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Nottingham City Council
Executive Board

Date: Tuesday, 19 January 2021

Time: 2.00 pm

Place: Remote - To be held remotely via Zoom - https://www.youtube.com/user/NottCityCouncil

Councillors are requested to attend the above meeting to transact the following business

Director for Legal and Governance

Governance Officer: Kate Morris, Constitutional Services, Tel: 0115 8764353 **Direct Dial:** 0115 8764353

Agenda		Pages
1	**Apologies for absence**	
2	**Declarations of interests**	
3	**Minutes** Last meeting held on 15 December 2020 (for confirmation)	3 - 8
4	**Council Tax – Determination of the 2021/22 Tax Base** Report of the Portfolio Holder for Finance, Growth and the City Centre	9 - 16
5	**Treasury Management 2020/21 Half Yearly Update** Report of the Portfolio Holder for Finance, Growth and the City Centre	17 - 38

If you need any advice on declaring an interest in any item on the agenda, please contact the governance officer shown above, if possible before the day of the meeting

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Nottingham City Council

Executive Board

Minutes of the meeting held remotely via Zoom - https://www.youtube.com/user/NottCityCouncil on 15 December 2020 from 2.06 pm - 2.28 pm

Membership

Present	Absent
Councillor David Mellen (Chair)	Councillor Linda Woodings
Councillor Sally Longford (Vice Chair)	
Councillor Cheryl Barnard	
Councillor Eunice Campbell-Clark	
Councillor Neghat Khan	
Councillor Rebecca Langton	
Councillor Dave Trimble	
Councillor Adele Williams	
Councillor Sam Webster	

Colleagues, partners and others in attendance:

Councillor Kevin Clarke
Councillor Andrew Rule

Mel Barrett	-	Chief Executive
Chris Deas	-	Director of Major Projects
Clive Heaphy	-	Strategic Director of Finance
Ross Leather	-	Safeguarding Adults Board Manager
Malcolm Townroe	-	Director of Legal and Governance
Kate Morris	-	Governance Officer

Call-in

Unless stated otherwise, all decisions are subject to call-in. The last date for call-in is 24 December 2020. Decisions cannot be implemented until the working day after this date.

63 Apologies for Absence

Councillor Linda Wooding – Council Business

Chris Henning – Corporate Director for Development and Growth
Hugh White – Interim Corporate Director for COVID Response and Recovery

64 Declarations of Interests

None.

65 Minutes

The minutes of the meeting held on 17 November 2020 were confirmed as a true record and were signed by the Chair.

66 NCSCP Annual Report 2019/20

This item does not contain any decisions that are subject to the call in.

The Board considered the report of the Portfolio Holder for Children and Young People, presenting the first annual report of the Nottingham City Safeguarding Children Partnership covering the period 1 April 2019 to 30 March 2020. The following points were highlighted:

(a) The purpose of the Partnership is to coordinate each partner's actions for promoting safeguarding and to promote welfare of children. The Partnership holds each member to account, conducts serious case reviews, and challenges safeguarding practices to ensure that partner agencies are robust and their actions fit for purpose;

(b) Following the publication of the IICSA report in July 2019 the partnership has worked hard to ensure that learning from the outcomes continues;

(c) The group continues to work to prevent the criminal exploitation of children and young people as a multi agency partnership. The streamlined arrangements mean that the work is no less thorough than when the group was larger. The smaller statutory membership ensures that a partnership view of safeguarding arrangements is maintained.

Resolved to approve the 2019/20 Nottingham City Safeguarding Children Partnership annual report

Reasons for decision
The production and publication of an annual report by the group is a statutory requirements. The report must details the actions taken during the year to achieve its main objectives and implement its strategic plan. The report is brought for approval to ensure an accurate record and a level of scrutiny is achieved by partners and to ensure that the Council can assure itself that group and partners have acted to help protect children.

Other options considered
The other option would be to not produce the report. This would mean that the group is not meeting its statutory requirements and so this was rejected.

67 Safeguarding Adults Board Annual Report 2019/20

This item does not contain any decisions that are subject to the call in.

The Board considered the report of the Portfolio Holder for Adult Care and Local Transport presenting the Annual report of the Safeguarding Adults Board covering the period 1 April 2019 to 30 March 2020. The following points were highlighted during discussion:

(a) The report acts to assure the Council that the local safeguarding arrangements and partners have acted to help and protect adults who are Care Act eligible;

(b) The group fosters a culture of challenge allowing partner organisations to hold each other to account. This has been supported by and encouraged by the Independent Chair, Joy Hollister;

(c) The key strategic partners are the Local Authority, the Police and the Clinical Commissioning Group. The report details activities undertaken by the group and partner agencies and contains assurance that safeguarding activities are undertaken;

(d) Although not the subject of this report the period of the Covid pandemic saw a decrease in face to face contact of the partner agencies. However work continued through the pandemic and activity is once again increasing as business returns to normal;

(e) Within the prevention, work a card designed for adults with learning disabilities has been developed and won national awards. It is designed using a variation of Makaton to help people understand what is acceptable behaviour, and what is abusive and to understand how to seek help when and if they feel threatened. There is scope that these could be adapted for use with children and young people too;

Resolved to approve the 2019/20 Safeguarding Adults Board Annual Report.

Reasons for decision
Production of an annual report is a statutory requirement. The report must detail what the Safeguarding Adults Board has done during the year to achieve its main objectives and to implement its strategic plan. The report is brought for approval to ensure an accurate record and a level of scrutiny is achieved by partners and to ensure that the Council can assure itself that group and partners have acted to help protect adults who are Care Act eligible.

Other options considered
The other option considered was to not produce the report, however as it is a statutory requirement this option was rejected.

68 Active Travel Fund Tranche 2 Grant

The Board considered the report of the Portfolio Holder for Adult Care and Local Transport detailing the second tranche of the Active Travel funding to encourage more walking and cycling during the Covid-19 pandemic. The report seeks permission to accept funding to continue work to encourage active transport. The following points were highlighted in discussion:

(a) In June 2020 Nottingham City successfully bid in the first tranche for £570,000 for pop up cycle lanes, bike aide schemes for key workers on low incomes and other schemes with the central aim to enable a green recovery from the initial lockdown;

(b) The second tranche of funding will focus more on consultation, due to start early in 2021, on schemes including car free streets around schools, low traffic

areas, the introduction of a bus/cycle lane along Trent Bridge and a permanent scheme to help improve access along the embankment. There are also plans for trial cycle lanes along Mansfield Road and Porchester Road;

(c) Schemes will help to improve road safety, particularly along Derby Road where residents and students have campaigned for changes to junctions for pedestrians and cyclists. The first tranche of funding allowed a scheme to be trialled which has been successful and will now be made permanent;

(d) Where pop up schemes have been trialled there will be consultation with users and partners and the public. The first scheme enabled quick changes that helped but the government is keen for more consultation to take place before schemes become permanent. Designs will need to be finalised to ensure that schemes fit properly into the wider strategic plans for transport within the city.

Resolved to:

1) **Accept £2,039,000 of funding from Tranche 2 of the Department for Transport's 'Active Travel Fund', provisionally made up of £1,631,200 capital and £407,800 revenue;**

2) **Agree the Consultation Strategy for the Active Travel Fund Schemes outlined in Appendix B of the report published with the agenda, and publish on the Council website in order for the Department for Transport to release the Active Travel Fund allocation to the City Council;**

3) **Delegate authority to the Corporate Director of Development and Growth to use the funding to develop and implement the schemes listed in the outline ATF programme attached in Appendix A of the report published with the agenda;**

4) **Delegate authority to the Corporate Director of Development and Growth to make variations to the ATF programme and expenditure in consultation with the relevant Portfolio Holder, as required; and**

5) **Delegate authority to the Corporate Director of Development and Growth to appoint preferred suppliers and contractors to deliver the programme. All procurement activities will be undertaken in accordance with the Councils' financial regulations and procedures.**

Reasons for decision

The second tranche of funding has been provided to enable local authorities to build on the success of the initial funding and to allow some of the temporary schemes to become permanent were an ongoing benefit can be shown.

Other options considered

The only other option considered was to not accept the funding. This option was rejected as it would mean the Council is unable to deliver sustainable transport schemes, build on the schemes established in tranche 1, refocus on increased local movement and encourage more walking and cycling. All of these would impact on the Council's commitment to become Carbon Neutral by 2028.

69 Voluntary Redundancy Programme

The Board considered the report of the Portfolio Holder for Health, HR and Equalities seeking approval to begin a 30 day consultation period with a group of employees who had previously expressed an interest in taking voluntary redundancy. Further work on the budget due to be presented to this Board in the new year now allows the opportunity for a further cohort of employees to take voluntary redundancy.

Resolved to

1) **Approve the commencement of a period of 30 days consultation in relation to the proposed redundancies**

2) **Note that the final decision on the redundancies will be determined by the Chief Executive, in line with the Constitution.**

Reasons for the decisions
In year budget savings presented to this Board in September 2020 achieved a saving of £12.505million. Further savings need to be identified for the 2021/22 budget and this consultation process will lead to potential savings of up to £1.09million. it will also allow employees the opportunity to leave under a fast track process.

Other Options Considered
The other option considered was to delay the start of the consultation process until the January budget consultation report is brought before this Board. However, this was rejected as facilitating employees to leave 2 months earlier will deliver additional savings.

70 Exclusion of the Public

The Board decided to exclude the public from the meeting during consideration of this/ the remaining agenda item(s) in accordance with Section 100A(4) of the Local Government Act 1972 on the basis that, having regard to all the circumstances, the public interest in maintaining the exemption outweighed the public interest in disclosing the information, as defined in Paragraph(s) **5** of Part 1 of Schedule 12A to the Act**.**

71 Voluntary Redundancy Programme - Exempt Appendix

Resolved to note the content of the exempt appendix

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Executive Board – 19 January 2021

Subject:	Council Tax – Determination of the 2021/22 Tax Base
Corporate Director(s)/Director(s):	Clive Heaphy, Strategic Director of Finance
Portfolio Holder(s):	Councillor Sam Webster, Portfolio Holder for Finance, Growth and the City Centre
Report author and contact details:	Antony Snape, Team Leader, Revenues and Benefits Business Support 0115 876 3890 antony.snape@nottinghamcity.gov.uk
Other colleagues who have provided input:	Ian Fair, Senior Accountant, Strategic Finance

Subject to call-in: ☒ Yes ☐ No

Key Decision: ☒ Yes ☐ No

Criteria for Key Decision:

(a) ☐ Expenditure ☐ Income ☐ Savings of £1,000,000 or more taking account of the overall impact of the decision

and/or

(b) Significant impact on communities living or working in two or more wards in the City ☒ Yes ☐ No

Type of expenditure: ☐ Revenue ☐ Capital

Total value of the decision: Nil

Wards affected: All

Date of consultation with Portfolio Holder(s): Consultation throughout the budget process

Relevant Council Plan Key Theme:

Nottingham People	☒
Living in Nottingham	☐
Growing Nottingham	☐
Respect for Nottingham	☐
Serving Nottingham Better	☐

Summary of issues (including benefits to citizens/service users):

The Council Tax base figure is used in the calculation of the Council Tax to provide resources for the delivery of the Council's vision, values and objectives. Council Tax revenue funds service delivery.

Exempt information:

None

Recommendation(s):

1 To approve a tax base of 66,396 for 2021/22

2 To agree that a collection rate of 97.5% be used in the determination of the 2021/22 tax base

3 To determine an increase in the Council Tax Premium levied on long term empty properties that are vacant and substantially unfurnished for ten years or more from 200% additional Council Tax to 300% from 1st April 2021 as part of these calculations

1 Reasons for recommendations

1.1 The City Council and precepting authorities (i.e. Police and Fire Authorities) will use the tax base figure in their budget processes in February 2021 to determine the level of Council Tax for 2021/22. This report estimates future changes to the current tax base

during 2021/22 and applies an appropriate anticipated collection rate for the period, taking into account collection trends and the prevailing economic environment, to determine the tax base figure to be set.

1.2 From 1st April 2021 s.11B of the Local Government Finance Act 1992 will allow Local Authorities to increase the Council Tax Premium that is levied on properties that are empty and unfurnished for ten years or more from a maximum of an additional 200% of the Council Tax charge up to 300%. A determination is sought to approve a change to the maximum charge of 300%. This will encourage such properties to be brought back into occupation, or will generate additional revenue where this is not successful.

2 Background (including outcomes of consultation)

2.1 Nottingham City Council is a "billing authority" for Council Tax purposes. The Local Government Finance Act 1992 requires the billing authority to determine the Council Tax base to be used in the calculation of the level of Council Tax. The tax base must be calculated in accordance with the Local Authorities (Calculation of Council Tax Base) Regulations 2012 and be determined between 1 December and 31 January each year. The stages in the calculation of the tax base are as follows (all references to figures in brackets refer to paragraph 2.6 of this report):

- for each of the eight council tax valuation bands (A to H) a 'relevant amount' is calculated. This is the number of dwellings in each valuation band adjusted to take account of the effect of exemptions and discounts and disabled relief. This figure is expressed as the equivalent number of band D dwellings and reflects the situation at 5 October 2020 (figure 1);
- this figure is then adjusted to reflect any estimated increases or decreases in the number of dwellings, exemptions and discounts throughout the year ahead (figure 2). An additional adjustment is also made for the Council Tax Support scheme (CTSS) which replaced Council Tax benefit from 1 April 2013 as a Council Tax discount (figure 3). These adjustments are detailed in Appendix 2;
- the revised amount is expressed as the equivalent number of band D dwellings (figure 4). It is then multiplied by our estimated collection rate for the year (figure 5);
- any contribution paid in lieu in respect of Ministry of Defence (MoD) properties, which are exempt from the Council Tax, is added (figure 6);
- the result is the tax base for the authority (figure 7).

2.2 In October 2020 the annual CTB1 tax base return was submitted to the Ministry of Housing, Communities and Local Government (MHCLG) showing the total number of band D equivalent properties subject to Council Tax at that time. At 5 October 2020 this was 84,472 (figure 1). An extract is at Appendix 1 and this figure is shown on line 23, column 10.

2.3 Potential changes that may affect the number of chargeable dwellings and the size of the tax base over time include:

- new properties and properties changing to domestic use
- demolitions, mergers and properties changing to commercial use
- increases or decreases in the number of discounts
- changes to the value of discounts
- increases or decreases in the number of exemptions;
- successful appeals against banding levels and the 'knock on' effect of appeals on surrounding properties;
- Council Tax Support.

2.4 In setting the tax base for 2020/21 a collection rate of 97.5% was used. For 2021/22 the collection rate will remain at this level to reflect estimated collection levels associated with Council Tax and CTSS based on recent analysis of collection trends. This establishes the tax base at 66,396 (figure 5). There are no properties owned by the MoD for which contributions in lieu are made. Additional information on how the tax base has been calculated is provided in the supplementary notes in Appendix 3.

2.5 From 1st April 2013 Local Authorities were given discretionary power to levy a Council Tax Premium on properties unoccupied and unfurnished for over two years to encourage such properties to be brought back into use. This was initially set at 50% additional council tax but from 1st April 2019 the maximum Premium level was increased to 100% additional council tax for properties that fitted this criteria. From 1st April 2020 the legislation allowed the Premium to be increased by up to 200% additional council tax for properties that have been empty for five years or more and from 1st April 2021 the Premium can be increased up to 300% where properties have been empty for ten years or more. 80 properties will fall into this latter category.

2.6 In summary, a tax base figure of 66,396 is recommended, calculated as follows:

	Figure	2021/22	2020/21
Number of chargeable dwellings	1	84,472	83,834
Less adjustment to chargeable dwellings for discounts and exemptions	2	(1037)	(647)
Less adjustments for Council Tax Support	3	(15,337)	(14,100)
Adjusted number of chargeable dwellings	4	**68,098**	**69,087**
Multiplied by collection rate (97.5%)	5	66,396	67,360
MoD Contributions	6	0	0
Council Tax Base	7	**66,396**	**67,360**

3 Other options considered in making recommendations

3.1 None, as the council is legally required to set a Council Tax base using objective calculations

4 Finance colleague comments (including implications and value for money/VAT)

4.1 The tax base of 66,396 will be lower in 2021/22 than the 67,360 set last year. This is mainly due to ongoing economic uncertainty caused by the Covid-19 pandemic including a revised estimate of CTSS levels. These changes will reduce the amount of Council Tax raised.

4.2 The overall collection rate is estimated to be 97.5% reflecting current collection levels and will be kept under review.

4.3 The tax base is a key element in setting the level of Council Tax. Value for money is assessed in all areas of service provision

5 Legal and Procurement colleague comments (including risk management issues, and legal, Crime and Disorder Act and procurement implications)

5.1 If the overall actual collection rate is lower than the assumed rate used here, this could result in a Collection Fund deficit, requiring an increase in the following year's Council Tax. A higher collection rate would increase the surplus and potentially marginally reduce the following year's Council Tax level. The collection rate of 97.5% reflects an analysis of arrears recovery, past trends and forecasting and the collection risk associated with the CTSS and the empty property Premium.

5.2 The setting of the tax base by 31 January 2021 is a legal requirement.

6 Strategic Assets & Property colleague comments (for decisions relating to all property assets and associated infrastructure)

6.1 Not applicable

7 Social value considerations

7.1 Not applicable

8 Regard to the NHS Constitution

8.1 Not applicable

9 Equality Impact Assessment (EIA)

9.1 Has the equality impact of the proposals in this report been assessed?

No ☒

An EIA is not required because this report does not set out changes to services or functions. Any decision on Council Tax rates will be the subject of a subsequent report setting out the Council's proposed budget and this will incorporate a detailed equality impact assessment

10 List of background papers relied upon in writing this report (not including published documents or confidential or exempt information)

10.1 None

11 Published documents referred to in this report

11.1 None

APPENDIX 1

CTB1 TAXBASE RETURN (OCTOBER 2020)

DWELLINGS SHOWN ON THE VALUATION LIST FOR THE AUTHORITY ON 14 SEPTEMBER 2020	Disabled in BAND A COLUMN 1	BAND A COLUMN 2	BAND B COLUMN 3	BAND C COLUMN 4	BAND D COLUMN 5	BAND E COLUMN 6	BAND F COLUMN 7	BAND G COLUMN 8	BAND H COLUMN 9	TOTAL COLUMN 10
1. Total number of dwellings on Valuation List		88342	24723	16564	7217	2505	1090	726	115	**141282**
2. Number of dwellings on Valuation List exempt on 5 October 2020 (class B & D to W exemptions)		7102	5076	2536	987	221	49	24	19	**16014**
3. Number of demolished dwellings and dwellings outside area of Authority on 5 October 2020		1	0	0	0	0	0	0	0	**1**
4. Number of chargeable dwellings on 5 October 2020 (Lines 1-2-3)		81239	19647	14028	6230	2284	1041	702	96	**125267**
5. Number of chargeable dwellings in line 4 subject to disabled reduction on 5 October 2020		273	130	101	75	28	17	23	13	**660**
6. Number of dwellings effectively subject to council tax for this band by virtue of Disabled Relief (line 5 after reduction)	273	130	101	75	28	17	23	13		**660**
7. Number of chargeable dwellings adjusted in accordance with lines 5 & 6 (lines 4-5+6 or for column 1, line 6)	273	81096	19618	14002	6183	2273	1047	692	83	**125267**
8. Number of dwellings in line 7 entitled to a single adult household 25% discount on 5 October 2020	75	38231	7257	4057	1530	506	227	111	5	**51999**
9. Number of dwellings in line 7 entitled to a 25% discount on 5 October 2020 due to all but one resident being disregarded for council tax purposes	9	755	263	198	112	30	10	5	1	**1383**
10. Number of dwellings in line 7 entitled to a 50% discount on 5 October 2020 due to all residents being disregarded	0	91	34	26	27	14	13	24	18	**247**
11. Number of dwellings in line 7 classed as second homes on 5 October 2020		181	65	57	33	17	2	3	0	**358**
12.Number of dwellings in line 7 classed as empty and receiving a zero% Discount on 5 October 2020		1845	517	383	196	65	30	16	1	**3053**
13. Number of dwellings in line 7 classed as empty and receiving a discount on 5 October 2020 other than zero%		0	0	0	0	0	0	0	0	**0**
14. Number of dwellings in line 7 classed as empty and being charged the Empty Homes Premium on 5 October 2020		362	71	39	21	11	5	2	2	**513**
15. Total number of dwellings in line 7 classed as empty on 5 October 2020 (lines 12,13 & 14)		2207	588	422	217	76	35	18	3	**3566**
16. Number of dwellings in line 7 where there is liability to pay 100% council Tax before Family Annexe Discount	189	41656	11993	9682	4493	1712	792	550	57	**71124**
17 Number of dwellings in line 7 that are assumed to be subject to a discount or a premium before Family Annexe Discount	84	39440	7625	4320	1690	561	255	142	26	**54143**
18. Reduction in taxbase as a result of Family Annex discount	0.0	1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	**1.0**
19. Number of dwellings equivalents after applying discounts and Premiums to calculate taxbase	252	71820.5	17804.0	12971.3	5785.0	2147.0	987.3	653.0	75.5	**112495.5**
20. Ratio to Band D	5/9	6/9	7/9	8/9	9/9	11/9	13/9	15/9	18/9	
21. Number of Band D equivalents (to 1 decimal place) (line 19 x line 20)	140.0	47880.3	13847.6	11530.0	5785.0	2624.1	1426.0	1088.3	151.0	**84472.3**
22. Number of Band D equivalents of contributions in lieu (in respect of Class O exempt dwellings) in 2020/21 (to 1 decimal place)										**0.0**
23. Tax base (to 1 decimal place) (line 21 col 10 + line 22)										**84472.3**

APPENDIX 2

ADJUSTMENTS TO NUMBER OF CHARGEABLE DWELLINGS

	Disabled in BAND A	BAND A	BAND B	BAND C	BAND D	BAND E	BAND F	BAND G	BAND H	TOTAL
Number of band D equivalent										
dwellings on CTB1 Return (Line 21)	140.0	47880.3	13847.6	11530.0	5785.0	2624.1	1426.0	1088.3	151.0	**84472.3**
ADJUSTMENTS										
New properties (note 1)		438	122	82	36	12	5	4	1	**700**
Deletions (note 2)		-156	-43	-30	-13	-3	-3	-1	-1	**-250**
Discounts (note 3)		-185	-35	-19	-7	-2	-1	-1	0	**-250**
Empty Property Premium (note 4)		72	2	4	1	1	0	0	0	**80**
Exemptions (note 5)		-710	-507	-253	-99	-22	-5	-2	-2	**-1600**
Appeals - reductions (note 6)			-23	-16	-7	-2	-1	-1	0	**-50**
Appeals - increases (note 7)		23	16	7	2	1	1	0		**50**
Knock On Effect - reductions (note 8)			-47	-31	-14	-5	-2	-1	0	**-100**
Knock On Effect - increases (note 9)		47	31	14	5	2	1	0		**100**
Council Tax Support (note 10)		-19280	-2206	-631	-157	-27	-8	-3	0	**-22312**
TOTAL ADJUSTMENTS		**-19751**	**-2690**	**-873**	**-253**	**-45**	**-13**	**-5**	**-2**	**-23632**
Ratio	5/9	6/9	7/9	8/9	9/9	11/9	13/9	15/9	18/9	
BAND D EQUIV OF ADJUSTMENTS		-13167.3	-2092.2	-776.0	-253.0	-55.0	-18.8	-8.3	-4.0	**-16374.6**
TOTAL BAND D EQUIVALENT DWELLINGS	**140.0**	**34713.0**	**11755.4**	**10754.0**	**5532.0**	**2569.1**	**1407.2**	**1080.0**	**147.0**	**68097.7**

APPENDIX 3

COUNCIL TAXBASE ESTIMATE 2021/22: SUPPLEMENTARY NOTES

(1) New properties

There are several new property developments in progress across the City. Around 1300 domestic properties are either planned or are under construction. Not all of these will be completed and occupied and liable for Council Tax for the whole of 2021/22 however and some of these will be exempt from Council Tax as purpose built student accommodation. It is estimated that the equivalent of 700 new properties will be added to the tax base next year. These have been split across each of the bands based on the current proportion of properties in each band.

(2) Deletions

Property deletions relate to demolitions, properties that merge to become single assessments or those that change from domestic to commercial use. There is no major demolition work planned for 2021/22 so 250 properties are estimated to be removed from the tax base during the next financial year to reflect general activity in this area.

(3) Single Person Discounts and Disregards

Discounts for single occupancy reduce the council tax payable by 25%.

Additional single person discounts will be granted next year at some new properties, for changes within existing households and for some new occupiers moving into the City. There will also be discount cancellations as existing discounts are subject to ongoing monitoring and review. It is estimated that a net additional 1000 single person discounts will be awarded in 2021/22, which at 25% of the council tax charge equates to a reduction in the tax base of 250 full properties.

(4) Empty Property Premium

Properties empty and substantially unfurnished for more than two years but less than five years are subject to a Premium or surcharge equivalent to an extra 100% of the council tax charge and for those empty for five years or more the Premium is 200%. From 01/04/21 the legislation allows the Premium to be increased to 300% of the Council Tax charge for properties empty for ten years or more and it is proposed that the City Council will adopt this change. 80 properties will be subject to the 300% Premium in 2021/22.

(5) Exemptions

Most exemptions are granted for properties occupied by students. At the time of the CTB1 Return in October 2020, applications for student exemptions were still being received for the new academic year and have since increased from the level at that time. A number of the new properties in note (1) will also be student properties entitled to full council tax exemptions.

An allowance of an extra 1600 exemptions is to be made to reflect the level of exemptions in the tax base more accurately over the course of the year. These have been split on a pro rata basis across each of the bands based on the current number of exempt properties in each band.

(6) Appeals - reductions

Taxpayers may appeal against their council tax band to the Valuation Office Agency. Presently there are a low number of appeals outstanding and an allowance for 50 successful appeals is made to reflect average activity in this area. These are split across bands B to H on a pro rata basis.

(7) Appeals - increases

A successful appeal would result in a corresponding increase in the number of properties in the band below.

(8) Knock on effect - reductions

A successful appeal could result in banding reductions in surrounding properties. To account for this an allowance of 100 properties is made, split across bands B to H on a pro rata basis.

(9) Knock on effect - increases

Any further reductions would again increase the number of properties in the bands below.

(10) Council Tax Support

Council Tax Support takes the form of council tax discount. The amount granted in 2020/21 has increased over the year reflecting current economic circumstances and is expected to be higher in 2021/22 than the level estimated in the last tax base report.

It is estimated that 22,312 discounts for Council Tax Support will be granted in 2021/22, an increase from the 2020/21 estimate of 20,528.

Subject:	Treasury Management 2020/21 Half Yearly Update
Corporate Director(s)/Director(s):	Clive Heaphy, Strategic Director of Finance and S151 Officer
Portfolio Holder(s):	Sam Webster, Portfolio Holder for Finance, Growth and the City Centre
Report author and contact details:	Theresa Channell, Head of Strategic Finance and Deputy S151 Officer Tel: 0115 8764157 Email : theresa.channell@nottinghamcity.gov.uk
Other colleagues who have provided input:	Members of Treasury Management Panel: Laura Pattman, Strategic Director of Finance (former) Theresa Channell, Head of Strategic Finance Susan Risdall, Technical Team Leader Jo Worster, Strategic Finance Team Leader Glyn Daykin, Senior Accountant – Treasury Management

Subject to call-in: ☐ Yes ☒ No

Key Decision: ☐ Yes ☒ No

Criteria for Key Decision:

(a) ☐ Expenditure ☐ Income ☐ Savings of £1,000,000 or more taking account of the overall impact of the decision

and/or

(b) Significant impact on communities living or working in two or more wards in the City ☐ Yes ☐ No

Type of expenditure: ☐ Revenue ☐ Capital

Total value of the decision: nil

Wards affected: all

Date of consultation with Portfolio Holder(s): throughout first half of the year

Relevant Council Plan Key Theme:

Nottingham People	☒
Living in Nottingham	☒
Growing Nottingham	☒
Respect for Nottingham	☒
Serving Nottingham Better	☒

Summary of issues (including benefits to citizens/service users):

This report sets out details of treasury management actions and performance from 1 April 2020 to 30 September 2020. In summary:

- No new long-term borrowing has been undertaken in the period to 30 September 2020 (section 4.3);
- The average interest rate payable on the debt portfolio increased from 3.137% at 31 March 2020 to 3.282% at 30 September 2020 (section 4.3);
- no debt rescheduling had been undertaken to 30 September 2020 (section 4.4);
- the average return on investments to 30 September 2020 was 0.490% against a benchmark rate of -0.057% (7-day LIBID) (section 4.8);
- there has been compliance with Prudential Indicators for 1 April to 30 September 2020 (section 4.10);
- the PWLB lending terms have changed in 2020/21 following a consultation period which ended on 31 July 2020. The new terms were announced on 26 November 2020 and with the aim of stopping local authorities borrowing money from the PWLB to purchase commercial property and other debt for yield assets if the aim is solely to generate an income stream (section 4.11.1). The impact of this change to the PWLB lending arrangements and of the review of the capital program in light of the current financial context

of the council will be reflected in the 2021/22 Treasury Management Strategy and Capital Investment Strategy on the February Executive Board agenda.
Exempt information: None
Recommendation(s):
1 To note the treasury management actions taken in 2020/21 to 30 September 2020.

1 Reasons for recommendations

1.1 To ensure that Councillors are kept informed of the actions taken by the Chief Finance Officer (CFO) under delegated authority. The currently adopted Treasury Management Code of Practice requires the CFO to submit at least three reports on treasury management each year; a policy and strategy statement for the ensuing financial year, a 6-monthly progress report and an outturn report after the end of the financial year. The Code also requires that the reports be considered by relevant scrutiny or executive committees, and that the City Council approves any changes to the treasury management strategy.

2 Background (including outcomes of consultation)

2.1 **Capital Strategy**

In December 2017, the Chartered Institute of Public Finance and Accountancy, (CIPFA), issued revised Prudential and Treasury Management Codes. As from 2019/20, all local authorities have been required to prepare a Capital Strategy which is to provide the following: -

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

2.2 **Treasury Management**

The Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the treasury management operations ensure this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity initially before considering optimising investment return.

The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure the Council can meet its 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 Council risk or cost objectives.

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."

2.3 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).
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. Receipt by Executive Board of a Mid-year Review Report and an Annual 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.
- Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body. For this Council the delegated body is the Audit Committee.

2.4 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 2020/21 financial year;
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
- The Council's capital expenditure, and prudential indicators;
- A review of the Council's investment portfolio for 2020/21;
- A review of the Council's borrowing strategy for 2020/21;
- A review of any debt rescheduling undertaken during 2020/21;
- A review of compliance with Treasury and Prudential Limits for 2020/21.

3 Other options considered in making recommendations

3.1 No other options were considered as the report is required by the Treasury Management Code of Practice.

4 TREASURY MANAGEMENT ACTIVITY TO 30 SEPTEMBER 2020

4.1 The Economy and Interest rates during 2020/21

- Growth and Inflation:
The fall in GDP in the first half of 2020 was revised from 28% to 23% (subsequently revised to -21.8%). This is still one of the largest falls in output of any developed nation. However, the UK economy is heavily skewed towards consumer-facing services – an area which was particularly vulnerable to being damaged by lockdown. The peak in the unemployment rate was revised down from 9% in Q2 to 7½% by Q4 2020.

The Monetary Policy Committee (MPC) kept Bank Rate unchanged at 0.10% and maintained the level of quantitative easing (QE) at £745bn at the meeting on 6th August. The MPC also squashed any idea of using negative interest rates, at least in the next six months or so. It suggested that while negative rates can work in some circumstances, it would be "less effective as a tool to stimulate the economy"

at this time when banks are worried about future loan losses. It also has “other instruments available”, including QE and the use of forward guidance.

The Consumer Price Index inflation % (CPI) has reduced 1.70% to 0.20% in the 6 months to 30 September 2020.

- Forecast Interest rates
The Council’s treasury advisor, Link Group, has provided the following forecast. (PWLB rates are certainty rates):

These Link forecasts have been amended for the reduction in PWLB margins by 1.0% from 26.11.20														
	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
BANK RATE	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
6 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
12 month ave earnings	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20
5 yr PWLB	0.80	0.80	0.80	0.80	0.80	0.90	0.90	0.90	0.90	0.90	1.00	1.00	1.00	1.00
10 yr PWLB	1.10	1.10	1.10	1.10	1.10	1.20	1.20	1.20	1.20	1.20	1.30	1.30	1.30	1.30
25 yr PWLB	1.50	1.50	1.60	1.60	1.60	1.60	1.70	1.70	1.70	1.70	1.80	1.80	1.80	1.80
50 yr PWLB	1.30	1.30	1.40	1.40	1.40	1.40	1.50	1.50	1.50	1.50	1.60	1.60	1.60	1.60

Given the current level of uncertainties around the effects of COVID 19 on the economy and the conclusion of Brexit negotiations, these forecasts may need to be materially reassessed in the light of events over the next few weeks or months.

Appendix B shows the money market interest rates, the PWLB borrowing rates for the half-year to 30 September 2020 and a forward view for PWLB loan rates.

4.2 Local Context

4.2.1 The Treasury Management Strategy Statement, (TMSS), for 2020/21 was approved by Full Council on 9 March 2020. There are no policy changes to the TMSS; the details in this report update the position in the light of the updated economic position and budgetary changes already approved as at 30 September 2020. The TMSS for 2021/22 which is due to be submitted to Executive Board in February 2021 is being reviewed alongside the Capital & Investment Strategy in light of the current financial context of the council and the changes to the PWLB lending arrangements.

4.2.2 The Council undertakes capital expenditure on long-term assets. These activities may either be:

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Council’s borrowing need; or
- If insufficient financing is available, or a decision is taken not to apply resources based on robust financial modelling, the capital expenditure will give rise to a borrowing need.

4.2.3 At 31/03/2020 the Council’s underlying need to borrow for capital purposes as measured by the Capital Financing Requirement (CFR) was £1,382.0m.
The CFR is forecast to increase by £62.4m to £1,444.4m by 31/03/2021 against the original CFR estimate for 31/03/2021 of £1,521.9m with reductions due to slippage and a review to the capital program including the delay/cancellation of some major schemes. The forecast CFR will be revised further as part of the review of the 2021/22 Treasury Management Strategy in light of the current financial context of the council and the changes to the PWLB lending arrangements. This will be reported to Executive Board in February 2021.

Table 1 below shows the original and expected financing arrangements of the capital programme. The borrowing element of the table increases the underlying indebtedness of the Council by way of the Capital Financing Requirement (CFR), although this will be reduced in part by revenue charges for the repayment of debt (the Minimum Revenue Provision). This borrowing need may also be supplemented for maturing debt and other treasury requirements.

TABLE 1: CAPITAL EXPENDITURE	2020/21 Original Estimate £m	2020/21 Revised Estimate £m
Total capital expenditure	218.513	230.021
Financed by:		
Capital receipts	20.107	24.278
Capital grants & Contributions	43.833	66.359
Internal Funds / Revenue (inc. Major Repairs Reserve)	37.902	31.907
Total financing	101.842	122.544
Borrowing requirement	116.671	107.477

Note to table: Original estimate was Q3 2019/20 used for the 2020/21 Treasury Management Strategy Report.

4.2.4 The increase in estimated capital expenditure has two elements, a reduction of forecast spend due to a review of capital program including the delay/cancellation of some major schemes and an increase to 2020/21 forecast spend due to slippage on capital projects that had expenditure originally forecast to have been incurred in 2019/20. The associated financing of these schemes has also moved from 2019/20 to the 2020/21 revised forecasts shown above.

4.3 Borrowing

4.3.1 To finance the CFR the Council may borrow from the PWLB or the market (external borrowing) or from internal balances on a temporary basis (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions.

4.3.2 At 30/9/2020 the Council has reduced the balance of external loans by £89.6m on the 31/3/2020 balance, as the short term loans taken to provide additional liquidity in February/March in response to COVID 19 have now been repaid. The Council expects to increase borrowing by around £70.7m in the 2nd half of 2020/21 based on the revised capital program and forecast cash flow requirements. Beyond 2021/22 the level of external loans is expected to reduce as will the CFR in line with reductions in the capital program.

4.3.3 **Table 2** summarises the Council's outstanding external debt at 30 September 2020 showing the value of debt and the average interest rate payable on the debt:

TABLE 2: DEBT PORTFOLIO					
	01-Apr-20		30-Sep-20		Change
DEBT	**£m**	**Average Interest %**	**£m**	**Average Interest %**	**£m**
PWLB borrowing	892.8	3.399	884.2	3.403	-8.6
Market loans inc LOBO	49.0	4.348	49.0	4.348	0
Temporary borrowing	132.7	0.933	51.7	0.207	-81
TOTAL LOANS DEBT	**1,074.5**	**3.137**	**984.9**	**3.282**	**-89.6**
Other inc PFI	191.4		186.6		-4.8
TOTAL DEBT	**1,265.9**		**1,171.5**		**-94.4**

4.3.4 At 30/09/2020, the Council had £1,171.5m of external borrowing including £186.6m of Private Finance Initiative (PFI) and lease liabilities. The Council continues to maintain borrowing and investments below their underlying levels, referred to as internal borrowing, subject to holding a minimum investment balance of around £30m. The Council's under-borrowed position was temporarily reduced to £116.1m at 31 March 2020 due to the increase in new short-term term borrowing taken and used/held at the end of the financial year to mitigate liquidity risks caused by Covid 19.

The council expects to increase the internal borrowing position to around £200m by 31 March 2021 as a prudent and cost effective approach in the current economic climate but will require ongoing monitoring in the event that upside risk to gilt yields prevails.

The continuation of this existing strategy will further support managing the council's cost of financing in the coming years and is forecast to see borrowing levels decrease in the coming years. Further details will be provided as part of the Treasury Management Strategy for 2021/22 to be submitted to Executive Board in February 2021.

4.3.5 In 2020/21 the Council has not taken any further long term borrowing. It has utilised short-dated loans borrowed from the markets, predominantly from other local authorities, which following the initial COVID related liquidity shortage has since remained highly liquid, affordable and attractive. In the 6 months to 30 September a total of £136m of such loans were borrowed at an average rate of 0.242% and an average life of 100 days which includes the replacement of maturing loans.

4.4 Debt rescheduling

Debt rescheduling opportunities have been very limited in the current economic climate given the consequent structure of interest rates, and following the increase in the margin added to gilt yields which has impacted PWLB new borrowing rates since October 2010. No debt rescheduling has therefore been undertaken to date in the current financial year.

4.5 PWLB Certainty Rate Update

The Council qualifies for borrowing at the 'Certainty Rate' (0.20% below the PWLB standard rate) for a 12 month period from 01/11/2020. The Council submitted its application to the MHCLG to access this reduced rate for a further 12 month period from 01/11/2020.

4.6 Lender's Option Borrower's Options (LOBO) Loans

The Council holds £34.000m of LOBO loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Council has the option to either accept the new rate or to repay the loan at no additional cost. £19.000m of these LOBO loans have options during the year, none have been exercised by the lender. The Council acknowledges there is an element of refinancing risk even though in the current interest rate environment lenders are unlikely to exercise their options.

4.7 Housing Revenue Account (HRA) Treasury Management Strategy
From 1 April 2002, the Council's HRA was allocated a separate debt portfolio based on the appropriate proportion of the Councils existing debt at that time. As existing debt matures these can be replaced with long term fixed rate PWLB loans. In 2019/20 £30m of new PWLB loans were taken to fully finance the HRA CFR. The housing element of the forecast capital program has £17.7m of spend to be financed by borrowing which will increase the HRA CFR. As at 30 September 2020 no new HRA PWLB loans have been taken in 2020/21.

The interest payable in 2020/21 is expected to be £13.226m at an average rate of 4.441%. This includes £37.161m of fixed rate internal borrowing maturing 01 October 2044.

4.8 Investments

4.8.1 In accordance with the Code, security of capital has remained the Council's main investment objective. This has been maintained by following the Council's counterparty policy as set out in its Treasury Management Strategy for 2020/21.

4.8.2 In accordance with the Code, it is the Council's priority to ensure security of capital and liquidity, and to obtain an appropriate level of return which is consistent with the Council's risk appetite. In the current economic climate it is considered appropriate to keep investments short term to cover cash flow needs, but also to seek out value available in longer periods (usually up to 12 months) with high credit rated financial institutions, using the Link suggested creditworthiness approach, including a minimum sovereign credit rating and Credit Default Swap (CDS).

As shown by the forecasts in section 4.1, it is now impossible to earn the level of interest rates commonly seen in previous decades as all investment rates are barely above zero now that Bank Rate is at 0.10%, while some entities, including more recently the Debt Management Account Deposit Facility (DMADF), are offering negative rates of return in some shorter time periods. Given this risk environment and the fact that increases in Bank Rate are unlikely to occur before the end of the current forecast horizon of 31st March 2023, investment returns are expected to remain low.

The council temporarily increased liquid investment balances in response to the COVID 19 outbreak. The overall balance of investments is expected to reduce during the remainder of 2020/21. The council has continued to limit its exposure to bank credit risk by using short term bank notice accounts and utilising highly diverse and liquid money market funds. The investment portfolio still includes existing longer term deposits placed with other local authorities prior to 2020/21 at fixed interest rates of around 1% however these are due to mature during 2021/22 & 2022/23.

4.8.3 The Council held £125.0m of investments as at 30 September 2020 (£129.0m at 31 March 2020) and the investment portfolio yield for the first 6 months of the year is 0.490% against a benchmark (Average 7-day LIBID) of -0.057%. The negative average 7-day London interbank bid rate (LIBID) is a reflection of the recent fall into negative territory for very short term deposits. LIBID as benchmark is likely to be replaced with sterling overnight index average % (SONIA) in 2021 with details to be provided in the 2021/22 TMSS due in February.

4.8.4 **Appendix A** provides details of the Council's external investments at 30 September 2020, analysed between investment type and individual counterparties showing the current Fitch long-term credit rating.

Table 3 below summarises investment activity in 2020/21.

TABLE 3: INVESTMENT PORTFOLIO	Balance on 01/04/2020 £m	Balance on 30/09/2020 £m	Avg Rate / Yield (%) Avg days to maturity as at
Short term Investments (call accounts, deposits)			
- Banks and Building Societies with ratings of A- or higher	20.0	10.0	0.20% / 95
- Local Authorities	25.0	60.0	0.63% / 85
Long term Investments	10.0	10.0	0.63% / 592
Money Market Funds	74.0	45.0	0.07% / 1
TOTAL INVESTMENTS	**129.0**	**125.0**	**0.39% / 96**
- Increase/ (Decrease) in Investments £m		-4	

4.8.5 The Chief Financial Officer confirms that the approved limits within the Annual Investment Strategy have not been breached during the first 6 months of 2020/21.

4.8.6 Counterparty credit quality was assessed and monitored with reference to credit ratings (the Council's minimum long-term counterparty rating is A- across rating agencies Fitch, S&P and Moody's); credit default swap prices, financial statements, information on potential government support and reports in the quality financial press.

4.8.7 The credit rating agencies changed their outlook on many UK banks from stable to negative outlook during the quarter ended 30th June 2020 due to upcoming risks to banks' earnings and asset quality during the economic downturn caused by the pandemic, however, so far the majority of ratings have been affirmed due to the continuing strong credit profiles of UK banks. Credit default swaps (CDS) prices, (these are market indicators of credit risk), for UK banks spiked upwards at the end of March / early April due to the liquidity crisis throughout financial markets, CDS prices have returned to more average levels since then, although they are still elevated compared to end-February. Pricing is likely to remain volatile as uncertainty continues. However, sentiment can easily shift, so it remains important to undertake continual monitoring of all aspects of risk and return in the current circumstances.

4.9 Negative Interest Rates

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

As for money market funds (MMFs), yields have continued to fall. Fund managers have resorted to trimming fee levels to ensure that net yields for investors remain in positive territory where possible and practical. Investor cash flow uncertainty, and the need to maintain liquidity in these unprecedented times, has meant there is an excess of money within the very short money markets. This has seen a number of market operators, now including the DMADF, offer nil or negative rates for very short term maturities. This is not universal, and MMFs are still offering a marginally positive return, as are a number of financial institutions.

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

4.10 Compliance with Prudential Indicators

4.10.1 The Council confirms compliance with its Prudential Indicators for 2020/21 set on 9 March 2020 as part of the Council's Treasury Management Strategy Statement.

4.10.2 The Council measures and manages its exposures to treasury management risks using the following additional indicators.

Interest Rate Exposures: This indicator is set to control the Council's exposure to interest rate risk. The limits on variable rate interest rate exposures are:

	2019/20 £m	2020/21 £m	2021/22 £m
Upper limit on variable interest rate exposure	300	350	350
Actual	168.9	96.0	

4.10.3 **Maturity Structure of Borrowing**: This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing will be:

	Lower	Upper	Actual
Under 12 months	0%	25%	7%
12 months and within 24 months	0%	25%	2%
24 months and within 5 years	0%	25%	9%
5 years and within 10 years	0%	25%	15%
10 years and within 25 years	0%	50%	9%
25 years and within 40 years	0%	50%	25%
40 years and above	0%	50%	33%

4.10.4 **Principal Sums Invested for Periods Longer than 365 days**: The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the total principal sum invested to final maturities beyond the period end will be:

	2019/20 £m	2020/21 £m	2021/22 £m
Limit on principal invested beyond year end	100	100	100
Actual	10	10	

4.10.5 **Operational Boundary and Authorised Limit for External Debt**: The operational boundary is based on the Council's estimate of most likely, i.e. prudent, but not worst case scenario for external debt. The authorised limit is the affordable borrowing limit determined in compliance with the Local Government Act 2003. It is the maximum amount of debt that the Council can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements.

The table below shows the expected debt position during 2020/21.

	2020/21 Original Estimate £m	Current Position £m	2020/21 Revised Estimate £m
Borrowing	1,112.8	985.0	1,055.7
Other long term liabilities*	181.8	186.6	181.8
Total debt (year end position)	**1,294.6**	**1,171.6**	**1,237.5**
Operational Boundary for external debt	**1,521.9**	**1,521.9**	**1,521.9**
Authorised limit for external debt	**1,551.9**	**1,551.9**	**1,551.9**

'* Includes PFI and Leases liabilities

The Operational Boundary and the Authorised Limit are set with reference to the CFR and so these limits will be reviewed and reduced as part of the review of the Treasury Management Strategy and the Capital & Investment Strategy for 2021/22 that will reflect the challenging financial context of the council and the forecast economic outlook.

4.11 Other

4.11.1 **PWLB Rate Changes & Revised Lending Terms**

The HM Treasury has imposed two changes in the margins over gilt yields for PWLB rates in 2019-20 without any prior warning; the first on 9 October 2019, added an additional 1% margin over gilts to all PWLB rates. That increase was then partially reversed for some forms of borrowing on 11 March 2020, at the same time as the Government announced in the Budget a programme of increased spending on infrastructure expenditure. It also announced that there would be a consultation with local authorities on possibly further amending these margins; this ended on 31 July. The new lending arrangements were announced on the 26 November 2020.

It is clear that the Treasury intends to put a stop to local authorities borrowing money from the PWLB to purchase commercial property and other debt for yield assets if the aim is solely to generate an income stream.

Following the changes on 26 November 2020 in margins over gilt yields, the current situation is as follows: -

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

These changes to the future PWLB lending arrangements and the implications to the council will be included in the Treasury Management Strategy for 2021/22 due at Executive Board in February 2021.

4.12 Risk Management

Risk management plays a fundamental role in treasury activities, due to the value and nature of transactions involved. The management of specific treasury management risks is set out in the Manual of Treasury Management Practices and Procedures and a risk register is maintained for the treasury function.

The treasury management risk register's overall risk rating at 30 September 2020 was 6.58, Likelihood = possible, Impact = moderate which is the same as reported at 31 March 2020, but an increase since September 2019. The risk rating increase reflects

risks around the impacts of Covid 19, the working from home arrangements and the proposed changes to the PWLB lending arrangements currently in a consultation period. The Treasury Management working group continue to manage this risk and take appropriate actions as required.

5 Finance colleague comments (including implications and value for money/VAT)

5.1 Treasury management payments comprise interest charges and receipts and provision for repayment of debt. A proportion of the City Council's debt relates to capital expenditure on council housing and this is charged to the HRA. The remaining costs are included within the treasury management section of the General Fund budget. The General Fund Treasury Management budget is £56.6m for 2020/21.

5.2 An estimated outturn for 2020/21 is included in the quarter 2 revenue monitoring report on the 15 December 2020 Executive Board agenda. The budget for 2021/22 will be submitted with the 2021/22 treasury management strategy, in February 2021.

5.3 The Treasury Management Strategy and the Capital & Investment Strategy for 2021/22 are currently being reviewed in light of the financial context of the council and will be submitted to Executive Board in February 2021.

Finance comments by Glyn Daykin/Susan Risdall, Technical Accounting on 16 October 2020.

6 Legal and Procurement colleague comments (including risk management issues, and legal, Crime and Disorder Act and procurement implications)

6.1 None.

7 Strategic Assets & Property colleague comments (for decisions relating to all property assets and associated infrastructure)

7.1 None

8 Social value considerations

8.1 N/A

9 Regard to the NHS Constitution

9.1 N/A

10 Equality Impact Assessment (EIA)

10.1 Has the equality impact of the proposals in this report been assessed?

No ☒

An EIA is not required because there is no change to policy or process.

11 List of background papers relied upon in writing this report (not including published documents or confidential or exempt information)

11.1 None

12 Published documents referred to in this report

12.1 Money Market and PWLB loan rates

12.2 Treasury Management in the Public Services Code of Practice 2017–CIPFA

12.2 Prudential Code 2017-CIPFA

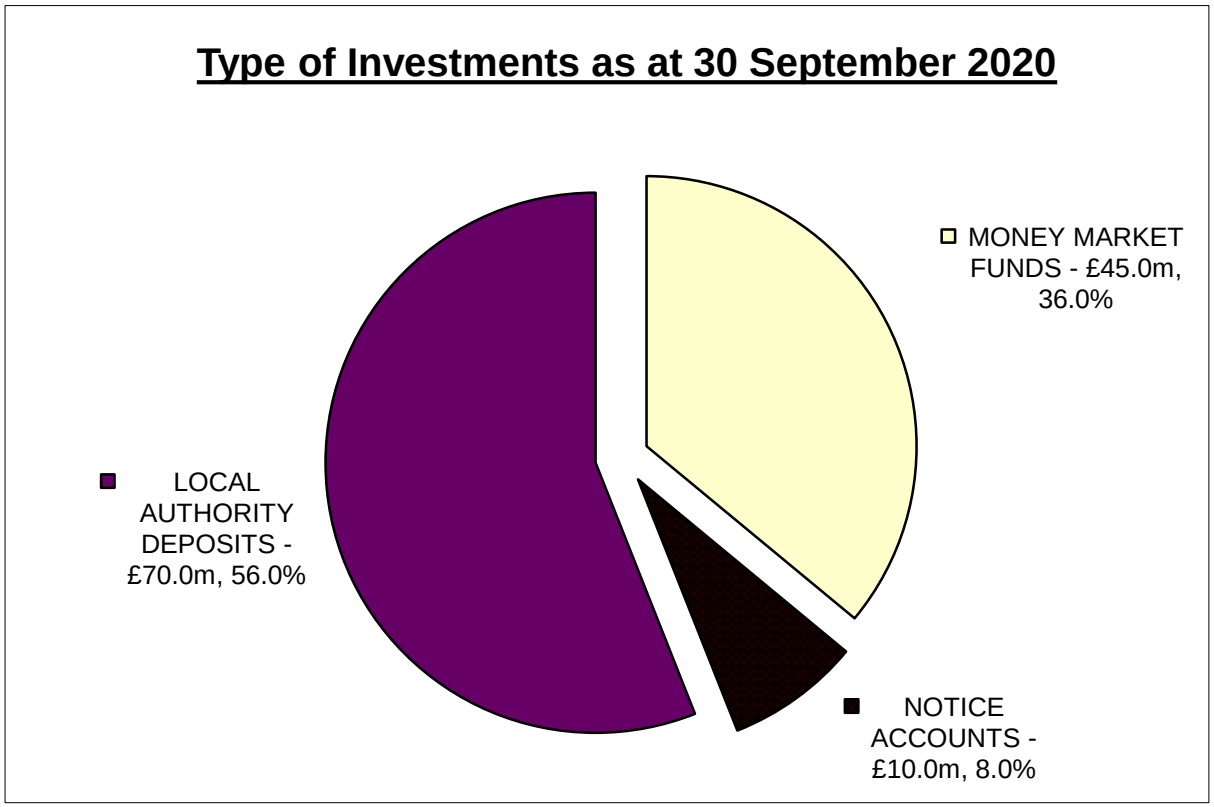
12.3 Treasury Management in the Public Services Guidance Notes 2018 - CIPFA

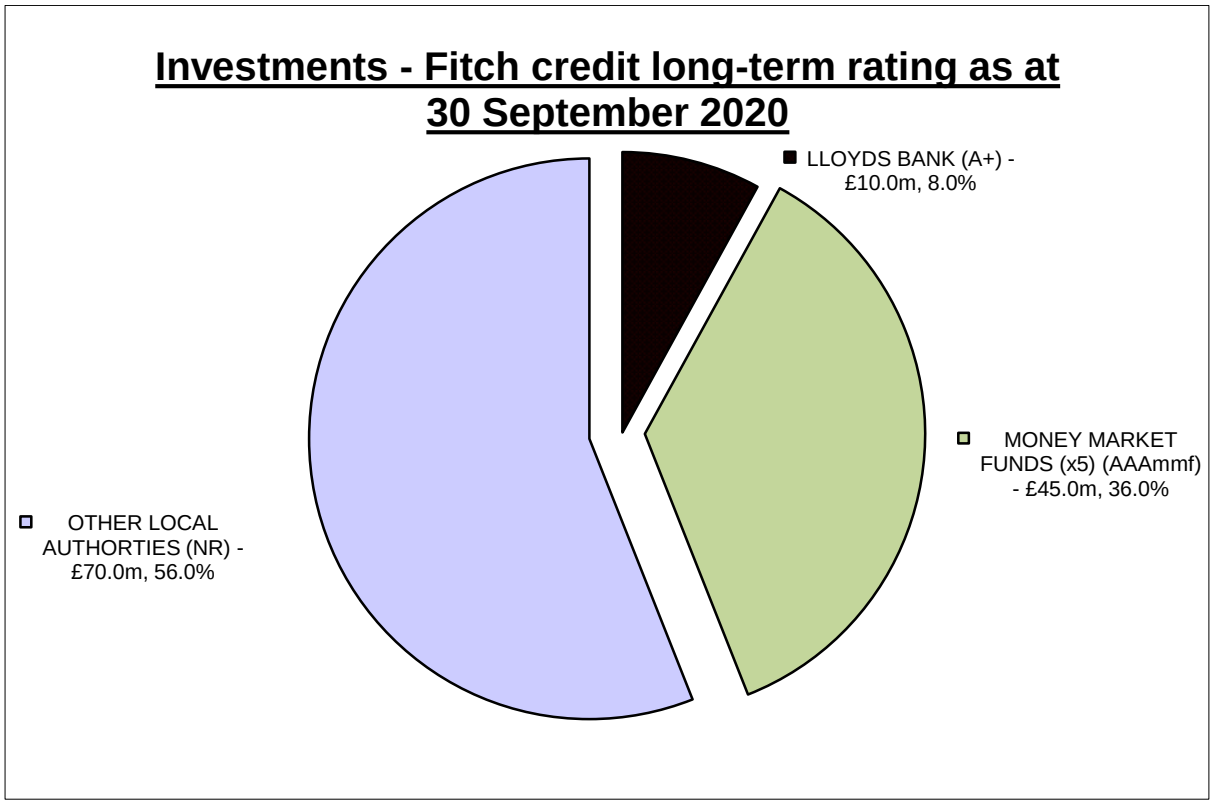
12.4 Statutory guidance on local government investments 3rd Edition 2018

12.5 Statutory guidance on Minimum Revenue Provision (MRP) 2018

APPENDIX A

The charts below provide details of the Council's external investments at 30 September 2020, analysed between investment type and individual counterparties showing the current Fitch long-term credit rating.





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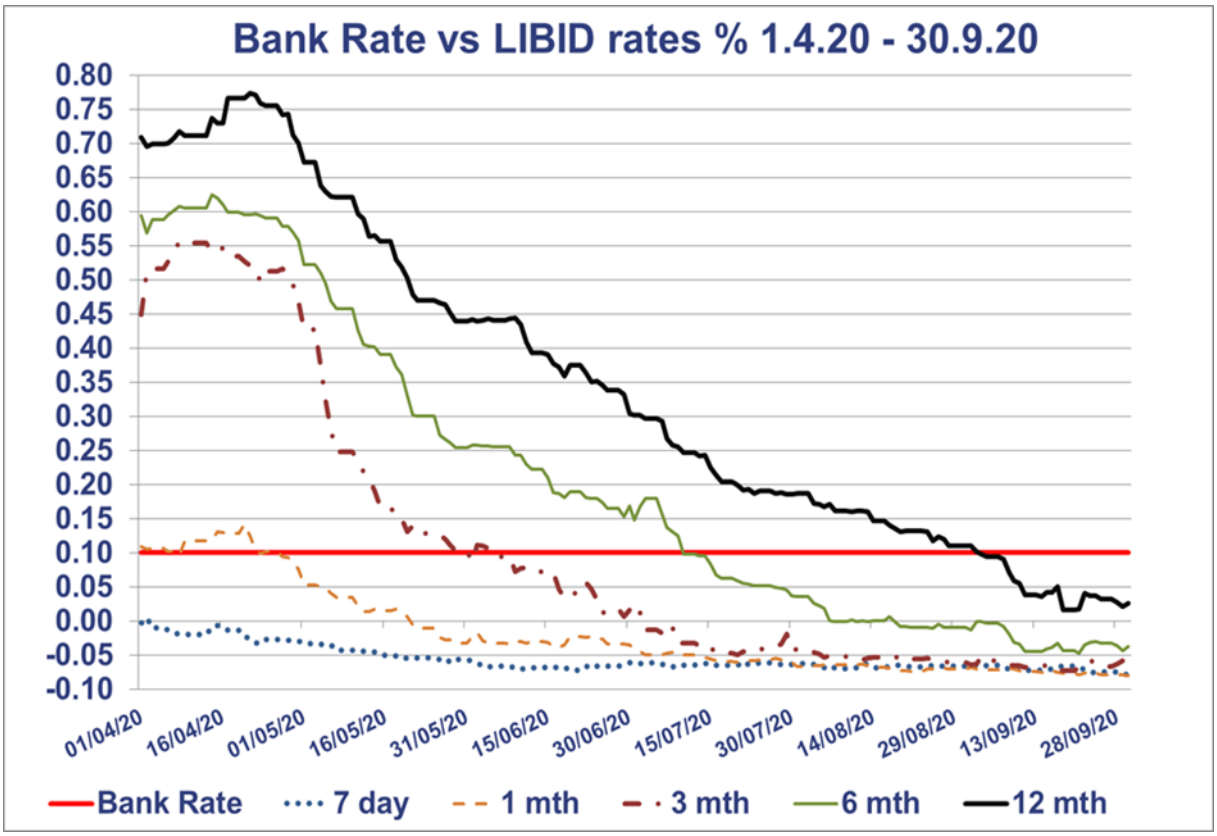
APPENDIX B

Money Market Data, PWLB Rates and an Economic Update

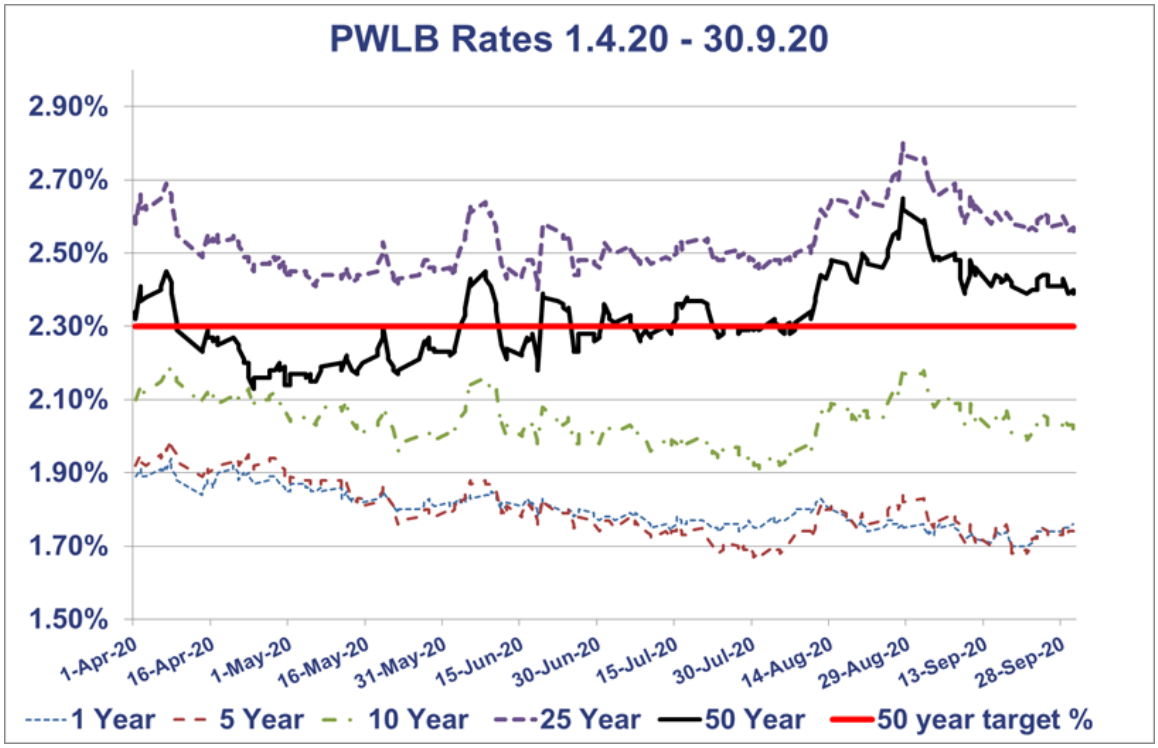
The table and graph below shows the UK Bank of England Bank Rate and benchmark rates within the short term money markets for the last 6 months.



	Bank Rate	7 day	1 mth	3 mth	6 mth	12 mth
High	0.10	0.00	0.14	0.56	0.62	0.77
High Date	01/04/2020	02/04/2020	20/04/2020	08/04/2020	14/04/2020	21/04/2020
Low	0.10	-0.07	-0.07	-0.06	-0.01	0.11
Low Date	01/04/2020	19/06/2020	21/08/2020	28/08/2020	25/08/2020	28/08/2020
Average	0.10	-0.05	-0.01	0.14	0.25	0.41
Spread	0.00	0.08	0.22	0.62	0.63	0.66

PWLB certainty rates 1 April 2020 to 30 September 2020

The graph and table below show the movement in PWLB certainty rates for the first six months of the year to date:



	1 Year	5 Year	10 Year	25 Year	50 Year
Low	1.70%	1.67%	1.91%	2.40%	2.13%
Date	18/09/2020	30/07/2020	31/07/2020	18/06/2020	24/04/2020
High	1.94%	1.99%	2.19%	2.80%	2.65%
Date	08/04/2020	08/04/2020	08/04/2020	28/08/2020	28/08/2020
Average	1.80%	1.80%	2.04%	2.54%	2.33%

Note: The PWLB increased the new standard loan rate to 200 basis points over Gilts effective as of 9th October 2019 (from 100 or 1% over Gilts).

Economics update and Interest Rate Forecast

- The Bank of England's Monetary Policy Committee kept Bank Rate unchanged on 6th August. It also kept unchanged the level of quantitative easing at £745bn. Its forecasts were optimistic in terms of three areas:

    - The fall in **GDP** in the first half of 2020 was revised from 28% to 23% (subsequently revised to -21.8%). This is still one of the largest falls in output of any developed nation. However, it is only to be expected as the UK economy is heavily skewed towards consumer-facing services – an area which was particularly vulnerable to being damaged by lockdown.
    - The peak in the **unemployment rate** was revised down from 9% in Q2 to 7½% by Q4 2020.
    - It forecast that there would be excess demand in the economy by Q3 2022 causing CPI **inflation** to rise above the 2% target in Q3 2022, (based on market interest rate expectations for a further loosening in policy). Nevertheless, even if the Bank were to leave policy unchanged, inflation was still projected to be above 2% in 2023.

- It also squashed any idea of using **negative interest rates**, at least in the next six months or so. It suggested that while negative rates can work in some circumstances, it would be "less effective as a tool to stimulate the economy" at this time when banks are worried about future loan losses. It also has "other instruments available", including QE and the use of forward guidance.
- The MPC expected the £300bn of **quantitative easing** purchases announced between its March and June meetings to continue until the "turn of the year". This implies that the pace of purchases will slow further to about £4bn a week, down from £14bn a week at the height of the crisis and £7bn more recently.
- In conclusion, this would indicate that the Bank could now just sit on its hands as the economy was recovering better than expected. However, the MPC acknowledged that the "medium-term projections were a less informative guide than usual" and the minutes had multiple references to **downside risks,** which were judged to persist both in the short and medium term. One has only to look at the way in which second waves of the virus are now impacting many countries including Britain, to see the dangers. However, rather than a national lockdown, as in March, any spikes in virus infections are now likely to be dealt with by localised measures and this should limit the amount of economic damage caused. In addition, Brexit uncertainties ahead of the year-end deadline are likely to be a drag on recovery. The wind down of the initial generous furlough scheme through to the end of October is another development that could cause the Bank to review the need for more support for the economy later in the year. Admittedly, the Chancellor announced in late September a second six month package from 1st November of government support for jobs whereby it will pay up to 22% of the costs of retaining an employee working a minimum of one third of their normal hours. There was further help for the self-employed, freelancers and the hospitality industry. However, this is a much less generous scheme than the furlough package and will inevitably mean there will be further job losses from the 11% of the workforce still on furlough in mid September.
- Overall, **the pace of recovery** is not expected to be in the form of a rapid V shape, but a more elongated and prolonged one after a sharp recovery in June through to August which left the economy 11.7% smaller than in February. The last three months of 2020 are now likely to show no growth as consumers will probably remain cautious in spending and uncertainty over the outcome of the UK/EU trade negotiations concluding at the end of the year will also be a headwind. If the Bank felt it did need to provide further support to recovery, then it is likely that the tool of choice would be more QE.
- There will be some **painful longer term adjustments** as e.g. office space and travel by planes, trains and buses may not recover to their previous level of use for several years, or possibly ever. There is also likely to be a reversal of globalisation as this crisis has shown up

how vulnerable long-distance supply chains are. On the other hand, digital services is one area that has already seen huge growth.

- One key addition to **the Bank's forward guidance** was a new phrase in the policy statement, namely that "it does not intend to tighten monetary policy until there is clear evidence that significant progress is being made in eliminating spare capacity and achieving the 2% target sustainably". That seems designed to say, in effect, that even if inflation rises to 2% in a couple of years' time, do not expect any action from the MPC to raise Bank Rate – until they can clearly see that level of inflation is going to be persistently above target if it takes no action to raise Bank Rate
- The **Financial Policy Committee** (FPC) report on 6th August revised down their expected credit losses for the banking sector to "somewhat less than £80bn". It stated that in its assessment "banks have buffers of capital more than sufficient to absorb the losses that are likely to arise under the MPC's central projection". The FPC stated that for real stress in the sector, the economic output would need to be twice as bad as the MPC's projection, with unemployment rising to above 15%.
- **US.** The incoming sets of data during the first week of August were almost universally stronger than expected. With the number of new daily coronavirus infections beginning to abate, recovery from its contraction this year of 10.2% should continue over the coming months and employment growth should also pick up again. However, growth will be dampened by continuing outbreaks of the virus in some states leading to fresh localised restrictions. At its end of August meeting, the Fed tweaked **its inflation target** from 2% to maintaining an average of 2% over an unspecified time period i.e.following periods when inflation has been running persistently below 2%, appropriate monetary policy will likely aim to achieve inflation moderately above 2% for some time. This change is aimed to provide more stimulus for economic growth and higher levels of employment and to avoid the danger of getting caught in a deflationary "trap" like Japan. It is to be noted that inflation has actually been under-shooting the 2% target significantly for most of the last decade so financial markets took note that higher levels of inflation are likely to be in the pipeline; long term bond yields duly rose after the meeting. The Fed also called on Congress to end its political disagreement over providing more support for the unemployed as there is a limit to what monetary policy can do compared to more directed central government fiscal policy. The FOMC's updated economic and rate projections in mid-September showed that officials expect to leave the fed funds rate at near-zero until at least end-2023 and probably for another year or two beyond that. There is now some expectation that where the Fed has led in changing its inflation target, other major central banks will follow. The increase in tension over the last year between the US and China is likely to lead to a lack of momentum in progressing the initial positive moves to agree a phase one trade deal.
- **EU.** The economy was recovering well towards the end of Q2 after a sharp drop in GDP, (e.g. France 18.9%, Italy 17.6%). However, the second wave of the virus affecting some countries could cause a significant slowdown in the pace of recovery, especially in countries more dependent on tourism. The fiscal support package, eventually agreed by the EU after prolonged disagreement between various countries, is unlikely to provide significant support and quickly enough to make an appreciable difference in weaker countries. The ECB has been struggling to get inflation up to its 2% target and it is therefore expected that it will have to provide more monetary policy support through more quantitative easing purchases of bonds in the absence of sufficient fiscal support.
- **China.** After a concerted effort to get on top of the virus outbreak in Q1, economic recovery was strong in Q2 and has enabled it to recover all of the contraction in Q1. However, this was achieved by major central government funding of yet more infrastructure spending. After years of growth having been focused on this same area, any further spending in this area is likely to lead to increasingly weaker economic returns. This could, therefore, lead to a further misallocation of resources which will weigh on growth in future years.
- **World growth.** Latin America and India are currently hotspots for virus infections. World growth will be in recession this year. Inflation is unlikely to be a problem for some years due to

the creation of excess production capacity and depressed demand caused by the coronavirus crisis.

Interest rate forecasts

The Council's treasury advisor, Link Group, has provided the following forecasts (PWLB rates are certainty rates):

These Link forecasts have been amended for the reduction in PWLB margins by 1.0% from 26.11.20														
	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
BANK RATE	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
6 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
12 month ave earnings	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20
5 yr PWLB	0.80	0.80	0.80	0.80	0.80	0.90	0.90	0.90	0.90	0.90	1.00	1.00	1.00	1.00
10 yr PWLB	1.10	1.10	1.10	1.10	1.10	1.20	1.20	1.20	1.20	1.20	1.30	1.30	1.30	1.30
25 yr PWLB	1.50	1.50	1.60	1.60	1.60	1.60	1.70	1.70	1.70	1.70	1.80	1.80	1.80	1.80
50 yr PWLB	1.30	1.30	1.40	1.40	1.40	1.40	1.50	1.50	1.50	1.50	1.60	1.60	1.60	1.60

The coronavirus outbreak has done huge economic damage to the UK and around the world. After the Bank of England took emergency action in March to cut Bank Rate to first 0.25%, and then to 0.10%, it left Bank Rate unchanged at its last meeting on 6th August, although some forecasters had suggested that a cut into negative territory could happen. However, the Governor of the Bank of England has made it clear that he currently thinks that such a move would do more damage than good and that more quantitative easing is the favoured tool if further action becomes necessary. As shown in the forecast table above, no increase in Bank Rate is expected within the forecast horizon ending on 31st March 2023 as economic recovery is expected to be only gradual and, therefore, prolonged.

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

Gilt yields had therefore already been on a generally falling trend up until the coronavirus crisis hit western economies during March. After gilt yields spiked up during the initial phases of the health crisis in March, we have seen these yields fall sharply to unprecedented lows as major western central banks took rapid action to deal with excessive stress in financial markets, and started massive quantitative easing purchases of government bonds: this also acted to put downward pressure on government bond yields at a time when there has been a huge and quick expansion of government expenditure financed by issuing government bonds. Such unprecedented levels of issuance in "normal" times would have caused bond yields to rise sharply. At the close of the day on 30th

September, all gilt yields from 1 to 6 years were in negative territory, while even 25-year yields were at only 0.76% and 50 year at 0.60%.

From the local authority borrowing perspective, HM Treasury imposed **two changes of margins over gilt yields for PWLB rates** in 2019-20 without any prior warning. The first took place on 9th October 2019, adding an additional 1% margin over gilts to all PWLB period rates. That increase was then at least partially reversed for some forms of borrowing on 11th March 2020, but not for mainstream General Fund capital schemes, at the same time as the Government announced in the Budget a programme of increased infrastructure expenditure. It also announced that there would be a consultation with local authorities on possibly further amending these margins; this was to end on 4th June, but that date was subsequently put back to 31st July. It is clear HM Treasury will no longer allow local authorities to borrow money from the PWLB to purchase commercial property if the aim is solely to generate an income stream (assets for yield).

Following the changes on 11th March 2020 in margins over gilt yields, the current situation is as follows: -

- **PWLB Standard Rate** is gilt plus 200 basis points (G+200bps)
- **PWLB Certainty Rate** is gilt plus 180 basis points (G+180bps)
- **PWLB HRA Standard Rate** is gilt plus 100 basis points (G+100bps)
- **PWLB HRA Certainty Rate** is gilt plus 80bps (G+80bps)
- **Local Infrastructure Rate** is gilt plus 60bps (G+60bps)

It is possible that the non-HRA Certainty Rate will be subject to revision downwards after the conclusion of the PWLB consultation; however, the timing of such a change is currently an unknown, although it would be likely to be within the current financial year.

As the interest forecast table for PWLB certainty rates, (gilts plus 180bps), above shows, there is likely to be little upward movement in PWLB rates over the next two years as it will take economies, including the UK, a prolonged period to recover all the momentum they have lost in the sharp recession caused during the coronavirus shut down period. Inflation is also likely to be very low during this period and could even turn negative in some major western economies during 2020/21.

The balance of risks to the UK

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

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

- **UK** - second nationwide wave of virus infections requiring a national lockdown
- **UK / EU trade negotiations** – if it were to cause significant economic disruption and a fresh major downturn in the rate of growth.
- **UK - Bank of England** takes action too quickly, or too far, over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- A resurgence of the **Eurozone sovereign debt crisis.** The ECB has taken monetary policy action to support the bonds of EU states, with the positive impact most likely for “weaker” countries. In addition, the EU recently agreed a €750bn fiscal support package. These actions will help shield weaker economic regions for the next year or so. However, in the case

of Italy, the cost of the virus crisis has added to its already huge debt mountain and its slow economic growth will leave it vulnerable to markets returning to taking the view that its level of debt is unsupportable. There remains a sharp divide between northern EU countries favouring low debt to GDP and annual balanced budgets and southern countries who want to see jointly issued Eurobonds to finance economic recovery. This divide could undermine the unity of the EU in time to come.

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

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

- **UK -** stronger than currently expected recovery in UK economy.
- **Post-Brexit** – if an agreement was reached that removed the majority of threats of economic 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.

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