Treasury Management Strategy incorporating Investment Strategy – 2021/22

Contents

Appendix A – Capital Expenditure

A.1 Introduction

A.1.1 Capital expenditure is where the Council spends money on assets, such as property or vehicles, that will be used for more than one year. In local government this includes spending on assets owned by other bodies, and loans and grants to other bodies enabling them to buy assets. All capital expenditure must be financed, either from external sources (government grants and other contributions), the Council's own resources (revenue, reserves and capital receipts) or debt (borrowing or leasing).

A.1.2 Service managers bid annually to include projects in the Council's capital programme. Bids are compiled using HM Treasury's *Better Business Cases* model and should include:

- <u>the strategic case</u>: Outlining the fit with relevant national and local policies and strategies; the strategic case should clearly state the objectives which are to be delivered in **SMART** terms – if the objective cannot be measured in this way how will it be monitored? <u>If it cannot be monitored the proposal cannot be judged as good value for money;</u>
- <u>the economic and financial case</u>: Demonstrating CHOICE – a wide range of options (<u>including do nothing as the benchmark</u>) has been appraised, and that the preferred option offers optimum VFM in relation to costs, benefits, dis-benefits and risks. Demonstrates AFFORDABILITY - realistic capital and revenue costs and savings over the life span of the investment; and FUNDING - agreed sources of external finance and support where applicable;
- <u>the management case</u> Outlining the governance, plans, and resources that are in place for **successful implementation** by referring to agreed systems and processes - e.g. Projects IN Controlled Environments (PRINCE2) - based on proven best practice where applicable; and
- <u>the commercial case</u> Outlining the **procurement arrangements** that ensure supply side can deliver requirements on an efficient market basis.
- <u>Climate change agenda</u> following on from the Council announcing a climate change emergency, all bids must acknowledge the impact that it will have in this area

Bids are then collated by the Financial Services team who calculate the financing cost (which can be nil if the project is fully externally financed). The Senior Management Team (SMT) appraises all bids based on a comparison of service priorities against financing costs and makes recommendations to the informal cabinet. The final capital programme is presented to Council in February each year.

<u>A2 Capital Expenditure & Financing</u>

A.2.1 The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

This prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and includes current estimates for capital bids for 2021/22 and beyond.

It will be revised if necessary, as the 2021/22 budget process develops, and the final figures are incorporated into the Budget in February 2021.

Capital expenditure £m	2019/20 Actual £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m
Non-HRA	2.503	7.982	6.820	2.153	2.153
HRA	9.016	28.828	4.996	3.011	2.661
Total	**11.519**	**36.810**	**11.816**	**5.164**	**4.814**

Table 1 Capital Expenditure 2019/20 – 2023/24

A2.2 The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need.

Financing of capital expenditure	2019/20 Actual £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m
Total	**11.519**	**36.81**	**11.816**	**5.164**	**4.814**
To be financed by:					
Capital receipts	1.578	5.258	0.505	0.505	0.505
Capital grants/contributions	1.523	2.434	0.970	0.970	0.970
Capital reserves	2.587	3.432	3.221	1.236	0.886
Revenue	5.508	19.986	1.270	1.270	1.270
Net financing need for the year	**0.323**	**5.705**	**5.850**	**1.183**	**1.183**

Table 2 Financing of Capital Expenditure 2019/20 – 2023/24

A2.3 The table below is a detailed summary of the proposed capital programme for the general fund and the Housing revenue account

	Proposed 2021/22 Capital Programme	Proposed 2022/23 Capital Programme	Proposed 2023/24 Capital Programme	Proposed 2024/25 Capital Programme
	£000s	£000s	£000s	£000s
Growth & Investment				
RAGM - Preventative Conservation	101	0	0	n/a
	101	0	0	
Communities & Homes				
ICT Refresh Programme - Desktop	101	85	85	n/a
ICT Refresh Programme - Infrastructure	95	102	102	n/a
ICT Refresh Programme - AV Equipment	23	15	15	n/a
Sophos Intercept-X	25	0	0	n/a
Digitalisation and Development Program	45	45	45	n/a
Disabled Facilities Grants	683	683	683	n/a
	971	930	930	
Environment & Public Realm				
Sherbourne recyling centre	4,674	0	0	
Vehicle Replacement	500	500	500	n/a
Open Spaces Refurbishments - Apple Grove & Sorrell Drive Play Areas	150	150	150	n/a
Open Spaces Refurbishments - Safety Improvements	50	50	50	n/a
Parks Connector Network	200	200	200	n/a
Open Spaces Refurbishments - Street Furniture	40	40	40	n/a
Memorial Safety	30	30	30	n/a
Great Central Way Bridge Repairs	0	165	165	n/a
Parks and Grounds Inspection System	15	0	0	n/a
Purchase of Waste Bins[1]	88	88	88	n/a
	5,747	1,223	1,223	
General Fund - Grand Total	6,819	2,152	2,152	
Improvements & Capitalised Repairs	3,015	1,030	680	680
Housing Management System	60	60	60	60
Mobysoft	0	0	0	0
Disabled Adaptations	206	206	206	206
Lifeline Renewal Programme	30	30	30	30
Property Repairs Vehicle Replacement	0	0	0	0
Purchase of Council Homes	1,685	1,685	1,685	1,685
HRA - Grand Total	4,996	3,011	2,661	2,661
Grand Total	11,815	5,163	4,813	2,661

Table 3 Proposed Capital Programme 2021/22-2024/24

A3 The Council's Borrowing Need (the Capital Financing Requirement)

A3.1 The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's indebtedness and so its underlying borrowing need. Any capital expenditure above, which has not immediately been paid for through a revenue or capital resource, will increase the CFR.

A3.2 The CFR does not increase indefinitely, as Minimum Revenue Provision (MRP) is a statutory annual revenue charge which broadly reduces the indebtedness in line with each asset's life, and so charges the economic consumption of capital assets as they are used.

The CFR includes any other long-term liabilities, for example Private Finance Initiative schemes ("PFI") and finance leases. Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility by the PFI or lease provider and so the Council is not required to separately borrow for these schemes. The Council currently does not have any finance lease or PFI/PPP commitments within the CFR.

The current CFR projections are included in Table A3 below

£m	2019/20 Actual £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m
Capital Financing Requirement					
CFR – non-housing	20.960	19.510	17.969	16.240	14.529
CFR – HRA	61.632	73.820	98.695	121.862	181.366
Total CFR	**82.592**	**93.330**	**116.664**	**138.102**	**195.895**
Movement in CFR	**(1.238)**	**10.738**	**23.334**	**21.438**	**57.793**
Movement in CFR represented by					
Net financing need for the year	0.323	12.188	24.875	23.167	59.040
Less MRP/VRP and other financing movements	(1.561)	(1.450)	(1.541)	(1.729)	(1.711)
Movement in CFR	**(1.238)**	**10.738**	**23.334**	**21.438**	**56.082**

Table A3 Capital Financing Requirement 2019/20 – 2023/24

A4 Minimum Revenue Provision (MRP) Policy Statement

A4.1 The Council is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (MRP), although it is also allowed to undertake additional voluntary payments if required (voluntary revenue provision - VRP).

A4.2 MHCLG regulations have been issued which require the Council to approve an MRP Statement in advance of each year. A variety of options are provided to councils, so long as there is a prudent provision. The Council is recommended to approve the following MRP statement:

> For capital expenditure incurred before 1 April 2008 or which in the future will be Supported Capital Expenditure, (*central government support for local authority capital expenditure is the amount of expenditure towards which revenue support grant will be paid to a local authority on the cost of its borrowing*) MRP will be charged on a 2% straight line basis.
>
> From 1 April 2008 for all unsupported borrowing (*capital expenditure for which no direct central government support is available and is undertaken with reference to the Prudential Code*) (including PFI and finance leases) the MRP policy will be:
>
> - **Asset life (annuity) method –** MRP will be based on the estimated life of the assets, in accordance with the regulations (this option must be applied for any expenditure capitalised under a Capitalisation Direction)
>
> MRP Overpayments – The MHCLG MRP Guidance allows that any charges made over the statutory MRP – VRP, or overpayments – can be reclaimed in later years, if deemed necessary or prudent. In order for these sums to be reclaimed for use in the budget, this policy must disclose the cumulative overpayment made each year. Up until 31 March 2020 the total amount of VRP overpayments were £6.453m

A4.3 These options provide for a reduction in the borrowing need over approximately the asset's life.

A4.4 There is no requirement on the HRA to make a minimum revenue provision but there is a requirement for a charge for depreciation to be made.

A5 Commercial Activity

A5.1 Commercial property investment, particularly the 'bricks and mortar' retail environment, has seen considerable volatility during recent years with the demise of many established high-street brands. This trend is expected to continue in the foreseeable future as the retail market adapts to the continuing growth of on-line markets. Due diligence which will include utilising the expertise of consultants in the relevant fields will be applied in considering direct or indirect (pooled funds, etc) investment in this sector to examine sensitivity around asset valuations, assumed rental yields, and tenant strength. Particular emphasis will be given to exit strategies and risks associated with asset obsolescence and/or changing market conditions.

Service Investments: Loans

A5.2 The Council can lend money to local bodies or its subsidiaries to support local public services and stimulate local economic growth. Historically the Council has only done this in very limited circumstances where a significant service outcome is expected. There are currently two loans that have been approved by Council.

In September 2019 a loan of up to **£4.554m** was approved as the Council became a partner in the Sherbourne Recycling Facility to be located in Coventry. The facility will be the location for the processing of all recyclate material for the partners with also the opportunity to sell any surplus capacity in the private market. The scheme which has 7 partner local authorities

- Coventry City Council
- Solihull MBC
- Walsall MBC
- Nuneaton and Bedworth BC
- North Warwickshire BC
- Rugby BC
- Stratford BC

This loan is scheduled to be repaid over a 20-year term and the first tranche of the Council's contribution is expected in 2021. The centre is scheduled to be operational from April 2023.

As part of the range of support measures for businesses affected by COVID-19, the government announced a Coronavirus Business Loan Interruption Scheme (CBILS). It supports small and medium sized businesses to access loans, overdrafts and invoice finance of up to £5 million for up to six years. The scheme is delivered through commercial lenders, backed by the Government-owned British Business Bank. Importantly, the Government provides lenders with a guarantee of up to 80% on each loan. The Government also makes a Business Interruption Payment to cover the first 12 months of interest payments and any lender fees.

Accredited lenders for the scheme include all major banks and local, alternative finance providers such as Coventry and Warwickshire Reinvestment Trust (CWRT) which are an arm of the Coventry and Warwickshire LEP. To support the recovery process and to offer prompt access to cash, the Council has provided a loan of £0.250m, repayable over a 6-year term to CWRT which will be funded by reserves. It is currently expected that this will lead to 4 loans which will help to secure 40 jobs in the borough.

Considering the public service objective, the Council is willing to take more risk than with treasury investments. However, it still plans for such investments to generate a profit after all costs to offset risk.

Loans made from the Council will be infrequent. The Council has recently obtained Council approval to create a housing development company. The oversight of this company will be undertaken by a new company RBC Holdings Ltd and the governance will include elected members. The Council now has a corporate structure for its trading activity which is flexible enough to establish a variety of subsidiary companies. The structure has been created in such a way that the activity of the housing development Joint Vehicle will be operated separately under the same umbrella structure. The company will require working capital funding and as a joint shareholder, one option is for the Council to offer a loan using commercial terms.

A5.3. In order to limit the risk and ensure that total exposure to service loans remains proportionate to the size of the Council, upper limits on the outstanding exposure is set at £20m.

A5.4 Accounting standards require the Council to set aside loss allowance for loans, reflecting the likelihood of non-payment. The figures for loans in the Council's statement of accounts from 2020/21 onwards will be shown net of this loss allowance. However, the Council makes every reasonable effort to collect the full sum lent and has appropriate credit control arrangements in place to recover overdue repayments.

A5.5 Assessment: The Council will assess the risk of loss before entering into service loans by assessing the counterparty's resilience, the service users' needs that the loan is designed to help meet and how these will evolve over time. During the life of the loan any change in original assumptions will be monitored. The Council will use external advisors if felt appropriate by the Chief Financial Officer. All loans will be subject to contract agreed by Head of Legal and Democratic Services. All loans must be approved by full Council and will be monitored by the Head of Corporate Resources and Chief Financial Officer.

A5.6 Service Investments: Shares

The Council has a minimal committed shareholding of up to £0.120m as part of its proposed investment in the Sherbourne Recycling Facility the limit on investment in this type will be set at £0.120m and any change to the limit would be addressed in the report to the Council in setting up any subsidiary.

a. Security: One of the risks of investing in shares is that they potentially fall in value meaning that the initial outlay may not be recovered. To limit this risk upper limits on the sum invested in local subsidiaries will be set at the lowest practical level if and when exposure is allowed.

b. Risk assessment: The Council would assess the risk of loss before entering into and whilst holding shares by going through an extensive process of risk analysis. The risk analysis will include an assessment of the market that the subsidiarity will be active in including the nature and level of competition, how the market/customer needs will evolve over time, the barriers to entry and exit and any ongoing investment requirements. The Council will use external advisors as thought appropriate by the Chief Financial Officer.

c. Liquidity: Although this type of investment is fundamentally illiquid, to limit this the Council, when it sets a limit in this area, will initially set out the maximum periods for which funds may prudently be committed and how the Council will ensure it stays within its stated investment limits.

d. Non-specified Investments: The limits on share investments will be included in the Council's required upper limits on non-specified investments.

Commercial Investments: Property

A5.7 The Council owns a small portfolio of Investment Property which are predominantly 'legacy' properties. Investment properties are defined as those that are used solely to earn rentals and/or for capital appreciation.

A5.8 As financial return through rental income and/or capital appreciation is the main objective, the Council recognises the higher risk on commercial investment compared with treasury investments. The principal risk exposures include:

- individual vacancies;
- falls in market value;
- changes in the overall and local economy.

A5.9. Individual property risks are constantly monitored and managed by the Property Manager. In order that commercial investments remain proportionate to the financial capacity of the Council, these are subject to an overall maximum investment limit which is set at £60m. Should income not meet expectations the Council holds c.£8m of General Fund reserves available to balance the revenue budget in the short term while the Property Manager reviews the performance of the portfolio.

A5.10 The movement in the fair value of the investment properties over 2019/20 is as follows:

	£000s
Balance at 1 April 2019	723
Net gains/(losses) from fair value adjustments	17
Balance at 31 March 2020	740

Table 5 Movement in Fair Value of Investment Property 2019/20

A5.11 Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's length. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

A5.12 Rentals received in relation to investment properties result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustments Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

A5.13 Decisions on new commercial investments are made by the Senior Management Team and Cabinet after recommendation from the Asset Management Strategy Group in line with the criteria and limits approved by the Council in this strategy. Property and most other commercial investments are also capital expenditure and purchases will therefore also be approved as part of the capital programme. Further details on commercial investments and limits on their use are in Appendix C.

A5.16 Liquidity and Security

Fair Value Hierarchy

All the Council's investment properties have been value assessed as Level 2 on the fair value hierarchy for valuation purposes. This means that market conditions are such that similar properties are actively purchased and sold and the level of observable inputs are significant.

a. Security: In accordance with government guidance, the Council considers a property investment to be secure if its accounting valuation is at or higher than its purchase cost including taxes and transaction costs.

The commercial properties are revalued each year-end by external valuers so the Council will each year consider whether the underlying assets provide security i.e. are not below their purchase cost. Should this be the case the Head of Corporate Property will consider whether his current course of action in holding the assets is appropriate and bring any alternative actions to Council in an update to the Investment Strategy for that year.

b. Risk assessment: The Council assesses the risk of loss before entering into and whilst holding property investments by:

i. assessing the relevant market sector including the level of competition, the barriers to entry and exit and future market prospects;

ii. using advisors if thought appropriate by the Head of Corporate Resources and Chief Financial Officer;

iii. consulting Council's Asset Management Working Group

iv. taking a final comprehensive report on all new investments to Cabinet

v. continually monitoring risk in the whole portfolio and any specific assets

c. Liquidity: Clearly property is relatively difficult to sell and convert to cash at short notice and can take a considerable period to sell in certain market conditions. To ensure that the invested funds can be accessed when they are needed the Property Manager ensures that at least £5m of commercial property could be sold as a going concern within a six-month period.

A6 Loan Commitments and Financial Guarantees

A6.1 Although not strictly counted as investments, since no money has exchanged hands yet, loan commitments and financial guarantees carry similar risks to the Council and are included here for completeness. The Council does not provide such commitments and guarantees, and this strategy does not include them for 2020/21. As noted above, if the Council creates a potential subsidiary which may, or may not, require commitments or guarantees dependent on its legal structure. the required limits will be set as a part of the Council report on the setting up of a subsidiary.

Investment Indicators

A6.2 The Council has set the following quantitative indicators to allow elected Members and the public to assess its total risk exposure as a result of its investment decisions.

A6.3 Total risk exposure: The first indicator shows the total exposure to potential investment losses.

Total investment exposure £m	2020/21 £m	2021/22 £m	2022/23 £m
Treasury management investments	143.38	123.38	46.44
Service investments: Loans	0.25	0.25	0.25
Service investments: Shares	0	0.12	0.12
Commercial Investments: Property	0	0	0
TOTAL INVESTMENTS	**143.63**	**123.75**	**46.81**
Commitments to lend	0	0	0
Guarantees issued on loans	0	0	0
TOTAL EXPOSURE	**143.63**	**123.75**	**46.81**

Table 6 Total Risk Exposure

A6.4 How investments are funded: Government guidance is that these indicators should include how investments are funded. The Council does not currently hold **any** investment assets with particular liabilities (i.e. associated borrowing). All the Council's investments are funded by usable reserves and income received in advance of expenditure.

A6.5 The MHCLG guidance lists other indicators including:

- Commercial income to net service expenditure ratio;
- Benchmarking of returns – ratio of property income yield to IPD property yield index averaged over 5-year period;
- Average vacancy level; and
- Operating overheads of property section attributable to commercial property as a proportion of net property income

These indicators will be published in future reports at the point when the Council invests in significant service investments (loans and shares) or commercial property acquisition.

A7 Revenue Budget Implications

A7.1. Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue, offset by any investment income receivable. The net annual charge is known as financing costs. The table below compares these costs to the net revenue stream i.e. the amount funded from Council Tax, business rates, rents and general government grants.

Ratio of financing costs as a proportion of the net revenue stream

£m	2019/20 Actual £000s	2020/21 Estimate £000s	2021/22 Estimate £000s	2022/23 Estimate £000s	2023/24 Estimate £000s
General Fund	9	9	11	12	13
HRA	32	30	30	31	31
Total	41	39	41	43	44

Table 8 Ratio of financing costs as a proportion of the net revenue stream

A7.2 In the context of the General Fund, Actual of MRP/Interest charges relate to borrowing for the following large schemes approved by Council in recent years:

- Queens Diamond Jubilee Leisure Centre;
- Rainsbrook Cemetery and Crematorium
- World Rugby Hall of Fame;
- Sherbourne Recycling Centre

A7.3 In the context of the Housing Revenue Account, financing costs can be split into two major items

- £73m borrowing undertaken at the point of self-financing in 2012.
- £66m of borrowing undertaken for the planned Biart place/Rounds Gardens high rise replacement scheme to take advantage of the preference PWLB rates

A7.4. The Medium-Term Financial Strategy adopted by Council in April 2018 included the following policies in relation to New Homes Bonus (NHB): “A proportion of the Council’s NHB allocations be withdrawn from the base budget by the 2020, with the monies ring-fenced for revenue contributions to capital expenditure”

A7.5. This policy will now need to be updated with the NHB scheme now coming to an end

Section B - Treasury Management

B1 Introduction

B1.1 The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.

B1.2 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 that the Council can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans or using longer-term cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet Council risk or cost objectives.

B1.3. The contribution the treasury management function makes to the Council is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.

B2 Cash Resources

B2.1 The table below demonstrates that, over the term of the medium-term financial planning period, the Council will be relying more on internal borrowing i.e. using reserves and other cash resources that it holds rather than borrow from external sources. From projections of the capital programme and use of reserves this strategy is seen as sustainable in the medium term although the Head of Corporate Resources and Chief Financial Officer will monitor the actual position against the projections in order to be ready to respond should long-term external borrowing become advisable.

£m	2019/20 Actual £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m
External Debt					
Debt at 1 April	94.057	155.701	137.201	96.301	89.001
Expected change in Debt	61.644	(18.500)	(40.900)	(7.300)	0
Other long-term liabilities (OLTL)	0	0	0	0	0
Expected change in OLTL	0	0	0	0	0
Actual gross debt at 31 March	**155.701**	**137.201**	**96.301**	**89,001**	**89,001**
The Capital Financing Requirement	**82.592**	**93.330**	**116.664**	**138.102**	**195.895**
Under / (over) borrowing	**(73.109)**	**(43.871)**	**20.363**	**49.101**	**106.894**

Table 9 Gross Debt and the CFR 2019/20 – 2023/24

B2.2 Within the range of prudential indicators there are several key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2021/22 and the following two financial years. This allows some flexibility for limited early borrowing for future years but ensures that borrowing is not undertaken for revenue or speculative purposes.

The Chief Finance Officer reports that the although the Council has an overborrowed position, it complied with this prudential indicator as the borrowing has been taken out for a future capital scheme and once the construction of the high rise scheme takes place the capital financing requirement will increase accordingly.

B3 Affordable borrowing limit and Operational boundary

B3.1 Irrespective of plans to borrow or not, the Council is legally obliged to set an *affordable borrowing limit* (also termed the authorised limit for external debt) each year.

This is a key prudential indicator and represents a control on the maximum level of borrowing. This represents a legal limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external debt which, while not desired could be afforded in the short-term, but is not sustainable in the longer term.

This is a statutory limit determined under section 3(1) of the Local Government Act 2003. The Government retains an option to control either the total of all council's plans, or those of a specific council, although this power has not yet been exercised.

The table below identifies the current borrowing limit:

Authorised limit £m	2019/20 Actual £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m
Debt and other long-term liabilities	190.000	190.000	190.000	190.000

Table 10 Authorised Limit 2020/21 – 2023/24

B3.2 In line with statutory guidance, a lower "operational boundary" is also set as a warning level should debt approach the limit.

In most cases, this would be a similar figure to the CFR but may be higher or lower depending on the levels of actual debt and the ability to fund under borrowing by other cash resources.

Operational boundary £m	2019/20 Actual £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m
Debt and other long-term liabilities	180.000	180.000	180.000	180.000

Table 11 Operational Boundary 2020/21 – 2023/24

B3.3 The Council's policy on treasury investments is to prioritise security and liquidity over yield that is to focus on minimising risk rather than maximising returns. Cash that is likely to be spent in the near term is invested securely, for example with the government, other local authorities or selected high-quality banks and building societies, to minimise the risk of loss. Money that will be held for longer terms is invested more widely, including in bonds and property, to balance the risk of loss against the risk of receiving returns below inflation. Both near-term and longer-term investments may be held in pooled funds, where an external fund manager makes decisions on which investments to buy and the Council may request its money back at short notice.

B4 Governance

B4.1 Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the Head of Corporate Resources and Chief Financial Officer and staff, who must act in line with the Treasury Management Strategy as approved by the Council. The Audit and Ethics Committee receives a mid-year and full year report and is responsible for scrutinising treasury management decisions made.

B5 Borrowing Strategy

B5.1 The Council will move towards achieving an under-borrowed position over the period of the medium-term financial plan. This means that the total capital borrowing need (the CFR), will not have been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow is used as a temporary measure. This strategy is prudent whilst investment returns remain low and to mitigate counterparty risk.

B5.2 Against this background and the risks within the economic forecast, caution will be adopted with the 2021/22 treasury operations. The Chief Financial Officer will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- *if it was felt that there was a significant risk of a sharp FALL in long and short term rates (e.g. due to continuing recession or of risks of deflation), then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered*.
- *if it was felt that there was a significant risk of a much sharper RISE in long and short term rates than that currently forecast, perhaps arising from a greater than expected increase in US interest rates, or in world economic activity or a sudden increase in inflationary risks, then the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates are still lower than they will be in the next few years.*

B5.3 Any decisions will be reported to the appropriate decision-making body at the next available opportunity.

B6 Sources of Borrowing

B6.1 The approved sources of long-term and short-term borrowing are:

- Public Works Loan Board (PWLB) and any successor body
- Any institution approved for investments (see below)
- Any other bank or building society authorised to operate in the UK
- UK public and private sector pension funds
- Capital market bond investors
- UK Municipal Bond Agency and other special purpose companies created to enable joint local authority bond issues

B6.2 In addition, capital finance may be raised using leases and hire purchase that are not borrowing but may be classed as other debt liabilities.

B6.3 The Council has previously raised most of its long-term borrowing from the PWLB, but it will, if required, investigate other sources of finance amongst the sources listed above, that may be available at more favourable rates.

B6.4 Short-term and variable rate loans leave the Council exposed to the risk of short-term interest rate rises and are therefore subject to the limit on the net exposure to variable interest rates in the treasury management indicators below.

B7 Treasury Investment Strategy

B7.1 The Council holds significant funds, representing income received in advance of expenditure plus balances and reserves held. In the past year, the Council's total investments have ranged between £70m and £150m and although the level of reserves is expected to reduce in the longer term, there will still be significant short to medium-term cash flow surpluses leading to larger sums being held than the core reserves of the Council would indicate.

B7.2 Both the CIPFA Prudential Code and the MHCLG Guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the Council will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested.

B7.3 Negative interest rates: The overall balance of risks to economic growth in the UK is subject to major uncertainty over the Coronavirus pandemic. It may also be affected by what, if any, deal the UK agrees as part of Brexit negotiations. There is relatively little UK domestic risk of increase or decreases in Bank Rate in the near term. If Bank Rates were set at or below zero, this would likely feed through to negative interest rates on all low risk, short-term investment options. In this event, security will be measured as receiving the contractually agreed amount at maturity, even though this may be less than the amount originally invested.

B7.4 Given the low returns from short-term unsecured bank investments; the Council will look to diversify its investment portfolio so far as possible. This diversification will represent a continuation of the present strategy that has moved investment into pooled funds and other local authorities.

B7.5 Business models: Under the IFRS 9 accounting standard introduced in 2018/19, the accounting for certain investments depends on the Council's "business model" for managing them. The Council aims to achieve value from its internally managed treasury investments by a business model of collecting the contractual cash flows rather than buying and selling investments and therefore, where other criteria are also met, these investments will continue to be accounted for at amortised cost.

B8 Approved Counterparties

B8.1 The Council's investment policy has had regard to the following: -

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

The above guidance from the MHCLG and CIPFA places a high priority on the management of risk. This authority has adopted a prudent approach to managing risk and defines its risk appetite by the following means: -

1. Minimum acceptable **credit criteria** are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short term and long-term ratings.
2. **Other information:** ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration the Council will engage with its advisors to maintain a monitor on market pricing such as **"credit default swaps"** and overlay that information on top of the credit ratings.
3. **Other information sources** used will include the financial press, share price and other such information pertaining to the financial sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.
4. This authority has defined the list of **types of investment instruments** that the treasury management team are authorised to use. There are categorised as either 'specified' or 'non-specified' investments.

- **Specified investments** are those with a high level of credit quality and subject to a maturity limit of one year or have less than a year left to run to maturity if originally they were originally classified as being non-specified investments solely due to the maturity period exceeding one year.
- **Non-specified investments** are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use.

5. **Non-specified and loan investment limits.** The Council has determined that it will set a limit to the maximum exposure of the total treasury management investment portfolio to non-specified treasury management investments of £70m.
6. **Lending limits**, (amounts and maturity), for each counterparty will be set through applying the matrix table B4
7. **Transaction limits** are set for each type of investment (as per table B4)
8. This authority will set a limit for its investments which are invested for **longer than 365 days**, (see paragraph B10.5.3).
9. Investments will only be placed with counterparties from countries with a specified minimum **sovereign rating**, (see paragraph B8.2).
10. This authority has engaged **external consultants**, (see paragraph B8.4), to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of this authority in the context of the expected level of cash balances and need for liquidity throughout the year.
11. All investments will be denominated in **sterling**.
12. As a result of the change in accounting standards for 2020/21 under IFRS 9, this authority will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. (In November 2018, the MHCLG concluded a consultation for a temporary override to allow English local authorities time to adjust their portfolio of all pooled investments by announcing a statutory override to delay implementation of IFRS 9 for five years ending 31 March 2023.)

However, this authority will also pursue **value for money** in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance, (see paragraph B10.5). Regular monitoring of investment performance will be carried out during the year.

Changes in policy from last year.

The above criteria are unchanged from last year, except for following:

(i) Establishment of limit on non-specified and loan investments of £70m,

(ii) Revision to investment counterparties as per table B4, to clarify maximum permissible investment with unrated building societies and for arrangements with the Council's operational bank account

(iii) Minimum sovereign rating limit for non-UK counterparties and limit on sums invested in any non-UK country proposed, as per paragraph B8.2

(iv) The overall limit on amounts invested for longer than 365 days provided at paragraph B10.5.3 has been expanded to propose a separate limit on pooled and directly held investment instruments.

(v) The time limit on investments in non-UK government and registered providers have been reduced to reflect an updated approach to risk

(vi) The maximum total exposure for registered providers has been increased

The criteria for providing a pool of high-quality investment counterparties, (both specified and non-specified investments) is:

- Banks 1 - good credit quality – the Council will only use banks which:
  i. are UK banks; and/or
  ii. are non-UK and domiciled in a country which has a minimum sovereign Long-Term rating of A-

  and have, as a minimum the following credit rating (where rated):

  Long Term - *A-*

  The Council uses credit ratings from the three main rating agencies, Fitch, Standard & Poors and Moodys. The lowest available credit rating will be used to determine credit quality
- Banks 2 – Part nationalised UK bank – Royal Bank of Scotland ring-fenced operations. This bank can be included provided they continue to be part nationalised or meet the ratings in Banks 1 above.
- Banks 3 – The Council's own banker for transactional purposes if the bank falls below the above criteria, although in this case balances will be minimised in both monetary size and time invested. The minimum credit rating for operational bank accounts will be BBB-, and with assets greater than £25bn.
- Bank subsidiary and treasury operation -. The Council will use these where the parent bank has provided an appropriate guarantee or has the necessary ratings outlined above.
- Building societies, The Council will use all societies which:

  Have a minimum credit rating of BBB.
- Money Market Funds (MMFs) CNAV – £10M
- Money Market Funds (MMFs) LVAV –£10M
- Money Market Funds (MMFs) VNAV – £5M
- Ultra-Short Dated Bond Funds with a credit rating of at least – AA
- UK Government (including gilts, Treasury Bills and the Debt Management Account Deposit Facility – "DMADF")
- Local authorities, parish councils etc
- Housing associations/Registered Providers
- Supranational institutions
- Corporate loans, bonds and commercial paper
- Property and equity pooled funds

A limit of £70m will be applied to the use of non-specified investments

The Council may invest with any of the counterparty types in the table below; subject to the cash limits (per counterparty) and the time limits shown in Table B4. These limits will cover both specified and non-specified investments.

Approved counterparties					
Credit Rating	Banks / Building Societies Unsecured	Banks / Building Societies Secured	Non-UK Government	Corporate	Registered Providers
AAA	£5m 5 years	£10m 5 years	£5m 10 years	£5m 10 years	£15m 10 years
AA+	£5m 5 years	£10m 5 years	£5m 7 years	£5m 7 years	£15m 10 years
AA	£5m 4 years	£10m 4 years	£5m 5 years	£5m 5 years	£15m 10 years
AA-	£5m 3 years	£10m 3 years	£5m 4 years	£5m 4 years	£15m 10 years
A+	£5m 12 months	£10m 2 years	£5m 3 years	£5m 3 years	£15m 5 years
A	£5m 12 months	£10m 2 years	£5m 2 years	£5m 2 years	£15m 5 years
A-	£5m 6 months	£10m 13 months	£5m 1 year	£5m 1 year	£15m 5 years
BBB- and assets > £25bn	Council's UK operational bank account only £5m 1 day				
No credit rating	UK unrated Building Societies £3m 6 months		Corporates £1m 1 year	Registered Providers £10m 3 years	
UK Govt	Central government: £unlimited 50 years UK Local Authority: £20m 10 years				
Pooled Funds (incl. Money Market Funds) and Real Estate Investment Trusts			£5m per Fund or Trust; Overall limit on aggregate amounts invested across Funds or Trusts of £30m		

Table 12 Counterparty Limits

Table B4 must be read in conjunction with the notes below.

Where appropriate the council will carry out thorough due diligence in order to minimise the risk that it could be exposed to. This will involve independent credit analysis acquired from a Treasury Management advisory company shows them to be suitably creditworthy.

a. **Credit Rating**: Investment limits are set with reference to the lowest published long-term credit rating from Fitch, Moody's or Standard & Poor's. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. <u>However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be considered.</u>

b. **Banks Unsecured**: Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See below for arrangements relating to operational bank accounts.

c. **Banks Secured**: Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the highest of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

d. **Building Societies**: Although the regulation of building societies is no longer any different to that of banks the Council takes additional comfort from building societies' business model. The Council will therefore consider investing with unrated building societies where independent credit analysis acquired from a Treasury Management advisory company shows them to be suitably creditworthy.

e. **Government**: Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is an insignificant risk of insolvency. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years and with a UK local government body up to £20m for up to 10 years. The Council is confident that as a sector local authority are secure investments in the context of support from Central Government and the legal surcharging framework that guarantees debts will be paid.

f. **Corporates**: Loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are exposed to the risk of the company going insolvent. Loans to unrated companies will only be made either following an external credit assessment as part of a diversified pool in order to spread the risk widely.

g. **Registered Providers**: Loans and bonds issued by, guaranteed by or secured on the assets of Registered Providers of Social Housing, formerly known as Housing Associations. These bodies are tightly regulated by the Homes and Communities Agency and, as providers of public services; they retain the likelihood of receiving government support if needed.

h. **Pooled Funds**: Shares in diversified investment vehicles consisting of the any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Short-term Money Market Funds that offer same-day liquidity and very low or no volatility will be used as an alternative to instant access bank accounts, while pooled funds whose value changes with market prices and/or have a notice period will be used for longer investment periods.

i. **Bond, equity and property funds** offer enhanced returns over the longer term but are more volatile in the short term. These allow the Council to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Council's investment objectives will be monitored regularly. These types of funds were introduced in 2013/14 and have provided increased yield although their capital value has shown some volatility requiring continued monitoring.

k. **Real estate investment trusts (REITs)**: Shares in companies that invest mainly in real estate and pay the majority of their rental income to investors in a similar manner to pooled property funds. As with property funds, REITs offer enhanced returns over the longer term, but are more volatile especially as the share price reflects changing demand for the shares as well as changes in the value of the underlying properties. The Council will carry out detail appraisal and take advice before any possible investment.

l. **Operational bank accounts**: The Council may incur exposure though its current accounts to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Council maintaining operational continuity. The Council currently banks with Lloyds Banking Group rated A+

m. **Long Term investments**: Alongside pooled funds the Council may use long term investments when they are appropriately secure over the term of the investment. A limit of £70m has been set total long term (over a year) investments.

n. **Risk Assessment and Credit Ratings**: Credit ratings are monitored by the Council's treasury advisors, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made,
- any existing investments that can be ended at no cost will be; and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

Where a credit rating agency announces that a rating is on review for possible downgrade (also known as "rating watch negative" or "credit watch negative") so that it may fall below the approved rating criteria, then no investments other than call investments will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

B8.2 Due care will be taken to consider the exposure of the Council's total investment portfolio to non-specified investments, countries, groups and sectors.

a) **Non-specified treasury management investment limit.** The Council has determined that it will limit the maximum total exposure of treasury management investments to non-specified treasury management investments as being £70m of the total treasury management investment portfolio.
b) **Country limit.** The Council has determined that it will only use approved counterparties from the UK and from countries with a **minimum sovereign credit rating of AA-** from Fitch or equivalent The list of countries that qualify using this credit criteria as at the date of this report are shown in Appendix 5.6. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

c) **Other limits.** In addition:

- no more than £20m will be placed with any non-UK country at any time;
- limits in place above will apply to a group of companies;
- sector limits will be monitored regularly for appropriateness.

B8.3 Treasury Management consultants – the Council uses Link Group, Treasury Solutions as its external treasury management advisors.

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

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

B9 Investment performance

B9.1 The Council will use an investment benchmark to assess the investment performance of its investment portfolio of 12-month LIBID uncompounded. The Council is appreciative that the provision of LIBOR and associated LIBID rates is expected to cease at the end of 2021. It will work with its advisors in determining suitable replacement investment benchmark(s) ahead of this cessation and will report back to members accordingly.

B9.2 External fund managers – As at 31 December 2020 £6m of the Council's funds is externally managed on a discretionary / pooled basis by CCLA and Lothbury Property Funds

The Council's external fund manager(s) will comply with the Annual Investment Strategy. The agreement(s) between the Council and the fund manager(s) additionally stipulate guidelines on duration and other limits in order to contain and control risk.

The Council fully appreciates the importance of monitoring the activity and resultant performance of its appointed external fund manager. In order to aid this assessment, the Council is provided with a suite of regular reporting from its manager. This includes: receiving quarterly statements and annual reports.

In addition to formal reports, the Council also meets with representatives of the fund manager on a semi-annual basis. These meetings allow for additional scrutiny of the manager's activity as well as discussions on the outlook for the fund as well as wider markets.

B10 Investment Security and Borrowing

B10.1 The Council understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements and reports in the quality financial press. <u>No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the Council's credit rating criteria.</u>

B10.2 When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2011, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Council will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Council's cash balances, then the surplus will be deposited with the UK Government via the Debt Management Office or invested in government treasury bills for example, or with other local authorities. This will cause a reduction in the level of investment income earned but will protect the principal sum invested.

B10.3 Investment limits: The Council's revenue reserves available to cover investment losses are forecast to be in the region of £8m on 31 March 2021. A group of banks under the same ownership will be treated as a single organisation for limit purposes. Limits will also be placed on fund managers, investments in brokers' nominee accounts, foreign countries and industry sectors as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

B10.4 Cash flow management: The Council's officers maintain a detailed cash flow forecast for each coming year revising it as more information is available. This informs the short-term investments such as those to cover precept payments. The forecast is compiled on a prudent basis, with receipts under-estimated and payments over-estimated, creating a buffer to minimise the risk of the Council being forced to borrow on unfavourable terms to meet its financial commitments. Long term investment strategy is based on the Council's medium term financial strategy.

B10.5 Treasury Management Indicators

B10.5.1 Security benchmark: The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the historic risk of default of its investments against a maximum target rate.

As an example, based on historic data, a AAA (least risk) rated investment has 0.04% chance of default within 1 year and a 0.17% chance of default within 3 years. A -BBB (most risk) rated investment has a 0.65% chance of default within 1 year and a 3.22% chance of default within 3 years.

	Target
Historic risk of default	0.25% (max)

Table 13 Security Benchmark Target

The historic risk of default on the Council's current portfolio as at 30 November 2020 is 0.0127%

B10.5.2 Maturity structure of borrowing: This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of borrowing (fixed rate and variable rate) borrowing are shown below.

Maturity structure of fixed & variable interest rate borrowing		
	Lower	**Upper**
Under 12 months	0%	75%
12 months to 2 years	0%	75%
2 years to 5 years	0%	75%
5 years to 10 years	0%	75%
10 years to 20 years	0%	75%
20 years to 30 years	0%	75%
30 years to 40 years	0%	75%
40 years to 50 years	0%	75%

Table 14 Limits on maturity structure of borrowing

B10.5.3 Principal sums invested for periods longer than a year: The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the total long-term principal sum invested to final maturities beyond the period end will be:

Maximum principal sums invested > 365 days				
	2019/20 £m	**2020/21 £m**	**2021/22 £m**	**2022/23 £m**
Principal sums invested for longer than 365 days	30	70	70	70
Current investments in excess of 1 year maturing in each year	17.940	20.940	5.500	23.9

Table 15 Maximum Principal Invested more than 365 days

B10.5.4 Other Treasury Management Issues

B10.5.4.2 **Markets in Financial Instruments Directive**: The Council has opted up to professional client status with its providers of financial services, including advisers, banks, brokers and fund managers, allowing it access to a greater range of services but without the greater regulatory protections afforded to individuals and small companies. Given the size and range of the Council's treasury management activities, the Head of Corporate Resources and Chief Financial Officer believes this to be the most appropriate status.

B11 Economic Background

B11.1 At the November meeting of its Monetary Policy Committee (MPC), the Bank of England (BoE) revised its economic forecasts downwards to take account of the second national lockdown imposed to try and link the spread of the Coronavirus. It also announced a further £150bn of Quantitative Easing (QE) to start in January 2021 to help support the economy, on top of the £300bn announced in March to June of this year. Whilst the MPC made no mention of negative interest rates, the MPC affirmed it will take whatever action necessary to achieve its remit.

B11.2 Forward guidance issued by the BoE in August indicated it does not intend to tighten monetary policy until there is clear evidence significant progress of being made in eliminating spare capacity in the economy and achieving its 2% Consumer Price Index (CPI) inflationary target sustainably. This suggests the MPC may not take action to raise Bank Rate from its current level of 0.1% until they can clearly see the level of inflation is going to be persistently above target.

B11.3 The Bank Rate forecast provided by Link Group currently shows no increase through to quarter 1 2024, but there could be no increase during the next five years due to the slow rate of recovery of the economy and the need for the Government to see the burden of elevated debt to Gross Domestic Product (GDP) ratio falling significantly.

B11.4 Public borrowing is now likely to increase to around £420bn (23% of GBP) as a result of the new lockdown. In normal times, such an increase in total gilt issuance would lead to a rise in gilt yields, and so Public Works Loan Board (PWLB) borrowing rate. However, the QE done by the BoE has depressed gilt yields to historic low levels.

B11.5 Overall, the pace of recovery is not expected to be in the form of a rapid 'V' shape, but a more elongated and prolonged one. The lockdown is now expected to depress GDP by 8% in November and unemployment is expected to increase to a peak of around 9% during the middle of 2021. If a successful vaccine was widely administered in the UK in the first half of 2021 this would cause a much quicker economic recovery.

B11.6 The interest rate forecasts provided by Link Group are predicated on an assumption of a reasonable agreement being reached on trade negotiations between the UK and the European Union (EU) by the end of December 2020. Relative to the slump in GDP endured during the Coronavirus crisis, any hit from a 'no deal' exit from the EU would be small. But the pandemic does mean there is less scope for policy to respond.

B12 Credit Outlook

B12.1 The BoE's Financial Policy Committee (FPC) report of August 2020 revised down its estimate of credit losses for the banking sector to "somewhat less than £80bn". It stated that in its assessment "banks have buffers of capital more than sufficient to absorb the losses that are likely to arise under the MPC's central projection".

B13.1 The FPC stated that for real stress in the banking sector, the economic output would need to be twice as bad as the MPC's projection, with unemployment rising to above 15%.

%	Mar 21	Jun 21	Sep 21	Dec 21	Mar 22	Jun 22	Sep 22	Dec 22	Mar 23
Bank Rate	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
5yr PWLB Rate	1.80	1.80	1.80	1.80	1.90	1.90	1.90	1.90	1.90
10yr PWLB Rate	2.10	2.10	2.10	2.20	2.20	2.20	2.30	2.30	2.30
25yr PWLB Rate	2.50	2.60	2.60	2.60	2.60	2.70	2.70	2.70	2.70
50yr PWLB Rate	2.30	2.40	2.40	2.40	2.40	2.50	2.50	2.50	2.50

Table 16 Interest Rate Forecast March 2021 – March 2023

B13 Present Position and Forecast

B13.1 On 31 December 2020 the Council held £157.000m of borrowing and £143.380m of investments at market value; broken down as follows:

	Actual 31 March 2020 £000s	Current 31 December 2020 £000s
Call Accounts		
Other Local Authorities / Registered Providers	85,380	103,380
Banks / Building Societies – rated	12,000	22,000
Banks / Building Societies – unrated	0	0
Total managed in-house	97,380	125,380
Pooled Funds	15,000	15,000
Bonds and Certificates of Deposit	12,300	3,000
Total managed externally	27,300	18,000
Total Treasury Investments	**124,680**	**143,380**
PWLB	54,300	94,300
Other Long-Term Borrowing	66,700	50,700
Short Term Borrowing	34,000	12,000
Total External Borrowing	**155,000**	**157,000**
Net Treasury Investments / (Borrowing)	**(30,320)**	**(13,620)**

Table 17 Net Investments Summary

The balance sheet of the Council can be projected to estimate the amounts available for investments. Below is the current projected analysis of the balance sheet to illustrate the trajectory of the Council's funds.

Year End Resources £m	2019/20 Actual £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m
Fund balances / reserves	35.165	35.165	35.165	35.165	35.165
Capital receipts	9.646	5.628	9.511	8.981	8.451
Provisions	5.386	7.072	7.072	7.072	7.072
Total core funds	**50.197**	**47.865**	**51.748**	**51.218**	**50.688**
Working capital (surplus) / deficit	**10.939**	**10.000**	**10.000**	**10.000**	**10.000**
Under/(over) borrowing	**(73.109)**	**(43.871)**	**20,363**	**49,101**	**106,894**
Expected Investments	**134.245**	**101.736**	**41.385**	**12.117**	**(46.206)**

Table 18 Balance Sheet Analysis 2019/20 – 2023/24

Section C Knowledge and Skills

The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. For example, the Chief Financial Officer is a qualified accountant with over 12 years' experience and the Property Manager is a fellow of RICS with over 20 years of experience in commercial property. The Council will support junior staff to study towards relevant professional qualifications.

CIPFA require the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny. Appropriate treasury training will be offered to members on an annual basis. The training needs of treasury management officers are periodically reviewed.

Where Council staff do not have the knowledge and skills required, use is made of external advisers that are specialists in their field. The Council currently employs Link Group, Treasury Solutions as treasury management advisers.

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

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

Appendix A – Treasury Management Practice (TMP1) – Credit and Counterparty Risk Management

The MHCLG issued Investment Guidance in 2018, and this forms the structure of the Council's policy below. These guidelines do not apply to either trust funds or pension funds which operate under a different regulatory regime.

The key intention of the Guidance is to maintain the current requirement for councils to invest prudently, and that priority is given to security and liquidity before yield. In order to facilitate this objective, the guidance requires this Council to have regard to the CIPFA publication Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes. This Council has adopted the Code and will apply its principles to all investment activity. In accordance with the Code, the Chief Finance Officer has produced its treasury management practices (TMPs). This part, TMP 1(1), covering investment counterparty policy requires approval each year.

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

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

The investment policy proposed for the Council is:

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

Specified investments – These investments are sterling investments of not more than one-year maturity, or those which could be for a longer period but where the Council has the right to be repaid within 12 months if it wishes. They also include investments which were originally classed as being non-specified investments, but which would have been classified as specified investments apart from originally being for a period longer than 12 months, once the remaining period to maturity falls to under twelve months. These are considered low risk assets where the possibility of loss of principal or investment income is small. These would include sterling investments which would not be defined as capital expenditure with:

1. The UK Government (such as the Debt Management Account deposit facility, UK treasury bills or a gilt with less than one year to maturity).
2. Supranational bonds of less than one year's duration.
3. A local authority, housing association, parish council or community council.
4. Pooled investment vehicles (such as money market funds) that have been awarded a high credit rating by a credit rating agency. For category 4 this covers pooled investment

vehicles, such as money market funds, rated -BBB by Standard and Poor's, Moody's and / or Fitch rating agencies.

5. A body that is considered of a high credit quality (such as a bank or building society {although non-rated subsidiaries and non-rated building societies will need to be non-specified investments.}). For category 5 this covers bodies with a minimum Short-Term rating of – BBB or the equivalent) as rated by Standard and Poor's, Moody's and / or Fitch rating agencies.

Within these bodies, and in accordance with the Code, the Council has set additional criteria to set the time and amount of monies which will be invested in these bodies. Amount and time limits for counterparty investments are shown within table B4 of this report.

Non-specified investments – are any other type of investment (i.e. not defined as specified above). The identification and rationale supporting the selection of these other investments and the maximum limits to be applied are set out below. Non-specified investments would include any sterling investments with:

	Non Specified Investment Category	**Limit (£ or %)**
a.	**Supranational bonds greater than 1 year to maturity** **(a) Multilateral development bank bonds** - These are bonds defined as an international financial institution having as one of its objects economic development, either generally or in any region of the world (e.g. European Reconstruction and Development Bank etc.). **(b) A financial institution that is guaranteed by the United Kingdom Government** (e.g. National Rail) The security of interest and principal on maturity is on a par with the Government and so very secure. These bonds usually provide returns above equivalent gilt-edged securities. However, the value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity.	AAA long term ratings (or other of your choice)
b.	**Gilt edged securities** with a maturity of greater than one year. These are Government bonds and so provide the highest security of interest and the repayment of principal on maturity. Similar to category (a) above, the value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity.	
c.	**The Council's own banker** if it fails to meet the basic credit criteria. In this instance balances will be minimised as far as is possible.	
d.	Any **bank or building society** that has a minimum long-term credit rating of -BBB for deposits with a maturity of greater than one year (including forward deals in excess of one year from inception to repayment).	

e.	**Share capital** in a body corporate – The use of these instruments will be deemed to be capital expenditure, and as such will be an application (spending) of capital resources. Revenue resources will not be invested in corporate bodies. See note 1 below.	
f.	**Loan capital** in a body corporate. See note 1 below.	
g.	**Bond funds.** See note 1 below.	
h.	Other fund: ***1. Property and Diversified Income Funds*** ***2. Real Estate Investment Trusts*** Depending on the type of fund used, such investments may or may not, constitute capital expenditure. Where funds are capital, use of such investments would constitute capital expenditure, and as such an application (spending) of capital resources. This Authority will seek guidance on the status of any fund it may consider using.	

NOTE 1. This Authority will seek further advice on the appropriateness and associated risks with investments in these categories.

Within categories *e* to *h* and in accordance with the Code, the Council has developed additional criteria to set the overall amount of monies which will be invested in these bodies. These criteria are the Authority will ensure Due Diligence is carried out on te Counterparty before any such investment is undertaken.

The monitoring of investment counterparties - The credit rating of counterparties will be monitored regularly. The Council receives credit rating information (changes, rating watches and rating outlooks) from Link as and when ratings change, and counterparties are checked promptly On occasion ratings may be downgraded when an investment has already been made. The criteria used are such that a minor downgrading should not affect the full receipt of the principal and interest. Any counterparty failing to meet the criteria will be removed from the list immediately by the Chief Finance Officer, and if required new counterparties which meet the criteria will be added to the list.

Use of external fund managers – It is the Council's policy to use external fund managers for part of its investment portfolio. The fund managers will use both specified and non-specified investment categories, and are contractually committed to keep to the Council's investment strategy.

The Council's existing pooled investments include holdings in the CCLA and Lothbury Property Funds and the CCLA Diversified Income Fund.

The Council fully appreciates the importance of monitoring the activity and resultant performance of its appointed external fund manager. In order to aid this assessment, the Council is provided with a suite of regular reporting from its manager.

This includes: Monthly Statements received from Fund Managers along with annual reports

In addition to formal reports, the Council also meets with representatives of the fund manager on a semi-annual basis. These meetings allow for additional scrutiny of the manager's activity as well as discussions on the outlook for the fund as well as wider markets.