NOTICE OF MEETING

Meeting:	**Cabinet**
Date and Time:	**Thursday, 5 December 2019 at 7pm**
Place:	**Council Chamber, Civic Offices, Fleet**
Telephone Enquiries to:	**01252 774141 (Mrs Gill Chapman)** **committeeservices@hart.gov.uk**
Members:	**Ambler, Bailey, Cockarill, Kinnell, Neighbour (Chairman), Oliver, Quarterman, Radley**

Joint Chief Executive

CIVIC OFFICES, HARLINGTON WAY
FLEET, HAMPSHIRE GU51 4AE

AGENDA

COPIES OF THIS AGENDA ARE AVAILABLE IN LARGE PRINT AND BRAILLE ON REQUEST

1 At the start of the meeting, the Lead Officer will confirm the Fire Evacuation Procedure.

2 The Chairman will announce that this meeting may be recorded and that anyone remaining at the meeting has provided their consent to any such recording – please see our protocol on Attending and Reporting Meetings.

1 MINUTES OF PREVIOUS MEETING

The Minutes of the meeting of 7 November 2019 are attached to be confirmed and signed as a correct record. **Paper A**

2 APOLOGIES FOR ABSENCE

3 CHAIRMAN'S ANNOUNCEMENTS

4 DECLARATIONS OF INTEREST

To declare disclosable pecuniary or any other interests.

5 PUBLIC PARTICIPATION (ITEMS PERTAINING TO THE AGENDA)

6 CLIMATE CHANGE WORKING GROUP

To note the minutes of the meeting of 18 November 2019. **Paper B**

7 2019-20 BUDGET MONITORING – TO END OF SEPTEMBER

To advise Members of the position on revenue and capital expenditure at the end of September.Overview and Scrutiny Committee considered this report at their meeting on 19 November 2019. **Paper C**

RECOMMENDATION

To note the revised projections and reasons for the main revenue variations shown in Appendix 1 and Paragraph 4 below.

8 TREASURY MANAGEMENT STRATEGY– HALF YEAR REVIEW 2019/20

To report the Council's treasury management activities and performance during the first half of the 2019/20 financial year (April-September 2019). This report was considered by the Overview and Scrutiny Committee at it meeting on 19 November 2019. **Paper D**

RECOMMENDATION

That the treasury management activities during the first half of the 2019/20 financial year be noted.

9 2020/21 BUDGET & MEDIUM TERM FINANCIAL STRATEGY

To allow an early consideration of the emerging budget for 2020/21 and the draft Medium Term Financial Strategy (MTFS). This information was considered at the Overview and Scrutiny Committee meeting of 19 November 2019. **Paper E**

RECOMMENDATION

That the issues around the emerging budget for 2020/21 be noted.

10 CABINET WORK PROGRAMME

The Cabinet Work Programme is attached for consideration and amendment.
Paper F

Date of Despatch: 26 November 2019

CABINET

Date and Time: Thursday, 7 November 2019 at 7pm

Place: Council Chamber, Civic Offices, Fleet

Present:

COUNCILLORS

Ambler, Bailey, Kinnell, Neighbour (Chairman), Oliver, Quarterman, Radley

In attendance: Axam, Farmer, Forster, Smith, Worlock

Officers:

Daryl Phillips	Joint Chief Executive
Patricia Hughes	Joint Chief Executive
Nicola Harpham	Housing Strategy and Development Manager
Gill Chapman	Committee Services

61 MINUTES OF PREVIOUS MEETING

The Minutes of the meeting of 3 October 2019 were confirmed and signed as a correct record.

62 APOLOGIES FOR ABSENCE

Apologies had been received from Councillor Cockarill.

63 CHAIRMAN'S ANNOUNCEMENTS

None.

64 DECLARATIONS OF INTEREST

Councillor Oliver declared a personal interest in Item 69, Gurkha Square Market, as he is a member of Fleet Town Council.

65 PUBLIC PARTICIPATION (ITEMS PERTAINING TO THE AGENDA)

Members of the public spoke to the Garden Community Programme report (Minute 71 below).

66 CIVIC QUARTER REGENERATION WORKING GROUP

The minutes of the meeting of 3 October 2019 were noted. Councillor Quarterman added that the next meeting was now scheduled for 10 December 2019.

67 CLIMATE CHANGE WORKING GROUP

The minutes of the meetings of 26 September and 21 October 2019 were noted.

68 HOUSING STRATEGY 2020-2025

Cabinet were asked to approve the adoption of the Housing Strategy 2020-2025.

Members discussed climate change objectives and energy efficiency in homes and affordable housing mix. Cabinet thanked the housing team for a well thought out strategy.

DECISION

That the Housing Strategy 2020-2025 be adopted.

69 GURKHA SQUARE MARKET

Cabinet received an update from the 1 August 2019 Cabinet report (approved) to allow Fleet Town Council (FTC) to enter into a lease for the use of Gurkha Square car park to solely contract it out for a weekly market.

Member discussed:

- The benefits of the market - the Saturday market being an important anchor event for shoppers coming in to Fleet
- FTC's efforts to improve the market and its attraction to residents
- The market value
- The FTC process for tendering
- That the revenue stream on parking was not expected to be affected

DECISION

That the Cabinet decision on 1 August 2019 to grant a lease to FTC enabling the Council to run a weekly Saturday market and six "specialist" Sunday markets on Gurkha Square be amended, with Cabinet agreeing to a revised rent of £7,200 per annum (inclusive), payable quarterly in advance from completion of legal formalities.

70 COMMERCIALISATION AT HART – REPORT ON DECISION MADE WITH REGARD TO INVESTMENT AT FROGMORE LEISURE CENTRE AND A PROPOSED AMENDMENT TO DELEGATED AUTHORITY

Cabinet considered a report seeking endorsement of the action taken by the Joint Chief Executive in consultation with the Leader and the Chairman of Overview & Scrutiny Community to support a £350k income generating investment in Frogmore Leisure Centre; and agreement to an adjustment to the Cabinet approved scheme of delegation for Commercialisation as set out in the Cabinet report of August 2018.

Members considered :

- Return on investment
- Who would bear the risk on return

- Benefits to include increased membership resulting in greater uplift of profit share
- Under utilised facilities and their removal
- Over subscribed facilities, and not fulfilling all the demand
- Social benefits

DECISION

1 The action taken by the Joint Chief Executive in consultation with the Leader and the Chairman of Overview & Scrutiny Community to support a £350k income generating investment in Frogmore Leisure Centre be endorsed.

2 The August 2018 Cabinet delegated authority for Commercialisation be adjusted (underlined where different, for clarity of changes only):

"That the Joint Chief Executive be authorised, in consultation with the Portfolio Holder for Commercialisation, the Chairman of Overview and Scrutiny Committee and the Section 151 Officer, to take all further decisions in respect of property acquisition pursuant to this Commercialisation Strategy, irrespective of value and on the conclusion of the matter, to report to Cabinet at the earliest opportunity.

The Leader of the Council be authorised to deputise for the Portfolio Holder for Commercialisation in their absence and similarly, the Vice-Chairman of Overview and Scrutiny Committee be authorised to deputise for the Chairman of Overview and Scrutiny in their absence".

71 GARDEN COMMUNITY PROGRAMME

Cabinet considered a report providing background to the Garden Community Programme, which the Ministry of Housing, Communities and Local Government (MHCLG) recently announced Hart District Council would be part of. Overview and Scrutiny Committee had considered this at their September meeting.

NB This item was deferred from the meeting of Cabinet 3 October 2019. The report had been updated.

Members noted that through an administrative error the Appendices required some minor adjustments which had already been circulated to all Councillors and published that day on the web site. The Monitoring Officer advised that these were minor adjustment which had already been in the public domain since the 3 October (as part of the previous Cabinet report). It was considered therefore, that no one had been prejudiced by the administrative error.

Statements were made by members of the public and their concerns for the future. Councillors took particular note of the reference to a legal opinion. The Monitoring Officer confirmed that he had taken legal advice and that in his opinion, provided that Members, even those with a strong disposition either way, did not approach the matter with a closed mind, then they were entitled to participate in any debate and vote thereon.

Councillor Radley commented that he had a open mind and that his words with respect to another unrelated matter should not be taken out of context or misconstrued as to having a closed mind.

Councillor Radley then suggested some changes to the Recommendations, and that the final budget would be considered and agreed at the February Council meeting (Recommendation 8).

It was agreed that the following be added Recommendation 4:
"... and that a small working group, comprising of the three 3 Group Leaders and Portfolio Holder for Place, be tasked to look again at the proposed governance structure and the work streams over the next 12 months, and be asked to report back to Cabinet, at the latest by February, with any appropriate refinements to the Governance structure or project plan."

Members considered the proposals, implications and issues, including:

- This is an option to investigate feasibility, design and possibility to build 5000 houses
- If the option is not considered feasible it will not move forward
- An opportunity to look to the future and its possibilities
- How to develop a planned community in the future if that is needed
- Sustainable development
- Creation of a community

DECISION

1 It be noted that Hart District Council is now part of the Garden Communities Programme for a garden community with the working title 'Shapley Heath'.

2 Approval be given to the exploration of the opportunity to deliver a garden community through a place making/place shaping approach.

3 The place shaping/place making approach to exploring a Garden Community be approved, that it be based on the key principles set out by MHCLG, but to also include reference to securing Land Value capture in accordance with the approached supported by Homes England in its September 2019 Garden Communities toolkit to ensure that an appropriate portion of the enhanced land value arising from the development is made available to fund the delivery of:

- infrastructure
- facilities
- legacy arrangements
- other measures needed to support development of a sustainable garden community.

with the opportunity to expand and refine these, in consultation with the public and key stakeholders as the project evolves.

4 The proposed Governance approach be approved in principle, but a small working group, comprising of the three 3 Group Leaders and Portfolio Holder for Place, be tasked to look again at the proposed governance

structure and the work streams over the next 12 months, and be asked to report back to Cabinet, at the latest by February, with any appropriate refinements to the proposed Governance structure or project plan.

5 Delegated authority be granted to the Garden Community Board to approve Terms of Reference for each of the governance tiers and to adapt the governance structure and membership as the project progresses.

6 The approval in principle be given to the proposed Garden Community Funding Spend Plan, with delegated authority to the Joint Chief Executive, in consultation with the Portfolio Holder, to amend the final version before submission to Homes England.

7 Funding of £785,990 as previously allocated for the new settlement in the budget for 2019/2020, be returned to reserves.

RECOMMENDATION to Council

8 That a total budget of £500K be allocated to the Joint Chief Executive from a bespoke earmarked reserve to be utilised for the procurement of appropriate expertise and resources to help the Council make informed choices associated with the Garden Community, and that any budget spend will be reported to and monitored by Overview and Scrutiny Committee and Cabinet as part of the normal budget monitoring process.

72 CABINET WORK PROGRAMME

The Cabinet Work Programme was considered and amended as follows:

Update on Peer review - moved back to March 2020 due to the unavailability of the LGS Peer Review team in light of the General Election.

Parking Charge Review - moved back to January 2020 to ensure more time be given to the consultation with the Parish and Town Councils and to avoid conflict with the period before the General Election.

The meeting closed at 8.54 pm

PAPER B

TECHNICAL AND ENVIRONMENTAL CLIMATE CHANGE WORKING GROUP MEETING NOTES

Date and Time: Monday 18 November 2019 – 3pm

Place: HDC, Fleet

Present:
Cllr Alan Oliver - AO
Cllr Steve Forster - SF
Cllr David Neighbour - DN
Cllr Gill Butler - GB
Cllr Anne Crampton - AC
John Elson - JE
Peter Summersell - PS
Katie Bailey - KB

Item		Action
1.0	**APOLOGIES FOR ABSENCE –** Cllr James Radley, Cllr Alex Drage	
2.0	**Minutes of last meeting/matters arising**	
2.1	PS has a Sustainable Business network meeting next week and will advise re future dates.	PS
2.2	KB/PS to prepare a list of other key interest groups for early engagement. Transport and public health were noted as being relevant. SF noted that a Hart Residents Association was being set up with a focus on climate change. To include local colleges and upper tier schools.	PS/KB
2.3	PS has contacted HCC re renewable tariffs and is awaiting reply.	PS
2.4	Contact still to be made with Reading and Surrey Universities. SF to contact Mike Goodman, Environment & Waste Portfolio Holder, Surrey County Council. It was also noted that Southampton University was undertaking useful climate change research to support Southampton City Council.	PS/SF
3.0	**Action Plan**	
3.1	The Group discussed the Introductory text and Draft Action Plan previously circulated. It was agreed that: • Further explanation would be added to the HDC Carbon emission diagram: o explaining what was in or out of scope o defining 'leisure'	KB/PS

	o defining Waste and Recycling (collection) • Make clear in text that this is the Councils response to the national Climate Change emergency declaration • Add in reference to the Council embedding Climate change into the day to day work of the Council including decision making. • Add that in the first review and thereafter a three year rolling carbon reduction target will be set. It was noted that the emerging Action Plan would shortly be discussed with relevant internal officers and would need to inform budget setting and Service planning.	
4.0	**Town and Parish Session (16th December, 6pm)**	
4.1	It was agreed that key points to cover in the meeting were: - what we are doing - find out what they are doing - guage enthusiasm - agree how we can collaborate in the future It was agreed that as well as a short presentation session, there would be themed discussion sessions (potentially Planning, transport, energy). Other issues to cover are: - nominated contacts/champions - suggestions as to other groups that should be engaged - identify that this is the first of regular meetings that we would like to have. Officers will work up the final format.	KB/JE/PS
5.0	**AOB**	
5.1	PS advised that HCC were requesting details of emerging action plans to feed into their Hampshire wide strategy. HCC are also doing some work on behavioural insights and production of guidance for residents. JE reported on an APSE conference that he and PS had attended. Generally he felt that we were on the right track with the issues being included in our emerging Action Plan. Messages from the conference were to remember to brand the response to climate change as having a positive outcome on peoples lives and that progress can only be made in partnership with others. The conference presentations will be circulated to the Group when they are made available.	
6.0	**Date of next meeting**	

6.1	Future meeting dates were set as: 17th December – 3pm (in diaries) Date prior to finalising January O&S meeting - tbc	Invites sent

PAPER C

CABINET

DATE OF MEETING: **5 DECEMBER 2019**

TITLE OF REPORT: **2019-20 BUDGET MONITORING – TO END OF SEPTEMBER**

Report of: **Head of Corporate Services**

Cabinet Member: **Councillor James Radley, Deputy Leader and Finance**

1 PURPOSE OF REPORT

1.1 To advise Members of the position on revenue and capital expenditure at the end of September. Overview and Scrutiny Committee considered this report at their meeting on 19 November 2019.

1.2 At its meeting on 27 February 2019, the Council agreed a balanced budget. Full details of variances to the end of September are shown in the attached appendix. None are considered to be of undue concern; we are still expecting to deliver a balanced outturn.

2 OFFICER RECOMMENDATION

2.1 To note the revised projections and reasons for the main revenue variations shown in Appendix 1 and Paragraph 4 below.

2.2 To note the current spending position for Capital shown in Appendix 2.

3 BACKGROUND

3.1 This report covers the period from 1 April to 30 September 2019.

3.2 It is important that regular monitoring of budgets is undertaken to ensure financial targets being set by the Council are being met and to make any necessary changes to approved budgets.

4 REVENUE BUDGET MONITORING

4.1 The revenue budget for 2019/20 was approved and is a balanced budget for 2019/20. Based on the figures currently available there is an estimated deficit of £129k. Looking at the current figures it is possible to still deliver a balanced outturn. However, it is still early in the financial year and difficult to predict the final positon. The significant variances this period are:

Pressures

- Planning fee income and the cost of appeals £103k
- MRF recycling sales income projections £117k
- Land Charge fee income £34k
- Waste staffing costs supporting the recent round changes £31k

- IT contract costs £28k

Savings
- Various staff vacancy savings (£100k)
- Waste estimated variable volumes are lower than budget (£74k)
- Customer Services SLA (£20k)

5 CAPITAL EXPENDITURE MONITORING

5.1 The Capital budget at September 2019 is £4.129m

5.2 The current estimated outturn for capital is £2.213m against the budget of £4.129m. Late invoices for Church Road have resulted in a £20k overspend. Projects identified as complete total £93k. Projects identified to slip into the next year total £1.823m.

The significant variance this month is

- Bramshot Farm projects have been held to allow for visitor survey results to inform decision making
- Edenbrook Country Park projects slip after delays in formally adopted the site £408k
- Fleet Pond projects have slipped as they has now been linked to the Green Grid Project forming links between Kennels Lane and Fleet Pond £275k.
- Other Countryside projects slipped to next year £160k

6 MANAGEMENT OF RISK

6.1 The monthly budget monitoring process examines all income and expenditure against budgets so that significant variances are highlighted immediately and to identify areas where expenditure is being incurred but where insufficient or no budgetary provision exists. This allows officers to take corrective action to maintain overall expenditure within budgets.

7 CONCLUSION

7.1 The budget remains on course to achieve the Council's financial objectives in 2019/20.

Contact Details: Andrew Vallance, email: Andrew.Vallance@Hart.gov.uk

APPENDICES

Appendix 1 Revenue
Appendix 2 Capital

PAPER C
Appendix I

REVENUE BUDGET OUTTURN 2019/2020 PERIOD 6 SEPTEMBER		
Service Area	**£'000**	**Forecast Commentary**
The Council, at its meeting on 28th February 2019 agreed a balanced budget for 2019/20.		
The estimated outturn at September 2019 is £129k, against a budget of £0. Significant Variances are petailed below.		
Significant Variances Are:	£'000	
CORPORATE SERVICES		
Corporate - Apprentices	-17	Vacancy Savings to date.
Customer Services Contracts	-20	Saving in SLA with BDBC due to the introduction of IVR (Voice Recognition)
IT Contract	28	Non budget item to support Hart's back up system £10k. New Enterprise Agreement higher than budget £5k. Increased band width internet connectivity £7k. Extended Microsoft Support £7k.
COMMUNITY SERVICES		
PLACE		
Business Support Staff	-31	Vacancy Savings to date.
Local Land Charges	34	Reduction in Land Charges fee income due to a fall in demand £20k. Increased search fee costs from Hampshire County Council £14k.
Planning Development	103	Reduction in planning application fee income to date costing £95k and Agency Staff and consultants for appeals £8k.
TECHNICAL & ENVIRONMENTAL MAINT.		
Environment Promotion Strategy	-51	Staff Savings due to vacancies to date. Of which £20k would be funded from SANG's and has been reflected in the funding drawdown from reserves.
Tree Preservation Orders	14	Cabinet approved project in Odiham £10k. Additional essential tree works required in year £4k.
Waste Client Team	153	Revised MRF projections based on quarter 4 Project Integra Report for 18/19 predicts a 17% reduction in sales due to pricing on the material markets reducing causing a pressure of £117k. Staff and Agency costs have been incurred above budget to help with increased workloads from Round Changes and the New Contract £31k. Increased usage of the Waste Vehicle and fuel costs £2k
Waste Contract	-76	Budget savings against the variable contract volumes
On Street Parking	-6	Manager and CEO Vacancy savings within the Parking Structure
Other		
Various other Variances	-2	
	129	

PAPER C
Appendix I

Hart District Council
Corporate Overview

Description:	Revenue		
Year:	1920		
Period:	6		
	Current Budget	Current Period Forecast	Current Period Variance
Corporate Services	1,948,130	1,940,024	-8,106
Corporate Services Contracts	576,497	567,311	-9,186
Democratic Services	796,290	791,169	-5,121
Elections	794,600	812,950	18,350
Finance	-27,610	-24,006	3,604
Leisure	-300,480	-300,480	0
Revenue and Benefits	1,496,980	1,496,980	0
Corporate Services	**5,284,407**	**5,283,948**	**-459**
Community Safety	340,920	342,920	2,000
Private Sector Hsg	223,190	223,190	0
Strategic Housing	224,002	223,958	-44
Homelessness	1,343,580	1,340,818	-2,762
Social Inclusion	175,468	175,468	0
Community Services	**2,307,160**	**2,306,354**	**-806**
Licences	101,070	97,070	-4,000
Environmental Health	673,020	672,820	-200
Business Support	32,750	17,760	-14,990
Regulatory Services	177,380	209,722	32,342
Planning	704,460	791,623	87,163
Regulatory Services	**1,688,680**	**1,788,995**	**100,315**
Countryside and Ecology	1,669,470	1,634,016	-35,454
Waste & Recycling	741,230	813,498	72,268
Infrastructure	295,010	295,010	0
Parking	-284,050	-287,223	-3,173
Tech Services	1,128,560	1,129,180	620
Env and Tech Services	**3,550,220**	**3,584,481**	**34,261**
Other Operating Expenditure	3,445,810	3,491,924	46,114
Financial & Investment Income	-200,000	-255,000	-55,000
Taxation & Non Specific Grants	-13,792,850	-13,792,850	0
MiRS	-2,283,427	-2,278,487	4,940
Accounting Treatment	**-12,830,467**	**-12,834,413**	**-3,946**
Grand Totals	**0**	**129,365**	**129,365**

PAPER C
Appendix 2

REVENUE BUDGET OUTTURN 2019/2020 PERIOD 6 SEPTEMBER		
Service Area	**£'000**	**Forecast Commentary**
The Council, at its meeting on the 28th February 2019agreed a capital programme for 2019/20 of £3,757m. In year additions to the capital budget totalling £372k have been made to date. New Projects identified are replacement CEO handhelds £7k. Grants for Affordable Housing Dwellings £325k and new Replacement Printer/Photocopiers £40k.		
The estimated outturn at September 2019 is £2,213k, against a current budget of £4,129m saving £1,916k. Significant Variances are detailed below.		
Significant variances are:	£'000	
CORPORATE SERVICES	0	
COMMUNITY SERVICES		
CCTV	-34	This project is currently on hold until after the budget build for 20/21 has been completed.
REGULATORY SERVICES	0	
TECHNICAL & ENVIRONMENTAL MAINT.		
Bramshot Farm	-1,000	Project slippage into 2020/21.
Church Road Improvements	20	Retainer fees payable to Havant for end of contract.
Edenbrook Country Park Projects	-408	Project Slippage into the 2020/21 due to late adoption of the site.
Fleet Pond Access Track	-275	Project Slippage as now will be incorporated into the Green Grid Project.
HW Common Access Improvements	-80	Projects Slippage into 20/21. Parish Council are currently looking at the project scope.
Hazeley Heath Grazing Project	-80	Project Slippage into 20/21 whilst awaiting DEFRA decision.
Kingsway Flood Alleviation Scheme	-59	Adjustment will complete the FAS. Grant received to be refunded as no longer needed.
	-1,916	

PAPER C
Appendix 2

Hart District Council
Corporate Overview

Description:	Capital		
Year:	1920		
Period:	6		
Function		Full Year	
	Current Budget	Current Period Forecast	Current Period Variance
Corporate Services	497,170	497,170	0
Corporate Services	**497,170**	**497,170**	**0**
Community Services	889,000	855,000	-34,000
Capital Community Services	**889,000**	**855,000**	**-34,000**
Regulatory	52,440	52,440	0
Regulatory Services	**52,440**	**52,440**	**0**
Env and Tech Services	2,690,580	808,720	-1,881,860
Env and Tech Services	**2,690,580**	**808,720**	**-1,881,860**
Grand Totals	**4,129,190**	**2,213,330**	**-1,915,860**

PAPER D

CABINET

DATE OF MEETING: **5 DECEMBER 2019**

TITLE OF REPORT: **TREASURY MANAGEMENT STRATEGY– HALF YEAR REVIEW 2019/20**

Report of: **Head of Corporate Services**

Cabinet Member: **Councillor James Radley, Deputy Leader and Finance**

1. PURPOSE OF REPORT

1.1 To report the Council's treasury management activities and performance during the first half of the 2019/20 financial year (April-September 2019). This report was considered by the Overview and Scrutiny Committee at it meeting on 19 November 2019.

2. OFFICER RECOMMENDATION

2.1 That the treasury management activities during the first half of the 2019/20 financial year be noted.

3. BACKGROUND

3.1 The CIPFA (Chartered Institute of Public Finance and Accountancy) Code of Practice for Treasury Management recommends that members be updated on treasury management activities regularly. This mid-year report, therefore, ensures this Council is implementing best practice in accordance with the Code.

3.2 **Functions of Treasury management**

Treasury Management performs two key functions for Hart District Council:

- The first key function of the treasury management service is to ensure 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 key function of the treasury management service is to fund the Council's Capital Programme. The Capital Programme details the Council's plans for investment in capital schemes. Funding for the Capital Programme is managed through borrowing and cash flow must be planned to meet long term spending obligations. This may involve arranging long and short-term loans, using cash flow surpluses or restructuring existing debt.

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."

4. INTRODUCTION

4.1 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). Information for this report has been provided by Link Asset Services, the Council's independent treasury advisors.

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;
- The Council's capital expenditure, as set out in the Capital Strategy, and prudential indicators;
- A review of the Council's investment portfolio for 2019/20;
- A review of the Council's borrowing strategy for 2019/20;
- A review of any debt rescheduling undertaken during 2019/20;
- A review of compliance with Treasury and Prudential Limits for 2019/20.

5.1 Economic update (wording provided by Link Asset Management)

*"**UK**. After only tepid annual economic growth of 1.4% in 2018, growth in quarter 1 was unexpectedly strong at 0.5%. However, this was boosted by stock building ahead of the original March Brexit deadline so quarter 2 was expected to be slightly negative and duly came in at -0.2% q/q, +1.3% y/y.*

After the Monetary Policy Committee raised Bank Rate from 0.5% to 0.75% in August 2018, it is little surprise that they have abstained from any further increases since then. We are unlikely to see any further action from the MPC until the uncertainties over Brexit clear. If there were a no deal exit, it is likely that Bank Rate would be cut in order to support growth. Nevertheless, the MPC does have concerns over the trend in wage inflation which peaked at a new post financial crisis high of 3.9% in June before edging back to 3.8% in July, (excluding bonuses). Growth in employment fell to only 31,000 in the three months to July, well below the 2018 average, while the unemployment rate remained at 3.8 percent, its lowest rate since 1975.

As for CPI inflation itself, this fell to 1.7% in August and is likely to remain close to 2% over the next two years. If there was a no deal Brexit though, it could rise towards 4%, primarily as a result of imported inflation on the back of a weakening pound.

The rise in wage inflation and fall in CPI inflation is good news for consumers as their spending power is improving in this scenario as the difference between the two figures is now around 2.1%, i.e. a real terms increase. Given 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.* ***Brexit.*** *The Conservative minority government is now led by a new Prime Minister in Boris Johnson, who has spoken strongly of being adamant that the UK will leave the EU on 31 October, even if there is no deal. However, his proroguing of Parliament was over turned by the Supreme Court and Parliament carried a bill to delay Brexit until 31 January 2020 if there is no deal by 31 October. MPs also voted down holding a general election before 31 October, though one is likely before the end of 2019; 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. All eyes are now on whether a deal can be agreed by 31 October based on new proposals being put to the EU.*

USA. *President Trump's massive easing of fiscal policy in 2018 fuelled a (temporary) boost in consumption in 2018 which generated an upturn in the rate of growth to 2.9% for 2018, just below his target of 3%. Growth in quarter 1 of 2019 was a strong 3.1% but growth fell back to 2.0% in quarter 2. The strong growth in employment numbers during 2018 has reversed into a falling trend during 2019, indicating that the economy is cooling, while inflationary pressures are also weakening. After the Fed increased rates by 0.25% in December 2018 to between 2.25% and 2.50%, it has taken decisive action to reverse monetary policy by cutting rates by 0.25% in each of July and September in order to counter the downturn in the outlook for US and world growth. There are expectations that it could cut again in December.*

EUROZONE*. The annual rate of growth for 2018 was 1.8% but is expected to fall to possibly around half that rate in 2019. The European Central Bank (ECB) ended its programme of quantitative easing purchases of debt in December 2018, which 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 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 is 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 so 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. 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 fiscal policy.*

CHINA. *Economic growth has been weakening over successive years, despite repeated rounds of central bank stimulus; medium term risks are increasing. The trade war with the US does not currently appear to be having a significant impact on growth. Major progress still needs to be made to eliminate excess industrial capacity and to switch investment from property construction and infrastructure to consumer goods production. It also needs to address the level of non-performing loans in the banking and credit systems.*

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*. The trade war between the US and China on tariffs is a major concern to financial markets and is depressing worldwide growth, as any downturn in China will spill over into impacting countries supplying raw materials to China. Concerns are focused on 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 have 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), and there are concerns about how much distortion of financial markets has already occurred with the current levels of quantitative easing purchases of debt by central banks. "*

5.2 Interest rate forecasts

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

Link Asset Services Interest Rate View	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Bank Rate View	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.25
3 Month LIBID	0.70	0.70	0.70	0.70	0.80	0.90	1.00	1.00	1.00	1.10	1.20
6 Month LIBID	0.80	0.80	0.80	0.80	0.90	1.00	1.10	1.10	1.20	1.30	1.40
12 Month LIBID	1.00	1.00	1.00	1.00	1.10	1.20	1.30	1.30	1.40	1.50	1.60
5yr PWLB Rate	1.20	1.30	1.50	1.60	1.70	1.70	1.80	1.90	2.00	2.00	2.10
10yr PWLB Rate	1.50	1.60	1.80	1.90	2.00	2.00	2.10	2.20	2.30	2.30	2.40
25yr PWLB Rate	2.10	2.30	2.40	2.50	2.60	2.70	2.70	2.80	2.90	3.00	3.00
50yr PWLB Rate	2.00	2.20	2.30	2.40	2.50	2.60	2.60	2.70	2.80	2.90	2.90

5.3 Since the increase in Bank Rate to 0.75% in August 2018, the MPC has put any further changes on hold. The above forecast and other comments in this report are based on a central assumption that there will be a Brexit deal or agreement.

5.4 Bank Rate forecasts will have to change if this assumption does not materialise and a no deal Brexit could prompt the MPC to amend the bank rate. All other forecasts for investment and borrowing rates contained in this report would need to be revisited. There is a potential downside risk to the achievement of Economic Growth forecasts due to uncertainties over Brexit and an overall worsening global economic picture.

5.5 Link Asset Services has provided the following narrative on bond yields and Public Works Loan Board (PWLB) rates:

"There has been much speculation recently that we are currently in a bond market bubble. However, given the context that there are heightened expectations that the US could be heading for a recession, and a general background of a downturn in world economic growth, together with inflation generally at low levels in most countries and expected to remain subdued, conditions are ripe for low bond yields. While inflation targeting by the major central banks has been successful over the last thirty years in lowering inflation expectations, the real equilibrium rate for central rates has fallen considerably due to the high level of borrowing by consumers: this means that central banks do not need to raise rates as much now to have a major impact on consumer spending, inflation, etc. This has pulled down the overall level of interest rates and bond yields in financial markets over the last thirty years. We have therefore seen over the last year, many bond yields up to ten years in the Eurozone actually turn negative. In addition, there has, at times, been an inversion of bond yields in the US whereby ten 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. However, stock markets are also currently at high levels as some investors have focused on chasing returns in the context of dismal ultra-low interest rates on cash deposits.

What we have seen during the last half year is a near halving of longer term PWLB rates to completely unprecedented historic low levels. There is though, an expectation that financial markets have gone too far in their fears about the degree of the downturn in US and world growth. If, as expected, the US only suffers a mild downturn in growth, bond markets in the US are likely to sell off and that would be expected to put upward pressure on bond yields, not only in the US, but due to a correlation between US treasuries and UK gilts, which at various times has been strong but at other times weaker, in the UK. However, forecasting the timing of this and how strong the correlation is likely to be, is very difficult to forecast with any degree of confidence.

One potential danger that may be lurking in investor minds is that Japan has become mired in a twenty year bog of failing to get economic growth and inflation up off the floor, despite a combination of massive monetary and fiscal stimulus by both the central bank and government. Investors could be fretting that this condition might become contagious.

Another danger is that unconventional monetary policy post 2008, (ultra-low interest rates plus quantitative easing), may end up doing more harm than good through prolonged use. Low interest rates have encouraged a debt fuelled boom which now makes it harder for economies to raise interest rates. Negative interest rates could damage the profitability of commercial banks and so impair their ability to lend and / or push them into riskier lending. Banks could also end up holding large amounts of their government's bonds and so create a potential doom loop, (see appendix 4 Eurozone downside risk). In addition, the financial viability of pension funds could be damaged by low yields on holdings of bonds."

6. TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY UPDATE

6.1 The Treasury Management Strategy Statement (TMSS) for 2019/20 was approved by this Council on 28 February 2019.

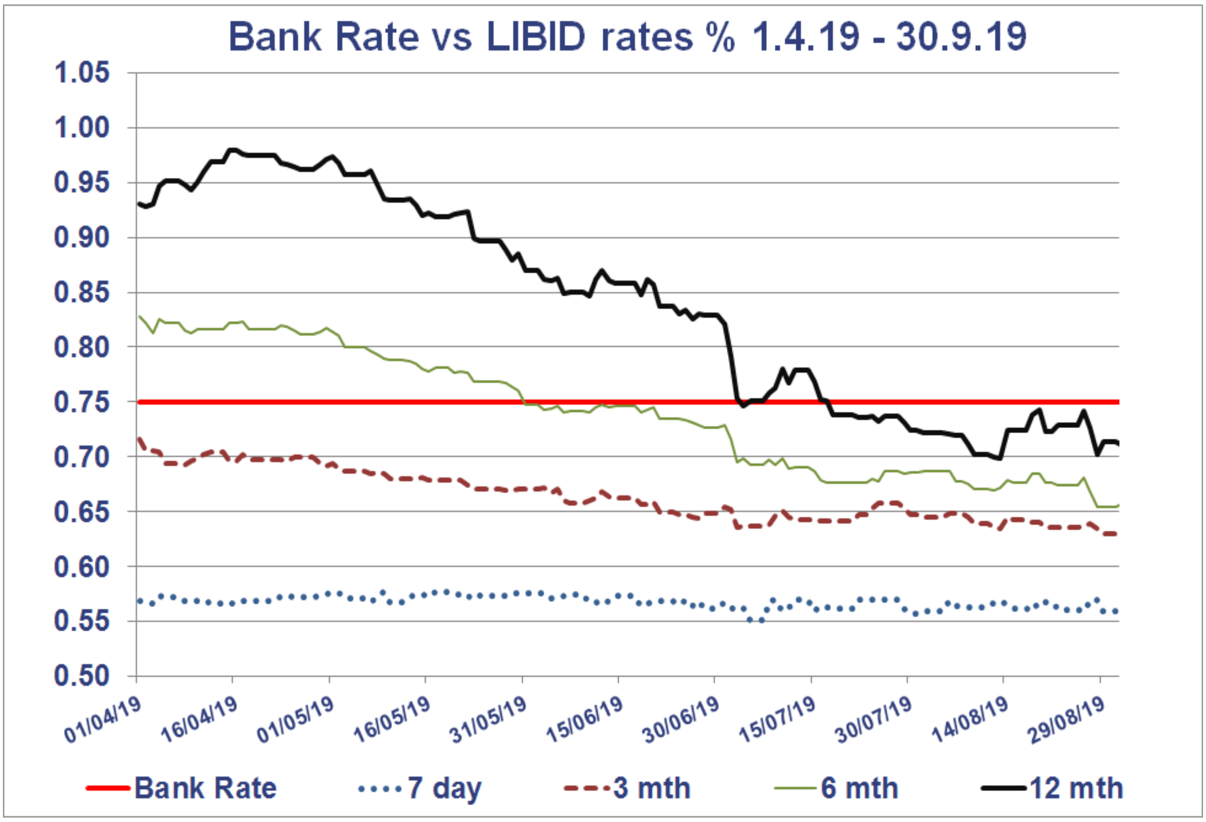
6.2 There are no policy changes to the TMSS; the details in this report update the position in the light of the updated economic position and budgetary changes already approved.

6.3 The below tables show a summary of investments and lending held at the 30th September 2019 and a graph showing actual Bank and LIBID rates over the first six months of the financial year.

Investment performance at 30 September 2019

Investments / Lending Summary as at			30th September 2019			
Borrower	**Amount Invested**	**Limit**	**Length of deposit**	**Within Limit Y/N**	**Terms**	**Rate %**
Fareham Borough Council	5,000,000	5,000,000	290 days	Y	Fixed	0.90%
First Abu Dhabi	5,000,000	5,000,000	107 days	Y	Fixed	0.76%
Sumitomo Mitsui Banking Corp.	3,000,000	5,000,000	106 days	Y	Fixed	0.79%
National Westminster Bank PLC	2,000,000	5,000,000	102 days	Y	Fixed	0.77%
Lloyds Bank	5,000,000	5,000,000	105 days	Y	32 day notice	0.95%
Bank of Scotland	3,000,000	5,000,000	108 days	Y	32 day notice	0.95%
Santander	4,015,011	5,000,000		Y	Call	0.40%
Bank of New York Mellon - Federated	3,510,274	5,000,000		Y	Call	0.74%
Barclays	3,969,933	5,000,000		Y	Call	0.45%
Aberdeen Liquidity- Standard Life	5,003,121	5,000,000		Y	Call	0.75%
Total	**39,498,339**					

Half year ended 30 September 2019



	Bank Rate	7 day	1 mth	3 mth	6 mth	12 mth
High	0.75	0.58	0.61	0.72	0.83	0.98
High Date	01/04/2019	09/05/2019	15/04/2019	01/04/2019	01/04/2019	15/04/2019
Low	0.75	0.55	0.58	0.63	0.65	0.69
Low Date	01/04/2019	05/07/2019	08/08/2019	29/08/2019	04/09/2019	04/09/2019
Average	0.75	0.57	0.60	0.66	0.73	0.83
Spread	0.00	0.03	0.03	0.09	0.18	0.29

7. THE COUNCIL'S CAPITAL POSITION (PRUDENTIAL INDICATORS)

7.1 This part of the report is structured to update:

- The Council's capital expenditure plans;
- How these plans are being financed;
- The impact of the changes in the capital expenditure plans on the prudential indicators and the underlying need to borrow; and
- Compliance with the limits in place for borrowing activity.

7.2 During the ***half year*** ended 30 September 2019, the Council has operated within the treasury and prudential indicators set out in the Council's Treasury Management Strategy Statement and in compliance with the Council's Treasury Management Practices.

7.3 PRUDENTIAL INDICATOR FOR CAPITAL EXPENDITURE

7.3.1 This table shows the revised estimates for capital expenditure and the changes since the capital programme was agreed at the Budget.

Function	Current Budget	Full Year Current Period Forecast	Current Period Variance
Corporate Services	497,170	497,170	0
Corporate Services	**497,170**	**497,170**	**0**
Community Services	889,000	855,000	-34,000
Capital Community Services	**889,000**	**855,000**	**-34,000**
Regulatory	52,440	52,440	0
Regulatory Services	**52,440**	**52,440**	**0**
Env and Tech Services	2,690,580	808,720	-1,881,860
Env and Tech Services	**2,690,580**	**808,720**	**-1,881,860**
Grand Totals	**4,129,190**	**2,213,330**	**-1,915,860**

7.4 CHANGES TO THE FINANCING OF THE CAPITAL PROGRAMME

7.4.1 The table below draws together the main strategy elements of the capital expenditure plans (above), highlighting the original supported and unsupported elements of the capital programme, and the expected financing arrangements of this capital expenditure. 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 - MRP). This direct borrowing need may also be supplemented by maturing debt and other treasury requirements.

Capital Financing	2019/20 Current Budget £'000	2019/20 Current Estimate £'000
Total capital expenditure	**4,129**	**2,213**
Financed by:		
Capital receipts	30	30
Capital grants	666	608
Capital reserves	1,311	485
Revenue	2,122	1,090
Total financing	**4,129**	**2,213**
Borrowing requirement	**0**	**0**

7.5 CHANGES TO THE CAPITAL FINANCING REQUIREMENT (CFR), EXTERNAL DEBT AND THE OPERATIONAL BOUNDARY

7.5.1 The table in 7.5 shows the CFR, which is the underlying external need to incur borrowing for a capital purpose. It also shows the expected debt position over the period, which is termed the Operational Boundary.

7.6 LIMITS TO BORROWING ACTIVITY

7.6.1 The first key control over the treasury activity is a prudential indicator to ensure that over the medium term, net borrowing (borrowings less investments) will only be for a capital purpose*. Gross external borrowing should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2020/21 and the next two financial years. This allows some flexibility for limited early borrowing for future years. The Council has approved a policy for borrowing in advance of need which will be adhered to if this proves prudent.

Treasury Indicators	2019/20 Budget	30.9.19 Forecast
Authorised Limit for external debt	30,000	30,000
Operational boundary for external debt	25,000	25,000
Gross external debt	13,648	12,385
Investments	31,362	39,498
Net borrowing	(17,714)	(27,113)
Maturity structure of fixed rate borrowing -	2019/20 Budget	30.9.19 Forecast
Under 12 months	Lower 0% - Upper 50%	Lower 0% - Upper 50%
12 months to 2 years	Lower 0% - Upper 50%	Lower 0% - Upper 50%
2 years to 5 years	Lower 0% - Upper 50%	Lower 0% - Upper 50%
5 years to 10 years	Lower 0% - Upper 50%	Lower 0% - Upper 50%
10 years to 20 years	Lower 0% - Upper 50%	Lower 0% - Upper 50%
20years to 30 years	Lower 0% - Upper 50%	Lower 0% - Upper 50%
30years to 40years	Lower 0% - Upper 50%	Lower 0% - Upper 50%

Prudential Indicators	2019/20 Budget	30.9.19 Forecast
Capital expenditure	4,129	2,213
Capital Financing Requirement (CFR)	18,062	17,808
Annual change in CFR	1,799	1,545
Ratio of financing costs to net revenue stream	2.73%	2.21%

7.6.2 The Head of Corporate Services reports that no difficulties are envisaged for the current or future years in complying with this prudential indicator.

7.6.3 A further prudential indicator controls the overall level of borrowing. This is the Authorised Limit which represents the limit beyond which borrowing is prohibited and needs to be set and revised by Members. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. It will not be exceeded under current circumstances.

8. INVESTMENT PORTFOLIO 2019/20

8.1 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. As shown by forecasts in section 5.2, it is a very difficult investment market in terms of earning the level of interest rates commonly seen in previous decades as rates are very low and in line with the current 0.75% Bank Rate. Given this risk environment and the fact that increases in Bank Rate are likely to be gradual and unlikely to return to the levels seen in previous decades, investment returns are likely to remain low.

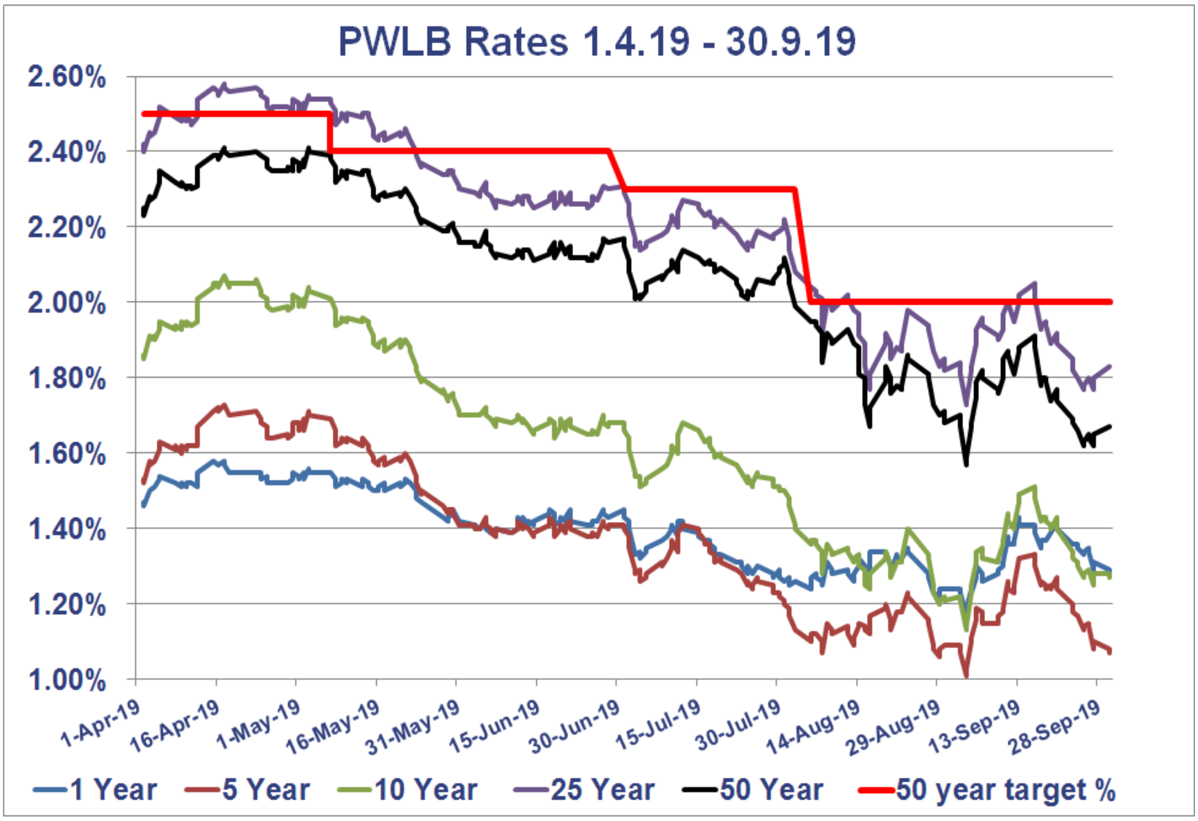
9. BORROWING

9.1 The Council's budgeted capital financing requirement (CFR) for 2019/20 is forecast to be £17.8m. The CFR denotes the Council's underlying need to borrow for capital purposes. If the CFR is positive 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. Appendix 1 shows the Council has net borrowings of £17.7m at 30 September 2019.

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

PWLB maturity certainty rates half year ended 30 September 2019

PWLB rates have been on a falling trend during this period and longer rates have almost halved to reach historic lows. The 50-year PWLB target (certainty) rate for new long-term borrowing fell from 2.50% to 2.00% during this period.



	1 Year	5 Year	10 Year	25 Year	50 Year
Low	1.17%	1.01%	1.13%	1.73%	1.57%
Date	03/09/2019	03/09/2019	03/09/2019	03/09/2019	03/09/2019
High	1.58%	1.73%	2.07%	2.58%	2.41%
Date	15/04/2019	17/04/2019	17/04/2019	17/04/2019	17/04/2019
Average	1.40%	1.37%	1.62%	2.20%	2.07%

On the 9th October, however, the Head of Corporate Services received a letter from HM Treasury which confirmed that they were restoring interest rates to levels available in 2018 by increasing the margin that applies to new loans from the PWLB by 100bps (one percentage point on top of usual lending terms.

10. DEBT RESCHEDULING

10.1 No debt rescheduling has been undertaken to date in the current financial year.

11. CHANGES IN RISK APPETITE

11.1 The 2018 CIPFA Codes and guidance notes have placed enhanced importance on risk management. Where an authority changes its risk appetite e.g. for moving surplus cash into or out of certain types of investment funds or other types of investment instruments, this change in risk appetite and policy should be brought to members' attention in treasury management update reports. There are no changes in risk appetite to be reported.

12. POLICY IMPLICATIONS

12.1 There are no policy implications.

13. FINANCIAL IMPLICATIONS

13.1 There are no financial implications other than those identified in the report.

14. MANAGEMENT OF RISK

14.1 The Treasury Management activity supports the overall revenue budget as the amount of interest generated through investments is an integral part of funding the Council's revenue budget.

14.2 The three main issues within Treasury Management are security, liquidity and yield. The CIPFA code is clear that these should be addressed in that order. Only when an investment will be repaid, and at a time that fits with predicted cash flow requirements should the yield, or interest rate to be paid, be considered. Obviously, the more secure an investment is, the lower the yield will be.

15. CONCLUSION

15.1 This report provides Members with information on the level of investment and interest earned during the first half of the financial year and demonstrates the Council's compliance with the Treasury Management strategy.

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BACKGROUND PAPERS:
Treasury Management Strategy – 28 February 2019

APPENDIX 1: Prudential and Treasury Indicators for 2019-20 as at 30 September 2019

Treasury Indicators	2019/20 Budget	30.9.19 Forecast
Authorised Limit for external debt	30,000	30,000
Operational boundary for external debt	25,000	25,000
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20years to 30 years	Lower 0% - Upper 50%	Lower 0% - Upper 50%
30years to 40years	Lower 0% - Upper 50%	Lower 0% - Upper 50%

Prudential Indicators	2019/20 Budget	30.9.19 Forecast
Capital expenditure	4,129	2,213
Capital Financing Requirement (CFR)	18,062	17,808
Annual change in CFR	1,799	1,545
Ratio of financing costs to net revenue stream	2.73%	2.21%

APPENDIX 2: Investment Portfolio

<u>Investments held as at 30 September 2019 compared to our counterparty list:</u>

Hart District Council

Current Investment List

Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest Long Term Rating	Historic Risk of Default
Santander UK Plc	4,015,011	0.40%		Call	A	0.000%
Barclays Bank Plc (NRFB)	3,969,933	0.45%		Call	A	0.000%
MMF Federated Investors (UK)	3,510,274	0.74%		MMF	AAA	0.000%
MMF Aberdeen Standard Investments	5,003,121	0.75%		MMF	AAA	0.000%
First Abu Dhabi Bank PJSC	5,000,000	0.76%	01/07/2019	16/10/2019	AA-	0.001%
Lloyds Bank Plc (RFB)	5,000,000	0.95%		Call32	A+	0.005%
Bank of Scotland Plc (RFB)	3,000,000	0.95%		Call32	A+	0.005%
Sumitomo Mitsui Banking Corporation Europe Ltd	3,000,000	0.79%	01/08/2019	15/11/2019	A	0.007%
National Westminster Bank Plc (RFB)	2,000,000	0.77%	05/08/2019	15/11/2019	A	0.007%
Fareham Borough Council	5,000,000	0.90%	30/04/2019	14/02/2020	AA	0.009%
Total Investments	**£39,498,339**	**0.75%**				**0.003%**

APPENDIX 3: Detailed economic commentary on developments during quarter ended 30 September 2019

During the quarter ended 30 September 2019 *(quarter 3 of 2019):*

- Boris Johnson replaced Theresa May as Prime Minister;
- GDP fell by 0.2% q/q in Q2, but rose at the start of Q3;
- The fundamentals that determine consumer spending remained healthy;
- Inflation fell below the Bank of England's 2% target;
- There was a widespread fall in investors' global interest rate expectations;
- The MPC kept Bank Rate on hold at 0.75% but struck a more dovish tone.

The economy posted a weaker-than-expected contraction in activity in **Q2 of 2019 of 0.2% q/q**, but that was probably temporary as activity had been shifted from Q2 into Q1 ahead of the original 29th March Brexit deadline. For example, some car manufacturers brought forward their annual car plant shutdowns from August to April in case of a no deal.

What's more, stock building added 0.5 percentage points (ppts) to GDP growth in Q1 before knocking 0.4ppts off growth in Q2. But a good deal of those stocks were imported, so that overstates the impact. Taking into account the effect on imports and exports, we estimate that net stock building added 0.2ppts to growth in Q1 before knocking 0.2ppts off growth in Q2.

The fall in GDP in Q2 has raised concerns that the UK economy could already be in a recession even before Brexit. However, there are at least two reasons to think that growth will probably rebound in Q3, ensuring that the UK avoids a recession. First, GDP grew by 0.3% m/m in July, the largest rise since January. That means that it would take GDP growth in both August and September of an unlikely -0.4% m/m to prevent growth from being positive in Q3.

Second, the flipside of car manufacturers closing in April is that some of them remained open in August, when they would normally close. As a result, seasonally adjusted vehicle production rose by about 8.5% m/m in August, which should add about 0.1ppts to quarterly GDP growth. To be fair, this may be the highlight of the manufacturing sector. Even though the manufacturing PMI rose a little in September, it is still pointing to manufacturing output contracting by about 1.0% q/q in Q3. That said, the services sector is typically unfazed by contractions in manufacturing. So the weakness of manufacturing shouldn't spill over into weaker consumer demand. As such, we have pencilled in **a rise of 0.3% q/q in GDP in Q3.**

Indeed, **household spending growth**, which is the biggest component of demand, will probably remain pretty strong. Looking through the Brexit volatility, while consumer confidence has been relatively weak, the fundamentals that determine consumer spending have remained healthy. Admittedly, employment grew by just 31,000 in the three months to July. But this came on the back of a jump of 62,000 in the three months to June. And with the unemployment rate still at its 45-year low of 3.8%, the tightness in the labour market has pushed up wage growth. Wage growth on the measure including bonuses nudged up from 3.8% in June to 4.0% in July, the fastest rate since 2008. And with inflation having fallen to 1.7% in August, below the

Bank of England's 2% target, real wage growth has reached its highest rate since 2016.

The fall in **CPI inflation** from 2.1% in July to 1.7% in August was mainly due to lower inflation in the recreation and cultural services categories. Lower clothing inflation also helped to supress the headline measure. While you can pick out these more volatile components as the cause of the fall in inflation, the big picture is that there is little upward pressure on underlying inflation at the moment. Core inflation fell from 1.9% to 1.5%, its lowest rate in almost three years.

Nonetheless, there are still some reasons to think that CPI inflation will edge up at the end of the year as rising agricultural prices push up food inflation and core inflation starts to pick up now that the lagged effects of a fall in import price inflation have come to an end. What's more, the recent pick-up in wage costs is consistent with a rise in core services inflation to more than 4% in 2020.

Meanwhile, investors have become much more downbeat on the outlook for UK monetary policy. At the start of July investors were pricing in less than one 25bps rate cut from 0.75% within a year and then for interest rates to rise back to 0.75% again. Now, however, they are pricing in almost two rate cuts over the next two years and then for interest rates to remain low. This is partly because of the weakening global outlook and the rate cuts in the US and euro-zone. And it's partly because the **Monetary Policy Committee (MPC)** seems to have become more downbeat. Indeed, at its latest meeting in September the MPC noted that "underlying growth has slowed, but remains slightly positive, and that a degree of excess supply appears to have opened up". As a result, it wasn't surprising that the MPC kept Bank Rate on hold.

The Bank also gave us some indication of what it might do in **three familiar Brexit scenarios;** a deal, delay and no deal Brexit! If there were a Brexit deal at the end of October or in January, with inflation currently below the 2% target, the MPC is unlikely to feel under much pressure to rush ahead with rate hikes. But the Committee does think that interest rates would rise "at a gradual pace and to a limited extent".

However, it also pointed out that a further delay to Brexit would weigh on GDP growth and "domestically generated inflationary pressures would be reduced". The implication is that more delays to Brexit delay rate hikes and could even open the door to rate cuts. Indeed, Michael Saunders gave the strongest hint yet in a recent speech that he at least thinks that rate cuts might be required. And if there is a no deal then the MPC is still saying that "the monetary policy response would not be automatic and could be in either direction", although some MPC members have indicated that they would be more inclined to cut rates.

As for **fiscal policy,** more spending appears pretty much baked into the cake. In September's Spending Review the Chancellor announced additional government spending of about £13.8bn. The Chancellor then went even further by announcing at the Tory Party Conference plans to spend up to £25bn on infrastructure projects over the next few years.

This extra spending when combined with changes to the way that student loans are counted, which added £12.4bn to borrowing in 2018/19, suggests that the Chancellor's fiscal target is dead in the water. Indeed, if the current trend persists, borrowing would be £52.8bn this year (2.4% of GDP). That would leave the structural deficit above the 2% of GDP target by 2020/21.

Of course, how much borrowing rises depends on the outcome of Brexit. If a deal is reached, faster GDP growth would reduce public spending, raise tax revenues and cut the deficit, perhaps allowing fiscal policy to be loosened without borrowing rising by too much. However, in a no deal, the weaker economy, combined with a substantial fiscal loosening to support the economy, would push up the deficit sharply.

The passing of legislation by **Parliament** to prevent a no deal Brexit on 31 October means that we think the most likely outcome is another delay to Brexit until 31 January 2020. If there is a delay, then the general election that would surely follow in November or December would probably determine what happens to Brexit and the economy. If the Tories won, the chances of a no deal Brexit and a resulting short recession would be fairly high. If Labour won, (although its Brexit policy is still very vague), the downside risk of a no deal Brexit would be removed as the public get to vote on either a deal or remain. But Labour's high-tax, large-government policies could restrain economic growth further ahead.

Turning to the financial markets, concerns over global growth and subsequent falls in interest rate expectations have caused developed market bond yields to drop – the **10-year gilt yield** fell from 0.81% at the start of the quarter to 0.47% at the end.

Meanwhile, despite the recent drop in the chances of a no deal Brexit on 31st October, **sterling** has fallen by about 3% from $1.27 to $1.23 this quarter. Given that the differential between 10-year gilts and 10-year US Treasuries has remained around 120 basis points, the fall in sterling is probably due to strength in the US dollar as demand for safe haven assets has increased.

The drop in sterling failed to give the **FTSE 100** a boost. The two markets usually have an inverse relationship as a rise in the pound lowers the sterling value of UK firms' overseas profits. But the FTSE 100 finished the quarter around 1.0% lower, slightly underperforming the S&P 500.

Elsewhere, in the **US** the markets think the Fed will cut interest rates twice more over the next two years. We agree that interest rates will fall once more this year, however, we don't expect the Fed to continue cutting interest rates next year. Meanwhile, we have lowered our forecast for GDP growth in the **euro-zone** next year from 0.8% to just 0.5%. And even if the ECB is reluctant to loosen policy further before Christine Lagarde takes over as President in November, we suspect that the Bank will cut its deposit rate by a further 30bps next year and step up its assets purchases.

APPENDIX 4: Detailed commentary on interest rate forecasts

Our treasury management advisers, Link Asset Services provided us on 5 August with the following update to their interest rate forecasts.

Comparison of forecasts for Bank Rate today v. previous forecast

	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
5.8.19	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.25
1.7.19	0.75	0.75	0.75	0.75	1.00	1.00	1.25	1.25	1.50	1.50	1.50
change	0.00	0.00	0.00	0.00	-0.25	0.00	-0.25	-0.25	-0.50	-0.50	-0.25

- While the Bank of England went through the routine of producing another quarterly <u>Inflation Report</u> at the start of August, it was very questionable how much all the writing and numbers were worth when faced with the huge uncertainties of where the UK will be on 1 November 2019. Although the new Prime Minister, Boris Johnson, has spoken strongly that the UK will be out of the EU, come what may on 31 October, his stated main aim is to get movement from the EU and Ireland, and especially over the Northern Ireland backstop. If there was a reasonable chance that negotiations were going positively and looked like heading towards agreement, it surely cannot be ruled out that there could be a further delay to the 31 October deadline, as both sides have great concerns about the economic damage that would be done to their economies if there was a no deal. However, there is also the issue of what the House of Commons may, or may not do, especially now that the Supreme Court has overturned the proroguing of Parliament and has also passed a bill to delay Brexit until 31 January 2020 if there is no deal before 31 October. It has also denied the Prime Minister his request for a general election before 31 October. All one can say for certain is that there is currently a great deal of uncertainty over Brexit.

- Possibly the biggest message that is worth taking note of from the Inflation Report, is the downbeat comments in terms of the outlook for the major world economies. In terms of the <u>UK</u>, it was notably downbeat about expectations for how strong a recovery in growth would be - even if there was a Brexit deal; investment levels look unlikely to suddenly rebound strongly. This was reflected in a downgrading of the Bank's growth forecasts. However, it is also worth noting that the new Prime Minister is making some significant promises 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.

- The <u>MPC meeting of 19 September</u> was notably dovish in emphasising increasing concerns about the impact that prolonged uncertainty was likely to have on UK growth, but also noted more concern about the environment of weaker global growth.

- While the <u>USA</u> is not heading towards a recession, the Fed has taken action to counter the slowdown in growth with two cuts of 25 bps each in July and September to reach 1.75 – 2.00%; it may cut again before the year end.

- The <u>ECB</u> is increasingly concerned by the headwinds facing the EZ economy as a whole, but especially the German and Italian economies. Germany is particularly exposed to a downturn in the world economy due to exports being a very important part of its economy. Italy just looks stuck in weak growth and successive governments have done little to face up to major issues that need dealing with. The ECB has therefore emphasised that while it can tinker at the edges with cuts in rates, and boosting liquidity in financial markets, the heavy lifting will have to be done by fiscal policy measures through national government action. Such siren noises have generally fallen on deaf ears in years gone by and Italy is perilously close already to exceeding the 3% budget deficit limit.

- The US tariff war with China looks to be coming more entrenched. This is not good news for China which is already facing a slowdown in its rate of economic growth. It will also impact on the US economy and especially on developing economies dependent on exporting commodities to China.

- Japan is, as always for the last two decades, mired in a battle with trying to get inflation consistently up from near zero, and with weak economic growth. Despite massive monetary policy measures, quantitative easing, and fiscal measures by the government, it is achieving little despite having its foot flat on the floor of the accelerator pedal of measures to stimulate growth.
- As for our forecasts for UK Bank Rate, we have moved back our forecast for the first increase from quarter 3 2020 to quarter 4 2020 and the second increase from quarter 1 2021 to quarter 1 2022. In order to make any forecast we have had to make one central assumption – a reasonable muddle through outcome for Brexit, possibly including a further delay to the deadline. If the facts change, our forecasts will also change. As events unfold it is possible we could see 25 – 50 bps movements in rates and yields at any time e.g. a hard Brexit could result in an immediate cut in Bank Rate. However, that is not our central assumption.
- We would point out to all clients that we have downgraded our forecasts for the speed of recovery in interest earnings on cash investments through to 2023/24.

- As for PWLB rates, we have seen a further sharp fall in most PWLB rates since our previous forecast.

- Our key advice to clients in the midst of such large-scale uncertainties is to focus on managing risk, rather than making a bet on one outcome or the other.
- A key issue facing most central banks of major world economies, except the US Fed, is that they have very little ammunition, in terms of normal monetary policy measures, to take action to counter the next economic downturn. Central banks will therefore have an agenda to restock their ammunition as soon as possible by raising central rates, but only when that becomes feasible, and, at a later time, possibly unwinding quantitative easing. Until they are able to raise rates back to more normal levels, central banks will be emphasising that responsibility for stimulating economic growth in the event of a significant economic downturn, will have to fall to governments to adopt fiscal measures of increasing expenditure and/or cutting taxes.

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.

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. There has been a major increase in consumer and other debt due to the exceptionally low levels of borrowing rates that have prevailed for eleven years 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, 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**, possibly **Italy**, due to its high level of government debt, low rate of economic growth and vulnerable banking system, and due to the election in March 2018 of a government which has made a lot of anti-austerity noise. The EU has had sharp disagreements in successive years with Italy over setting a budget within the limits of EU rules. The rating agencies have already downgraded Italian debt to one notch above junk level. If Italian debt were to fall below investment grade, many investors would be unable to hold Italian debt. Unsurprisingly, investors are becoming increasingly concerned by the actions of the Italian government and consequently, Italian bond yields have risen – at a time when the government faces having to refinance over €200bn of debt maturing in 2019. However, the biggest concern is the major holdings of Italian government debt held by Italian banks and insurers. Any downgrading of such debt would cause Italian bond prices to fall, causing losses on their portfolios, so reducing their capital and forcing them to sell bonds – which, in turn, would cause further falls in their prices etc. This is the so called **'doom loop'**. Due to the Italian government's already high level of debt, it would not be able to afford to bail out the banking system. **Portugal** faces the same problem as its debt is also only one notch above junk level. (Italy – a major change in the coalition governing Italy in September has brought to power a much more EU friendly government; this has eased the pressure on Italian bonds. Time will tell whether this 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. Then in October 2018, the results of the Bavarian and Hesse state elections radically undermined the SPD party and showed a sharp fall in support for the CDU. As a result, the SPD had a major internal debate as to whether it could continue to support a coalition that is so damaging to its electoral popularity. After the result of the Hesse state election, Angela Merkel announced that she would not stand for re-election as CDU party leader at her party's convention in December 2018. However, this makes little practical difference as she has continued as Chancellor, though more recently concerns have arisen over her health.

- **Other minority EU governments.** Sweden, Spain, Portugal, Netherlands and Belgium all have vulnerable minority governments dependent on coalitions which could prove fragile.
- **Italy, Austria, the Czech Republic and Hungary** now form a strongly anti-immigration bloc within the EU. There has also been rising anti-immigration sentiment in Germany and France.
- There are concerns around the level of **US corporate debt** which has swollen massively during the period of low borrowing rates in order to finance mergers and acquisitions. This has resulted in the debt of many large corporations being downgraded to a BBB credit rating, close to junk status. Indeed, 48% of total investment grade corporate debt is rated at BBB. If such corporations fail to generate profits and cash flow to reduce their debt levels as expected, this could tip their debt into junk ratings which will increase their cost of financing and further negatively impact profits and cash flow.
- **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.

1. LINK ASSET SERVICES' FORECASTS

We do not currently think that the MPC would increase Bank Rate before any clearing of the fog on Brexit. We have moved back our forecast for the first increase from quarter 3 2020 to quarter 4 2020 and the second increase from quarter 1 2021 to quarter 1 2022.

Forecasts for average investment earnings beyond the three year time horizon will be heavily dependent on economic and political developments.

Gilt yields and PWLB rates

The general situation is for volatility in bond yields to endure as investor fears and confidence ebb and flow between favouring relatively more "risky" assets i.e. equities, or the "safe haven" of government bonds. The overall longer run trend is for gilt yields and PWLB rates to rise, albeit gently, although there are likely to also be periods of sharp volatility from time to time.

Our forecasts are also predicated on an assumption that there is no break-up of the Eurozone or EU, (apart from the departure of the UK), within our forecasting time period, despite the major challenges that are looming up, and that there are no major ructions in international relations, especially between the US and China / North Korea and Iran, which have a major impact on international trade and world GDP growth. However, the current round of increases in tariff rates sparked by President Trump, both actual and threatened, are causing on-going concern around the potential impact on world growth and also on inflationary pressures.

We would, as always, remind clients of the view that we have expressed in our previous interest rate revision newsflashes of just how volatile PWLB rates and bond yields are at present. Our revised forecasts are based on the Certainty Rate (minus 20 bps) which has been accessible to most authorities since 1st November 2012.

Link Asset Services Interest Rate View	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Bank Rate View	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.25
3 Month LIBID	0.70	0.70	0.70	0.70	0.80	0.90	1.00	1.00	1.00	1.10	1.20
6 Month LIBID	0.80	0.80	0.80	0.80	0.90	1.00	1.10	1.10	1.20	1.30	1.40
12 Month LIBID	1.00	1.00	1.00	1.00	1.10	1.20	1.30	1.30	1.40	1.50	1.60
5yr PWLB Rate	1.20	1.30	1.50	1.60	1.70	1.70	1.80	1.90	2.00	2.00	2.10
10yr PWLB Rate	1.50	1.60	1.80	1.90	2.00	2.00	2.10	2.20	2.30	2.30	2.40
25yr PWLB Rate	2.10	2.30	2.40	2.50	2.60	2.70	2.70	2.80	2.90	3.00	3.00
50yr PWLB Rate	2.00	2.20	2.30	2.40	2.50	2.60	2.60	2.70	2.80	2.90	2.90

BANK RATE	now	previously
Q1 2020	0.75%	0.75%
Q1 2021	1.00%	1.25%
Q1 2022	1.25%	1.50%

Our target borrowing rates and the current PWLB (certainty) borrowing rates are set out below.

PWLB debt	Current borrowing rate as at 5.8.19	Target borrowing rate now (end of Q3 2019)	Target borrowing rate previous (end of Q3 2019)
5 year	1.12%	1.20%	1.50%
10 year	1.37%	1.50%	1.80%
25 year	2.04%	2.10%	2.40%
50 year	1.95%	2.00%	2.30%

Borrowing advice: since November 2018, PWLB rates have fallen significantly. As our long term forecast for Bank Rate is 2.25%, and all PWLB rates are very near to or below 2.25%, and well below 2.25% in periods up to 10 years, there is added value in most borrowing periods. Value, however, in the longer term rates could be negated or minimal, if Bank Rate does not climb to at least 2.25% over the medium term. Accordingly, clients will need to review and assess their risk appetite in terms of any underlying borrowing requirement they may have, and also project forward their position in respect of cash backed resources.

Any new borrowing should also take into account the ***continuing cost of carry***, the difference between investment earnings and borrowing rates, especially as our forecasts indicate that ***Bank Rate may rise to only 1.25% by March 2022.*** Please speak to your CRM to discuss opportunities available.

Our suggested budgeted investment earnings rates for investments up to about three months' duration in each financial year for the next six years are as follows: -

Average earnings in each year	Now	Previously
2019/20	0.75%	0.75%
2020/21	1.00%	1.00%
2021/22	1.00%	1.50%
2022/23	1.50%	1.75%
2023/24	1.50%	2.00%
2024/25	1.75%	2.00%
Later years	2.25%	2.25%

As there are so many variables at this time, caution must be exercised in respect of all interest rate forecasts. The general expectation for an eventual trend of gently rising gilt yields and PWLB rates is unchanged. Negative, (or positive), developments could significantly impact safe-haven flows of investor money into UK, US and German bonds and produce shorter term movements away from our central forecasts.

Our interest rate forecast for Bank Rate is in steps of 25 bps whereas PWLB forecasts have been rounded to the nearest 10 bps and are central forecasts within bands of + / - 25 bps.

APPENDIX 5: Approved countries for investments as at 30 September 2019

Based on lowest available rating

AAA

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

AA+

- Finland
- U.S.A.

AA

- Abu Dhabi (UAE)
- Hong Kong
- France
- U.K.

AA-

- Belgium
- Qatar

PAPER E

CABINET

DATE OF MEETING: 5 DECEMBER 2019

TITLE OF REPORT: 2020/21 BUDGET & MEDIUM TERM FINANCIAL STRATEGY

Report of: Head of Corporate Services

Cabinet Member: Councillor James Radley, Deputy Leader and Finance

1 PURPOSE OF REPORT

1.1 To allow an early consideration of the emerging budget for 2020/21 and the draft Medium Term Financial Strategy (MTFS). This information was considered at the Overview and Scrutiny Committee meeting of 19 November 2019.

2 OFFICER RECOMMENDATION

2.1 That the issues around the emerging budget for 2020/21 be noted.

3 BACKGROUND

3.1 The financial challenges for local authorities will continue indefinitely and there are a number of factors which make accurate medium-term financial forecasting problematic at this stage. This report outlines the issues that may have the most impact on the Council's revenue budget.

4 SIGNIFICANT FACTORS AFFECTING THE BUDGET

4.1 Local Government Settlement

The Government has published the short-term Spending Round 2019. The longer-term Spending Review has been postponed until 2020. It has also published a Technical Consultation.

From 2018/19 onwards Hart receives no Revenue Support Grant (RSG). In 2020/21 Hart was likely to have a negative grant whereby the Council would have to pay the Government at least £500,000. However, the Technical Consultation has indicated that the Government will continue to fund "negative RSG" itself for another year. This should be confirmed in December.

4.2 New Homes Bonus (NHB)

The Council relies heavily on funding from NHB. NHB provides £2.283 million towards the revenue budget of £9.826 million in 2019/20.

The Government made substantial changes to the NHB scheme from April 2017, as it diverted funding away from districts to counties and unitaries to fund adult social care pressures. Payment periods have also been reduced from 6 to 4 years. A baseline has also been introduced. For 2017/18 the first 0.4% increase in housing growth was disallowed for NHB allocation. The Government has indicated that it may change the level of this threshold in 2020/21.

The Government has also indicated that NHB will be phased out. The 2020/21 payment will therefore not attract any legacy payments. It is not clear whether there will be a replacement, nor whether Hart would qualify for any future payments. The MTFS assumes not.

4.3 National Non-Domestic Rates (NNDR)

The new system of 75% business rates retention will now be delayed until 2021/22. It is too early to predict the exact consequences for the Council, but the new system is unlikely to lead to significant extra funding.

4.4 Fair Funding Review

The formulae the Government uses for calculating local government funding are still under review. Further funding from April 2021 could be significantly affected by this review.

4.5 Other Budget Pressures

The Council faces a number of other potential budget pressures such as:

- Collection fund deficits on the NNDR account, particularly as the result of appeals
- Continued reductions in funding by Hampshire County Council for a variety of agency and other services, including a £500,000 reduction in waste funding from 2021/22

5 2020/21 LOCAL GOVERNMENT FINANCE SETTLEMENT TECHNICAL CONSULTATION PAPER

5.1 The Government is consulting on the continuation of limiting council tax increases in 2020/21 to less than 3% or up to and including £5, whichever is the higher, without triggering the need for a referendum. For Hart, an increase of 3% would be £5.

5.2 The Government once again challenges parish and town councils to demonstrate restraint when setting precepts.

5.3 The Government has indicated that it is minded to change the threshold for New Homes Bonus from the present 0.4% level.

5.4 New Homes Bonus will be phased out. The 2020/21 payment will not have 3 additional years' legacy payments.

6 RESERVES

6.1 The Council is required to maintain a minimum level of General Fund Reserves that equates to approximately 10% of net expenditure (£1m in Hart's case). For the life of this strategy the reserve needs to be set at a minimum of £1m.

6.2 At the end of 2018/19 the reserves were over £5m, comfortably more than the minimum level required. Although this is a healthy balance there are undoubtedly significant financial pressures to come in future years. The current level of reserves provides an opportunity to prepare for those future pressures without the need for sudden reductions in service levels.

6.3 The Council has a good record in controlling costs over the last few years and it is necessary for that discipline to continue.

7 MEDIUM TERM FINANCIAL STRATEGY

7.1 The MTFS is attached as **Appendix 1**. This outlines a number of changes now due in 2021/22:

- Spending Review 2020 – likely to continue cuts to central government funding of local government
- Fair Funding Review – likely to redistribute funding within local government to councils with Social Care responsibilities
- New Homes Bonus – likely to be phased out
- Business Rates – changes unlikely to benefit Hart

7.2 The Council faces a possible "perfect storm" of detrimental changes to funding, including the potential loss of all New Homes Bonus.

8 COMMERCIAL STRATEGY

8.1 The Council has already recognised the risk of losing New Homes Bonus and has adopted a Commercial Strategy to try to make good any such losses.

8.2 However, there is much risk involved in this approach, and there are no guarantees that sufficient profitable opportunities will be found and developed in the timescales required.

8.3 In addition, the Council will be taking on additional risks such as voids and the timing of acquisitions and construction. Factors such as the performance of the wider economy may impact on future income.

8.4 The Commercial Strategy is untested and only one potential scheme has been developed to date. It will be at least two years before this scheme begins to produce income.

9 KEY MESSAGES

9.1 The Council is likely to face a perfect storm of reduced central government funding from 2021/22.

9.2 New Homes Bonus, which currently funds 20% of the revenue budget, is highly likely to be phased out over three years from 2020/21. It may even be totally cut in 2021

9.3 Business rates income will not increase significantly. As larger businesses withdraw from the district income may reduce and Hart will increasingly rely on the safety-net.

9.4 The Commercial Strategy is as yet untested and prone to several risks.

9.5 As a result of these changes, Hart will continue to face financial challenges and may require significant further savings once the 2021/22 picture is clearer.

10 NEXT STEPS

10.1 Officers will continue to work on the budget and refine the figures.

10.2 Key milestones with regards to the 2020/21 budget include:

- The 2020/21 Local Government Settlement will be delayed until after the General Election on 12th December.
- Changes to the New Homes Bonus threshold – likely to be announced as part of the Settlement

10.3 Based on the evidence available, the annual budget report will be submitted to Overview and Scrutiny Committee in January 2020 with endorsement by Cabinet and final consideration by Council, in February 2020. This will include an updated MTFS.

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APPENDICES:
Appendix 1 – Medium-Term Financial Strategy 2020/21-2022/23

BACKGROUND PAPERS:

- Various Government Consultation Papers
- Council Reports

MEDIUM TERM FINANCIAL STRATEGY

	2019/20	2020/21	2021/22	2022/23
Net Cost of Services	9826	10189	10394	10600
Less				
Debt Interest	12	12	12	12
New Homes Bonus	-2283	-2200	-1171	-505
Net Budget Requirement	7555	8001	9235	10107
Financed By				
Government Grant				
- Business Rates Retained	-1258	-1280	-1320	-1360
Collection Fund (Surplus) / Deficit	-24	0	0	0
NNDR Reserve	390	0	0	0
Council Tax Income	-6792	-7083	-7362	-7648
£5 Increase in Council Tax	-202	-203	-205	-205
S106 Receipts	-53	-53	-53	-53
SANG Receipts/Loan Repayments	-61	-220	-220	-220
Minimum Revenue Provision / Loan Repayments	445	469	469	469
Commercial Income Target	0	0	-544	-1090
Transfer (to) from Reserves to balance Revenue Account	0	0	0	0
Total	**0**	**-369**	**0**	**0**

CABINET

KEY DECISIONS/ WORK PROGRAMME, AND EXECUTIVE DECISIONS MADE

December 2019

Cabinet is required to publish its Key Decisions and forward work programme to inform the public of issues on which it intends to make policy or decisions. The Overview and Scrutiny Committee also notes the Programme, which is subject to regular revision.

Report Title	Date item agreed for report	Outline/Reason for Report/Comments	Original Due Date	Revised Due Date	Key Decision Y? Note 1	Cabinet Member (Note 2)	Service (Note 3)
Medium Term Financial Strategy	Annual	Post Consideration by Overview and Scrutiny to consider the Medium Term Financial Strategy	Dec 19			JR	F
Treasury Management 2019/20	Annual	Post consideration by Overview & Scrutiny Committee, to consider a Half Year review report on Treasury Management Strategy 2019/20	Dec 19			JR	F
Budget Monitoring	Quarterly	Post consideration by Overview & Scrutiny Committee, to consider a report on Quarterly Budget Monitoring	Dec 19 Mar 20 Sept 20			DN	F
Public Space Protection Order - Dog Fouling	Aug 19	To consider a District wide Dog Fouling Public Space Protection Order (PSPO) post public consultation.	Jan 20		Y	SK	P

PAPER F

Report Title	Date item agreed for report	Outline/Reason for Report/Comments	Original Due Date	Revised Due Date	Key Decision Y? Note 1	Cabinet Member (Note 2)	Service (Note 3)
Local Government Mutual	Nov 19	To consider the next step in the set up of the Local Government Mutual and its offer to the council.	Jan 20			JR	F
Fleet Pond Feasibility Study	Nov 19	To consider the release of S106 funding for the feasibility study to deliver the Fleet Pond environmental enhancement in relation to green grid project and the revision of the current management plan.	Jan 20		Y	DN	TS
Phoenix Green Flood Alleviation Scheme	Nov 19	To approve funding contributions towards the flood alleviation scheme for Phoenix Green	Jan 20		Y	AO	TS
Traffic Management Programme 2020/2021	Nov 19	Post consideration by Overview and Scrutiny, to approve the traffic management programme for the coming year	Feb 20		Y	AO	TS
Draft 2020/21 Revenue Budget, Capital Programme and Council Tax Proposals	Annual	Post consideration by Overview & Scrutiny Committee, to agree to recommend to Council the 2020/21 Revenue Budget, Capital Programme and Council Tax Proposals.	Feb 20			JR	F

PAPER F

Report Title	Date item agreed for report	Outline/Reason for Report/Comments	Original Due Date	Revised Due Date	Key Decision Y? Note 1	Cabinet Member (Note 2)	Service (Note 3)
Draft 2020/21 Capital Strategy and the Treasury Management Strategy Statement	Annual	Post consideration by Overview & Scrutiny Committee, to agree to recommend to Council the 2020/21 draft Capital Strategy and the 2020/21Treasury Management Strategy Statement	Feb 20			JR	F
Asset Management Plan	Aug 19	Approval of updated draft Asset Management Plan, post consideration Overview and Scrutiny Committee	Nov 19	Feb 20		DN	TS
Civic Campus Regeneration	July 19	Update from the Working Group to consider the future of the Civic Campus	Feb 20			DN	JCX
Climate Change Strategy		To consider the Climate Change Strategy and Action Plan proposed by the working party, post consideration by Overview & Scrutiny Committee	Feb 20			AO	E
Planning Management Development Peer Review	Aug 19	To consider the Action Plan for Planning Management post the Peer Review	Feb 20			GC	P

Garden Communities Programme	Nov 19	To consider the findings of the Working Group on governance structure and work streams for the Garden Community Project, and approve any necessary revisions.	Feb 20			GC	P
Community Infrastructure Levy (CIL)	Aug 19	To consider if it is beneficial to introduce CIL rather than retain the current S106 arrangements	Feb 20			GC	P
Crookham Village Neighbourhood Plan	June 19	To consider the examiners' report.	Nov 19	Feb 20		GC	P
Update on Peer Review further to revisit of LGA	Dec 18	Post consideration by Overview and Scrutiny - to consider the outcomes of the revisit of the LGA.	Jan 20	Mar 20		DN	JCX
Service Plans	Annual	Post consideration by Overview & Scrutiny Committee, agree the 2019/20 Service Plans	April 20			DN	All
Outside Bodies	Annual	Post consideration by Overview & Scrutiny Committee of the effectiveness of the Council's involvement outside bodies, to confirm the Council 2020/21 representatives.	June 20			DN	JCX
Food and Health and Safety Service Plan	Annual	Recommend to Council that the annual Food Safety Plan be adopted	July 20			SK	RS

Revenue and Capital Outturn 2019/20	Annual	Post consideration by Overview & Scrutiny Committee, to consider the Annual report on outturn.	Aug 20			DN	F
Treasury Management 2019/20	Annual	Post consideration by Overview & Scrutiny Committee, to consider the Annual report on Treasury Management Activities 2019/20	Aug 20			JR	F
Crondall Neighbourhood Plan	June 19	To consider the examiners' report.	Nov 19	TBC		GC	P

Note 1

A "key decision" means an executive decision which, is likely to -

a) result in Council incurring expenditure or the making of savings which amount to £30,000 or 25% (whichever is the larger) of the budget for the service or function to which the decision relates; or
b) be significant in terms of its effects on communities living or working in an area comprising two or more wards within the area of the district of Hart.

Note 2

Cabinet Members

DN	Leader	SA	Digital	RQ	Commercialisation (Cn)	SB	Community (Cy)
SK	Regulatory	AO	Environment	JR	Finance and Corporate Services	GC	Place

Note 3

Service:

JCX	Joint Chief Executive	CS	Corporate Services	P	Place Services
CSF	Community Safety	PP	Planning Policy	TS	Environmental & Technical Services
F	Finance	H	Community Services		
SLS	Shared Legal Services	MO	Monitoring Officer		

EXECUTIVE DECISIONS

4/11/19 Cllr Neighbour Release of S106 funding to Church Crookham Parish Council for a toilet at Mens Shed, Crookham Park - Not called in

CABINET

Date and Time: Thursday, 5 December 2019 at 7pm

Place: Council Chamber, Civic Offices, Fleet

Present:

Ambler, Bailey, Cockarilll, Kinnell (from 7.03 pm), Neighbour (Chairman), Oliver, Quarterman, Radley (from 7.09 pm)

In attendance: Crookes

Officers:
Andrew Vallance Head of Corporate Services
Gill Chapman Committee Services

73 MINUTES OF PREVIOUS MEETING

Members agreed that the Minutes of the meeting of 7 November 2019 were incorrect.

After discussion, Members agreed that Minute 71, Decision 8, should read:

RESOLVED

That a total budget of £500k be part of the draft 2020/21 budget. If passed the amount be allocated to the Joint Chief Executive from a bespoke earmarked reserve to be utilised for the procurement of appropriate expertise and resources to help the Council make informed choices associated with the Garden Community, and that any budget spend will be resported to and monitored by Overview and Scrutiny Committee and Cabinet as part of the normal budget monitoring process.

NB Councillors Kinnell and Radley entered the meeting during this item.

74 APOLOGIES FOR ABSENCE

None received.

75 CHAIRMAN'S ANNOUNCEMENTS

None.

76 DECLARATIONS OF INTEREST

None declared.

77 PUBLIC PARTICIPATION (ITEMS PERTAINING TO THE AGENDA)

None.

78 CLIMATE CHANGE WORKING GROUP

The minutes of the meeting of 18 November 2019 were noted.

79 2019-20 BUDGET MONITORING – TO END OF SEPTEMBER

Cabinet were advised of the position on revenue and capital expenditure at the end of September. Overview and Scrutiny Committee had considered this report at their meeting on 19 November 2019.

Members discussed the following issues:

- Budgeting around the new settlement
- Savings on staff vacancies
- Edenbrook – a written response regarding its delay would be circulated

DECISION

The revised projections and reasons for the main revenue variations shown be noted.

80 TREASURY MANAGEMENT STRATEGY– HALF YEAR REVIEW 2019/20

Cabinet considered the Council's treasury management activities and performance during the first half of the 2019/20 financial year (April-September 2019). This report had been considered by the Overview and Scrutiny Committee at its meeting on 19 November 2019.

Members discussed the global picture and the Council's prudent approach.

DECISION

The treasury management activities during the first half of the 2019/20 financial year be noted.

81 2020/21 BUDGET & MEDIUM TERM FINANCIAL STRATEGY

Cabinet were given early consideration of the emerging budget for 2020/21 and the draft Medium Term Financial Strategy (MTFS). This information had been considered at the Overview and Scrutiny Committee meeting of 19 November 2019.

Members considered the following concerns:

- Challenges ahead, and the effects on Hart revenue and budgets in future years
- Commercial income target a challenge in that timescale
- Potential loss of new homes bonus
- Commercialisation
- Challenges in setting the budget in February

DECISION

The issues around the emerging budget for 2020/21 be noted.

82 CABINET WORK PROGRAMME

The Cabinet Work Programme was considered and amended:

- Public Space Protection Order - February
- Crondall Neighbourhood Plan – January

It was confirmed that the Parking Review had been taken off the Work Programme as, after consideration and recommendations by Overview and Scrutiny Committee, it would be incorporated into the 2020/21 Budget.

The meeting closed at 7.44 pm