



MEETING : PERFORMANCE, AUDIT AND GOVERNANCE
OVERSIGHT COMMITTEE
VENUE : COUNCIL CHAMBER, WALLFIELDS, HERTFORD
DATE : TUESDAY 29 OCTOBER 2019
TIME : 7.00 PM

PLEASE NOTE TIME AND VENUE

MEMBERS OF THE COMMITTEE

Councillor Mark Pope (Chairman)
Councillors A Alder, S Bull, J Burmicz, L Corpe, A Curtis and T Stowe
(Vice-Chairman)

Substitutes

Conservative Group: Councillors C Rowley and A Ward-Booth

*(Note: Substitution arrangements must be notified by the absent Member
to Democratic Services 24 hours before the meeting)*

**CONTACT OFFICER: LORRAINE
BLACKBURN
01279 502172
lorraine.blackburn@eastherts.gov.uk**

DISCLOSABLE PECUNIARY INTERESTS

1. A Member, present at a meeting of the Authority, or any committee, sub-committee, joint committee or joint sub-committee of the Authority, with a Disclosable Pecuniary Interest (DPI) in any matter to be considered or being considered at a meeting:
 - must not participate in any discussion of the matter at the meeting;
 - must not participate in any vote taken on the matter at the meeting;
 - must disclose the interest to the meeting, whether registered or not, subject to the provisions of section 32 of the Localism Act 2011;
 - if the interest is not registered and is not the subject of a pending notification, must notify the Monitoring Officer of the interest within 28 days;
 - must leave the room while any discussion or voting takes place.
2. A DPI is an interest of a Member or their partner (which means spouse or civil partner, a person with whom they are living as husband or wife, or a person with whom they are living as if they were civil partners) within the descriptions as defined in the Localism Act 2011.
3. The Authority may grant a Member dispensation, but only in limited circumstances, to enable him/her to participate and vote on a matter in which they have a DPI.

4. It is a criminal offence to:

- fail to disclose a disclosable pecuniary interest at a meeting if it is not on the register;
- fail to notify the Monitoring Officer, within 28 days, of a DPI that is not on the register that a Member disclosed to a meeting;
- participate in any discussion or vote on a matter in which a Member has a DPI;
- knowingly or recklessly provide information that is false or misleading in notifying the Monitoring Officer of a DPI or in disclosing such interest to a meeting.

(Note: The criminal penalties available to a court are to impose a fine not exceeding level 5 on the standard scale and disqualification from being a councillor for up to 5 years.)

Public Attendance

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If you think a meeting you plan to attend could be very busy, you can check if the extra space will be available by emailing democraticservices@eastherts.gov.uk or calling the Council on 01279 655261 and asking to speak to Democratic Services.

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Visit <https://www.eastherts.gov.uk/article/35542/Political-Structure> for details.

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AGENDA

1. Apologies
2. Chairman's Announcements
3. Declarations of Interest

To receive any Members' Declarations of Interest and Party Whip arrangements.

4. Treasury Management Outturn 2018/19 (Pages 7 - 26)
5. Treasury Management Mid-Year Review (Pages 27 - 44)
6. Statement of Accounts - Presentation

A presentation will be provided by the Head of Strategic Finance and Property

7. Economic Development Strategy - Update (Pages 45 - 58)
8. Urgent Items

To consider such other business as, in the opinion of the Chairman of the meeting, is of sufficient urgency to warrant consideration and is not likely to involve the disclosure of exempt information.

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EAST HERTS COUNCIL

PERFORMANCE, AUDIT, GOVERNANCE AND OVERSIGHT COMMITTEE – 29 OCTOBER 2019

REPORT BY EXECUTIVE MEMBER FOR FINANCIAL SUSTAINABILITY

TREASURY MANAGEMENT OUTTURN 2018 19

WARD(S) AFFECTED: NONE

Purpose/Summary of Report

- The report reviews the Council's treasury management activities for 2018/19, including the prudential indicators and identifies the associated impact on the 2019/20 treasury management strategy.

<u>RECOMMENDATION FOR PERFORMANCE, AUDIT AND GOVERNANCE OVERSIGHT COMMITTEE: That</u>	
(A)	The Executive be advised that the 2018/19 Treasury Management Activity and Prudential Indicators be approved.

1.0 Background

1.1 Treasury management is defined as: 'The management of the Council's investments and cash flows, its banking arrangements, money market and capital transactions; the effective control of the risks associated with these activities; and the pursuit of optimum returns consistent with the Council's risk management policy for treasury management.'

1.2 This activity is supported by the council's appointed independent advisors – Link Asset Services.

- 1.3 The Council is required by regulations under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2018/19.
- 1.4 This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).
- 1.5 The Council is required by the CIPFA Prudential Code to approve an annual review following the end of the year describing the activity compared to the strategy.
- 2.0 Report
- 2.1 Please refer to the Annual Treasury Management Review, **Essential Reference Paper 'B'**: Annual Treasury Management Review 2018-19 and Prudential Indicators 2018-19.
- 3.0 Implications/Consultations
- 3.1 Information on any corporate issues and consultation associated with this report can be found within **Essential Reference Paper 'A'**.

Background Papers

CIPFA Code of Practice on Treasury Management (2017)

CIPFA Prudential Code for Capital Finance in Local Authorities (2017)

Contact Member: Councillor Geoffrey Williamson, Executive Member for Financial Sustainability.
geoffrey.williamson@eastherts.gov.uk

Contact Officer: Isabel Brittain, Head of Strategic Finance and Property, Tel: 01279 502050.
isabel.brittain@eastherts.gov.uk

Report Author: Nicola Munro, Finance Business Partner,
Tel: 01279 502044.
nicola.munro@eastherts.gov.uk

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ESSENTIAL REFERENCE PAPER 'A'

IMPLICATIONS/CONSULTATIONS

Contribution to the Council's Corporate Priorities/ Objectives:	Priority 1 – Improve the health and wellbeing of our communities Priority 2 – Enhance the quality of people's lives Priority 3 – Enable a flourishing local economy
Consultation:	Not Applicable
Legal:	There are no legal implications.
Financial:	Within the body of the report.
Human Resource:	There are no Human Resources implications.
Risk Management:	Within the body of the report.
Health and wellbeing – issues and impacts:	There are no Health and Wellbeing issues raised as part of this report.
Equality, diversity and human rights considerations, and whether Equality Impact Assessment required:	There are no equality, diversity and human rights implications.
Environmental Sustainability	There are no environmental sustainability implications raised as part of this report.

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Essential Reference Paper 'B'

East Herts District Council Annual Treasury Management Outturn 2018/19

Outturn Report 2018/19

ABBREVIATIONS USED IN THIS REPORT

ALMO: an Arm's Length Management Organisation is a not-for-profit company that provides housing services on behalf of a local authority. Usually an ALMO is set up by the authority to manage and improve all or part of its housing stock.

LAS: Link Asset Services, Treasury solutions – the council's treasury management advisers.

CE: Capital Economics - is the economics consultancy that provides Link Asset Services, Treasury solutions, with independent economic forecasts, briefings and research.

CFR: capital financing requirement - the council's annual underlying borrowing need to finance capital expenditure and a measure of the council's total outstanding indebtedness.

CIPFA: Chartered Institute of Public Finance and Accountancy – the professional accounting body that oversees and sets standards in local authority finance and treasury management.

CPI: consumer price index – the official measure of inflation adopted as a common standard by countries in the EU. It is a measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food and medical care. It is calculated by taking price changes for each item in the predetermined basket of goods and averaging them.

ECB: European Central Bank - the central bank for the Eurozone

EU: European Union

EZ: Eurozone -those countries in the EU which use the euro as their currency

Fed: the Federal Reserve System, often referred to simply as "the Fed," is the central bank of the United States. It was created by the Congress to provide the nation with a stable monetary and financial system.

FOMC: the Federal Open Market Committee – this is the branch of the Federal Reserve Board which determines monetary policy in the USA by setting interest rates and determining quantitative easing policy. It is composed of 12 members--the seven members of the Board of Governors and five of the 12 Reserve Bank presidents.

GDP: gross domestic product – a measure of the growth and total size of the economy.

G7: the group of seven countries that form an informal bloc of industrialised democracies--the United States, Canada, France, Germany, Italy, Japan, and the United Kingdom--that meets annually to discuss issues such as global economic governance, international security, and energy policy.

Gilts: gilts are bonds issued by the UK Government to borrow money on the financial markets. Interest paid by the Government on gilts is called a coupon and is at a rate that is fixed for the duration until maturity of the gilt, (unless a gilt is index linked to inflation); while the coupon rate is fixed, the yields will change inversely to the price of gilts i.e. a rise in the price of a gilt will mean that its yield will fall.

HRA: housing revenue account.

IMF: International Monetary Fund - the lender of last resort for national governments which get into financial difficulties.

LIBID: the London Interbank Bid Rate is the rate bid by banks on deposits i.e., the rate at which a bank is willing to borrow from other banks. It is the "other end" of the LIBOR (an offered, hence "ask" rate, the rate at which a bank will lend).

MHCLG: the Ministry of Housing, Communities and Local Government -the Government department that directs local authorities in England.

MPC: the Monetary Policy Committee is a committee of the Bank of England, which meets for one and a half days, eight times a year, to determine monetary policy by setting the official interest rate in the United Kingdom, (the Bank of England Base Rate, commonly called Bank Rate), and by making decisions on quantitative easing.

MRP: minimum revenue provision -a statutory annual minimum revenue charge to reduce the total outstanding CFR, (the total indebtedness of a local authority).

PFI: Private Finance Initiative – capital expenditure financed by the private sector i.e. not by direct borrowing by a local authority.

PWLB: Public Works Loan Board – this is the part of H.M. Treasury which provides loans to local authorities to finance capital expenditure.

QE: quantitative easing – is an unconventional form of monetary policy where a central bank creates new money electronically to buy financial assets, such as government bonds, (but may also include corporate bonds). This process aims to stimulate economic growth through increased private sector spending in the economy and also aims to return inflation to target. These purchases increase the supply of liquidity to the economy; this policy is employed when lowering interest rates has failed to stimulate economic growth to an acceptable level and to lift inflation to target. Once QE has achieved its objectives of stimulating growth and inflation, QE will be reversed by selling the bonds the central bank had previously purchased, or by not replacing debt that it held which matures. The aim of this reversal is to ensure that inflation does not exceed its target once the economy recovers from a sustained period of depressed growth and inflation. Economic growth, and increases in inflation, may threaten to gather too much momentum if action is not taken to 'cool' the economy.

RPI: the Retail Price Index is a measure of inflation that measures the change in the cost of a representative sample of retail goods and services. It was the UK standard for measurement of inflation until the UK changed to using the EU standard measure of inflation – CPI. The main differences between RPI and CPI is in the way that housing costs are treated and that the former is an arithmetical mean whereas the latter is a geometric mean. RPI is often higher than CPI for these reasons.

TMSS: the annual treasury management strategy statement reports that all local authorities are required to submit for approval by the full council before the start of each financial year.

VRP: a voluntary revenue provision to repay debt, in the annual budget, which is additional to the annual MRP charge, (see above definition).

Annual Treasury Management Review 2018/19

1. Introduction

This Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2018/19. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management, (the Code), and the CIPFA Prudential Code for Capital Finance in Local Authorities, (the Prudential Code).

During 2018/19 the minimum reporting requirements were that the full Council should receive the following reports:

- an annual treasury strategy in advance of the year (Council 01/03/2018)
- a mid-year (minimum) treasury update report (Council 05/03/2019)
- an annual review following the end of the year describing the activity compared to the strategy (this report)

The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report is, therefore, important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by members.

This Council confirms that it has complied with the requirement under the Code to give prior scrutiny to all of the above treasury management reports by the Performance, Audit and Governance Scrutiny Committee before they were reported to the full Council.

2. The Council's Capital Expenditure and Financing

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

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

The actual capital expenditure forms one of the required prudential indicators. The table below shows the actual capital expenditure and how this was financed.

£m	2017/18 Actual	2018/19 Budget	2018/19 Actual
Capital expenditure	2.4	6.1	6.2
Financed in year	2.4	6.1	6.2
Unfinanced capital expenditure	0	0	0

3. The Council's Overall Borrowing Need

The Council's underlying need to borrow to finance capital expenditure is termed the Capital Financing Requirement (CFR).

Gross borrowing and the CFR - in order to ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the Council should ensure that its gross external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year (2017/18) plus the estimates of any additional capital financing requirement for the current (2018/19) and next two financial years. This essentially means that the Council is not borrowing to support revenue expenditure. This indicator allowed the Council some flexibility to borrow in advance of its immediate capital needs in 2018/19. The table below highlights the Council's gross borrowing position against the CFR. The Council has complied with this prudential indicator.

	31 March 2018 Actual	31 March 2019 Budget	31 March 2019 Actual
Total CFR	(£23.1m)	(£21.1m)	(£23.1m)
Gross borrowing position	£7.5m	£7.5m	£7.5m

The authorised limit - the authorised limit is the "affordable borrowing limit" required by s3 of the Local Government Act 2003. Once this has been set, the Council does not have the power to borrow above this level. The table below demonstrates that during 2018/19 the Council has maintained gross borrowing within its authorised limit.

The operational boundary – the operational boundary is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the boundary are acceptable subject to the authorised limit not being breached.

Actual financing costs as a proportion of net revenue stream - this indicator identifies the trend in the cost of capital, (borrowing and other long term obligation costs net of investment income), against the net revenue stream.

	2018/19
Authorised limit	£11.7m
Maximum gross borrowing position during the year	£7.5m
Operational boundary	£7.5m
Average gross borrowing position	£7.5m
Financing costs as a proportion of net revenue stream	4.49%

4. Treasury Position as at 31 March 2019

At the beginning and the end of 2018/19 the Council's treasury, (excluding borrowing by PFI and finance leases), position was as follows:

DEBT PORTFOLIO	31 March 2018 Principal	Rate/Return	Average Life yrs	31 March 2019 Principal	Rate/Return	Average Life yrs
Fixed rate funding:						
-PWLB	£1.5m	8.875 %	37	£1.5m	8.875 %	36
-Market	£6.0m	8.785 %	2	£6.0m	8.785 %	1
Variable rate funding:						
-PWLB	£0.00m			£0.00m		
-Market	£0.00m			£0.00m		
Total debt	£7.5m			£7.5m		
CFR	(£23.1m)			(£23.1m)		
Over / (under) borrowing	£7.5m			£7.5m		
Total investments	£65.9m			£60.7m		
Net debt	(£58.4m)			(£53.2m)		

The maturity structure of the debt portfolio was as follows:

	31 March 2018 actual	31 March 2019 actual
Under 12 months	£0.0m	£0.0m
12 months and within 24 months	£0.0m	£6.0m
24 months and within 5 years	£6.0m	£0.0m
5 years and within 10 years	£0.0m	£0.0m
10 years and over	£1.5m	£1.5m

INVESTMENT PORTFOLIO	Actual 31.3.18	Actual 31.3.18 %	Actual 31.3.19	Actual 31.3.19 %
Treasury investments				
Banks	£39.9m	61%	£40.7m	67%
Building Societies - rated	£0.0m	0%	£0.0m	0%
Building Societies – unrated	£0.0m	0%	£0.0m	0%
Local authorities	£6.0m	9%	£0.0m	0%
DMADF (H M Treasury)	£0.0m	0%	£0.0m	0%
Total managed in house	£45.9m		£40.7m	
Property funds	£20.0m	30%	£20.0m	33%
Total managed externally	£20.0m		£20.0m	
TOTAL TREASURY INVESTMENTS	£65.9m	100%	£60.7m	100%

Non Treasury investments				
Wholly owned company (loan)	£0.0m	0%	£0.5m	4%
Wholly owned company (equity share)	£0.0m	0%	£0.3m	2%
Property	£13.4m	100%	£13.6m	94%
TOTAL NON TREASURY INVESTMENTS	£13.4m	100%	£14.4m	100%

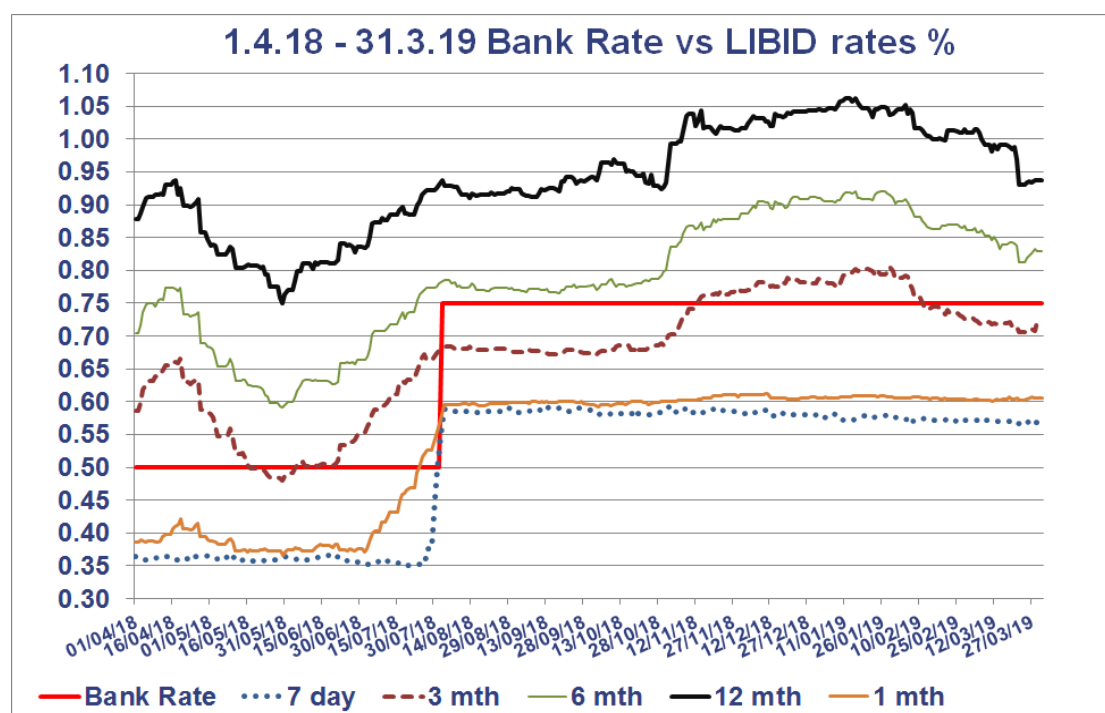
Treasury investments	£65.9m	83%	£60.7m	81%
Non Treasury investments	£13.4m	17%	£14.4m	19%
TOTAL OF ALL INVESTMENTS	79.3m	100%	£75.1m	100%

The maturity structure of the investment portfolio was as follows:

	2017/18 Actual	31 March 2019 Actual
Investments		
Longer than 1 year	£20.0m	£20.0m
Up to 1 year	£45.9m	£40.7m
Total	£65.9m	£60.7m

5. The strategy for 2018/19

4.1 Investment strategy and control of interest rate risk



For authorities that have sufficient cash balances to place longer term investments -

Investment returns remained low during 2018/19. The expectation for interest rates within the treasury management strategy for 2018/19 was that Bank Rate would rise from 0.50% to 0.75%. At the start of 2018-19, and after UK GDP growth had proved disappointingly weak in the first few months of 2018, the expectation for the timing of this increase was pushed back from May to August 2018. Investment interest rates were therefore on a gently rising trend in the first half of the year after April, in anticipation that the MPC would raise Bank Rate in August. This duly happened at the MPC meeting on 2 August 2018. During this period, investments were, therefore, kept shorter term in anticipation that rates would be higher later in the year.

It was not expected that the MPC would raise Bank Rate again during 2018-19 after August in view of the fact that the UK was entering into a time of major uncertainty with Brexit due in March 2019. Value was therefore sought by placing longer term investments after 2 August where cash balances were sufficient to allow this.

Investment rates were little changed during August to October but rose sharply after the MPC meeting of 1 November was unexpectedly hawkish about their perception of building inflationary pressures, particularly from rising wages. However, weak GDP growth data after December, plus increasing concerns generated by Brexit, resulted in investment rates falling back again.

Continued uncertainty in the aftermath of the 2008 financial crisis has promoted a cautious approach whereby investments would continue to be dominated by low counterparty risk considerations, resulting in relatively low returns compared to borrowing rates.

4.2 Borrowing strategy and control of interest rate risk

The Council is currently in a negative CFR position. This means that the capital borrowing need (the Capital Financing Requirement), has not been reached due to the level of the Council's reserves.

A cost of carry remained during the year on any new long-term borrowing that was not immediately used to finance capital expenditure, as it would have caused a temporary increase in cash balances; this would have incurred a revenue cost – the difference between (higher) borrowing costs and (lower) investment returns.

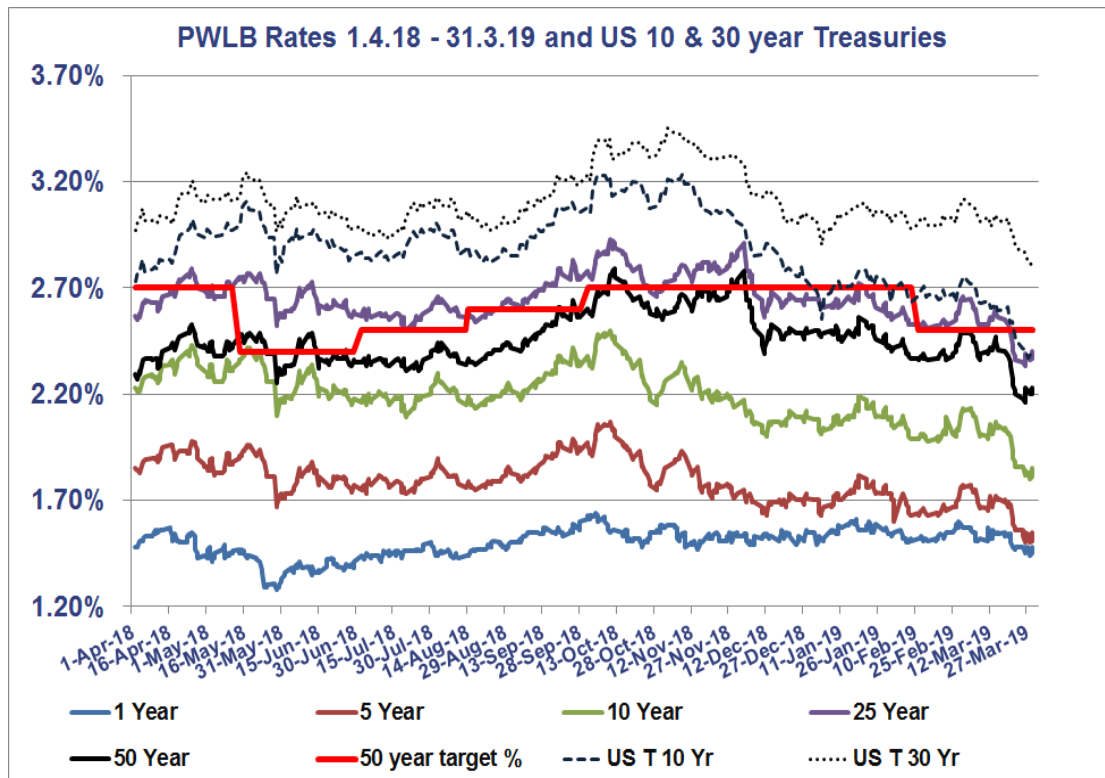
The policy of avoiding new borrowing by running down spare cash balances, has served well over the last few years. However, this was kept under review to avoid incurring higher borrowing costs in the future when this authority may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt.

Against this background and the risks within the economic forecast, caution was adopted with the 2018/19 treasury operations. The Head of Strategic Finance and Property therefore monitored interest rates in financial markets. No decisions were made which resulted in a significant change to the CFR and this Council's need to borrow.

Interest rate forecasts expected only gradual rises in medium and longer term fixed borrowing rates during 2018/19 and the two subsequent financial years. Variable, or short-term rates, were expected to be the cheaper form of borrowing over the period.

Link Asset Services Interest Rate View 2.1.18													
	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Bank Rate	0.50%	0.50%	0.50%	0.50%	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%
5yr PWLB rate	1.60%	1.60%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.10%	2.10%	2.20%	2.30%	2.30%
10yr PWLB rate	2.20%	2.30%	2.40%	2.40%	2.50%	2.60%	2.60%	2.70%	2.70%	2.80%	2.90%	2.90%	3.00%
25yr PWLB rate	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.40%	3.50%	3.50%	3.60%	3.60%
50yr PWLB rate	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%

Link Asset Services Interest Rate View 12.2.18													
	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Bank Rate	0.50%	0.75%	0.75%	1.00%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%	1.50%	1.50%	1.50%
5yr PWLB Rate	1.90%	2.00%	2.10%	2.10%	2.20%	2.30%	2.30%	2.40%	2.40%	2.50%	2.50%	2.60%	2.60%
10yr PWLB Rate	2.50%	2.50%	2.60%	2.70%	2.70%	2.80%	2.80%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%
25yr PWLB Rate	2.80%	2.90%	3.00%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%	3.50%	3.50%	3.60%	3.60%
50yr PWLB Rate	2.60%	2.70%	2.80%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%



Since PWLB rates peaked during October 2018, most PWLB rates have been on a general downward trend, though longer term rates did spike upwards again during December, and, (apart from the 1 year rate), reached lows for the year at the end of March. There was a significant level of correlation between movements in US Treasury yields and UK gilt yields - which determine PWLB rates. The Fed in America increased the Fed Rate four times in 2018, making nine increases in all in this cycle, to reach 2.25% – 2.50% in December. However, it had been giving forward guidance that rates could go up to nearly 3.50%. These rate increases and guidance caused Treasury yields to also move up. However financial markets considered by December 2018, that the Fed had gone too far, and discounted its expectations of further increases. Since then, the Fed has also come round to the view that there are probably going to be no more increases in this cycle. The issue now is how many cuts in the Fed Rate there will be and how soon, in order to support economic growth in the US. But weak growth now also looks to be the outlook for China and the EU so this will mean that world growth as a whole will be weak. Treasury yields have therefore fallen sharply during 2019 and gilt yields / PWLB rates also fell.

6. Borrowing Outturn

Borrowing - No borrowing was undertaken during the year.

Borrowing in advance of need

The Council has not borrowed more than, or in advance of its needs, purely in order to profit from the investment of the extra sums borrowed.

Rescheduling

No rescheduling was done during the year as the average 1% differential between PWLB new borrowing rates and premature repayment rates made rescheduling unviable.

Repayments

No repayments were made by the Council during the year.

7. Investment Outturn

Investment Policy – the Council’s investment policy is governed by MHCLG investment guidance, which has been implemented in the annual investment strategy approved by the Council on 1st March 2018. This policy sets out the approach for choosing investment counterparties, and is based on credit ratings provided by the three main credit rating agencies, supplemented by additional market data, (such as rating outlooks, credit default swaps, bank share prices etc.).

The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.

Investments held by the Council

- The Council maintained an average balance of £68.3m of internally managed funds.
- The internally managed funds earned an average rate of return of 0.75%.
- The comparable performance indicators are 1 Month Uncompounded which was 0.5350% and 3 month Uncompounded which was 0.6753%.
- Total investment income was £1.272m compared to a budget of £1.090m

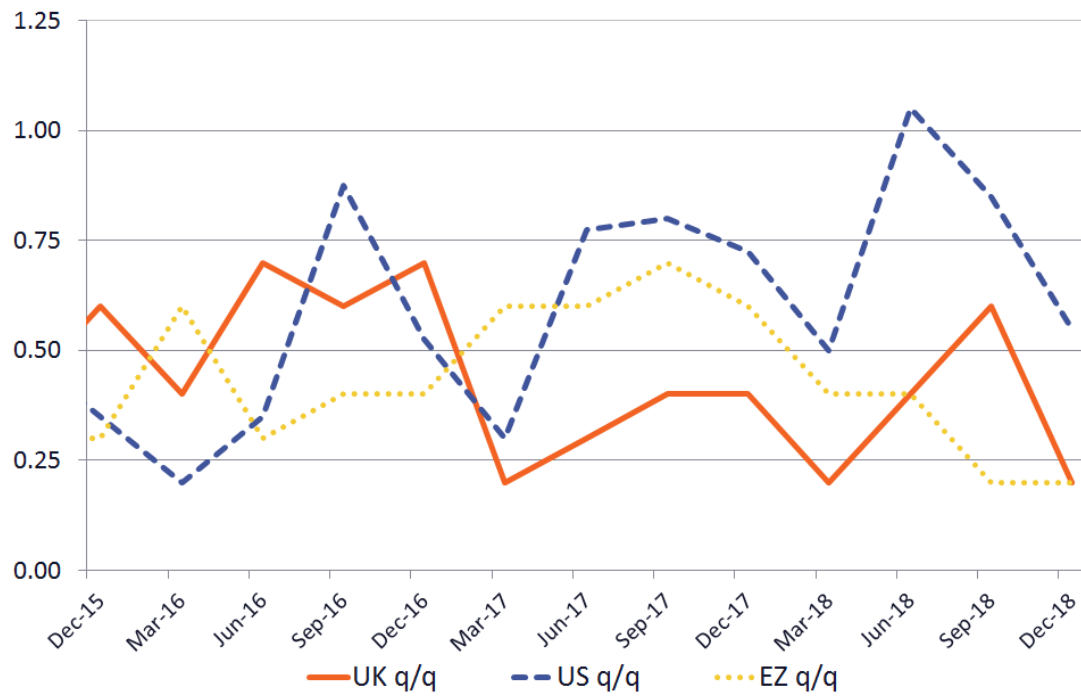
Investments held by fund managers – Property Funds

The Council approved the use of property funds up to a value of £20m, at the time of investment. Working with our advisors Capita Asset Services, two funds were chosen, Lothbury Property Trust and Hermes Property Unit Trust. Both funds had waiting lists to invest. The invitation to invest in the Lothbury fund arose in June 2015 and the Hermes fund in December 2015. The performances of these funds for 2018/19 are detailed below:

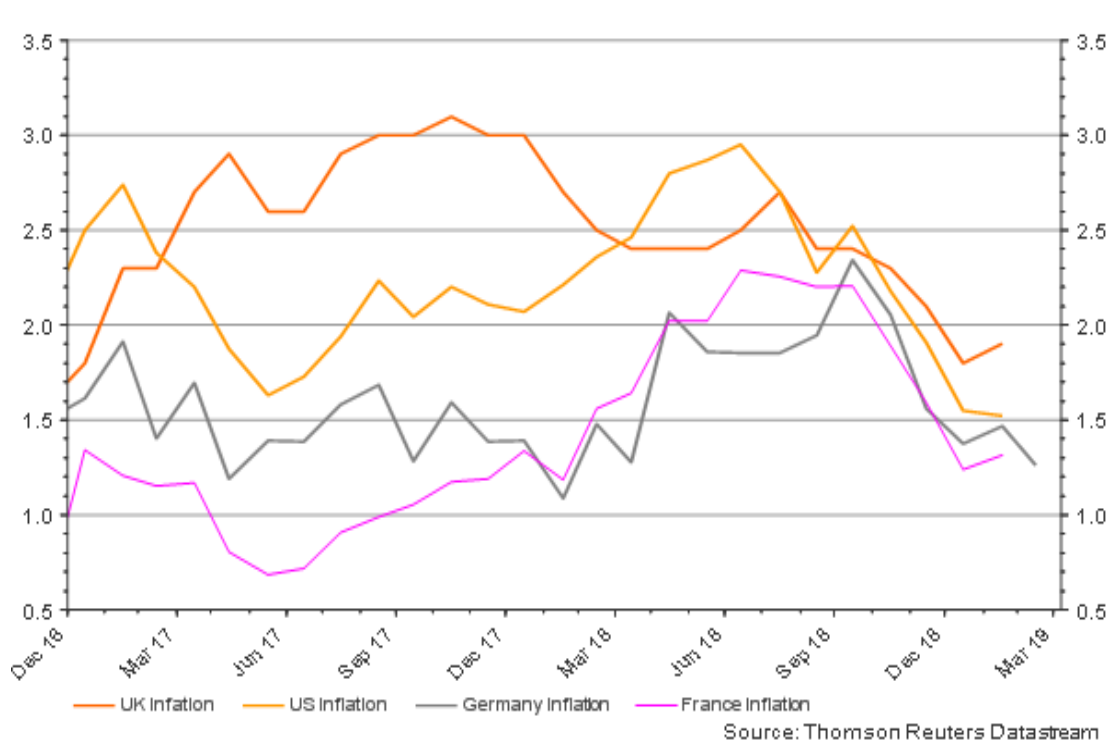
Fund Manager	Investments Held	Return
Lothbury Property Trust	£10.0m	3.38% (Net)
Hermes Property Unit Trust	£10.0m	3.84% (Net)
Total	£20.0m	3.61% (Net)

Appendix 1: Graphs

UK, US and EZ GDP growth

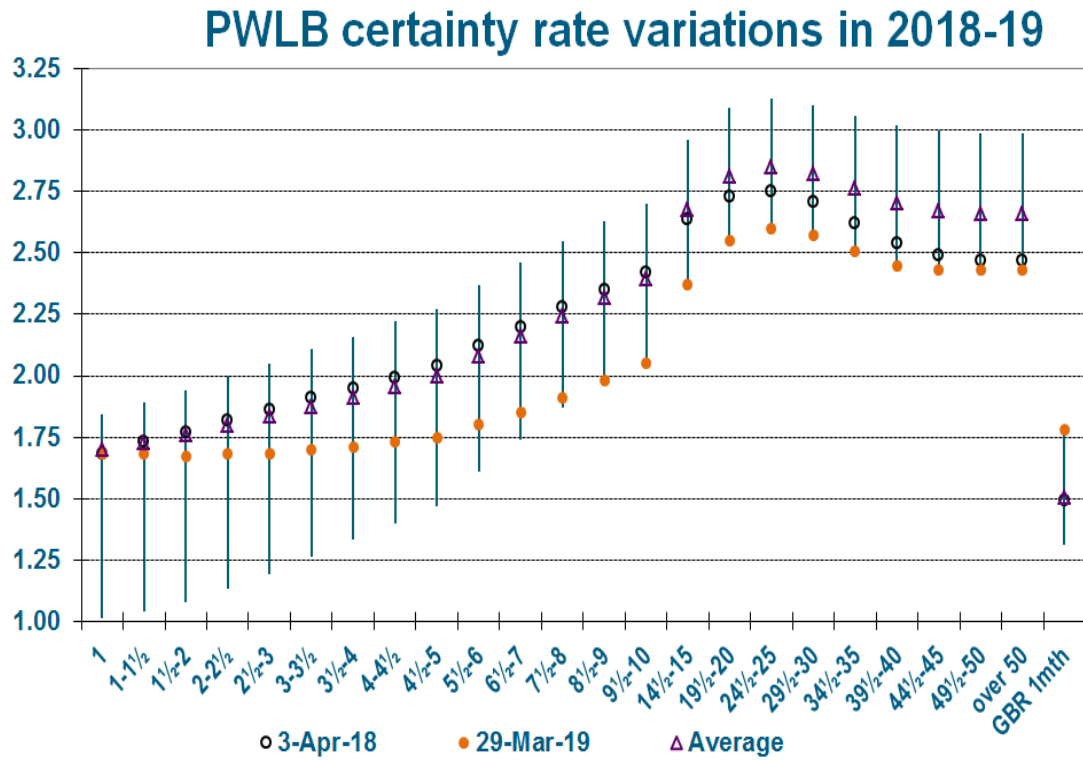


Inflation UK, US, Germany and France



Appendix 3: Borrowing and investment rates

a) PWLB borrowing rates



	1 Year	5 Year	10 Year	25 Year	50 Year
02/04/2018	1.48%	1.85%	2.23%	2.57%	2.29%
29/03/2019	1.48%	1.55%	1.85%	2.40%	2.23%
Low	1.28%	1.50%	1.80%	2.33%	2.16%
Date	29/05/2018	26/03/2019	28/03/2019	26/03/2019	26/03/2019
High	1.64%	2.07%	2.50%	2.93%	2.79%
Date	04/10/2018	10/10/2018	10/10/2018	10/10/2018	12/10/2018
Average	1.50%	1.80%	2.20%	2.66%	2.47%

b) Money market investment rates and forecasts 2018/19

	Bank Rate	7 day	1 mth	3 mth	6 mth	12 mth
01/04/2018	0.50	0.36	0.39	0.59	0.70	0.88
31/03/2019	0.75	0.57	0.61	0.72	0.83	0.94
High	0.75	0.59	0.61	0.81	0.92	1.06
High Date	02/08/2018	01/11/2018	10/12/2018	29/01/2019	15/01/2019	11/01/2019
Low	0.50	0.35	0.37	0.48	0.59	0.75
Low Date	01/04/2018	19/07/2018	30/05/2018	30/05/2018	30/05/2018	30/05/2018
Average	0.67	0.51	0.54	0.68	0.79	0.94
Spread	0.25	0.24	0.25	0.33	0.33	0.31

Link Asset Services Interest Rate View 7.11.17														
	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Bank Rate	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%
3 Month LIBID	0.40%	0.40%	0.40%	0.40%	0.60%	0.60%	0.60%	0.70%	0.90%	0.90%	1.00%	1.20%	1.20%	1.20%
6 Month LIBID	0.50%	0.50%	0.50%	0.60%	0.80%	0.80%	0.80%	0.90%	1.00%	1.00%	1.10%	1.30%	1.30%	1.40%
12 Month LIBID	0.70%	0.80%	0.80%	0.90%	1.00%	1.00%	1.10%	1.10%	1.30%	1.30%	1.40%	1.50%	1.50%	1.60%

Link Asset Services Interest Rate View 2.1.18													
	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Bank Rate	0.50%	0.50%	0.50%	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%
3 Month LIBID	0.40%	0.40%	0.40%	0.60%	0.60%	0.60%	0.70%	0.90%	0.90%	1.00%	1.20%	1.20%	1.20%
6 Month LIBID	0.50%	0.50%	0.60%	0.80%	0.80%	0.80%	0.90%	1.00%	1.00%	1.10%	1.30%	1.30%	1.40%
12 Month LIBID	0.80%	0.80%	0.90%	1.00%	1.00%	1.10%	1.10%	1.30%	1.30%	1.40%	1.50%	1.50%	1.60%

Link Asset Services Interest Rate View 12.2.18													
	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Bank Rate	0.50%	0.75%	0.75%	1.00%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%	1.50%	1.50%	1.50%
3 Month LIBID	0.40%	0.70%	0.70%	0.90%	0.90%	0.90%	0.90%	1.20%	1.20%	1.20%	1.40%	1.40%	1.40%
6 Month LIBID	0.50%	0.80%	0.80%	1.00%	1.00%	1.00%	1.10%	1.30%	1.30%	1.40%	1.50%	1.50%	1.50%
12 Month LIBID	0.80%	1.10%	1.10%	1.20%	1.20%	1.20%	1.30%	1.40%	1.40%	1.50%	1.70%	1.70%	1.70%

EAST HERTS COUNCIL

PERFORMANCE, AUDIT AND GOVERNANCE OVERSIGHT COMMITTEE –
29 OCTOBER 2019

REPORT BY EXECUTIVE MEMBER FOR FINANCIAL SUSTAINABILITY

TREASURY MANAGEMENT MID-YEAR REVIEW 2019-20

WARD(S) AFFECTED: NONE

Purpose/Summary of Report

- The report reviews the Council's treasury management activities for the first 6 months of 2019/20 financial year, including the prudential indicators.

<u>RECOMMENDATION FOR PERFORMANCE, AUDIT AND GOVERNANCE OVERSIGHT COMMITTEE: That</u>	
(A)	The report be noted; and
(B)	The Executive be advised that the treasury management activity and recommended changes to the prudential indicators for the first 6 months of the 2019/20 financial year, be approved.

1.0 Background

1.1 Treasury management is defined as: 'The management of the Council's investments and cash flows, its banking arrangements, money market and capital transactions; the effective control of the risks associated with these activities; and the pursuit of optimum returns consistent with the Council's risk management policy for treasury management.'

1.2 This activity is supported by the council's appointed independent advisors – Link Asset Services.

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

1.4 The Council is required by the CIPFA Prudential Code to approve an annual review following the end of the year describing the activity compared to the strategy.

2.0 Report

2.1 Please refer to the Treasury Management Mid-Year Review, **Essential Reference Paper 'B'**: Treasury Management Mid-Year Review 2019-20.

3.0 Implications/Consultations

3.1 Information on any corporate issues and consultation associated with this report can be found within **Essential Reference Paper 'A'**.

Background Papers

CIPFA Code of Practice on Treasury Management (2017)

CIPFA Prudential Code for Capital Finance in Local Authorities (2017)

Contact Member: Councillor Geoffrey Williamson, Executive Member for Financial Sustainability.
geoffrey.williamson@eastherts.gov.uk

Contact Officer: Isabel Brittain, Head of Strategic Finance and Property, Tel: 01279 502050.
isabel.brittain@eastherts.gov.uk

Report Author: Nicola Munro, Finance Business Partner, Tel: 01279 502044.
nicola.munro@eastherts.gov.uk

ESSENTIAL REFERENCE PAPER 'A'

IMPLICATIONS/CONSULTATIONS

Contribution to the Council's Corporate Priorities/ Objectives:	Priority 1 – Improve the health and wellbeing of our communities Priority 2 – Enhance the quality of people's lives Priority 3 – Enable a flourishing local economy
Consultation:	Not Applicable
Legal:	There are no legal implications.
Financial:	Within the body of the report.
Human Resource:	There are no Human Resources implications.
Risk Management:	Within the body of the report.
Health and wellbeing – issues and impacts:	There are no Health and Wellbeing issues raised as part of this report.
Equality, diversity and human rights considerations, and whether Equality Impact Assessment required:	There are no equality, diversity and human rights implications.
Environmental Sustainability	There are no environmental sustainability implications raised as part of this report.

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**East Herts District
Council Treasury
Management Strategy
Statement and Annual
Investment Strategy**

**Mid-Year Review Report
2019/20**

1. Background

1.1 Capital Strategy

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

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

A report setting out our Capital Strategy was taken to the full council on 5th March 2019.

1.2 Treasury management

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

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

Accordingly, treasury management is defined as:

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

2. Introduction

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

The primary requirements of the Code are as follows:

1. Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.
2. Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.
3. Receipt by the full council of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a Mid-year Review Report and an Annual Report, (stewardship report), covering activities during the previous year.
4. Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.
5. Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body. For this Council the delegated body is Performance, Audit and Governance Oversight Committee:

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.

3. Economics and interest rates

3.1 Economics update

UK. This first half year has been a time of upheaval on the political front as Theresa May resigned as Prime Minister to be replaced by Boris Johnson on a platform of the UK leaving the EU on or 31 October, with or without a deal. However, in September, his proroguing of Parliament was overturned 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. So far, there has been no majority of MPs for any one option to move forward on enabling Brexit to be implemented. At the time of writing, (first week in October), the whole Brexit situation is highly fluid and could change radically by the day. Given these circumstances and the likelihood of an imminent general election, any interest rate forecasts are subject to material change as the situation evolves. If the UK does soon achieve a deal on Brexit agreed with the EU, including some additional clarification wording on the Irish border backstop, then it is possible that growth could recover relatively quickly. The MPC could then need to address the issue of whether to raise Bank Rate when there is very little slack left in the labour market; this could cause wage inflation to accelerate which would then feed through into general inflation. On the other hand, if there was a no deal Brexit and there was a significant level of disruption to the economy, then growth could weaken even further than currently and the MPC would be likely to cut Bank Rate in order to support growth. However, with Bank Rate still only at 0.75%, it has relatively little room to make a big impact and the MPC would probably suggest that it would be up to the Chancellor to provide help to support growth by way of a fiscal boost by e.g. tax cuts, increases in government departments and services annual expenditure budgets and expenditure on infrastructure projects, to boost the economy.

The first half of 2019/20 has seen UK **economic growth** fall as Brexit uncertainty took a toll. In its Inflation Report of 1 August, the Bank of England was notably downbeat about the outlook for both the UK and major world economies. The MPC meeting of 19 September reemphasised their concern about the downturn in world growth and also expressed concern that the prolonged Brexit uncertainty would contribute to a build-up of spare capacity in the UK economy, especially in the context of a downturn in world growth. This mirrored investor concerns around the world which are now expecting a significant downturn or possibly even a recession in some major developed economies. It was therefore no surprise that the Monetary Policy Committee (MPC) left Bank Rate unchanged at 0.75% throughout 2019, so far, and is expected to hold off on changes until there is some clarity on what is going to happen over Brexit. However, it is also worth noting that 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.

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

With regard to the **labour market**, despite the contraction in quarterly GDP growth of -0.2%q/q, (+1.3% y/y), in quarter 2, employment continued to rise, but at only a muted rate of 31,000 in the three months to July after having risen by no less than 115,000 in quarter 2 itself: the latter figure, in particular, suggests that firms are preparing to expand output and suggests there could be a return to positive growth in quarter 3. Unemployment continued at a 44 year low of 3.8% on the Independent Labour Organisation measure in July and the participation rate of 76.1% achieved a new all-time high. Job vacancies fell for a seventh consecutive month after having previously hit record levels. However, with unemployment continuing to fall, this month by 11,000, employers will still be having difficulty filling job vacancies with suitable staff. It was therefore unsurprising that wage inflation picked up to a high point of 3.9% in June before easing back slightly to 3.8% in July, (3 month average regular pay, excluding bonuses). This meant that in real terms, (i.e. wage rates higher than CPI inflation), earnings grew by about 2.1%. As the UK economy is very much services sector driven, an increase in household spending power is likely to feed through into providing some support to the overall rate of economic growth in the coming months. The latest GDP statistics also included a revision of the savings ratio from 4.1% to 6.4% which provides reassurance that consumers' balance sheets are not over stretched and so will be able to support growth going forward. This would then mean that the MPC will need to consider carefully at what point to take action to raise Bank Rate if there is an agreed Brexit deal, as the recent pick-up in wage costs is consistent with a rise in core services inflation to more than 4% in 2020.

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

USA. President Trump's massive easing of fiscal policy in 2018 fuelled a temporary boost in consumption in that year which generated an upturn in the rate of strong growth to 2.9% y/y. Growth in 2019 has been falling back after a strong start in quarter 1 at 3.1%, (annualised rate), to 2.0% in quarter 2. Quarter 3 is expected to fall further. The strong growth in employment numbers during 2018 has reversed into a falling trend during 2019, indicating that the economy is cooling, while inflationary pressures are also weakening. The Fed finished its series of increases in rates to 2.25 – 2.50% in December 2018. In July 2019, it cut rates by 0.25% as a 'midterm adjustment' but flagged up that this was not to be seen as the start of a series of cuts to ward off a downturn in growth. It also ended its programme of quantitative tightening in August, (reducing its holdings of treasuries etc). It then cut rates again in September to 1.75% - 2.00% and is thought likely to cut another 25 bps in December. Investor confidence has been badly rattled by the progressive ramping up of increases in tariffs President Trump has made on Chinese imports and China has responded with increases in tariffs on American imports. This trade war is seen as depressing US, Chinese and world growth. In the EU, it is also particularly impacting Germany as exports of goods and services are equivalent to 46% of total GDP. It will also impact developing countries dependent on exporting commodities to China.

EUROZONE. Growth has been slowing from +1.8 % during 2018 to around half of that in 2019. Growth was +0.4% q/q (+1.2% y/y) in quarter 1 and then fell to +0.2% q/q (+1.0% y/y) in quarter 2; there appears to be little upside potential to the growth rate in the rest of 2019. German GDP growth fell to -0.1% in quarter 2; industrial production was down 4% y/y in June with car production down 10% y/y. Germany would be particularly vulnerable to a no deal Brexit depressing exports further and if President Trump imposes tariffs on EU produced cars. The European Central Bank (ECB) ended its programme of quantitative easing purchases of debt in December 2018, which 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. On the political front, Austria, Spain and Italy are in the throes of forming coalition governments with some unlikely combinations of parties i.e. this raises questions around their likely endurance. The recent results of two German state elections will put further pressure on the frail German CDU/SDP coalition government.

CHINA. Economic growth has been weakening over successive years, despite repeated rounds of central bank stimulus; medium term risks are increasing. Major progress still needs to be made to eliminate excess industrial capacity and the stock of unsold property, and to address the level of non-performing loans in the banking and credit systems. Progress also still needs to be made to eliminate excess industrial capacity and to switch investment from property construction and infrastructure to consumer goods production. The trade war with the US does not appear currently to have had a significant effect on GDP growth as some of the impact of tariffs has been offset by falls in the exchange rate and by transshipping exports through other countries, rather than directly to the US.

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 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. The latest PMI survey statistics of economic health for the US, UK, EU and China have all been sub 50 which gives a forward indication of a downturn in growth; this confirms investor sentiment that the outlook for growth during the rest of this financial year is weak.

3.2 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	2.20	2.30	2.50	2.60	2.70	2.70	2.80	2.90	3.00	3.00	3.10
10yr PWLB Rate	2.50	2.60	2.80	2.90	3.00	3.00	3.10	3.20	3.30	3.30	3.40
25yr PWLB Rate	3.10	3.30	3.40	3.50	3.60	3.70	3.70	3.80	3.90	4.00	4.00
50yr PWLB Rate	3.00	3.20	3.30	3.40	3.50	3.60	3.60	3.70	3.80	3.90	3.90

The above forecasts have been based on an assumption that there is some sort of muddle through to an agreed deal on Brexit at some point in time. Given the current level of uncertainties, this is a huge assumption and so forecasts may need to be materially reassessed in the light of events over the next few weeks or months.

It has been little surprise that the Monetary Policy Committee (MPC) has left Bank Rate unchanged at 0.75% so far in 2019 due to the ongoing uncertainty over Brexit. In its meeting on 1 August, the MPC became more dovish as it was more concerned about the outlook for both the global and domestic economies. That's shown in the policy statement, based on an assumption that there is an agreed deal on Brexit, where the suggestion that rates would need to rise at a "gradual pace and to a limited extent" is now also conditional on "some recovery in global growth". Brexit uncertainty has had a dampening effect on UK GDP growth in 2019, especially around mid-year. If there were a no deal Brexit, then it is likely that there will be a cut or cuts in Bank Rate to help support economic growth. The September MPC meeting sounded even more concern about world growth and the effect that prolonged Brexit uncertainty is likely to have on growth.

Bond yields / 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. (A doom loop would occur where the credit rating of the debt of a nation was downgraded which would cause bond prices to fall, causing losses on debt portfolios held by banks and insurers, so reducing their capital and forcing them to sell bonds – which, in turn, would cause further falls in their prices etc.). In addition, the financial viability of pension funds could be damaged by low yields on holdings of bonds.

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**. In 2018, Italy was a major concern due to having a populist coalition government which made a lot of anti-austerity and anti-EU noise. However, in September 2019 there was a major change in the coalition governing Italy which has brought to power a much more EU friendly government; this has eased the pressure on Italian bonds. Only time will tell whether this new 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.** Austria, 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.

Society of District Council Treasurers (SDCT) and Head of Strategic Finance and Properties update on the recent PWLB rate rise

Following the unexpected news regarding the PWLB interest rate rise last week Society of District Council Treasurers (SDCT) have had discussions with the Treasury and MHCLG officials to try to understand the rationale behind the decision and the potential impact it may have.

In terms of the rationale, the treasury is concerned about the significant increase in borrowing over the last 12 months and the risk that the overall borrowings limit could be reached. The maximum net amount of PWLB loans that can be outstanding at any time is subject to a statutory limit. In order to ensure that lending continues to be available for local authorities that need it, the Government has legislated to increase the lending limit from £85bn to £95bn. The Treasury aim is to slow the pace of borrowing but not cut off LA activity completely. The rate increase will apply indefinitely but will be kept under review.

There is an expectation that market rates will increase to broadly mirror PWLB rates, so they are likely to increase to at or slightly below the new rates. However, Treasury Advisors don't seem to agree with this assessment.

There doesn't appear to have been an impact assessment carried to understand the impact the increase may have on local authority capital schemes – particularly those linked to housing or regeneration initiatives which are government priorities. We have asked whether there is any scope for a bigger discount for specific types of project, similar to the current Local Infrastructure Rate. The Treasury are open to considering this but we must provide evidence of schemes that may not happen as a result of the rate rise. The LGA will also be supporting us in making the case to Treasury and MHCLG.

There will be no impact on East Herts District Council's existing loans of £7.5m as these have a fixed rate of interest.

The Council has a number of major projects for delivery in the medium term which will require financing. Our business plans currently take account of the interest rate rise but should it increase any further this may impact our ability to deliver.

Borrowing from PWLB will be driven by the timeframe of the current projects in our capital programme, but it is unlikely we would be requesting any borrowing from PWLB before April 2021.

For clarification there is no single PWLB loan rate. Rates are dependent on time frame (years) and individual council's rights to certainty rates. All current business plans take a prudent approach to borrowing so there is no immediate concern for East Herts.

4. Treasury Management Strategy Statement and Annual Investment Strategy Update

The Treasury Management Strategy Statement, (TMSS), for 2019/20 was approved by this Council on 5th March 2019.

- The underlying TMSS approved previously requires revision in the light of economic and operational movements during the year, mainly due to the re-profiling of capital spend with the need to borrow no longer expected in 2019/20. The proposed changes and supporting detail for the changes are set out below:

Prudential Indicator 2019/20	Original £m	Revised Prudential Indicator £m
Authorised Limit	£41.0m	£11.5m
Operational Boundary	£31.0m	£7.5m
Capital Financing Requirement	£31.0m	(£12.7m)

5. The Council's Capital Position (Prudential Indicators)

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.

5.1 Prudential Indicator for Capital Expenditure

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

Capital Expenditure by Service	2019/20 Original Estimate	Current Position	2019/20 Revised Estimate
Services	£40.6m	£1.9m	£9.3m
Commercial activities / non-financial investments	£19.8m	£2.3m	£6.2m
Total capital expenditure	£60.4m	£4.2m	£15.5m

There has been significant re-profiling of the capital programme for 2019/20, in particular around the major projects, as cost consultants have been able to more accurately predict spend profiles across future financial years.

5.2 Changes to the Financing of the Capital Programme

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). This direct borrowing need may also be supplemented by maturing debt and other treasury requirements.

Capital Expenditure	2019/20 Original Estimate		2019/20 Revised Estimate
Total capital expenditure	£60.4m		£15.5m
Financed by:			
Capital receipts	(£0.8m)		(£3.0m)
Capital grants	(£4.9m)		(£2.1m)
Capital reserves	(£0.3m)		(£0.0m)
Revenue	(£0.0m)		(£0.0m)
Total financing	(£6.0m)		(£5.1m)
Borrowing requirement	£54.4m		£10.4m

5.3 Changes to the Prudential Indicators for the Capital Financing Requirement (CFR), External Debt and the Operational Boundary

The table below 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.

Prudential Indicator – Capital Financing Requirement

A reduction in capital spend for 2019/20, has significantly reduced the adjustment to the capital financing requirement, moving to a no borrowing requirement position.

Prudential Indicator – the Operational Boundary for external debt

	2019/20 Original Estimate		2019/20 Revised Estimate
Prudential Indicator – Capital Financing Requirement			
Total CFR	(£23.1m)		(£23.1m)
Net movement in CFR	£54.1		£10.4m
Prudential Indicator – the Operational Boundary for external debt			
Borrowing	£31.0m		£7.5m
Other long term liabilities*	£0.0m		£0.0m
Total debt (year end position)	£31.1m		£7.5m

* Includes Finance leases etc.

5.4 Limits to Borrowing Activity

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 2019/20 and 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.

	2019/20 Original Estimate £m		2019/20 Revised Estimate £m
Borrowing	£31.0m		£7.5m
Other long term liabilities*	£0.0m		£0.0m
Total debt	£31.0m		£7.5m
CFR* (year end position)	£31.0m		(£12.7m)

* Includes finance leases etc.

The Head of Strategic Finance and Property reports that no difficulties are envisaged for the current or future years in complying with this revised prudential indicator.

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.

Authorised limit for external debt	2019/20 Original Indicator		2019/20 Revised Indicator
Borrowing	£36.0m		£9.5m
Other long term liabilities*	£5.0m		£2.0m
Total	£41.0m		£11.5m

* Includes finance leases etc.

6. Investment Portfolio 2019/20

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 3.2, 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. The continuing potential for a re-emergence of a Eurozone sovereign debt crisis, and its impact on banks, prompts a low risk and short term strategy. 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.

The Council held £62.4m of investments as at 30th September 2019 (£60.7m at 31 March 2019).

The Head of Strategic Finance and Property confirms that the approved limits within the Annual Investment Strategy were not breached during the first 6 months of 2019/20.

The Council's budgeted investment return for 2019/20 is £990K, and performance for the year to date is an estimated £100K above budget.

Investment Counterparty criteria

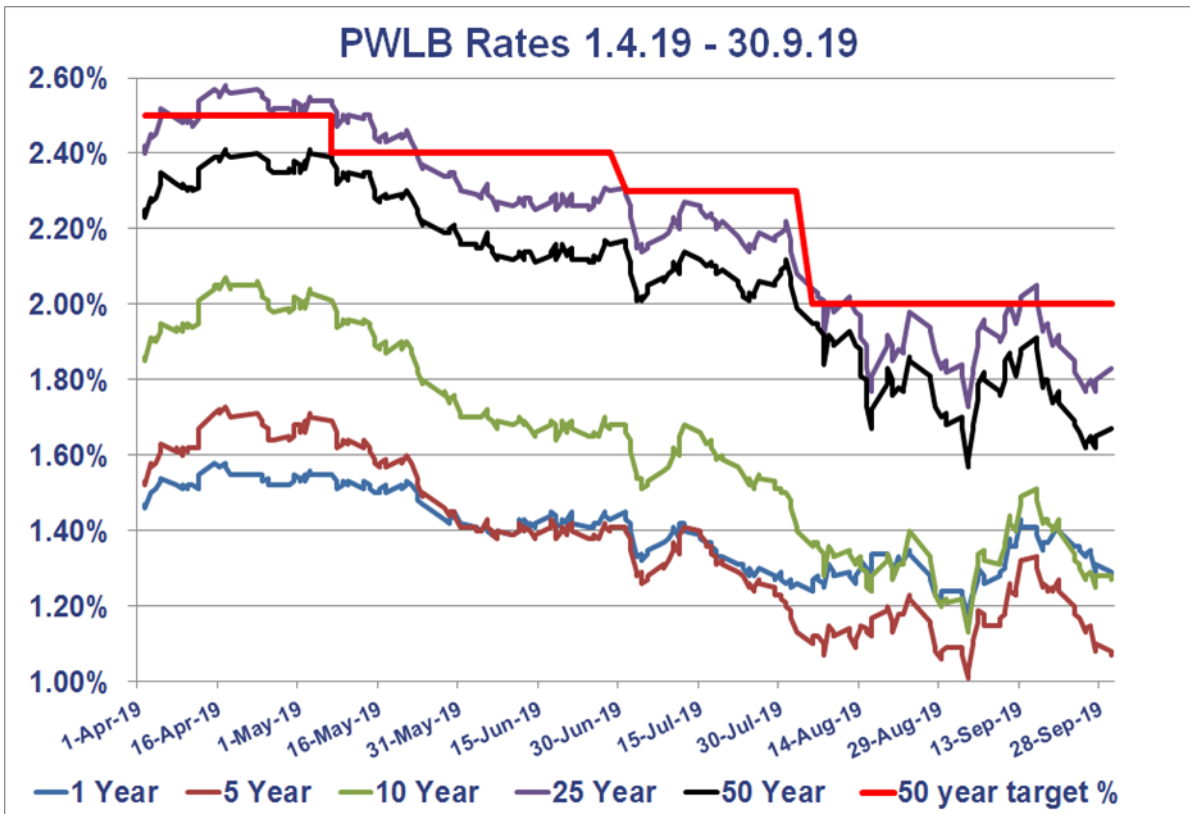
The current investment counterparty criteria selection approved in the TMSS is meeting the requirement of the treasury management function.

7. Borrowing

The Council's capital financing requirement (CFR) for 2019/20 is (£23.1m). 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. Table 5.4 shows the Council has borrowings of £7.5m.

The Council is currently in a negative CFR position. This means that the capital borrowing need (the Capital Financing Requirement), has not been reached due to the level of the Council's reserves. It is therefore anticipated that further borrowing will not be undertaken during this financial year.

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

8. Debt Rescheduling

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

APPENDIX 1: Approved countries for investments as at 30.9.19

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

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EAST HERTS COUNCIL

PERFORMANCE, AUDIT AND GOVERNANCE OVERSIGHT COMMITTEE
- 29 OCTOBER 2019

REPORT BY PORTFOLIO HOLDER FOR PLANNING AND GROWTH

REPORT TITLE - UPDATE ON ECONOMIC DEVELOPMENT

WARD(S) AFFECTED: ALL

Purpose/Summary of Report

- To provide an update on the Economic Development Vision for East Herts

<u>RECOMMENDATION/S FOR PERFORMANCE, AUDIT AND GOVERNANCE OVERSIGHT COMMITTEE: That:</u>	
(A)	The Committee notes progress against the Economic Development Vision
(B)	Any recommendations the committee wishes to make should be conveyed to the Portfolio Holder and/or relevant officer as appropriate.

1.0 Background

1.1 On 6th December 2016 East Herts Council's Executive agreed a new economic development vision. The document can be found here:

https://cdn-eastherts.onwebcurl.com/s3fs-public/documents/EER.001_Economic_Development_Vision_for_East_Herts.pdf

1.2 Annual updates on economic development are provided to Committee every autumn. The original plan covered the period 2016/17 – 2019/20 and will come to an end on 31 March 2020.

This update therefore looks back at progress across the last 3 years.

1.3 Following elections in May 2019, a new set of corporate priorities will be developed and agreed for implementation from 1 April 2020. Progress on the economic development vision along with key learning will be used to inform those new priorities.

2.0 Report

2.1 The economic development vision was developed throughout 2016. It was designed to set out the challenges faced in East Herts and identify tangible areas in which East Herts Council could, either in isolation or working with partners, make a difference. The vision was also used to inform a restructure of the economic development service. This moved the team away from a 'hands-off' approach based mostly on commissioning services towards more direct intervention.

2.2 The vision is based on six themes and a high level summary of progress against each follows. A fully detailed assessment of progress can be found at **Essential Reference Paper B**.

2.3 A business friendly council: This theme was very much about how the council supports businesses in its capacity as a public sector body (e.g. Through regulatory services and business rates). Progress has been made against the individual objectives however this will remain a priority going forward. Although East Herts does not set business rates we are the authority responsible for collecting them. We therefore have a close relationship with our business community and need to be transparent and accountable as well as being supportive where possible. A strong example is the discretionary business rate grant scheme which has just been relaunched and has so far helped 18 businesses in the district to open up new premises.

- 2.4 Enabling entrepreneurs and business start-ups: This is the theme where most progress has been made. The council's economic development function has moved from a minimalist position to one of direct intervention. The Launchpad is the council's economic development anchor project. The success of this of flexible working facility in Bishop's Stortford (with a new facility recently opening in Ware) has proved that the council has a role to play in addressing market failure. Equally it has enabled the economic development team to build up expertise and experience in running business support facilities thus ensuring the council stays relevant in the context of economic growth.
- 2.5 Supporting the rural economy: This theme was largely based around administering the EU funded rural development programme. East Herts has acted as the accountable body for this fund over 2 rounds (2011 – 2015 and 2015 – 2019). Many rural businesses have benefitted from additional investment however there remains a crucial challenge in future. After Brexit there will be no more EU funding and details on the UK Shared Prosperity Fund (a domestic replacement to European structural funding) are unlikely to be finalised until after Brexit. Finding ways to continue to support rural businesses will be a key consideration going forward.
- 2.6 Vibrant Town Centres: it is reasonable to say that, despite much activity in this area the changing nature of our high streets remains a strong challenge. Like many places elsewhere the balance of retail, residential, catering and hospitality provision in our town centres is changing with the retail sector struggling in particular. News coverage of many well-known national chains going into administration or 'restructuring' their business model demonstrates the challenges are not just confined to small, independent shops. Rents and business rates (both outside of the control of the district council) are often blamed as one cause although the enormous growth in online retail is equally significant. The economic development team are often asked to intervene

when shops close down however at an individual level we can do very little. The role of the district council in town centres is arguably more through place making and as a planning authority – our key projects such as Old River Lane in Bishop’s Stortford and Hertford Theatre expansion will make the most significant impact on the overall viability of town centres as will joint working and masterplanning with developers on key sites.

- 2.7 Supporting the visitor economy: Tourism investment in the district is often overlooked. Visit Herts data indicates that businesses in East Herts benefit a great deal from day visit and overnight spend in the district. The council has a role to play in promoting these venues and supporting businesses in the local supply chain. Although the data produced by Visit Herts suffers from an 18 month time lag, trends indicate the visitor economy is of growing importance to the district.
- 2.8 Lobbying for the right infrastructure: This theme relates to working with key partners to ensure investment in infrastructure is realised to support housing and economic growth. Since the vision was agreed the council has adopted the District Plan which is a hugely significant document in ensuring the district grows sustainably and retains a local employment base (i.e. doesn’t just become a commuter area). Many of these projects are long term and will remain priorities after 31 March 2020.
- 2.9 In summary there has been strong progress against many of the objectives set out in the 2016 vision. The economic development function is in a much stronger position that it was in terms of skills and capacity which bodes well for the future. It is clear, however that issues which were challenges in 2016 still remain and these will need to be considered with the council’s new corporate plan. Equally, additional challenges regarding economic development have also become more acute.

- 2.10 Employment space is probably the single largest issue facing East Herts (and many other areas nationally). The East Herts District Plan outlines the need for 18,000 new dwellings up to 2033 alongside an additional 20 hectares of employment space. This is based on the assumption that East Herts will remain a net exporter of skilled workers to other areas but also that this level of employment space is necessary to sustain the district as a viable “place” in its own right (i.e. not just one large housing estate). This assumption is reasonable as there has been a steady decrease in available employment land in the district for the last 10 – 15 years (due to the development market being heavily skewed in favour of residential development).
- 2.11 The Herts LEP commissioned a study into the net loss of employment space in the county with the alarming conclusion that 771,000 sq. m. has been lost over the past decade (to put in context this is the total office stock in St Albans, Watford and Welwyn Garden City combined). For East Herts there has been a net reduction in office space of 176,000 sq. m. to 140,000 sq. m. Industrial space has seen a reduction 658,000 sq. m. to 567,000 sq. m. over the same period (losses of 20% in office space and 14% industrial respectively). So, whilst allocation of 20 ha of new employment space is welcome it is possible there will still be a net reduction overall. The LEP report can be found here: <https://www.hertfordshirelep.com/news-events/news/dramatic-loss-of-office-space-has-major-implications-for-hertfordshire-s-economy/>
- 2.12 New economic development priorities are likely to focus on how we ensure current employment land is protected in the district from speculative development and that new employment land is actually built.

3.0 Implications/Consultations

- 3.1 Information on any corporate issues and consultation associated with this report can be found within **Essential Reference Paper 'A'**.

Background Papers

- Update on Actions – ERP B

Contact Member: Cllr Jan Goodeve – Portfolio Holder for Planning and Growth
jan.goodeve@eastherts.gov.uk

Contact Officer: Ben Wood – Head of Communications, Strategy and Policy
Contact Tel No: 01992 531699 (ext. 1699)
benjamin.wood@eastherts.gov.uk

Report Author: Ben Wood – Head of Communications, Strategy and Policy
Contact Tel No: 01992 531699 (ext. 1699)
benjamin.wood@eastherts.gov.uk

IMPLICATIONS/CONSULTATIONS

Contribution to the Council's Corporate Priorities/ Objectives <i>(delete as appropriate)</i> :	Priority 3 – Enable a flourishing local economy
Consultation:	<i>None</i>
Legal:	<i>None</i>
Financial:	<i>None</i>
Human Resource:	<i>None</i>
Risk Management:	<i>None</i>
Health and wellbeing – issues and impacts:	<i>None</i>
Equality, diversity and human rights considerations, and whether Equality Impact Assessment required:	<i>EIA not required as this is only an update on a previously agreed strategy (which did have an EIA undertaken when it was signed off)</i>
Environmental Sustainability	<i>None</i>

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ERP B

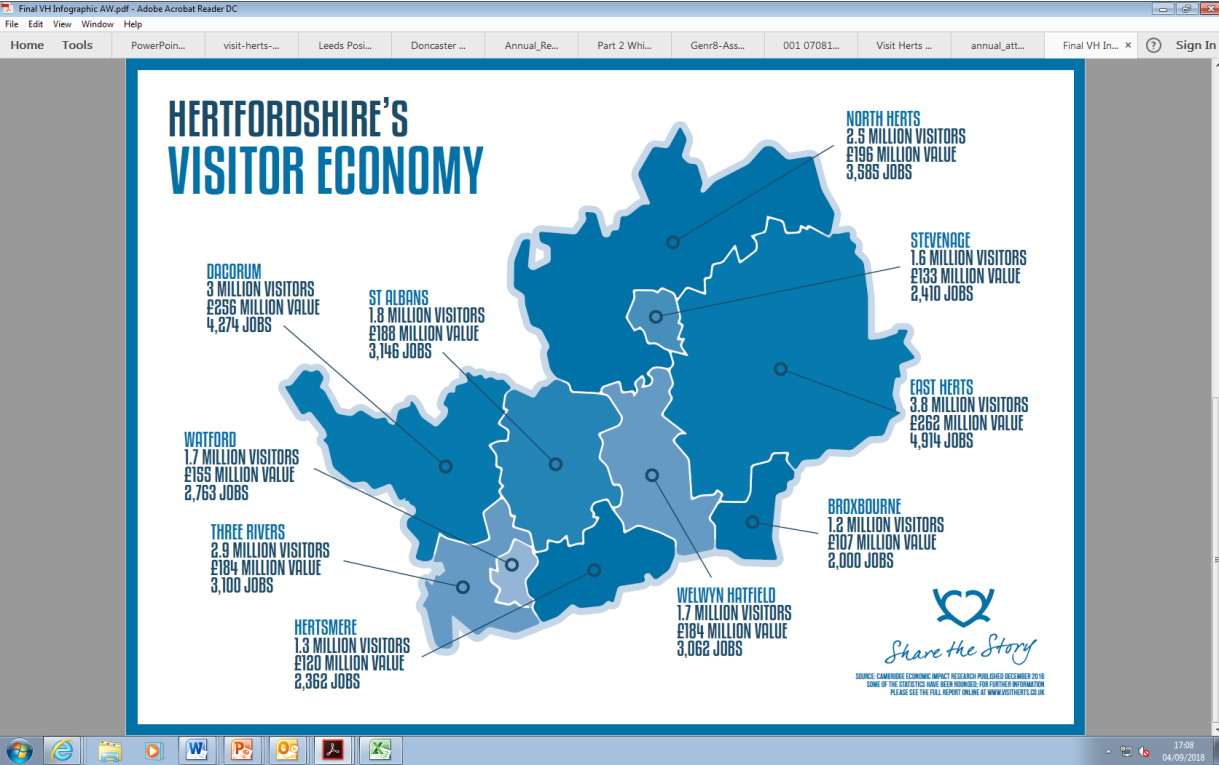
ECONOMIC DEVELOPMENT VISION AND ACTION PLAN FOR EAST HERTS 2016/17-2019/2020 – UPDATE FOR OCTOBER 2019

Priority Theme/ Outcome	Original Actions from 2016/17																					
<p>A business friendly council <i>We will ensure we are supporting businesses as 'customers' of council services as well as listening to the needs of the business community</i></p>	<ul style="list-style-type: none"> • Commission business need's analysis and detailed evidence base focusing on: <ul style="list-style-type: none"> ○ Demand for employment and commercial space (by geography and sector), particularly focusing on Bishop's Stortford ○ Demand for new business incubation space and 'second stage' space for new businesses seeking to grow ○ Sector or specific industry opportunities for East Herts (e.g. creative/R&D) • Create landing pages for businesses on the Council website consolidating all information and services in one place (Business rates, planning, regulatory functions, procurement, customer profiles etc.) • Increase self-service options and create user accounts for local businesses to access council services in once place for key council services (aligned to customer services strategy) • Maintain membership in and sponsor key events such as the Federation of Small Business (FSB) annual awards/ Chamber of Commerce awards • Support the "Better Business for All" partnership between Regulatory authorities in Hertfordshire 																					
	Progress as at October 2019																					
<p>Our new website has an improved user experience and we have on-line accounts for business paying rates and landlords paying council tax. We continue to support the Better Business for All partnership which is focusing on events for regulatory services (licensing, trading standards etc.) to offer more coherent and joined up support for the business community. In 2017 the partnership undertook a mystery shop exercise in East Herts to look at robustness of responses to business enquiries. Feedback from this session helped inform the new website content. The council historically has sponsored the countywide FSB awards as well as food and drink awards however since 2018 we have stopped funding these pending a review. Instead we have sponsored the new Bishop's Stortford Independent newspaper awards and the Bishop's Stortford Means Business networking event. We feel sponsorship of these events has given the council more profile in the local area.</p> <p>Our main achievement on direct support for businesses has been the introduction of the discretionary business rate grant scheme which was launched in April 2017. This offered up to 50% discount off one year's worth of rates liability to encourage new businesses to set up in the district. A total of 18 businesses benefitted, mostly in the retail sector, with total grants given out of £84k. An evaluation of the scheme was provided to Executive on 8th October this year and it was agreed to continue funding the scheme until the full £150,000 (originally allocated by Executive in February 2017) is allocated. More details on the businesses that have benefitted can be found here: http://democracy.eastherts.gov.uk/ieListDocuments.aspx?Cid=119&Mid=3516&Ver=4&J=3</p>	<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: center;">Year</th> <th style="text-align: center;">No. of VAT registered businesses in the district</th> </tr> </thead> <tbody> <tr><td style="text-align: center;">2010</td><td style="text-align: center;">6,815</td></tr> <tr><td style="text-align: center;">2011</td><td style="text-align: center;">6,605</td></tr> <tr><td style="text-align: center;">2012</td><td style="text-align: center;">6,750</td></tr> <tr><td style="text-align: center;">2013</td><td style="text-align: center;">6,765</td></tr> <tr><td style="text-align: center;">2014</td><td style="text-align: center;">7,120</td></tr> <tr><td style="text-align: center;">2015</td><td style="text-align: center;">7,625</td></tr> <tr><td style="text-align: center;">2016</td><td style="text-align: center;">7,790</td></tr> <tr><td style="text-align: center;">2017</td><td style="text-align: center;">10,170</td></tr> <tr><td style="text-align: center;">2018</td><td style="text-align: center;">9,015</td></tr> </tbody> </table>	Year	No. of VAT registered businesses in the district	2010	6,815	2011	6,605	2012	6,750	2013	6,765	2014	7,120	2015	7,625	2016	7,790	2017	10,170	2018	9,015	<p>The number of businesses registered in the district has seen a spike in recent years (and indeed preliminary figures for 2019 – as yet unconfirmed – indicate numbers are back above 10,000). However upon closer investigation it appears that there are a large number of shell companies and businesses registered to 3 specific addresses in Hertford and Sawbridgeworth (clearly to a company offering business registration services). The likelihood is that many of these will be operating elsewhere in the UK or internationally (e.g. Uber drivers, eBay traders, etc.). The business profile in the district remains heavily skewed towards the small and micro sized. At the last count, just 20 of the businesses registered above had more than 250 employees.</p>
Year	No. of VAT registered businesses in the district																					
2010	6,815																					
2011	6,605																					
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Priority Theme/ Outcome	Original Actions from 2016/17																							
<p>Enabling entrepreneurs and business start ups <i>We will encourage wealth creation in the district and ensure businesses can access a wide range of locally sourced services</i></p>	<ul style="list-style-type: none"> • 2 year SLA with WENTA (15/16-16/17) to deliver business start-up advice and support (virtual and face to face) and incubation space. Based in Herts Regional College (Ware Campus) • Review business start-up provision and identify opportunities to improve support • Sponsor the CVS “dragons den” event for entrepreneurs in schools • Work with the Local Enterprise Partnership’s (LEP) on the “growth hub” (an enterprise network for local businesses to source support services such as finance, HR, training etc.) 																							
	Progress as at October 2019																							
	<p>The review of business start-up provision and ceasing of the SLA with WENTA led to the Launchpad being piloted in Bishop’s Stortford. This is 1800 sq. ft. of flexible working space in Charrington’s House which opened in late 2017 as a consequence of the council not being able to let space commercially on the ground floor. We trialled opening this as an ‘easy in, easy out’ hot-desking and business start-up facility to test demand. Since it opened we have had over 150 users through the door who get an initial free period of use, then pay either £50 - £150 p/m for on-going use depending on need. Feedback is very positive as it is the only facility of its kind in the area and tends to attract a mixture of individuals. Some wish to start a new businesses, some have their own business but are trading from their home and want a professional business address or a facility to meet clients and some who work for large multi-national organisations but are based at home and want to use a more professional working environment. Due to its popular demand we opened a satellite Launchpad in partnership with Ware Town Council based at Ware Priory in July 2019 (700 sq. ft. of flexible working space accommodating 12 desks and small meeting space).</p> <p>The Launchpad has become our anchor project in economic development, helping us provide direct support to businesses, addressing a gap in the market and enabling us to build up expertise and capacity to run flexible working spaces. The Launchpad is now firmly established on the business support pathway in the district, getting referrals from the Herts Growth Hub and other business support organisations.</p> <p>We continue to support the Dragon’s Apprentice scheme in conjunction with the CVS which encourages young people at secondary and primary level to generate income from seed funding of £100, with the profits going to a local charity. There is also a junior programme scheme which 5 junior schools in the district have signed up to. Previous Councillors who have been involved are Cllrs Jeff Jones, Linda Haysey, Jan Goodeve, Graham McAndrew, Angela Alder and Norma Symonds. The senior scheme this year raised a total of £3,956.10 which is slightly less than last year.</p> <p>More details can be viewed here: http://www.cvsbeh.org.uk/our-projects/dragons-apprentice-challenge/</p>	<table border="1"> <thead> <tr> <th>Measure</th> <th>Annual Target</th> <th>2018/19 Performance</th> <th>2019/20 Performance to date</th> </tr> </thead> <tbody> <tr> <td>Number of businesses using the facility for more than 3 months</td> <td>20</td> <td>78</td> <td>42</td> </tr> <tr> <td>Total income from businesses using the facility (£)</td> <td>20,000</td> <td>20,243</td> <td>22,041</td> </tr> <tr> <td>Business use by sector/ type/ size</td> <td>No target</td> <td colspan="2">Strongest prevalence is in creative industries followed by independent contractors/ employees. There are also reasonable numbers of individuals in finance and accounting, manufacturing, retail charity and copywriting</td> </tr> <tr> <td>Demographics data about users</td> <td>No target</td> <td colspan="2">37.5% female users, 62.5% male</td> </tr> </tbody> </table>	Measure	Annual Target	2018/19 Performance	2019/20 Performance to date	Number of businesses using the facility for more than 3 months	20	78	42	Total income from businesses using the facility (£)	20,000	20,243	22,041	Business use by sector/ type/ size	No target	Strongest prevalence is in creative industries followed by independent contractors/ employees. There are also reasonable numbers of individuals in finance and accounting, manufacturing, retail charity and copywriting		Demographics data about users	No target	37.5% female users, 62.5% male			
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<p>The Ware Launchpad opened in August 2019 so it is too early to tell how many users will sign up for 3 months. At the time of writing 9 clients are using the facility as part of the free trial period.</p> <p>The teams who took part in the 2018/19 Dragon’s Apprentice Challenge were as follows:</p> <table border="1"> <thead> <tr> <th>Senior School</th> <th>Team Name</th> <th>Charity Partner</th> <th>Profits raised (£)</th> </tr> </thead> <tbody> <tr> <td>Freman College</td> <td>Guiding Lights</td> <td>Guideposts Trust UK</td> <td>1,357,90</td> </tr> <tr> <td>Herts and Essex High School</td> <td>Initiate</td> <td>??</td> <td>2,778.12</td> </tr> <tr> <td>The BS High School</td> <td>Carers Connected</td> <td>Carers in Herts</td> <td>60.75</td> </tr> <tr> <td>Simon Balle School</td> <td>SBAS 1</td> <td>Herts Young Homeless</td> <td>161.89</td> </tr> <tr> <td>Chauncy</td> <td>The Maljets</td> <td>Southern Maltings</td> <td>955.31</td> </tr> </tbody> </table>	Senior School	Team Name	Charity Partner	Profits raised (£)	Freman College	Guiding Lights	Guideposts Trust UK	1,357,90	Herts and Essex High School	Initiate	??	2,778.12	The BS High School	Carers Connected	Carers in Herts	60.75	Simon Balle School	SBAS 1	Herts Young Homeless	161.89	Chauncy	The Maljets	Southern Maltings	955.31
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Supporting the rural economy <i>We will maximise investment into the rural economy and ensure it remains competitive</i>	<ul style="list-style-type: none"> Deliver the Eastern Plateau Rural Development Programme (RDP) administering EU structural funds (total fund of €1.8m), to rural businesses for increasing productivity, farm diversification, tourism, cultural and heritage activity Support communities in rural areas with accessing infrastructure for super-fast broadband by working with the “Connecting Counties” programme and raising awareness of other options 											
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	<p>The RDP is a facilitated EU grant programme covering the “Eastern Plateau” (the non-urban areas of East Herts, North Herts, Uttlesford and Epping Forest) and East Herts act as the accountable body. The objectives are to support rural businesses with increasing productivity, farm diversification, tourism, cultural and heritage activity. Businesses are required to provide match funding to qualify for the grant. The programme launched in 2015 and closed in early 2019. The entire grant has now been allocated and the programme is in the process of ensuring the funds are spent and accounted for according to EU rules.</p> <p>It is hard to estimate the exact amount of EU funding that has come into the district as it comes via different routes. However the Herts LEP has overseen £32m of EU funding across the county under the current 2015-2019 programme. After Brexit no further EU funding will be received however a “shared prosperity fund” will be set up to replace this. EU structural funding has largely been directed towards the less affluent parts of the union and therefore the UK has traditionally been a net contributor as oppose to benefactor from funding. Within that Hertfordshire (or the East of England region as EU funding tends to operate on a regional basis) has been relatively low priority when compared to other areas, statistically more deprived areas (e.g. Cornwall is estimated to be the largest beneficiary of EU funding). It is anticipated that the shared prosperity fund will also prioritise areas according to need however no details of the scheme have been released.</p> <p>The Connected Counties is an initiative jointly funded by Local Government, Local Enterprises Partnerships and Openreach to deliver superfast broadband investment across Hertfordshire and Buckinghamshire. More information can be found here: http://www.connectedcounties.org/</p> <p>The Hertfordshire programme is now into its third round of funding and aims to have 98% coverage of the county by 2021. The County continues to investigate a range of avenues for expanding and providing coverage across Hertfordshire. BT Openreach who have been the principal delivery partner for Connected Counties have faced some criticism in the past by targeting the more commercially viable areas thus not delivering good value for money from the taxpayer. As the programme has continued some of the more rural, isolated areas have yet to be connected (i.e. those that are least attractive from a commercial perspective), although a high number of rural areas have been able to be included in the programme, taking East Herts superfast coverage from around 65% in 2014 to 94.5% now. Although large parts of the district have been covered under the programme, accessing superfast broadband remains an issue for some of the more sparsely populated areas.</p> <p>East Herts have also become members of the Digital Innovation Zone: an informal grouping of 11 different public (including local authorities, NHS trusts, education providers), private and voluntary sector partners across the areas of East Herts, Epping Forest, Harlow, Broxbourne and Uttlesford. It’s chaired by Epping Forest District Council who also act as the lead agency in driving forward its agenda and loosely fits under the LSCC umbrella. The DIZ exists in response to the ‘smart cities’ agenda which focuses on ensuring large urban areas are digitally enabled to take advantage of new and emerging technologies around logistics, healthcare, transport, social trends and working patterns. There is currently no equivalent for smaller towns and rural areas. There is a risk that these communities will miss out on digital infrastructure investment. The DIZ provides a platform for these areas across West Essex and Eastern Hertfordshire to stronger case to government for investment in digital infrastructure.</p>	<table border="1" data-bbox="1837 531 2528 808"> <thead> <tr> <th>RDP Measures</th> <th>Performance</th> </tr> </thead> <tbody> <tr> <td>Number of successful grant applications</td> <td>25</td> </tr> <tr> <td>Total value of grant applications (£)</td> <td>1,713,959</td> </tr> <tr> <td>Number of East Herts businesses that have successfully applied</td> <td>8</td> </tr> <tr> <td>Total amount invested in East Herts (£)</td> <td>243, 316</td> </tr> </tbody> </table> <p>Other areas nationally have struggled to spend their allocations and the Rural Payments Agency have therefore redistributed grant allocations from different areas rather than lose it (risk is that any unspent monies will be returned to the EU after the day of Brexit). The Eastern Plateau is the second highest performer in terms of grant applications and as a result was awarded an extra £202,356. The total amounts allocated range from £3000 to £65,000 and the grants have been used to fund activities such as purchasing glamping pods and purchasing more environmentally friendly agricultural equipment (eg. Drilling tools that minimise soil disruption). 25 businesses across the area have benefitted however the 8 businesses in East Herts who have been successful in obtaining EU funds are:</p> <ul style="list-style-type: none"> Kaiapoia Consulting Highbury Farm Cybertools Brickendon Glamping Celtic Harmony Charcoal Retort Hyde Hall Farm Walkern Hall Farm <p>Current examples of DIZ activity include:</p> <ul style="list-style-type: none"> Creation of a digital strategy outlining a vision for the future area LFFN investment in healthcare (GP surgeries) Funding bid to MHCLG for to the LFFN pot for additional broadband investment 	RDP Measures	Performance	Number of successful grant applications	25	Total value of grant applications (£)	1,713,959	Number of East Herts businesses that have successfully applied	8	Total amount invested in East Herts (£)	243, 316
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Vibrant Town Centres <i>We will ensure our town centres meet the needs and wants of our residents and visitors</i>	<ul style="list-style-type: none"> Develop a planning framework for River Lane and key adjoining town centre sites and develop a masterplan for Old River Lane Ensure employment land and needs are included with site development assessments and the District Plan Undertake feasibility work with town centre businesses on implementing Business Improvement Districts Work in conjunction with town and parish councils to deliver special events and specialist markets (e.g. farmer's markets) to increase footfall in the town centres 																																																																																																																																	
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	<p>There has been significant progress on the Old River Lane project since this vision was launched. The indicative masterplan for Old River Lane identifies an arts and entertainment centre, residential units and a mix of commercial and retail space. This is one of the council's major projects and will play a crucial role in improving Bishop's Stortford as a destination as well as increasing the range of social and leisure services for residents. Progress is of course subject to the outcome of the current judicial review on the multi-storey car park.</p> <p>With regards to this theme generally the council can play a more significant role in overall place shaping to help keep town centres vibrant (as oppose to responding to global changes in how people shop). The Old River Lane is a good example of this, as is the planned investment in Hartham Leisure Centre and Castle Park, all of which will help the offer from Bishop's Stortford is a mixture of retail, leisure and entertainment helping it stay relevant as a destination. A similar approach is being taken in Hertford with planned investment in the Theatre and Hartham Common Leisure Centre.</p> <p>Considerable work was undertaken regarding a BID in Bishop's Stortford. A ballot with town centre businesses was held over Summer of 2018 and the outcome was a "yes" vote. A BID company was subsequently set up, levying an extra. 1.5% on business rates' liability (meaning the company will have an annual income of around £150,000 to help improve the town centre). A business plan has been produced by the board focusing on 3 priorities for the town:</p> <ul style="list-style-type: none"> Improving parking and accessibility (e.g. Free periods and using parking marshals at Christmas/ busy periods) Backing business (providing more support to businesses around joint purchasing, legal support, training and mentoring) Marketing and events (promoting the town and increasing footfall through events such as the recent Gindependence day) <p>Tentative conversations have been had with traders in Hertford about forming a BID in order to provide some stronger governance and a more coherent voice around town centre issues. Independently however the town centre traders have decided to form their own trade association to represent their views. This has been driven largely by concerns around Bircherley Green. Town centre vacancy percentages can be found below:</p>			<p>The following data is taken from the value and volume survey and shows spend in our 5 towns over recent years.</p> <table border="1" data-bbox="1715 632 2724 1801"> <thead> <tr> <th>Town & Measure</th> <th>2014/15</th> <th>2015/16</th> <th>2016/17</th> </tr> </thead> <tbody> <tr> <td>Bishop's Stortford</td> <td></td> <td></td> <td></td> </tr> <tr> <td>No. of day trips</td> <td>559,000</td> <td>537,000</td> <td>618,000</td> </tr> <tr> <td>No. of overnight trips</td> <td>52,500</td> <td>54,400</td> <td>56,600</td> </tr> <tr> <td>Total number of nights</td> <td>320,000</td> <td>324,000</td> <td>322,000</td> </tr> <tr> <td>Total value of visits (£)</td> <td>48,563,000</td> <td>49,939,000</td> <td>55,167,000</td> </tr> <tr> <td>Hertford</td> <td></td> <td></td> <td></td> </tr> <tr> <td>No. of day trips</td> <td>587,000</td> <td>566,000</td> <td>641,000</td> </tr> <tr> <td>No. of overnight trips</td> <td>40,100</td> <td>43,500</td> <td>47,600</td> </tr> <tr> <td>Total number of nights</td> <td>266,000</td> <td>325,000</td> <td>318,000</td> </tr> <tr> <td>Total value of visits (£)</td> <td>43,800,000</td> <td>45,242,000</td> <td>51,040,000</td> </tr> <tr> <td>Sawbridgeworth</td> <td></td> <td></td> <td></td> </tr> <tr> <td>No. of day trips</td> <td>200,000</td> <td>192,000</td> <td>221,000</td> </tr> <tr> <td>No. of overnight trips</td> <td>18,100</td> <td>19,400</td> <td>19,800</td> </tr> <tr> <td>Total number of nights</td> <td>91,000</td> <td>93,000</td> <td>91,000</td> </tr> <tr> <td>Total value of visits (£)</td> <td>15,937,000</td> <td>17,457,000</td> <td>18,412,000</td> </tr> <tr> <td>Ware</td> <td></td> <td></td> <td></td> </tr> <tr> <td>No. of day trips</td> <td>365,000</td> <td>351,000</td> <td>404,000</td> </tr> <tr> <td>No. of overnight trips</td> <td>41,300</td> <td>45,100</td> <td>46,300</td> </tr> <tr> <td>Total number of nights</td> <td>182,000</td> <td>186,000</td> <td>191,000</td> </tr> <tr> <td>Total value of visits (£)</td> <td>32,302,000</td> <td>33,558,000</td> <td>38,485,000</td> </tr> <tr> <td>Buntingford</td> <td></td> <td></td> <td></td> </tr> <tr> <td>No. of day trips</td> <td>196,000</td> <td>188,000</td> <td>216,000</td> </tr> <tr> <td>No. of overnight trips</td> <td>10,200</td> <td>10,400</td> <td>10,900</td> </tr> <tr> <td>Total number of nights</td> <td>71,000</td> <td>73,000</td> <td>70,000</td> </tr> <tr> <td>Total value of visits (£)</td> <td>13,574,000</td> <td>13,999,000</td> <td>15,409,000</td> </tr> <tr> <td>East Herts overall</td> <td></td> <td></td> <td></td> </tr> <tr> <td>No. of day trips</td> <td>3,698,000</td> <td>3,573,000</td> <td>4,280,000</td> </tr> <tr> <td>No. of overnight trips</td> <td>224,000</td> <td>236,000</td> <td>250,000</td> </tr> <tr> <td>Total number of nights</td> <td>1,298,000</td> <td>1,371,000</td> <td>1,369,000</td> </tr> <tr> <td>Total value of visits (£)</td> <td>252,560,000</td> <td>262,007,000</td> <td>275,354,000</td> </tr> </tbody> </table>			Town & Measure	2014/15	2015/16	2016/17	Bishop's Stortford				No. of day trips	559,000	537,000	618,000	No. of overnight trips	52,500	54,400	56,600	Total number of nights	320,000	324,000	322,000	Total value of visits (£)	48,563,000	49,939,000	55,167,000	Hertford				No. of day trips	587,000	566,000	641,000	No. of overnight trips	40,100	43,500	47,600	Total number of nights	266,000	325,000	318,000	Total value of visits (£)	43,800,000	45,242,000	51,040,000	Sawbridgeworth				No. of day trips	200,000	192,000	221,000	No. of overnight trips	18,100	19,400	19,800	Total number of nights	91,000	93,000	91,000	Total value of visits (£)	15,937,000	17,457,000	18,412,000	Ware				No. of day trips	365,000	351,000	404,000	No. of overnight trips	41,300	45,100	46,300	Total number of nights	182,000	186,000	191,000	Total value of visits (£)	32,302,000	33,558,000	38,485,000	Buntingford				No. of day trips	196,000	188,000	216,000	No. of overnight trips	10,200	10,400	10,900	Total number of nights	71,000	73,000	70,000	Total value of visits (£)	13,574,000	13,999,000	15,409,000	East Herts overall				No. of day trips	3,698,000	3,573,000	4,280,000	No. of overnight trips	224,000	236,000	250,000	Total number of nights	1,298,000	1,371,000	1,369,000	Total value of visits (£)	252,560,000	262,007,000	275,354,000
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<p>Supporting the visitor economy <i>We want to raise the profile of local attractions and support businesses in their supply chain</i></p>	<ul style="list-style-type: none"> Undertake 2016 value and volume study (for the district as a whole but also focusing on the 5 towns) Work with Visit Herts to increase the profile of local attractions and support businesses in their supply chains 																																													
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	<p>We have Service Level Agreement in place with Visit Herts to deliver tourism and destination management services as part of a wider joint 2018 - 2021 contract with the LEP and 9 other district councils. Their website can be found here: https://www.visitherts.co.uk/</p> <p>The visitor economy is an important and often overlooked part of the East Herts economy. The district benefits the most in terms of spend and number of visitors. A number of businesses in the district are also 'investor partners' and Visit Herts will promote their business directly as a consequence. Some of the major events they run include:</p> <ul style="list-style-type: none"> The Big weekend: discounted visits to major attractions every spring which is preceded by large amounts of marketing nationally and internally. Businesses taking part in East Herts in 2019 included Foxholes Farm, Hanbury Manor Marriott Hotel and Country Club, Henry Moore Studios and Gardens, Historic Hertford- Guided Walks, Tewin Bury Farm Hotel, Ventura Wildlife Park and Yew Tree Alpacas Gourmet Gardens Trail which is aimed at visitors from Netherlands and Germany. This focuses on combining high quality food and garden experiences. Focusing on food and open spaces. East Herts participants include Hanbury Manor, Tewin Bury Farm, and The Falcon (Buntingford) US Connections aimed at US travel trade. US Connections is a Discover England Fund project led by Destination Plymouth alongside 13 partners including Visit Herts. The project aims to develop and test a series of new, immersive, bookable itineraries for the US market to tempt tourists to visit regions of England outside of London. The Explorers Road which aims to bring together attractions, accommodation options, places to eat and activities to create a route that is culturally rich and quintessentially English. East Herts businesses involved include The Old Barge (Hertford), Black Horse (Hertford), Tewin Bury Farm, Henry Moore Studios and The Salisbury Arms (Hertford). 	<p>Data comes from the Value and Volume survey (see figures under "vibrant town centres" theme). As above we are waiting for the 2017 data however the countywide figures for 2015/16 illustrate the importance of the visitor economy to East Herts:</p>  <table border="1"> <caption>HERTFORDSHIRE'S VISITOR ECONOMY (2015/16)</caption> <thead> <tr> <th>Town</th> <th>Visitors</th> <th>Value</th> <th>Jobs</th> </tr> </thead> <tbody> <tr> <td>North Herts</td> <td>2.5 million</td> <td>£196 million</td> <td>3,585</td> </tr> <tr> <td>St Albans</td> <td>1.8 million</td> <td>£188 million</td> <td>3,146</td> </tr> <tr> <td>Watford</td> <td>1.7 million</td> <td>£155 million</td> <td>2,763</td> </tr> <tr> <td>Three Rivers</td> <td>2.9 million</td> <td>£184 million</td> <td>3,100</td> </tr> <tr> <td>Hertsmere</td> <td>1.3 million</td> <td>£120 million</td> <td>2,362</td> </tr> <tr> <td>Welwyn Hatfield</td> <td>1.7 million</td> <td>£184 million</td> <td>3,062</td> </tr> <tr> <td>Broxbourne</td> <td>1.2 million</td> <td>£107 million</td> <td>2,000</td> </tr> <tr> <td>Stevengage</td> <td>1.6 million</td> <td>£133 million</td> <td>2,410</td> </tr> <tr> <td>East Herts</td> <td>3.8 million</td> <td>£262 million</td> <td>4,914</td> </tr> <tr> <td>Dacorum</td> <td>3 million</td> <td>£256 million</td> <td>4,274</td> </tr> </tbody> </table> <p>In addition to above Visit Herts produces a monthly Business Barometer which provides more regular, qualitative feedback from businesses on the visitor economy to supplement the Value and Volume data (albeit on a countywide as oppose to a district basis). Reports can be accessed here: https://www.visitherts.co.uk/business-barometer/</p>	Town	Visitors	Value	Jobs	North Herts	2.5 million	£196 million	3,585	St Albans	1.8 million	£188 million	3,146	Watford	1.7 million	£155 million	2,763	Three Rivers	2.9 million	£184 million	3,100	Hertsmere	1.3 million	£120 million	2,362	Welwyn Hatfield	1.7 million	£184 million	3,062	Broxbourne	1.2 million	£107 million	2,000	Stevengage	1.6 million	£133 million	2,410	East Herts	3.8 million	£262 million	4,914	Dacorum	3 million	£256 million	4,274
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Priority Theme/ Outcome	Original Actions from 2016/17	
Lobbying for the right infrastructure We will work with <i>key partners to ensure East Herts can support growth in the right places at the right times</i>	<ul style="list-style-type: none"> • Work with partners such as the LEP, County Council and London Stansted Cambridge Consortium (LSCC) on identifying infrastructure requirements for the A10/ M11 corridor and bring them to fruition • Liaise with the LEP to understand strategic needs of businesses in East Hertfordshire and lobby for East Herts interest 	
	<p style="text-align: center;">Progress as at October 2019</p> <p>The LSCC has re branded itself as the “Innovation Corridor”. The focus has very much been on Crossrail 2, and 4 tracking of the line up to Broxbourne from central London (irrespective of Crossrail 2 implementation) and improvements to the West Anglia rail routes. We remain supportive of their objectives with the Leader of the Council speaking at their annual general meeting. Positive engagement took place with HCC, Essex CC, Highways England and other related bodies in seeking to identify suitable infrastructure requirements to support the District Plan (adopted in October 2018).</p> <p>We have actively responded and engaged in the County Council’s LTP4 process (published May 2018) and will continue to engage in the development of supporting documents and implementation schemes, particularly those in respect of infrastructure that facilitates delivery of sustainable transport opportunities.</p> <p>The Hertfordshire LEP has published their draft local industrial strategy to which we have responded. It can be found here: https://www.hertfordshirelep.com/local-industrial-strategy/</p>	