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Agenda

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South Oxfordshire District Council
Listening Learning Leading

A MEETING OF THE

Cabinet

WILL BE HELD ON THURSDAY 30 JANUARY 2020 AT 6.00 PM MEETING ROOM 1, 135 EASTERN AVENUE, MILTON PARK, OX14 4SB

Members of the Cabinet

Member	Portfolio
Sue Cooper (Chair)	Leader of the Council, Cabinet member for legal and democratic and Didcot Garden Town
David Turner (Vice-Chair)	Deputy Leader and Cabinet member for finance
Pieter-Paul Barker	Cabinet member for partnership and insight
Robin Bennett	Cabinet member for economic development and regeneration
Maggie Filipova-Rivers	Cabinet member for community services
Andrea Powell	Cabinet member for corporate services and communications
Leigh Rawlins	Cabinet member for planning
David Rouane	Cabinet member for housing and environment

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ITEMS TO BE CONSIDERED WITH THE PUBLIC PRESENT

Reports considered with the public present are available on the council's website.

1 Apologies for absence

To record apologies for absence.

2 Minutes (Pages 4 - 6)

To adopt and sign as a correct record the minutes of the Cabinet meeting held on 5 December 2019.

3 Declaration of disclosable pecuniary interest

To receive any declarations of disclosable pecuniary interests in respect of items on the agenda for this meeting.

4 Urgent business and chairman's announcements

To receive notification of any matters which the chairman determines should be considered as urgent business and the special circumstances which have made the matters urgent, and to receive any announcements from the chairman.

5 Public participation

To receive any questions or statements from members of the public that have registered to speak.

CABINET DECISIONS

6 Recommendations from other committees

To consider any recommendations to Cabinet from other committees.

7 Neighbourhood planning funding (Pages 7 - 13)

To consider the head of planning’s report.

8 Didcot Garden Town (Pages 14 - 50)

To consider the head of partnership and insight’s report.

RECOMMENDATIONS TO COUNCIL

9 Treasury management mid-year monitoring (Pages 51 - 65)

To consider the head of finance’s report.

10 Treasury management and investment strategy 2020/21 (Pages 66 - 98)

To consider the head of finance’s report.

11 Capital strategy (Pages 99 - 110)

To consider the head of finance's report.

12 Revenue budget 2020/21 and capital programme to 2024/25

To consider the head of finance's report (to follow).

13 Exclusion of the Public

To consider whether to exclude members of the press and public from the meeting for the following item of business under Part 1 of Schedule 12A Section 100A(4) of the Local Government Act 1972 and as amended by the Local Government (Access to Information) (Variation) Order 2006 on the grounds that:

(i) it involves the likely disclosure of exempt information as defined in paragraphs 1 to 7 Part 1 of Schedule 12A of the Act, and
(ii) the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

ITEMS TO BE CONSIDERED WITH THE PUBLIC EXCLUDED

The council hereby gives notice that it intends to hold part of this Cabinet meeting in private to consider the following items for the reasons set out in the 'exclusion of the public' item above. These reports are not available on the council's website.

14 Grounds maintenance and public convenience contract

To consider the head of housing and environment's report (to follow).

15 Corporate services contract

To consider the head of partnership and insight's report (to follow).

MARGARET REED

Head of Legal and Democratic

Minutes

OF A MEETING OF THE

Cabinet

HELD ON THURSDAY 5 DECEMBER 2019 AT 6.00 PM

FOUNTAIN CONFERENCE CENTRE, HOWBERY PARK, CROWMARSH GIFFORD, WALLINGFORD, OX10 8BA

Present:

Cabinet members: Councillors Sue Cooper (Chair), David Turner, Robin Bennett, Maggie Filipova-Rivers, Andrea Powell, Leigh Rawlins and David Rouane

Officers: Steve Culliford, Simon Hewings, Margaret Reed, Robyn Tobutt and Mark Stone

36 Apologies for absence

Councillor Pieter-Paul Barker had sent his apologies for absence.

37 Minutes

RESOLVED: to approve the minutes of the Cabinet meetings held on 3, 8 and 25 October 2019 as correct records, including the exempt minutes of 8 October 2019, and agree that the Chairman signs them as such.

38 Declaration of interests

None

39 Urgent business and chairman's announcements

None

40 Public participation

None

41 Budget monitoring

Cabinet considered the head of finance’s report on revenue and capital budget monitoring for the period April to August 2019, the first five months of the financial year. This showed a projected revenue overspend of £481,000 at the year-end (31 March 2020), and a projected capital underspend of £186,000.

The Cabinet member for finance reported on the financial constraints the council faced, such as the unknown level of future government funding and the limitation on council tax increases. Work had begun to assess budgetary performance at the end of November 2019. Officers and Cabinet members were working to ensure there was no overspend at the end of the current financial year to avoid impacting on next year's budget.

Cabinet members noted that some elements of the budget were outside of the council's control, such as income from planning fees (the council could not control the number of planning applications it received), and housing benefit (primarily due to a reduction in the net income for housing benefits overpayments as more people now claimed Universal Credit). Both of these could have a significant impact on the final outturn.

Cabinet asked if future budget monitoring reports could show both income and expenditure figures rather than just net income. Officers agreed to explore this for next year's reports.

Cabinet also asked officers to consider providing basic training to all councillors on the budget preparation process and on the Medium Term Financial Plan. Cabinet asked officers to present a simpler version of the Medium Term Financial Plan to the councillor training session, to clearly show how the bottom line was calculated.

RESOLVED: to note the budget monitoring report for the period April to August 2019.

42 Berrick Salome Neighbourhood Plan

Cabinet considered the head of planning's report on the Berrick Salome Neighbourhood Plan. The report sought Cabinet's recommendation to Council to make the plan part of the council's development plan.

The Cabinet member for planning reported that the plan did not contain any new housing sites but did include a policy to allow infill development within the settlement boundary. The plan's main emphasis was on safeguarding the character of the village.

Cabinet noted that the plan was compatible with the European Union obligations and complied with the Habitats Regulations Assessment. The independent planning inspector had supported the plan and agreed that it should proceed to referendum.

The referendum, held on 24 October 2019, had resulted in 94.3 per cent support for the plan. Therefore, the Cabinet member for planning recommended that Cabinet supported a recommendation to Council to make the plan part of the council's development plan. Cabinet welcomed the plan and supported the recommendation.

RECOMMENDED to Council to:

(a) make the Berrick Salome Neighbourhood Development Plan so that it continues to be part of the council's development plan; and

(b) authorise the head of planning, in consultation with the Cabinet member for planning, and in agreement with the Qualifying Body, to correct any spelling, grammatical, typographical or factual errors together with any improvements from a presentational perspective.

43 Treasury management outturn 2018/19

Cabinet considered the head of finance's report on the treasury outturn in 2018/19. The report had been considered by the Joint Audit and Governance Committee, which was satisfied that the treasury activities had been carried out in accordance with the treasury management strategy and policy.

Cabinet noted that performance had missed the budgeted target during the year due to interest rates being lower than expected when the budget had been set.

RECOMMENDED to Council to:

(a) approve the treasury management outturn report 2018/19; and

(b) approve the actual 2018/19 prudential indicators within the report.

44 Council tax base 2020/21

Cabinet considered the head of finance's report regarding the setting of the council tax base for 2020/21. Before the council tax could be set by Council, a calculation had to be made of the council tax base: an estimate of the taxable resources for the whole district and for each parish.

Cabinet noted how the council tax base was calculated and noted the assumptions made as part of that calculation. Cabinet was asked to recommend the council tax base to Council. Once set by Council in December, the council tax base would be notified to Oxfordshire County Council, the Police and Crime Commissioner, and each parish and town council to allow them to set their budgets for 2020/21.

Cabinet supported the recommendations.

RECOMMENDED to Council:

(a) that the report of the head of finance to Cabinet on 5 December 2019 for the calculation of the council's tax base and the calculation of the tax base for each parish area for 2020/21 be approved;

(b) that, in accordance with The Local Authorities (Calculation of Council Tax Base) (England) Regulations 2012, the amount calculated by South Oxfordshire District Council as its council tax base for the year 2020/21 be 57,848.5; and

(c) that, in accordance with The Local Authorities (Calculation of Council Tax Base) (England) Regulations 2012, the amount calculated by South Oxfordshire District Council as the council tax base for the year 2020/21 for each parish be the amount shown against the name of that parish in Appendix 1 of the report of the head of finance to Cabinet on 5 December 2019.

The meeting closed at 7.12 pm

Chairman Date

Cabinet Report

Report of Head of Planning

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To: CABINET

Date: 30 January 2020

Neighbourhood Planning District Grant Funding Review

Recommendations

1. To cease the council's district Neighbourhood planning grant support from 1 April 2020.

2. To support neighbourhood planning groups in securing alternative grant funding towards developing new and revising neighbourhood plans.

Purpose of Report

1. To update Cabinet on changes to the Government's neighbourhood planning grants and to seek approval from the Cabinet to bring the current district grant support to community groups preparing or reviewing neighbourhood plans to an end.

Corporate Objectives

2. Strongly supporting the development of neighbourhood plans for our towns and villages.

Background

Government Funding

3. The council has a duty to support and advise parish councils, neighbourhood forums and community right to build organisations and pay for the examination and referendum costs. The Government provides grant funding to help councils meet

their legislative duties in relation to neighbourhood planning. Specifically, the duties introduced by the Localism Act 2011 to provide advice or assistance; to hold an examination; and to make arrangements for a referendum.

4. Until April 2016 the district council received £30,000 grant funding from Government for each successful neighbourhood plan. From April 2016, the grant available to the district council was revised down to £20,000, payable following the successful examination of a neighbourhood plan and when a referendum date is agreed. The Government has confirmed that this funding arrangement will remain in place until 31 March 2020. Future funding arrangements beyond this time has not been confirmed.

5. In April 2018 the Government's neighbourhood grant scheme was updated. Under the revised arrangements councils can claim grant funding to help meet legislative duties in relation to the review/modification of neighbourhood plans. Changes to the neighbourhood plan (other than for the purpose of correcting errors) is eligible for one of two possible payments, depending on the level of modification undertaken:

   i) In circumstances where substantive modifications are made to the plan, which require a new examination, but no referendum, the District Council can claim £10,000.

   ii) In circumstances where more substantive modifications are made to the plan, which require an examination and new referendum, the district council will be eligible to claim £20,000.

6. Claims for both types of modified plan will be limited to one claim per neighbourhood planning area every five years. It should be noted, however, that there are no limits on the number of times the district council may be required to deal with proposals to modify a made plan within a five-year period.

District council grant funding

7. The Grant given by the Government is currently used by the council to provide support for the formal stages of neighbourhood plan preparation. The council also currently provides a fixed one-off grant to community groups (via town or parish councils) preparing or reviewing/modifying neighbourhood plans. The grant amount is based on the size of the community as follows: Market Towns £15,000; Larger Villages £10,000 and Smaller and Other Villages £5,000.

8. The cost to the council of the publication, examination, and referendum will vary according to the to the complexity of the neighbourhood plan, and the population of the neighbourhood area. The table below shows the last three years average costs to the council including the one-off grant and the costs if the one-off grant is excluded.

Size of settlement	Current average cost to the council including one-off grant.	Proposed average cost to the council excluding one-off grant.
Smaller and Other Villages Based on Brightwell cum Sotwell, Dorchester on Thames, Long Wittenham, Little Milton, Pyrton, The Baldons and Warborough & Shillingford.	**£13,207**	**£8,207**
Larger Villages Based on Benson, Chalgrove, Chinnor, Cholsey, Goring and Watlington	**£24,132**	**£14,132**
Towns Based on larger villages average cost + £10K	**£34,132**	**£19,132**

9. Any costs incurred by the district council during the formal stages, which are in excess of available Government grant, is funded by the council. Funds from the Government grant which are not used up in progressing less complex neighbourhood plans (Smaller and Other Villages) help subsidise the costs of progressing more complex neighbourhood plans (Larger Villages and Towns). Staffing costs associated with supporting community groups and progressing neighbourhood plans through the formal stages are funded by the council.

District council grant funding review 2017

10. A review of the grant support provided to neighbourhood planning groups was undertaken in 2017 and an income and expenditure projection, from 2017 to 2020 was estimated. The table below compares our forecast against actual income/expenditure:

income/expenditure for Neighbourhood planning 2017-2020 (excludes staff costs)	**Projected** **£**	**Actual** **£**
Grants reserve (31/03/2017)	-31,369	-31,369
MHCLG grant income following agreed referendum. Projection assumed for 31 NPs @20K Actual claims submitted for 11 NPs @20K and NPs eligible to receive MHCLG grant income following agreed referendum. (1NP @20K)	-620,000	-220,000 -20,000
Gross income	**-651,369**	**-271,369**

District council grants for new/revised NPs (1 Town; 1 Larger Village and 9 Smaller/Other Villages) (Projection related to grants not yet paid)	70,000	
District council cost for; submission consultation, examination & referendum. Projection assumed progressing 31 NPs @15k per NP. Actual (November 2019) - includes grants paid for new/revised NPs.	465,000	264,209
Gross expenditure	**535,000**	**264,209**
Balance for funding new plans, above average council costs, additional re-examination, loss of MHCLG grant if NP unsuccessful	**-116,369**	**-7,110**

11. The council does not have any control over the timetable for preparing neighbourhood plans. The 2017 projections shown in the table above did not materialise because neighbourhood plans did not progress as quickly as anticipated. It is important to note that delays in the progression of neighbourhood plans leaves the district council exposed to potential changes in the funding arrangements from Government.

12. If the current funding arrangements from Government remain unchanged and all our neighbourhood plans progress to a stage where the district council can set a referendum date, then it is anticipated the district council will be able to cover its costs associated with its legislative duties towards neighbourhood planning.

13. A summary of projected finances up to 31 March 2022 is set out in the table below. The first table shows the projected income and expenditure for 22 neighbourhood planning groups currently preparing or revising neighbourhood plans. It assumes they will all set referendum dates and therefore the district council will receive £20,000 Government grant income and each plan will attract average costs in line with the costs identified in paragraph 9. Most have already been paid the fixed grant by the district council, which is why only £5,000 remains to be paid. The table shows that there is a projected balance of £224,213. The second table shows the projected income and expenditure if nine new or revised neighbourhood plans come forward and the district council continues to provide grant to neighbourhood planning groups. It results in a net cost of £13,488. This cost could be met from the projected balance of the plans currently being prepared of £224,213.

Project income/expenditure for Neighbourhood planning 2020- 2022	**£**
Expected grants reserve (31/03/2020)	-7,110
MHCLG grant income following agreed referendum. (assumed for 22 NPs @20K) * Provided funding arrangements are confirmed and kept the same beyond 31 March 2020.	-440,000*
Gross income	**-447,110**

Grants for new/revised NPs (this relates to grants not yet paid)	5,000
Council cost for submission consultation, examination & referendum (assumes £15k per NP)	217,897
Gross expenditure	**222,897**
Balance for funding new plans, above average council costs, additional re-examination, loss of MHCLG grant if NP unsuccessful	**-224,213**

Example; projected costs/income for Nine NPs 2020-2022	**£**
Grants for new/revised NPs (x2 Towns, x3 Larger Villages, x4 Villages)	80,000
Council cost for submission consultation, examination & referendum (Using assumptions in paragraph 9)	113,488
Gross expenditure	**193,488**
Income - DCLG grant following agreed referendum. (assumed for 9 NPs @20K)	**-180,000**
Balance	**13,488**

14. Officers have considered the impact of the reduction in funding from Government, of £10,000 per plan, the limitation on claims relating to the review/modification of made neighbourhood plans and the implications of plans potentially failing to pass examination and/or failing to reach adoption.

15. Bringing the district council grant support to neighbourhood planning groups to an end would help ensure the income from the Government grant is reassigned to meet its intended purpose which is to help the council meet its neighbourhood planning obligations. This would also help safeguard the council's ability to strongly support the development of neighbourhood plans in the longer term.

16. The end of the grant support is not considered to have a significant detrimental effect on our communities. The Government provide direct support for communities who choose to prepare neighbourhood plans. Community groups can access a range of free help including technical and financial support. Currently the Government's Neighbourhood Planning Support Programme up to 2022 offers;

    - a £9,000 grant, which is available immediately following the designation of the neighbourhood area,

    - an additional £8,000 is available to groups that meet certain criterion (e.g. allocating a site for housing or including a design code).

    - access to technical support which is awarded as a technical work package. Community groups in our district have used the technical support for specific projects such as Strategic Environmental Assessments and Housing Needs Assessments.

Options

17. Cabinet needs to consider whether it can afford to continue providing grant support to community groups preparing/modifying neighbourhood plans, when there is

currently alternative Government funding for communities. In addition, with the risk of further changes to Government grants to district councils, we need to consider how it will fund the administrative costs to meet its legislative duties in relation to neighbourhood planning.

Financial Implications

18. Any decision that has financial implications must be made with the knowledge of the council's overarching financial position. This is as reflected in the council's medium-term financial plan (MTFP) as reported to Full Council each February as part of the budget setting report. The February 2019 MTFP and the budget report showed that the council was due to receive £3.3 million less in revenue funding than it planned to spend in 2019/20 (with the balance coming from reserves and accumulated New Homes Bonus). This funding gap is predicted to increase to over £6 million per annum by 2023/24. Every decision should be made in cognisance of the need to substantially reduce this funding gap over the medium term and to eliminate it after five years.

19. If an examination is not successful or a parish chooses not to continue working on a neighbourhood plan, then there is a risk that we cannot claim the Government grant. In the case of modifications to made plans, if the district council is required to deal with requests to modify a plan more than once within a five-year period, the costs would have to be funded by the council.

20. The council does not control the timetable for preparing/reviewing neighbourhood plans. Delays in progressing neighbourhood plans leaves the council exposed to potential changes in the funding arrangements from Government.

21. The recommendation in this report seeks to mitigate these issues by safeguarding current Government grant funds to help the council meet its obligations to neighbourhood planning.

Legal Implications

22. There are no legal implications by this proposal.

Risks

23. Bringing the district council grant support to neighbourhood planning groups to an end may discourage groups from preparing/reviewing neighbourhood plans. However, officers believe this risk is very low considering the funding and technical support available directly from Government to community groups.

Conclusion

24. Having considered the impact of potential changes to the funding from Government and our own financial position on our ability to continue to offer grant support and meet our neighbourhood planning obligations, it is recommended that the district council grant support to neighbourhood planning groups is brought to an end due to

uncertainty of future funding and uncertainty of costs that the council may incur not covered by the Government grant scheme.

25. The income from the Government grant should continue to meet its intended purpose which is to help the district council meet its neighbourhood planning obligations.

26. The withdrawal of this upfront financial support provided by the council is unlikely to discourage groups from preparing/reviewing neighbourhood plans in light of other sources of funding and technical support readily available.

27. Ending the district council grant support to community groups brings more control of expenditure and helps safeguard the council's ability to strongly support the development of neighbourhood plans in the future.

Cabinet

Report of Head of Partnership and Insight

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Wards affected: All wards within the Didcot Garden Town "Area of Influence: Cholsey, Didcot North East, Didcot South, Didcot West, Sandford and the Wittenhams wards in South Oxfordshire district. Blewbury and Harwell, Drayton, Hendreds, Steventon and the Hanneys, Sutton Courtenay, wards in the Vale of White Horse district.

Cabinet member responsible: Cllr Judy Roberts	Cabinet member responsible: Cllr Sue Cooper
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To: CABINET	To: CABINET
DATE: 3 February 2020	DATE: 30 January 2020

Didcot Garden Town

Recommendations

That the Joint Scrutiny Committee considers governance arrangements and project priorities for Didcot Garden Town before the decision for both Cabinets. Recommendations to Cabinets are as follows:

(a) Approve operating guidelines, terms of reference and revised governance for the Didcot Garden Town Advisory Board and sounding boards as shown in Appendix 2 and delegate authority to the Head of Partnership and Insight to make any minor amendments.

(b) Agree to name the nominated Didcot Garden Town Board as "Didcot Garden Town Advisory Board".

(c) Agree the Didcot Garden Town Delivery Plan project priorities as listed in section 22 to 25.

(d) Delegate authority to the Head of Partnership and Insight to apply for future funding opportunities that directly align with the Didcot Garden Town Delivery Plan as appropriate.

Purpose of Report

1. To request that Cabinet consider recommendations for Didcot Garden Town including an updated governance structure and priorities for project delivery.

2. To provide information about activities following recommendations made by the Vale Cabinet on 12 July 2019.

3. To provide information about the discussion of the governance model and project priorities by the Joint Scrutiny Committee held on 16 January 2020.

Strategic Objectives

4. South Oxfordshire and Vale of White Horse District Councils approved the Didcot Garden Town Delivery Plan on 5 and 6 October 2017. The vision for the plan is: *"Oxfordshire's gateway to future science, applied technology and vibrant communities".* Sustainability lies at the heart of this vision with strategies that include fantastic green space, connected and cultural communities and visionary science and advanced technologies.

Background

5. South Oxfordshire and Vale of White Horse district councils approved various actions related to Didcot Garden Town on 5 and 6 October 2017. One of the actions was to approve the Delivery Plan and its vision for sustainable growth to deliver 15,000 homes and 20,000 jobs by 2031. The Delivery Plan lists over 60 projects that will contribute to implementation of the strategic plan and provides high-level estimates of their cost.

6. The vision statement of the Delivery Plan is: "*Oxfordshire's gateway to future science, applied technology and vibrant communities*". This vision acknowledges the importance of Science Vale, home to a high concentration of enterprise and innovation in the advanced engineering and manufacturing, energy, life sciences and space sectors. The emerging Oxfordshire Local Industrial Strategy leverages the Science Vale and Didcot Garden Town to promote innovation and economic prosperity in the region in partnership with South Oxfordshire and the Vale of White Horse.

7. To achieve the Didcot Garden Town vision, a project delivery team is working to implement key concepts put forward in the Delivery Plan. These include connected green space, cultural communities, inspired green living and a network of public transportation, cycling and walking links to key employers at Culham Science Centre, Harwell Campus and Milton Park.

8. Project delivery staff includes the following full-time positions: Didcot Garden Town (DGT) Project Manager, Project Officer and Oxfordshire County Council Principal Transportation Planner. In addition, part time positions include: Sr. Communications Officer, Administrative Officer and Public Art Officer. Additional needs are for urban design, events and graphics support.

9. In October 2017, cabinet approved forming a Didcot Garden Town Board ("Board") to guide implementation of the Delivery Plan. As part of the approval, it was envisioned that working sub-groups would report to the Board. It was agreed that sub-groups would be governed by a set of operating guidelines similar to a model set out in appendix 2 of the October 2017 cabinet papers.

10. Since the October 2017 approval, a nominated Board has met to further discuss governance. The nominated Board recommended a simplified version of operating guidelines that more closely reflects their advisory role and typical of other garden communities. For example, Bicester Garden Town and the North Essex garden settlements have extremely simple, somewhat informal governance structures. Appendix 1 shows the previously approved governance structure.

11. The nominated Board suggested that "sounding boards" replace sub-groups. At least three sounding boards are proposed: residents, parish councils and business. The purpose of the sounding boards is to provide comments, insight and advice about ongoing work to implement the Delivery Plan. Didcot Garden Town project delivery staff would facilitate at least two sounding board meetings per year and report meeting content to the Board.

12. In addition to operating guidelines, the revised name: 'Didcot Garden Town Advisory Board' (DGTAB) has been proposed by the nominated Board as being more reflective of their role.

13. The Vale of White Horse District Council Cabinet ("Cabinet") considered approval of the governance model recommended by the nominated Board on 12 July 2019. The Cabinet expressed concern at the lack of community engagement on new governance proposals. Cabinet deferred consideration of the actions to allow the Joint Scrutiny Committee to consider them and comment back to Cabinet.

14. A representative of Sutton Courtenay Parish Council gave public comment at the 12 July 2019 Cabinet meeting stating that they were fully supportive of the project. Sutton Courtenay recommended an amendment to the governance model to include a representative from Sutton Courtenay Parish Council on the new DGTAB.

15. Sutton Courtenay Parish Council first wrote to the Didcot Garden Town staff with the request for a seat on the DGTAB in January 2019. The nominated Board considered the letter and staff responded that the best way for Parish Councils to participate is through the Sounding Boards. Correspondence was received from Sutton Courtenay on 20 March 2019 with the same request for a seat on the Advisory Board. On 12 September 2019 Sutton Courtenay Parish Council wrote to ask that their statement to Cabinet be included in the report to the Joint Scrutiny Committee and a representative spoke at the 16 January 2020 meeting.

16. A total of five parish councils are located partially within the Didcot Garden Town boundary. They are: Appleford-on-Thames, East Hagbourne, Harwell, Milton and Sutton Courtenay. Didcot is located entirely within the DGT boundary. The public statement by Sutton Courtenay and a map of all parish councils located within the DGT boundary are shown in Appendix 2.

17. One additional seat has been added to the proposed DGTAB structure in consideration of the request to provide a seat to enhance parish council participation. A revised set of operations guidelines and terms of reference have been updated accordingly. The representative would be elected by the Parish Council Sounding Board annually. The parish council representative on the DGTAB would not consider Didcot Town Council as a candidate for this seat because Didcot Town Council already has a seat on the Board. Updated terms of reference proposed for the DGTAB and the sounding boards are shown in Appendix 2.

18. On 5 December 2019 all 18 town and parish councils were notified that Didcot Garden Town matters would be discussed at the 16 January 2020 Joint Scrutiny Committee meeting.

19. On 12 July 2019, the Vale Cabinet requested additional community engagement that would include outreach to a wide variety of people, businesses and local parish councils. Ongoing and inclusive community engagement is a key strategy put forward by the DGT delivery plan. Staff will prepare a community engagement plan following approval of governance. The plan will consider the sounding boards for residents, parish councils and businesses as an ongoing engagement strategy along with other avenues for reaching more vulnerable populations.

20. From August 2019, a community survey was offered as part of a process to sign up to receive information about Didcot Garden Town. Survey results show that roads, transport, cycling and walking, open space, community space and housing are the top six priorities of the 261 respondents. Community engagement activities since the Vale Cabinet meeting are shown in Appendix 4.

21. The Didcot Garden Town Delivery Plan recommends 64 projects for implementation, with six projects completed to date. Completed projects include preparation of the Delivery Plan, public consultation, re-construction of the Backhill Lane pedestrian tunnel to Milton Park, Orchard Centre Phase 2, public art projects, a district heating feasibility study and various administrative actions.

22. The 64 projects defined in the delivery plan are segregated into near, medium and long- term projects. Nine early priority projects include both town-wide and place-based strategies. Town-wide strategies include a cycling network, a public spaces and culture strategy, conference festival and wayfinding to help people find key destinations. Site-specific early priority projects are: gateway spine, cultural spine, community hub, connectivity hub, and the garden line.

23. Projects may move forward for delivery as there are opportunities for funding, project partners, development activity and other strategic factors. Staff considers which projects best meet the criteria for funding applications when applying for grants. Therefore, project priorities are sometimes influenced by a range of factors.

24. The nominated Board has agreed project priorities with emphasis on finalising the governance structure, transportation projects, a parking strategy, development of the Gateway project and near term and meanwhile projects. The nominated Board specifically requested that priority be given to a community engagement event which could be used to “launch” the sounding boards once governance is approved.

25. In August 2019 staff responded to an invitation to bid for 2019-20 Homes England garden communities funding with a request of up to £959,500. The bid included the following project priorities: studies related to public transport and the cycling network, housing delivery including elderly housing, innovative construction methods, capacity studies and third-party delivery tools. On 14 January 2020 informal confirmation was received that Didcot Garden Town would be allocated an additional £100,000 in funding from Homes England. The best use of this new funding would need to be evaluated to see which of the projects can move forward with this funding amount.

26. The Cabinet papers for 12 July 2019 included various financial recommendations, which are not being made in this paper. Finance actions for Didcot Garden Town will be included in a future recommendation for South and Vale Council approval. Any

future paper on finance will include a recommendation to accept Homes England funding following official notice being received by South and Vale.

27. A proposed timeline for approval of DGT recommendations is shown in Appendix 5.

Financial Implications

28. There are no financial implications for this report. Didcot Garden Town is funded with grant revenue received from government including the Department of Communities and Local Government (now the Ministry of Housing, Communities and Local Governments) and Homes England. The funding cannot be used for any other purpose.

Legal Implications

29. The governance model approved along with the delivery plan in October 2017 is considered unviable. The model must either be replaced with a viable model or a decision should be taken that a governance model is not needed to oversee the implementation of Didcot Garden Town.

30. The nominated Board is considered temporary until approved by the Cabinets of South and Vale.

31. The DGTAB and sounding boards need approved operating guidelines and terms of reference to meet over the long term.

32. The DGTAB will serve in an advisory role with no legal status. Each member may make recommendations to their representative organisation to take action on a matter that is under the jurisdiction of that organisation.

33. Any changes to the legal status of the DGTAB will need to be agreed by all key stakeholders and their representative organisations.

34. The sounding boards will provide a forum for residents, parish councils and businesses with an interest in Didcot Garden Town. Sounding board participants may submit comments, provide insight and advise the project delivery staff. The sounding boards will be organised and facilitated by the project delivery staff.

35. Terms of reference have been reviewed by the legal team and advice has been incorporated into the final documents.

Risks

36. The nominated Board meetings are not currently open to the public which may cause a public perception of lack of transparency. Approving a governance model to replace the unviable model set forth in the delivery plan would increase the flow of public information.

37. Homes England awarded Didcot Garden Town revenue funding grants in past years to support the programme and a portion of the money has not been brought forward into the budget for expenditure. Homes England may not award additional grant funding without clear progress in spending past grant funds.

38. Didcot Garden Town operates using external revenue funding, largely from Homes England. Funding has been awarded based on project priorities put forward by DGT

staff at the time of the grant bid. If project priorities shift without clear rationale Didcot Garden Town may suffer a reputational loss with Homes England.

39. There is a risk that community engagement on governance and project priorities will be overshadowed by community concerns related to South Oxfordshire's Local Plan and the status of the £218m award from the Housing Infrastructure Fund. Ongoing community engagement through the sounding boards will allow for open discussion of a variety of topics as a matter of routine and replace one-time public consultations as a method of engagement.

40. Capacity funding available to support Didcot Garden Town governance administration and project work is limited. Additional revenue will be needed within approximately two years to continue work to advance these activities. It is recommended that cabinet approve delegated authority to apply for funding to support the Delivery Plan to the chief executive, in consultation with lead cabinet members as funding opportunities arise. This will mitigate the risk of a funding shortfall by giving the councils the autonomy to make decisions to pursue new funding opportunities that align with garden town principles in a flexible and responsive way.

Other Implications

41. The nominated Board is an advisory board made up of agency partners with oversight of projects and budgets that contribute to Didcot Garden Town's development. They include Homes England, Oxfordshire County Council, the Oxfordshire Local Enterprise Partnership and Didcot Town Council. Following the 2019 elections in South and Vale, the nominated Board has been reviewed to confirm it is a good working model.

42. Sutton Courtenay Parish Council has requested a seat on the DGTAB because they are partially located inside the boundary for Didcot Garden Town. Five parish councils are located partially within the boundary. If a seat is offered to Sutton Courtenay, it follows that a seat should also be offered to Appleford, East Hagbourne, Harwell and Milton to be consistent with decision making. Didcot Town Council is located entirely within the Didcot Garden Town boundary and has a seat on the nominated DGTAB.

43. The proposed structure of the DGTAB has been updated to add one seat for a parish council representative who is elected by the Parish Council Sounding Board. The representative would be selected from the 17 parish councils that are located within either the Didcot Garden Town or Area of Influence boundaries. A recommendation was made on 16 January 2020 by the Joint Scrutiny Committee for the Parish Council representative to be selected from among the five parish councils that sit within the Didcot Garden Town boundary rather than being selected from among the 17 parish councils on the Sounding Board.

Conclusion

44. The simplified governance structure and project priorities are considered the best way to support the delivery of projects for Didcot Garden Town. The proposals reflect that housing and infrastructure projects are being largely implemented by outside partners and private land developers rather than by a Didcot Garden Town development corporation as originally envisioned.

45. Didcot Garden Town is a long-term strategy. A flexible approach will ensure success over time. Some ideas in the delivery plan may not be workable as envisioned, such as the governance model. Recommended actions in the Cabinet papers are intended to

progress near term and early priority projects such as governance, community engagement, meanwhile uses and social infrastructure. Recommendations consider the current context and can be updated as the situation changes.

Background Papers

- Vale Cabinet paper and minutes 12 July 2019: http://democratic.whitehorsedc.gov.uk/ieListDocuments.aspx?CId=507&MId=2654&Ver=4
- Appendix 1 - Original and new governance structures compared
- Appendix 2 - Proposed operations guidelines and terms of reference for Didcot Garden Town Advisory Board and sounding boards
- Appendix 3 – Statement by Sutton Courtenay Parish Council read at 12 July 2019 Vale cabinet meeting
- Appendix 4 – Community Engagement Summary
- Appendix 5 – Proposed timeline for approvals

January 2020

APPENDIX 1

ORIGINAL AND NEW GOVERNANCE STRUCTURES COMPARED

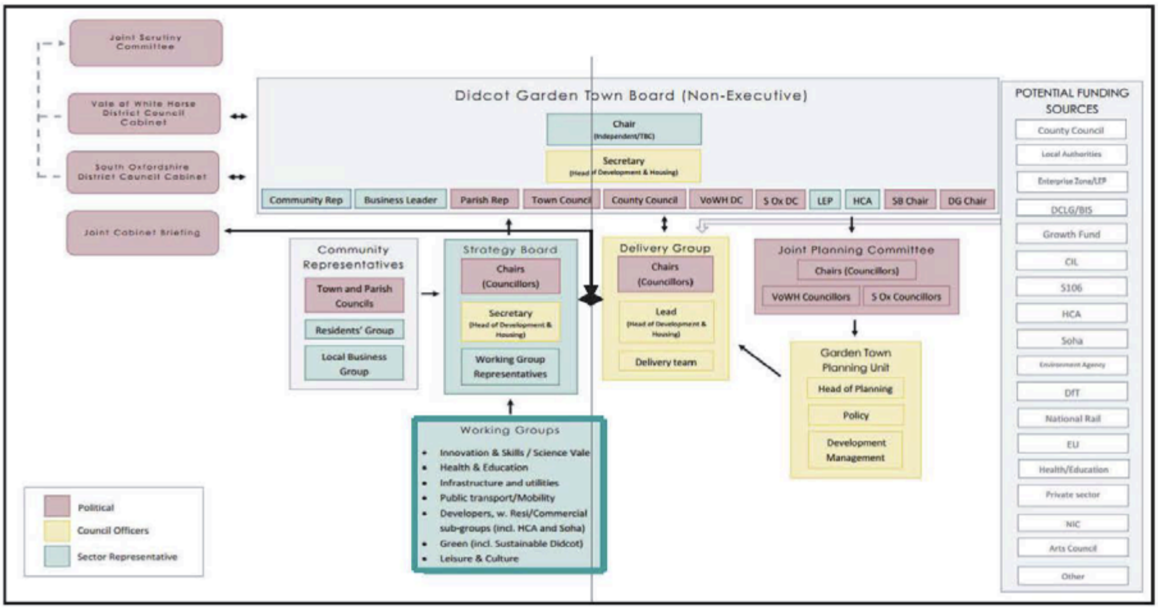
FIGURE 1: ORIGINAL (APPROVED) GOVERNANCE STRUCTURE
FIGURES 2 AND 3: REVISED (PROPOSED) GOVERNANCE STRUCTURE

Didcot Garden Town

January 2020

Figure 1. Original (approved) governance structure

The governance structure for Didcot Garden Town shown below was published in Chapter 10 of the Didcot Garden Town Delivery Plan and approved by South and Vale Cabinets in October 2017. Figures 2 and 3 on the following page show the revised governance structure that was agreed by the nominated Didcot Garden Town Board on 11 March 2019.



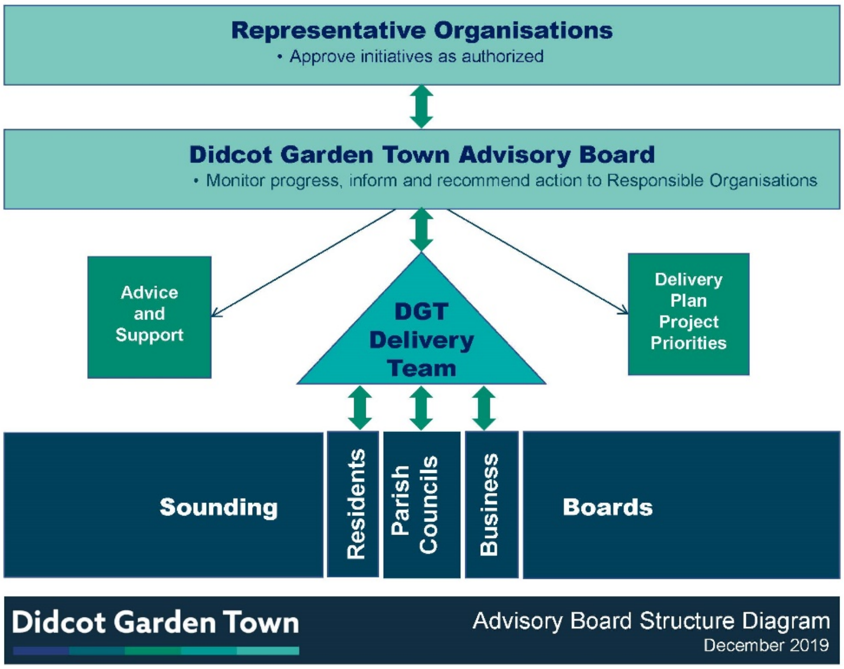
It has always been assumed that the operational effectiveness of this structure would be dependent upon putting in place the following:

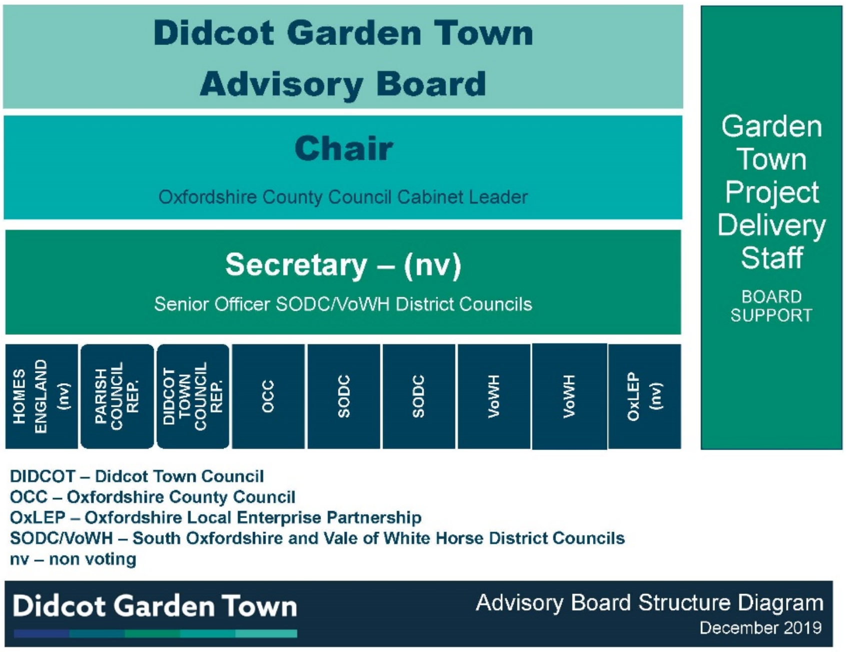
1. A scheme of delegation that;
   a. Gives delegated powers to Senior District Council Employees seconded to work in the Delivery Team and the Garden Town Planning Unit. The nature and level of delegated authority will be the same as the delegation given to these Senior Officers under the current (and future) constitutions of South Oxfordshire District Council and Vale of White Horse District Council.

January 2020

Figures 2 and 3. Revised (proposed) governance structure

The proposed governance structure has been updated since 12 July 2019 to include a parish council representative. The structure is reflects the advisory role of the Board and is recommended for approval.





January 2020

APPENDIX 2

PROPOSED OPERATIONS GUIDELINES AND TERMS OF REFERENCE FOR DIDCOT GARDEN TOWN ADVISORY BOARD AND SOUNDING BOARDS

Didcot Garden Town

TERMS OF REFERENCE

1. OPERATIONAL OBJECTIVES
   1.1. The objective of the Didcot Garden Town Advisory Board (“Board”) will be to make recommendations about development of Didcot Garden Town to the organisations each member represents.
   1.2. The Board will have an advisory role. Board members will liaise with their representative organisations (Oxfordshire County Council, South Oxfordshire and Vale of White Horse District Councils, Didcot Town Council, Homes England and Oxfordshire Local Enterprise Partnership **or parish council**). Board members shall act in accordance with their representative organisations when providing advice to the Didcot Garden Town project delivery staff.
   1.3. Any ratification of specific actions recommended by the Board will need to follow the process for approval set out in the constitution of the appropriate representative organisation that oversees the budget, funding or work plan governing that action.

2. BOARD STRUCTURE
   2.1. The Board will be made up of representatives from: Didcot Town Council, Homes England, Oxfordshire County Council, Oxfordshire Local Enterprise Partnership, **the Representative of the Parish Councils Sounding Board and** South Oxfordshire and Vale of White Horse District Councils.
   2.2. Three Sounding Boards will be made up of members of each of these groups: residents, parish councils and business. The Sounding Boards will meet at least twice a year with South Oxfordshire and Vale of White Horse District Council’s Didcot Garden Town project delivery staff to discuss project updates and comment on issues and agenda items of interest. Sounding Boards will follow terms of reference incorporated herein.
   2.3. Staff from South Oxfordshire and Vale of White Horse District Councils will provide logistical support for meetings.
   2.4. Staff from Didcot Town Council, Homes England, Oxfordshire County Council, Oxfordshire Local Enterprise Partnership, **the Representative of the Parish Councils Sounding Board and** South Oxfordshire and Vale of White Horse District Councils may attend meetings to provide information, updates and recommendations as appropriate.
   2.5. Members of the public may attend the portion of a Board meeting during which the public agenda is considered by the Board. The public will be required to leave when a matter of confidential or commercially sensitive nature is considered or discussed by the Board. Members of the public may address the Board at the beginning of the public portion of a Board meeting on matters that are on the public agenda or on a general matter related to Didcot Garden Town.
   2.6. The diagram in Figure 1 shows the relationship between the Board, their representative organisations, the sounding boards and the Didcot Garden Town project delivery staff.

3. DURATION OF BOARD
   3.1. The Board is expected to continue for the duration of the delivery of the Didcot Garden Town Plan, until the completion date of the final development project.

3.2. Notwithstanding paragraph 3, the Board may be voluntarily wound up, provided:
 3.2.1. there is a majority vote of its existing Members; and
 3.2.2. at least 50% of the original Representative Organisations have ceased to re-nominate a representative to the Board or to participate in the activities of the Board.

4. MEMBERSHIP
4.1. The following organisations will be represented on the Board and one designated representative from each organisation will have a vote:
 4.1.1. Didcot Town Council.
 4.1.2. Oxfordshire County Council.
 4.1.3. Leader of the Council for South Oxfordshire District Council and one other designee.
 4.1.4. Leader of the Council for Vale of White Horse District Council and one other designee.
 4.1.5. **Representative of the Parish Councils Sounding Board**
4.2. The following organisations will be represented on the Board by one representative each without a vote:
 4.2.1. Homes England.
 4.2.2. Oxfordshire Local Enterprise Partnership.
4.3. The following staff will attend meetings and support the Board:
 4.3.1. One or more lead staff members from Didcot Town Council, Homes England, Oxfordshire County Council, Oxfordshire Local Enterprise Partnership and South Oxfordshire and Vale of White Horse District Councils.
 4.3.2. Support staff including a senior communications officer and the Didcot Garden Town Project Manager from South Oxfordshire and Vale of White Horse District Councils will advise the Board.
 4.3.3. An administrative officer from South Oxfordshire and Vale of White Horse District Councils will perform the following secretarial duties as a minimum:
  4.3.3.1. Circulate relevant board papers in advance of Board meetings and provide details of time, date and location of meetings to Members;
  4.3.3.2. Prepare minutes of Board meetings and making a note of agreed actions. Circulate the same following meetings.
4.4. Members will be appointed for the duration of their tenure in their relevant role with their organisations.
4.5. Representative organisations will name any proposed replacement member in the event that a member resigns or is removed by the Board.
4.6. The Chair of the Board will be the member that represents the Oxfordshire County Council.
4.7. The Vice-Chair will rotate on an annual basis between a representative from South Oxfordshire District Council and a representative from Vale of White Horse District Council.
4.8. Membership may be modified by the Board as needed with the approval of voting members.

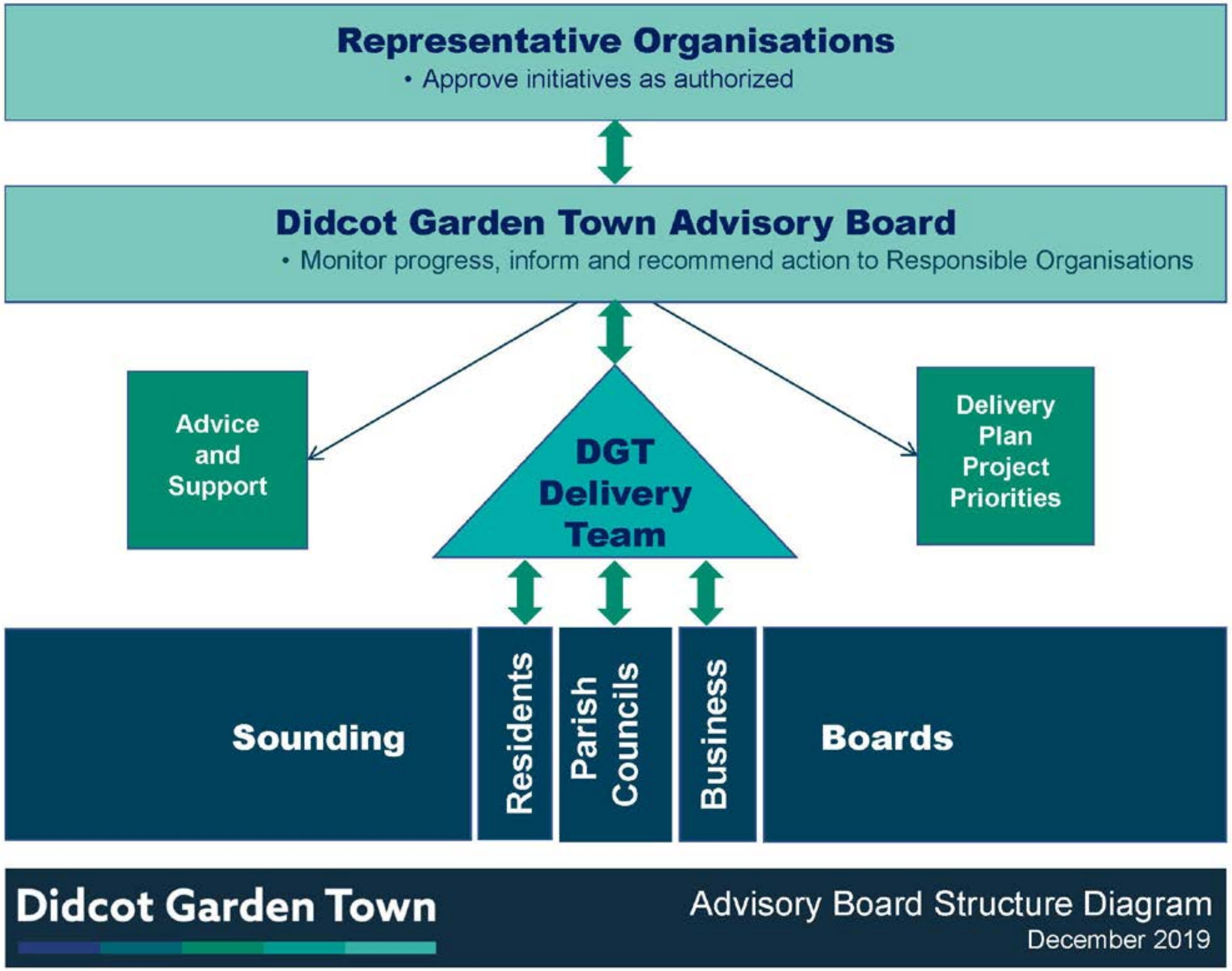
4.9. Voting members will consult with their representative organisations prior to voting on a specific action and cast their vote according to a decision that follows the constitutional process of their representative organisation.

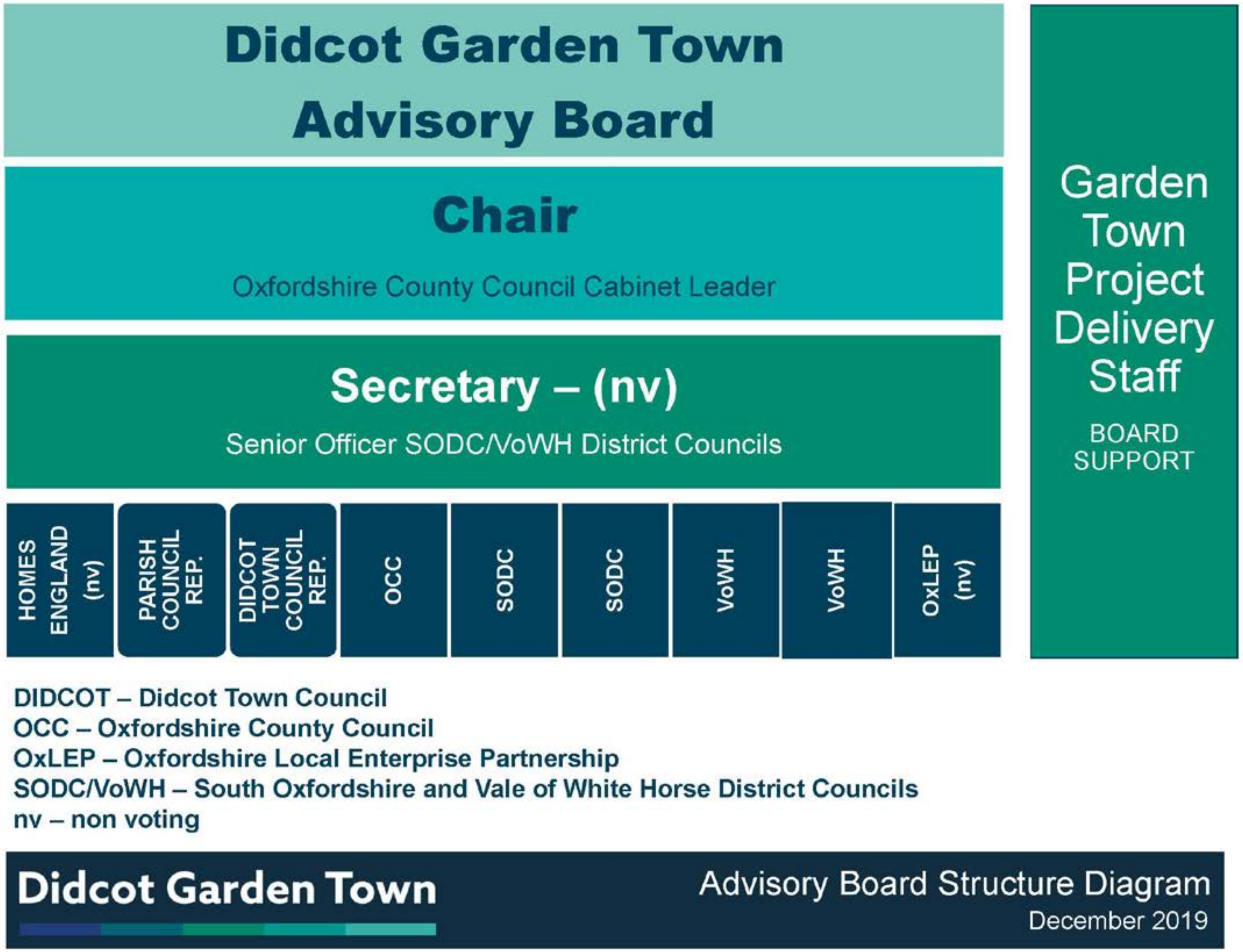
5. CONDUCT OF BUSINESS
   5.1. Meetings will be held at least quarterly or at a frequency determined by the Board.
   5.2. Meetings will take place at District Council offices or a location in or near Didcot Town centre unless decided otherwise by the Board.
   5.3. A **recommendation**-making quorum will be considered as attendance by at least four Board members, each of whom will be from each of the four governmental agencies: Didcot Town Council, Oxfordshire County Council, South Oxfordshire District Council and Vale of White Horse District Council.
   5.4. Agenda and supporting materials will be distributed five calendar days prior to the meeting date.
   5.5. Meeting minutes will be prepared following each meeting and distributed for review and approval with the agenda for the next regular business meeting.

6. FUNDING AND EXPENSES
   6.1. The Board secretary and other support staff will be provided by South Oxfordshire and Vale of White Horse District Councils.
   6.2. Any expenses, funding or budgets used by Board members will be approved by their own organisations.

7. COMMUNICATIONS
   7.1. An experienced Communications Officer from South and Vale will be available to support the Board.
   7.2. The Didcot Garden Town shall have a website set up as part of the South Oxfordshire and Vale of White Horse District Council website framework. The Project Delivery Staff will ensure that the website is kept updated so members of the public are kept informed of progress relating to the implementation of the Delivery Plan.
   7.3. The Project Delivery Staff will post meeting minutes and relevant reports to the website when they are to be made available to the public.

8. TRANSPARENCY, CONFIDENTIALITY AND PROTECTION OF PERSONAL DATA
   8.1. Commercially sensitive information will be discussed when members of the public are not present.
   8.2. Personal information associated with Board activity is subject to the Data Protection Act 2018.
   8.3. Data will be stored with South Oxfordshire District Council and the privacy policy will be that of South Oxfordshire District Council.
   8.4. The privacy policy can be found on their website and may be amended from time to time.


Representative Organisations
• Approve initiatives as authorized
Didcot Garden Town Advisory Board
• Monitor progress, inform and recommend action to Responsible Organisations
Advice and Support
DGT Delivery Team
Delivery Plan Project Priorities
Sounding
Residents
Parish Councils
Business
Boards
Didcot Garden Town
Advisory Board Structure Diagram
December 2019


Didcot Garden Town
Advisory Board
Chair
Oxfordshire County Council Cabinet Leader
Secretary – (nv)
Senior Officer SODC/VoWH District Councils
HOMES ENGLAND (nv)
PARISH COUNCIL REP.
DIDCOT TOWN COUNCIL REP.
OCC
SODC
SODC
VoWH
VoWH
OxLEP (nv)
Garden Town Project Delivery Staff
BOARD SUPPORT
DIDCOT – Didcot Town Council
OCC – Oxfordshire County Council
OxLEP – Oxfordshire Local Enterprise Partnership
SODC/VoWH – South Oxfordshire and Vale of White Horse District Councils
nv – non voting
Didcot Garden Town
Advisory Board Structure Diagram
December 2019

TERMS OF REFERENCE FOR RESIDENTS SOUNDING BOARD

1. OPERATIONAL OBJECTIVES
   1.1. The objective of the Residents Sounding Board will be to review project updates and provide comments about the Didcot Garden Town Delivery Plan to the Didcot Garden Town project delivery staff.
   1.2. The Didcot Garden Town project delivery staff will compile comments and provide them to the Board at their next regular meeting.

2. DURATION OF BOARD
   2.1. The terms of reference for the Sounding Board will be reviewed by the Board biannually following approval and updated as needed.
   2.2. The Sounding Board is expected to continue for as long as the Board operates.

3. BOARD STRUCTURE
   3.1. The Sounding Board will be managed by the Didcot Garden Town project delivery staff for South Oxfordshire and Vale of White Horse District Councils.
   3.2. The Sounding Board will be made up of representatives of resident associations and community-based organisations (“Organisations”) whose operating address is located within Didcot Garden Town.
      3.2.1. A public call for interested Organisations will be made to seek representatives to form the initial Sounding Board and annually thereafter.
      3.2.2. Any Organisation may contact the Didcot Garden Town project delivery staff at any time to request that a representative join the Sounding Board.
      3.2.3. Representatives will be designated as the single point of contact for their Organisations and serve for a time period determined by their Organisations.
      3.2.4. Organisations must notify the Didcot Garden Town project delivery staff of any changes to their designated representative or to their contact details by email to: info@didcotgardentown.co.uk at least 10 days prior to the next Sounding Board meeting.
      3.2.5. There will be no maximum number of Organisations represented on the Sounding Board.
   3.3. Individual residents may attend meetings as a member of the public. Members of the public may address the Sounding Board at the beginning of the meeting on matters that are on the agenda or on a general matter related to Didcot Garden Town.
   3.4. Meetings will be facilitated by the Didcot Garden Town Project Manager and supported by Didcot Garden Town project delivery staff.

4. CONDUCT OF BUSINESS
    4.1. The terms of reference for the Sounding Board will be reviewed by the Board biannually following approval and updated as needed.
    4.2. The Sounding Board will meet at least twice a year to provide input to the Didcot Garden Town Project delivery staff. All input will be compiled and provided to the Board at its next regular meeting.
    4.3. Meetings will be up to 90 minutes in duration.
    4.4. Sounding Board members will be invited to one open public forum annually.
    4.5. Meetings will take place at District Council offices or a location in or near Didcot Town centre.
    4.6. Sounding Board meetings will be held if at least five people, including Organisations and members of the public are in attendance.

5. FUNDING AND EXPENSE
    5.1. Meeting agendas, notices, room rental and support staff will be provided by South Oxfordshire and Vale of White Horse District Councils.
    5.2. Any travel costs or other expenses generated by Sounding Board members will be paid by their own Organisations and not by South Oxfordshire and Vale of White District Councils.

6. COMMUNICATIONS
    6.1. Any Organisation represented on the Sounding Board must have an email address. Notifications, agendas, minutes and other materials will be provided electronically only.
    6.2. The Didcot Garden Town project delivery staff will post meeting agendas, presentation materials and reports to the website as appropriate.
    6.3. Formal minutes will not be kept, but comments will be summarised for presentation to the Board.
    6.4. An agenda will be provided before the meeting and other documents may be distributed electronically in advance of the meeting as needed.
    6.5. Sounding Board participants may not speak on behalf of Didcot Garden Town.

7. TRANSPARENCY, CONFIDENTIALITY AND PROTECTION OF PERSONAL DATA
    7.1. Personal information associated with Board activity is subject to the Data Protection Act 2018.
    7.2. Data will be stored with South Oxfordshire District Council and the privacy policy will be that of South Oxfordshire District Council.
    7.3. The privacy policy can be found on their website and may be amended from time to time.

Didcot Garden Town

Operating Guidelines for Didcot Garden Town Advisory Board
Parish Councils Sounding Board

January 2020

TERMS OF REFERENCE FOR PARISH COUNCILS SOUNDING BOARD

1. OPERATIONAL OBJECTIVES
   1.1. The objective of the Parish Councils Sounding Board (“Sounding Board”) will be to review project updates and provide comments about the Didcot Garden Town Delivery Plan to the Didcot Garden Town project delivery staff.
   1.2. The Didcot Garden Town project delivery staff will compile comments and provide them to the Board.

2. DURATION OF BOARD
   2.1. The terms of reference for the Sounding Board will be reviewed by the Board biannually following approval and updated as needed.
   2.2. The Sounding Board is expected to continue for as long as the Board operates.

3. BOARD STRUCTURE
   3.1. The Sounding Board will be managed by the Didcot Garden Town project delivery staff for South Oxfordshire and Vale of White Horse District Councils.
   3.2. The Sounding Board will be made up of representatives of the parish and town councils located within the Didcot Garden Town area of influence which is shown in the Didcot Garden Town Delivery Plan.
      3.2.1. Clifton Hampden, Culham, Didcot, East Hagbourne, North Moreton, Little Wittenham (parish meeting), Long Wittenham, South Moreton and West Hagbourne in South Oxfordshire District Council.
      3.2.2. Appleford-on-Thames, Blewbury, Chilton, East Hendred, Harwell, Milton, Steventon, Sutton Courtenay, and Upton in Vale of White Horse District Council.
      3.2.3. The parish clerk will be designated as the single point of contact for each parish council.
      3.2.4. Each parish council will appoint the parish clerk or one councillor to represent them as a member of the Sounding Board for a duration agreed by the parish council.
      3.2.5. Parish councils must notify the Didcot Garden Town project delivery staff of any changes to their designated representative or to their contact details by email to: info@didcotgardentown.co.uk at least 10 days prior to the next Sounding Board meeting.
   3.3. **The** Parish Council**s** Sounding Board meetings will ~~not~~ be open to the public.
   3.4. Meetings will be facilitated by the Didcot Garden Town Project Manager and supported by Didcot Garden Town project delivery staff.
   3.5. The Didcot Garden Town Project Manager and project delivery staff will attend the Sounding Board, make presentations and support the Sounding Board as appropriate.

4. CONDUCT OF BUSINESS
   4.1. The terms of reference for the Sounding Board will be reviewed by the Board biannually following approval and updated as needed.
   4.2. The Sounding Board will meet at least twice a year to provide input to the Didcot Garden Town Project delivery staff. All input will be compiled and provided to the Board at its next regular meeting.
   4.3. Meetings will be up to 90 minutes in duration.
   4.4. Sounding Board members will be invited to one open public forum annually.
   4.5. Meetings will take place at District Council offices or a location in or near Didcot Town centre.
   4.6. Sounding Board meetings will be held if at least three Parish Council representatives have confirmed attendance within 24 hours of the meeting date.
   4.7. **The Sounding Board will elect one member annually to serve as the designated Representative of the Parish Councils Sounding Board (“Representative”) on the Didcot Garden Town Advisory Board (“DGTAB”).**
      4.7.1. **The Sounding Board will elect one member annually to substitute for the designated Representative on the DGTAB.**
      4.7.2. **The representative and substitute representative of the Parish Councils Sounding Board will follow the Terms of Reference for the DGTAB as a member of that board.**
   4.8. The Sounding Board may elect to provide advice and recommendations to the Board by providing written statements, **recommendations** or advice (“Advice”) to the Didcot Garden Town Project Manager. The Project Manager will forward the Advice to the Board at their next regular meeting.

5. FUNDING AND EXPENSE
   5.1. Meeting agendas, notices, room rental and support staff will be provided by South Oxfordshire and Vale of White Horse District Councils.
   5.2. Any travel costs or other expenses generated by Sounding Board members will be paid by their own Organisations and not by South Oxfordshire and Vale of White District Councils.

6. COMMUNICATIONS
   6.1. Any parish council represented on the Sounding Board must provide up to two email addresses which will be the primary method of communication with the Didcot Garden Town project delivery staff.
   6.2. Notifications, agendas, minutes and other materials will be provided electronically only.
   6.3. The Didcot Garden Town Project delivery staff will post meeting agendas, presentation materials and reports to the Didcot Garden Town website as appropriate.
   6.4. Formal minutes will not be kept, but comments will be summarised for presentation to the Board.

6.5. An agenda will be provided before the meeting and other documents may be distributed electronically in advance of the meeting as needed.
6.6. Sounding Board participants may not speak on behalf of Didcot Garden Town.

7. TRANSPARENCY, CONFIDENTIALITY AND PROTECTION OF PERSONAL DATA
   7.1. Personal information associated with Board activity is subject to the Data Protection Act 2018.
   7.2. Data will be stored with South Oxfordshire District Council and the privacy policy will be that of South Oxfordshire District Council.
   7.3. The privacy policy can be found on their website and may be amended from time to time.

TERMS OF REFERENCE FOR BUSINESS SOUNDING BOARD

1. OPERATIONAL OBJECTIVES
   1.1. The objective of the Business Sounding Board ("Sounding Board") will be to review project updates and provide comments about the Didcot Garden Town Delivery Plan to the Didcot Garden Town project delivery staff.
   1.2. The Didcot Garden Town project delivery staff will compile comments and provide them to the Board.

2. DURATION OF BOARD
   2.1. The Sounding Board is expected to continue for as long as the Board operates.

3. BOARD STRUCTURE
   3.1. The Sounding Board will be managed by the Delivery Team for South Oxfordshire and Vale of White Horse District Councils.
   3.2. The Sounding Board will be made up of representatives of businesses located within the Didcot Garden Town area of influence, which is shown in the Didcot Garden Town Delivery Plan.
      3.2.1. Each business should provide a single point of contact.
         3.2.1.1. Businesses must notify the Didcot Garden Town project delivery staff of any changes to their designated representative or to their contact details by email to: info@didcotgardentown.co.uk at least 10 days prior to the next Sounding Board meeting.
   3.3. Business Sounding Board meetings will be open to the public.
   3.4. Meetings will be facilitated by the Didcot Garden Town Project Manager and supported by Didcot Garden Town project delivery staff.

4. CONDUCT OF BUSINESS
   4.1. The terms of reference for the Sounding Board will be reviewed by the Board biannually following approval and updated as needed.
   4.2. The Sounding Board will meet at least twice a year to provide input to the Didcot Garden Town Project delivery staff. All input will be compiled and provided to the Board at its next regular meeting.
   4.3. Meetings will be up to 90 minutes in duration.
   4.4. Sounding Board members will be invited to one open public forum annually.
   4.5. Meetings will take place at District Council offices or a location in or near Didcot Town centre.
   4.6. Sounding Board meetings will be held if at least five business representatives have confirmed attendance within 24 hours of the meeting date.
   4.7. The Sounding Board may elect to provide advice and recommendations to the Board by providing written statements, **recommendations** or advice ("Advice") to the Didcot Garden Town Project Manager. The Project Manager will forward the Advice to the Board at their next regular meeting.

5. FUNDING AND EXPENSE
   5.1. Meeting agendas, notices, room rental and support staff will be provided by South Oxfordshire and Vale of White Horse District Councils.
   5.2. Any travel costs or other expenses generated by Sounding Board members will be paid by their own organisations and not by South Oxfordshire and Vale of White District Councils.

6. COMMUNICATIONS
   6.1. Any business represented on the Sounding Board must provide an email addresses which will be the primary method of communication with the Didcot Garden Town project delivery staff.
   6.2. Notifications, agendas, minutes and other materials will be provided electronically only.
   6.3. The Didcot Garden Town project delivery staff will post meeting agendas, presentation materials and reports to the Didcot Garden Town website as appropriate.
   6.4. An agenda will be provided before the meeting and other documents may be distributed electronically in advance of the meeting as needed.
   6.5. Sounding Board participants may not speak on behalf of Didcot Garden Town.

7. TRANSPARENCY, CONFIDENTIALITY AND PROTECTION OF PERSONAL DATA
   7.1. Personal information associated with Board activity is subject to the Data Protection Act 2018.
   7.2. Data will be stored with South Oxfordshire District Council and the privacy policy will be that of South Oxfordshire District Council.
   7.3. The privacy policy can be found on their website and may be amended from time to time.

January 2020

APPENDIX 3

STATEMENT READ BY SUTTON COURTENAY PARISH COUNCIL AT 12 JULY 2019 VALE CABINET MEETING

Didcot Garden Town

January 2020

Appendix 3: Statement by Sutton Courtenay Parish Council read at 12 July 2019 Vale cabinet meeting

Madam Chair, councillors, thank you for giving me the opportunity to make a statement on behalf of Sutton Courtenay Parish Council. The statement is in relation to agenda item 6 in which you will be considering officer recommendations on Didcot Garden Town governance.

The Parish Council is fully supportive of the project. It has the potential to be one of the most important influences in the way our area in the county develops. So, why am I here?

If you look at the Didcot Garden Town Masterplan you will note that approximately a third of Sutton Courtenay Parish is contained within this Masterplan. I quote from Chapter 10.4 of the Didcot Garden Town delivery plan: *'The Didcot Garden Town masterplan area is intended to cover the current and future extent of Didcot: the area where you might reasonably describe yourself as being 'in Didcot' if you lived or worked there.'* I repeat a third of our parish in within this garden town area which is being described as 'reasonably living in Didcot' – where is our identity? Now imagine you live next to a very important neighbor whom you love dearly, and you do appreciate all the benefits of living next to him. One day he says to you that he is going to incorporate a substantial section of your house and garden in his plans to deliver exciting opportunities for 21st century garden town living. Hmm he says there is just one snag you will not be able to make any decisions about what is planned though we might find a way for you to feel you have had a say. Imagine how you would feel and that is how Sutton Courtenay feels today.

You are about to discuss some fresh proposals for Governance arrangements, despite there having been little public consultation on the new arrangements and the considerable concern Sutton Courtenay and its residents, as well as many other parishes, have been expressing for three years, over how the project is to be governed.

It is noted that the non-executive Board is now to be an Advisory Board and that instead of having Parish Council and Community representatives on that Board, these have been relegated to Sounding Boards. This means that the views of those

January 2020

Appendix 3: Statement by Sutton Courtenay Parish Council read at 12 July 2019 Vale cabinet meeting

bodies will merely be reflected by officers to the main board, without necessarily the full implications and import being expressed. In this there is a clear need for the outlying communities to be able to argue their case where it matters – at the decision-making level.

I cannot speak for other villages, but Sutton Courtenay is in a unique position, trapped between the river and Didcot and now with such a large area of its parish included in the Masterplan. This comes hot on the heels of the Vale's decision to exclude the Didcot Power station area, adjoining employment areas and Milton Park from our Neighbourhood Plan designated area despite our strong objections and the huge financial implications for the village. Please note on the eastern edge of our parish boundary, the DGT Masterplan and the NP designated areas have some overlap. The new Sounding Boards (PCs, Businesses, etc) are due to meet only twice a year for 90 minutes at a time, yet there are planned projects to be delivered within or bordering our parish (Didcot A, Moor ditch, River Crossing, gravel workings site to name just a few) with woefully inadequate opportunities for us to influence project delivery.

I would therefore ask that you seek an amendment so that the Advisory Board includes a representative from Sutton Courtenay. It is no use just relegating us to a Sounding Board, where any concerns will be muffled in general concerns. It is noted that Didcot Town Council is to be a voting member of the Board. It naturally has different interests to those of other local communities and it would be important that any representative from those communities is also accorded voting rights.

In conclusion, we urge you strongly that you do not adopt the Terms of Reference for the DGT Advisory Board and Sounding Boards as recommended, but please consider our request for a full seat on the Advisory Board with voting rights. A vote for Sutton Courtenay would balance the Board between the Va!e and SODC/Didcot TC.

January 2020

Appendix 3: Statement by Sutton Courtenay Parish Council read at 12 July 2019 Vale cabinet meeting

We do wish to be constructive in our request and request that if you are minded not to agree to that request, then an invitation to attend with voting rights for agenda items relating to discussions and decisions on plans for land within SC and the immediate vicinity where SC could be affected or even just an invitation to attend and contribute to the discussions.

And in any case, we ask that when the relevant officers are developing strategies and plans for projects on land which fall within Sutton Courtenay and its immediate vicinity where Sutton Courtenay could be affected, full consultation with Sutton Courtenay Parish Council should take place.

Finally, it is noticeable that OxLEP has a place on the Board as does Homes England. Both of these have considerable impact on the Growth Agenda you are now querying and do not necessarily represent the views of local communities and the requirement to protect the villages from undue and inferior quality development and the green spaces between them. It is recommended that CPRE might also be asked to join the Board, as well as a Parish Council representative, to balance out the influence of those intent on driving the growth agenda.

Thank you and please could I have a reassurance that our request will be considered and if not accepted the rationale is clearly documented for us to see.

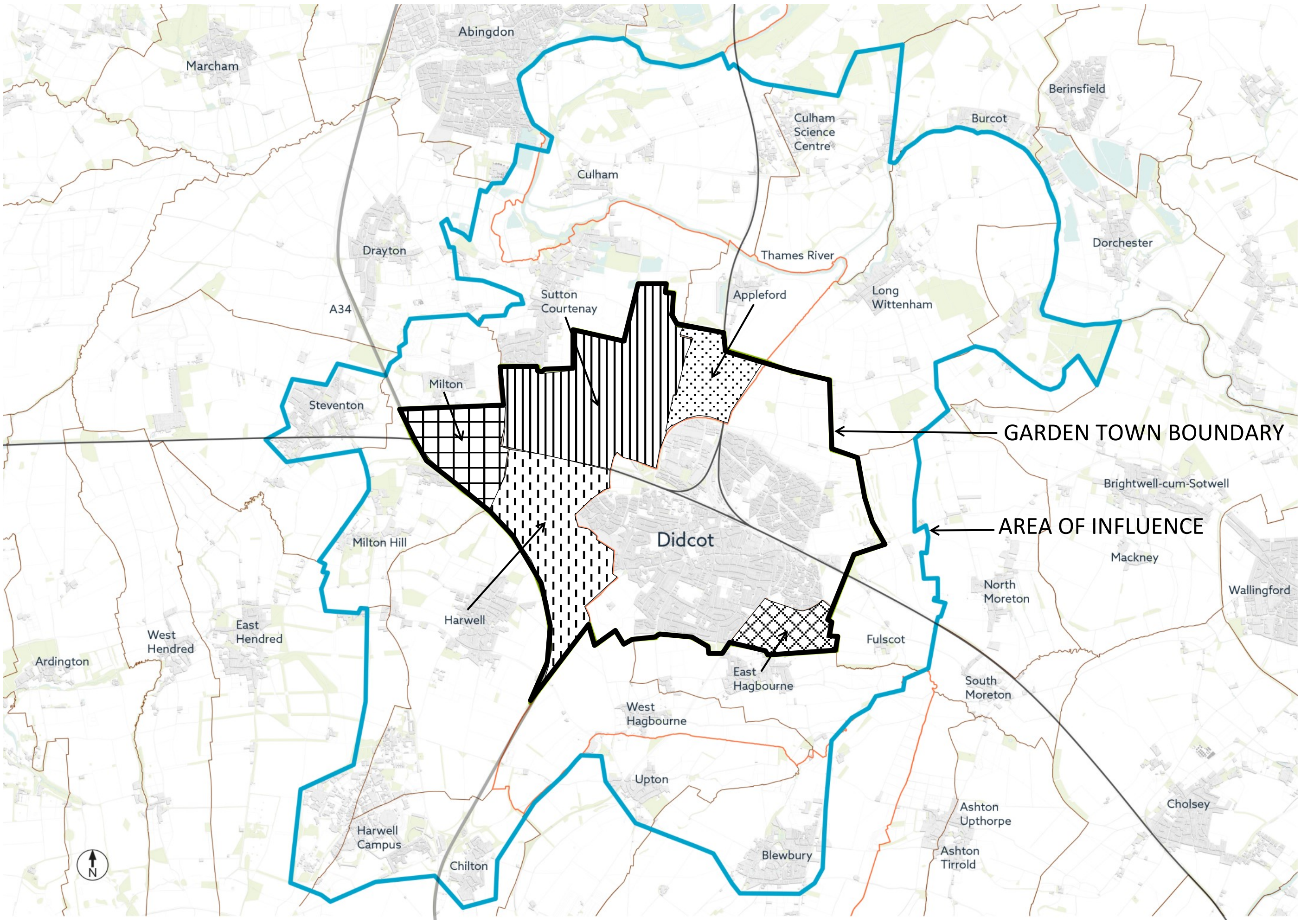
Rita Atkinson on behalf of Sutton Courtenay Parish Council

12 July 2019

January 2020

Didcot Garden Town

APPENDIX 3: Parish councils located partially inside DGT boundary



PARISH AND TOWN COUNCILS LOCATED INSIDE DIDCOT GARDEN TOWN BOUNDARY

January 2020

APPENDIX 4

COMMUNITY ENGAGEMENT SUMMARY

Didcot Garden Town

January 2020

Didcot Garden Town

Community Engagement Summary – Appendix 4

Throughout 2019, the Didcot Garden Town Delivery Team have actively promoted community engagement through a variety of different platforms. The use of different methodologies has ensured inclusivity. This follows a two-year public engagement process in 2016-17 during preparation of the delivery plan.

The summary below demonstrates the Delivery Team's engagement throughout 2019, before and after recommendations by the Vale of White Horse Cabinet on Friday 12 July. Note: The mission of each organisation is summarised at the end of this document.

	Pre July 2019	Post July 2019
Presentations and Meetings	Didcot First Earth Trust Homes England Didcot Access Planning Department CPRE Director General of MHCLG Didcot Garden Town Advisory Board	Harwell Space Cluster Baptist Church Planning Officers Society BOBMK – Urban Design Network Josh Fedder of MHCLG Didcot Town Council Oxfordshire Garden Communities Network Earth Trust SOFEA MEPC Culham Science Centre Harwell Campus Churches of GWP and All Saints MultiCAV
Community Events		Didcot Summer Fayre HarBUG Cycle Day
Online Activity	Facebook Posts Twitter Posts Council Websites	Sign Up Survey Facebook Posts Twitter Posts Council Websites DGT Campaign Website Page
Marketing Materials		Sign Up Leaflet Programme Overview Package Large Display Unit Pop Up Display Units

January 2020

Didcot Garden Town

Community Engagement Summary – Appendix 4

‘Get involved with Didcot Garden Town’ Sign Up – Engagement Data

Are you registering as a:			
Answer Choice		**Response Percent**	**Response Total**
1	resident	88%	230
2	business	5%	13
3	town or parish council	6%	15
4	community organisation	1%	3
		Total	**261**

Didcot Garden Town

Community Engagement Summary – Appendix 4

January 2020

‘Get involved with Didcot Garden Town’ Sign Up – Engagement Data

Please select the type of theme(s) you are interested in (tick all that apply)		
Answer Choice	**Response Percent**	**Response Total**
Roads	80.9%	199
Transport	80.5%	198
Cycling and walking	79.7%	196
Open Space	78.0%	192
Community Space	74.8%	184
Housing	72.4%	178
Health and wellbeing	68.7%	169
Public Space	68.3%	168
Planning	63.8%	157
Environmental sustainability	63.0%	155
Culture	61.0%	150
Health centres	61.0%	150
Retail	60.6%	149
Sustainability	56.9%	140
Climate change	55.7%	137
Design	54.1%	133
Science Vale	51.2%	126
Economy	50.0%	123
Business	49.6%	122
Innovation	49.6%	122
Governance	41.5%	102
Public Art	41.1%	101
Commercial	40.2%	99
Placemaking	37.4%	92

Didcot Garden Town

Community Engagement Summary – Appendix 4 January 2020

Social Media – Engagement

	South Twitter	South Facebook	Vale Twitter	Vale Facebook
Total of engagements	3,616 viewed post 99 clicked the link **2.7% engagement**	7,117 viewed post 1,051 read whole post 74 clicked the link **1% engagement**	3,041 viewed post 56 clicked the link **1.8% engagement**	4,780 viewed post 290 read whole post 23 clicked the link **0.4% engagement**

This may appear to be very low in engagement, however, social media tends to have a low interaction rate.

- Low rates are between 0-1 per cent
- Good rates are 1 per cent and above
- Total clicks to the link during the campaign were **252**
- Total signups for the newsletter as of now are **261**

Social media posts messages were:

Monday 19 August 2019 – Boundary Map
Live or work in the Didcot Garden Town or surrounding area? Sign up on to keep up to date and get involved with the exciting projects planned for the town via https://survey.southandvale.gov.uk/s/registerDGT

Thursday 22 August 2019 – Great Western Park boundary pavilion
If you'd like to hear first-hand about what's happening in Didcot Garden Town, you can now sign up to our newsletter via https://survey.southandvale.gov.uk/s/registerDGT

Tuesday 27 August 2019 – Broadway Baptist square
Keep yourself posted on how you can get involved in the Didcot Garden Town plans. Just enter your email address to get the latest news https://survey.southandvale.gov.uk/s/registerDGT

Friday 7 September 2019 – Greenline view
We want you to be involved and kept up to date on all the interesting projects in Didcot Garden Town and surrounding villages – get yourself signed up to our regular updates https://survey.southandvale.gov.uk/s/registerDGT

January 2020

Didcot Garden Town

Community Engagement Summary – Appendix 4

Proposed Engagement Activities - 2020

1. Project Priorities Online Survey
2. Newsletter
3. Sounding Boards (pending approval)

ORGANISATION PURPOSE SUMMARY

ORGANISATION	PURPOSE
BOBMK – Urban Design	*Achieving good urban design in changing times (*there are 14 subscribing local authorities)
Campaign to Protect Rural England (CPRE)	*We are CPRE, the countryside charity. We want a thriving, beautiful countryside for everyone.*
Culham Science Centre	*The hottest place on the planet and home to some of the planet's coolest science. Owned and managed by the United Kingdom Atomic Energy Agency…*
Didcot Access	*Didcot Access Group (DAG) is a local group run to ensure that everything that Didcot has to offer is available to as many people as possible, particularly allowing freedom of access to all who have physical or sensory difficulties.*
Didcot First	*Didcot First is an Independent organisation, committed to connecting business and community so that Didcot is a positive place to live, work, invest and grow.*
Didcot Garden Town Advisory Board	Advise on matters related to implementation of Didcot Garden Town.
Didcot Town Council	*We strive to make Didcot a better place to live, work and play.*
Earth Trust	*Our Mission is to give people access to and experience of the environment through the natural green spaces we manage and together understand what we can do to care for the planet.*
Harwell Campus	*The UK home for innovation. A thriving campus that fires and inspires technological and scientific excellence*
Harwell Space Cluster Network	*Harwell Space Cluster is the gateway to the UK space sector with 92 Space organisations employing 1040 people.*
Homes England	*We're the government's housing accelerator.*
Housing, Communities and Local Government (MHCLG)	*The Ministry of Housing, Communities and Local Government's (formerly the Department for Communities and Local Government) job is to create great places to live and work, and to give more power to local people to shape what happens in their area.*
Milton Park (MEPC)	*MEPC develops and manages some of the UK's best commercial real estate and provides consistently stron, long term, financial performance for our investors.*

January 2020

Didcot Garden Town

Community Engagement Summary – Appendix 4

MultiCAV (connected and autonomous vehicles) consortium	*MultiCAV is an integrated Mobility as A Service (MAAS) trial that brings together autonomous vehicles including shuttles, taxis, 12 metre buses and electric bikes, all accessible via a single journey planning platform.* The trial of the vehicles is to be done in Didcot Garden Town with a focus on journeys between Milton Park and Didcot Railway Station.
Planning Officers Society	*The credible voice of public sector planners in England*
Oxfordshire Garden Communities Network	Resource sharing network comprised of the five Oxfordshire based garden communities
Reverends of Great Western Park and All Saints Wards	• *At Great Western Park Church we are a growing community of believers, drawn from the newest housing estate in Didcot and the surrounding areas.* • *All Saints' Church is part of the Church of England and our services range from traditional to informal.*
SOFEA	*Access to quality food and education are basic human rights. The mission of our charitable organization is to see that these rights are met for vulnerable individuals and communities.*
Welcome Break Group at the Baptist Church	*Welcome Break provides a meeting place for the older people of the Didcot area each Thursday afternoon from 2:30 pm during school term time.*

January 2020

APPENDIX 5

PROPOSED TIMELINE FOR APPROVALS

Didcot Garden Town

January 2020

Didcot Garden Town

APPENDIX 5: **Proposed timeline for approval of governance, finance plan and project priorities**

JOINT SCRUTINY COMMITTEE MEETING	
Activity	**Proposed Milestone**
Senior Management Team (SMT)	2 Weeks before Joint Scrutiny Committee date
Joint Scrutiny Committee Meeting	16 January 2020
DIDCOT GARDEN TOWN ADVISORY BOARD MEETING	
Activity	**Proposed Milestone**
Didcot Garden Town Advisory Board – discuss governance, project priorities and community engagement activity	24 January 2020
COMMUNITY ENGAGEMENT	
Activity	**Proposed Milestone**
Send out newsletter	Following DGT AB board meeting
Prepare community engagement plan	Begin work following approval of governance model
Launch event for sounding boards	Hold event following approval of governance model and with consideration of resolution of HIF and South Oxfordshire Local Plan activity
***CABINET DATE** (work to begin following Joint Scrutiny Committee meeting date)	
Activity	**Proposed Milestone**
Vale Cabinet briefing	10 January 2020
Vale Cabinet	03 February 2020
South Cabinet briefing	7 January 2020
South Cabinet	30 January 2020
FINANCE APPROVAL	
Activity	**Proposed Milestone**
Vale Council meeting	TBC confirmation of Homes England funding bid for 2019-20
South Council meeting	TBC confirmation of Homes England funding bid for 2019-20

*Cabinet approval needed for governance and project priorities

Joint Audit and Governance Committee

Report of Interim Head of Finance

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To: **Joint Audit and Governance Committee; Cabinet; Council**

DATE: 27 January by Joint Audit and Governance Committee
30 January (S) / 31 January (V) by Cabinet
13 February (S) / 12 February (V) by Council

Treasury management mid-year monitoring report 2019/20

Recommendations

That Joint Audit and Governance Committee:

1. notes the treasury management mid-year monitoring report 2019/20.
2. is satisfied that the treasury activities are carried out in accordance with the treasury management strategy and policy.
3. Supports the changes to the South counterparty limits identified in paragraphs 21 and 22 of this report

That Cabinet:

4. considers any comments from Joint Audit and Governance Committee and recommends council to approve the report.
5. (South only) recommends Council to agree the changes to the counterparty limits identified in paragraphs 21 and 22 of this report

Purpose of report

1. The report fulfils the legislative requirements to ensure the adequate monitoring of the treasury management activities and that each council's prudential indicators are

reported to their respective council mid-year (i.e.: as at 30 September). The report provides details of the treasury activities for the first six months of 2019/20 and an update on the current economic conditions with a view to the remainder of the year.

Strategic objectives

2. Managing the finances of the authority in accordance with the treasury management strategy will help to ensure that resources are available to deliver its services and meet the council's strategic objectives.

Background

Treasury management

3. This report has been written in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised 2017).

4. The primary requirements of the Code are as follows:

   - Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.

   - Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.

   - 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, (stewardship report), covering activities during the previous year.

   - 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.

5. This mid-year report has been prepared in compliance with CIPFA's Code of Practice on Treasury Management, and covers the following:

   - An economic update for the first part of the 2019/20 financial year;
   - A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
   - A review of the Councils' investment portfolio for 2019/20;
   - A review of the Councils' borrowing strategy for 2019/20;
   - A review of compliance with Treasury and Prudential Limits for 2019/20.

6. The first main function of the treasury management service is to ensure the councils' cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity initially before considering optimising investment return. The Treasury Management Strategy determines to whom the council can lend, and this is the manifestation of its risk appetite.

7. The second main function of the treasury management service is to ensure funding for the Councils' capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning to ensure the Councils can meet their capital spending operations. This management of longer term cash may involve arranging long or short-term loans, or using longer term cash flow surpluses, and on occasion any debt previously drawn may be restructured to meet risk or cost objectives.

8. Accordingly, treasury management is defined as:

> "The management of the local authority's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

9. The 2019/20 treasury management strategy was approved by each council in February 2019. This report summarises the treasury activity and performance for the first six months of 2019/20 against those prudential indicators and benchmarks set for the year. It also provides an opportunity to review and subsequently revise limits if required. Full council is required to approve this report and any amendments to the Treasury Management Strategy.

Treasury activity

10. The mid-year performance of the two councils is summarised in the tables below[1].

	South	Treasury investments £000	Non treasury loan £000	Sub Total £000	Property investment £000	Overall total £000
1	Average investment balance	147,014	15,000	162,014	7,838	169,852
2	Budgeted investment income	781	311	1,092		
3	Actual investment income	1,139	309	1,448	46	1,494
4	surplus/(deficit) (3) - (2)	358	(2)	356		
5	Annualised rate of return	1.55%	4.12%	1.79%	1.17%	1.76%

	Vale	Treasury investments £000	Property investment £000	Overall total £000
1	Average investment balance	71,760	5,683	77,443
2	Budgeted investment income	381		
3	Actual investment income	577	107	684
4	surplus/(deficit) (3) - (2)	196		
5	Annualised rate of return	1.61%	3.77%	1.77%

For property, the balance shown is the fair value of investment properties as at 31 March 2019.

11. The forecast outturn position as at September 2019, based on known investments and maturities and an estimate for future earnings is shown in the table below:

		South Oxfordshire District Council	Vale of White Horse District Council
	Annual budget as per MTFP	£2,806,660	£762,124
	Forecast outturn	£3,115,529	£1,042,687
	Variance against budget	£308,869	£280,563
	Borrowing	Nil	Nil

12. The Councils remain restricted regarding financial institutions meeting their investment criteria. When it is possible, investments will be placed with highly rated institutions for a longer duration with a view to increasing the weighted average maturity of the portfolio, but this has meant that overall there are less suitable counterparties available to the councils to deposit with.

13. **SODC**. The latest estimate is that income receivable on cash investments will be above budget by £308,869. This is due to higher than budgeted cash balances, and also the placing of more longer-term investments which earn higher interest rates.

14. **VWHDC.** The latest estimate is that income receivable on cash investments will be above budget by £280,563. This is for the same reasons as for SODC above.

Performance measurement

15. A list of investments as at 30 September is shown in Appendices A1 and A2.

16. The councils' performance against benchmarks for the first six months of the year are detailed in Appendices A3 and A4. All benchmarks have been achieved except the

long-term CCLA benchmarks which measure performance from the investment date rather than performance in the year. Performance for the year to date of 4.35 per cent is higher that the short-term benchmark of 4.27 per cent.

17. All investments set up on Vale were with approved counterparties. The average return on these investments is shown above in the table at paragraph 5. South has performed better than Vale because it holds more long-term loans at higher rates and equities as a result of its larger investment base.

18. At South, it has become apparent that there is a contradiction in the counter-party limits. One investment has been made in breach of the counterparty limits. It was made with a "A" rated organisation for two years, whereas the maximum maturity period for such an institution is one year. However, in practice the limit for an "A" rated institution should be longer than for an "A-" rated institution (as an A rated institution is stronger than an A- rated institution).

19. The current limits for such counterparties as agreed are shown below.

Counterparty	Minimum Fitch Long term Rating (or equivalent)	Counterparty Limit £m	Max. maturity period
Institutions with a minimum rating:	F1 / A-	£15.0m	2 years
Institutions with a minimum rating:	F1 / A	£15.0m	1 year

20. In practice this is wrong way round and it should be:

Counterparty	Minimum Fitch Long term Rating (or equivalent)	Counterparty Limit £m	Max. maturity period
Institutions with a minimum rating:	F1 / A	£15.0m	2 years
Institutions with a minimum rating:	F1 / A-	£15.0m	1 year

21. It is therefore recommended that South Council approve this change to the counterparty list.

22. The investment in question also made to a housing association which breached a separate limit set for housing associations which require any investment to be with an organisation rated at least A+. Officers feel that this separate limit is not required and also recommend to South Council that this limit is deleted from the counter party list.

Treasury management limits on activity

23. Each council is required by the Prudential Code to report on the limits set each year in their respective Treasury Management Strategies. The purpose of these limits is to ensure that the activity of the treasury functions remain within certain parameters, thereby mitigating risk and reducing the impact of an adverse movement in interest rates. However, if these limits are set to be too restrictive they will impair the opportunities to reduce costs/improve performance. The performance against the limits for both councils are shown in appendices B1 and B2.

Debt activity during 2019/20

24. During the first six months of 2019/20 there has been no need for either of the councils to borrow. The Interim Head of Finance will continue to take a prudent approach to the councils' debt strategies. The prudential indicators and limits set out in appendices B1 and B2 provide the scope and flexibility for either of the councils to borrow in the short-term up to the maximum limits, if ever such a need arose within the cash flow management activities of the authority in order to achieve its service objectives.

Interest Rate Forecast and Economic Forecast

25. The Council's treasury advisor, Link Asset Services, has provided the following forecast:

Quoted from link Asset Services December 2019

Bank Rate	NOW	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Link Asset Services	0.75%	0.75%	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%	1.25%
Capital Economics	0.75%	0.75%	0.75%	0.50%	0.50%	0.50%	-	-	-	-	-	-	-	-	-

5yr PWLB Rate	NOW	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Link Asset Services	2.27%	2.30%	2.40%	2.40%	2.50%	2.50%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%	3.20%	3.20%
Capital Economics	2.27%	2.40%	2.40%	2.40%	2.40%	2.40%	-	-	-	-	-	-	-	-	-

10yr PWLB Rate	NOW	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Link Asset Services	2.46%	2.60%	2.70%	2.70%	2.70%	2.80%	2.90%	3.00%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%	3.50%
Capital Economics	2.46%	2.60%	2.60%	2.60%	2.60%	2.60%	-	-	-	-	-	-	-	-	-

25yr PWLB Rate	NOW	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Link Asset Services	3.03%	3.20%	3.30%	3.40%	3.40%	3.50%	3.60%	3.70%	3.70%	3.80%	3.90%	4.00%	4.00%	4.10%	4.10%
Capital Economics	3.03%	2.90%	2.90%	2.90%	2.90%	2.90%	-	-	-	-	-	-	-	-	-

50yr PWLB Rate	NOW	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Link Asset Services	2.87%	3.10%	3.20%	3.30%	3.30%	3.40%	3.50%	3.60%	3.60%	3.70%	3.80%	3.90%	3.90%	4.00%	4.00%
Capital Economics	2.87%	3.00%	3.00%	3.00%	3.00%	3.00%	-	-	-	-	-	-	-	-	-

26. *It has been little surprise that the Monetary Policy Committee (MPC) has left Bank Rate unchanged at 0.75 per cent so far in 2019 due to the ongoing uncertainty over Brexit. In its meeting on 1 August, the MPC became more concerned about the outlook for both the global and domestic economies. That's shown in the policy statement, based on an assumption that there is an agreed deal on Brexit, where the suggestion that rates would need to rise at a "gradual pace and to a limited extent" is now also conditional on "some recovery in global growth".*

27. *Brexit uncertainty has had a dampening effect on UK GDP growth in 2019, especially around mid-year. If there were a no deal Brexit, then it is likely that there will be a cut or cuts in Bank Rate to help support economic growth.*

28. *The September MPC meeting sounded even more concern about world growth and the effect that prolonged Brexit uncertainty is likely to have on growth.*

Financial Implications

29. These are covered in the body of the report.

Legal implications

30. There are no significant legal implications as a result of the recommendations in this report. Compliance with the CIPFA Code of Practice for Treasury Management in the Public Services and the CLG Local Government Investment Guidance provides assurance that the council's investments are, and will continue to be, within its legal powers.

Administration

31. Capita provide the Treasury Management services through its financial accounting team based in Shepton Mallet. The council still authorise daily dealings and receive regular reports from the team on current and future investments.

Conclusion

32. This report provides details of the treasury management activities for the period 1 April 2019 to 30 September 2019 and the mid-year prudential indicators to each respective council.

33. Other than for one incident at South, Treasury activities at both councils have operated within the agreed parameters set out in their respective approved treasury management strategies.

34. This report also provides the monitoring information for joint audit and governance committee to fulfil its role of scrutinising treasury management activity at each council.

Background papers

- CIPFA Code of Practice on Treasury Management 2017
- CIPFA Prudential Code 2017
- CIPFA Treasury Management in the Public Services Guidance Notes 2018
- CIPFA statement 17.10.18 on borrowing in advance of need and investments in commercial properties
- CIPFA Bulletin 02 Treasury and Capital Management Update October 2018
- Statutory investment guidance where it has been updated in 2018 (English local authorities)
- Statutory MRP guidance where it has been updated in 2018 (English local authorities)
- Treasury Management Investment Strategy 2019/20 (South Oxfordshire & Vale of White Horse, February 2019)

Appendices

A1 – SODC List of investments as at 30 September 2019
A2 – VWHDC List of investments as at 30 September 2019
A3 – SODC Performance against benchmark
A4 – VWHDC Performance against benchmark
B1 – SODC Prudential Indicators
B2 – VWHDC Prudential Indicators
C1 – Note on Prudential Indicators

South Oxfordshire

Investments as at 30 September 2019 Counterparty	Deposit type	Investment date	Maturity date	Remaining investment duration in days	Principal	Rate (%)
Cambridge BS	Fixed	02-Oct-18	02-Oct-19	2	3,000,000	1.15%
Nottingham Building Society	Fixed	22-Oct-18	22-Oct-19	22	1,000,000	1.05%
Progressive Building Society	Fixed	22-Oct-18	22-Oct-19	22	1,000,000	1.08%
Progressive Building Society	Fixed	02-Nov-18	01-Nov-19	32	2,000,000	1.08%
West Bromwich Building Society	Fixed	06-Nov-18	06-Nov-19	37	2,000,000	1.15%
West Bromwich Building Society	Fixed	08-Nov-18	08-Nov-19	39	2,000,000	1.15%
Cambridge BS	Fixed	01-Nov-18	11-Nov-19	42	2,000,000	1.15%
Close Brothers	Fixed	27-Nov-17	27-Nov-19	58	3,000,000	1.10%
Nottingham Building Society	Fixed	14-Dec-18	13-Dec-19	74	3,000,000	1.15%
Goldman Sachs International Bank	Fixed	19-Dec-18	18-Dec-19	79	2,000,000	1.24%
Goldman Sachs International Bank	Fixed	07-Feb-19	07-Feb-20	130	2,000,000	1.05%
Nottingham Building Society	Fixed	15-Feb-19	14-Feb-20	137	2,000,000	1.20%
Close Brothers	Fixed	14-Mar-19	16-Mar-20	168	2,000,000	1.25%
Close Brothers	Fixed	18-Mar-19	18-Mar-20	170	2,000,000	1.25%
West Bromwich Building Society	Fixed	03-Apr-19	02-Apr-20	185	3,500,000	1.22%
Goldman Sachs International Bank	Fixed	03-Apr-19	02-Apr-20	185	2,000,000	1.03%
Goldman Sachs International Bank	Fixed	03-Apr-19	02-Apr-20	185	3,000,000	1.03%
National Counties Building Society	Fixed	03-Apr-19	02-Apr-20	185	2,500,000	1.30%
Principality Building Society	Fixed	03-Apr-19	02-Apr-20	185	2,000,000	1.20%
Close Brothers	Fixed	03-Apr-19	03-Apr-20	186	2,000,000	1.25%
Close Brothers	Fixed	09-Apr-19	09-Apr-20	192	2,000,000	1.25%
Principality Building Society	Fixed	02-May-19	01-May-20	214	2,500,000	1.15%
Newcastle Building Society	Fixed	03-May-19	01-May-20	214	2,000,000	1.22%
National Counties Building Society	Fixed	03-May-19	01-May-20	214	1,000,000	1.26%
West Bromwich Building Society	Fixed	15-May-19	14-May-20	227	2,500,000	1.10%
Principality Building Society	Fixed	20-May-19	18-May-20	231	1,500,000	1.16%
National Counties Building Society	Fixed	21-May-19	19-May-20	232	1,500,000	1.26%
National Counties Building Society	Fixed	28-May-19	26-May-20	239	1,000,000	1.25%
Nottingham Building Society	Fixed	28-May-19	26-May-20	239	1,000,000	1.18%
Saffron Building Society	Fixed	03-Jun-19	02-Jun-20	246	2,500,000	1.17%
Nottingham Building Society	Fixed	11-Jun-19	11-Jun-20	255	1,000,000	1.15%
Principality Building Society	Fixed	11-Jun-19	11-Jun-20	255	3,000,000	1.15%
Newcastle Building Society	Fixed	27-Jun-19	25-Jun-20	269	2,000,000	1.30%
Principality Building Society	Fixed	02-Jul-19	01-Jul-20	275	4,000,000	1.10%

South Oxfordshire Continued

Investments as at 30 September 2019 Counterparty	Deposit type	Investment date	Maturity date	Remaining investment duration in days	Principal	Rate (%)
Cumberland Building Society	Fixed	03-Jul-19	01-Jul-20	275	3,000,000	1.00%
Principality Building Society	Fixed	09-Jul-19	08-Jul-20	282	2,000,000	1.10%
Monmouthshire Building Society	Fixed	10-Jul-19	09-Jul-20	283	1,000,000	1.20%
Progressive Building Society	Fixed	16-Jul-19	15-Jul-20	289	2,500,000	1.15%
Monmouthshire Building Society	Fixed	18-Jul-19	17-Jul-20	291	2,000,000	1.20%
Kingston upon Hull City Council	Fixed	19-Aug-13	19-Aug-20	324	3,500,000	2.70%
Kingston upon Hull City Council	Fixed	19-Aug-13	19-Aug-20	324	1,500,000	2.70%
Newcastle Building Society	Fixed	30-Aug-19	28-Aug-20	333	2,000,000	1.25%
Newcastle Building Society	Fixed	30-Aug-19	28-Aug-20	333	2,000,000	1.25%
Monmouthshire Building Society	Fixed	17-Sep-19	16-Sep-20	352	3,000,000	1.05%
Newbury Builiding Society	Fixed	27-Sep-19	25-Sep-20	361	2,000,000	1.20%
Santander	Call *				3,401,256	0.40%
Royal Bank of Scotland	Call *				2,343	0.20%
Royal Bank of Scotland	Call *				96,095	0.10%
Goldman Sachs	MMF *				5,985,000	0.68%
Blackrock	MMF *				690,000	0.67%
Total short term cash investments (<1 yr duration)					**106,174,693**	
METROPOLITAN HOUSING TRUST L	Fixed	12-Jul-19	12-Jan-21	470	2,000,000	1.45%
Kingston upon Hull City Council	Fixed	15-Jan-14	15-Jan-21	473	2,000,000	2.50%
Close Brothers	Fixed	14-Mar-19	15-Mar-21	532	3,000,000	1.50%
Close Brothers	Fixed	29-Mar-19	29-Mar-21	546	1,000,000	1.50%
Royal Bank of Scotland	Fixed	08-Apr-19	08-Apr-21	556	3,000,000	1.75%
METROPOLITAN HOUSING TRUST L	Fixed	11-Apr-19	12-Apr-21	560	3,000,000	1.70%
Royal Bank of Scotland	Fixed	15-Apr-19	15-Apr-21	563	3,000,000	1.78%
Places for People	Fixed	10-May-19	10-May-21	588	2,000,000	1.70%
Places for People	Fixed	25-Jun-19	25-Jun-21	634	3,000,000	1.70%
Bury MBC	Fixed	18-Jul-16	19-Jul-21	658	5,000,000	1.50%
Lloyds Bank	Fixed	23-Jul-19	23-Jul-21	662	2,000,000	1.30%
Royal Bank of Scotland	Fixed	18-Feb-19	20-Feb-23	1239	2,000,000	2.46%
Total long-term cash investments (>1 yr duration)					**31,000,000**	
CCLA	Property				6,755,639	Variable
Legal & General Equities	Unit Trust				12,935,023	Variable
Total Investments					**156,865,355**	

* Rates are variable. Returns shown represent prevailing rates at end Q2 2019.
** Above figures exclude balance outstanding from Kaupthing Singer and Friedlander and SOHA loan
***Last year total investments: £152 million

Vale of White Horse District Council

Investments as at 30 September 2019						
Counterparty	Deposit type	Investment date	Maturity date	Remaining investment duration in days	Principal	Rate (%)
Cambridge Building Society	Fixed	02/10/2018	02/10/2019	2	2,000,000	1.15%
Goldman Sachs International Bank	Fixed	29/10/2018	29/10/2019	29	2,000,000	1.24%
Places For People Homes Ltd	Fixed	01/11/2018	31/10/2019	31	1,000,000	1.50%
Principality Building Society	Fixed	15/11/2018	15/11/2019	46	1,500,000	1.05%
West Bromwich Building Society	Fixed	15/11/2018	15/11/2019	46	1,500,000	1.15%
Close Brothers Ltd	Fixed	16/11/2017	18/11/2019	49	2,000,000	1.10%
Fife Council	Fixed	19/11/2018	18/11/2019	49	3,000,000	1.05%
Saffron Building Society	Fixed	30/11/2018	29/11/2019	60	3,000,000	1.12%
Newcastle Building Society	Fixed	05/12/2018	04/12/2019	65	1,500,000	1.15%
Principality Building Society	Fixed	13/12/2018	13/12/2019	74	2,000,000	1.10%
Nottingham Building Society	Fixed	03/01/2019	03/01/2020	95	2,000,000	1.15%
Darlington Building Society	Fixed	17/01/2019	17/01/2020	109	2,000,000	1.25%
Slough Borough Council	Fixed	21/01/2019	21/01/2020	113	4,000,000	1.10%
Close Brothers Ltd	Fixed	21/01/2019	21/01/2020	113	4,000,000	1.25%
Lloyds Bank	Fixed	28/01/2019	28/01/2020	120	10,000,000	1.10%
Newcastle Building Society	Fixed	15/02/2019	14/02/2020	137	1,500,000	1.25%
Places For People Homes Ltd	Fixed	19/02/2019	19/02/2020	142	2,000,000	1.50%
Close Brothers Ltd	Fixed	05/03/2018	05/03/2020	157	2,000,000	1.35%
Progressive Building Society	Fixed	26/06/2019	26/06/2020	270	3,000,000	1.22%
National Counties Building Society	Fixed	26/06/2019	26/06/2020	270	1,000,000	1.25%
National Counties Building Society	Fixed	29/07/2019	27/07/2020	301	1,000,000	1.26%
Kingston upon Hull City Council	Fixed	19/08/2013	19/08/2020	324	2,000,000	2.70%
Newbury Building Society	Fixed	09/09/2019	08/09/2020	344	1,000,000	1.20%
Monmouthshire Building Society	Fixed	11/09/2019	10/09/2020	346	1,000,000	1.05%
National Counties Building Society	Fixed	11/09/2019	10/09/2020	346	1,000,000	1.20%
Principality Building Society	Fixed	11/09/2019	10/09/2020	346	3,000,000	1.06%
Skipton Building Society	Fixed	18/09/2019	17/09/2020	353	2,000,000	0.95%
LGIM	MMF *				11,000,000	0.67%
Goldman Sachs	MMF *				5,810,000	0.68%
Total short term cash investments (<1 yr duration)					**78,810,000**	
Kingston upon Hull City Council	Fixed	15/01/2014	15/01/2021	473	2,000,000	2.50%
Cambridgeshire County Council	Fixed	28/02/2019	26/02/2021	515	2,000,000	1.45%
Southern Housing Group	Fixed	19/03/2019	19/03/2021	536	5,000,000	1.60%
Metropolitan Housing Trust Ltd	Fixed	11/04/2019	12/04/2021	560	2,000,000	1.70%
Places For People Homes Ltd	Fixed	17/06/2019	17/06/2021	626	2,000,000	1.70%
Metropolitan Housing Trust Ltd	Fixed	28/06/2019	28/06/2021	637	2,000,000	1.70%
Metropolitan Housing Trust Ltd	Fixed	29/07/2019	29/07/2021	668	1,000,000	1.60%
Close Brothers Ltd	Fixed	27/09/2019	27/09/2021	728	2,000,000	1.30%
Total long-term cash investments (>1 yr duration)					**18,000,000**	
CCLA	Property				2,704,646	variable
Total Investments					**99,514,646**	

*Last year total investments: £83 million

South Oxfordshire District Council

Investment returns achieved against benchmark				
	Benchmark Return	Actual Return	Growth (Below)/above Benchmark	Benchmarks
Bank & Building Society deposits - internally managed	0.63%	1.55%	0.92%	3 Month LIBID
Equities	2.34%	5.88%	3.54%	FTSE All Shares Index

- All benchmarks managed by the treasury team were met in the first six months of the year.

CCLA

Annualised total return performance			
Performance to 28 September 2019	1 year	3 years	5 years
The local authorities property fund	5.99%	6.23%	9.46%
Benchmark - IPD property index	5.69%	6.88%	9.63%

- The CCLA investment is a long term holding. The above table shows the performance of the fund as a whole and the longer term performance should be used as a guide to returns achievable in the medium term.

- South invested £5 million into the fund and in the first six months of 2019/20, achieved a return of 4.35 per cent calculated as a ratio of income over the market value held as at 30 September 2019. This is not the same basis upon which the performance of the fund above is calculated.

Vale of White Horse District Council

Investment returns achieved against benchmark				
	Benchmark return	Actual return	Growth (below)/above benchmark	Benchmarks
	%	%	%	
Internally managed - Bank & Building Society deposits	0.63%	1.61%	0.98%	3 month LIBID

- All benchmarks managed by the treasury team were met in the first six months of the year.

CCLA

Annualised total return performance			
Performance to 28 September 2019	1 year	3 years	5 years
The local authorities property fund	5.99%	6.23%	9.46%
Benchmark - IPD property index	5.69%	6.88%	9.63%

- The CCLA investment is a long term holding. The above table shows the performance of the fund as a whole and the longer-term performance should be used as a guide to returns achievable in the medium term.

- Vale invested £2 million into the fund and in the first six months of 2019/20, achieved a return of 4.35 per cent calculated as a ratio of income over the market value held as at 30 September 2019. This is not the same basis upon which the performance of the fund above is calculated.

South Oxfordshire District Council

Prudential indicators as at 30th September 2019		
	2019/20	Actual as at
	Original Estimate	30-Sep
Debt	**£m**	**£m**
Authorised limit for external debt		
Borrowing	30	0
Other long term liabilities	0	0
	30	**0**
Operational boundary for external debt		
Borrowing	25	0
Other long term liabilities	0	0
	25	**0**
Interest rate exposures		
Maximum fixed rate borrowing	100%	**0**
Maximum variable rate borrowing	100%	**0**
Investments		
Interest rate exposures		
Limits on fixed interest rates	100%	81%
Limits on variable interest rates	50	10
Principal sums invested > 364 days		
Upper limit for principal sums invested >364 days	70	31

Vale of White Horse District Council

Prudential indicators as at 30th September 2019		
	2019/20 Original estimate £m	Actual as at 30-Sep £m
Authorised limit for external debt		
Borrowing	30	0
Other long term liabilities	5	0
	35	**0**
Operational boundary for external debt		
Borrowing	25	0
Other long term liabilities	0	0
	25	**0**
Interest rate exposures		
Maximum fixed rate borrowing	100%	**0**
Maximum variable rate borrowing	100%	**0**
Investments		
Interest rate exposures		
Limits on fixed interest rates	100%	80%
Limits on variable interest rates	50	17
Principal sums invested > 364 days		
Upper limit for principal sums invested >364 days	40	18

<u>Prudential indicators – explanatory note</u>

Debt

There are two limits on external debt: the 'Operational Boundary' and the 'Authorised Limit'. Both are consistent with the current commitments, existing plans and the proposals in the budget report for capital expenditure and financing, and with approved treasury management policy statement and practices. They are both based on estimates of most likely, but not worst case scenario.

The key difference is that the Authorised Limit cannot be breached without prior approval of the Council. It therefore includes more headroom to take account of eventualities such as delays in generating capital receipts, forward borrowing to take advantage of attractive interest rates, use of borrowing in place of operational leasing, "invest to save" projects, occasional short term borrowing to cover temporary revenue cash flow shortfalls as well as an assessment of risks involved in managing cash flows.

The Operational Boundary is a more realistic indicator of the likely position.

Interest rate exposures

The maximum proportion of interest on borrowing which is subject to fixed/variable rate of interest.

Investments

Interest rate exposure

The purpose of these indicators is to set ranges that will limit exposure to interest rate movement. The indicator required by the Treasury Management Code considers the net position of borrowing and investment and is based on principal sums outstanding.

Principal sums invested

This indicator sets a limit on the level of investments that can be made for more than 364 days.

Agenda Item 10

Report to:

South Oxfordshire District Council

Listening Learning Leading

Joint Audit and Governance Committee
Cabinet
Council

Report of Interim Head of Finance

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To:	JOINT AUDIT AND GOVERNANCE COMMITTEE on	27 January 2020
	CABINET on	30 January 2020
	COUNCIL on	13 February 2020

Treasury Management and Investment Strategy 2020/21

Recommendations

That Joint Audit and Governance Committee approves each of the following key elements of this report, and recommends these to Cabinet:

1. To approve the treasury management strategy 2020/21 set out in appendix A to this report;

2. To approve the prudential indicators and limits for 2020/21 to 2022/23 as set out in, appendix A.

3. To approve the annual investment strategy 2020/21 set out in appendix A, (paragraphs 40 to 81) and the lending criteria detailed in table 5.

That Cabinet considers any comments from committee and recommends Council to approve report.

Purpose of report

1. This report presents the council's Treasury Management Strategy (TMS) for 2020/21. This sets out how the council's treasury service will support financing of capital investment decisions, and how treasury management operates day to day. It sets out the limitations on treasury management activity informed by the prudential indicators, within which the council's treasury function must operate. The strategy is included as appendix A to the report. This report includes the three elements required by legislation as follows:

   - The **prudential indicators** required by the CIPFA Prudential Code 2017 for Capital Finance in Local Authorities and CIPFA TM code of Practice 2017;

   - The **annual investment strategy**. This sets out the council's criteria for selecting counterparties and limiting exposure to the risk of loss on its investments.

   - A statutory duty to approve a **minimum revenue provision** policy statement. (appendix A, paragraph 15-19).

   It is a requirement of the CIPFA Code of Practice on Treasury Management 2017 that this report is approved by full Council on an annual basis.

Strategic objectives

2. Managing the finances of the authority in accordance with the treasury management strategy will help to ensure that resources are available to deliver its services and meet the council's strategic objectives.

Background

3. Treasury management is the planning of the council's 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.

4. The funding of the council's capital expenditure is also a function of treasury management. The capital programme provides a guide to the funding needs of the council and informs long-term cash flow plans to ensure that the council can meet its capital spending obligations.

5. Treasury investments are effectively what the council does with its cash resources before it is spent on the provision of services and the funding of the capital programme. All expenditure of a capital nature is managed through the council's capital programme and is not covered by this report.

6. The treasury management and annual investment strategy set out the council's policies for managing investments and confirms the council gives priority to the security and liquidity of those investments. It also includes the prudential indicators for the next three years; these demonstrate that the council's capital investment plans are affordable, prudent and sustainable.

7. The council's treasury management strategy 2020/21 is attached in appendix A. Whilst every attempt has been made to minimise the technical content of this report, it is, by its very nature and the need for compliance with associated guidance, technical in parts. A glossary of terms in appendix G should aid members understanding of some technical terms used in the report.

8. The last significant review by CIPFA of its 'Prudential code' and the 'Treasury Management Code of Practice' was in 2017 and the necessary changes to our TMS were made last year.

Recommended changes to the treasury management strategy

9. Council approved the 2019/20 treasury management strategy on 14 February 2019. The proposed strategy for 2020/21 has no significant changes compared to previous year.

Financial implications and risk assessment

10. This report and all associated policies and strategies set out clearly the parameters the council must work within. It is important that the council follows the approved treasury management strategy which is designed to help protect the council's finances by managing its risk exposure.

11. Base rates last rose in August 2018 from 0.5 per cent to 0.75 per cent. This was the first increase in Bank Rate above 0.5 per cent since the financial crash of 2008

12. Link Asset Services forecast that the bank base rate will not increase before March 2021, followed by increases in June 2022, before ending up at 1.25 per cent in March 2023. *Quoted from link Asset Services December 2019*

13. The table below gives an estimate of the investment income achievable for the next five years;

Table 1: Medium term investment income forecast

	2020/21 £000's	2021/22 £000's	2022/23 £000's	2023/24 £000's	2024/25 £000's
Forecast as at December 2019	2,583	2,365	2,508	2,505	2,439

The 2020/21 budget setting report and medium term financial plan will take into account the latest projections of anticipated investment income.

Legal implications

14. There are no significant legal implications as a result of the recommendations in this report. Compliance with the CIPFA Code of Practice for Treasury Management in the Public Services, the CLG Local Government Investment Guidance provides assurance that the council's investments are, and will continue to be, within its legal powers.

15. The council must approve any amendment to the treasury management strategy and annual investment strategy in accordance with the Local Government Act 2003 (the Act), the CIPFA Code of Practice for Treasury Management in the Public Services and the CLG Local Government Investment Guidance under Section 15(1) (a) Local Government Act 2003 and CIPFA Prudential Code for Capital Finance.

Conclusion

16. This report introduces the treasury management strategy and the annual investment strategy for 2020/21 which are appended to this report, together with the prudential indicators for approval to council. These documents provide the parameters within which the council's treasury management function will operate.

Background papers

- CIPFA Code of Practice on Treasury Management 2017
- CIPFA Prudential Code 2017
- CIPFA Treasury Management in the Public Services Guidance Notes 2018
- CIPFA statement 17.10.18 on borrowing in advance of need and investments in commercial properties
- CIPFA Bulletin 02 Treasury and Capital Management Update October 2018
- Statutory Guidance on Local Government Investments (3rd Edition)
- Statutory Guidance on Minimum Revenue Provision

Appendices

Appendix A Treasury Management Strategy 2020/21
Appendix B Economic Background
Appendix C Risk and performance benchmarking
Appendix D Explanation of Prudential and Treasury Indicators
Appendix E TMP1 extract
Appendix F Extension to the responsibilities of the S151 officer
Appendix G Glossary of terms

Appendix A

Treasury Management Strategy 2020/21

Introduction

1. The first main function of the treasury management services is to ensure the council's cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the council's low risk appetite, providing adequate liquidity initially before considering investment return. The second main function of the treasury management service is the funding of the council's capital plans.

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

3. CIPFA defines treasury management as:

"The management of the local authority's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

4. Revised reporting was required for the 2019/20 reporting cycle due to revisions of the Ministry of Housing, Communities & Local Government (MHCLG) Investment Guidance, the MHCLG Minimum Revenue Provision (MRP) Guidance, the Chartered Institute of Public Finance & Accountancy (CIPFA) Prudential Code and the CIPFA Treasury Management Code. The primary reporting changes included the introduction of a capital strategy, to provide a longer-term focus to the capital plans, and greater reporting requirements surrounding any commercial activity undertaken under the Localism Act 2011. The capital strategy is reported separately.

Treasury Management reporting

5. The Council is currently required to receive and approve, as a minimum, three main treasury reports each year, which incorporate a variety of policies, estimates and actuals.

   a) Prudential and treasury indicators and treasury strategy (this report) - The first, and most important report is forward looking and covers:
      - the capital plans, (including prudential indicators);
      - a minimum revenue provision (MRP) policy, (how residual capital expenditure is charged to revenue over time);
      - the treasury management strategy, (how the investments and borrowings are managed), including treasury indicators; and
      - an investment strategy, (the parameters on how investments are to be managed).

b) A mid-year treasury management report – This is primarily a progress report and will update members on the mid-year treasury performance, amending prudential indicators as necessary, and whether any policies require revision.

c) An annual treasury report – This report reviews performance for the previous financial year and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

Scrutiny

6. The above reports are required to be adequately scrutinised before being recommended to the Council. This role is undertaken by the Joint Audit and Governance Committee.

Treasury Management Strategy for 2020/21

7. The strategy for 2020/21 covers the areas below:
   - the capital expenditure plans and the associated prudential indicators;
   - the minimum revenue provision (MRP) policy.
   - the current treasury position;
   - treasury indicators which limit the treasury risk and activities of the Council;
   - prospects for interest rates;
   - the borrowing strategy;
   - policy on borrowing in advance of need;
   - debt rescheduling;
   - the investment strategy;
   - creditworthiness policy; and
   - the policy on use of external service providers.

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

Councillor and officer training

9. The CIPFA Code requires the Interim Head of Finance to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny. The training needs of treasury management officers are periodically reviewed.

10. Capita have been contracted to undertake the Treasury Management function since beginning of August 2016. The service is carried out by the financial accounting team which are based in Shepton Mallet. The council still authorise daily dealings and receive regular reports from the team on current and future investments.

Capital Prudential Indicators

11. The Council's capital expenditure plans (as detailed in the council's capital programme) are a key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

Treasury management advisors

12. The Council uses Link Asset Services, Treasury solutions as its external treasury management advisors.

13. The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon the services of our external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisors.

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

Minimum Revenue Provision (MRP) policy statement 2020/21

15. The council's current capital programme will primarily be financed from internal resources. If borrowing is undertaken, then the council will be required by statute to set aside funds in the annual revenue budget to amortise the principal element of any borrowing – this is the MRP. There will also be a requirement to set aside revenue budget for the interest payments on any borrowing raised. Loans will generally be taken over the life of the assets being financed and amortised accordingly.

16. The council is required by regulation to approve an annual MRP policy before the start of the year to which it relates. Any in-year changes must also be submitted to the council for approval.

17. A variety of options are provided to councils for the calculation of MRP. The council has chosen the "asset life method" as being most appropriate. Using this method MRP will be based on the estimated life of the asset, in accordance with the regulations (this option must be applied for any expenditure capitalised under a Capitalisation Direction). Repayments included in annual PFI or finance leases are applied as MRP.

18. Currently, the council's MRP liability is nil. This will remain the case unless capital expenditure is financed by external or internal borrowing.

19. The Interim Head of Finance will determine the most appropriate repayment method, term of borrowing and duration of borrowing. As a general illustration, Table 1 below gives an example of the annual revenue costs associated with borrowing an amount of £2.5 million over a 50-year period, based on the current district tax base of 57,849 Band D equivalents:

Table 2: Example MRP and interest calculation	
Loan Amount	£2,500,000
Loan Duration	50 Years
PWLB Interest	3.38%

2020/21 Tax Base	57,849	
	£	£ per Band D
MRP Element	£50,000	0.86
Annual Interest Cost	£84,375	1.46
Total	**£134,375**	**2.32**

Prospects for interest rate forecast and economic rate forecasts

20. The following table gives Link Asset Services central view on expected interest rate movements out to March 2023. It should be read alongside the commentary provided below.

Quoted by link Asset Services December 2019

Bank Rate	NOW	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Link Asset Services	0.75%	0.75%	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%	1.25%
Capital Economics	0.75%	0.75%	0.75%	0.50%	0.50%	0.50%	-	-	-	-	-	-	-	-	-

5yr PWLB Rate	NOW	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Link Asset Services	2.27%	2.30%	2.40%	2.40%	2.50%	2.50%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%	3.20%	3.20%
Capital Economics	2.27%	2.40%	2.40%	2.40%	2.40%	2.40%	-	-	-	-	-	-	-	-	-

10yr PWLB Rate	NOW	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Link Asset Services	2.46%	2.60%	2.70%	2.70%	2.70%	2.80%	2.90%	3.00%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%	3.50%
Capital Economics	2.46%	2.60%	2.60%	2.60%	2.60%	2.60%	-	-	-	-	-	-	-	-	-

25yr PWLB Rate	NOW	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Link Asset Services	3.03%	3.20%	3.30%	3.40%	3.40%	3.50%	3.60%	3.70%	3.70%	3.80%	3.90%	4.00%	4.00%	4.10%	4.10%
Capital Economics	3.03%	2.90%	2.90%	2.90%	2.90%	2.90%	-	-	-	-	-	-	-	-	-

50yr PWLB Rate	NOW	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Link Asset Services	2.87%	3.10%	3.20%	3.30%	3.30%	3.40%	3.50%	3.60%	3.60%	3.70%	3.80%	3.90%	3.90%	4.00%	4.00%
Capital Economics	2.87%	3.00%	3.00%	3.00%	3.00%	3.00%	-	-	-	-	-	-	-	-	-

21. *It has been little surprise that the Monetary Policy Committee (MPC) has left Bank Rate unchanged at 0.75% so far in 2019 due to the ongoing uncertainty over Brexit. In its meeting on 1 August, the MPC became more concerned about the outlook for both the global and domestic economies. That's shown in the policy statement, based on an assumption that there is an agreed deal on Brexit, where the suggestion that rates would need to rise at a "gradual pace and to a limited extent" is now also conditional on "some recovery in global growth".*

22. *Brexit uncertainty has had a dampening effect on UK GDP growth in 2019, especially around mid-year. If there were a no deal Brexit, then it is likely that there will be a cut or cuts in Bank Rate to help support economic growth.*

23. *The September MPC meeting sounded even more concern about world growth and the effect that prolonged Brexit uncertainty is likely to have on growth.*

24. *The overall longer run future trend is for gilt yields, and consequently PWLB rates, to rise, albeit gently. From time to time, gilt yields, and therefore PWLB rates, can be subject to exceptional levels of volatility due to geo-political, sovereign debt crisis, emerging market developments and sharp changes in investor sentiment. Such volatility could occur at any time during the forecast period.*

25. *In addition, PWLB rates are subject to ad hoc decisions by H.M. Treasury to change the margin over gilt yields charged in PWLB rates: such changes could be up or down. It is not clear that if gilt yields were to rise back up again by over 100bps within the next year or so, whether H M Treasury would remove the extra 100 bps margin implemented on 9.10.19.*

26. *Economic and interest rate forecasting remains difficult with so many external influences weighing on the UK. The above forecasts, (and MPC decisions), will be liable to further amendment depending on how economic data and developments in financial markets transpire over the next year. Geopolitical developments, especially in the EU, could also have a major impact. Forecasts for average investment earnings beyond the three-year time horizon will be heavily dependent on economic and political developments.*

Treasury Limits for 2020/21 to 2022/23

27. It is a statutory duty, under Section 3 of the Act and supporting regulations for the council to determine and keep under review how much it can afford to borrow. The amount so determined is called the “Affordable Borrowing Limit”. The Authorised Limit is the legislative limit specified in the Act.

28. The council must have regard to the Prudential Code when setting the Authorised Limit, which essentially requires it to ensure that total capital expenditure remains within sustainable limits and, that the impact upon its future council tax is ‘acceptable’.

29. The Authorised Limit is set on a rolling basis, for the forthcoming financial year and two successive financial years.

30. The following indicators set the parameters within which we manage the overall capital investment and treasury management functions. There are specific treasury activity limits, which aim to contain the activity of the treasury function in order to manage risk and reduce the impact of an adverse movement in interest rates. However, if these are set to be too restrictive they will impair the opportunities to reduce costs/improve performance. The limits are set out in table 2 below.

Cabinet is asked to recommend council to approve the limits:

Table 3: Prudential indicators				
	2019/20 Approved	**2020/21 Estimate**	**2021/22 Estimate**	**2022/23 Estimate**
Debt	**£m**	**£m**	**£m**	**£m**
Authorised limit for external debt				
Borrowing	30	30	30	30
Other long-term liabilities	0	0	0	0
	30	**30**	**30**	**30**
Operational boundary for external debt				
Borrowing	25	25	25	25

Other long-term liabilities	0 **25**	0 **25**	0 **25**	0 **25**
Interest rate exposures				
Maximum fixed rate borrowing	100%	100%	100%	100%
Maximum variable rate borrowing	100%	100%	100%	100%
Investments				
Interest rate exposures				
Limits on fixed interest rates	100%	100%	100%	100%
Limits on variable interest rates	50	50	50	50
Total principal sums invested for periods longer than a year" i.e. +365 days				
Upper limit for principal sums invested +365 days	70	70	70	70

Current position

17. The maturity structure of the council's investments at 30 November 2019 was as follows:

Table 4: maturity structure of investments:	**Total £000's**	**% holding**
Call	500	0%
Money market fund	10,264	6%
Less than 6 months	49,000	30%
6 months to 1 year	50,000	31%
1 year +	34,000	21%
CCLA - Property Fund	6,831	4%
Equities	12,775	8%
Total investments	**163,369**	**100%**

** The figure for total investments shown above excludes the £15 million 20-year loan to SOHA*
made in 2013/14 and the balance outstanding with Kaupthing Singer & Friedlander (KSF).

***£163 million does not represent uncommitted resource the council has at its disposal. This amount includes council tax receipts held prior to forwarding to Oxfordshire County Council and the Police and Crime Commissioner for the Thames Valley, business rate receipts prior to payment to the government and committed capital and revenue balances. Details of the council's uncommitted balances are provided in the annual budget and council tax setting report.*

31. The council holds as above, 88 per cent of its investments in the form of cash deposits, 82 per cent is invested for fixed terms with a fixed investment return and 6 per cent on call accounts, with the remainder held in non-cash deposits. Typically, the council restricts lending activity to UK institutions and the highest rated counterparties

32. The council's considerations for investment will remain security, liquidity and yield – in that order. Officers undertaking Treasury Management will work towards the optimum profile distribution.

Investment performance for the year to 30 November 2019

33. The council's budgeted investment return for 2019/20 is £2.807 million, and the actual interest received to date is shown as follows:

Table 5: Investment interest earned by investment type				
		Interest Earned		
Investment type	**Annual Budget £000's**	**Actual to date £000's**	**Annual Forecast £000's**	**Forecast Variation £000's**
Fixed term and call cash	1,429	837	1,602	**(173)**
SOHA	623	312	623	**0**
CCLA	299	150	299	**0**
Unit Trusts	456	148	592	**(136)**
Total interest	**2,807**	**1,447**	**2,683**	**(309)**

Borrowing Strategy 2020/21

34. The annual treasury management strategy has to set out details of the council's borrowing requirement, any maturing debt which will need to be re-financed, and the effect this will have on the treasury position over the next three years. This council currently has no external debt and in general, the council will borrow for one of two purposes:

- to support cash flow in the short-term;
- To fund capital investment over the medium to long term.

35. Any borrowing undertaken will be within the scope of the boundaries given in the prudential indicators shown in Table 2, which allow for the council to borrow up to a maximum of £30 million, if such a need arose. This also allows short-term borrowing for the cash flow management activities of the authority.

36. The existing capital programme can be financed from internal resources. If additional expenditure was committed in the future a decision would have to be made at the time as to how it would be funded taking into account the prudential borrowing criteria. Any decision on borrowing will be taken by the Interim Head of Finance based on the optimum cost to the council.

37. Any borrowing for capital financing purposes will be assessed by the Head of Finance to be prudent, sustainable and affordable

38. This strategy allows the Interim Head of Finance to determine the most suitable repayment terms of any borrowing to demonstrate affordability and sustainability in the medium term financial plan if required. As a rule, the term of any borrowing will not be longer than the expected life of the capital asset being created.

Policy on borrowing in advance of need

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

40. Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

Annual investment strategy 2020/21

41. The MHCLG and CIPFA have extended their definition of 'investments' to include both financial and non-financial investments. This report deals solely with financial investments, (as managed by the treasury management team). Non-financial investments, essentially the purchase of income yielding assets, are covered in the Capital Strategy, (a separate report).

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

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

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

44. The primary aim of the council's investment strategy is to maintain the security and liquidity of its investments; yield or return on the investment will be a secondary consideration, subject to prudent security and liquidity. The council will ensure:

    - It has sufficient liquidity in its investments to cover cash flow. For this purpose, it has set out parameters for determining the maximum periods for which funds may prudently be committed.

    - It maintains a policy covering the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security.

45. The strategy aims to provide a high degree of flexibility to take appropriate lending decisions, with a view to producing a portfolio with an even spread of maturity periods. This aim is to provide a more even and predictable investment return in the medium term.

46. The council's Interim Head of Finance will ensure a counterparty list (a list of named institutions) is maintained in compliance with the recommended credit rating criteria (table 5) and will revise the criteria and submit any changes to the credit rating criteria to council for approval as necessary.

Investment types

47. The types of investment that the council can use are summarised below. These are split under the headings of 'specified' and 'non-specified' in accordance with the statutory guidance.

Specified investment instruments

48. These are sterling investments of not more than one-year maturity, or those where the council has the right to be repaid within 12 months if it wishes. These would include sterling investments with:

- UK government Debt Management Agency Deposit Facility (DMADF)
- UK government – treasury stock (Gilts) with less than one year to maturity
- Supranational bonds of less than one year's duration
- Deposits with UK local authorities
- Pooled investment vehicles such as Money Market Funds (MMF) (AAA rated)
- Deposits with banks and building societies (minimum F1/A- rated)
- Certificates of deposits issued by banks and building societies (minimum rating as above)

Non-specified investment instruments

49. These are any other type of investment (i.e. investments not defined as specified, above). Examples of non-specified investments include any sterling investments with:

- Supranational bonds of 1 to 10 years to maturity
- UK treasury stock (Gilts) with a maturity of 1 to 10 years
- Unrated building societies (minimum asset value £1 billion)
- Bank and building society cash deposits up to 5 years (minimum F1/A- rated)
- Deposits with UK local authorities up to 25 years to maturity
- Corporate bonds
- Pooled property, pooled bond funds and UK pooled equity funds
- Diversified Income Fund
- Multi-Asset Fund
- Ultra-Dated/Short dated bond
- Non-UCITS Retail Schemes (NURS)

Other Non-specified investment instruments.

50. Other non-specified investment instruments include:

- Fixed term deposits with variable rate and variable maturities

Approach to investing

51. The council holds approximately £111 million core cash balances which are available to invest for more than one year. This is expected to reduce over the medium term as the approved capital expenditure is incurred and to fund the revenue budget shortfall. In addition, the council has funds that are available on a temporary basis to invest. These are held pending payment over to another body

such as precept payments and council tax. The amount can vary between £5 million and £15 million throughout the year and should only be invested short term (under one year). Investments will be made with reference to known cash flow requirements (liquidity).

52. While rates remain historically low the council will aim to keep investments relatively short term but will continue to look for opportunities to fix lending in the medium term with highly rated institutions when possible for core cash balances. The aim is to increase the weighted average maturity of the portfolio in order to reduce maturity risk.

53. Officers will continue to provides tight controls on the investments placed. Where possible, opportunities to spread the investment risk over different types of instruments will be considered.

54. Should market conditions deteriorate suddenly to the extent that the council is unable to place money with institutions with the necessary credit rating, it will make use of the UK Government deposit account (DMADF).

55. The council has the authority to lend to other local authorities at market rates. Whilst investments with other local authorities are considered to be supported by central government, officers will consider the financial viability and sustainability of the individual local authority before any funds are advanced.

56. Further investment in property funds will be looked at in more detail for consideration. In 2013/14 the council invested £5 million in the Churches Charities and Local Authorities pooled property investment fund (CCLA).

57. Money market funds are mainly used for liquidity; they also provide security and spread portfolio risk. Officers will always monitor the council's exposure to these funds in order to manage our security risk.

58. Currently the council does not make use of an external fund manager. Whilst there are presently no plans for this situation to change, this will continue to be kept under review.

59. Bond funds can be used to diversify the portfolio, whilst maintaining an element of liquidity and security. These will be considered and reviewed as an investment possibility to spread portfolio risk.

60. One option to offer diversification in the council's investment portfolio would be to make use of Ultra Short Dated / Short Dated Bond Funds (USDBF / SDBFs). Possible use of such funds would be intended for longer term investments than with traditional money market funds (i.e. for possible investment durations of three – six months).

61. Unlike money market funds USDBF/SDBF have a variable net asset value (VNAV). This means the assets are 'marked to market' (re-valued to current market value) on a daily basis and the fund unit price adjusted accordingly. Under this calculation basis the unit price fluctuates and could, therefore, be higher or lower than the original investment when it is redeemed. Any use of the above funds would be restricted to the high-quality counterparty credit criteria as set out in Table 5 below.

62. The council does not currently make use of certificates of deposit. Consideration will be given to their use to assist diversification of the investment portfolio. Certificates of deposit have the same level of ranking and security as ordinary fixed term deposits but have the option of being traded before maturity. Certificates of deposit are bought and sold on the stock market and their price can go up or down prior to their redemption date. If held to maturity the investment will return their issue value. The council would only normally look to enter such investments on a held to maturity basis.

Counterparty selection

63. Treasury management risk is the risk of loss of capital to the council. To minimise this risk, the council uses credit rating information when considering who to lend to. Link Asset Services provide the council with credit rating updates from all three ratings agencies – Standard & Poors, Fitch and Moodys.

64. The council will not use the approach suggested by CIPFA of using the lowest rating from all three rating agencies in evaluating investment opportunity. This is because adopting this approach could leave the council with too few counterparties for the strategy to be workable. Instead, counterparty investment limits will be set by reference to all of the assigned ratings.

65. Where counterparties fail to meet the minimum required criteria (Table 5 below) they will be omitted from the counterparty list. Any rating changes and rating watches (notification of a rating change under consideration) are provided to officers almost immediately after they occur, and this information is considered before any deal is entered into. Extreme market movements may result in a downgrade of an institution or removal from the council's lending list.

66. Additional requirements under the CIPFA Treasury Management Code require the council to supplement the credit rating data with operational market information such as credit default swaps (CDS), negative watches and outlooks, which are considered when assessing the security of counterparties. This additional information is used so that the council does not rely solely on the current credit ratings of counterparties.

67. Where it is felt the council would benefit from utilising government guarantees provided by countries with an AAA rating, the council may lend to institutions covered by such guarantees. Any decision to lend in this way will be subject to consultation with the agreement of the cabinet member responsible for finance.

Country and sector considerations

68. The council has determined that it will only use approved counterparties outside the UK from countries with a minimum sovereign credit rating of AAA from Fitch Ratings.

Counterparty limits

69. In the normal course of the council's cash flow operations it is expected that both specified and non-specified investments will be used for the control of liquidity as both categories allow for short term investments. The use of longer term instruments (greater than one year from inception to repayment) will fall in the non-specified

investment category. These instruments will be used where the council's liquidity requirements are safeguarded. The council will lend to institutions that meet the following criteria:

Table 6: Counterparty Limits

Counterparty	Minimum Fitch Long term Rating (or equivalent)	Counterparty Limit £m	Max. maturity period	Maximum % of total investments
Institutions with a minimum rating:	F1+ / AA-	£15.0m	4 years	25%
Institutions with a minimum rating:	F1+ / A+	£15.0m	3 years	25%
Institutions with a minimum rating:	F1 / A	£15.0m	2 years	30%
Institutions with a minimum rating:	F1 / A-	£15.0m	1 year	50%
Banks - part nationalised UK	UK sovereign	£20.0m	4 years	100%
Building societies - assets > £5bn	n/a	£10.0m	12 months	70%
Building societies - assets > £3bn	n/a	£8.0m	12 months	60%
Building societies - assets > £1bn	n/a	£6.0 m	12 months	50%
Building Societies	BBB+	£15.0m	12 Months	50%
Local authorities, parish councils	n/a	£20.0m	25 years	50%
Money Market funds	AAA	£20.0m	liquid	100%
Pooled bond fund	F1+/A+	£5.0m	Variable	10%
Pooled property fund	n/a	£10.0m	Variable	15%
CCLA Diversified Income Fund	n/a	£10.0m	Variable	15%
Multi - Asset Funds	n/a	£10.0m	Variable	15%
Ultra-Dated/Short dated bonds	n/a	£10.0m	Variable	15%
Property related Investments	n/a	£30.0m	Variable	80%
Corporate Bonds	F1+/A+	£5.0m	Variable	10%
Non-UCITS Retail Scheme (NURS)	n/a	£5.0m	Variable	50%
Managed Bond Funds	F1/A-	£15.0m	Variable	15%
Share capital / Equities (UK)	n/a	£10.0m	Variable	20%
Supranational	AAA	£10.0m	Variable	20%
UK Government - gilts	UK sovereign	£15.0m	15 years	10%
UK Government - DMADF	UK sovereign	No limit	n/a	100%
UK Government - Treasury Bills	UK sovereign	£15.0m	15 years	10%

70. The criteria for choosing counterparties provides a sound approach to investment. Whilst councillors are asked to approve the criteria in table 5, under exceptional market conditions the interim head of finance may temporarily restrict further investment activity to those counterparties considered of higher credit quality than the minimum criteria set out for approval.

Fund managers

71. The council does not currently employ any external fund managers. However, in the event of such an appointment, appointees will comply with this and subsequent treasury strategies. This strategy empowers the Section 151 officer to appoint such an external manager to manage a proportion of the council's investment portfolio if

this is advantageous. Situations in which this might be advantageous include benchmarking the performance of the treasury team; benefiting from the often-extensive credit risk and economic modelling resources of external fund managers and resources necessary to hold liquid instruments for trading.

Risk and performance benchmarks

72. A requirement of the Code is that security and liquidity benchmarks are considered and approved. This is in addition to yield benchmarks which are used to assess performance. The benchmarks are guidelines (not limits) so may be breached depending on the movement in interest rates and counterparty criteria. Their purpose is to allow officers to monitor the current trend position and amend the operational strategy depending on any changes. Any breach of the benchmarks will be reported, with an explanation in the mid-year or annual report to audit and corporate governance committee. Detailed information for the assessment of risk is shown in appendix C.

73. Performance indicators are set to assess the adequacy of the treasury function over the year. These are distinct historic performance indicators, as opposed to the predominantly forward looking prudential indicators. The indicators used to assess the performance of the treasury function are:

- Cash investments - 3-month LIBID rate.
- Property related investments – IPD Balance Property Unit Trust Index.
- Equities – FTSE all shares index

74. The results of these indicators will be reported in both the annual mid-year and year end treasury reports.

Policy on the use of treasury management advisors

75. The council has a joint contract for treasury management advisors with Vale of White Horse District Council. Link Asset Services (was Capita Asset Services) provides a range of services which include:

- technical support on treasury matters, capital finance issues, statutory reports;
- economic forecasts and interest rate analysis;
- credit ratings / market information service involving the three-main credit rating agencies;
- strategic advice including a review of the investment and borrowing strategies and policy documents.

76. 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 our external service providers. It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills, resources and up to date market information.

Treasury management scheme of delegation and the role of the Section 151 officer

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

78. **Joint Audit and Governance Committee/ Cabinet**
    - approval of/amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices;
    - receiving and reviewing regular monitoring reports and acting on recommendations;
    - Ensuring effective scrutiny of the treasury management function

79. **Section 151 Officer/ Interim Head of Finance**
    - 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;
    - 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;
    - Approving the selection of external service providers and agreeing terms of appointment.

80. The above list of specific responsibilities of the S151 officer in the 2017 Treasury Management Code has not changed. However, implicit in the changes in both codes, is a major extension of the functions of this role, especially in respect of non-financial investments, (which CIPFA has defined as being part of treasury management), this is detailed in appendix F.

Summary

81. Prior to the beginning of each financial year the council must approve the treasury management strategy. The strategy sets the parameters within which officers can manage the council's cash flows and invest any surplus funds.

82. This strategy provides a commentary on the current financial climate and sets out the council's lending strategy in response to this.

Appendix B

ECONOMIC BACKGROUND

UK. 2019 has been a year of upheaval on the political front as Theresa May resigned as Prime Minister to be replaced by Boris Johnson on a platform of the UK leaving the EU on 31 October, with or without a deal. However, MPs blocked leaving on that date and the EU has agreed an extension to 31 January 2020. In addition, a general election has been called for December. At the time of writing (30 October), the whole Brexit situation could still change at any time. Given these circumstances and the uncertainty about the result of the general election, any interest rate forecasts are subject to material change as the situation evolves. If Parliament fully approves the Withdrawal Bill, then it is possible that growth could recover relatively quickly. The MPC could then need to address the issue of whether to raise Bank Rate at some point in the coming year when there is little slack left in the labour market that could cause wage inflation to accelerate; this would then feed through into general inflation. On the other hand, if there was a no deal Brexit and there was a significant level of disruption to the economy, then growth could weaken even further than currently: the MPC would then be likely to cut Bank Rate in order to support growth. However, with Bank Rate still only at 0.75%, the MPC has relatively little room to make a big impact and it would probably suggest that it would be up to the Chancellor to provide help to support growth by way of a fiscal boost by e.g. tax cuts, increases in the annual expenditure budgets of government departments and services and expenditure on infrastructure projects, to boost the economy. The Government has already made moves in this direction.

The first half of 2019 saw UK **economic growth** falling to -0.2% in quarter 2 as Brexit uncertainty took a toll. In its Inflation Report of 1 August, the Bank of England was notably downbeat about the outlook for both the UK and major world economies. The **MPC** meeting of 19 September reemphasised their concern about the downturn in world growth and also expressed concern that prolonged Brexit uncertainty would contribute to a build-up of spare capacity in the UK economy, especially in the context of a downturn in world growth. This mirrored investor concerns around the world which are now expecting a significant downturn or possibly even a recession in some major developed economies. It was therefore no surprise that the Monetary Policy Committee (MPC) left Bank Rate unchanged at 0.75% throughout 2019, so far, and is expected to hold off on changes until there is some clarity on what is going to happen over Brexit. However, it is also worth noting that since Boris Johnson became Prime Minister, the government has made significant statements on various spending commitments and a relaxation in the austerity programme. This will provide some support to the economy and, conversely, take some pressure off the MPC to cut Bank Rate to support growth.

As for **inflation** itself, CPI has been hovering around the Bank of England's target of 2% during 2019, but fell to 1.7% in August and September. It is likely to remain close to 2% over the next two years and so it does not pose any immediate concern to the MPC at the current time. However, if there was a no deal Brexit, inflation could rise towards 4%, primarily because of imported inflation on the back of a weakening pound.

With regard to the **labour market,** despite the contraction in quarterly GDP growth of -0.2% q/q, (+1.3% y/y), in quarter 2, employment continued to rise, but at only a muted rate of 31,000 in the three months to July after having risen by no less than 115,000 in quarter 2 itself. However, in the three months to August, employment swung into negative with a fall of 56,000, the first fall for two years. Unemployment duly rose from a 44 year low of 3.8% on the Independent Labour Organisation measure in July to 3.9%. Wage inflation also edged down slightly from a high point of 3.9% to 3.8% in August, (3 month average regular pay, excluding bonuses). This meant that in real terms, (i.e. wage rates higher than CPI inflation), earnings grew by about 2.1%. As the UK economy is very much services sector driven, an increase in household spending power is likely to feed through into providing some support to the overall rate of economic growth in the coming months. The quarter 2 GDP statistics also included a revision of the savings ratio from 4.1% to 6.4% which provides reassurance that consumers' balance sheets are not over stretched and so will be able to support growth going forward. This would then mean that the MPC will need to consider carefully at what point to take action to raise

Bank Rate if there is an agreed Brexit deal, as the recent pick-up in wage costs is consistent with a rise in core services inflation to more than 4% in 2020.

In the **political arena**, if there is a general election soon, this could result in a potential loosening of monetary policy and therefore medium to longer dated gilt yields could rise on the expectation of a weak pound and concerns around inflation picking up although, conversely, a weak international backdrop could provide further support for low yielding government bonds and gilts.

USA. President Trump's massive easing of fiscal policy in 2018 fuelled a temporary boost in consumption in that year which generated an upturn in the rate of growth to a robust 2.9% y/y. **Growth** in 2019 has been falling back after a strong start in quarter 1 at 3.1%, (annualised rate), to 2.0% in quarter 2. Quarter 3 is expected to fall further. The strong growth in employment numbers during 2018 reversed into a falling trend during 2019, indicating that the economy is cooling, while inflationary pressures are also weakening.

The Fed finished its series of increases in rates to 2.25 – 2.50% in December 2018. In July 2019, it cut rates by 0.25% as a 'midterm adjustment' but flagged up that this was not intended to be seen as the start of a series of cuts to ward off a downturn in growth. It also ended its programme of quantitative tightening in August, (reducing its holdings of treasuries etc). It then cut rates again in September to 1.75% - 2.00% and is thought likely to cut another 25 bps in December. At its September meeting it also said it was going to **start buying Treasuries again**, although this was not to be seen as a resumption of quantitative easing but rather an exercise to relieve liquidity pressures in the repo market. Despite those protestations, this still means that the Fed is again expanding its balance sheet holdings of government debt. In the first month, it will buy \$60bn , whereas it had been reducing its balance sheet by \$50bn per month during 2019. As it will be buying only short-term (under 12 months) Treasury bills, it is technically correct that this is not quantitative easing (which is purchase of long term debt).

Investor confidence has been badly rattled by the progressive ramping up of increases in tariffs President Trump has made on Chinese imports and China has responded with increases in tariffs on American imports. This **trade war** is seen as depressing US, Chinese and world growth. In the EU, it is also particularly impacting Germany as exports of goods and services are equivalent to 46% of total GDP. It will also impact developing countries dependent on exporting commodities to China.

EUROZONE. Growth has been slowing from +1.8 % during 2018 to around half of that in 2019. Growth was +0.4% q/q (+1.2% y/y) in quarter 1 and then fell to +0.2% q/q (+1.0% y/y) in quarter 2; there appears to be little upside potential to the growth rate in the rest of 2019. German GDP fell by -0.1% in quarter 2; industrial production was down 4% y/y in June with car production down 10% y/y. Germany would be particularly vulnerable to a no deal Brexit depressing exports further and if President Trump imposes tariffs on EU produced cars.

The European Central Bank (ECB) ended its programme of quantitative easing purchases of debt in December 2018, which then meant that the central banks in the US, UK and EU had all ended the phase of post financial crisis expansion of liquidity supporting world financial markets by quantitative easing purchases of debt. However, the downturn in EZ growth in the second half of 2018 and into 2019, together with inflation falling well under the upper limit of its target range of 0 to 2%, (but it aims to keep it near to 2%), has prompted the ECB to take new measures to stimulate growth. At its March meeting it said that it expected to leave interest rates at their present levels "at least through the end of 2019", but that was of little help to boosting growth in the near term. Consequently, it announced a **third round of TLTROs**; this provides banks with cheap borrowing every three months from September 2019 until March 2021 which means that, although they will have only a two-year maturity, the Bank was making funds available until 2023, two years later than under its previous policy. As with the last round, the new TLTROs will include an incentive to encourage bank lending, and they will be capped at 30% of a bank's eligible loans. However, since then, the downturn in EZ and world growth has gathered momentum; at its meeting on 12 September, it cut its deposit rate further into negative territory, from -0.4% to -0.5%, and announced a **resumption of quantitative easing purchases of debt;** (at its October meeting it said this would start in November at €20bn per month - a relatively small amount compared to the previous buying programme). It also increased the maturity of the third round of TLTROs from two to three years. However, it is doubtful whether this loosening of monetary policy will have much impact on growth and, unsurprisingly, the ECB stated that governments will need to help stimulate growth by 'growth friendly' fiscal policy.

On the political front, Austria, Spain and Italy have been in the throes of **forming coalition governments** with some unlikely combinations of parties i.e. this raises questions around their likely endurance. The latest results of two German state elections will put further pressure on the frail German CDU/SDP coalition government.

CHINA. Economic growth has been weakening over successive years, despite repeated rounds of central bank stimulus; medium term risks are increasing. Major progress still needs to be made to eliminate excess industrial capacity and the stock of unsold property, and to address the level of non-performing loans in the banking and shadow banking systems. In addition, there still needs to be a greater switch from investment in industrial capacity, property construction and infrastructure to consumer goods production.

JAPAN - has been struggling to stimulate consistent significant GDP growth and to get inflation up to its target of 2%, despite huge monetary and fiscal stimulus. It is also making little progress on fundamental reform of the economy.

WORLD GROWTH. 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. Central banks are, therefore, likely to come under more pressure to support growth by looser monetary policy measures and this will militate against central banks increasing interest rates.

The trade war between the US and China is a major concern to **financial markets** due to the synchronised general weakening of growth in the major economies of the world, compounded by fears that there could even be a recession looming up in the US, though this is probably overblown. These concerns resulted in **government bond yields** in the developed world falling significantly during 2019. If there were a major worldwide downturn in growth, central banks in most of the major economies will have limited ammunition available, in terms of monetary policy measures, when rates are already very low in most countries, (apart from the US). There are also concerns about how much distortion of financial markets has already occurred with the current levels of quantitative easing purchases of debt by central banks. The latest PMI survey statistics of economic health for the US, UK, EU and China have all been predicting a downturn in growth; this confirms investor sentiment that the outlook for growth during the year ahead is weak.

INTEREST RATE FORECASTS

The interest rate forecasts provided by Link Asset Services in paragraph 3.3 are **predicated on an assumption of an agreement being reached on Brexit between the UK and the EU.** On this basis, while GDP growth is likely to be subdued in 2019 due to all the uncertainties around Brexit depressing consumer and business confidence, an agreement is likely to lead to a boost to the rate of growth in subsequent years which could, in turn, increase inflationary pressures in the economy and so cause the Bank of England to resume a series of gentle increases in Bank Rate. Just how fast, and how far, those increases will occur and rise to, will be data dependent. The forecasts in this report assume a modest recovery in the rate and timing of stronger growth and in the corresponding response by the Bank in raising rates.

- In the event of an **orderly non-agreement exit**, it is likely that the Bank of England would take action to cut Bank Rate from 0.75% in order to help economic growth deal with the adverse effects of this situation. This is also likely to cause short to medium term gilt yields to fall.
- If there was a **disorderly Brexit**, then any cut in Bank Rate would be likely to last for a longer period and also depress short and medium gilt yields correspondingly. Quantitative easing could also be restarted by the Bank of England. It is also possible that the government could act to protect economic growth by implementing fiscal stimulus.

However, there would appear to be a majority consensus in the Commons against any form of non-agreement exit so the chance of this occurring has diminished.

The balance of risks to the UK

- The overall balance of risks to economic growth in the UK is probably to the downside due to the weight of all the uncertainties over Brexit, as well as a softening global economic picture.
- The balance of risks to increases in Bank Rate and shorter term PWLB rates are broadly similarly to the downside.
- In the event that a Brexit deal was agreed with the EU and approved by Parliament, the balance of risks to economic growth and to increases in Bank Rate is likely to change to the upside.

One risk that is both an upside and downside risk, is that all central banks are now working in very different economic conditions than before the 2008 financial crash as there has been a major increase in consumer and other debt due to the exceptionally low levels of borrowing rates that have prevailed since 2008. This means that the neutral rate of interest in an economy, (i.e. the rate that is neither expansionary nor deflationary), is difficult to determine definitively in this new environment, although central banks have made statements that they expect it to be much lower than before 2008. Central banks could therefore either over or under do increases in central interest rates.

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

- **Brexit** – if it were to cause significant economic disruption and a major downturn in the rate of growth.
- **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.** In 2018, Italy was a major concern due to having a populist coalition government which made a lot of anti-austerity and anti-EU noise. However, in September 2019 there was a major change in the coalition governing Italy which has brought to power a much more EU friendly government; this has eased the pressure on Italian bonds. Only time will tell whether this new coalition based on an unlikely alliance of two very different parties will endure.
- Weak capitalisation of some **European banks**, particularly Italian banks.
- **German minority government.** 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 SPD has done particularly badly in state elections since then which has raised a major question mark over continuing to support the CDU. Angela Merkel has stepped down from being the CDU party leader but she intends to remain as Chancellor until 2021.

- **Other minority EU governments.** Austria, Sweden, Spain, Portugal, Netherlands 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. There has also been rising anti-immigration sentiment in Germany and France.
- In October 2019, the IMF issued a report on the World Economic Outlook which flagged up a synchronised slowdown in world growth. However, it also flagged up that there was **potential for a rerun of the 2008 financial crisis**, but his time centred on the huge debt binge accumulated by corporations during the decade of low interest rates. This now means that there are corporates who would be unable to cover basic interest costs on **some $19trn of corporate debt in major western economies,** if world growth was to dip further than just a minor cooling. This debt is mainly held by the shadow banking sector i.e. pension funds, insurers, hedge funds, asset managers etc., who, when there is $15trn of corporate and government debt now yielding negative interest rates, have been searching for higher returns in riskier assets. Much of this debt is only marginally above investment grade so any rating downgrade could force some holders into a fire sale, which would then depress prices further and so set off a spiral down. The IMF's answer is to suggest imposing higher capital charges on lending to corporates and for central banks to regulate the investment operations of the shadow banking sector. In October 2019, the deputy Governor of the Bank of England also flagged up the dangers of banks and the shadow banking sector lending to corporates, especially highly leveraged corporates, which had risen back up to near pre-2008 levels.
- **Geopolitical risks,** for example in North Korea, but also in Europe and the Middle East, which could lead to increasing safe haven flows.

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

- **Brexit** – if agreement was reached all round that removed all threats of economic and political disruption between the EU and the UK.
- 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 later rapid series of increases in Bank Rate faster than we currently expect.
- **UK inflation,** whether domestically generated or imported, returning to sustained significantly higher levels causing an increase in the inflation premium inherent to gilt yields.

Appendix C

Benchmarking and Monitoring Security, Liquidity and Yield in the Investment Service.

1. These benchmarks are targets and so may be exceeded from time to time. Any variation will be reported, along with supporting reasons, in the Annual Treasury Report.

2. **Yield**. The local benchmark currently used to assess the performance of cash investments is the level of returns contrasted against the London Interbank Bid (LIBID) three month rate. This is the interest rate a bank would be willing to pay to borrow from another bank for three months.
Property related investments are benchmarked against the IPD Balanced Property Unit Trust Index.

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

4. In respect of this area, the council shall seek to:

- maintain a minimal balance held in the council's main bank account at the close of each working day. Transfers to the councils call accounts, MMF and investments will be arranged in order to achieve this, while maintaining access to adequate working capital at short notice.
- use the authorised bank overdraft facility or short term borrowing where there is clear business case for doing so, to cover working capital requirements at short notice

5. **Security of the investments**.

In the context of benchmarking, assessing security is very much more a subjective area to assess. Security is currently evidenced by the application of minimum credit quality criteria to investment counterparties, primarily through the use of credit ratings supplied by the three main credit rating agencies (Fitch, Moody's and Standard and Poor's). Whilst this approach embodies security considerations, benchmarking levels of risk is more problematic. One method to benchmark security risk is to assess the historic level of default against the minimum criteria used in the Council's investment strategy. The table beneath shows average defaults for differing periods of investment grade products for each Fitch long term rating category over the last 20-30 years.

Average defaults for differing periods of investment

Long term rating	1 year	2 years	3 years	4 years	5 years
AA	0.04%	0.10%	0.18%	0.27%	0.36%
A	0.05%	0.15%	0.28%	0.42%	0.59%
BBB	0.16%	0.44%	0.77%	1.15%	1.55%

6. The council's minimum long term (i.e. plus 365 day duration) rating criteria is currently "A-". For comparison, the average expectation of default for a two year investment in a counterparty with an "A" long term rating would be 0.15 per cent of the total investment (e.g. for a £1m investment the average loss would be £1,500). **This is an average** - any specific counterparty loss is likely to be higher. These figures act as a proxy benchmark for risk across the portfolio.

Appendix D

Explanation of Prudential and Treasury Indicators

Prudential borrowing permits local government organisations to borrow to fund capital spending plans provided they could demonstrate their affordability. Prudential indicators are the means to demonstrate affordability.

Authorised limit for external debt – this is the maximum limit for external borrowing. This is the statutory limit determined under section 3(1) of the Local Government Act 2003. This limit is set to allow sufficient headroom for day to day operational management of cash flows.

Operational boundary for external debt – this is set as the more likely amount that may be required for day to day cash flow.

Upper limit for fixed and variable interest rate exposure – these limits allow the council flexibility in its investment and borrowing options.

Upper limit for total principal sums invested for over 365 days – the amount it is considered can be prudently invested for periods in excess of a year

Appendix E

Treasury Management Practice (TMP) 1 – credit and counterparty risk management

The CLG issued Investment Guidance in 2010, and this forms the structure of the council's policy below.

The key aim of the guidance is to maintain the current requirement for councils to invest prudently, and that priority is given to security and liquidity before yield. In order to facilitate this objective, the guidance requires this council to have regard to the CIPFA publication Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes. In accordance with the code, the interim head of finance has produced its treasury management practices (TMPs). This part, TMP1(1), covering investment counterparty policy requires approval each year

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

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

The investment policy proposed for the Council is:

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

Specified investments – These investments are sterling investments of not more than one-year maturity, or those which could be for a longer period but where the Council has the right to be repaid within 12 months if it wishes. These are considered low risk assets where the possibility of loss of principal or investment income is small. These would include sterling investments which would not be defined as capital expenditure with:

- UK government Debt Management Agency Deposit Facility (DMADF)
- UK government – treasury stock (Gilts) with less than one year to maturity
- Supranational bonds of less than one year's duration
- Deposits with UK local authorities
- Pooled investment vehicles such as Money Market Funds (MMF) (AAA rated)
- Deposits with banks and building societies (minimum F1/A-)

- Certificates of deposits issued by banks and building societies (minimum rating as above) covers pooled investment vehicles, such as money market funds, rated AAA by Standard and Poor's, Moody's and / or Fitch rating agencies.

Within these bodies, and in accordance with the Code, the council has set additional criteria to set the time and amount of monies which will be invested in these bodies. These criteria are as stated in table 5 to this report.

Non-specified investments
These are any other type of investment (i.e. not defined or specified above). The identification and rationale supporting the selection of these other investments and the maximum limits to be applied are as set out in Table 5.

Implementation in 2018/19
In December 2017, CIPFA issued a revised Treasury Management Code of Practice and a revised Prudential Code. These revisions have particularly focused on non-treasury investments and especially on the purchase of property with a view to generating income. Such purchases could involve undertaking external borrowing to raise the cash to finance these purchases, or the use of existing cash balances.

The 2017 CIPFA Code of Practice on Treasury Management abolished the treasury indicators on limits for fixed and variable rate exposure. However, this was on the basis that authorities would explain in words how they control interest rate risk.

IFRS 9
Risk management will need to take account of the 2018/19 Accounting Code of Practice proposals for the valuation of investments. Key considerations are:

- Expected credit loss model. Whilst this should not be material for ordinary treasury investments such as bank deposits, this is likely to be challenging for some funds e.g. property funds, (and also for non-treasury management investments dealt with in the capital strategy e.g. longer dated service investments, loans to third parties or loans to subsidiaries).
- The valuation of investments previously valued under the available for sale category e.g. equity related to the "commercialism" agenda, property funds, equity funds and similar, will be changed to Fair Value through the Profit and Loss (FVPL).

Following the consultation undertaken by the Ministry of Housing, Communities and Local Government, [MHCLG], on IFRS9 the Government has introduced a mandatory statutory override for local authorities to reverse out all unrealised fair value movements resulting from pooled investment funds. This will be effective from 1 April 2018. The statutory override applies for five years from this date. Local authorities are required to disclose the net impact of the unrealised fair value movements in a separate unusable reserve throughout the duration of the override in order for the Government to keep the override under review and to maintain a form of transparency.

Appendix F

Extension to the specific responsibilities of the S151 officer as per the Treasury Management code

The below list of specific responsibilities of the S151 officer in the 2017 Treasury Management Code has not changed. However, implicit in the changes in both codes, is a major extension of the functions of this role, especially in respect of non-financial investments, (which CIPFA has defined as being part of treasury management);

- preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments and treasury management, with a long-term timeframe.
- ensuring that the capital strategy is prudent, sustainable, affordable and prudent in the long term and provides value for money
- ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the authority
- ensure that the authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing
- ensuring the proportionality of all investments so that the authority does not undertake a level of investing which exposes the authority to an excessive level of risk compared to its financial resources
- ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long term liabilities
- provision to members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees
- ensuring that members are adequately informed and understand the risk exposures taken on by an authority
- ensuring that the authority has adequate expertise, either in house or externally provided, to carry out the above
- creation of Treasury Management Practices which specifically deal with how non treasury investments will be carried out and managed, to include the following
    - *Risk management (TMP1 and schedules), including investment and risk management criteria for any material non-treasury investment portfolios;*

    - *Performance measurement and management (TMP2 and schedules), including methodology and criteria for assessing the performance and success of non-treasury investments;*

    - *Decision making, governance and organisation (TMP5 and schedules), including a statement of the governance requirements for decision making in relation to non-treasury investments; and arrangements to ensure that appropriate professional due diligence is carried out to support decision making;*

    - *Reporting and management information (TMP6 and schedules), including where and how often monitoring reports are taken;*

- *Training and qualifications (TMP10 and schedules), including how the relevant knowledge and skills in relation to non-treasury investments will be arranged.*

Appendix G

GLOSSARY OF TERMS

Authorised Limit	The maximum amount of external debt at any one time in the financial year.
Basis Point (BP)	1/100th of 1%, i.e. 0.01%
Base Rate	Minimum lending rate of a bank or financial institution in the UK.
Benchmark	A measure against which the investment policy or performance of a fund manager can be compared.
Bill of Exchange	A financial instrument financing trade.
Callable Deposit	A deposit placed with a bank or building society at a set rate for a set amount of time. However, the borrower has the right to repay the funds on pre-agreed dates, before maturity. This decision is based on how market rates have moved since the deal was agreed. If rates have fallen the likelihood of the deposit being repaid rises, as cheaper money can be found by the borrower.
Cash Fund Management	Fund management is the management of an investment portfolio of cash on behalf of a private client or an institution, the receipts and distribution of dividends and interest, and all other administrative work in connection with the portfolio.
Certificate of Deposit (CD)	Evidence of a deposit with a specified bank or building society repayable on a fixed date. They are negotiable instruments and have a secondary market; therefore, the holder of a CD is able to sell it to a third party before the maturity of the CD.
Commercial Paper	Short-term obligations with maturities ranging from 2 to 270 days issued by banks, corporations and other borrowers. Such instruments are unsecured and usually discounted, although some may be interest bearing.
Corporate Bond	Strictly speaking, corporate bonds are those issued by companies. However, the term is used to cover all bonds other than those issued by governments in their own currencies and includes issues by companies, supranational organisations and government agencies.
Counterparty	Another (or the other) party to an agreement or other market contract (e.g. lender/borrower/writer of a swap/etc.)
CDS	Credit Default Swap – a swap designed to transfer the credit exposure of fixed income products between parties. The buyer of a credit swap receives credit protection, whereas the seller of the swap guarantees the credit worthiness of the product. By doing this, the risk of default is transferred from the holder of the fixed income security to the seller of the swap.
CFR	Capital Financing Requirement.
CIPFA	Chartered Institute of Public Finance and Accountancy.
CLG	Department for Communities and Local Government.
Derivative	A contract whose value is based on the performance of an underlying financial asset, index or other investment, e.g. an option is a derivative because its value changes in relation to the performance of an underlying stock.
DMADF	Deposit Account offered by the Debt Management Office, guaranteed by the UK government.

ECB	European Central Bank – sets the central interest rates in the EMU area. The ECB determines the targets itself for its interest rate setting policy; this is the keep inflation within a band of 0 to 2 per cent. It does not accept that monetary policy is to be used to manage fluctuations in unemployment and growth caused by the business cycle.
Enhanced Cash Funds	A pooled investment fund. Longer dated investment than a MMF and, unlike a MMF, enhanced cash funds have variable asset value. Assets are marked to market on a daily basis and the unit prices vary accordingly. Investments can be withdrawn on a notice basis (the length of which depends on the fund) although such funds would typically be used for investments of 3 to 6 month duration.
Equity	A share in a company with limited liability. It generally enables the holder to share in the profitability of the company through dividend payments and capital gain.
Forward Deal	The act of agreeing today to deposit funds with an institution for an agreed time limit, on an agreed future date, at an agreed rate.
Forward Deposits	Same as forward dealing (above).
Fiscal Policy	The government policy on taxation and welfare payments.
GDP	Gross Domestic Product.
Gilt	Registered British government securities giving the investor an absolute commitment from the government to honour the debt that those securities represent.
Mark to Market Accounting	Accounting on the basis of the “fair value” of an asset or liability, based on the current market price. As a result, values will change with market conditions.
Minimum Revenue Provision	This is a prudent sum set aside each year to offset the principal repayment of any loan to smooth the impact on the local taxpayer.
Money Market Fund	A well rated, highly diversified pooled investment vehicle whose assets mainly comprise of short-term instruments. It is very similar to a unit trust, however a MMF relies on loans to companies rather than share holdings.
Monetary Policy Committee (MPC)	Government body that sets the bank rate (commonly referred to as being base rate). Their primary target is to keep inflation within plus or minus 1 per cent of a central target of 2.5 per cent in two years’ time from the date of the monthly meeting of the committee. Their secondary target is to support the government in maintaining high and stable levels of growth and employment.
Non-UCITS Retail Scheme (NURS) –	Undertakings for collective investments are funds authorised to be sold in the UK that are required to meet standards set by the UK services regulator. An example is property funds.
Operational Boundary	The most likely, prudent but not worst case scenario of external debt at any one time.
Other Bonds	Pooled funds investing in a wide range of bonds.
PWLB	Public Works Loan Board.
QE	Quantitative Easing.
Retail Price Index	Measurement of the monthly change in the average level of prices at the retail level weighted by the average expenditure pattern of the average person.

Sovereign Issues (Ex UK Gilts)	Bonds issued or guaranteed by nation states but excluding UK government bonds.
Supranational Bonds	Bonds issued by supranational bodies, e.g. European Investment Bank. The bonds – also known as Multilateral Development Bank bonds – are generally AAA rated and behave similarly to gilts, but pay a higher yield (“spread”) given their relative illiquidity when compared with gilts.
Treasury Bill	Treasury bills are short-term debt instruments issued by the UK or other governments. They provide a return to the investor by virtue of being issued at a discount to their final redemption value.

Cabinet Report

South Oxfordshire District Council
Listening Learning Leading

Report of Interim Head of Finance

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To: CABINET

Date: 30 January 2020

Capital strategy 2020/21 to 2029/30

Recommendation

That Cabinet recommends Council to approve the capital strategy 2020/21 to 2029/30 which is contained in appendix one of the report of the interim head of finance to Cabinet on 30 January 2020.

Purpose of Report

1. To request cabinet to recommend council to approve the capital strategy for 2020/21 to 2029/30. The capital strategy outlines the council's approach to capital spending, based on the council's corporate strategy, and is linked to the council's corporate objectives, medium term financial strategy, and management of projects and programmes.

Strategic Objectives

2. The capital strategy assists the council in meeting its strategic objectives. It will provide a high-level overview of how capital expenditure; capital financing and treasury management activity contribute to the provision of services. By determining the framework within which decisions on capital expenditure and investment are made the strategy will ensure that such decisions assist the council in meeting its corporate strategic objectives.

Background

3. The Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code requires local authorities to produce a capital strategy to demonstrate that capital expenditure and investment decisions are taken in line with service objectives and take account of stewardship, value for money, prudence, sustainability and affordability.

Under the Code, a capital strategy is required to be agreed ahead of the 2020/21 financial year and will be reviewed on an annual basis.

4. The capital strategy for 2020/21 to 2029/30 is attached as appendix one to this report. The strategy provides the overall policy framework for capital expenditure and investment. It does this by bringing together the requirements of the council's strategic objectives, and the constraints of its medium term financial plan, and within the parameters set by those it determines how capital schemes can be progressed from initial idea through to conclusion.

5. There are number of key "building blocks" that are essential to underpin the strategy that are currently being developed. These include:

    - An asset management strategy and maintenance plan
    - Medium term service planning.

6. The capital strategy will be a key document for the council going forward. It will provide a high-level overview of how capital expenditure; capital financing and treasury management activity contribute to the provision of services. It will also provide an overview of how associated risk is managed and the implications for future financial sustainability. It will increase transparency in the planning, approval and monitoring of capital expenditure.

Financial Implications

7. There are no direct financial implications arising from implementing the strategy.

Legal Implications

8. None.

Conclusion

9. This report provides details of the proposed capital strategy for 2020/21 to 2029/30 and asks cabinet to recommend the capital strategy to council. These documents provide the parameters within which capital expenditure and investment decisions will be made once the supporting requirements are in place.

Background Papers

The Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code for Capital Finance in Local Authorities.

Appendices

Appendix one Capital strategy 2020/21 to 2029/30.

Capital Strategy 2020/21 – 2029/30

Contents

1 Introduction ... 3
2 Purpose ... 3
3 Scope ... 3
4 Capital Expenditure ... 3
5 Capital vs. Treasury Management Investments ... 4
6 Delivery and Commercial Investments ... 4
6.1 Delivery investments ... 4
6.2 Commercial investments ... 4
7 Due Diligence ... 5
8 Council Objectives ... 5
9 The Capital Budget Setting Process ... 5
9.1 Key Criteria for Strategy ... 5
9.2 Deciding which Schemes are to be put forward for review ... 6
9.3 Prioritisation of Schemes put forward ... 7
9.4 Options Appraisals, Feasibility Studies ... 7
9.5 In Year Opportunities ... 7
9.6 Member Approval Process ... 7
10 Monitoring of the Capital Programme Expenditure ... 7
11 Multi-Year Schemes ... 7
12 Funding Strategy and Capital Policies ... 8
12.1 External Funding ... 8
12.2 Capital Receipts ... 8
12.3 Prudential/Unsupported Borrowing ... 8
12.4 Invest to Save Schemes ... 9
12.5 Leasing ... 9
13 Procurement and Value for Money ... 9
14 Performance Management ... 9
15 Risk Management ... 10

1 Introduction

The council's capital strategy represents its approach to future investment. The council has a significant capital investment programme for the period from 2020/21 to 2025/26. The council faces a number of competing demands on finite resources. To achieve its aims the council seeks to work with partners who share its ambitions for improved outcomes for residents.

2 Purpose

The Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code requires local authorities to produce a capital strategy to demonstrate that capital expenditure and investment decisions are taken in line with long-term objectives and take account of stewardship, value for money, prudence, sustainability and affordability.

The Capital Strategy will be a key document for the Council and will form part of the authority's integrated revenue, capital and balance sheet planning. It will provide a high-level overview of how capital expenditure; capital financing and treasury management activity contribute to the provision of services. It will also provide an overview of how associated risk is managed and the implications for future financial sustainability. It will include an overview of the governance processes for developing proposals, approval and monitoring of capital expenditure.

3 Scope

This Capital Strategy will include all capital expenditure and capital investment decisions, not only as an individual local authority but also any entered into under joint arrangements. It sets out the long-term context in which decisions are made with reference to the life of the projects/assets and will stress the need for evidence-based decision making.

4 Capital Expenditure

Capital expenditure is incurred on the acquisition or creation of assets, or expenditure that enhances or adds to the life or value of an existing fixed asset that is needed to provide services. Fixed assets are tangible or intangible assets that yield benefits to the Council generally for a period of more than one year, e.g. land, buildings, vehicles. This contrasts with revenue expenditure which is spending on the day to day running costs of services such as employee costs and supplies and services.

The capital programme is the authority's plan of capital works for future years, including details on the funding of the schemes. Included are the projects such as the purchase of land and buildings, the construction of new buildings, design fees and the acquisition of vehicles and major items of equipment. Also included would be any commercial investments.

5 Capital vs. Treasury Management Investments

Treasury Management investment activity covers those investments which arise from the organisation's cash flows and debt management activity, and ultimately represent balances which need to be invested until the cash is required for use during the course of business.

For Treasury Management investments the security and liquidity of funds are placed ahead of the investment return. The management of associated risk is set out in the Treasury Management Policy and the Annual Investment Strategy.

The CIPFA Treasury Management Code recognises that organisations may make investments for policy reasons outside of normal treasury management activity. These may include service and commercial investments.

6 Delivery and Commercial Investments

These are investments for policy reasons outside of normal treasury management activity. These may include:

6.1 Delivery investments

These are investments held clearly and explicitly in the course of the provision, and for the purposes, of operational delivery, including regeneration.

6.2 Commercial investments

These are investments taken for mainly financial reasons. These may include:

1. investments arising as part of business structures, such as shares and loans in subsidiaries or other outsourcing structures such as IT providers or building services providers;
2. investments explicitly taken with the aim of making a financial surplus for the Council.

Commercial investments also include fixed assets which are held primarily for financial benefit, such as investment properties.

Due to the nature of the assets or for valid investment reasons, such investments do not always give priority to security and liquidity over yield. In these cases, such a decision will be explicit, with the additional risks set out and the impact on financial sustainability identified and reported.

The Section 151 Officer/Interim Head of Finance will ensure that the Council has the appropriate legal powers to undertake such investments and will also ensure the proportionality of all investments so that the Council does not undertake a level of investing which exposes it to an excessive level of risk compared to its financial resources.

7 Due Diligence

For all capital investments, it is proposed that the appropriate level of due diligence will be undertaken with the extent and depth reflecting the level of additional risk being considered.

The process and procedures will include effective scrutiny of proposed investments that will, for example, consider:

- identification of the risk to both the capital sums invested and the returns;
- understanding the extent and nature of any external underwriting of those risks;
- the potential impact on the financial sustainability of the Council if those risks come to fruition;
- identification of the assets being held for security against debt and any prior charges on those assets;
- where necessary independent and expert advice will be sought.

The Section 151 Officer/Interim Head of Finance will ensure that members are adequately informed and understand the risk exposures being taken. Internal control and policy compliance will regularly be assessed by Joint Audit and Governance Committee.

8 Council Objectives

The Council has a set of corporate aims, priorities and objectives which shapes the provision of services. These are set out in the Corporate Plan. Capital investment projects if, and when undertaken, must be in line with these overall objectives and considered in the longer term.

9 The Capital Budget Setting Process

9.1 Key Criteria for Strategy

For any budget setting year, the key criteria by which proposals would be considered will be set. These may include for example:

- Maintenance of the essential infrastructure of the organisation;
- Essential Health and Safety works;
- Essential rolling programmes;
- Invest to save schemes;
- Match funded investment for regeneration projects;
- The outcome of feasibility studies.

9.2 Deciding which Schemes are to be put forward for review

When decisions on capital projects to be put forward are made it is proposed that consideration is given to the following:

Prudence:

- Recognition of the ability to prioritise and refocus following changes to the Council's Corporate Plan;
- Recognition of the capacity in the organisation to deliver such a programme;
- Recognition of the knowledge and skills available and whether these are commensurate with the appetite for risk;
- Recognition of the future vision of the authority;
- The approach to commercial activities including ensuring effective due diligence, defining the risk appetite and considerations of proportionality in respect of overall resources;
- The approach to treasury management and the management of risk is set out in the Treasury Management Strategy.

Affordability:

- Revenue impact of the proposals on the Medium Term Financial Plan;
- The borrowing position of the Council as required, projections of external debt and the use of internal borrowing to support capital expenditure;
- The authorised limits and operational boundaries;
- Whether schemes are profiled to the appropriate financial year.

Sustainability:

- An overview of asset management planning including maintenance requirements and planned disposals;
- A long-term view of capital expenditure plans, where long term is defined by the financing strategy of and risks faced with reference to the life of the project/assets;
- If the need to borrow is approved provision for the repayment of debt over the life of the underlying debt as set out in the Minimum Revenue Provision policy and consideration by Joint Audit and Governance Committee of the impact on the repayment on future viability.

All proposals would be produced in line with the Corporate Delivery Framework which will ensure the above points on prudence, affordability and sustainability are considered.

Sources of funding would be considered for each of the proposed capital schemes. Each project would be considered in terms of revenue funding to cover the operational running costs of the asset and any borrowing repayment costs, and how the asset would be funded in terms of capital expenditure. This is known as whole life budgeting.

9.3 Prioritisation of Schemes put forward

A system for prioritising capital projects will be adopted where funds allow. This will result in a list of proposals to be considered as part of that year's budget setting process.

9.4 Options Appraisals and Feasibility Studies

As part of the process of producing a list of potential schemes the capital programme option appraisals will be required to determine the most cost effective and best service delivery options.

Some projects may require a feasibility study. As part of any feasibility study an assessment of the maintenance costs per annum averaged over the whole life of the asset will be calculated.

9.5 In Year Opportunities

Schemes which arise during the year will only be considered for inclusion in the capital programme if they meet key criteria set out in section 9.1 or one or more of the following criteria:

- The location of the property to be purchased will bring added value to the estate;
- The requirement for the asset is an extraordinary service demand which could not be anticipated in the normal planning processes.

9.6 Member Approval Process

As part of the annual budget cycle.

10 Monitoring of the Capital Programme Expenditure

The Capital Budget Monitoring Report is currently produced quarterly, listing provisional and approved capital schemes, giving details of the project manager, budgets, year to date spend, brought forward spend and capital financing.

The report is sent to budget managers of each department for comment and reports are returned to Finance Team for incorporating into the Capital Budget Monitoring Report that is sent to the Strategic Management Team for review to ensure schemes are on target. Summaries are presented to formal Cabinet meetings for consideration.

When the capital schemes are completed a full evaluation report will be made available.

11 Multi-Year Schemes

Payments for capital schemes often occur over many years, depending on the size and complexity of the project. Estimated payment patterns are calculated for each project so that the expected capital expenditure per year is known. This is known as a cash flow projection and is key to analysing funding requirements.

The length of the planning period is defined by the financing strategy and the risks faced with reference to the life of the project/assets. For example, some schemes may span two or three years whereas others may be over much longer timeframes.

This allows greater integration of the revenue budget and capital programme and matches the time requirement for scheme planning and implementation since schemes have a considerable initial development phase.

12 Funding Strategy and Capital Policies

This section sets out the policies of the Council in relation to funding capital expenditure and investment.

12.1 External Funding

The Council will seek to maximise external funding wherever possible to support capital schemes. This can be in the form of grants and contributions from outside bodies including central government.

Prior to submitting proposals for grant funding, an assessment of the risk of a contract price increase, associated with market conditions or abnormal building plan demands attached to some grants, must be completed to estimate the likelihood of additional funding being needed.

12.2 Capital Receipts

A capital receipt is an amount of money which is received from the sale of an asset. In most cases they cannot be spent on revenue items.

12.3 Prudential/Unsupported Borrowing

Local Authorities can set their own borrowing levels based on their capital need and their ability to pay for the borrowing. The levels will be set by using the indicators and factors set out in the Prudential Code. This borrowing may also be referred to as Prudential Borrowing.

Section 151 Officer/Interim Head of Finance will make an assessment of the overall prudence, affordability and sustainability of the total borrowing which is reviewed by the Joint Audit and Governance Committee before approval by the Council. The impact of this borrowing will be reported in the Treasury Management Strategy alongside the Prudential Indicators required by CIPFA's Prudential Code for Capital Finance.

The view of the Section 151 Officer/Interim Head of Finance will be fed into the corporate budget process so that, should the required borrowing levels be unaffordable or not prudent, then the schemes will be prioritised against the available funding from borrowing.

Section 151 Officer/Interim Head of Finance will also determine whether the borrowing should be from internal resources, or whether to enter external borrowing.

12.4 Invest to Save Schemes

Occasionally projects arise which require set-up costs. Such projects may bring long term service delivery improvements and/or cost savings. The initial set up costs may be of a revenue or capital nature. Assistance for these schemes must be considered on an individual basis.

For 'invest to save' schemes it is expected that in the longer term these schemes will produce savings and/or additional income that will support the revenue budget.

12.5 Leasing

Section 151 Officer/Interim Head of Finance may enter into finance leasing agreements to fund capital expenditure. However, a full option appraisal and comparison of other funding sources will be made, and the Section 151 Officer/Interim Head of Finance will ascertain that leasing provides the best value for money method of funding the scheme.

Under the Prudential Code finance leasing agreements are counted against the overall borrowing levels when looking at the prudence of the authority's borrowing.

13 Procurement and Value for Money

Procurement is the purchase of goods and services, with a strategy being developed to assist with the definition of quality standards and securing provision of the best possible services for local people for a given price.

The Council uses Capita and In-House Procurement to help ensure value for money and to identify where efficiency savings can be achieved. This also covers capital procurement.

It is essential that all procurement activities comply with procurement legislation and adhere to the relevant requirements. Guidance on this can be sought from the Procurement team. Procurement must also comply with the Councils policies and regulations such as Contract Procedural Rules and Financial Regulations.

The main aim is to hold 'value for money' as a key goal in all procurement activity to optimise the combination of cost and quality and ensure all expenditure is appropriate.

14 Performance Management

Clear measurable outcomes will be developed for each capital scheme. After the scheme has been completed, a review can be undertaken.

Reviews will look at the effectiveness of the whole project in terms of operational delivery outcomes, design and construction, financing etc. and identify good practice and lessons to be learnt in delivering future projects.

15 Risk Management

To manage risk effectively, the risks associated with each capital project will be identified, analysed, and monitored.

It is important to identify the appetite for risk (see below) by each scheme and for the capital programme, especially when investing in capital assets held primarily for financial returns. Under the CIPFA Prudential Code these are defined as investments and so the key principle of control of risk and optimising returns consistent with the level of risk applies.

Section 151 Officer/Interim Head of Finance will explicitly identify the affordability and risk associated with the Capital Strategy. Where appropriate they will consider specialised advice to assist in decision making.

An assessment of risk will therefore be built into every capital project and major risks recorded in a Risk Register, before consideration by Council.