

**Appendix 1**

**Ashfield District Council**

**Treasury Management Strategy Statement**

**Minimum Revenue Provision Policy Statement and Annual Investment Strategy**

**2021/22**

# 1 INTRODUCTION

## 1.1 Background

- 1.1.1 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.
- 1.1.2 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 occasions, when it is prudent and economic, any debt previously drawn may be restructured to meet Council risk or cost objectives.
- 1.1.3 The contribution the treasury management function makes to the authority 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.
- 1.1.4 CIPFA defines treasury management as:

*"The management of the organisation'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."*

## 1.2 External Context

- 1.2.1 The information relating to the overall global position of the UK financial markets is currently provided by the Council's Treasury Management Advisers, Link Asset Services. They continue to update the Council with information including on-going market activity surrounding inflation, interest rates and the banking sector.
- 1.2.2 The coronavirus outbreak has done huge economic damage to the UK and economies around the world. The vaccine rollout offers hope for economic recovery in 2021.
- 1.2.3 **Brexit.** While the UK has been gripped by the long running saga of whether or not a deal would be made by 31st December, the final agreement on December 24<sup>th</sup>, followed by ratification by Parliament and all 27 EU countries in the following week, has eliminated a significant downside risk for the UK economy. The initial agreement only covers trade so there is further work to be done on the services sector where temporary equivalence has been granted in both directions between the UK and EU; that now needs to be formalised on a permanent basis.

- 1.2.4 Consumer Price Inflation has been below the Bank of England's target of 2% during 2020, it forecast that there would be excess demand in the economy by Q3 2022 causing CPI inflation to rise from very low levels currently to getting above the 2% target in Q3 2022, (based on market interest rate expectations for a further loosening in policy). Nevertheless, even if the Bank were to leave policy unchanged, inflation was still projected to be above 2% in 2023.
- 1.2.5 The Bank of England took emergency action in March to cut Bank Rate to first 0.25%, and then to 0.10%, it left Bank Rate unchanged at its last meeting on 5th November, although some forecasters had suggested that a move to negative interest rates may happen. However, the Governor of the Bank of England has made it clear that he currently thinks that such a move would do more damage than good and that more quantitative easing is the favoured tool if further action becomes necessary.
- 1.2.6 New lending terms for the Public Works Loans Board (PWLB) were released on 25<sup>th</sup> November 2020. The new terms states that Authorities will no longer be able to use PWLB borrowing if their capital plans include schemes where the primary aim is assets for yield i.e. purchases of investment properties. PWLB rates were cut by 1.00% for Authorities who do not have plans for assets for yield in their capital plans and therefore still have access to the PWLB.

### 1.3 Key Principles

- 1.3.1 The Council will follow three key principles with regards to its treasury activity:

*Public service organisations should put in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management and control of their treasury management activities.*

*Their policies and practices should make clear that the effective management and control of risk are prime objectives of their treasury management activities and that responsibility for these lies clearly within their organisations. Their appetite for risk should form part of their annual strategy, including any use of financial instruments for the prudent management of those risks, and should ensure that priority is given to security and portfolio liquidity when investing treasury management funds.*

*They should acknowledge that the pursuit of value for money in treasury management, and the use of suitable performance measures, are valid and important tools for responsible organisations to employ in support of their business and service objectives; and that within the context of effective risk management, their treasury management policies and practices should reflect this.*

### 1.4 Reporting requirements

- 1.4.1 The Cabinet are required to receive and approve, as a minimum, three main treasury management reports each year, which incorporate a variety of policies, estimates and actuals. Council are required to approve the Treasury Management Strategy including the Annual Investment Strategy.
- 1.4.2 **Treasury Management Strategy including Annual Investment Strategy, prudential and treasury indicators (this report)** - The first, and most important report covers:
- the capital plans (including prudential indicators);

- a minimum revenue provision (MRP) policy (how residual capital expenditure is charged to revenue over time);
- the treasury management strategy (how the investments and borrowings are to be organised) including treasury indicators; and
- an investment strategy (the parameters on how investments are to be managed).

1.4.3 **A mid-year treasury management report** – This will update members with the progress of the capital position, amending prudential indicators as necessary, and whether any policies require revision. This report is presented to the Audit Committee.

1.4.4 **An annual treasury report** – This provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the annual estimates within the strategy.

### 1.5 Scrutiny

The above reports are required to be adequately scrutinised before being recommended to the Council or/and Cabinet. This role is undertaken by the Audit Committee.

Table 1 below shows the reporting timetable for Treasury Management reports

**Table 1 – Reporting timetable**

<b>Report to Council and Cabinet</b>	<b>Frequency</b>
Treasury Management Strategy / Annual Investment Strategy and MRP Policy	Annually before the start of the year (1st April)
<b>Reports to Cabinet</b>	<b>Frequency</b>
Mid-Year Treasury Management Report	Annually mid-year (November/December)
Treasury Outturn Report	Annually after the year end and by the 30 September
<b>Reports to Audit Committee</b>	<b>Frequency</b>
Receives each of the above reports in advance of Council/Cabinet (where applicable) and makes recommendations as appropriate	In advance of year/mid-year/after year end and by 30 September

### 1.6 Capital Strategy

1.6.1 In December 2017, CIPFA issued revised Prudential and Treasury Management Codes. The revised Prudential Code requires all local authorities to produce a Capital Strategy report, which is intended 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; and
- the implications for future financial sustainability

1.6.2 The aim of this report is to ensure that all elected Members of the Council fully understand the overall strategy, governance procedures and risk appetite entailed in this Strategy.

- 1.6.3 The Capital Strategy will include capital expenditure, investments and liabilities and treasury management in sufficient detail to allow all members to understand how stewardship, value for money, prudence, sustainability and affordability will be secured.
- 1.6.4 The Capital Strategy is required to be approved by Council before the start of the new financial year in accordance with the Prudential Code 2017. The capital strategy will be received by Audit Committee in advance of Council for scrutiny and recommendations.

## 1.7 **Non-Treasury Management Investments**

- 1.7.1 The MHCLG issued revised Statutory Guidance on Local Government Investments (2018). The statutory guidance extended the definition of investment and states that the:

“The definition of an **investment** covers all of the financial assets of a local authority as well as other non-financial assets that the organisation holds primarily or partially to generate a profit; for example, investment property portfolios. This may therefore include investments that are not managed as part of normal treasury management processes or under treasury management delegations.

The Guidance requires that for each financial year, a local authority should prepare an Investment Strategy, which should be approved by full Council.

- 1.7.2 This Council will ensure that all the organisations non-treasury management investments are included in a non-treasury management investment strategy, which will be incorporated into the Capital Strategy. This will set out, where relevant, the organisations risk appetite and specific policies and arrangements for non-treasury investments. It will be recognised that the risk appetite for these activities may differ from that for treasury management.
- 1.7.3 The Council recognises that investment in other financial assets and property primarily for financial return, taken for non-treasury management purposes, requires careful investment management. Such activity includes loans supporting service outcomes, investment in subsidiaries, and investment property portfolios.
- 1.7.4 The Council will maintain a schedule setting out a summary of existing material investments, subsidiaries, joint ventures and liabilities including financial guarantees and the organisations risk exposure.

## 1.8 **Treasury Management Strategy**

- 1.8.1 The Treasury Management Strategy covers two main areas:

### **Capital issues**

- the capital plans and the prudential indicators;
- the minimum revenue provision (MRP) policy.

### **Treasury management issues**

- the current treasury position;
- treasury indicators which limit the treasury risk and activities of the Council;
- prospects for interest rates;
- the borrowing strategy;
- policy on borrowing in advance of need;

- debt rescheduling;
- the investment strategy;
- creditworthiness policy;
- Apportioning interest to the Housing Revenue Account and
- the policy on use of external service providers.

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

## 1.9 Cash and Cash Flow Management

1.9.1 It is important that the Council maintains regular cash flow projections to ensure that the Council has enough cash to meet its liabilities in a timely manner, minimises borrowing costs and, where practical to do so, invest surplus cash balances.

## 1.10 Training

1.10.1 The CIPFA Code requires 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.

1.10.2 Those charged with governance have a personal responsibility to ensure they have the appropriate skills and training for their role.

1.10.3 A training session delivered by Link Asset Services, the Council's treasury management advisors was held for the Audit Committee and extended to all members on the 16 December 2019. There has been no training in 2020/21 as we are currently out to tender for Treasury Management Advisers. Audit Committee training needs will be considered as part of the tender evaluation and arranged in accordance with the new contract.

## 1.11 Treasury management consultants

1.11.1 The Council currently uses Link Asset Services, Treasury solutions as its external treasury management advisors. The Council has issued an invitation to tender for its Treasury Management Advisers. The new contract for this service will commence on 1<sup>st</sup> April 2021.

1.11.2 The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers.

1.11.3 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.

1.11.4 The scope of investments within the Council's operations now includes both conventional treasury investments, (the placing of residual cash from the Council's functions), and more commercial type investments, such as investment properties. The commercial type investments require specialist advisers.

## 2 THE CAPITAL PRUDENTIAL AND TREASURY INDICATORS

- 2.1.1 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.
- 2.1.2 The Council will ensure that all of its capital and investment plans and borrowing are prudent and sustainable. In doing so it will take into account its arrangements for the repayment of debt (including through MRP) and consideration of risk and the impact, and potential impact, on the authority's overall fiscal sustainability. While indicators for sustainability are required to be set over a minimum 3 year rolling period, indicators should be set in line with a capital strategy and asset management plan that is sustainable over the longer term. There should also be separate indicators for the Housing revenue Account (HRA).

### 2.2 Capital expenditure

Table 2 below summarises the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. The Capital Programme for 2020/21 to 2024/25 is to be presented to cabinet as a separate agenda item at the February 2021 Cabinet meeting, with final approval being sought by Council in March 2021. Members will be asked to approve the capital expenditure forecasts at least annually.

**Table 2 - Capital Expenditure**

<b>Capital expenditure £m</b>	<b>2019/20 Actual</b>	<b>2020/21 Estimate</b>	<b>2021/22 Estimate</b>	<b>2022/23 Estimate</b>	<b>2023/24 Estimate</b>	<b>2024/25 Estimate</b>
General Fund	4.861	8.297	22.624	2.592	3.263	2.768
HRA	6.452	5.677	15.358	18.629	13.360	15.546
Commercial activities / non financial investments	39.091	3.305	0.000	0.000	0.000	0.000
<b>Total</b>	<b>50.404</b>	<b>17.279</b>	<b>37.982</b>	<b>21.221</b>	<b>16.623</b>	<b>18.314</b>

Table 3 below summarises how the capital expenditure plans will be financed by capital or revenue resources. Any shortfall of resources results in a borrowing need. The Direct Revenue Financing is mainly use of Housing Revenue Account reserves to support the Decent Homes work and Affordable Housing Development Schemes.

**Table 3 - Financing of the Capital Expenditure**

<b>Financing of Capital expenditure £m</b>	<b>2019/20 Actual</b>	<b>2020/21 Estimate</b>	<b>2021/22 Estimate</b>	<b>2022/23 Estimate</b>	<b>2023/24 Estimate</b>	<b>2024/25 Estimate</b>
Capital Receipts	1.384	0.536	2.197	1.180	1.180	1.180
Capital Grants	2.180	4.001	5.484	1.452	0.848	0.848
Capital Reserves	0.070	0.205	0.000	0.000	0.000	0.000
Direct Revenue Financing	5.068	5.304	11.931	16.845	12.180	14.366
<b>Borrowing Requirement</b>	<b>41.702</b>	<b>7.233</b>	<b>18.370</b>	<b>1.744</b>	<b>2.415</b>	<b>1.920</b>

Table 4 identifies the capital expenditure and borrowing requirement within table 3, which specifically relates to the planned level of investment in Commercial Investment Property.

It shows the forecast Commercial Investment Property borrowing requirement as a percentage of the overall borrowing requirement and the financing costs i.e. Minimum Revenue Provision (MRP) costs associated with the borrowing requirement for Commercial Investment Property.

**Table 4 Commercial Investment Property**

<b>Commercial Activities / non financial</b>	<b>2019/20 Actual</b>	<b>2020/21 Estimate</b>	<b>2021/22 Estimate</b>	<b>2022/23 Estimate</b>	<b>2023/24 Estimate</b>	<b>2024/25 Estimate</b>
Capital Expenditure	39.091	3.305	0.000	0.000	0.000	0.000
<b>Borrowing Requirement</b>	<b>39.091</b>	<b>3.305</b>	<b>0.000</b>	<b>0.000</b>	<b>0.000</b>	<b>0.000</b>
Percentage of net financing need %	<b>93.7%</b>	<b>45.7%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>
Financing Costs	0.290	0.883	0.954	0.977	1.001	1.026

### **2.3 The Council's borrowing need (the Capital Financing Requirement)**

#### **2.4**

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 the historic unfunded capital expenditure). It is essentially a measure of the Council's indebtedness and therefore its underlying borrowing need. Any capital expenditure above, which is financed by borrowing will increase the CFR. The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the indebtedness in line with each assets life,

and so charges the economic consumption of capital assets to revenue as they are used. The CFR includes any other long-term liabilities (e.g. PFI schemes, 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 has no PFI schemes or other long-term liabilities.

2.4 IFRS 16 Lease accounting becomes effective on 1<sup>st</sup> April 2022. This accounting standard requires that both finance leases and operating leases are included on the Balance Sheet. Previously the requirement was only for finance leases to be shown on the Balance Sheet. This in effect means that any existing operating leases and any new leases the Council enters into will need to be treated as capital expenditure and increase the CFR. The Council is currently assessing the impact of the introduction of this new standard, although it is not expected to be material. The capital prudential indicators reflect lease asset costs from year 2022/23 which is the year the standard becomes effective from.

## 2.5 Core funds and expected investment balances

As outlined above the underlying borrowing for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. The Council's current strategy is to maintain actual borrowing and investments below their underlying levels, sometimes known as internal borrowing.

2.6 Table 5 below outlines the Balance Sheet Summary and Forecast excluding the Planned Commercial Investment Property. It shows the actual external debt (the treasury management operations), against the underlying capital borrowing need (CFR), highlighting the Council's level of under/over borrowing. It also includes a forecast for the year-end balances for usable reserves and working capital (the resources available to internally borrow against), and shows the forecast level of investment or new external debt.

### Table 5 - Balance Sheet Summary and Forecast

2.7 The Council has an increasing CFR until the end of 2021/22 due to the future planned unfunded capital expenditure, mainly the Leisure Centre Projects. After which the CFR reduces as *MRP charges exceed unfunded capital expenditure*. This position is continually reviewed due to the level of reserves and working capital having many variables and due to slippage in delivery of the capital programme making forecasting with certainty difficult. The associated costs for this level of borrowing have been provided for in the Medium Term Financial Strategy.

31st March:	2020	2021	2022	2023	2024	2025
Loans Capital Financing Requirement	160.9	165.8	182.5	181.0	180.1	178.4
Less: External Borrowing	-102.0	-97.0	-97.0	-90.5	-86.3	-85.1
<b>Internal (Over) Borrowing</b>	<b>58.8</b>	<b>68.8</b>	<b>85.5</b>	<b>90.5</b>	<b>93.8</b>	<b>93.3</b>
Less: Usable Reserves	-60.8	-65.5	-59.9	-52.2	-51.2	-50.8
Less: Working Capital Surplus	-6.3	-6.3	-6.3	-6.3	-6.3	-6.3
<b>Investments / (New Borrowing)</b>	<b>8.3</b>	<b>3.1</b>	<b>-19.2</b>	<b>-32.0</b>	<b>-36.2</b>	<b>-36.3</b>
Net Borrowing Requirement	93.7	94.0	116.3	122.5	122.5	121.3
Preferred Year -end Position	0.0	0.0	0.0	0.0	0.0	0.0
<b>Liability Benchmark</b>	<b>93.7</b>	<b>94.0</b>	<b>116.3</b>	<b>122.5</b>	<b>122.5</b>	<b>121.3</b>

## 2.8 **Affordability prudential indicators**

The strategy details the overall capital and control of borrowing prudential indicators, but within this framework, prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances.

## 2.9 **Ratio of financing costs to net revenue stream (See Appendix A Table 1)**

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. The estimates of financing costs include current commitments and the proposals in the budget report.

## 2.10 **Treasury indicators for debt (See Appendix A Table 8 and 9)**

There are three debt related treasury activity limits. The purpose of these are to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set to be too restrictive they will impair the opportunities to reduce costs / improve performance. The indicators are:

- Upper limits on variable interest rate exposure. This identifies a maximum limit for variable interest rates based upon the debt position net of investments
- Upper limits on fixed interest rate exposure. This is similar to the previous indicator and covers a maximum limit on fixed interest rates;
- Maturity structure of borrowing. These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.

## 2.11 **Treasury Indicators: limits to borrowing activity**

2.11.1 **The operational boundary (See Appendix A Table 6).** This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt and the ability to fund under-borrowing by other cash resources.

2.11.2 **The authorised limit for external debt (See Appendix A Table 5).** A further key prudential indicator represents a control on the maximum level of borrowing. This represents a 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 the 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 councils' plans, or those of a specific council, although this power has not yet been exercised.

**The latest Affordability Prudential Indicators and Treasury Indicators are attached at Appendix 'A'.**

## TREASURY MANAGEMENT STRATEGY STATEMENT

2.12 The capital expenditure plans set out details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity and the Council's capital strategy. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

2.13 This Council defines its treasury management activities as:

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

*This Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.*

*This Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.*

2.14 The investment policy objective of this Council is the prudent investment of its treasury balances. The Council's investment priorities are the security of capital and liquidity of its investments so that funds are available for expenditure when needed. Both the CIPFA code and MHCLG guidance require the Authority 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 generation of investment income to support the provision of local authority services is important, but secondary, objective.

2.15 The Council's borrowing objectives are to minimise the revenue costs of debt whilst maintaining a balanced loan portfolio. The Council will set an affordable borrowing limit each year in compliance with the Local Government Act 2003 and will have regard to the CIPFA Prudential Code for Capital Finance in Local Authorities when setting that limit.

2.16 **Current portfolio position**

The Council's current treasury portfolio position is set out in **Appendix 'B'**.

2.17 **Prospects for interest rates**

The Council has appointed Link Asset Services as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. The details of their latest view is shown in **Appendix 'C'** to this report.

## 2.18 **Borrowing strategy**

2.18.1 The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is still an issue that needs to be considered.

2.18.2 Against this background and the risks within the economic forecast, caution will be adopted within the treasury operations. The S151 Officer will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances. Any decisions will be reported to the appropriate decision making body at the next available opportunity.

2.18.3 The approved sources of long term and short term borrowing are:

- 2.18.3.1 Public Works Loans Board (PWLB) and any successor body.
- 2.18.3.2 Any institution approved for investments (see Annual Investment Strategy below)
- 2.18.3.3 Any bank or building society authorised to operate in the UK.
- 2.18.3.4 UK public bodies including pension funds (excluding Nottinghamshire County Council Pension Fund)
- 2.18.3.5 Capital Market bond investors.

2.18.4 In addition, capital finance may be raised by the following methods that are not classed as borrowing, but may be classed as other debt liabilities:

- 2.18.4.1 Operating and Finance leases
- 2.18.4.2 Hire Purchase
- 2.18.4.3 Sale and leaseback

2.18.5 **LOBOs:** The Council holds £25.5m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Council has the option either to accept the new rate or to repay the loan at no additional cost. No LOBOs have options during 2021/22. The next option will be in 2023/24. The Council understands that lenders are unlikely to exercise their options in the current low interest rate environment; there remains an element of refinancing risk. The Council will take the option to repay LOBO loans at no cost if it has the opportunity to do so. It is unlikely that the Council will take out any new LOBO loans in the future.

## 2.19 **Policy on borrowing in advance of need**

The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds. Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

2.19.1 Within the range of prudential indicators there are a number of 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.

2.19.2 The Corporate Finance Manager reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in the 2021/22 annual budget report.

## 2.20 Debt rescheduling

2.20.1 As short-term borrowing rates will be considerably cheaper than longer term fixed interest rates, there may be potential opportunities to generate savings by switching from long-term debt to short-term debt. However, these savings will need to be considered in the light of the current treasury position and the size of the cost of debt repayment (premiums incurred).

2.20.2 The reasons for any debt rescheduling to take place will include:

- the generation of cash savings and / or discounted cash flow savings;
- helping to fulfil the treasury strategy;
- Enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

2.20.3 Consideration will also be given to identify if there is any residual potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.

## 2.21 Apportioning interest to the Housing Revenue Account

2.21.1 The Council currently operates a one pool approach. The interest charges are initially charged to the General Fund and recharged to the Housing Revenue Account (HRA) through the Item 8 (item 8 of Part I and item 8 of Part II of Schedule 4 to, the Local Government and Housing Act 1989) adjustment. The Council has fixed an interest rate of 4.43% by which it will charge the Capital Financing Requirement (CFR) of the HRA. The HRA CFR currently is £80.131m. If this does not change the annual interest amount charged to the HRA will be £3.550m.

2.21.2 The Council will credit the HRA each year with its share of interest receivable. This will be calculated by multiplying the average HRA reserve balance by the average interest receivable percentage.

### **3 ANNUAL INVESTMENT STRATEGY**

#### **3.1.1 Investment policy**

- 3.1.2 The Council's investment policy has regard to the MHCLG's Guidance on Local Government Investments ("the Guidance") and the CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017 ("the CIPFA TM Code"). The Council's investment priorities will be security first, portfolio liquidity second, and then return.
- 3.1.3 In accordance with the above guidance from the MHCLG and CIPFA, and in order to minimise the risk to investments, the Council applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the Short Term and Long Term ratings.
- 3.1.4 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.
- 3.1.5 Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

#### **3.2 Creditworthiness policy**

- 3.2.1 The primary principle governing the Council's investment criteria is the security of its investments, followed by liquidity, although the yield or return on the investment is also a key consideration. After this main principle, the Council will ensure that:
- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the specified and non-specified investment sections below; and
  - It has sufficient liquidity in its investments. For this purpose, it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested.
- 3.2.2 The S151 Officer will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to Council for approval as necessary. These criteria are separate to that which determines which types of investment instrument are either specified or non-specified as it provides an overall pool of counterparties considered high quality which the Council may use, rather than defining what types of investment instruments are to be used.
- 3.2.3 Credit rating information is supplied by Link Asset Services, our treasury advisors, on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list.

- 3.2.4 The intention of the strategy is to provide security of investment and the minimisation of risk. The aim is to generate a list of highly creditworthy counterparties which will also enable diversification and thus avoidance of concentration risk.

The Council's general policy objective is to invest its surplus funds prudently. The Council's investment priorities are:

highest priority - security of the invested capital;  
followed by - liquidity of the invested capital (this enables the Council to react to changing circumstances);  
finally - an optimum yield which is proportionate with security and liquidity.

Investments made by the Council's Officers are restricted to the following organisations:-

- (a) Banks or Building Societies who currently meet the Link Asset Services suggested investment duration
- (b) Nationalised Industries and Statutory Corporations
- (c) Other Government Institutions
- (d) Other Local Authorities
- (e) Money Market Funds
- (f) Bills of Exchange which have been accepted by authorised institutions
- (g) United Kingdom Gilt-edged Securities
- (h) Negotiable instruments such as Certificates of Deposit, Treasury Bills and Corporate Bonds
- (i) Approved counterparties from countries with a minimum sovereign credit rating of AAA with reference to the lowest rating from Fitch, Moody's or Standard & Poor's, with the exception of UK.

Total investments with any one institution shall not exceed £5m.

Total investments of over 365 days shall not exceed £5m in total.

The Council's operational bank account is currently provided by Barclays Bank.

### **3.2.5 Use of additional information other than credit ratings.**

Additional requirements under the Code require the Council to supplement credit rating information. Whilst the above criteria relies primarily on the application of credit ratings to provide a pool of appropriate counterparties for officers to use, additional operational market information will be applied before making any specific investment decision from the agreed pool of counterparties. This additional market information (for example Credit Default Swaps, negative rating Watches/Outlooks) will be applied to compare the relative security of differing investment counterparties.

## **3.3 Specified investments/unspecified investments**

- 3.3.1 Investments are categorised as specified and non-specified investments.

**Specified investments** defined by MHCLG guidance as those:

- Denominated in pound sterling,
- Due to be repaid within 12 months of arrangements,
- Not defined as capital expenditure by legislation,
- Invested with one of:
  - The UK Government
  - A UK local authority, parish council, or community council, or
- A body or investment scheme of "high credit quality"

The Council now defines “high credit quality” organisations as those having a minimum sovereign credit rating of AAA.

**Non-specified investments** - 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. Once an investment is classed as non-specified, it remains non-specified all the way through to maturity.

3.3.2 The Council does not currently hold any non-specified investments. The Council is setting a limit of £5m for non-specified investments to allow for use of non-specified investments, should it be considered appropriate to use these in the future and so the Council it is not restricted by the strategy. Non-specified investments will be limited to long-term investments, i.e. those that are due to mature 365 days or longer from the date of arrangements, and instruments that are more complex such as diversified or property funds.

### 3.4 Country and sector limits

Due care will be taken to consider the country, group, and sector exposure of the Council’s investments. The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AAA from rating agencies.

Total investments with any one group shall not exceed £5m.

Sector limits will be monitored regularly for appropriateness.

### 3.5 Investment strategy

3.5.1 **In-house funds.** Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months). Greater returns are usually obtainable by investing for longer periods. While most cash balances are required in order to manage the ups and downs of cash flow, where cash sums can be identified that could be invested for longer periods the value to be obtained from longer term investments will be carefully assessed.

- If it is thought that Bank Rate is likely to rise significantly within the time horizon being considered, then consideration will be given to keeping most investments as being short term or variable.
- Conversely, if it is thought that Bank Rate is likely to fall within that time period, consideration will be given to locking in higher rates currently obtainable, for longer periods.

**Investment returns expectations.** Bank Rate is expected to remain at 0.1% from now until 2023/24. Table 7 below shows the forecast Bank Rates for financial year ends (31 March):

Table 7 - Forecast Bank Rates for financial year ends (31 March):

Year	Base Rate
2020/21	0.10%
2021/22	0.10%
2022/23	0.10%
2023/24	0.10%

- 3.5.2 Table 8 below shows the forecast investment earnings rates for returns on investments placed for periods up to about three months during each financial year are as follows:

Table 8 – Forecast Investment Rates

Year	Average Return
2020/21	0.10%
2021/22	0.10%
2022/23	0.10%
2023/24	0.10%

- 3.5.3 The overall balance of risks to these forecasts is currently towards the downside and are dependent on how strong GDP growth turns out and how quickly inflation pressures rise.

- 3.5.4 **Investment treasury indicator and limit - Total principal funds invested for greater than 365 days.** This limit is set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment. It is based on the availability of funds beyond each year-end. The Council's investment treasury indicator and limit for 2021/22 is to be £5m.

### 3.6 Investment Liquidity

In consultation with the external treasury advisors, the Council will review its balance sheet position, level of reserves and cash requirements in order to determine the length of time for which investments can be prudently committed. Investments will be placed at a range of maturities, including having money on-call in order to maintain adequate liquidity.

### 3.7 External Fund Manager

External fund managers can be appointed to manage a portfolio of investments. The Council currently has no funds externally managed and is unlikely to do so in the short to medium term.

### 3.8 End of year investment report

At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Report.

## 4 MINIMUM REVENUE PROVISION (MRP) STATEMENT

- 4.1 An underpinning principle of the local authority financial system is that all capital expenditure has to be financed either from capital receipts, capital grants (or other contributions) or eventually from revenue. The amount charged to the revenue budget for the capital expenditure is known as Minimum Revenue Provision (MRP), although there has been no statutory minimum since 2008.

- 4.2 The Local Government Act 2003 requires the Council to have regard to the Ministry of Housing Communities and Local Government (MHCLG) 'Guidance on Minimum Revenue Provision'. The latest guidance was issued in February 2018.
- 4.3 The broad aim of the MHCLG Guidance is to ensure a prudent provision is made from revenue over time to cover the total amount of capital expenditure needed to be met from revenue. A prudent provision is considered to be, where the period over which MRP is charged is aligned to the period over which the capital expenditure provides benefits (asset life). MRP cannot be negative, and can only be zero if the CFR is nil or negative, or if the charge is fully reduced by reversing previous overpayments. A maximum asset life of 50 years can be used, unless in the opinion of an appropriately qualified professional advisor the life of the asset is expected to exceed 50 year.
- 4.4 The MHCLG Guidance requires the Council to approve an Annual MRP Statement each year, and recommends a number of options for calculating a prudent amount of MRP. However, the guidance gives flexibility in how MRP is calculated, providing the calculation is 'prudent'. The following policy included in the statement incorporates options recommended in the Guidance as well as locally determined prudent methods.
- 4.5 In accordance with the latest MHCLG Guidance, for capital expenditure financed by borrowing, the Council has four broad options:
- The 4% reducing balance method.
  - The straight line asset life method
  - The annuity asset life method
  - The Depreciation method.
- 4.6 Minimum Revenue Provision Policy**
- 4.7 Regulation 28 of the 2003 Regulations requires the Council to calculate in each financial year a prudent provision to ensure that debt is repaid over a period that is reasonably commensurate with that over the capital expenditure provides benefits (asset life).
- 4.8 For pre 2008 supported borrowing, the Council will move to a 50 year Annuity method, charging MRP based on a corresponding 50 year PWLB borrowing rate. This is more prudent than the current 4% reducing balance as this calculation extends to over 300 years.
- 4.9 For post 2008 it is proposed that unsupported borrowing, and any new borrowing, MRP will be calculated as follows:
- For assets with a life of 10 years or less, the straight line asset life method (as is currently the case).
  - For assets with a life in excess of 10 years, the annuity asset life method will be used.
- 4.10 The asset life method calculation requires estimated useful lives of assets to be input in to the calculations. These life periods will be determined by the Chief Financial Officer (S151), with regard to the statutory guidance and advice from professional valuers if required.
- 4.11 The annuity rate used for the MRP charge will be the Public Works Loans Board (PWLB) certainty rate on the date the capital expenditure is incurred, where a one-off

capital payments is made i.e. for investment properties. For all other capital expenditure funded from borrowing, where the expenditure is incurred over a period of time, the average annual PWLB certainty rate for the financial year will be used.

- 4.12 The Chief Financial Officer (S151) may also determine that if, in their opinion, the straight line method is more prudent for an asset with a life in excess of 10 years then this option may be used.
- 4.12.1 MRP will be not be charged until the later of: the year after capital expenditure is incurred or the year after the asset becomes operational.
- 4.13 Capital Receipts from the sale of investment properties funded as prudential borrowing will be used to reduce the Capital Financing Requirement by the outstanding prudential borrowing for the asset sold.
- 4.14 No MRP will be charged for assets in the Housing Revenue Account.
- 4.15 Voluntary Revenue Provision (VRP) may be made at the discretion of the S151 Officer.
- 4.16 For leases that are included on the balance sheet the MRP charge will be the same as the principal repayment on the lease.
- 4.17 Where loans are made to third parties for their capital expenditure, no MRP will be charged. However, the capital receipts generated by the annual repayments on those loans will be put aside to repay debt instead.

## Annex A Prudential Indicators

### Prudential Indicators of Affordability

The Council is required to consider all of its available resources in the medium term (usually defined as three years) together with total plans for expenditure. Any known significant variations beyond this timeframe also need to be taken into account.

The Prudential indicators for affordability are as follows:

- a) Estimate of the ratio of financing costs to the net revenue stream for the next three years split between the Housing Revenue Account and the General Fund

For the next three years the Council is required to calculate an estimated ratio of its financing costs to net revenue stream for both the General Fund and the Housing Revenue Account (HRA). For the HRA this is calculated by dividing the HRA capital financing costs by the total estimated Council Dwelling Income. For the General Fund this is calculated by dividing the General Fund capital financing costs by the estimated Council Tax Receipt plus Central Government Grants.

The suggested indicators for the next three years are displayed in Table 1 below.

**Table 1 – Ratio of financing costs to net revenue stream for the Housing Revenue Account and General Fund.**

	<b>2021/2022</b>	<b>2022/2023</b>	<b>2023/2024</b>
	<b>%</b>	<b>%</b>	<b>%</b>
Housing Revenue Account	14.60	14.28	14.04
General Fund	20.32	33.96	33.56

The Ratio for the General Fund increases from 2022/23 as a result of reduced Government funding and increased MRP charges due to Leisure Centre Developments.

- b) Estimate of the incremental impact of capital investment decisions on the Council Tax and Rent Levels

Authorities are required to estimate for the next three years the impact on the Council Tax (General Fund) and Rent levels (HRA) of the capital programme including running costs and financing costs. These indicators have been prepared using the revised Capital Programme, on the same agenda as this report. The capital financing costs for the Investment Properties have been included in the indicators in table 2 below. It is expected that the rental income for the Investment Properties will exceed their capital financing costs.

The suggested indicators for the incremental impact for the next three years are shown in Table 2 below.

**Table 2 - Incremental Impact of capital investment decisions on Council Tax and Rent Levels**

	<b>2021/2022</b> <b>£</b>	<b>2022/2023</b> <b>£</b>	<b>2023/2024</b> <b>£</b>
General Fund (Band D)	25.33	25.45	7.88
HRA (52 weeks)	0	0	0

Table 2 includes Minimum Revenue Provision (MRP) and interest payable as the incremental charges for capital investment funded by borrowing. MRP is not charged until the later of i) the year following purchase or ii) the year the asset becomes operational. Therefore, the MRP charges are included in the calculations in the year it is estimated the MRP charges will be made. The ratio for the General Fund is calculated by estimating the interest payable on the average capital borrowing requirement plus the MRP charges and dividing this by the estimated number of band D equivalents.

There is not anticipated to be any new borrowing for the HRA between 2021/22 – 2023/24.

c) Net borrowing and the Capital Financing Requirement split between the General Fund and the Housing Revenue Account

In order to ensure that in the medium term borrowing is only undertaken for capital purposes, local authorities are required to ensure that external borrowing does not exceed, except in the short term, the total of their capital financing requirement over the planning period. In broad terms the capital financing requirement reflects an authority's need to borrow for capital purposes and is a measure of the assets contained on the balance sheet which have as yet not been fully financed, i.e. there is still some indebtedness outstanding.

It is necessary to estimate the capital financing requirement at the end of the forthcoming year and the subsequent two years for both the Housing Revenue Account and General Fund activities these are presented in Table 3 below.

**Table 3 – Estimates of Capital Financing Requirement.**

	<b>31st March</b> <b>2022</b>	<b>31st March</b> <b>2023</b>	<b>31st March</b> <b>2024</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
Housing Revenue Account	80.131	80.131	80.131
General Fund	102.418	100.911	99.957
Total	182.549	181.042	180.088

d) Capital Expenditure

Estimates of capital expenditure for the next three years split between the General Fund and the Housing Revenue Account

The estimated total capital expenditure per year for 2021/22 to 2023/24, as detailed in the Capital Programme Report approved by Cabinet on the 26<sup>th</sup> January 2021, is shown below in Table 4:

**Table 4 – Housing Revenue Account and General Fund Capital Expenditure estimates.**

	<b>2021/2022</b>	<b>2022/2023</b>	<b>2023/2024</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
Housing Revenue Account	15.358	18.629	13.360
General Fund	22.624	2.592	3.263
Total	37.982	21.221	16.623

External Debt

e) Authorised Limit

For the next three years the authority is required to set an authorised limit for its total external debt, gross of investments. This is calculated by taking into account current external debt, new borrowing for loans which mature or for capital purposes and the need to borrow on a short term basis to cover for temporary shortfalls in revenue income and expenditure.

The future authorised limits for the next three years are contained in Table 5 below.

**Table 5 – Authorised Limits for External Debt**

	<b>2021/2022</b>	<b>2022/2023</b>	<b>2024/2025</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
Borrowing	205	204	198
Other Financial Instruments	0	0	0

f) Operational Boundary

As well as an authorised limit the local authority must also set an operational boundary for its external debt for the next three years. The operational boundary is based on the most likely or prudent but not worst case scenario in relation to cash flow.

The future Operational Boundary for the next three years are shown in Table 6.

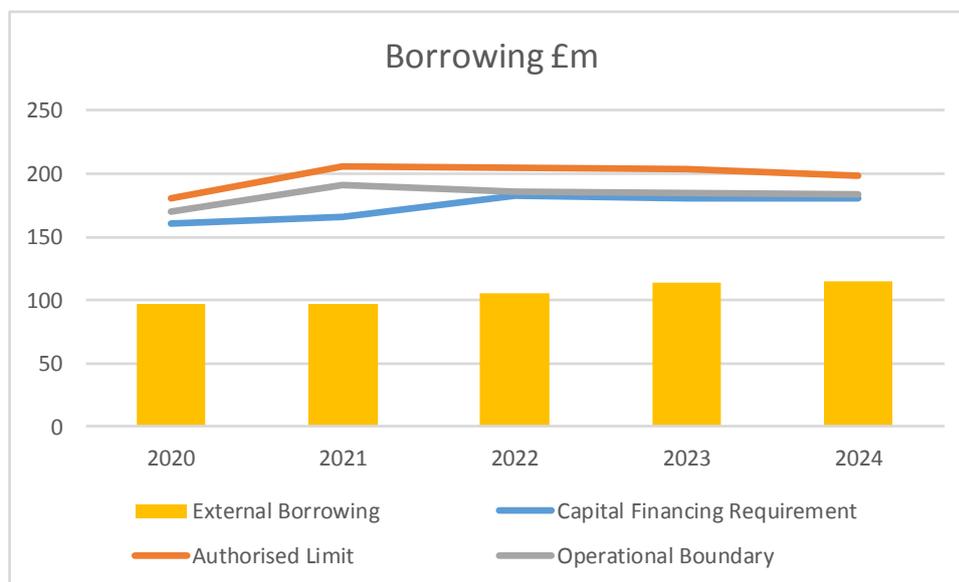
**Table 6 – Operational Boundary for External Debt**

	<b>2021/2022</b>	<b>2022/2023</b>	<b>2023/2024</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
Borrowing	186	185	184
Other Financial Instruments	0	0	0

g) Comparison of External Debt to Capital Financing Requirement, Operational Boundary and Authorised Limit

Table 7 below shows the gap between the existing external debt to the Capital Financing Requirement, Operational Boundary and Authorised Limit

**Table 7 – Borrowing**



**Prudential Indicators for Treasury Management**

The prudential indicators for prudence have to be set taking into account those relating to affordability as outlined above and are as follows:

Treasury Management

a) Interest rate exposure

Local authorities are required to set limits for the next three years for the upper limits on exposure to the effects of changes in interest rates. The indicators relate to both fixed and variable rate interest, and are net of any investments.

Depending on the level of interest rates and their expected movement in the year, the Council may take up all of its new borrowings in the form of either fixed or variable rate debt. The figures Table 8 give the following maximum levels, when compared to the authorised limit, of exposure to fixed and variable interest rates, which are prudent limits for the forthcoming years:

**Table 8 - Interest Rate Exposure**

<b>Principal Outstanding</b>	<b>2021/2022</b>	<b>2022/2023</b>	<b>2023/2024</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
Fixed Rates	205.0	204.0	198.0
Variable Rates (No more than 40% of the operational boundary).	82.0	81.6	79.2

b) Maturity Structure of borrowing

For the next three years' the authority is required to set both lower and upper limits for the maturity structure of its borrowing. This indicator relates only to fixed rate debt and is therefore a measure of the longer-term exposure to interest rate risk.

Table 9 shows the proposed lower and upper limits for all three years, given the current structure of the Council's debt portfolio:

**Table 9 - Maturity Structure of Debt**

Maturity Structure of Fixed Rate Borrowing	Forecast Position for 31/03/2021	Lower Limit %	Upper Limit %
Under 12 Months	0.00%	0%	5%
Under 24 Months	6.70%	0%	10%
Under 5 years	12.32%	0%	20%
Under 10 Years	24.46%	0%	25%
Under 20 Years	37.86%	0%	40%
Under 30 Years	43.01%	0%	50%
Under 40 Years	73.93%	0%	80%
Under 50 Years	100.00%	0%	100%
50 Years and Above	0.00%	0%	0%

c) Principal sums invested for more than 364 days

Where a local authority invests, or plans to invest for periods of more than 364 days it must set an upper limit for each year for the maturity of such investments. The purpose of setting this limit is to contain any exposure to losses, which might arise in the event of having to seek early repayment of the investment and / or adverse movements in shorter-term interest rates.

It is suggested, that the use of longer-term investments be limited to a maximum of £5m in each of the next three years to tie in with the Council's already approved policy of not investing more than £5m with any one bank or building society at the same time.

## Annex B Council's current treasury portfolio position

**Table 1 - Current Debt and Investment Portfolio Position 31<sup>st</sup> December 2020**

<b>External Borrowing:</b>	<b>£m</b>
Fixed Rate PWLB	62.536
Fixed Rate Other Loans (Banks)	15.000
LOBO Loans	19.500
<b>Total Gross External Debt</b>	<b>97.036</b>
<b>Treasury Investments:</b>	
Money Market Funds	(20.000)
Call Accounts	(8.605)
<b>Total Treasury Investments</b>	<b>(28.605)</b>
<b>Total Net External Debt</b>	<b>68.431</b>

**Table 2 – Council Loans at the 31<sup>st</sup> December 2020**

<b>Market Loans</b>	<b>£m</b>
<b>Fixed Rate Loans (Banks)</b>	
Barclays Bank	5.000
Barclays Bank	5.000
Hampshire County Council	5.000
<b>Sub Total</b>	<b>15.000</b>
<b>Lender Option Borrower Option (LOBO)</b>	
Commerzbank AG Frankfurt am Main	1.000
FMS Wertmanagement AöR	1.500
Dexia Credit Local	5.000
Lancashire County Council	2.000
Danske Bank	5.000
Dexia Municipal Agency	5.000
<b>Sub Total</b>	<b>19.500</b>
<b>Public Works Loans Board (PWLB)</b>	<b>62.536</b>
<b>Grand Total</b>	<b>97.036</b>

**Table 3 – Council Money Market Fund investments as at the 31<sup>st</sup> December 2020**

<b>Money Market Fund</b>	<b>£m</b>
Aberdeen GBP Liquidity Fund	5.000
Insight Sterling Liquidity Fund	5.000
Federated Short Term	5.000
Aviva GBP Liquidity Fund	5.000
<b>Total</b>	<b>20.000</b>

N.B. for both of these investment the Authority is classed as professional investor under MIFID II regulation.

**Table 4 – Council Call Account Investments as at 31<sup>st</sup> December 2020**

<b>Call Accounts</b>	<b>£m</b>
Barclays Bank	£3.655
Handelsbanken	£4.950
<b>Total</b>	<b>£8.605</b>

## Annex C - Prospects for interest rates

The Council has appointed Link Asset Services as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. The following table gives our central view.

PWLB rates and forecast shown below have taken into account the 20 basis point certainty rate reduction effective as of the 1st November 2012.

Link Group Interest Rate View		8.2.21											
	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
<b>BANK RATE</b>	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
6 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
12 month ave earnings	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20
5 yr PWLB	0.90	0.90	0.90	0.90	1.00	1.00	1.10	1.10	1.10	1.20	1.20	1.20	1.20
10 yr PWLB	1.30	1.30	1.30	1.30	1.40	1.40	1.50	1.50	1.50	1.60	1.60	1.60	1.60
25 yr PWLB	1.90	1.90	1.90	1.90	2.00	2.00	2.10	2.10	2.10	2.20	2.20	2.20	2.20
50 yr PWLB	1.70	1.70	1.70	1.70	1.80	1.80	1.90	1.90	1.90	2.00	2.00	2.00	2.00
<b>Bank Rate</b>													
Link	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Capital Economics	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	-	-	-	-	-
<b>5yr PWLB Rate</b>													
Link	0.90	0.90	0.90	0.90	1.00	1.00	1.10	1.10	1.10	1.20	1.20	1.20	1.20
Capital Economics	0.90	0.90	0.90	1.00	1.00	1.00	1.00	1.00	-	-	-	-	-
<b>10yr PWLB Rate</b>													
Link	1.30	1.30	1.30	1.30	1.40	1.40	1.50	1.50	1.50	1.60	1.60	1.60	1.60
Capital Economics	1.30	1.30	1.30	1.30	1.30	1.30	1.30	1.30	-	-	-	-	-
<b>25yr PWLB Rate</b>													
Link	1.90	1.90	1.90	1.90	2.00	2.00	2.10	2.10	2.10	2.20	2.20	2.20	2.20
Capital Economics	1.80	1.80	1.80	1.80	1.80	1.80	1.80	1.80	-	-	-	-	-
<b>50yr PWLB Rate</b>													
Link	1.70	1.70	1.70	1.70	1.80	1.80	1.90	1.90	1.90	2.00	2.00	2.00	2.00
Capital Economics	1.70	1.70	1.70	1.70	1.70	1.70	1.70	1.70	-	-	-	-	-

## INTEREST RATE FORECASTS

**Brexit.** The interest rate forecasts provided by Link in paragraph 3.3 were predicated on an assumption of a reasonable agreement being reached on trade negotiations between the UK and the EU by 31.12.20. There is therefore no need to revise these forecasts now that a trade deal has been agreed. Brexit may reduce the economy's potential growth rate in the long run. However, much of that drag is now likely to be offset by an acceleration of productivity growth triggered by the digital revolution brought about by the COVID crisis.

### The balance of risks to the UK

- The overall balance of risks to economic growth in the UK is probably now skewed to the upside, but is still subject to some uncertainty due to the virus and the effect of any mutations, and how quick vaccines are in enabling a relaxation of restrictions.
- There is relatively little UK domestic risk of increases or decreases in Bank Rate and significant changes in shorter term PWLB rates. The Bank of England has effectively ruled out the use of negative interest rates in the near term and increases in Bank Rate are likely to be some years away given the underlying economic expectations.

However, it is always possible that safe haven flows, due to unexpected domestic developments and those in other major economies, could impact gilt yields, (and so PWLB rates), in the UK.

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

- **UK government** takes too much action too quickly to raise taxation or introduce austerity measures that depress demand in the economy.
- **UK - Bank of England** takes action too quickly, or too far, over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- A resurgence of the **Eurozone sovereign debt crisis**. The ECB has taken monetary policy action to support the bonds of EU states, with the positive impact most likely for “weaker” countries. In addition, the EU agreed a €750bn fiscal support package. These actions will help shield weaker economic regions for the next two or three years. However, in the case of Italy, the cost of the virus crisis has added to its already huge debt mountain and its slow economic growth will leave it vulnerable to markets returning to taking the view that its level of debt is unsupportable. There remains a sharp divide between northern EU countries favouring low debt to GDP and annual balanced budgets and southern countries who want to see jointly issued Eurobonds to finance economic recovery. This divide could undermine the unity of the EU in time to come.
- Weak capitalisation of some **European banks**, which could be undermined further depending on extent of credit losses resultant of the pandemic.
- **German minority government & general election in 2021**. In the German general election of September 2017, Angela Merkel’s CDU party was left in a vulnerable minority position dependent on the fractious support of the SPD party, as a result of the rise in popularity of the anti-immigration AfD party. The CDU has done badly in subsequent state elections but the SPD has done particularly badly. Angela Merkel has stepped down from being the CDU party leader but she will remain as Chancellor until the general election in 2021. This then leaves a major question mark over who will be the major guiding hand and driver of EU unity when she steps down.
- **Other minority EU governments**. Austria, Sweden, Spain, Portugal, Netherlands, Ireland and Belgium also have vulnerable minority governments dependent on coalitions which could prove fragile.
- **Austria, the Czech Republic, Poland and Hungary** now form a strongly anti-immigration bloc within the EU, and they had threatened to derail the 7 year EU budget until a compromise was thrashed out in late 2020. There has also been a rise in anti-immigration sentiment in Germany and France.
- **Geopolitical risks**, for example in China, Iran or North Korea, but also in Europe and other Middle Eastern countries, which could lead to increasing safe haven flows.

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

- **UK** - a significant rise in inflationary pressures e.g. caused by a stronger than currently expected recovery in the UK economy after effective vaccines are administered quickly to the UK population, leading to a rapid resumption of normal life and return to full economic activity across all sectors of the economy.
- 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 rapid series of increases in Bank Rate to stifle inflation.

## **Annex D Treasury Management Practices**

### **TMP1 RISK MANAGEMENT**

#### **a) GENERAL STATEMENT**

The MHCLG issued Investment Guidance in 2018, and this forms the structure of the Council's policy below.

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 adopted the Code on 04/03/2019 and will apply its principles to all investment activity. In accordance with the Code, the Corporate Finance Manager 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. 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 AAA by at least two of the three main rating agencies i.e. 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 For category 5 this covers bodies with a minimum Short Term rating of Standard and Poor's P-2 or the Moody's and Fitch equivalent).

Within these bodies, and in accordance with the Code, the Council has set additional criteria to set the time and amount of monies which will be invested in these bodies. These criteria are a maximum investment of £5m in any one institution and a maximum duration of up to 1 year or duration as advised by our treasury management advisers.

**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:

	<b>Non Specified Investment Category</b>	<b>Limit (£)</b>
a.	<p><b>Supranational bonds greater than 1 year to maturity</b></p> <p><b>(a) Multilateral development bank bonds</b> - 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.).</p> <p><b>(b) A financial institution that is guaranteed by the United Kingdom Government</b> (e.g. National Rail)</p> <p>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.</p>	<p>AAA long term ratings</p> <p>£5m</p> <p>£5m</p>
b.	<p><b>Gilt edged securities</b> 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.</p>	£5m
c.	<p><b>The Council's own banker</b> if it fails to meet the basic credit criteria. In this instance balances will be minimised as far as is possible.</p>	£250k

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

Within category c, and in accordance with the Code, the Council has developed additional criteria to set the overall amount of monies which will be invested in this body. The intention will be to keep overnight balances to a minimum. Any balance on this account will be when the Authority has not had the opportunity to transfer balances to an approved counterparty.

**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 Asset Services 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 Section 151 Officer, and if required new counterparties which meet the criteria will be added to the list.

## **b) APPROVED COUNTRIES FOR INVESTMENTS**

This list is based on those countries which have sovereign ratings of AAA. The Authority will continue to invest with counterparties in the UK despite the UK only currently having an AA rating.

### ***Based on lowest available rating***

AAA

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

AA-

- U.K.

***THIS LIST IS AS AT 05.01.21***

## **c) TREASURY MANAGEMENT SCHEME OF DELEGATION**

### **(i) Full Council**

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

### **(ii) Cabinet**

- approval of/amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices;
- budget consideration and approval;
- approval of the division of responsibilities;
- receiving and reviewing regular monitoring reports and acting on recommendations;
- approving the selection of external service providers and agreeing terms of appointment.

### **(iii) Audit Committee**

- reviewing the treasury management policy and procedures and making recommendations to the responsible body.

## **d) THE TREASURY MANAGEMENT ROLE OF THE SECTION 151 OFFICER**

### **The S151 (responsible) officer** *(see TM Code page 38 (iv))*

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance;
- submitting regular treasury management policy reports;
- submitting budgets and budget variations;
- receiving and reviewing management information reports;
- reviewing the performance of the treasury management function;
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
- ensuring the adequacy of internal audit, and liaising with external audit;
- recommending the appointment of external service providers.

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

- preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments and treasury management, with a long term timeframe
- ensuring that the capital strategy is prudent, sustainable, affordable and prudent in the long term and provides value for money
- ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the authority
- ensure that the authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing
- ensuring the proportionality of all investments so that the authority does not undertake a level of investing which exposes the authority to an excessive level of risk compared to its financial resources
- ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long term liabilities
- provision to members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees
- ensuring that members are adequately informed and understand the risk exposures taken on by an authority
- ensuring that the authority has adequate expertise, either in house or externally provided, to carry out the above
- creation of Treasury Management Practices which specifically deal with how non treasury investments will be carried out and managed, to include the following *(TM Code p54):* -
  - *Risk management (TMP1 and schedules), including investment and risk management criteria for any material non-treasury investment portfolios;*
  - *Performance measurement and management (TMP2 and schedules), including methodology and criteria for assessing the performance and success of non-treasury investments;*

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

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

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