venture ended 31st December 2020. The new arrangements are that the car parks are to be managed in house from January 2021 once the City Council takes on responsibility for the ongoing management and maintenance of the City Council car parks, this will be funded through the parking fee income generated through the use of the car parks. It is forecast that the net surplus income retained by the City Council will be £4.1m per annum, this does assume that parking levels return to normal during 2021/22.

3.26 **Bereavement Services** operate as a business unit with agreed charges linked to the service offer. An increase of 1.9% above inflation is proposed which will bring fees and charges in line with other local authority areas, and result in an additional £85k income per year.

3.27 City Council markets operate on a cost recovery basis, except for Wythenshawe indoor market which continues to require financial subsidy from the Council. It is proposed to close the indoor market in order to remove the need for the annual £110k subsidy requirement. Work will progress to support the traders to access alternative sites, either in the outdoor market or elsewhere within the City. The outdoor market will remain operational

Other Changes

3.28 As referred to at 3.9 above, the Leisure contract provider GLL submitted a tender based on the generation of an initial £12m of income. Due to the impact of Covid-19 and the need for ongoing social distancing it is unlikely that the initial forecast volume of users will be achieved, and this will reduce the overall levels of income generated. Initial estimates are that the likely pressure in 2021/22 will be around £2.5m, and Council resources of £1.2m have been included within the proposed budget, and this will be topped up with any additional support received through the recent Sport England funding submission.

3.29 Government have extended the support for any lost income through sales, fees and charges into quarter 1 of 2021/22 and based on the current forecast the overall support to the Neighbourhood Service is likely to be c£4.435m. The largest loss will be in highways (£2.836m), and in particular the loss of off street parking income within the City Council car parks, other income losses include and £127k compliance and safety, £0.518m in parks leisure and Events, and £51k in Libraries and Galleries.

3.30 The waste disposal levy is paid over to Greater Manchester Combined Authority, and contributes towards their costs of funding GMWDA. Based on figures provided by GMCA the 2021/22 levy costs are to reduce by £1.320m and the budget has been adjusted accordingly.

3.31 As part of the 2020/21 budget ongoing investment of £330k in Domestic Violence support was approved, with an initial £100k in 2020/21 and further £230 in 2021/22. This funding will support earlier identification and intervention working with key partners and agencies. This is a trauma informed response that provides an opportunity to resolve issues, preventing the escalation of risk and demand on services such as the Independent Domestic Violence Advisory (DVA) and the Multi Agency Risk Assessment Conference (MARAC).

3.32 Table 2 below is a summary of the Neighbourhoods saving proposals broken down by service area including the FTE impact. Whilst table 3 shows the overall change in budgets broken down by service area.

Table 2

Service Area	Description of Saving	Type of Saving	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000	Total £'000	FTE's
Compliance	Outsource the animal welfare service	Efficiency	(64)				(64)	2
Compliance	Increase income from fines and advice	Income Generation	(80)				(80)	
Compliance	Use EU funding to fund posts for 1 year	Income Generation	(137)	137			0	
Compliance	Source volunteers to work reduced hours	Efficiency	(20)				(20)	
Parks, Leisure, Youth and Events	Increased Income from investment	Income Generation	(127)	(100)	(100)	(100)	(427)	
Parks, Leisure, Youth and Events	Leisure collaborations	Income Generation		(155)			(155)	
Highways Service	Reduction in claims for accidents and trips	Efficiency	(100)	(150)			(250)	
Highways Service	Charge 50% of Development Specialist to capital	Income Generation	(40)				(40)	
Highways Service	Bring in a new service to recover costs for damaged highway items	Income Generation	(25)				(25)	

Service Area	Description of Saving	Type of Saving	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000	Total £'000	FTE's
Highways Service	Increase charges for permits	Income Generation	(25)				(25)	
Highways Service	Recharge developers for use of the highway	Income Generation	(50)				(50)	
Highways Service	Additional Winter gritting service to 3rd parties	Income Generation	(25)				(25)	
Highways Service	Charge remaining 50% of Gully/Drainage staff to capital	Income Generation	(66)				(66)	
Highways Service	Increase fees to cover costs on external schemes	Income Generation	(164)				(164)	
Operations and Commissioning	Small Format Advertising	Income Generation	(1,300)				(1,300)	
	Piccadilly Gardens Adverts	Income Generation	(225)	(225)			(450)	
	Dawson St	Income Generation	(50)				(50)	
	Off St Parking	Income Generation	(4,100)				(4,100)	
	Bereavement Services	Income Generation	(85)				(85)	
Total Savings			**(6,683)**	**(493)**	**(100)**	**(100)**	**(7,376)**	**2**

Table 3

Service Area	2020/21 Net Budget £'000	Approved Savings £'000	Investment and other changes £'000	2021/22 Net Budget £'000
Compliance	8,581	(301)	357	8,637
Community Safety	2,322	0	0	2,322
Libraries, Galleries and Culture	9,316	0	51	9,367
Management and Directorate Support	1,120	0	0	1,120

Service Area	2020/21 Net Budget £'000	Approved Savings £'000	Investment and other changes £'000	2021/22 Net Budget £'000
Neighbourhood Teams	2,627	0	0	2,627
Other Neighbourhoods	455	0	0	455
Parks, Leisure, Youth and Events	7,563	(127)	1,718	9,154
Operations and Commissioning	18,730	(1,660)	903	17,973
Waste Disposal Levy	30,051	0	(1,320)	28,731
Highways Service	14,738	(4,595)	2,836	12,979
Grand Total	**95,503**	**(6,683)**	**4,545**	**93,365**

4. **Capital Strategy**

4.1 The approved Neighbourhood Directorate capital programme is detailed in the Council's Capital Strategy report, which is included in the suite of budget reports submitted to the Executive and Council. The Capital Strategy also includes details on potential future capital investment which has been identified, and which is expected to be brought forward in the medium term.

4.2 The revenue implications of any approved capital projects have been incorporated into the revenue budget. Before any of the potential investment priorities are approved, the revenue implications of the investment will be reviewed and agreed as part of the approval process. "

5. Workforce Implications

5.1 The workforce implications related to the savings require a reduction 2fte, and this will be managed within existing turnover across the service and Directorate.

5.2 To support the workforce reductions a time limited targeted Voluntary efficiency scheme was opened, and this closed on 11 December. It is expected that the required reduction in staff numbers will be achieved.

6.0 Equality Diversity and Inclusion

6.1 We will continue to ensure that the Council meets its obligations under the Public Sector Equality Duty, building on our successes at fostering good relations between Manchester's communities of identity and maintaining fair and equal access to Council functions. Through ongoing customer monitoring, satisfaction and engagement approaches, we will strengthen and utilise our growing evidence bases within the Directorate to identify the differential experiences of individual identity groups in Manchester accessing Council services, and proactively respond to make these as fair and equitable as possible.

6.2 The Neighbourhood Directorate is committed to understanding and addressing the effects and impacts of its activities for the diverse range of people using its services. To achieve this, we are committed to undertaking equality analysis of the proposed changed services to ensure they are accessible and inclusive, and do not cause adverse equality impacts. The Neighbourhood Directorate will use the Council's Equality Impact framework to do this.

7. Risk Management

7.1 The Neighbourhood Directorate will seek to manage all expenditure within the approved budget available and performance against budgets will be monitored and reported to members on a regular basis, this will include a risk register with any mitigations identified.

8. Legal

8.1 There are no legal implications arising from this report.

9. Consultation

9.1 A public consultation is currently underway asking residents for their views on the Council's 2021/22 budget savings options. The consultation opened on 20 January 2021 and runs for a period of four weeks, closing on 21 February 2021. In addition to promotion via the Council's website, social media channels and e-bulletins, a consultation toolkit has been shared with community partners, voluntary and community sector partners, Councillors and key stakeholders to ensure that the consultation is promoted widely within our communities.

9.2 The consultation can be found at www.manchester.gov.uk/budget. The results will be shared at the Budget Resource & Governance Scrutiny Committee on 1 March 2021.

10. Our Corporate Plan

10.1 Our Corporate Plan describes the Council's contribution over the next 2-3 years to delivering the Our Manchester Strategy 2015-2025. These priorities have been refreshed for 2021-22 to align with the reset of the Our Manchester Strategy and to further strengthen the council and city-wide focus on the importance of Equality, Diversity and Inclusion.

10.2 These budget proposals are aligned to our Corporate Plan to ensure the priorities will be achieved. Our Corporate Plan themes and revised priorities are set out in the table below:

Theme	Priority
1. Zero carbon Manchester *Lead delivery of the target for Manchester to become a zero carbon city by 2038 at the latest, with the city's future emissions limited to 15 million tonnes of carbon dioxide*	Support the citywide Climate Change Framework 2020-25 including the Council's roles in reducing citywide CO_2 emissions and improving air quality
	Deliver activities to reduce the Council's own direct CO_2 emissions by at least 50% by 2025, as set out in the Manchester Climate Change Action Plan 2020-25
2. Growth that benefits everyone *Boost the city's productivity and create a more inclusive economy that all residents participate in and benefit from, and contributing to reductions in family poverty, as set out in the Our Manchester Industrial Strategy*	Deliver the Economic Recovery Plan, supporting the delivery of key growth schemes and the protection and creation of good-quality jobs for residents, enhancing skills, and effective pathways into those jobs. Includes support to Manchester's businesses and residents affected by challenges to the international, national and local economy.
	Facilitate economic growth and recovery in different sectors of the economy, which supports the creation of a more inclusive economy.
	Support residents in order to mitigate the impact of poverty and take actions to reduce the number of people experiencing poverty, in particular given the effects of COVID-19. Including young people, older people, BAME groups and people with disabilities
3. Young people *From day one, support Manchester's children to be safe, happy, healthy and successful, fulfilling their potential, and making sure they attend a school graded 'good' or better*	All children to have access to a high-quality education, which is provided in an inclusive way. Children's school attendance to be achieved and sustained at or better than historic levels.
	Support more Manchester children to have the best possible start in life and be ready for school and adulthood. This includes ensuring that the voice of children and young people is heard, and that they have access to youth, play, leisure, and cultural opportunities.
	Reduce number of children needing a statutory service.
4. Healthy, cared-for people *Work with partners to enable people to be healthy and well. Support those who*	Take actions to improve population health outcomes and tackle health inequalities across the city.
	Support the next phase of health and social care integration in the city, including plans to supercharge Manchester Local Care Organisation.

Theme	Priority
need it most, working with them to improve their lives	Enable delivery through the MLCO of the Adult Social Care transformation programme – ‘Better Outcomes, Better Lives’ – focused on taking a strengths-based approach, supporting independence, building on the ASC improvement programme and embedding this into the MLCO Operating Model.
	Reduce the number of people becoming homeless and enable better housing and better outcomes for those who are homeless
5. Housing *Ensure delivery of the right mix of good-quality housing so that Mancunians have a good choice of quality homes*	Support delivery of significant new housing in the city, including through an effective recovery from COVID-19.
	Ensure inclusive access to housing by the provision of enough safe, secure and affordable homes for those on low and average incomes. This includes strategically joining up provision, and the improved service to residents enabled by direct control of Council owned housing in the north of the city.
6. Neighbourhoods *Work with our city’s communities to create and maintain clean and vibrant neighbourhoods that Mancunians can be proud of*	Enable all our diverse neighbourhoods to be clean, safe and vibrant.
	Embed neighbourhood working across the whole Council and our partners, and deliver services closer to residents.
7. Connections *Connect Manchester people and places through good-quality roads, sustainable transport and better digital networks*	Improve public transport and highways, and make them more sustainable, whilst increasing walking and cycling.
	Facilitate the development of the city’s digital infrastructure, to enable delivery of transformed public services and a more economically inclusive and resilient city.
8. Equality *Deliver on our equality, diversity, and inclusion commitments to support Manchester’s vision to be a progressive and equitable city.*	Work together with Manchester’s citizens and our partners to understand our diverse communities, improve life chances, and celebrate diversity.
	As an employer, ensure a fair and inclusive working environment which recognises, values and responds to the dynamics and opportunities of a diverse workforce.
9. Well-managed council	Development of the future shape of the Council, along with budget reductions and savings.

Theme	Priority
Support our people to be the best and make the most of our resources	Effectively manage our resources, via budget management and planning, support to managers and performance management.
	Carry out the work required to transform our Corporate Core.

11. Conclusion

11.1 The Council continues to face a period of significant change and there are Increased demands for services alongside the need to make budget cuts. The budget strategy provides Members with details of the work that has been undertaken, and is ongoing within the Neighbourhood Directorate to ensure we are able to continue providing quality effective services to neighbourhoods across the City.

11.2 The proposed revenue budget for 2021/22 is a one year budget which is aligned to both the Governments one year budget settlement and the Councils one year budget proposals.

11.3 The Directorate budget proposals in this report have been refined following feedback from both November and January Scrutiny Committees. The report will be submitted for further Scrutiny prior to going Executive in February 2021 for review prior to going to Council in March 2021 for final approval as part of the overall Councils budget.

Appendix 1

Subjective Heading	2020-2021 Budget £'000	2021-2022 Indicative Budget £'000
Expenditure:		
Employees	54,241	54,157
Running Expenses	106,679	114,287
Capital Financing Costs	4,141	4,141
Contribution to reserves	15,937	9,893
Total Subjective Expenditure	**180,998**	**182,478**
Less:		
Other Internal sales	(13,890)	(13,890)
Gross Expenditure	**167,108**	**168,588**
Income:		
Government Grants	(5,419)	(2,266)
Contributions from Reserves	(16,786)	(23,793)
Other Grants Reimbursements and contributions	(2,540)	(483)
Customer and Client Receipts	(46,858)	(48,679)
Other Income	(2)	(2)
Total Net Budget	**95,503**	**93,365**

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Manchester City Council
Report for Resolution

Report To: Executive – 17 February 2021

Subject: Housing Revenue Account 2021/22 to 2023/24

Report of: Strategic Director (Growth and Development) and Deputy Chief Executive and City Treasurer

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Purpose of the Report

This report presents members with details on the proposed Housing Revenue Account (HRA) budget for 2021/22 and an indication of the 2022/23 and 2023/24 budgets.

It seeks approval for the 2021/22 HRA budget, and the proposed average rent increase of 1.5% for all properties, the proposed increase is in line with Government guidance.

It is also proposed that the City Council continue with the policy of where rent is not yet at the formula rent level, then the rent will be revised to the formula rent level when the property is re-let.

The tenants test of opinion has now concluded, and there was a large level of support to the bringing back in house of the ALMO. Work is now ongoing to determine the future management arrangements, and this will require a thorough review of the current proposed expenditure budgets, any changes that require further approval will be brought back to Members.

Recommendations:

The Executive is recommended to:

1) Note the forecast 2020/21 HRA outturn as set out in section 4.

2) Approve the 2021/22 HRA budget as presented in Appendix 1 and note the indicative budgets for 2022/23 and 2023/24.

3) Approve the proposed 1.5% increase to dwelling rents, and delegate the setting of individual property rents, to the Director of Housing and Residential Growth and the Deputy Chief Executive and City Treasurer, in consultation with the Executive Member for Housing and Regeneration and the Executive Member for Finance and Human Resources.

4) Approve the proposal that where the 2021/22 rent is not yet at the formula rent level, the rent is revised to the formula rent level when the property is re-let.

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5) Approve the proposed 2021/22 changes for communal heating charges as detailed in paragraphs 5.15 to 5.19.

6) Approve the proposed 2021/22 Northwards management fee as detailed in paragraphs 5.27 to 5.28.

7) Approve the proposed increase in garage rental charges as outlined in paragraph 6.1

Wards Affected: Charlestown, Cheetham, Crumpsall, Harpurhey, Higher Blackley, Moston, parts of Ancoats and Clayton, Ardwick, Miles Platting and Newton Heath

Manchester Strategy Outcomes	Summary of the contribution to the strategy
A thriving and sustainable city: supporting a diverse and distinctive economy that creates jobs and opportunities	A healthy and fit for purpose affordable housing market will support a functioning local and sub regional economy.
A highly skilled city: world class and homegrown talent sustaining the city's economic success	Access to appropriate affordable housing and services will support residents to achieve and contribute to the city.
A progressive and equitable city: making a positive contribution by unlocking the potential of our communities	The supply of affordable good quality homes will provide the opportunity for Manchester residents to raise their individual and collective aspirations.
A liveable and low carbon city: a destination of choice to live, visit and work.	The right mix of affordable quality energy efficient housing is needed to support growth and ensure that our growing population can live and work in the City and enjoy a good quality of life.
A connected city: world class infrastructure and connectivity to drive growth	Affordable social housing plays an important part in ensuring that there are neighbourhoods where people will choose to live and their housing needs and aspirations are met.

Full details are in the body of the report, along with any implications for:

- Equal Opportunities Policy
- Risk Management
- Legal Considerations

Financial Consequences – Revenue

Expenditure and income on the provision of Council housing must been contained within the Housing Revenue Account which is a ring-fenced budget separate to the Council's General Fund. Whilst HRA expenditure can exceed income in any given year, the HRA overall cannot go into deficit. The recommendations in this report will determine the financial plan for 2021/22 – 2023/24 and the impact on the overall financial model for the HRA over a 30-year period.

The HRA financial plan covers a rolling period of 30 years and is made up of rental income, Private Finance Initiative (PFI) grant and heating charges, which must be used for the purpose of funding the costs of managing and maintaining HRA assets. The amount of income in the HRA in 2021-22 excluding monies from reserves is forecast to be approximately £87m.

Financial Consequences – Capital

Within the proposed HRA budget a mandatory charge for depreciation is made, and this can be used to either fund capital expenditure or reduce housing debt. The 2021/22 HRA budget includes a forecast depreciation charge of £18m, which will be set aside to fund capital investment.

The assumptions on capital expenditure for the financial years 2021/22- 2023/24 are for expenditure (net of grants) in excess of £87m. This includes schemes that will help the Council to become carbon neutral by 2038.

For the years 2023/24 and 2024/25, the figures used are based average expenditure over the past three years by Northwards, plus planned expenditure on the retained element.

From 2025/26 onwards the HRA budget includes an annual capital budget of c£25m per annum which increases annually in line with CPI.

The HRA budget already allows for the costs and implications of the following new build programmes:-

- Brunswick PFI Extra Care Scheme (30 Units) (2020-21)
- Silk Street (68 properties) (2022-23)
- Collyhurst (130 properties) (2024-25)

The total forecast costs of the Collyhurst programme are c£31.2m, and there is £1.4m of Northern Gateway and c£23.41m of HRA funding identified and included within the current proposed HRA budget. As referenced in the capital report elsewhere on the agenda there is a bid for £6.39m Homes England funding being submitted to support the development of the 130 new homes, but in order that preparatory works can commence the HRA will underwrite the £6.39m funding to ensure that the scheme can commence in the event that this bid is not successful.

Contact Officers:

Name:	Carol Culley
Position:	Deputy Chief Executive and City Treasurer
Telephone:	0161 234 3564
E-mail:	carol.culley@manchester.gov.uk
Name:	Louise Wyman
Position:	Strategic Director, Growth and Development

Telephone: 0161 234 3030
E-mail: louise.wyman@manchester.gov.uk

Name: Kevin Lowry
Position: Director of Housing and Residential Growth
Telephone: 0161 234 4811
E-mail: kevin.lowry@manchester,gov.uk

Name: Paul Hindle
Position: Head of Finance Corporate Core and Strategic Development
Telephone: 0161 234 3025
E-mail paul.hindle@manchester.gov.uk

Background documents (available for public inspection):

None

1. Introduction

1.1. The purpose of this report is to approve the Housing Revenue Account (HRA) 2021/22 budget and provide members with recommendations for approval in respect of the 2021/22 tenants' rent, garage rents and communal heating charges.

1.2. This report sets out the HRA budgetary proposals for 2021/22, and the indicative position for 2022/23 and 2023/24. Furthermore, it highlights the current use of reserves, along with the risks that need to be managed going forward.

1.3. Following the conclusion of the recent tenant's test of opinion a report was taken to January Executive setting out the details, and it was agreed that arrangements should be made to bring the ALMO back in house from July 2021. For budget setting purposes the current proposed HRA budget has been prepared on an 'as is' basis, and work is being done to understand the implications and to rework the HRA budget, and this will be brought back to Members.

2. Background

2.1. Since the introduction of Self Financing in April 2012 the Council has had to manage its housing stock on a similar basis to Registered Providers. This has entailed developing a rolling 30-year business plan and reviewing the use of existing assets to ensure that benefits are maximised.

2.2. In developing the 30-year business plan it is essential that the Council considers all risks and ensures that any investment decisions are affordable both in the short and longer term.

2.3. In previous years there has been significant legislative change following the introduction of the Housing and Planning Act and Welfare Reform Act, in addition to this there have been policy changes that have affected the HRA budget, both in the short term, and in future years. In particular, the imposition of a 1% annual rent cut for four years from 1st April 2016 had a significant effect on available resources over the life of the business plan.

2.4. In February 2019, the Government released a policy statement on rents for social housing, which included a direction to the Regulator of Social Housing to have regard for the following when setting the rent standard for registered providers of social housing:

From 1 April 2020, registered providers may not increase rents by more than CPI (at September of the previous year) plus one percentage point in any year.

This followed a consultation paper in which the Government stated that the proposed direction "reflects our announcement in October 2017 that we intend to permit registered providers to increase their rents by up to CPI+1% each year, for a period of at least five years".

2.5 This report is seeking approval for the 2021/22 HRA budget, but as part of the work the longer term (30 year) HRA business plan has been prepared. It should be noted that the longer-term budget is based on forecasts and there are many variables that could impact upon the forecasts, in particular the level of future years rent increases. The current business plan shows a healthy level of reserves currently, but the forecasts shows that reserves fall below the c£60m level required to avoid having to pay increased interest charges on debt in 2030/31, and the reserves are forecast to run out by 2038/39. In order to support the desired investment and ongoing activity further savings over the short/medium term will have to be identified and work is ongoing to review all the income and expenditure in the HRA.

3. Statutory Duties in Determining the HRA Budget Strategy

3.1. The rules governing the maintenance of the HRA were established pursuant to the Local Government and Housing Act 1989 and provide that:

- The Council must formulate proposals in respect of HRA income and expenditure for the financial year which, on the best assumptions and estimates that the Council is able to make at the time, ensure that the HRA does not show a debit balance;
- The Council is required to keep a HRA in accordance with proper practice. The Council has the responsibility to determine a strategy that is designed to ensure that the HRA is in balance taking one year with another.
- The HRA continues to be a ring-fenced account, this means that it must, in general, balance on a year-to-year basis, so that the costs of running the Housing Service, which include debt charges, administration costs and maintenance expenditure must be met from HRA income.

4. Budget Position 2020/21

4.1. As at December 2020 the HRA is forecasting that expenditure will be £23.780m lower than budget, which would result in an in-year surplus of £5.148m. This will be credited to the HRA reserve. The main reasons for this change are as follows:

– RCCO - £22.257m underspend – due to slippage and delays on a number of schemes, largely due to reduced access to properties and time delays because of the pandemic.

– Private Finance Initiatives - £2.212m underspend – The key changes are £1.562m slippage in capital expenditure, the Brunswick extra care scheme has been delayed and is expected to be complete before the end of March 2021 leading to reduced expenditure of £0.587m, inflation increases on the PFI contracts were lower than originally forecast and this resulted in net savings in year of £63k.

- Northwards Management Fee - £403k overspend largely due to a combination of the pay award being higher than forecast, additional costs in respect of Covid-19 support to suppliers and works on the Riverdale Estate.

- Other Income is forecast to be £297k lower than budget this is due to in reduced service charge income, and reduced monies from RSL's in respect of VAT savings on capital works undertaken.

- Other minor underspends totalling £11k.

5. Budget Strategy 2021/22 - 2023/24

5.1. The HRA financial plan has been prepared on the same basis as the current year but takes into account all known changes to housing stock numbers, proposed investment needs and inflationary assumptions in line with the City Council medium term financial plan. It also accounts for the potential impact of Covid-19 and Welfare Reform on rent collection levels through increasing the level of bad debt provision.

5.2. The HRA budget shows statutory compliance in that a surplus is forecast (before the use of reserves to fund capital works) at the end of each year within the three-year budget strategy period. However, due to a number of factors including the Government's imposed 1% rent reduction over four years from 2016/17, the impact of the Grenfell Tower fire disaster, and the Council's ambition to become a zero carbon City, the HRA does not currently remain in surplus over the life of the 30 year business plan based on current assumptions. Costs are regularly reviewed in order that efficiencies can be identified to ensure that reserves are kept at a sufficient level to enable risk to be managed and resources to be available to fund future works required.

Management of Housing Stock and Implications of "Right to Buy"

5.3. The Council continues to own and manage approximately 15,500 properties within the HRA under various arrangements. These include three PFI schemes (c.2,600) and stock managed by either Northwards Housing (c.12,700) or other Registered Providers (RP's) (c200).

5.4. Residents in stock managed by Northwards Housing, the Council's Arm's Length Management Organisation (ALMO), have had the opportunity to undertake a Test of Opinion on the current management arrangements of arrangements of the c12,700 properties. The test of opinion follows the report to Executive on 9th September 2020 informing of the outcome of the "due diligence" review of the ALMO, undertaken by Campbell Tickell. The test of opinion ended 4th January 2021, and the majority of respondents supported the bringing back in-house option. Work is now underway to understand the implications of bringing the ALMO back in house and this will be reported to Members.

5.5. In the current financial year Right to Buy Sales (RTB) have reduced due to the impact of the Covid-19 pandemic, and sales of around 80 properties are being forecast. This is less than half the number sold in 2019/20 and it is assumed that the number of sales will return to the level in 2019-20 (1.25%) for the next five years of the Business Plan, before dropping back to 1% for the remaining years of the plan. This will reduce the level of rent income achieved and the number of sales will continue to be closely monitored.

5.6. The table at Appendix 1 provides a detailed analysis of the overall proposed 2021/22 budget in order to ensure a balanced budget it is proposed that reserves of £16.494m are drawn down.

5.7 The key budget assumptions used in preparing the HRA budget are as follows:

Rent Income

5.8 Government guidance allows Local Authorities to increase rents by a maximum of CPI plus 1% for the five-year period 2020/21 to 2024/25. CPI at September 2020 was 0.5% and therefore this report seeks approval to increase tenants' rents for all properties will increase by 1.5% in April 2021.

5.9 For those properties where formula rent has not been achieved (app 1,000 properties), if the property becomes vacant the rent can then be increased to formula rent when the property is re-let.

5.10 The budget has been prepared on this basis and would produce an average weekly rent (based on 52 weeks) of:

- General Needs £75.41
- Supported Housing £68.63
- PFI Managed £87.94

Other Income

5.11 Other income is forecast to be around £1.132m in 2021/22, and this is made up as follows:

- Non Dwelling Rents and Other Income includes:
  - Non Dwelling Rents – income from garage rents, rental income from shops and offices, ground rent and telecoms masts
  - Other Income and Contributions – Girobank charges, contributions towards grounds maintenance and solar panel income.
- Recharge to Homelessness – rental income in relation to HRA properties used by Homelessness
- HRA Investment Income – the HRA receives income on balances held within the Council's bank account

- Income from Leaseholders (e.g. contribution to heating, cleaning, and repairs to communal areas)

Private Finance Initiative Allowances

5.12 As part of the PFI negotiations for the Brunswick scheme, the Council agreed to make a capital contribution totalling £24m between 2014/15 and 2019/20 in order to realise longer term savings of c.£48m over the life of the PFI contract, through lower annual Unitary payments. Due to delays to the programme of refurbishment and construction of new dwellings, these payments were spread over a longer period than planned, the final instalments are forecast to be completed by the end of March 2021.

5.13 The three stock management PFI schemes in total generate income for the HRA in that income from rents and PFI credits is greater than the unitary charge payments. This budget proposes to continue to charge PFI rents in line with the original rent policy.

5.14 "Smoothing" reserve funds had been established for all the PFI contracts, these are set up to smooth the costs of the PFI over the duration of the scheme. Following the introduction of self-financing and the removal of the subsidy system, PFI rental income and grant can be used to fund the annual unitary charge, which removed the ongoing requirement to contribute towards a smoothing reserve. The current PFI reserve will continue to remain frozen at £10m as at 31 March 2021 and will be used to part fund the outstanding HRA debt.

Communal Heating

5.15 In general, it is intended that gas charges are set to reflect the actual cost of gas consumed. However, there are reasons why in practice this is difficult to achieve:

- Charges are set based on anticipated charges for the following year and consumption from the previous year
- Some of the heating systems are not efficient in operation – work is ongoing to improve these.

5.16 Communal heating gas is sourced as part of the City Council overall gas contract. The existing wholesale gas contract expires shortly, and latest prices indicate that the current wholesale gas price will reduce by 10% with effect from April 2021. The gas supply to the 2-4 bed blocks are part of a separate contract, and the price has not yet been agreed. However, the number of properties affected is currently c100 and reducing as individual boilers are installed, therefore it is proposed that the same reduction in tariff is assumed.

5.17 In order to ensure that the costs of gas used are recovered through the tariffs charged for tenants and residents on a scheme by scheme basis, it would be necessary to apply a range of adjustments to current heating charges.

5.18 The proposed 2021/22 heating charges for each scheme are shown in Appendix 2 and this also includes both 2019/20 and 2020/21 for comparison purposes.

5.19 There continues to be a programme of capital investment that looks to both improve energy efficiency of homes and reduce carbon. This will include upgrading or replacing existing communal heating equipment. The costs of gas used against the tariffs charged will continue to be monitored to ensure that the rates being charged are aligned.

Depreciation

5.20 Depreciation is a means of charging the cost of an asset to the revenue account over its remaining useful life. In accordance with accounting regulations, it is charged to the HRA as a transfer to Reserves where it can be used to fund capital expenditure or pay off debt. The depreciation charge in 2021/22 is forecast to be £18.435m and this is used to fund capital expenditure.

Debt Financing and Borrowing Costs

5.21 The 2020/21 opening HRA debt is anticipated to remain unchanged at £121.26m, and this is funded through a combination of market loans and c£60m internal funding through the use of reserves. This provides the benefit of reducing the interest costs of borrowing, but it is important that any future investment decisions are carefully considered because if the reserves fall below the level of internally funded debt, then interest charges will increase. This will be considered as part of any investment proposals that require use of the HRA reserves it the scheme appraisal would need to ensure that the increased costs of borrowing are factored into the project costs.

5.22 Following the removal of Councils' HRA debt caps, which means that there is no upper limit to the level of debt that can be held, the only restriction being that the HRA business plan must demonstrate that any debt can be serviced without going into deficit.

5.23 It is currently anticipated that the HRA reserves will fall below the £60m required to continue funding the proportion of debt in 2030/31, this results in an increase in the interest costs charged to the HRA. This assumes no additional capital expenditure over and above what is assumed in the business plan. Unless savings are identified to mitigate the rent reduction, the costs of borrowing within the HRA will increase.

5.24 The HRA is making provision only for the interest repayments in relation to the outstanding debt. Consideration will need to be given to refinancing the debts as and when the debts become repayable this will be considered as part of the treasury management strategy.

Provision for Bad Debts

5.25 Due to a combination of the continued roll out of Universal Credit and Covid 19 and the potential impact on residents' ability to pay their rent the business plan has made provision for an annual increased contribution towards the provision for bad debts. The 2020/21 actual required provision for bad debts is currently expected to be around 1% of rental income, this is in line with the approved budget. The forecast reduced rent collection related to universal credit have not yet materialised, this is in part because of the delays in the rolling out the Universal Credit scheme and also because of the good work undertaken with tenants to provide help and support in order to help tenants manage the impact. Despite the continuing good performance the provision will increase to 1.5% for 2021/22, and will then be increased annually by 0.5% until 2023/24 at which point it will peak at 2.5%, it is then planned to reduce by 0.5% per year until it levels out at 1.5% for the remainder of the plan. This is to reflect the ongoing work that will be done with residents to manage the impact of both the pandemic and welfare reform.

5.26 The full implications of Welfare Reform and the economic downturn and subsequent recovery will be kept under review and the bad debt provision requirements adjusted accordingly.

Northwards Management Fee

5.27 As part of the 2020/21 budget Executive approved an increase in the current financial years management fee to reflect the additional staffing costs that Northwards would incur during the year, which equated to a rise of 1.55%.

5.28 The amount payable for the management of stock currently managed by Northwards will change once the future arrangements have been agreed. For the purposes of the business plan, the fee for 2020-21 has been used, although this has been adjusted to reflect the initial savings identified by Northwards as part of the due diligence work when identifying options. Now the decision has been taken to bring the ALMO back in house work is underway looking at delivery arrangements and once the new arrangements are agreed then the budget will be revised and further approvals sought if necessary.

The other assumptions used for managements costs are:

- Increase to the Repairs and Maintenance budget of £4.2m per annum, rising by CPI inflation.

Other Expenditure

5.29 Details of other expenditure as shown in appendix 1 is as follows:

- Retained Stock Maintenance & Repairs – this covers repairs to offices, environmental works, and some lift maintenance
- Supervision & Management – this covers the City Council costs of managing the HRA, including the cost of staff in Strategic Housing (HRA

related), corporate, central and departmental recharges, and other miscellaneous costs.

- Other management arrangements – stock management fee to the two Tenant Management Organisations (415 properties), Guinness Partnership (171 properties in West Gorton) and Peaks and Plains (11 properties in Alderley Edge)
- Council Tax – on properties held empty for demolition
- Insurance costs – The annual contribution to the HRA insurance reserve
- Revenue Contribution to Capital Outlay – this is where funds held within the HRA are set aside to contribute towards the cost of capital works (in addition to Depreciation).

Inflationary Assumptions

5.30 The HRA budget includes inflationary assumptions in line with the Council's current assumptions in relation to pay and prices. The majority of inflation in the business plan is linked to the consumer price index rate (CPI), which the Office for Budget Responsibility has forecast will dip to 1.9 per cent in 2021, returning to the 2 per cent target thereafter. The business plan assumes a 2% CPI rate for each of the next 30 years.

This inflationary increase will only be applied to costs that are not already known, currently the rent income, the PFI unitary charges, and the Northwards management costs are known for 2021/22, so the 2% will only apply to a small proportion of the HRA costs.

6. Garage Rents

6.1 It is proposed that 2021/22 garage rents increase by 1.5% in line with the proposed increase for dwelling rents, and the impact of the increase is shown in the table below:

	Annual Charge 2020/21	Weekly Charge 2020/21	Proposed Weekly Charge 2021/22	Proposed Weekly Increase
Site Only	£98.80	£1.90	£1.93	£0.03
Prefabricated	£219.49	£4.22	£4.28	£0.06
Brick Built	£257.94	£4.96	£5.03	£0.07

7. Reserves Forecast

7.1 Current projections show the HRA will not generate sufficient annual surpluses over the duration of the business plan to service the debt and maintain a positive balance. Based on the current assumptions within the plan, the HRA continues to hold sufficient surpluses in its reserves to avoid paying an increased amount of interest for the next ten years, but after that it incurs additional costs and moves into an unsustainable position in 18 years' time.

7.3 The table below sets out details of the anticipated HRA reserves position, over the next three years if there are no additional investment proposals above the approved amounts included for RCCO and the contribution towards Brunswick capital costs. Given the low interest rates payable on balances, the HRA is currently using around £60m of its own reserves to internally fund part of the HRA debt rather than take out external borrowing. This provides annual interest savings of around £2.4m per annum. The continuation of this arrangement will need to be considered if any investment proposals are to be funded using reserves. The current plan shows reserve levels falling to zero in 2038/39.

Reserves Forecast 2020/21 to 2023/24

7.4 The table below sets out the forecast reserves position for 2020/21 and the next three years. Based on the November 2020 forecast position the HRA closing reserves are forecast to be £117m, but these are forecast to reduce by over £16m in 2021/22 and further reductions in the following two years. The reductions in reserves relates predominantly to the ongoing capital investment proposals.

Reserve Description	2020/21 (Forecast) £000	2021/22 £000	2022/23 £000	2023/24 £000
General Reserve (including Major Repairs reserve)	80,960	64,466	49,018	53,970
Insurance Reserve	2,059	2,059	2,059	2,059
Residual Liabilities Fund	24,000	24,000	24,000	24,000
PFI Reserve	10,000	10,000	10,000	10,000
Total Reserves	**117,019**	**100,525**	**85,077**	**90,029**

7.5 The Residual Liabilities Fund was established to cover any potential environmental and other risks associated with the large and small scale voluntary transfers that have taken place during the past 15 years. There is no reason to change the level of reserve from that recommended in an independent report previously commissioned, and therefore the fund balance will be held at £24m for 2021/22.

7.6 Within the general reserve there is also a separately held HRA Insurance Reserve. This is required to ensure compliance with the ringfencing requirements. The balance required is determined by the likely liabilities arising from claims settled in any one year, there is an annual contribution to the reserve assumed within the current proposed HRA budget.

8. Conclusions

8.1. The proposals contained in this report seek to ensure that the HRA business plan provides a sound basis of managing the existing stock, whilst also identifying the potential risks that need to be monitored on an ongoing basis.

8.2. The budget proposals will allow for continued service delivery and investment within the existing stock and development of new HRA stock within the confines of the available resources.

8.3. Under the provisions of the Local Government and Housing Act 1989, the Authority must ensure that the HRA does not result in a debit balance. The proposed budget for 2021/22, together with the indicative budget for the following two years, is attached at Appendix 1 and shows this provision being met (before proposed use of reserves to fund capital works).

8.4. The HRA continues to hold a prudent level of reserves that enables continued savings on HRA costs through self-funding part of the HRA debt. There is also an increase in the planned level of capital works over the 2 year period 2021/22 – 2022/23 that is partly funded from the existing HRA reserves.

8.5. Based on forecasts, over the next three years the HRA can continue to fund existing debts, together with the ongoing management and maintenance costs whilst also maintaining a positive reserves position. The reserves provide longer term benefits to the HRA through debt financing, reducing the overall interest payable, and contributing towards increased resources available for further investment in the longer term.

9. Key Polices and Considerations

(a) Equal Opportunities

The rents have been set in line with the Government's guideline rent.

(b) Risk Management

Under the provisions of the Local Government and Housing Act 1989, the Authority must ensure that the Housing Revenue Account does not result in a debit balance. The proposed change in rents and identification of savings within this report, together with regular budget monitoring will assist in managing this risk over the short term. Work will continue to ensure that the HRA remains viable in the longer term.

(c) Legal Considerations

The City Solicitor has reviewed this report and is satisfied that any legal considerations have been incorporated within the body of the report.

Appendix 1

Housing Revenue Account Budget 2020/21 – 2023/24

	2020/21 (Forecast) £000	2021/22 £000	2022/23 £000	2023/24 £000	See Para.
Income					
Housing Rents	(61,027)	(61,617)	(62,813)	(64,034)	5.8
Heating Income	(623)	(533)	(543)	(554)	5.15
PFI Credit	(23,374)	(23,374)	(23,374)	(23,374)	5.12
Other Income	(984)	(1,132)	(1,107)	(1,083)	5.11
Funding (from)/to General HRA Reserve	5,148	(16,494)	(15,448)	4,952	7.1
Total Income	**(80,860)**	**(103,150)**	**(103,285)**	**(84,093)**	
Expenditure					
R&M & Management Fee	21,097	25,415	24,170	23,368	5.27
PFI Contractor Payments	34,084	32,476	33,054	32,303	5.12
Communal Heating	607	532	542	553	5.15
Supervision and Management	5,391	5,254	5,319	5,356	5.30
Contribution to Bad Debts	547	930	1,264	1,611	5.25
Depreciation	17,378	18,435	18,602	18,790	5.20
Other Expenditure	1,393	1,105	931	949	5.29
RCCO	(2,416)	16,241	16,673	(1,539)	5.29
Interest Payable and similar charges	2,779	2,762	2,730	2,702	5.21
Total Expenditure	**80,860**	**103,150**	**103,285**	**84,093**	
Total Reserves:					
Opening Balance	(111,871)	(117,019)	(100,525)	(85,077)	7.4
Funding (from)/to Revenue	(5,148)	16,494	15,448	(4,952)	
Closing Balance	**(117,019)**	**(100,525)**	**(85,077)**	**(90,029)**	

Appendix 2 - Pay by Rents

Property Type	Area/Scheme	Property Numbers Average Estimate 21/22	19/20 Weekly Debit	20/21 Weekly Debit	21/22 Weekly Debit	% Change
Flat 1 Bed	Grove Village Tenants	5	£9.01	£7.48	£6.49	-13%
House 2 Bed	Grove Village Tenants	40	£11.13	£9.24	£8.02	-13%
House 3 Bed	Grove Village Tenants	35	£14.07	£11.67	£10.13	-13%
House 4 Bed	Grove Village Tenants	14	£16.23	£13.47	£11.69	-13%
Flat 1 Bed	Northwards Sheltered - Boiler Supply	80	£6.68	£5.35	£5.09	-5%
Flat 2 Bed	Northwards Sheltered - Boiler Supply	40	£8.11	£6.49	£6.18	-5%
Flat 1 Bed	Northwards Sheltered - Other supply	0	£6.68	£5.35	£5.09	-5%
Flat 2 Bed	Northwards Sheltered - Other supply	0	£8.11	£6.49	£6.18	-5%
2/4 Block	Northwards 2/4 Blocks - All Others	220	£6.74	£5.39	£5.67	5%
2/4 Block - Fuel	Northwards 2/4 Blocks - Fuel Supplement	65	£0.58	£0.46	£0.49	5%
Multistory Flat	Northwards - Multistory - Sandy hill	37	£6.56	£5.25	£5.25	0%
Type A	Northwards - Victoria Square	52	£8.56	£6.85	£5.48	-20%
Type B	Northwards - Victoria Square	51	£9.20	£7.36	£5.89	-20%
Type C	Northwards - Victoria Square	15	£9.90	£7.92	£6.33	-20%
Type D	Northwards - Victoria Square	33	£10.28	£8.22	£6.58	-20%
Type E	Northwards - Victoria Square	13	£13.17	£10.54	£8.43	-20%
Caretaker	Northwards - Victoria Square	1	£15.78	£12.62	£10.10	-20%
Flat 1 Bed	Brunswick Sheltered (Removed)	0	£6.68	£5.35	£5.09	-5%
Flat 2 Bed	Brunswick Sheltered (Removed)	0	£8.11	£6.49	£6.18	-5%

Point of Sale

Scheme	Estimated Property Numbers 19/20	19/20 Charge (per unit of heat)	20/21 Charge (per unit of heat)	21/22 Charge (per unit of heat)	
Grove Village	309	6.96p	5.78p	5.01p	-13%
MECO	288	9.76p	7.81p	7.63p	-2%
Northwards Multistory	444	8.83p	7.06p	7.18p	2%
Victoria Avenue	470	6.52p	5.22p	5.29p	1%
Brunswick Multistory	317	9.76p	9.76p	8.14p	-17%

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Manchester City Council
Report for Resolution

Report to: Executive – 17 February 2021
Resources and Governance Scrutiny – 1 March 2021
Council – 5 March 2021

Subject: Treasury Management Strategy Statement 2021/22, including Borrowing Limits and Annual Investment Strategy

Report of: Deputy Chief Executive and City Treasurer

Summary

To set out the proposed Treasury Management Strategy Statement and Borrowing Limits for 2021/22 and Prudential Indicators for 2021/22 to 2023/24.

Recommendations

The Executive is requested to:

1. Recommend the report to Council.

2. Delegate authority to the Deputy Chief Executive and City Treasurer, in consultation with the Executive Member for Finance and Human Resources, to:
   - approve changes to the borrowing figures as a result of changes to the Council's Capital or Revenue budget; and
   - submit these changes to Council.

The Resource and Governance Scrutiny Committee is requested to commend the report to Council.

The Council is recommended to:

1. Approve the proposed Treasury Management Strategy Statement, in particular the:
   - Borrowing Requirement listed in Section 7 of this report;
   - Borrowing Strategy outlined in Section 10;
   - Annual Investment Strategy detailed in Section 11;
   - Prudential and Treasury Indicators listed in Appendix A;
   - MRP Strategy outlined in Appendix B;
   - Treasury Management Policy Statement at Appendix C; and
   - Treasury Management Scheme of Delegation at Appendix D

2. Delegate to the Deputy Chief Executive and City Treasurer, in consultation with the Executive Member for Finance and Human Resources, the power to pursue any restructuring, rescheduling or redemption opportunities available, including amendments to the Treasury Management Strategy if the changes

require it. Any changes required to the Strategy will be reported to members at the earliest opportunity.

Wards Affected - All

Environmental Impact Assessment - the impact of the decisions proposed in this report on achieving the zero-carbon target for the city
Treasury Management activity underpins the Council's finances, and therefore supports projects and initiatives which seek to achieve the Council's zero carbon target.

Our Manchester Strategy outcomes	Contribution to the strategy
A thriving and sustainable city: supporting a diverse and distinctive economy that creates jobs and opportunities	The Treasury Management function supports the whole Council by seeking to ensure that funding is available when required, to fund all of the work that the Council undertakes. Therefore, whilst not directly contributing to the strategic aims, the Council's treasury management activity underpins the work taking place elsewhere to achieve the outcomes.
A highly skilled city: world class and home grown talent sustaining the city's economic success	
A progressive and equitable city: making a positive contribution by unlocking the potential of our communities	
A liveable and low carbon city: a destination of choice to live, visit, work	
A connected city: world class infrastructure and connectivity to drive growth	

Full details are in the body of the report, along with any implications for

- Equal Opportunities Policy
- Risk Management
- Legal Considerations

Financial Consequences – Revenue

The capital financing budget forms a key part of the Council's revenue budget. The activity forecast in this report is affordable within the existing and future capital financing budget, including use of the capital financing reserve.

Financial Consequences – Capital

None – the Council's treasury management activity is by definition not capital expenditure.

Contact Officers:

Name: Carol Culley
Position: Deputy Chief Executive and City Treasurer
Telephone: 0161 234 3406
E-mail: carol.culley@manchester.gov.uk

Name: Helen Seechurn
Position: Deputy City Treasurer
Telephone: 07814 087850
E-mail: helen.seechurn@manchester.gov.uk

Name: Tim Seagrave
Position: Group Finance Lead – Capital and Treasury Management
Telephone: 0161 234 3445
E-mail: timothy.seagrave@manchester.gov.uk

Name: Matus Majer
Position: Treasury Manager
Telephone: 0161 600 8490
E-mail: matus.majer@manchester.gov.uk

Background documents (available for public inspection):

The following documents disclose important facts on which the report is based and have been relied upon in preparing the report.

- Capital Strategy and Budget 2020/21 to 2024/25 report to Executive 17 February 2021
- CIPFA Prudential Code 2017
- CIPFA Treasury Management Code of Practice 2018

Copies of the background documents are available up to 4 years after the date of the meeting. If you would like a copy please contact one of the contact officers above.

1. Introduction

1.1 The Treasury Management Strategy Statement sets out the risk framework under which the Council's treasury management function will operate. By detailing the investment and debt instruments to be used during the year the Strategy details the risk appetite of the Authority and how those risks will be managed.

1.2 The Treasury Management Strategy Statement is linked to the Capital Strategy, in that both documents detail the risks that the Council face, but critically the Treasury Management Strategy Statement is focussed on the risks associated with the management of the Council's cash flow and debt, whereas the Capital Strategy looks at capital investment and expenditure decisions.

1.3 The capital budget contains significant priorities for the Council, such as the refurbishment of the Town Hall, which are to be funded from borrowing. This strategy details how decisions will be taken regarding new borrowing and that the over-arching principle is that the borrowing provides value for money for the Council in whatever form it takes. Capital investment decisions are made in line with the economic and regeneration objectives for the city and to support delivery of the agreed capital strategy.

1.4 For treasury management investments the Council holds security and liquidity as paramount. This strategy proposes the use of investment types aimed at ensuring that funds are kept secure and that the Council has access to funds when they are required.

1.5 The work of the Council's treasury management function is impacted by market conditions and there are significant economic changes, such as the end to the transition period and COVID-19 Pandemic, which create uncertainty in the market. The strategy has been drafted to provide flexibility to manage the risks associated with uncertainties such as interest rate or liquidity challenges.

Treasury Management Strategy for 2021/22

1.6 The suggested strategy for 2021/22 is based upon the treasury officers' views on interest rates, supplemented with market forecasts provided by the Council's treasury advisor, Link Asset Services. The strategy covers:

Section 1: Introduction
Section 2: CIPFA Definition of Treasury Management
Section 3: Statutory and other Requirements
Section 4: Prudential and Treasury Indicators for 2021/22 to 2023/24
Section 5: Impact of 2012 HRA reform
Section 6: Current Portfolio Position
Section 7: Prospects for Interest Rates
Section 8: Borrowing Requirement
Section 9: Borrowing Strategy
Section 10: Annual Investment Strategy

2 CIPFA Definition of Treasury Management

2.1 Treasury management is defined by CIPFA as:
'The management of the local authority's 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.'

3 Statutory and other requirements

Statutory requirements

3.1 The Local Government Act 2003 (the Act) and supporting regulations require the Council to 'have regard to' the Chartered Institute of Public Finance and Accountancy's (CIPFA) Prudential Code and the CIPFA Treasury Management Code of Practice to set Prudential and Treasury Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable.

3.2 The Act therefore requires the Council to set out its treasury strategy for borrowing and to prepare an Annual Investment Strategy (as required by Investment Guidance subsequent to the Act and included as section 11 of this report); the Strategy sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.

3.3 The Department for Housing, Communities and Local Government (DHCLG) issued revised investment guidance which came into effect from the 1 April 2010. In 2017 the Department, now the Ministry of Housing Communities and Local Government (MHCLG) further updated its guidance on local government investments. CIPFA responded to these revisions by issuing an updated Code of Practice on Treasury Management and the Prudential Code in 2017. CIPFA also issued Public Services Guidance Notes in 2018 to support the changes made to the Codes.

CIPFA requirements

3.4 The CIPFA Code of Practice on Treasury Management has been adopted by the Council. This strategy has been prepared in accordance with the revised December 2017 Code.

3.5 The primary requirements of the Code are as follows:

a) Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities;
b) Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives;
c) Receipt by the full Council of an annual Treasury Management Strategy Statement, including the Annual Investment Strategy and Minimum Revenue Provision Policy for the year ahead, a Mid-year Review Report and an Annual Report covering activities during the previous year;
d) Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions;
e) Delegation by the Council of the role of responsible body for treasury management strategy and practices, budget consideration and approval, monitoring and selection of external service providers to a specific named body. For this Council the delegated body is the Audit Committee.
f) Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body. For this Council the delegated body is the Resource and Governance Scrutiny Committee.

3.6 The Council's adherence to the Prudential Code is monitored through the series of Prudential Indicators defined by CIPFA. Adherence to the CIPFA Prudential Code is a factor which informs the Council's investment policy. The legal status of the Treasury Management Code is derived in England and Wales from regulations issued under the Local Government Act 2003. This includes statutory guidance on Local Government investments issued under section 15(1) (a) of the Act.

Balanced Budget Requirement

3.7 It is a statutory requirement under Section 33 of the Local Government Finance Act 1992, revised under Section 31 of the Localism Bill 2011, for the Council to produce a balanced budget. In particular, Section 31 requires a local authority to calculate its budget requirement for each financial year to include the revenue costs that flow from capital financing decisions. This means that increases in capital expenditure must be limited to a level whereby increases in charges to revenue from:

- increases in interest charges caused by increased borrowing to finance additional capital expenditure;
- increases to the minimum revenue provision; and
- increases in running costs from new capital projects

are limited to a level which is affordable within the projected income of the Council for the foreseeable future.

4 Prudential and Treasury Indicators for 2021/22 to 2023/24

4.1 It is a statutory duty under Section 3 of the Act and supporting regulations that the Council determines and keeps under review how much it can afford to borrow. This amount is termed the 'Affordable Borrowing Limit'. In England this Authorised Limit represents the legislative limit specified in the Act and is one of the key Prudential Indicators identified by the CIPFA Code.

4.2 The Council must have regard to the Prudential Code when setting the Authorised Limit which requires it to ensure that total capital investment remains within sustainable limits.

4.3 Whilst termed an Affordable Borrowing Limit, the capital plans incorporate financing by both external borrowing and other forms of liability such as credit arrangements. The Authorised Limit is to be set on a rolling basis for the forthcoming financial year and two successive financial years.

4.4 The full set of Treasury limits and Prudential Indicators recommended by the Code and used by the Council, together with their suggested levels for 2021/22 is noted in Appendix A of this report.

4.5 It should be noted that the Prudential and Treasury Indicators in this report may be subject to change dependent on decisions taken on the Capital and Revenue budgets which are reported elsewhere on this agenda.

5 The Housing Revenue Account – Impact of 2012 HRA Reform

5.1 The Local Government Finance and Housing Act 1989 requires Councils who own housing they rent out to tenants to separate all of the financial activities relating to the Council acting as landlord into a ring-fenced account known as the Housing Revenue Account (HRA). Due to the ring-fence it is illegal for the Council to subsidise any General Fund (GF) activity from its HRA and vice versa.

5.2 The Treasury Management Strategy for 2013/14 was the first to incorporate the split of the Council's debt portfolio following the HRA debt settlement of March 2012 which ended the subsidy arrangement. Details of how the split was calculated and the corresponding effect on treasury management activities are at Appendix I.

5.3 The treasury position of the Council will continue to be monitored at a Council level alongside the separate positions for the GF and the HRA. The HRA is also limited in terms of the treasury activity it can undertake as any temporary borrowing or investing it requires or long-term borrowing will be through the GF. This ensures that the overall Council position is managed as effectively and efficiently as possible.

5.4 To reflect the fact that the HRA now has its own treasury position this report will mention where the HRA treasury strategy may be different to that of the GF. Where the Council strategy is mentioned this applies to both the GF and the HRA.

6 Current Portfolio Position

6.1 The forecast portfolio position for the end of the current financial year is shown below. Short term borrowing relates to temporary borrowing from other Local Authorities which was required to ensure cash liquidity during the COVID-19 pandemic that put significant strain on the availability of cash due to reduced income from business rates, council tax, and other forms of income, as reported in the Interim Report 2020/21 which went to Audit Committee on 10th of November 2020.

6.2 The Council's forecast treasury portfolio position at 31st March 2021 is:

Table 1	**Principal**			**Av Rate**
	GF £'m	HRA £'m	**Total £'m**	%
Long Term Borrowing				
PWLB	150.0	0.0	**150.0**	2.45
Market	336.8	61.9	**398.7**	4.48
Stock	0.9	0.0	**0.9**	4.00
SALIX	15.0	0.0	**15.0**	0.00
HCA	8.4	0.0	**8.4**	0.00
	511.1	61.9	**573.0**	
Short Term Borrowing				
Local Authorities	165.0	0.0	**165.0**	0.68
Other	11.1	0.0	**11.1**	0.60
	176.1	0.0	**176.1**	
Forecast Additional Borrowing[1]	20.0	0.0	**20.0**	
Gross Debt	707.2	61.9	**769.1**	2.96
External Investments	(12.0)	0.0	**(12.0)**	0.00
Internal Balances (GF/HRA)	51.1	(51.1)	**0**	0.00
Net Debt	**746.3**	**10.8**	**757.1**	
Capital Financing Requirement			1,700.6	
Gross Debt			769.1	
Internal Borrowing			**931.5**	

6.3 The Capital Financing Requirement measures an Authority's underlying need to borrow or finance by other long-term liabilities for a capital purpose. It

[1] Forecast additional borrowing is based on current forecasts at the end of December 2020 and is subject to change depending on changes in expenditure, income, and working capital.

represents the amount of capital expenditure that has not yet been resourced absolutely, whether at the point of spend (by capital receipts, capital grants/contributions or from revenue income), or over the longer term by prudent Minimum Revenue Provision (MRP) or voluntary application of capital receipts for debt repayment etc. Alternatively, it provides a figure for the capital expenditure incurred by the Council but not yet provided for.

6.4 The Capital Financing Requirement of the City Council as at 31st March 2021 is forecast to be c. £1,700.6m. The difference between this and the actual gross debt of the Council is c. £931.5m which is the amount of funding that the Council has internally borrowed or has been funded through credit arrangements. This is a reflection of the Council's ongoing treasury strategy of using internal cash to reduce the amount of borrowing required rather than holding this cash as investments.

6.5 In the current environment where the rate of interest on investments is significantly lower than that on borrowing and there are substantial counterparty risks, this has been a prudent approach and has provided value for money for the Council. Internal cash refers to cash surpluses which arise from the timing of receipts and payments.

6.6 As part of the reform of the HRA, on the 28th March 2012 the then DHCLG repaid all of the Council's Public Works Loan Board (PWLB) debt which had been gradually reduced over recent years by various housing stock transfers. Subsequently the HRA debt portfolio consists almost exclusively of market debt, the majority of which are Lender Option Borrower Option (LOBO) loans which have long-term maturity dates. Whilst this provides some stability for the Council as LOBOs are unlikely to be called in the near future due to the current and forecast market environment, it does mean that when seeking to take new debt the Council should consider diversifying the portfolio, not least to ensure a wider range of maturity dates.

6.7 The portfolio at 31st March 2021 includes Council Stock with a value of £0.9m. This Stock debt is attributable to the irredeemable class of stock where stockholders have not taken up the Council's redemption offer made in 2017/18.

7 Prospects for Interest Rates

7.1 The Council has appointed Link Asset Services as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. Appendix G draws together a number of current City forecasts for short term (Bank Rate) and longer fixed interest rates. The following gives Link's central view for interest rates at financial year ends (March):

- 2021: 0.10%
- 2022: 0.10%
- 2023: 0.10%

7.2 There is no certainty to these forecasts. A detailed view of the current economic background prepared by Link Asset Services is at Appendix F to this report.

7.3 The Council seeks to maintain a portfolio of debt and investments that is a mix of fixed and variable interest rates. Whilst fixed interest rates give the Council certainty, there is also a risk that prevailing market rates change and there are then opportunities to either increase the rate of return on investments or reduce the rate of interest on debt which could not be taken if the whole portfolio was fixed.

7.4 The Council's treasury management investments are classed as variable as the Council invests short term to enable the cash flow to be managed. In terms of debt, the Council has a significant portfolio of fixed rate debt, but as noted above a significant element of this is LOBO debt which means that there are risks that the interest rate on that debt could change. The Council monitors this position, including the likely use of the Lender Options, and will make future borrowing decisions with a view to keeping the debt portfolio balanced between fixed and variable debt.

8 Borrowing Requirement

8.1 The potential long-term borrowing requirements over the next three years are:

Table 2	**2021/22 £'m estimate**	**2022/23 £'m estimate**	**2023/24 £'m estimate**
Planned Capital Expenditure funded by Borrowing	258.5	205.9	100.4
Change in Grants & Contributions	45.7	48.4	0.0
Change in Capital Receipts	1.3	(24.3)	(34.8)
Change in Reserves	97.9	109.9	15.9
MRP Provision	(31.1)	(36.1)	(38.8)
Refinancing of maturing debt (GF)	196.0	7.7	3.1
Refinancing of maturing debt (HRA)	1.1	1.4	0.6
Estimated Borrowing Requirement	**569.4**	**312.9**	**46.4**
Funded by:			
GF	568.3	311.5	45.8
HRA	1.1	1.4	0.6

9 Borrowing Strategy

General Fund

9.1 Following the HRA debt settlement in 2012 the Council's debt position is one of significant internal borrowing meaning cash backed reserves and provisions are being used in lieu of external debt. The external debt held is predominantly long term in nature.

9.2 The proposed Capital Budget, submitted to Executive in February and Council in March, contains significant capital investment across the city. The scale of the investment suggests that the Council will need to undertake external borrowing in the future and will not be able on to rely on internal borrowing alone. Where possible, internal borrowing will remain the first option due to the interest savings generated.

9.3 To this aim, the Council's borrowing strategy will utilise the annual provision it is required to make to reduce debt, in the form of its Minimum Revenue Provision (MRP). If MRP is not used to reduce external debt it is held as cash so the most efficient arrangement is for MRP to be used to reduce the new long term debt expected to be required. This ensures that MRP is utilised and does not accumulate as cash on the Balance Sheet. Alternatively MRP could be used to repay existing debt but this would be at considerable cost in the current interest rate environment.

9.4 Beyond the forecast period for capital investment and matching to the same principles as above, a prudent strategy is to seek to borrow in the medium term with maturities to match the estimated MRP that is generated in the same period. This avoids an accumulation of cash on the Balance Sheet that would need to be invested at a potential net cost and investment risk to the Council.

9.5 The overall strategy is therefore for the Council to continue to use reserves and provisions to maximise internal borrowing whilst seeking to rebalance the portfolio with more medium term debt when there is a need to externally borrow. This must be done with a strong focus on achieving value for money on interest costs and balancing the risks to the overall debt portfolio.

HRA

9.6 The Council's proposed capital budget for 2020/21 and beyond does not contain any requirement for the HRA to borrow. It is expected that proposals will be brought forward that require funding via borrowing so it is likely the HRA will have a borrowing requirement in 2020/21. The level of borrowing affordable is restrained by the statutory requirement for the HRA Business Plan to avoid going into a deficit.

9.7 The impact of any required further long term borrowing on the Business Plan will be reviewed which will inform the borrowing options pursued. Any temporary borrowing required will be sought from the General Fund. This is discussed further in Appendix I.

9.8 Note, in the event that some of the current debt is required to be repaid, for example if one of the LOBO loans was called, the refinancing arrangements would need to be considered.

Borrowing Options

9.9 The overall forecast for the long term borrowing rates are to remain relatively stable in year 2021/22, increasing slightly over the next 3 years. In terms of the Council's borrowing strategy there are three options:

i. Internal borrowing
ii. Short to medium term borrowing
iii. Long term borrowing

Treasury Management will continue to monitor and manage the risk of each of the above borrowing options. At such time the Council will need to borrow, the debt market will be actively monitored and the borrowing strategy which delivers the optimum value for money will be chosen. The short-term advantage of internal and short-term borrowing will be weighed against the potential cost if long term borrowing is delayed.

9.10 New borrowing will be considered in the forms noted below. All options will be evaluated alongside their availability and which provides best value for money. The options below are not presented in a hierarchical order.

- **Public Works Loan Board (PWLB)**

In February 2020 Parliament reformed the statutory basis of the PWLB, transferring lending powers to HM Treasury. In March 2020 the government consulted on revising the PWLB's lending terms to reflect the new governance arrangements as well as to end the situation in which a minority of local authorities used PWLB loans to fund debt for yield activity via commercial investments. The government published its response to this consultation and implemented these reforms in November 2020.

Additional requirements to borrow from PWLB were introduced. Each local authority that wishes to borrow from the PWLB will need to submit a high-level description of their capital spending and financing plans for the following three years, including their expected use of the PWLB. Any investment assets bought primarily for yield will not be supported by PWLB.

Local Authorities will be asked to:

i. Categorise Capital Spending into: Service Spending, Housing, Regeneration, Preventative Action, Treasury Management, and Debt for Yield activity.
ii. Provide a short description covering at least 75% of the spending in each category.
iii. Provide assurance from the section 151 officer or equivalent that the local authority is not borrowing in advance of need and does not intend to buy investment assets primarily for yield.

PWLB borrowing is available between 1 and 50 year maturities on various bases. This offers a range of options for new borrowing which could spread debt maturities away from a concentration in longer dated debt and allow the Council to align maturities to MRP.

The Link forecast for the PWLB Certainty Rate is as follows:

Table 3	Mar 21	Jun 21	Sep 21	Dec 21	Mar 22	Mar 23	Mar 24
Bank Rate %	0.10	0.10	0.10	0.10	0.10	0.10	0.10
5 yr PWLB rate %	0.80	0.80	0.80	0.80	0.90	0.90	1.00
10 yr PWLB rate %	1.10	1.10	1.10	1.10	1.20	1.20	1.30
25 yr PWLB rate %	1.50	1.60	1.60	1.60	1.60	1.70	1.80
50 yr PWLB rate %	1.30	1.40	1.40	1.40	1.40	1.50	1.60

A more detailed Link forecast is included in Appendix G to this report.

- **European Investment Bank (EIB)**

Historically, the EIB rates for borrowing were generally favourable compared to PWLB although the margin of benefit has now reduced as a result of the U.K. withdrawing from the EU and the reversal of PWLB rates as described above. The Council still has access to EIB along with the option to forward fix rates for borrowing and this option will be considered if the conditions can be met and it offers better value for money.

The EIB appraises its funding plans against individual schemes, particularly around growth and employment and energy efficiency, and any monies borrowed are part of the Council's overall pooled borrowing.

- **Third Party Loans**

These are loans from third parties that are offered at lower than market rates, for example Salix Finance Ltd is offering loans to the public sector at 0% to be used specifically to improve their energy efficiency and reduce carbon emissions.

- **Inter-Local Authority advances**

Both short and medium term loans are often available in the inter Local Authority market.

- **Market Loans**

Following the reversal of the PWLB rates noted above, there has been a decrease in market activity relating to local authority debt as the debt pricing and structure offer less value for money compared to PWLB.

Market loans offer forward fixing which is not an option with PWLB, however as rates are forecast to remain relatively low over the next few years forward fixing brings marginal advantage.

- **Local Authority Bond Agency**

The UK Municipal Bonds Agency was established in June 2014 with the primary purpose of reducing local authority financing costs by:

- Issuing bonds in the capital markets and on-lending to councils.
- Lending between councils.
- Sourcing funding from 3rd party sources, and on-lending to councils.

The Agency's aim is to raise finance for Local Authorities by issuing municipal bonds to capital markets. At the time of writing the third bond issue for Warrington Council has been cancelled following the drop in PWLB rate as mentioned above. Only two other bonds of £350m and £250m for Lancashire County Council were issued. The Council will continue to monitor the Agency's development and whether it can offer a competitive option for future borrowing.

9.11 These types of borrowing will need to be evaluated alongside their availability, particularly whilst there is a very limited availability of traditional market loans. The traditional market loans available tend to be Lender Option Borrower Option (LOBO) loans and they are not currently offered at competitive rates of interest. LOBOs provide the lender with future options to increase the interest rate whilst the local authority has the option to repay if the increase in the rate is unacceptable to them.

9.12 Following HRA reform the vast majority of the Council's existing debt portfolio consists of LOBOs and the Authority needs to consider diversifying its loan book to reduce the impact of any volatility that may cause these loans to be called. It should be noted that the Council's current LOBO loans are unlikely to be called in the medium term at current interest rates.

Sensitivity of the forecast

9.13 In normal circumstances the main sensitivities are likely to be the two scenarios noted below. Council officers in conjunction with the treasury advisors will continually monitor the prevailing interest rates and the market forecast, adopting the following responses to a change of sentiment:

- **If it were felt that there was a significant risk of a sharp FALL in long and short term rates**, e.g. due to a marked increase of risks around relapse into recession or of risks of deflation then long term borrowings will be postponed.

- **If it were felt that there was a significant risk of a much sharper RISE in long and short term rates than that current forecast**, perhaps arising from a greater than expected increase in world economic activity or a sudden increase in inflation risks, the portfolio position will be re-appraised. The likely action will be that fixed rate funding will be drawn whilst interest rates remain relatively cheap.

External v. Internal borrowing

9.14 The current borrowing position reflects the historic strong Balance Sheet of the Council as highlighted in Section 6. The policy remains to keep cash as low as possible and minimise temporary investments.

9.15 The next financial year is again expected to be one of historically low Bank Rate. This provides a continuation of the opportunity for local authorities to review their strategy of undertaking new external borrowing. At Appendix F there is an in depth analysis of economic conditions provided by Link Asset Services, the Council's independent treasury advisors.

9.16 Over the next three years, investment rates are expected to be significantly below long term borrowing rates. This would indicate that value could best be obtained by limiting new external borrowing and by using internal cash balances to finance new capital expenditure or to replace maturing external debt.

9.17 This will be weighed against the potential for incurring additional long term costs by delaying new external borrowing until later years when longer term rates are forecast to be marginally higher. Consideration will also be given to forward fixing rates whilst rates are favourable.

9.18 Against this background caution will be adopted within 2021/22 treasury operations. The Deputy Chief Executive and City Treasurer will monitor the interest rate market and adopt a pragmatic approach to changing circumstances, reporting any decisions to the appropriate decision-making body at the next available opportunity.

Policy on borrowing in advance of need

9.19 From a statutory point of view a Local Authority has the power to invest for 'any purpose relevant to its functions under any enactment, or for the purposes of the prudent management of its financial affairs.' The MHCLG takes an informal view that local authorities should not borrow purely to invest at a profit. This does not prevent the Council temporarily investing funds borrowed for the purpose of expenditure in the reasonable near future.

9.20 This Council will not borrow in advance of need to on lend and profit from the difference in interest rate. Any decision to borrow in advance in support of strategic and service delivery objectives will be in the context of achieving the best overall value for money, for example to minimise the risk of borrowing costs increasing in the future and that the Council can ensure the security of such funds. In determining whether borrowing is undertaken in advance of need the Council will:

- ensure that there is a clear link between the capital programme and maturity profile of the existing debt profile which supports the need to take funding in advance of need;
- ensure the ongoing revenue liabilities created and implications for future plans and budget have been considered;
- evaluate the economic and market factors that might influence the manner and timing of any decision to borrow;
- consider the merits and demerits of alternative forms of funding;
- consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use; and
- consider the impact of borrowing in advance temporarily (until required to finance capital expenditure) increasing investment cash balances and the consequent increase in exposure to counterparty risk, and other risks, and the level of such risks given the controls in place to minimise them.

Forward Fixing

9.21 As noted above, the Council will give consideration to forward fixing debt, whereby the Council agrees to borrow at a point in the future at a rate based on current implied market interest rate forecasts. There is a risk that the interest rates proposed would be higher than current rates; however, it can be beneficial as it avoids the need to borrow in advance of need and suffer cost of carry. It may also represent a saving if rates were to rise in the future. Any decision to forward fix will be reviewed for value for money and will be reported to Members as part of the standard treasury management reporting.

Debt Rescheduling

9.22 It is likely that opportunities to reschedule debt in the 2021/22 financial year will be limited due to prevailing debt interest rates being relatively low.

9.23 As short term borrowing rates will be considerably cheaper than longer term rates, there may be some opportunity to generate savings by switching from long term debt to short term debt. These savings will need to be considered in the light of the premiums incurred and the likely cost of refinancing those short term loans once they mature compared to the current rates of longer term debt in the existing portfolio.

9.24 The debt portfolio following HRA reform consists mainly of LOBOs, and the premia for rescheduling these make it unlikely there will be a cost effective opportunity to reschedule. The premia relates to the future interest payments associated with the loan and compensation for the lender for the buy-back of the interest rate options the loan has embedded in it.

9.25 The Council will continue to monitor the LOBO market and opportunities to reschedule, redeem or alter the profile of existing LOBO debt. The reasons for any rescheduling to take place will include:

- the generation of cash savings and / or discounted cash flow savings;
- helping to fulfil the strategy outlined above in this section;
- enhancing the balance of the portfolio (amending the maturity profile and/or the balance of volatility)

9.26 Any restructuring of LOBOs will only be progressed if it provides value for money and reduces the overall treasury risk the Council faces. The Council's Constitution delegates to the Deputy Chief Executive and City Treasurer the authority to pursue any restructuring, rescheduling or redemption opportunities available.

9.27 Consideration will also be given to the potential for making savings by running down investment balances to repay debt prematurely. It is likely short term rates on investments will be lower than rates paid on current debt.

9.28 All rescheduling will be reported to the Executive as part of the normal treasury management activity. If rescheduling requires amendments to the

Treasury Management Strategy the Deputy Chief Executive and City Treasurer will be asked to approve them in accordance with the delegated powers accorded to the position and the changes will be reported to Members.

10 Annual Investment Strategy

HRA

10.1 In order to maintain efficient, effective and economic treasury management for the Council as a whole, the HRA will only be able to invest with the General Fund. This is discussed further in Appendix I.

General Fund

Introduction

10.2 The Council will have regard to the MHCLG's Guidance on Local Government Investments (the Guidance) and the 2011 and 2017 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes (the CIPFA TM Code). The Council's investment priorities are:

- The security of capital; and
- The liquidity of its investments.

10.3 The risk appetite of the Council is low in order to give priority to the security of its investments. The Council will aim to achieve the optimum return on its investments commensurate with desired levels of security and liquidity.

10.4 The borrowing of monies by an Authority purely to invest or on-lend and make a return is unlawful and this Council will not engage in such activity. However the Council may provide loan finance funded from borrowing if this supports the achievement of the Council's strategies and service objectives.

10.5 The Council's TMSS focusses solely on treasury management investments. The Council does not hold any commercial investments and details of strategic capital investments can be found in the Capital Strategy and Budget Report to the Executive.

Negative Investment Rates

10.6 In September 2020, the Bank of England said it is unlikely to introduce a negative Bank Rate in the next 6-12months, but recognises it as one of the tools available.

10.7 Negative rates have already been seen in the market specifically when placing cash with the Debt Management Office and the Money Market Funds. At the time of writing, the Treasury Management team managed to avoid investments with a negative rate of return.

10.8 Investing short term at a negative rate will remain to be the option of last resort. At such time this is no longer possible, alternative longer-term investments no greater than 364 days will be considered to ensure the delivery of value for money.

Investment Policy

10.9 The Council's investment policy is to manage the Council's cash flow through investments in high credit quality.

10.10 As in previous years, the Council will not just utilise ratings as 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. The Council will engage with its advisors to maintain a monitor on market pricing such as 'credit default swaps'[2] and overlay that information on top of the credit ratings.

10.11 Investment in banks and building societies are now exposed to bail-in risk following the introduction of the EU's Banking Recovery and Resolution Directive, which means depositor's funds over £85,000 are at risk of "bail-in" if the bank fails. In response to this, the Council adopted lower operational limits for such investments in 2016/17 and these remain.

10.12 The exception is the limit with Barclays bank; Barclays is the Council's main banker and is the investment destination of last resort for the close of daily trading. These revised limits are operational changes and to preserve flexibility should circumstances change the overall investment limits approved for banks and building societies for 2020/21 will be maintained in 2021/22.

10.13 In line with the policy adopted in this strategy in previous years, options to diversify the investment portfolio have been reviewed and adopted. The Council now actively uses money market funds alongside deposits with banks, other local authorities and the Debt Management Agency.

10.14 For 2021/22 the Council will continue to consider investing in Treasury Bills, Certificates of Deposit and Covered Bonds albeit at the time of writing the rates are not favourable. In addition to diversification each of these options offer the Council benefits which are noted in more detail below. These instruments require the Council to have specific custodian and broker facilities which have been opened. Officers are working to monitor these markets to prompt participation in the instruments when rates are favourable, and to identify and resolve any governance challenges arising from investing in instruments which have an active secondary market. Work is continuing to open further access points to markets and to identify opportunities for benefit which are new to the Council.

[2] A credit default swap is a financial instrument that effectively provides the holder insurance against a loan defaulting. The CDS spread is the difference between the price at which providers are willing to sell the swap, and the price at which buyers are willing to buy. A relatively high spread may suggest that the loan is more likely to default.

10.15 It should be noted that, whilst seeking to broaden the investment base officers will seek to limit the level of risk taken. It is not expected that the measures considered above will have a significant impact on the rates of return the Council currently achieves.

Specified and Non-Specified Investments

10.16 Investment instruments identified for use in the financial year are listed below and are all specified investments. Any proposals to use other non-specified investments will be reported to Members for approval.

10.17 Specified investments are sterling denominated, with maturities up to a maximum of one year and meet the minimum ‘high’ rating criteria where applicable. Further details about some of the specified investments below can be found in later paragraphs in this Section.

Table 4	**Minimum ‘High’ Credit Criteria**	**Use**
Term deposits – banks and building societies[3]	See Creditworthiness Policy.	In-house
Term deposits – other Local Authorities	High security. Only few local authorities credit-rated	In-house
Debt Management Agency Deposit Facility	UK Government backed	In-house
Certificates of deposit issued by banks and building societies covered by UK Government guarantees	UK Government explicit guarantee	In-house
Money Market Funds (MMFs)	AAA	In-house
Treasury Bills	UK Government backed	In-house
Covered Bonds	AAA	In-house

Creditworthiness Policy

10.18 The Council applies the creditworthiness service provided by Link Asset Services. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies; Fitch, Moody’s and Standard & Poor’s. Link supplement the credit ratings of counterparties with the following overlays:

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[3] Banks & Building Societies

The Council will keep the investment balance below or at the maximum limit based on the institutions credit rating as detailed in paragraph 10.21-10.22. If this limit is breached, for example due to significant late receipts, the Deputy Chief Executive and City Treasurer will be notified as soon as possible after the breach, along with the reasons for it. Please note this relates to specific investments and not balances held within the Council’s bank accounts, including the general bank account.

- credit watches and credit outlooks from credit rating agencies
- Credit Default Swap spreads to provide early warning of likely changes in credit ratings
- sovereign ratings to select counterparties from only the most creditworthy countries

10.19 The above are combined in a weighted scoring system which is then combined with an overlay of CDS spreads. The end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties.

10.20 The Council has regard to Link's approach to assessing creditworthiness when selecting counterparties as it uses a wider array of information than just primary ratings and by using a risk weighted scoring system does not give undue prominence to just one agency's ratings.

10.21 In summary the Council will approach assessment of creditworthiness by using the Link counterparty list and then applying its own counterparty limits and durations. All credit ratings will be monitored on a daily basis and re-assessed weekly. The Council is alerted to changes to ratings of all three agencies through its use of the Link creditworthiness service.

- if a downgrade results in the counterparty/investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
- in addition to the use of Credit Ratings, the Council will be advised of information in Credit Default Swap against the iTraxx benchmark[4] and other market data on a weekly basis. Extreme market movements may result in the downgrade of an institution or removal from the Council's lending list.

10.22 Sole reliance will not be placed on the use of this external service. In addition the Council will also use market data and market information, information on government support for banks and the credit ratings of that government support.

Investment Limits

10.23 In applying the creditworthiness policy the Council holds the security of investments as the key consideration and will only seek to make treasury investments with counterparties of high credit quality.

10.24 The financial investment limits of financial institutions will be linked to their short and long-term ratings (Fitch or equivalent) as follows:

[4] The Markit iTraxx Senior Financials Index is a composite of the 25 most liquid financial entities in Europe. The index is calculated through an averaging process by the Markit Group and is used as the benchmark level of CDS spreads on Link Asset Services' Credit List.

Long Term	Amount
Fitch AA+ and above	£20 million
Fitch AA/AA-	£15 million
Fitch A+/A	£15 million
Fitch A-	£10 million
Fitch BBB+	£10 million

The Council will only utilise those institutions that have a short term rating of F2 or higher, (Fitch or equivalent).

UK Government (including the Debt Management Office)	£200 million
Greater Manchester Combined Authority	£200 million
Other Local Authorities	£20 million

10.25 In seeking to diversify the Council will utilise other investment types which are described in more detail below and ensure that the investment portfolio is mixed to help mitigate credit risk. The following limits will apply to each asset type:

Total Deposit	**Amount**
Local Authorities	£250 million
UK Government - Debt Management Office - Treasury Bills	£200 million
Money Market Funds	£75 million
Certificates of Deposit	£25 million
Covered Bonds	£25 million

10.26 It may be prudent to temporarily increase the limits shown above, as in the current economic environment it is increasingly difficult for officers to place funds. If this is the case officers will seek approval from the Deputy Chief Executive and City Treasurer and any increase in the limits will be reported to Members through the normal treasury management reporting process.

Durational Limits

10.27 Operationally the Council has in recent years not invested cash for more than three months, which was a product of security concerns following the financial crisis of 2008/09 and the relatively volatile nature of the Council's cash flow.

10.28 The financial markets have changed significantly since 2008/09, and the transparency of creditworthiness has improved. It is therefore proposed that the Council formally states, as part of the Investment Strategy, that it will invest for up to 364 days provided that such investments form part of the management of the cash flow and not for increased yield. On this basis, such investments will only be made if the cash flow forecast at the time indicates a level of "core" cash which will not be required for the investment period.

10.29 As noted in the latest Treasury Management Interim Report 2020/21, negative rates are already being seen in the markets. At such time these negative rates will impact the Council’s short-term investments, alternative longer-term deposits will be necessary in order to protect the overall value for money.

Money Market Funds

10.30 The removal of the implied levels of sovereign support that were built into ratings throughout the financial crisis has impacted on bank and building society ratings across the world. Rating downgrades can limit the number of counterparties available and to provide flexibility the Council will use MMFs when appropriate as an alternative specified investment.

10.31 MMFs are investment instruments that invest in a variety of institutions therefore diversifying the investment risk. The funds are managed by a fund manager and have objectives to preserve capital, provide daily liquidity and a competitive yield. The majority of money market funds invest both inside and outside the UK. MMFs also provide flexibility as investments and withdrawals can be made on a daily basis.

10.32 MMFs are rated through a separate process to bank deposits. This looks at the average maturity of the underlying investments in the Fund as well as the credit quality of those investments. The Council will only use MMFs where the institutions hold the highest AAA credit rating and those which are UK or European based.

10.33 As with all investments there is some risk with MMFs in terms of the capital value of the investment. European legislation has required existing and new Constant Net Asset Value MMFs to convert to a Low Volatility Net Asset Value (LVNAV) basis by January 2019. This basis allows movements in capital value, but there is a restriction that the deviation cannot be more than 20 basis points, e.g. on a deposit of £100 the Fund must ensure withdrawal proceeds are no greater than +/- 20p.

10.34 There is ever growing pressure the MMFs will generate negative returns. Partly because the markets are oversaturated with cash and partly because there is a lack of demand for cash as a result of uncertainties around how the world economies will continue to deal with the COVID-19 Pandemic as well as how the economies will manage post the end of the transition period. At the time of writing this report, negative rates have already been seen in MMFs, however Treasury Management has agreed with fund managers to waive administration fees for as long as possible in order to maintain a positive return. At such time, the waiving of fees is not possible alternative longer-term investments will be chosen.

Treasury Bills

10.35 Treasury Bills are marketable securities issued by the UK Government and counterparty and liquidity risk is relatively low although there is potential risk to value arising from an adverse movement in interest rates unless they are held to maturity.

10.36 At the time of writing this report, Treasury Bills were yielding a negative return. Efforts to use Treasury Bills have been put on hold until the securities are once again yielding a higher than market average return.

Certificates of Deposit

10.37 Certificates of Deposit are short dated marketable securities issued by financial institutions so the counterparty risk is low. The instruments have flexible maturity dates so it is possible to trade them in early although there is a potential risk to capital if they are traded ahead of maturity and there is an adverse movement in interest rates. Certificates of Deposit are subject to bail-in risk as they are given the same priority as fixed deposits if a bank was to default. The Council will only deal with Certificates of Deposit that are issued by banks and meet the credit criteria.

Covered Bonds

10.38 Covered Bonds are debt instruments secured by assets such as mortgage loans. They are issued by banks and other non-financial institutions. The loans remain on the issuing institutions' Balance Sheet and investors have a preferential claim in the event of the issuing institution defaulting. All issuing institutions are required to hold sufficient assets to cover the claims of all covered bondholders. The Council would only deal with bonds that are issued by banks which meet the credit criteria, or AAA rated institutions, (e.g. insurance companies).

Liquidity

10.39 Based on cash flow forecasts, the level of cash balances in 2021/22 is estimated to range between £0m and £230m. The higher level can arise where for instance large Government grants are received or long term borrowing has recently been undertaken.

Investment Strategy to be followed in-house

10.40 Link's view of the forecast Bank Rate is noted at Section 9. The current economic
outlook is that the structure of market interest rates and government debt yields have several key treasury management implications.

10.41 At the time of writing this report a trade deal has been agreed between the UK and the EU. Following the COVID-19 Pandemic, the Bank Rate is forecast to remain constant over the next few years. Link's view is that the Bank Rate will remain at 0.10% by March 2021. This suggests that investment returns are likely to remain low during 2021/22, and beyond given the global economic outlook.

10.42 There will remain a cost of carry to any new borrowing which causes an increase in investments as this will incur a revenue loss between borrowing costs and investment returns.

10.43 The Council will avoid locking into longer term deals while investment rates are at historically low levels unless attractive rates are available with counterparties of particularly high creditworthiness which make longer term deals worthwhile and within the risk parameters set by the Council.

10.44 For 2021/22 it is suggested the Council should target an investment return of 0% to 0.05% on investments placed during the financial year. For cash flow generated balances the Council will seek to utilise its business reserve accounts and short-dated deposits (overnight to six months) in order to benefit from the compounding of interest.

10.45 The Bank of England and the Financial Conduct Authority (FCA) are committed to phasing out LIBOR before the end of 2021. To date the Council has used LIBOR as a benchmark rate for investments and temporary borrowing. The Bank of England formed the Risk Free Rate Working Group which recommended a reformed Sterling Overnight Index Average (SONIA) as the alternative unsecured risk - free rate for the Pound Sterling (GBP) LIBOR Market. SONIA is based on actual transactions and reflects the average of the interest rates that banks pay to borrow sterling overnight from other financial institutions and other investors. Treasury Management will therefore adopt the use of SONIA as a benchmark rate moving forward.

10.46 The SONIA rate will also be applied to any transfer rates between the General Fund and the HRA, further details are outlined in Appendix I. Treasury Management will apply mitigating changes to the transfer rates if the benchmark rates were to go into negative territory.

End of year Investment Report

10.47 At the end of the financial year, the Council will receive a report on investment activity as part of the Annual Treasury Management Report.

Policy on the use of External Service Providers

10.48 The Council uses Link Asset Services as external treasury management advisors and has access to another provider who is an approved supplier should a second opinion or additional work be required. The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon its external service providers.

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

11 Scheme of Delegation

11.1 Appendix D describes the responsibilities of Member groups and officers in relation to treasury management.

12 Role of the Section 151 Officer

12.1 Appendix E notes the definition of the role of the Deputy Chief Executive and City Treasurer in relation to treasury management.

13 Minimum Revenue Provision (MRP) Strategy

13.1 Appendix B contains the Council's policy for spreading capital expenditure charges to revenue through the annual MRP charge.

14 Recommendations

14.1 Please see the start of the report for the list of recommendations.

15 Contributing to a Zero-Carbon City

15.1 Treasury Management activity underpins the Council's finances, and therefore supports projects and initiatives which seek to achieve the Council's zero carbon target.

16 Contributing to the Our Manchester Strategy

16.1 The Treasury Management function supports the whole Council by seeking to ensure that funding is available when required, to fund all of the work that the Council undertakes. Therefore, whilst not directly contributing to the strategic aims, the Council's treasury management activity underpins the work taking place elsewhere to achieve the outcomes.

17 Key Policies and Considerations

(a) Equal Opportunities

17.1 None.

(b) Risk Management

17.2 CIPFA's Prudential and Treasury Management Codes provide the risk management framework within which the treasury management activities of the Council operate. The Strategy should be seen as the Council's approach to this framework.

(c) Legal Considerations

17.3 None.

Appendix A
Prudential and Treasury Indicators for approval

Please note last years approved figures are shown in brackets.

Treasury Management Indicators	2021-22		2022-23		2023-24
	%		%		%
Estimated Financing Costs to Net Revenue Stream[5]	6.2%		6.4%		6.2%
	£m		£m		£m
Authorised Limit - external debt					
Borrowing	1,711.6	(1,384.5)	1,737.3	(1,396.2)	1,737.3
Other long term liabilities	190.0	(190.0)	190.0	(190.0)	190.0
TOTAL	1,901.6	(1,574.5)	1,927.3	(1,586.2)	1,927.3
Operational Boundary - external debt					
Borrowing	1,350.3	(1,006.2)	1,591.5	(1,176.9)	1,626.3
Other long term liabilities	190.0	(190)	190.0	(190.0)	190.0
TOTAL	1,540.3	(1,196.2)	1,781.5	(1,366.9)	1,816.3
Estimated external debt	1,142.4	(792.8)	1,454.3	(1,016.4)	1,501.8
Upper limit for total principal sums invested for over 364 days	0	(0)	0	(0)	0
Estimated Capital Expenditure					
Non - HRA	439.4	(339.6)	286.3	(260.2)	131.9
HRA	40.2	(38.8)	45.5	(28.6)	3.2
TOTAL	479.6	(378.4)	331.8	(288.8)	135.1
Estimated Capital Financing Requirement (as at 31 March)					
Non – HRA	1,626.3	(1,543.1)	1,792.1	(1,706.5)	1,849.6
HRA	300.0	(299.2)	301.0	(300.0)	301.8
TOTAL	1,926.3	(1,842.3)	2,093.1	(2,006.5)	2,151.4

[5] Note that for 2021-22 onward these are based on estimated net revenue budgets.

Maturity structure of borrowing during 2021-22	Upper Limit		Lower limit	
under 12 months	80%	(80%)	0%	(0%)
12 months and within 24 months	80%	(70%)	0%	(0%)
24 months and within 5 years	70%	(60%)	0%	(0%)
5 years and within 10 years	70%	(50%)	0%	(0%)
10 years and above	90%	(80%)	20%	(40%)
Has the Authority adopted the CIPFA Treasury Management Code?				Yes

The status of the indicators will be included in Treasury Management reporting during 2021/22. They will also be included in the Council's Capital Budget monitoring reports during 2021/22.

Definitions and Purpose of the Treasury Management Indicators noted above (Indicators are as recommended by the CIPFA Prudential Code last revised in 2017)

Estimated Financing Costs to Net Revenue Stream

The authority will set for the forthcoming year and the following financial years an estimate of financing costs to net revenue stream. The indicator recognises that ultimately all debts of a local authority fall on the taxpayer, and that therefore when considering affordability it is important to review the scale of financing costs to net revenue.

Estimated Capital Expenditure

The authority sets a capital budget for each financial year, which includes an estimate of the capital expenditure which might be incurred. The figures here also include changes to other long term liabilities.

Estimates Capital Financing Requirement

The capital financing requirement reflects the authority's underlying need to finance capital expenditure, and is based on all capital expenditure including that incurred in previous years.

Authorised Limit - external debt

The local authority will set for the forthcoming financial year and the following two financial years an authorised limit for its total external debt, excluding investments, separately identifying borrowing from other long-term liabilities. Other long term liabilities include PFI's, service concessions and finance leases. Due to the introduction of IFRS16 (Leasing) on the 1st of April 2020, more of the Council's lessee leases will be classed as finance leases and will therefore fall under the categorisation, therefore the value has increased from previous years. Work is underway to determine the value of this change in accounting standards, but £20.0m has been added to the indicator at this stage, and will be reviewed once this work is complete. This prudential indicator is referred to as the Authorised Limit.

Operational Boundary - external debt

The local authority will also set for the forthcoming financial year and the following two financial years an operational boundary for its total external debt, excluding investments, separately identifying borrowing from other long-term liabilities. This prudential indicator is referred to as the Operational Boundary.

Both the Authorised Limit and the Operational Boundary need to be consistent with the authority's plans for capital expenditure and financing; and with its treasury management policy statement and practices. The Operational Boundary should be based on the authority's estimate of most likely, i.e. prudent, but not worst case scenario. Risk analysis and risk management strategies should be taken into account.

The Operational Boundary should equate to the maximum level of external debt projected by this estimate. Thus, the Operational Boundary links directly to the Authority's plans for capital expenditure; its estimates of capital financing requirement; and its estimate of cash flow requirements for the year for all purposes. The Operational Boundary is a key management tool for in-year monitoring.

It will probably not be significant if the Operational Boundary is breached temporarily on occasions due to variations in cash flow. However, a sustained or regular trend above the Operational Boundary would be significant and should lead to further investigation and action as appropriate. Thus, both the Operational Boundary and the Authorised Limit will be based on the authority's plans. The authority will need to assure itself that these plans are affordable and prudent. The Authorised Limit will in addition need to provide headroom over and above the Operational Boundary sufficient for example for unusual cash movements.

Estimated external debt

After the year end, the closing balance for actual gross borrowing plus (separately), other long-term liabilities is obtained directly from the local authority's Balance Sheet.

The prudential indicator for Estimated External Debt considers a single point in time and hence is only directly comparable to the Authorised Limit and Operational Boundary at that point in time. Actual external debt during the year can be compared.

Upper limit for total principal sums invested for over 364 days

The authority will set an upper limit for each forward financial year period for the maturing of investments made for a period longer than 364 days. This indicator is referred to as the prudential limit for Principal Sums Invested for periods longer than 364 days.

The purpose of this indicator is so the authority can contain its exposure to the possibility of loss that might arise as a result of its having to seek early repayment or redemption of principal sums invested.

Maturity structure of new borrowing

The authority will set for the forthcoming financial year both upper and lower limits with respect to the maturity structure of its borrowing. These indicators are referred to as the Upper and Lower limits respectively for the Maturity Structure of Borrowing.

Local Prudential Indicators

The Council has not yet introduced Local Prudential Indicators to reflect local circumstances, but will review on a regular basis the need for these in the future.

Appendix B

Minimum Revenue Provision Strategy

The Council implemented the new Minimum Revenue Provision (MRP) guidance in 2011/12 and has assessed its MRP for 2021/22 in accordance with the main recommendations contained within the guidance issued by the Secretary of State under section 21(1A) of the Local Government Act 2003.

The Council is required to make provision for repayment of an element of the accumulated General Fund capital spend each year through a revenue charge (the Minimum Revenue Provision - MRP).

MHCLG Regulations require full Council to approve an MRP Statement, in advance of each year. If the Council wishes to amend its policy during the year this would need to be approved by full Council. A variety of options are available to councils to replace the previous Regulations, so long as there is a prudent provision. The options are:

- ***Option 1:*** Regulatory Method – can only be applied to capital expenditure incurred prior to April 2008 or Supported Capital Expenditure. This is calculated as 4% of the non-housing CFR at the end of the preceding financial year, less some transitional factors relating to the movement to the new Prudential Code in 2003.

- ***Option 2:*** CFR Method – a provision equal to 4% of the non-housing CFR at the end of the preceding financial year.

- ***Option 3:*** Asset Life Method – MRP is calculated based on the life of the asset, on either an equal instalment or an annuity basis.

- ***Option 4:*** Depreciation Method – MRP is calculated in accordance with the depreciation accounting required for the asset.

Options 1 and 2 may be used only for supported expenditure, which is capital expenditure for which the Council has been notified by Government that the costs of that expenditure will be taken into account in the calculation of Government funding due to the Council.

It is important to note that the Council can deviate from these options provided that the approach taken ensures that there is a prudent provision. The Council has historically followed option 1 for supported expenditure based on the level of support provided by Government through Revenue Support Grant (RSG).

The assets created or acquired under Supported Capital Expenditure predominantly had long asset lives of c. 50 years, such as land or buildings, and an MRP of 4% suggests a significantly shorter asset life. As the level of notional RSG the Council receives has reduced in recent years, it was considered prudent to review the approach to MRP on supported borrowing to reflect the Government support received.

It was therefore agreed that from 2017/18 a provision of 2% of the non-housing CFR as at the end of the preceding financial year is to be made. This is in line with many other local authorities who have reviewed the basis for their MRP and have applied similarly revised policies.

It is the Council's policy that MRP relating to an asset will start to be incurred in the year after the capital expenditure on the asset is incurred or, in the case of new assets, in the year following the asset coming into use, in accordance with MHCLG's guidance.

The Council recognises that there are different categories of capital expenditure, for which it will incur MRP as follows:

- For non HRA Supported Capital Expenditure: MRP policy will be charged at a rate of 2% on a similar basis to option 1 of the guidance (the regulatory method) but at a lower rate, better reflecting the asset lives of the assets funded through Supported Borrowing.

- For non HRA unsupported capital expenditure incurred the MRP policy will be:
    - Asset Life Method – MRP will be based on a straight line basis or annuity method so linking the MRP to the future flow of benefits from the asset, dependant on the nature of the capital expenditure, in accordance with option 3 of the guidance.

    - If the expenditure is capital by virtue of a Ministerial direction, has been capitalised under a Capitalisation Directive, or does not create a council asset, MRP will be provided in accordance with option 3 of the guidance with asset lives calculated as per the table below:

Expenditure type	**Maximum period over which MRP to be made**
Expenditure capitalised by virtue of a direction under s16 (2) (b).	20 years.
Regulation 25(1) (a). Expenditure on computer programs.	Same period as for computer hardware.
Regulation 25(1) (b). Loans and grants towards capital expenditure by third parties.	The estimated life of the assets in relation to which the third party expenditure is incurred.
Regulation 25(1) (c). Repayment of grants and loans for capital expenditure.	25 years or the period of the loan if longer.
Regulation 25(1) (d). Acquisition of share or loan capital.	20 years, or the estimated life of the asset acquired.
Regulation 25(1) (e). Expenditure on works to assets not owned by the authority.	The estimated life of the assets.
Regulation 25(1) (ea). Expenditure on assets for use by others.	The estimated life of the assets.

Regulation 25(1) (f). Payment of levy on Large Scale Voluntary Transfers (LSVTs) of dwellings.	25 years.

- For PFI service concessions and some lessee interests: Following the move to International Accounting Standards arrangements under private finance initiatives (PFIs) service concessions and some lessee interests (including embedded leases) are accounted for on the Council's Balance Sheet, and with the introduction of IFRS16 (Leasing) from the 1st of April 2021 more lessee leases will be classified in a similar way. Where this occurs, a part of the contract charge or rent payable will be taken to reduce the Balance Sheet liability rather than being charged as revenue expenditure. The MRP element of these schemes will be the amount of contract charge or rental payment charged against the Balance Sheet liability. This approach will produce an MRP charge comparable to that under option 3 in that it will run over the life of the lease or PFI scheme.

In some exceptional cases, the Council will deviate from the policy laid out above provided such exceptions remain prudent. Any exceptions are listed below:

- Where capital expenditure is incurred through providing loans to organisations, and where those loans are indemnified or have financial guarantees protecting against loss from a third party of high credit quality, no MRP will be charged in relation to the capital expenditure. Similarly, loans given by the Council where any losses incurred on the investment will impact solely on a third party, such as those provided under the City Deal arrangement with the HCA, will not require an MRP charge.

Appendix C

Treasury Management Policy Statement

1. This organisation defines its treasury management activities as:
   The management of the organisation's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.

2. This organisation regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.

3. This organisation acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

The Council will invest its monies prudently, considering security first, liquidity second, and yield last, carefully considering its investment counterparties. It will similarly borrow monies prudently and consistent with the Council's service objectives.

Appendix D

Treasury Management Scheme of Delegation

i **Full Council**

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

ii **Responsible body – Audit Committee**

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

iii **Body with responsibility for scrutiny** - Resource and Governance Scrutiny Committee

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

iv **Deputy Chief Executive and City Treasurer**

- delivery of the function

Appendix E

The Treasury Management role of the Section 151 Officer

The S151 (responsible) Officer

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

The points noted above reflect the specific responsibilities of the S151 Officer prior to the 2017 CIPFA Treasury Management Code revisions. The CIPFA Prudential Code revision which followed the MHCLG revised guidance on local government investments represents a major extension of the functions of the S151 Officer role, especially in respect of non-financial investments which CIPFA define as being part of treasury management.

The additional functions of the S151 Officer role are:

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

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

Appendix F

Economic Background December 2020 – Link Asset Services

This section has been prepared by the Council's Treasury Advisors, Link Asset Services, for the Treasury Management Strategy Statement 2021/22.

- **UK.** The key quarterly meeting of the Bank of England Monetary Policy Committee kept **Bank Rate** unchanged on 5.11.20. However, it revised its economic forecasts to take account of a second national lockdown from 5.11.20 to 2.12.20 which is obviously going to put back economic recovery and do further damage to the economy. It therefore decided to do a further tranche of **quantitative easing (QE) of £150bn**, to start in January when the current programme of £300bn of QE, announced in March to June, runs out. It did this so that "announcing further asset purchases now should support the economy and help to ensure the unavoidable near-term slowdown in activity was not amplified by a tightening in monetary conditions that could slow the return of inflation to the target".
- Its forecasts appeared, at that time, to be rather optimistic in terms of three areas:
    - The economy would recover to reach its pre-pandemic level in Q1 2022
    - The Bank also expected there to be excess demand in the economy by Q4 2022.
    - CPI inflation was therefore projected to be a bit above its 2% target by the start of 2023 and the "inflation risks were judged to be balanced".
- Significantly, there was no mention of **negative interest rates** in the minutes or Monetary Policy Report, suggesting that the MPC remains some way from being persuaded of the case for such a policy, at least for the next 6 -12 months. However, rather than saying that it "stands ready to adjust monetary policy", the MPC this time said that it will take "whatever additional action was necessary to achieve its remit". The latter seems stronger and wider and may indicate the Bank's willingness to embrace new tools.
- One key addition to **the Bank's forward guidance in August** was a new phrase in the policy statement, namely that "it does not intend to tighten monetary policy until there is clear evidence that significant progress is being made in eliminating spare capacity and achieving the 2% target sustainably". That seems designed to say, in effect, that even if inflation rises to 2% in a couple of years' time, do not expect any action from the MPC to raise Bank Rate – until they can clearly see that level of inflation is going to be persistently above target if it takes no action to raise Bank Rate. Our Bank Rate forecast currently shows no increase, (or decrease), through to quarter 1 2024 but there could well be no increase during the next five years as it will take some years to eliminate spare capacity in the economy, and therefore for inflationary pressures to rise to cause the MPC concern. **Inflation** is expected to briefly peak at just over 2% towards the end of 2021, but this is a temporary short lived factor and so not a concern.
- However, the minutes did contain several references to **downside risks**. The MPC reiterated that the "recovery would take time, and the risks around the GDP projection were judged to be skewed to the downside". It also said "the risk of a

more persistent period of elevated unemployment remained material”. Downside risks could well include severe restrictions remaining in place in some form during the rest of December and most of January too. **Upside risks** included the early roll out of effective vaccines.

- **COVID-19 vaccines.** We had been waiting expectantly for news that various COVID-19 vaccines would be cleared as being safe and effective for administering to the general public. The Pfizer announcement on 9th November was very encouraging as its 90% effectiveness was much higher than the 50-60% rate of effectiveness of flu vaccines which might otherwise have been expected. However, this vaccine has demanding cold storage requirements of minus 70c that impairs the speed of application to the general population. It has therefore been particularly welcome that the Oxford University/AstraZeneca vaccine has now also been approved which is much cheaper and only requires fridge temperatures for storage. The Government has 60m doses on order and is aiming to vaccinate at a rate of 2m people per week starting in January, though this rate is currently restricted by a bottleneck on vaccine production; (a new UK production facility is due to be completed in June).

- These announcements, plus expected further announcements that other vaccines could be approved soon, have enormously boosted confidence that **life could largely return to normal during the second half of 2021**, with activity in the still-depressed sectors like restaurants, travel and hotels returning to their pre-pandemic levels; this would help to bring the unemployment rate down. With the household saving rate having been exceptionally high since the first lockdown in March, there is plenty of pent-up demand and purchasing power stored up for these services. A comprehensive roll-out of vaccines might take into late 2021 to fully complete; but if these vaccines prove to be highly effective, then there is a possibility that restrictions could start to be eased, beginning possibly in Q2 2021 once vulnerable people and front-line workers have been vaccinated. At that point, there would be less reason to fear that hospitals could become overwhelmed any more. Effective vaccines would radically improve the economic outlook once they have been widely administered; it may allow GDP to rise to its pre-virus level a year earlier than otherwise and mean that the unemployment rate peaks at 7% in 2021 instead of 9%.

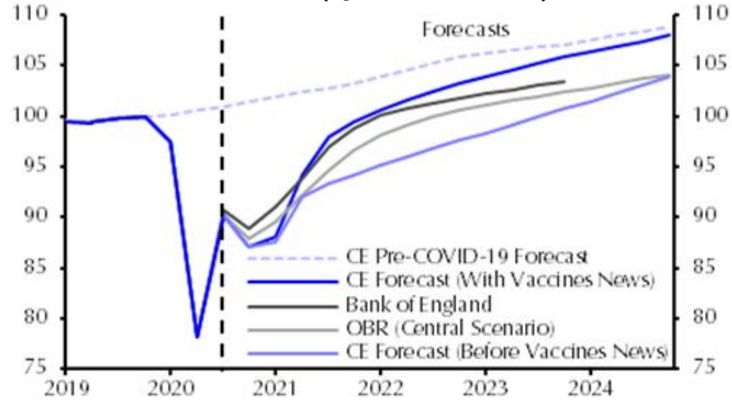
- **Public borrowing** was forecast in November by the Office for Budget Responsibility (the OBR) to reach £394bn in the current financial year, the highest ever peace time deficit and equivalent to 19% of GDP. In normal times, such an increase in total gilt issuance would lead to a rise in gilt yields, and so PWLB rates. However, the QE done by the Bank of England has depressed gilt yields to historic low levels, (as has similarly occurred with QE and debt issued in the US, the EU and Japan). This means that new UK debt being issued, and this is being done across the whole yield curve in all maturities, is locking in those historic low levels through until maturity. In addition, the UK has one of the longest average maturities for its entire debt portfolio, of any country in the world. Overall, this means that the total interest bill paid by the Government is manageable despite the huge increase in the total amount of debt. The OBR was also forecasting that the government will still be running a budget deficit of £102bn (3.9% of GDP) by

2025/26. However, initial impressions are that they have taken a pessimistic view of the impact that vaccines could make in the speed of economic recovery.

- Overall, **the pace of recovery** was not expected to be in the form of a rapid V shape, but a more elongated and prolonged one. The initial recovery was sharp after quarter 1 saw growth at -3.0% followed by -18.8% in quarter 2 and then an upswing of +16.0% in quarter 3; this still left the economy 8.6% smaller than in Q4 2019. It is likely that the one month national lockdown that started on 5th November, will have caused a further contraction of 8% m/m in November so the economy may have then been 14% below its pre-crisis level.

- **December 2020 / January 2021**. Since then, there has been rapid back-tracking on easing restrictions due to the spread of a new mutation of the virus, and severe restrictions were imposed across all four nations. These restrictions were changed on 5.1.21 to national lockdowns of various initial lengths in each of the four nations as the NHS was under extreme pressure. It is now likely that wide swathes of the UK will remain under these new restrictions for some months; this means that the near-term outlook for the economy is grim. However, the distribution of vaccines and the expected consequent removal of COVID-19 restrictions, should allow GDP to rebound rapidly in the second half of 2021 so that the economy could climb back to its pre-pandemic peak as soon as late in 2022. Provided that both monetary and fiscal policy are kept loose for a few years yet, then it is still possible that in the second half of this decade, the economy may be no smaller than it would have been if COVID-19 never happened. The significant caveat is if another mutation of COVID-19 appears that defeats the current batch of vaccines. However, now that science and technology have caught up with understanding this virus, new vaccines ought to be able to be developed more quickly to counter such a development and vaccine production facilities are being ramped up around the world.

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



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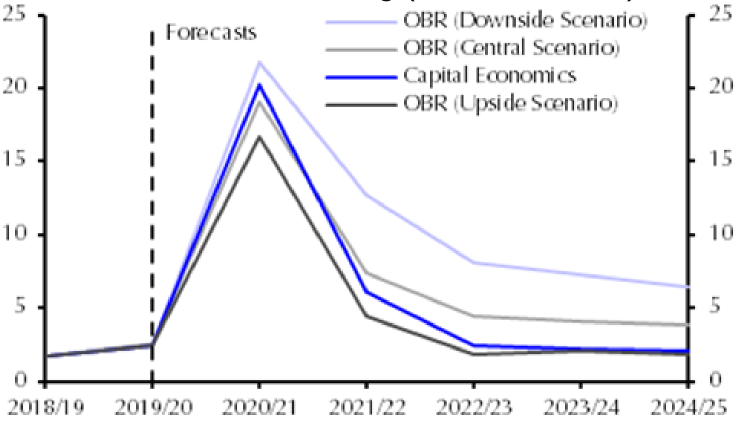
This recovery of growth which eliminates the effects of the pandemic by about the middle of the decade would have major repercussions for public finances as it would be consistent with the government deficit falling to around 2.5% of GDP without any tax increases. This would be in line with the OBR’s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

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



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

- **Brexit.** While the UK has been gripped by the long running saga of whether or not a deal would be made by 31.12.20, the final agreement on 24.12.20, followed by ratification by Parliament and all 27 EU countries in the following week, has eliminated a significant downside risk for the UK economy. The initial agreement only covers trade so there is further work to be done on the services sector where temporary equivalence has been granted in both directions between the UK and EU; that now needs to be formalised on a permanent basis. As the forecasts in this report were based on an assumption of a Brexit agreement being reached, there is no need to amend these forecasts.

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

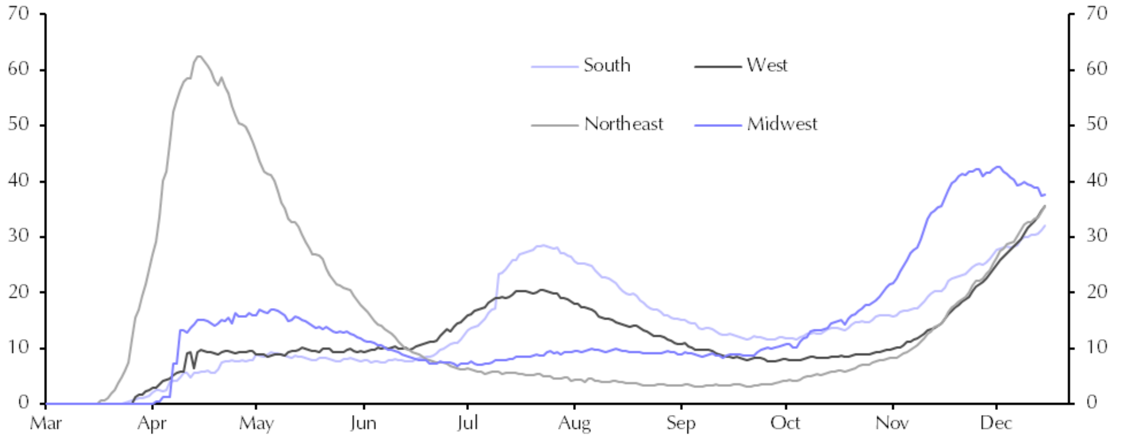
- **Fiscal policy.** In the same week as the MPC meeting, the Chancellor made a series of announcements to provide further support to the economy: -
  - An extension of the COVID-19 loan schemes from the end of January 2021 to the end of March.
  - The furlough scheme was lengthened from the end of March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

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

- **US.** The result of **the November elections** meant that while the Democrats gained the presidency and a majority in the House of Representatives, it looks as if the Republicans could retain their slim majority in the Senate provided they keep hold of two key seats in Georgia in elections in early January. If those two seats do swing to the Democrats, they will then control both Houses and President Biden will consequently have a free hand to determine policy and to implement his election manifesto.

- **The economy** had been recovering quite strongly from its contraction in 2020 of 10.2% due to the pandemic with GDP only 3.5% below its pre-pandemic level and the unemployment rate dropping below 7%. However, the rise in new cases during quarter 4, to the highest level since mid-August, suggests that the US could be in the early stages of a fourth wave. While the first wave in March and April was concentrated in the Northeast, and the second wave in the South and West, the third wave in the Midwest looks as if it now abating. However, it also looks as if the virus is rising again in the rest of the country. The latest upturn poses a threat that the recovery in the economy could stall. This is **the single biggest downside risk** to the shorter term outlook – a more widespread and severe wave of infections over the winter months, which is compounded by the impact of the regular flu season and, as a consequence, threatens to overwhelm health care facilities. Under those circumstances, states might feel it necessary to return to more draconian lockdowns.

  COVID-19 hospitalisations per 100,000 population



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

- 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 affected many countries: it is likely to hit hardest those countries more dependent on tourism. The €750bn fiscal support package eventually agreed by the EU after prolonged disagreement between various countries, is unlikely to provide significant support, and quickly enough, to make an appreciable difference in the countries most affected by the first wave.

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

- **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 have been in recession in 2020. Inflation is unlikely to be a problem for some years due to the creation of excess production capacity and depressed demand caused by the coronavirus crisis.

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

Summary

Central banks are, therefore, likely to support growth by maintaining loose monetary policy through keeping rates very low for longer. Governments could also help a quicker recovery by providing more fiscal support for their economies at a time when total debt is affordable due to the very low rates of

interest. They will also need to avoid significant increases in taxation or austerity measures that depress demand in their economies.

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

INTEREST RATE FORECASTS

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

The balance of risks to the UK

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

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

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

northern EU countries favouring low debt to GDP and annual balanced budgets and southern countries who want to see jointly issued Eurobonds to finance economic recovery. This divide could undermine the unity of the EU in time to come.

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

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

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

Appendix G

Prospects for Interest Rates

The data below shows the latest interest rate forecast from the Council's treasury management advisors, Link Asset Services, dated 9th November 2020.

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

Please Note – The current PWLB rates and forecast shown above have taken into account the 20 basis point certainty rate reduction effective as of the 1st November 2012.

Appendix H

Glossary of Terms

Authorised Limit - This Prudential Indicator represents the limit beyond which borrowing is prohibited, and needs to be set and revised by Members. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable. It is the expected maximum borrowing need, with some headroom for unexpected movements.

Bank Rate - the rate at which the Bank of England offers loans to the wholesale banks, thereby controlling general interest rates in the economy.

Counterparty - one of the opposing parties involved in a borrowing or investment transaction.

Covered Bonds - Debt instruments secured by assets such as mortgage loans. These loans remain on the issuer's balance sheet and investors have a preferential claim in the event of the issuing institution defaulting.

Credit Rating - A qualified assessment and formal evaluation of an institution's (bank or building society) credit history and capability of repaying obligations. It measures the probability of the borrower defaulting on its financial obligations, and its ability to repay these fully and on time.

Discount - Where the prevailing interest rate is higher than the fixed rate of a long-term loan, which is being repaid early, the lender can refund the borrower a discount, the calculation being based on the difference between the two interest rates over the remaining years of the loan, discounted back to present value. The lender is able to offer the discount, as their investment will now earn more than when the original loan was taken out.

Fixed Rate Funding - A fixed rate of interest throughout the time of the loan. The rate is fixed at the start of the loan and therefore does not affect the volatility of the portfolio, until the debt matures and requires replacing at the interest rates relevant at that time.

Gilts - The loan instruments by which the Government borrows. Interest rates will reflect the level of demand shown by investors when the Government auctions Gilts.

High/Low Coupon - High/Low interest rate

LIBID (London Interbank Bid Rate) - This is an average rate, calculated from the rates at which individual major banks in London are willing to borrow from other banks for a particular time period. For example, 6 month LIBID is the average rate at which banks are willing to pay to borrow for 6 months.

LIBOR (London Interbank Offer Rate) - This is an average rate, calculated from the rates which major banks in London estimate they would be charged if they borrowed from other banks for a particular time period. For example, 6 month LIBOR is the average rate which banks believe they will be charged for borrowing for 6 months.

Liquidity - The ability of an asset to be converted into cash quickly and without any price discount. The more liquid a business is, the better able it is to meet short-term financial obligations.

LOBO (Lender Option Borrower Option) - This is a type of loan where, at various periods known as call dates, the lender has the option to alter the interest rate on the loan. Should the lender exercise this option, the borrower has a corresponding option to repay the loan in full without penalty.

Market -The private sector institutions - Banks, Building Societies etc.

Maturity Profile/Structure - an illustration of when debts are due to mature, and either have to be renewed or money found to pay off the debt. A high concentration in one year will make the Council vulnerable to current interest rates in that year.

Monetary Policy Committee - the independent body that determines Bank Rate.

Money Market Funds - Investment instruments that invest in a variety of institutions, therefore diversifying the investment risk.

Operational Boundary – This Prudential Indicator is based on the probable external debt during the course of the year. It is not a limit and actual borrowing could vary around this boundary for short times during the year. It should act as an indicator to ensure the Authorised Limit is not breached.

Premium - Where the prevailing current interest rate is lower than the fixed rate of a long-term loan, which is being repaid early, the lender can charge the borrower a premium, the calculation being based on the difference between the two interest rates over the remaining years of the loan, discounted back to present value. The lender may charge the premium, as their investment will now earn less than when the original loan was taken out.

Prudential Code - The Local Government Act 2003 requires the Council to 'have regard to' the Prudential Code and to set Prudential Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable.

PWLB - Public Works Loan Board. Part of the Government's Debt Management Office, which provides loans to public bodies at rates reflecting those at which the Government is able to sell Gilts.

SONIA – Sterling Overnight Index Average (SONIA) is an interest rate benchmark which is based on actual transactions and reflects the average of the interest rates that banks pay to borrow sterling overnight from other financial institutions and other institutional investors.

Specified Investments - Sterling investments of not more than one-year maturity. These are considered low risk assets, where the possibility of loss of principal or investment income is very low.

Non-specified investments - Investments not in the above, specified category, e.g., foreign currency, exceeding one year or outside our minimum credit rating criteria.

Treasury Bills - These are marketable securities issued by the UK Government and as such counterparty and liquidity risk is very low.

Variable Rate Funding - The rate of interest either continually moves reflecting interest rates of the day, or can be tied to specific dates during the loan period. Rates may be updated on a monthly, quarterly or annual basis.

Volatility - The degree to which the debt portfolio is affected by current interest rate movements. The more debt maturing within the coming year and needing replacement, and the more debt subject to variable interest rates, the greater the volatility.

Yield Curve - A graph of the relationship of interest rates to the length of the loan. A normal yield curve will show interest rates relatively low for short-term loans compared to long-term loans. An inverted Yield Curve is the opposite of this.

Appendix I

Treasury Management Implications of HRA Reform

As discussed in Section 5 of the report, the reform of the HRA finance system has consequences for the treasury management of the Council. As part of the reform, the HRA's debt portfolio needs to be separately identifiable to that of the General Fund, and the HRA will hold some autonomy over the management of its debt portfolio. However, in order to ensure that the treasury management function of the Council remains effective and provides value for money, and given that the Section 151 officer for both the General Fund and the HRA is the Deputy Chief Executive and City Treasurer, the HRA's treasury portfolio must be run in the context of the overall Council portfolio.

This appendix seeks to explain how the debt portfolio of the Council has been split between the General Fund and the HRA, and how the HRA treasury position will be managed going forward.

The Portfolio Split

One of the principles behind the reform of HRA finance was to provide some level of treasury autonomy for the HRA, separating its debt from the Council's so that its treasury position could be managed separately. To achieve this, the debt portfolio was to be split at the point that the debt settlement was made.

On the 28 March 2012, the Council received c. £294m which was to be used to reduce the debt held by the Council. The table below shows the Council's treasury portfolio before and after the settlement:

	Pre reform		Post reform
	£'000		*£'000*
PWLB	199,966		0
Market	549,640		480,215
Stock	8,159		8,159
Gross Debt	**757,765**		**488,374**
Deposits	-17,954		-42,839
Net Debt	**739,811**		**445,535**

At this point, the debt was to be split according to the relative capital financing requirements (CFRs) of both the General Fund and the HRA. The cash remainder of the settlement could not be used to redeem further market debt so, to ensure that the HRA CFR fell by the full level of the settlement, a notional transaction took place. An amount of debt equivalent to the cash remainder was transferred from the HRA to the General Fund, alongside the cash. This had a neutral effect on the General Fund's net debt.

The table below shows the CFRs before and after the debt settlement, with the HRA CFR falling by the settlement:

CFRs	Pre reform		Post reform	% of total
	£'000		*£'000*	
General Fund	675,454		675,454	84.47%
HRA	418,463		124,187	15.53%
Total	**1,093,917**		**799,641**	**100.00%**
Of which financed:			*488,374*	
Of which unfinanced:			*311,267*	

As can be seen from the tables below, the debt was to split in a ratio of 84.47:15.53 between the General Fund and the HRA, including the unfinanced CFR element. This is the level of internal borrowing undertaken in lieu of external borrowing, through the use of cash balances to fund expenditure rather than external borrowing. It was decided, for administrative reasons, that all of the Council's remaining stock debt should be held by the General Fund, which increased the relative level of unfinanced CFR held by the HRA.

The final split of the debt portfolio is shown in the table below:

	General Fund	HRA	Total
	£'000	*£'000*	*£'000*
Market	405,636	74,579	480,215
% of total market	*84.47%*	*15.53%*	
Stock	8,159	0	8,159
% of stock	*100.00%*	*0.00%*	
Total Loans	**413,795**	**74,579**	**488,374**
% of total loans	*84.73%*	*15.27%*	
Unfinanced CFR	261,659	49,608	311,267
% of unfinanced CFR	*84.06%*	*15.94%*	
Total CFR	**675,454**	**124,187**	**799,641**
% of total CFR	*84.47%*	*15.53%*	

Future HRA borrowing

Following the split of the portfolio, the HRA can make borrowing decisions according to the needs of their business plan, provided those decisions are aligned with their treasury strategy and are agreed by the Section 151 officer. The amounts and maturity periods of any future loans will be determined by the HRA, in conjunction with the Treasury Management team and the Deputy Chief Executive and City Treasurer. Any future borrowing made by the Council will be for either the General Fund or the HRA and not for the Council in general.

Use of Temporary Cash Balances and Temporary Borrowing

Although the HRA's treasury position is now independent of the General Fund, both are managed in the name of the Council as a whole. As such, the day to day treasury position of the Council, whilst having regard to the impact on the HRA and the General Fund, will be run on a Council basis – this simplifies the risk management of the treasury position, and should help to ensure that the treasury function is providing value for money.

To achieve this, the General Fund will deposit and temporarily borrow externally, but the HRA will only be able to deposit with the General Fund and, should it be required, will only be able to access temporary borrowing through the General Fund. In order to ensure that this is fair, interest rates will be applied to any such internal transfers, as summarised below:

- If the General Fund has temporary investments, HRA investments with the General Fund will earn – ***average portfolio temporary investment rate***

- If the General Fund does not have temporary investments, HRA investments with the General Fund will earn – ***SONIA***

- If the General Fund has temporary borrowing, HRA temporary borrowing from the General Fund will be charged – ***average portfolio temporary borrowing rate***

- If the General fund does not have temporary borrowing, HRA temporary borrowing from the General Fund will be charged – ***SONIA***

The Bank of England and the Financial Conduct Authority (FCA) are committed to phasing out LIBOR before the end of 2021. Therefore, the market rates used are SONIA which the Council will use for benchmarking investments and temporary borrowing.

Future Reporting

The intention is to continue to report to Members the overall treasury position of the Council, including both the General Fund and the HRA. Separate reports will be provided on the General Fund and the HRA, when required.

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