Appendix 3

TREASURY MANAGEMENT POLICY AND STRATEGY 2021/22

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1. INTRODUCTION

1.1 Background

The council is required to operate a balanced budget, which broadly means that cash raised and received 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. Cash can often be set aside (e.g. reserves) or received ahead of when it is required, for example government capital grant funding, and therefore cash balances are invested in counterparties or instruments commensurate with the council's risk appetite, and always prioritising adequate liquidity before considering investment return.

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

The contribution that the treasury management function makes to the authority is critical, as the balance of debt and investment operations ensure liquidity and the ability to meet spending commitments as they fall due, either on day-to-day revenue spending 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 holding 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 direct loss to the General Fund.

Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activities (arising usually from capital expenditure), and are separate from the day to day treasury management activities.

CIPFA defines treasury management as:

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

1.2 Reporting Requirements

1.2.1 Capital Strategy

The CIPFA 2017 Prudential and Treasury Management Codes require all local authorities to prepare a capital strategy report, to provide the following:

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

The aim of the Capital Strategy is to ensure that all members on the full Council understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite.

This Capital Strategy is reported separately from the Treasury Management Strategy Statement with non-treasury investments being reported through the former. This ensures the separation of the core treasury function under security, liquidity and yield principles, and the policy-driven and commercial investments usually driven by expenditure on an asset.

1.2.2 Treasury Management reporting

The Council is currently required to receive and approve, as a minimum, three main treasury reports each year, which incorporate a variety of policies, estimates and actuals.

a. **Prudential and treasury indicators, and treasury strategy** (this report) - The first, and most important report, is forward looking and covers:
    - the capital investment 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 Annual Investment Strategy, (the parameters on how investments are to be managed).
b. **A mid-year treasury management report** – This is primarily a progress report and will update members on the capital position, amending prudential indicators as necessary, and whether any policies require revision.
c. **An annual treasury management report** – This is a backward looking review document and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

This Council delegates responsibility for implementation and monitoring of treasury management to the Policy & Resources Committee (P&R) and responsibility for the execution and administration of treasury management decisions to the Section 151 Officer. P&R therefore receives the mid-year report in December and the annual report in July each year.

The above reports are required to be adequately scrutinised before being recommended to the Council. This role is undertaken by the Policy & Resources Commitee.

1.3 Treasury Management Strategy for 2021/22

The strategy for 2021/22 covers two main areas:

Capital issues:

- the capital expenditure plans (section 2) and the associated prudential indicators (Annex C);
- the minimum revenue provision (MRP) policy (Section 3).

Treasury management issues:

- the current treasury position (section 1.5);

- treasury indicators which limit the treasury risk and activities of the council (Annex C);
- prospects for interest rates (Annex B);
- the borrowing strategy (section 2);
- policy on borrowing in advance of need (section 2.3);
- debt rescheduling (section 2.4);
- the investment strategy (section 4);
- creditworthiness policy (section 4.4); and
- the policy on the use of external service providers (section 5.3).

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.

1.4 Treasury Management Policy Statement

The policies and objectives of the council's treasury management activities are as follows:

i) This council defines its treasury management activities as:

'The management of the authority's 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'.

ii) 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 council, and any financial instruments entered into to manage these risks.

iii) 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 management techniques, within the context of effective risk management.

1.5 Current Treasury Portfolio Position

A summary of the council's borrowing & investment portfolios as at 31 December 2020 and forecast at the end of the financial year is shown in **Table 1** below:

Table 1	Actual at 31 December 2020			Forecast to 31 March 2021		
	£'000	% of portfolio	Average Rate	£'000	% of portfolio	Average Rate
Investments						
UK Banks	27,000	16%	0.58%	32,500	25%	0.42%
Non-UK Banks	5,000	3%	0.46%	5,000	4%	0.46%
Building Societies	0	0	0	0	0	0
Local Authorities	58,000	34%	1.20%	53,000	41%	1.08%
Money Market Funds (Including VNAV)	82,798	48%	0.01%	30,000	15%	0.05%
Royal London Funds	0	0	0	10,000	8%	1.25%

Total Investments	172,798	100%	0.51%	130,500	100%	0.67%
Borrowing						
PWLB loans	234,313	84%	3.58%	249,013	85%	3.46%
Market loans	45,000	16%	4.45%	45,000	15%	4.45%
Local Authorities	0	0	0	0	0	0
Total external Borrowing	**279,313**	**100%**	**3.72%**	**294,013**	**100%**	**3.61%**

2. BORROWING STRATEGY

The capital expenditure plans of the council are set out in the Budget book (Appendix 1 to the budget report). 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 the capital expenditure plans.

Any capital investment that is not funded from new and/or existing resources (e.g. capital grants, receipts from asset sales, revenue contributions or earmarked reserves) increases the council's need to borrow, represented by the council's Capital Financing Requirement (CFR). However, external borrowing does not have to take place immediately to finance its related capital expenditure: the council can utilise cash being held for other purposes (such as earmarked reserves and working capital balances) to temporarily defer the need for external borrowing. This is known as 'internal borrowing' or 'under-borrowing'.

The council's primary objective is to strike an appropriate balance between securing cost certainty and securing low interest rates.

The council operates a two-pool approach for borrowing following the HRA Self Financing regime introduced in March 2012.

On 25 November 2020 the Chancellor announced the conclusion to the review of margins over gilt yields for PWLB rates; the standard and certainty margins were reduced by 1% but a prohibition was introduced to deny access to PWLB borrowing for any local authority which intended to purchase assets primarily for yield in its three year capital programme.

The change prevents the authority from undertaking any new investments where the primary purpose is to create an income stream, such as commercial property, unless the authority sources its borrowing from streams other than PWLB. Whilst there are a number of alternative methods of borrowing available to Local Authorities (such as market lenders, bond issuances), these sources typically have a long lead in time, have high associated costs of arranging and usually require significant borrowing values to access. With the reduction of PWLB rates, it is also likely that other sources will be more expensive than the revised PWLB rates.

This change has therefore resulted in the review of the council's capital programme and the subsequent removal of projects where the primary purpose is to create an income stream.The reduction in future borrowing costs have now been factored into the funding of the capital programme.

2.1 General Fund Borrowing Position and Strategy

The General Fund has been carrying an internal borrowing position (i.e. where the General Fund borrows cash from its own reserves) since 2008 as a response to the financial crisis. In response to a combination of the prior expectation of increasing interest rate forecasts, the reduction of certain reserves and historically low PWLB borrowing rates, the General Fund entered into planned borrowing from the PWLB to reduce the internal borrowing

position in recent years, the most recent occurrence of this borrowing was undertaken in August 2019, where a £7.5m loan was undertaken for a period of 50 years at a historical low rate of 1.67%.

Table 2 below demonstrates that the General Fund has a borrowing need of £30m to support the 2020/21 capital programme. No external borrowing is expected for 2020/21. Any borrowing need will initially be met from internal resources and officers will be exploring external sources of borrowing for the borrowing requirement from 2021/22 onwards.

General Fund Borrowing Strategy for 2021/22

The General Fund (GF) capital programme 2021/22 to 2023/24 forecasts a total of £341m capital investment, £129m of which will be met from existing or new resources, and £16m of which financing has not yet been identified. The increase in the GF borrowing need over this period is therefore £196m as shown in **Table 2** below.

2020/21 Projected £m	Table 2 – Borrowing Requirement	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m	Total £m
99	GF Capital Expenditure	149	83	109	341
	Financed by:				
(69)	New & existing resources	(78)	(26)	(25)	(129)
-	Financing not yet identified	-	(8)	(8)	(16)
30	**GF Borrowing Need**	**71**	**49**	**76**	**196**

Of the £196m borrowing need shown, £106m is for projects that are awaiting approval or detailed analysis. Therefore, the timing of borrowing is uncertain, and borrowing decisions for these projects will form part of the viability and due diligence process.

For the remaining borrowing need, the strategy will initially focus on meeting this borrowing need from internal borrowing. i.e. avoiding external borrowing by utilising the council's own surplus cash flows.

Officers continually review the level of internal borrowing that the General Fund is able to support in the context of prevailing and forecast interest rates, economic outlook and the expected movement in reserves. Within the context of the forecast of very low levels of interest rates in the next 3 years (including investment returns) and therefore the increased cost of undertaking new borrowing, the strategy has been amended in the medium term to increase the level of internal borrowing that the council can support and delay long term borrowing. Modelling of the movement of reserves and the council's capital expenditure plans demonstrates that the General Fund's long term reserves can support a level of approximately £75m of internal borrowing in the medium term (initially estimated to 2023/24), reducing to £50m thereafter. This will mitigate the increase in the cost of borrowing and reduce counterparty risk within the council's investment portfolio by reducing the portfolio size.

The internal borrowing position needs to be carefully and continually reviewed to avoid incurring higher borrowing costs in the future at a time when the authority may not be able to avoid new borrowing to finance capital expenditure or refinance maturing debt.

There will remain a cost of carry (the difference between borrowing costs and investment rates) to any new long term borrowing that causes a temporary increase in cash balances which will, most likely, lead to a cost to revenue.

2.2 Housing Revenue Account (HRA) Borrowing Position and Strategy

The Housing Revenue Account (HRA) carries a fully funded borrowing position (i.e. the HRA does not borrow from its own reserves, but instead undertakes borrowing for its entire borrowing requirement). Over the last three years, the HRA has entered into a total of £20m of external borrowing and £7.4m of borrowing from the General Fund to support the HRA Capital Programme. The most recent of this borrowing was undertaken in December 2020, where 2 x £5m loans were undertaken (one for a period of 14.5 years at a rate of 1.28% and one for a period of 49 years at a rate of 1.32%). Additionally, £16m of PWLB borrowing was undertaken by the HRA in March 2019 as part of a debt restructure to replace RBS loans.

HRA Borrowing Strategy for 2021/22

The HRA Capital Programme 2021/22 to 2023/24 forecasts a total £192m of capital investment over the next three years with £118m met from existing or new resources. The increase in the HRA's borrowing need over this period is therefore £74m as shown in **Table 3** below. It is expected that this borrowing need will be met from a combination of borrowing externally and from the General Fund. The extent to which the HRA can borrow from the General Fund is dependent on the level of liquid resources the General Fund has available to lend to the HRA and additionally will depend on the view of interest rate prospects:

- If it is considered that there is a significant likelihood of reducing long term interest rates, long term borrowing should be postponed;
- If it is considered that there is a significant risk of sharply increasing long term interest rates, long term borrowing should be considered.

2020/21 Projected £m	Table 3 – HRA Borrowing Requirement	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m	Total £m
51	HRA Capital Expenditure	72	88	32	192
	Financed by:				
(26)	New & existing resources	(41)	(45)	(32)	(118)
25	**HRA Borrowing Need**	**31**	**43**	**0**	**74**

Table 4 below shows the actual expected external debt compared to the capital financing requirement over the next 3 years for both the General Fund and the HRA. This demonstrates that the HRA CFR is expected to be fully funded to 2023/24, and the General Fund is expected to maintain an underborrowed position:

2020/21 Estimate £m	Table 4	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m
General Fund				
140	GF Debt at 1 April	145	209	248
5	Expected change in Debt	64	39	66
145	**GF Debt at 31 March**	**209**	**248**	**314**
196	GF CFR* at 1 April	220	284	324
30	Borrowing need (Table 2)	71	49	76
(6)	MRP	(7)	(9)	(10)
220	**GF CFR* at 31 March**	**284**	**324**	**390**

75	**Under / (Over) borrowing**	**75**	**76**	**76**
34.1%	**% Underborrowed**	**26.4%**	**23.5%**	**19.5%**
Housing Revenue Account				
139	HRA Debt at 1 April**	163	193	230
24	Expected change in Debt	30	37	(7)
163	**HRA Debt at 31 March**	**193**	**230**	**223**
139	HRA CFR at 1 April	163	193	230
25	Borrowing need (Table 3)	30	43	0
(1)	MRP	(1)	(6)	(7)
163	**HRA CFR at 31 March**	**193**	**230**	**223**
-	**Under / (Over) borrowing**	**-**	**-**	**-**

* *GF CFR in Table 4 is the underlying need to borrow and excludes PFI and lease arrangements, which are included in the CFR figure in the Prudential Indicators in Annex C.*

** *Includes both external debt and sums borrowed from the General Fund (£7.420m as at 1 April 2020).*

2.3 Policy on Borrowing in Advance of Need

The council will not borrow purely in order to profit from investment of sums borrowed in advance of need. Any decision to borrow in advance will be within 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.

2.4 Debt Rescheduling

Officers continue to regularly review opportunities for debt rescheduling but there has been a considerable widening of the difference between new borrowing and repayment rates, which has resulted in much fewer opportunities to realise any savings or benefits from rescheduling PWLB debt.

The reasons for any rescheduling to take place will include:

- the generation of cash savings and / or discounted cash flow savings;
- helping to fulfil long term treasury strategy aims;
- enhancing the balance of the portfolio (amending the maturity profile and/or the balance of volatility).

The strategy is to continue to seek opportunity to reduce the overall level of the council's debt where prudent to do so, thus providing in future years cost reduction in terms of lower debt repayment costs, and 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. All rescheduling will be agreed by the S151 Officer.

2.5 Interest Rate Risk & Continual Review

The council's total borrowing need of £270m is identified in **Tables 2 & 4.** This borrowing need, together with the debt at risk of maturity shown in **Table 5** is the extent to which the council is subject to interest rate risk over the next three years.

Table 5	2021/22	2022/23	2023/24
	£m	£m	£m

Maturing Debt	2	2	12
Debt Subject to early repayments options	15	20	20
Total debt at risk of maturity	**17**	**22**	**32**

Officers continue to review the need to borrow taking into consideration the potential increases in borrrowing costs, the need to finance new capital expenditure, the need to refinance maturing debt, and the cost of carry that might incur a revenue loss between borrowing costs and investment returns.

Against this background and the risks within the economic forecast, caution needs to be excercised. The Chief Finance Officer will therefore continue to monitor interest rates in financial markets and adopt a proactive approach to changing circumstances as follows:

- if it was considered that there was a significant risk of a forthcoming sharp fall in long and short term rates (e.g. due to a marked increase in the risk of relapse into recession or increasing risk 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 considered that there was a significant risk of a much sharper rise in long and short term rates than that currently forecast, for example, arising from an acceleration in the rate of increase in central rates in the USA and UK, an increase in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised with the likely action that borrowing would be undertaken and fixed rate funding drawn on whilst interest rates are still lower than they are expected to be in the next few years.

3. MINIMUM REVENUE PROVISION POLICY STATEMENT

The council is required to pay off an element of the accumulated General Fund capital spend each year (the Capital Financing Requirement - CFR) through a revenue charge (the minimum revenue provision - MRP). Ministry of Housing, Communities & Local Government (MHCLG) regulations require the full Council to approve an MRP Statement in advance of each year. A variety of options are available to councils, so long as the principle of any option selected ensures a prudent provision to redeem its debt liability over a period which is commensurate with that over which the capital expenditure is estimated to provide benefits (i.e. estimated useful life of the asset being financed).

The Council is recommended to approve the following MRP Statement for 2021/22:

For all debt where the government has provided revenue support (supported capital expenditure), the MRP policy will be:

- Provision on a straight line basis over 50 years.

For all debt where the government does not provide revenue support:

- Where the debt relates to an asset, the council will set side a sum equivalent to repaying the debt over the life of the asset either in equal instalments or on an annuity basis over a maximum life of 50 years. The method to be adopted will be determined according to which is the most financially beneficial to the council over the life of the asset.

- Where the debt relates to expenditure which is subject to a capitalisation direction issued by the government, the council will set aside a sum equivalent to repaying the debt over a period consistent with the nature of the expenditure on an annuity basis.

- In the case of assets under construction, MRP will be delayed until the relevant asset becomes operational.

Where the debt relates to capital loans to a third party:

- The repayments of principal will be set aside as capital receipts to finance the initial capital advance in lieu of making a MRP.

Where the debt relates to the Living Wage Joint Venture:

- Where the Living Wage Joint Venture develops housing but disposes of these assets on completion, the council will set aside the capital receipt at the point of transfer in lieu of making an MRP payment.

- Where the Living Wage Joint Venture develops or acquires housing and retains these assets and future rental streams, the council will set aside, in equal instalments, a sum which is equivalent to repaying the debt at the end of year 40 within the 60 year business plan. Set aside will commence, at the latest, in the year in which net surpluses are modelled for each individual tranche of borrowing.

For on-balance sheet PFI schemes and leases, the MRP policy will be:

- Asset Life Method (annuity method) - The MRP will be calculated according to the flow of benefits from the asset, and where the principal repayments increase over the life of the asset. Any related MRP will be equivalent to the “capital repayment element” of the annual charge payable.

There is the option to charge more than the prudential provision of MRP each year through a Voluntary Revenue Provision (VRP).

4. ANNUAL INVESTMENT STRATEGY

The MHCLG and CIPFA have extended the meaning of ‘investments’ to include both financial and non-financial investments. This report deals with financial investments. Non-financial investments are covered in the Capital Strategy (Appendix 2).

The council’s investment policy has regard to the following:

- MHCLG’s Guidance on Local Government Investments (the “Guidance”);
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017 (the “Code”);
- CIPFA Treasury Management Guidance Notes 2018.

The council’s investment priorities will be the security of capital first, portfolio liquidity second and then yield (return).

4.1 Annual Investment Strategy for 2021/22

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

Currently, Bank Rate is forecast to remain unchanged over the next few years. Bank Rate forecasts for financial year ends (March) are:

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

Link Asset Service's (LAS) view on the prospect for interest rates, including their forecast for short term investment rates is appended at Annex B.

The primary principle governing the council's investment criteria is the security of its investments, but return on investment is also important. After this main principle, the council will ensure that:

- It maintains a policy covering both the categories of investment types it will invest in and the criteria for choosing investment counterparties with adequate security, and monitoring their security;
- It has sufficient liquidity in its investments.

Approach for 2021/22

Investment balances have increased during 2020/21 due to a combination of the pausing of certain elements of the capital programme and an increase of COVID funding and grants received from the government. Additionally, the decision was made early in 2020/21 to hold a higher proportion of the portfolio liquid to ensure the council can meet the cash demands associated with Covid. The large increase in cash balances is still expected to be temporary, so a larger amount of liquidity than usual is still required.

The yield from liquid investments (such as Money Market funds) have reduced to near zero in the last 3 months, and expected to remain at this level during 2021/22. Therefore, other options for near-liquid investments are being explored to slightly increase the maturity profile of the portfolio during the year. This will ensure cash needs can continue to be met during 2021/22 whilst achieving a better rate of return for the portfolio. These options include Bank Notice accounts and Ultra Short term bond funds (or VNAV funds).

In March 2020, £10.0m was to be invested across two funds managed by Royal London Asset Management following a selection process. This investment was paused due to the uncertainty of cash balances and economic impact of COVID. Following a review of the expected cash balances over the next 5-10 years, officers have assessed that long term balances can still support an initial investment of £10.0m. Due diligence on the funds has been refreshed, and officers are expecting an investment in these funds to be undertaken before 2021/22 commences.

Changes from 2020/21 Strategy

There have been no changes proposed to the 2020/21 Annual Investment Strategy. The strategy proposed therefore reflects the strategy currently in place.

4.2 Investment Policy – Management of risk

Treasury management risks and how these risks are managed and mitigated are identified in the council's Treasury Management Practices and related procedures, details of which are held within the council's Treasury Management Team. The main risks to the council's treasury activities are:

- liquidity risk (inadequate cash resources);
- market or interest rate risk (fluctuations in interest rate levels and thereby in the value of investments);
- inflation risks (exposure to inflation);
- credit and counterparty risk (security of investments);
- re-financing risks (impact of debt maturing in future years); and
- legal and regulatory risk (i.e. non-compliance with statutory and regulatory requiremens, risk of fraud).

The guidance from 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:

i) Minimum acceptable credit criteria are applied in order to generate a list of high creditworthy counterparties. This also enables diversification and thus avoids a concentration of risk. The key ratings used to monitor counterparties are the short term and long-term ratings.

ii) 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 monitor market pricing such as "credit default swaps" (CDS) and overlay that information on credit ratings.

iii) Other information sources used will include the financial press, share prices 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.

iv) Where there is a significant or sudden deterioration in one or more indicators (such as CDS prices), officers will undertake a review and, where necessary take action. This action may take the form of temporary suspension of a counterparty from the council's approved lending list, or a restriction of the maximum period and investment limits.

v) This authority has defined the list of types of investment instruments that the treasury management team are authorised to use.

   a. **Specified investments** are those with a high level of credit quality and subject to a maturity limit of one year. The limits and permitted instruments for specified investments are listed within Table 6.

b. **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. The limits and permitted instruments for non-specified investments are listed within Table 7.

vi) Lending limits (amounts and maturity) for each counterparty will be set through applying the credit criteria matrix (within Table 7).

vii) This authority will set limits for the amount of its investments:

a. which are invested for longer than 365 days, detailed in the Treasury Indicators in Annex C;

b. which are invested in any one sector (paragraph 4.5);

c. which are invested in any one counterparty within its relevant sector (paragragh 4.5).

viii) Investments in Non-UK Banks will only be placed with counterparties from countries with a specified minimum sovereign rating of AA (paragraph 4.3).

ix) Investments in UK banks will only be placed with counterparties with a minimum credit rating of BBB.

x) This authority has engaged external consultants, (see paragraph 5.3), 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.

xi) All investments will be denominated in sterling.

xii) As a result of the change in accounting standards in 2018/19 under International Financial Reporting Standard 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 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 5 years commencing from 1/4/18).

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 4.7). Regular monitoring of investment performance will be carried out during the year.

4.3 Sovereign Credit Ratings

For 2021/22 it is recommended to maintain the policy of lending to sovereign nations and their banks which hold at least an AA credit rating (aside from the UK, which holds an AA- rating). The list of countries that qualify using this credit criteria (as at the date of this report) are shown below:

AAA Australia, Denmark, Germany, Netherlands, Singapore, Sweden & Switzerland
AA+ Finland, Canada & United States,
AA France & United Arab Emirates

4.4 Creditworthiness Policy

Each counterparty included on the council's approved lending list must meet the criteria set out below. Without the prior approval of the Council, no investment will be made in an instrument that falls outside the list below.

Table 6 below summarises the types of specified investment counterparties available to the council, and the maximum amount and maturity periods placed on each of these. A full list of the council's counterparties and the current limits for 2021/22 are appended at Annex A.

When assessing credit ratings to ascertain limits for each counterparty, the lowest short and long term ratings from each of the three ratings agencies is applied. For simplicity, the ratings for Standard & Poor's are used in the tables below.

Criteria for Specified Investments
All specified investments will be sterling denominated, with maturities up to a maximum of 1 year, meeting the minimum 'high' rating criteria where applicable:

Table 6	Country/ Domicile	Minimum Capital Requirements	Min. Credit Criteria (L/term / S/term)	Max. Amount	Max. maturity period
Debt Management and Deposit Facilities (DMADF)	UK	N/A	N/A	unlimited	6 months
UK Local Authorities	UK	N/A	UK Sovereign Rating	£10m per LA	12 months
UK Banks – part nationalised*	UK	UK government must own majority shareholding	N/A	£25m	12 months
UK Banks & credit rated Building Societies	UK	Must meet minimum credit criteria	AA- / A-1+	£25m	12 months
			A / A-1	£15m	12 months
			BBB / A-2	£10m	6 months
Banks – Non-UK	Those with sovereign rating of at least AA*	Must meet minimum credit criteria	AA- / A-1+	£25m	12 months
Non-rated Building Societies	UK	Must have an asset base of at least £5bn at the time of investment	N/A	£5m	6 months
Money Market Funds (CNAV and LVNAV)	UK/Ireland/ EU domiciled	Must meet minimum credit criteria	AAA	£15m per fund	Liquid

Table 6	Country/ Domicile	Minimum Capital Requirements	Min. Credit Criteria (L/term / S/term)	Max. Amount	Max. maturity period
Ultra Short Dated Bond Funds	UK/Ireland/EU domiciled	Must meet minimum credit criteria	AA	£15m per fund	Liquid

*See Paragraph 4.3 for full list of countries that meet these criteria

Lending to the council's operational banking service provider

An additional operating limit of £2m and an additional investment limit of £5m will be provided for the council's provider of transactional banking services (currently Lloyds Bank plc). It is unavoidable that the £2m operational limit will be breached from time to time however, officers will endeavour to keep this to an absolute minimum.

UK banks – ring fencing

The largest UK banks, (those with more than £25bn of retail / Small and Medium-sized Enterprise (SME) deposits), were required, by UK law, to separate core retail banking services from their investment and international banking activities by 1st January 2019. This is known as "ring-fencing". Whilst smaller banks with less than £25bn in deposits are exempt, they can choose to opt up. Several banks are very close to the threshold already and so may come into scope in the future regardless.

Ring-fencing is a regulatory initiative created in response to the global financial crisis. It mandates the separation of retail and SME deposits from investment banking in order to improve the resilience and resolvability of banks by changing their structure. In general, simpler activities offered from within a ring-fenced bank (RFB) will be focused on lower risk, day-to-day core transactions, whilst more complex and "riskier" activities are required to be housed in a separate entity, a non-ring-fenced bank (NRFB). This is intended to ensure that an entity's core activities are not adversely affected by the acts or omissions of other members of its group.

While the structure of the banks included within this process may have changed, the fundamentals of credit assessment have not. The council will continue to assess the new-formed entities in the same way that it does others and those with sufficiently high ratings (and any other metrics considered) will be considered for investment purposes. The list of approved counterparties in Annex A differentiates the limits for both ring fenced and non-ring fenced banks.

Part-Nationalised Banks

The council can lend up to £25m for up to 12 months to any bank in which the UK Government holds a majority shareholding regardless of the credit rating due to the implied government support of those entities. The Royal Bank of Scotland PLC & National Westminster Bank PLC are the two entities currently treated as part nationalised.

Non-Specified investments

These are any other types of investment that are not defined as specified.

Table 7	Instrument Type	Minimum credit criteria (L/term / S/term)	Maximum investments	Period
UK Local Authorities	N/A	N/A	£10m per LA	5 years
UK Banks & Non UK Banks	Fixed Deposits	AA+ / A-1+	£25m	3 years
		AA- / A-1+	£25m	2 years
	Negotiable Instruments	AA- / A-1+	£25m	5 years
Short Dated Bond Funds	UK/Ireland/EU domiciled	Short Dated bond funds are not rated. A selection process will evaluate relative risks & returns. Security of the council's money and fund volatility will be key measures of suitability	15m per fund	Liquid

A full list of counterparties that meet the council's criteria for both specified and non-specified investments are listed in Annex A.

4.5 Other Limits

In order to mitigate concentration risk, there are a number of other limits imposed within the investment strategy. **Table 8** sets out the maximum permitted investment for each sector at the time of investment:

Table 8 – Other Limits	
Sector	**Max total of portfolio**
Banking sector	100%
Building Society Sector	75%
Local Authority Sector	100%
Money Market Funds (MMF)	100%
Short Dated & Ultra Short Dated Bond Funds	50%
Debt Management Account Deposit Facility (DMADF)	100%

In addition to these limits:

- no more than 25% of the portfolio can be invested for more than 1 year; and
- with the exception of MMF & the DMADF, no one counterparty may have more than 25% of the relevant sector maximum at the time the investment is made.

4.6 Approved Methodology for adding and removing counterparties

A counterparty shall be removed from the council's list where a change in their credit rating results in a failure to meet the criteria set out above.

A new counterparty may only be added to the list with the written prior approval of the Chief Finance Officer and only where the counterparty meets the minimum criteria set out above.

A counterparty's exposure limit will be reviewed (and changed where necessary) following notification of a change in that counterparty's credit rating or a view expressed by the credit rating agency warrants a change.

A counterparty's exposure limit will also be reviewed where information contained in the financial press or other similar publications indicates a possible worsening in credit worth of a counterparty. The review may lead to the suspension of any counterparty where it is considered appropriate to do so by the Chief Finance Officer.

4.7 Investment Risk Benchmarking

The weighted average benchmark risk factor for 2021/22 is recommended to be 0.05%. This is unchanged from 2020/21. This is a measure of the percentage of the portfolio deemed to be at risk of loss by reference to the maturity date, value of investment, and credit rating of the individual investments within the portfolio compared to the historic default data for those credit ratings.

This benchmark is a simple target (not limit) to measure investment risk and so may be breached from time to time, depending on movements in interest rates and counterparty criteria. The purpose of the benchmark is that the in-house treasury team can monitor the current and trend position and amend the operational strategy depending on any changes. Any breach of the benchmarks will be reported with supporting reasons in the mid-year or end of year reviews.

This matrix will only cover internally managed investments, excluding externally managed cash that has been subject to an individual selection process. It also excludes funds lend to other Local Authorities, consistent with the CIPFA Accounting Code.

For any investment where there is a direct and legal offset against an existing financial liability, the investment will be assumed to have a benchmark risk of 0.00%.

5. OTHER TREASURY MATTERS

5.1 Banking Services

Lloyds Bank plc currently provides banking services for the council.

5.2 Training

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. Training was last provided for members of the Audit & Standards Committee and Policy & Resources Committee on 8 October 2019 and further training will be arranged as required.

The training needs of treasury management officers are periodically reviewed and training arranged as required.

5.3 Policy on the use of External Service Providers

The council uses Link Asset Services as its external treasury management advisors.

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

5.4 Lending to Third Parties

The council has the power to lend monies to third parties subject to a number of criteria. These are not treasury type investments, rather they are policy investments. Any activity will only take place after relevant due diligence has been undertaken, as described in the Capital Strategy (Appendix 2 to the budget report).

5.5 Updates to Accounting Requirements

- **IFRS 9 – local authority override – English local authorities**

  The MHCLG enacted a statutory over-ride from 1 April 2018 for a five year period until 31 March 2023 following the introduction of IFRS 9 and the requirement for any capital gains or losses on marketable funds to be chargeable in year. This has the effect of allowing any capital losses on funds to be held on the balance sheet until 31 March 2023, allowing councils to initiate an orderly withdrawal of funds if required.

- **IFRS 16 – Leasing**

  The CIPFA Code of Practice and Guidance notes for 2022/23 will incorporate the requirement to account for all leases onto the council's balance sheet. This has the following impact to this paper:

  - The Council's Capital Financing Requirement authorised limit and operational boundary for 2022/23 onwards has been increased to reflect the estimated effect of this change. These limits can be amended during 2022/23, and bought to full Council to amend with the TMSS Mid Year report if the limits need to be increased following some more detailed work on the leases to be bought onto the balance sheet.

Appendix 3

ANNEX A - Approved List of Counterparties 2021/22

Counterparty	Specified /Non-specified	Short-term F=Fitch M=Moody's SP=Standard & Poor's			Long-term			Lending Limit	Fixed deposit duration limit (months)
		F	M	SP	F	M	SP		
(1) UK Banks									
Lloyds Banking Group:									
Bank of Scotland PLC (RFB)	Specified	F1	P-1	A-1	A+	A1	A+	£20m	12
Lloyds Bank PLC (RFB)	Specified	F1	P-1	A-1	A+	A1	A+	£20m	12
Lloyds Bank Corporate Markets PLC (NRFB)	Specified	F1	P-1	A-1	A+	A1	A	£15m	12
Total Max. exposure to Lloyds Banking Group								£20m	12
Barclays Banking Group:									
Barclays Bank PLC (NRFB)	Specified	F1	P-1	A-1	A+	A1	A	£15m	12
Barclays Bank UK PLC (RFB)	Specified	F1	P-1	A-1	A+	A1	A	£15m	12
Total Max. exposure to Barclays Banking Group**								£15m	12
HSBC Group:									
HSBC Bank PLC (NRFB)	Specified	F1+	P-1	A-1	AA-	A1	A+	£15m	12
HSBC UK Bank PLC (RFB)	Specified	F1+	P-1	A-1	AA-	Aa3	A+	£15m	12
Total Max. exposure to HSBC Group**								£15m	12
RBS/Natwest Group:									
Natwest Markets PLC (NRFB)	Specified	F1	P-2	A-2	A+	A3	A-	£10m	6
National Westminster Bank PLC (RFB)	Specified	F1	P-1	A-1	A+	A1	A	£25m	12
The Royal Bank of Scotland PLC (RFB)	Specified	F1	P-1	A-1	A+	A1	A	£25m	12
Total Max. exposure to RBS/Natwest Group**								£25m	12
Close Brothers Ltd	Specified	F2	P-1		A-	Aa3		£10m	6
Clydesdale Bank PLC	Specified	F2	P-2	A-2	A-	Baa1	BBB+	£10m	6
Goldman Sachs International Bank	Specified	F1	P-1	A-1	A+	A1	A+	£15m	12
Handelsbanken PLC	Both	F1+		A-1+	AA		AA-	£25m	24
Santander UK PLC	Specified	F1	P-1	A-1	A+	A1	A	£15m	12
Standard Chartered Bank	Specified	F1	P-1	A-1	A+	A1	A	£15m	12
SMBC Bank International Plc	Specified	F1	P-1	A-1	A	A1	A	£15m	12
(2) Building Societies+									
Coventry (2)	Specified	F1	P-1		A-	A2		£10m	6
Leeds (5)	Specified	F1	P-2		A-	A3		£10m	6
Nationwide (1)	Specified	F1	P-1	A-1	A	A1	A	£15m	12
Principality (6)	Specified	F2	P-2		BBB+	Baa2		£10m	6
Skipton (4)	Specified	F1	P-2		A-	Baa1		£10m	6
Yorkshire (3)	Specified	F1	P-2		A-	A3		£10m	6

Appendix 3

Counterparty	Specified /Non-specified	Short-term			Long-term			Lending Limit	Fixed deposit duration limit (months)
		F=Fitch M=Moody's SP=Standard & Poor's							
		F	M	SP	F	M	SP		
(3) Non-UK Banks									
Toronto Dominion (Canada)	Both	F1+	P-1	A-1+	AA-	Aa1	AA-	£25m	24
Nordea Bank Abp (Finland)	Both	F1+	P-1	A-1+	AA-	Aa3	AA-	£25m	24
Landwirtschaftliche Renenbank (Germany)	Both	F1+	P-1	A-1+	AAA	Aaa	AAA	£25m	36
NRW.BANK (Germany)	Both	F1+	P-1	A-1+	AAA	Aa1	AA	£25m	24
Bank Nederlandse Gemeenten (The Netherlands)	Both	F1+	P-1	A-1+	AAA	Aaa	AAA	£25m	36
Nederlandse Waterschapsbank N. V. (The Netherlands)	Both		P-1	A-1+		Aaa	AAA	£25m	36
DBS Bank Ltd (Singapore)	Both	F1+	P-1	A-1+	AA-	Aa1	AA-	£25m	24
Overseas Chinese Banking Corporation Limits (Singapore)	Both	F1+	P-1	A-1+	AA-	Aa1	AA-	£25m	24
United Overseas Bank Limited (Singapore)	Both	F1+	P-1	A-1+	AA-	Aa1	AA-	£25m	24
Svenska HandelsBanken AB (Sweden)	Both	F1+	P-1	A-1+	AA	Aa2	AA-	£25m	24
First Abu Dhabi Bank PJSC	Both	F1+	P-1	A-1+	AA-	Aa3	AA-	£25m	24
Bank of New York Mellon (USA)	Both	F1+	P-1	A-1+	AA	Aa1	AA-	£25m	24

** Ratings as advised by Link Asset Services 15 January 2021

+ UK Building Societies ranking based on Total Asset size – Source: Building Societies Association Jan 2021

** Where there are multiple counterparties within a banking group, exposure to the overall group will be the largest limit, but exposure to individual counterparties within the group will be based on the individual counterparty limit. Eg, exposure to Lloyds Banking Group can be up to £20m, but max exposure to Lloyds Bank Corporate Markets PLC will be £15m.

ANNEX B - ECONOMIC OVERVIEW

Provided by Link Asset Services on 5 January 2021

UK. The key quarterly meeting of the Bank of England Monetary Policy Committee kept Bank Rate unchanged on 5th November 2020. However, it revised its economic forecasts to take account of a second national lockdown in November 2020 which is likely to put back economic recovery and do further damage to the economy. It therefore decided to do a further tranche of quantitative easing (QE) of £150bn, to start in January when the current programme of £300bn of QE, announced in March to June, runs out. It did this so that “announcing further asset purchases now should support the economy and help to ensure the unavoidable near-term slowdown in activity was not amplified by a tightening in monetary conditions that could slow the return of inflation to the target”.
Its forecasts appeared, at the time, to be rather optimistic in terms of three areas:

- The economy would recover to reach its pre-pandemic level in Q1 2022
- The Bank also expects there to be excess demand in the economy by Q4 2022.
- CPI inflation is therefore projected to be a bit above its 2% target by the start of 2023 and the “inflation risks were judged to be balanced”.

Significantly, there was no mention of negative interest rates in the minutes or Monetary Policy Report, suggesting that the MPC remains some way from being persuaded of the case for such a policy, at least for the next 6 -12 months. However, rather than saying that it “stands ready to adjust monetary policy”, the MPC this time said that it will take “whatever additional action was necessary to achieve its remit”. The latter seems stronger and wider and may indicate the Bank’s willingness to embrace new tools.

One key addition to the Bank’s forward guidance in August was a new phrase in the policy statement, namely that “it does not intend to tighten monetary policy until there is clear evidence that significant progress is being made in eliminating spare capacity and achieving the 2% target sustainably”. That seems designed to say, in effect, that even if inflation rises to 2% in a couple of years’ time, do not expect any action from the MPC to raise Bank Rate – until they can clearly see that level of inflation is going to be persistently above target if it takes no action to raise Bank Rate. Our Bank Rate forecast currently shows no increase, (or decrease), through to quarter 1 2024 but there could well be no increase during the next five years as it will take some years to eliminate spare capacity in the economy, and therefore for inflationary pressures to rise to cause the MPC concern. Inflation is expected to briefly peak at just over 2% towards the end of 2021, but this is a temporary short lived factor and so not a concern.

However, the minutes did contain several references to downside risks. The MPC reiterated that the “recovery would take time, and the risks around the GDP projection were judged to be skewed to the downside”. It also said “the risk of a more persistent period of elevated unemployment remained material”. Downside risks could well include severe restrictions remaining in place in some form during the rest of December and most of January too. Upside risks included the early roll out of effective vaccines.

COVID-19 vaccines. We had been waiting expectantly for news that various COVID-19 vaccines would be cleared as being safe and effective for administering to the general public.

The announcement of various effective vaccines, plus expected further announcements that other vaccines could be approved soon, have enormously boosted confidence that life could largely return to normal during the second half of 2021, with activity in the still-depressed sectors like restaurants, travel and hotels returning to their pre-pandemic levels; this would help to bring the unemployment rate down. With the household saving rate having been exceptionally high since the first lockdown in March, there is plenty of pent-up demand and purchasing power stored up for these services. A comprehensive roll-out of vaccines might take into late 2021 to fully complete; but if these vaccines prove to be highly effective, then there is a possibility that restrictions could start to be eased once vulnerable people and front-line workers have been vaccinated. At that point, there would be less reason to fear that hospitals could become overwhelmed any more. Effective vaccines would radically improve the economic outlook once they have been widely administered; it may allow GDP to rise to its pre-virus level a year earlier than otherwise and mean that the unemployment rate peaks at 7% in 2021 instead of 9%.

Public borrowing was forecast in November by the Office for Budget Responsibility (the OBR) to reach £394bn in the current financial year, the highest ever peace time deficit and equivalent to 19% of GDP. In normal times, such an increase in total gilt issuance would lead to a rise in gilt yields, and so PWLB rates. However, the QE done by the Bank of England has depressed gilt yields to historic low levels, (as has similarly occurred with QE and debt issued in the US, the EU and Japan). This means that new UK debt being issued, and this is being done across the whole yield curve in all maturities, is locking in those historic low levels through until maturity. In addition, the UK has one of the longest average maturities for its entire debt portfolio, of any country in the world. Overall, this means that the total interest bill paid by the Government is manageable despite the huge increase in the total amount of debt. The OBR was also forecasting that the government will still be running a budget deficit of £102bn (3.9% of GDP) by 2025/26. However, initial impressions are that they have taken a pessimistic view of the impact that vaccines could make in the speed of economic recovery.

Overall, the pace of recovery was not expected to be in the form of a rapid V shape, but a more elongated and prolonged one. The initial recovery was sharp after quarter 1 saw growth at -3.0% followed by -18.8% in quarter 2 and then an upswing of +16.0% in quarter 3; this still left the economy 8.6% smaller than in Q4 2019. It is likely that the one month national lockdown that started on 5th November, will have caused a further contraction of 8% m/m in November so the economy may have then been 14% below its pre-crisis level.

December 2020 / January 2021. Since then, there has been rapid back-tracking on easing restrictions due to the spread of a new mutation of the virus, and severe restrictions were imposed across all four nations. These restrictions were changed on 5th January 2021 to national lockdowns of various initial lengths in each of the four nations, as the NHS was under extreme pressure. It is now likely that wide swathes of the UK will remain under these new restrictions for some months; this means that the near-term outlook for the economy is weak. However, the distribution of vaccines and the expected consequent removal of COVID-19 restrictions, should allow GDP to rebound rapidly in the second half

of 2021 so that the economy could climb back to its pre-pandemic peak as soon as late in 2022. Provided that both monetary and fiscal policy are kept loose for a few years yet, then it is still possible that in the second half of this decade, the economy may be no smaller than it would have been if COVID-19 had never happened. The significant caveat is if another mutation of COVID-19 appears that defeats the current batch of vaccines. However, now that science and technology have caught up with understanding this virus, new vaccines ought to be able to be developed more quickly to counter such a development and vaccine production facilities are being ramped up around the world.

Brexit While the UK has been gripped by the long running saga of whether or not a deal would be made by 31.12.20, the final agreement on 24.12.20, 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. As the forecasts in this report were based on an assumption of a Brexit agreement being reached, there is no need to amend these forecasts.

Monetary Policy Committee meeting of 17 December All nine Committee members voted to keep interest rates on hold at +0.10% and the Quantitative Easing (QE) target at £895bn. The MPC commented that the successful rollout of vaccines had reduced the downsides risks to the economy that it had highlighted in November. But this was caveated by it saying, “Although all members agreed that this would reduce downside risks, they placed different weights on the degree to which this was also expected to lead to stronger GDP growth in the central case.” So, while the vaccine is a positive development, in the eyes of the MPC at least, the economy is far from out of the woods. As a result of these continued concerns, the MPC voted to extend the availability of the Term Funding Scheme, (cheap borrowing), with additional incentives for small and medium size enterprises for six months from 30.4.21 until 31.10.21. (The MPC had assumed that a Brexit deal would be agreed.)

Prospect for Interest Rates

The Council has appointed Link Asset Services (LAS) 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 LAS’s central view.

Link Group Interest Rate View	9.11.20													
	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
BANK RATE	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
6 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
12 month ave earnings	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20
5 yr PWLB	1.80	1.80	1.80	1.80	1.80	1.90	1.90	1.90	1.90	1.90	2.00	2.00	2.00	2.00
10 yr PWLB	2.10	2.10	2.10	2.10	2.20	2.20	2.20	2.30	2.30	2.30	2.30	2.30	2.30	2.30
25 yr PWLB	2.50	2.50	2.60	2.60	2.60	2.60	2.70	2.70	2.70	2.70	2.80	2.80	2.80	2.80
50 yr PWLB	2.30	2.30	2.40	2.40	2.40	2.40	2.50	2.50	2.50	2.50	2.60	2.60	2.60	2.60

The coronavirus outbreak has caused significant economic damage to the UK and economies around the world. After the Bank of England took emergency action in March to cut Bank Rate to first 0.25%, and then to 0.10%, it left Bank Rate unchanged at its subsequent meetings to 5th November, although some forecasters had suggested that a cut into negative territory could happen. However, the Governor of the Bank of England has made it clear that he currently thinks that such a move would do more damage than good and that more quantitative easing is the favoured tool if further action becomes necessary. As shown in the forecast table above, no increase in Bank Rate is expected in the forecast table above as economic recovery is expected to be only gradual and, therefore, prolonged.

The interest rate forecasts provided by Link above were predicated on an assumption of a reasonable agreement being reached on trade negotiations between the UK and the EU by 31st December 2020. 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 minority position dependent on the support of the SPD party, as a result of the rise in popularity of the 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 an 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.

Investment and borrowing rates

- Investment returns are likely to remain exceptionally low during 2021/22 with little increase in the following two years.
- Borrowing interest rates fell to historically very low rates as a result of the COVID crisis and the quantitative easing operations of the Bank of England: indeed, gilt yields up to 6 years were negative during most of the first half of 20/21. The policy of avoiding new borrowing by running down spare cash balances has served local authorities well over the last few years. However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in the future when authorities may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt.

- There will remain a significant cost of carry, (the difference between higher borrowing costs and lower investment returns), to any new long-term borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost.

ANNEX C - PRUDENTIAL AND TREASURY INDICATORS 2021/22 to 2023/23

The council's capital expenditure plans are a key driver of treasury management activities. The output of the capital expenditure plans are reflected in prudential indicators. Local authorities are required to 'have regard to' the Prudential Code and to set Prudential Indicators for the next three years to ensure that the council's capital investment plans are affordable, prudent and sustainable. The Code sets out the indicators that must be used but does not suggest limits or ratios as these are for the authority to set itself.

The Prudential Indicators for 2021/22 to 2023/23 are set out in **Table A** below:

Table A	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
General Fund (GF) Prudential Indicators			
GF Capital Expenditure £m (gross) General Fund capital expenditure plans	£149m	£83m	£109m
GF Capital Financing Requirement £m* Measures the underlying need to borrow for capital purposes (including PFI & Leases)	£284m	£324m	£390m
GF Ratio of financing costs to net revenue stream** Identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against net revenue stream	7.07%	6.33%	6.36%
Housing Revenue Account (HRA) Prudential Indicators			
HRA Capital Expenditure £m (gross) HRA capital expenditure plans	£72m	£88m	£32m
HRA Capital Financing Requirement £m* Measures the underlying need to borrow for capital purposes	£193m	£230m	£223m
HRA Ratio of financing costs to net revenue stream** Identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against net revenue stream	10.24%	18.39%	19.20%

** From 2022/23, the CFR includes an estimate for leases that will be bought onto the balance sheet under a change in leasing accounting regulations.*

*** the ratio of financing costs to net revenue stream illustrates the percentage of the Council's net revenue budget being used to finance the council's borrowing. This includes interest costs relating to the council's borrowing portfolio and MRP, net of the investment income from the council's investment portfolio.*

The sharp increase in HRA Ratio of Financing costs to net revenue stream in 2022/23 is due to the current assumption that MRP will be set aside to fund loan repayments of £6m and £7m in 2022/23 and 2023/24 respectively. These loan maturities may instead be re-financed with new loans, which would reduce these ratios to 9.14% in 2022/23 and 8.88% in 2023/24.

The Treasury Management Code requires that Local Authorities set a number of indicators for treasury performance in addition to the Prudential Indicators which fall under the Prudential Code. The Treasury Indicators for 2021/22 to 2023/24 are set out in **Tables B & C** below. These have been calculated and determined by Officers in compliance with the Treasury Management Code of Practice:

Table B	**2021/22 Estimate**	**2022/23 Estimate**	**2023/24 Estimate**
Authorised Limit for External Debt £m* The council is expected to set a maximum authorised limit for external debt. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by Full Council.	£541m	£625m	£680m
Operational boundary for external debt £m* The council is required to set an operational boundary for external debt. This is the limit which external debt is not normally expected to exceed. This indicator may be breached temporarily for operational reasons.	£531m	£615m	£670m
Principal Sums invested for longer than 365 days	£40m	£40m	£40m

**From 2022/23 The Authorised Limit and Operational Boundary includes an estimate for leases that will be bought onto the balance sheet under a change in leasing accounting regulations.*

Table C		
Maturity Structure of fixed interest rate borrowing* The council needs to set upper and lower limits with respect to the maturity structure of its borrowing.		
	Lower	Upper
Under 12 months	0%	40%
12 months to 2 years	0%	40%
2 years to 5 years	0%	50%
5 years to 10 years	0%	75%
Over 10 years	40%	100%

ANNEX D - SCHEME OF DELEGATION

1. Full Council

- Approval of Annual Investment Strategy, Treasury Management Strategy Statement, Capital Strategy, Treasury Management Policy Statement;
- Approval of the Minimum Revenue Provision Policy;
- Approval of the Prudential and Treasury indicators, including the Affordable borrowing limits;
- Approval of the annual revenue budget for financing costs.

The requirements are all contained within this appendix (TMSS incorporating the AIS) and Appendix 2 (Capital Strategy) of the budget report.

- Any changes to the Annual Investment Strategy during the year require approval by full Council.
- Full Council are able to delegate the implementation and monitoring of the treasury management function. This function is delegated to the Policy & Resources Committee.

2. Policy & Resources Committee

- Approval of/amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices;
- Budget development, consideration and approval;
- Approval of the division of responsibilities;
- Receiving and reviewing regular monitoring reports and acting on recommendations.

P&R receive the following reports in order to fulfil these requirements:

- A **Mid-Year Review Report** – an update on progress of the treasury and investment strategy against budget and the treasury & prudential indicators for the first six months of the year. Any amendments to the indicators or investment strategy require P&R committee to recommend that full Council approve the changes.
- **End of Year Review report** – an update regarding the actual outturn of the treasury position provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.
- **Quarterly TBM reports** - includes the revenue impact of the financing cost budget.

P&R Committee is the body held responsible for the scrutiny of the actual performance of the treasury activities against the strategy.

3. Role of the Section 151 Officer

The council's appointed Section 151 Chief Financial Officer is responsible for:

- 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.

There are further responsibilities for the S151 Officer identified within the 2017 Code in respect of non-financial investments. They are identified and listed in the Capital Strategy where relevant.