Report of the Director of Governance and Partnerships

Agenda Item 3 (c)
Meeting 25th February 2021

NORTH LINCOLNSHIRE COUNCIL

COUNCIL

TREASURY MANAGEMENT STRATEGY 2021/22

1. OBJECT AND KEY POINTS IN THIS REPORT

1.1 To approve the Treasury Management Policy Statement

1.2 To seek approval of the Council's Treasury Management Strategy 2021/22.

1.3 To adopt the Prudential Code 2017, the CIPFA Treasury Management in Public Services Code of Practice and related MHCLG Guidance.

1.4 To approve the proposed Prudential Indicators 21/24

1.5 To approve the policy on the Minimum Revenue Provision

1.6 To approve the Investment Counterparties and Limits

1.7 To approve the Maturity Structure of Borrowing Limits

2. BACKGROUND INFORMATION

2.1 The proposed Treasury management Strategy Statement (TMSS) for 2021/22 is attached at Appendix 2. The Strategy has been developed in consultation with our treasury management advisors, Link Asset Services Ltd. This statement also incorporates the Investment Strategy.

2.2 Whilst the Council has appointed advisors to support effective treasury management arrangements, the Council is ultimately responsible for its treasury decisions and activity. No treasury activity is without risk. The successful identification, monitoring and control of risk is therefore an important and integral element of treasury management activities.

3. OPTIONS FOR CONSIDERATION

3.1 The options for consideration are detailed in the Strategy at Appendix 2

4. ANALYSIS OF OPTIONS

4.1 The options are analysed in the Strategy ay Appendix 2.

5. FINANCIAL AND OTHER RESOURCE IMPLICATIONS (e.g. LEGAL, HR, PROPERTY, IT, COMMUNICATIONS etc.)

5.1 None, other than the those set out in the report and appendices.

6. OTHER RELEVANT IMPLICATIONS (e.g. CRIME AND DISORDER, EQUALITIES, COUNCIL PLAN, ENVIRONMENTAL, RISK etc.)

6.1 Not applicable

7. OUTCOMES OF INTEGRATED IMPACT ASSESSMENT (IF APPLICABLE)

7.1 Not applicable

8. OUTCOMES OF CONSULTATION AND CONFLICTS OF INTERESTS DECLARED

8.1 Not applicable

9. RECOMMENDATIONS

9.1 Council is requested to:

i. Approve the Treasury Management Policy Statement (Appendix 1)

ii. Approve the Treasury Management Policy and Treasury Management and Investment Strategy for 2021/22 (Appendix 2)

iii. Adopt the Prudential Code 2017, the CIPFA Treasury Management in Public Services Code of Practice and related MHCLG Guidance.

iv. Approve the prudential indicators for 2021/24 set out in the Strategy (Appendix 2)

v. Approve the revised policy on the Minimum Revenue Provision set out in the Strategy (Appendix 2)

vi. Approve the Counterparty List contained in the Strategy (Appendix 2)

vii. Approve the Maturity Structure of Borrowing Limits contained in the Strategy (Appendix 2)

DIRECTOR OFGOVERNANCE AND PARTNERSHIPS

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Date: 15th February 2021

Background Papers used in the preparation of this report –

- Local Government Act 2003
- CIPFA Treasury Management in Public Services Code of Practice (2017 Edition)
- CIPFA Code of Practice 2019-20
- CIPFA The Prudential Code for Capital Finance in Local Authorities (2017 Edition)

APPENDIX 1

The Treasury Management Policy Statement

1. The Council defines its treasury management activities as:

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

2. The 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.

3. 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.

4. The Council's high level policies for borrowing, borrowing in advance and investments.

- The Council's borrowing will be affordable, sustainable and prudent and consideration will be given to the management of interest rate risk and refinancing risk. The source from which the borrowing is taken and the type of borrowing should allow the Council transparency and control over its debt.

- This organisation will only borrow in advance of need where there is a clear business case for doing so and will only do so for the current capital programme or to finance future debt maturities.

- The Council's primary objective in relation to investments remains the security of capital. The liquidity or accessibility of the Council's investments followed by the yield earned on investments remain important but are secondary considerations.

APPENDIX 2
The Treasury Management Strategy Statement

See separate document TMSS 2021-22

Treasury Management Strategy Statement

Minimum Revenue Provision Policy Statement and Annual Investment Strategy

North Lincolnshire Council
2021/22

Excluding non-treasury investments

1.INTRODUCTION

1.1 Background

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.

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

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.

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."*

This authority has not engaged in any non-treasury investments.

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 which will 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 risk is managed
- the implications for future financial sustainability

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

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 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).

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 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.

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

1.3 Treasury Management Strategy for 2021/22

The strategy for 2021/22 covers two main areas:

Capital issues

- the capital expenditure plans and the associated 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; and
- the policy on use of external service providers.

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 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 undertaken by Link Asset Services in 2019 and further training is planned during 2021/22. The training needs of treasury management officers are periodically reviewed.

1.5 Treasury management consultants

The Council uses Link Group, Treasury solutions as its external treasury management advisors.

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

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

2 THE CAPITAL PRUDENTIAL INDICATORS 2021/22 – 2023/24

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 Capital Expenditure

This prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. Members are asked to approve the capital expenditure forecasts:

Capital Expenditure £m	2019/20 Actual	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
Total Expenditure	32.152	43.881	49.26	16.419	17.618

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

Financing of capital expenditure	2019/20 Actual	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
	£m	£m	£m	£m	£m
Capital receipts	0.980	1.500	10.500	0.000	0.000
Capital grants	16.393	25.942	24.008	9.296	8.618
Revenue	0.181	0.171	0.016	0.000	0.000
Net financing need for the year	14.598	16.268	14.736	7.123	9.000

2.2 The Council's borrowing need (the Capital Financing Requirement)

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

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 asset's life, and so charges the economic consumption of capital assets as they are used. The Council is asked to approve the CFR projections below:

Capital Financing Requirement	2019/20 Actual	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
	£m	£m	£m	£m	£m
Opening	**235.128**	**244.332**	**255.511**	**273.554**	**274.464**
Net financing need for the year (above)	14.598	16.268	14.736	7.123	9.000
Less MRP and other financing movements	-5.394	-5.089	-5.693	-6.213	-6.593
Movement in CFR	9.204	11.179	9.043	0.910	2.407
Total CFR	**244.332**	**255.511**	**264.554**	**265.464**	**267.871**

2.2.1 Affordability prudential indicators

The previous sections cover 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. The Council is asked to approve the following indicators:

Ratio of financing costs to net revenue stream

This indicator identifies the trend in the cost of capital, (borrowing and other long-term obligation costs net of investment income), against the net revenue stream.

	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
Capital Financing Costs as a %age of Net Revenue Stream	7.9%	8.0%	8.5%	8.4%

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

2.3 Minimum revenue provision (MRP) policy statement

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

MHCLG regulations have been issued which require the full Council to approve an MRP Statement in advance of each year.

The Council is recommended to approve the following MRP Statement.

- Asset life annuity method – MRP will be based on the estimated life of the assets, in accordance with the regulations.
- The Council can provide capital loans as part of its capital investment program.
- MRP on loans secured against assets will be charged over the life of those assets.
- MRP on unsecured loans will be charged over the period of the loans.

MRP Overpayments

A change introduced by the revised MHCLG MRP Guidance was the allowance that any charges made over the statutory minimum revenue provision (MRP), voluntary revenue provision or overpayments, can, if needed, be reclaimed in later years if deemed necessary or prudent. In order for these sums to be reclaimed for use in the budget, this policy must disclose the cumulative overpayment made each year. Up until the **31 March 2020** the total VRP overpayments were **£0.00m**.

3 BORROWING

The capital expenditure plans set out in Section 2 provide 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.

3.1 Current portfolio position

The overall treasury management portfolio as at 31 January 2021 is shown below for both borrowing and investments.

Investment & Debt Portfolio Position

	Amount £ m	Average Interest rate
External Borrowing:		
PWLB – Fixed Rate	154.454	5.11%
PWLB – Variable Rate	0.000	N/A
Local Authorities	12.000	1.28%
Bank Loans	0.000	N/A

Total Gross External Debt	**166.454**	**4.89%**
Investments:	**Amount £ m**	**Average Interest rate**
Managed in-house		
Short-term investments	**36.767**	0.001%
Long-term investments	0.000	
Total Investments	**36.767**	
Net Debt	**129.687**	

The Council's forward projections for borrowing are summarised below. The table shows the actual external debt, against the underlying capital borrowing need, (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

External Debt	**2019/20**	**2020/21**	**2021/22**	**2022/23**	**2023/24**
	Actual	**Estimate**	**Estimate**	**Estimate**	**Estimate**
	£m	£m	£m	£m	£m
Debt at 1 April	**193.591**	**203.840**	**171.245**	**200.855**	**213.683**
Expected change in Debt	10.249	-32.595	29.610	12.828	14.369
Other long-term liabilities (OLTL)	-	-	-	-	-
Expected change in OLTL	-	-	-	-	-
Actual gross debt at 31 March	**203.840**	**171.245**	**200.855**	**213.683**	**228.051**
The Capital Financing Requirement	244.332	255.511	264.554	265.464	267.871
Under / (over) borrowing	40.492	84.266	63.699	51.781	39.820

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

The Director of Governance and Partnerships reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view considers current commitments, existing plans, and the proposals in this budget report.

3.2 Treasury Indicators: limits to borrowing activity

The operational boundary. 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.

Operational boundary £m	**2020/21 Estimate**	**2021/22 Estimate**	**2022/23 Estimate**	**2023/24 Estimate**
Debt	260.510	269.554	270.464	272.871

Other long-term liabilities	2.000	2.000	17.000	17.000
Total	262.510	271.554	287.464	289.871

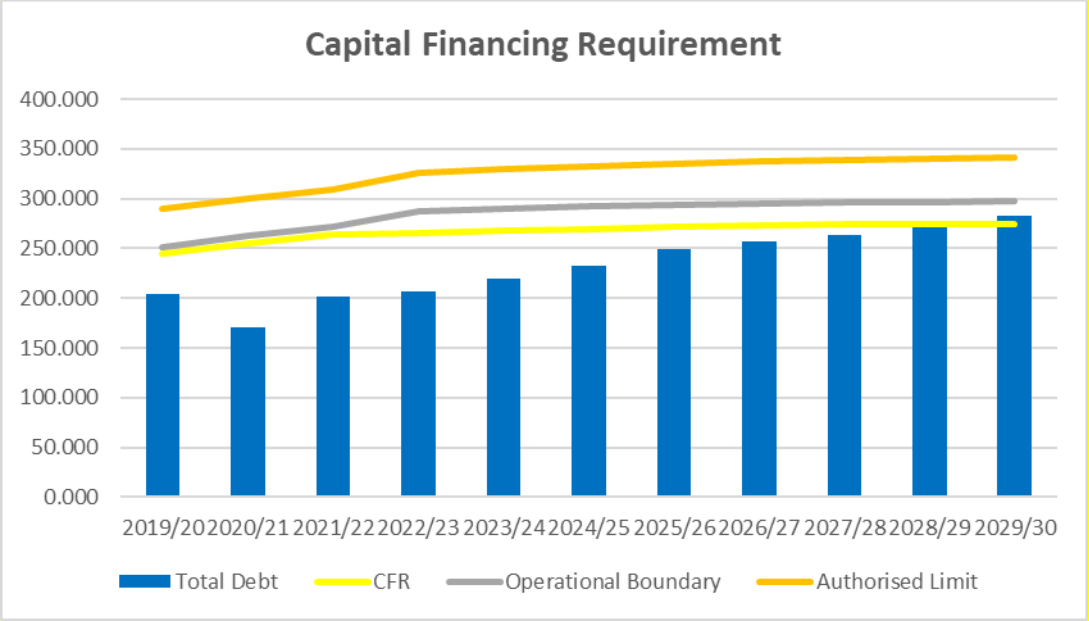
The authorised limit for external debt. This is a key prudential indicator and represents a control on the maximum level of borrowing. This represents a legal limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external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

1. 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.
2. The Council is asked to approve the following authorised limit:

Authorised limit £m	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
Debt	295.510	304.554	306.264	309.487
Other long term liabilities	5.000	5.000	20.000	20.000
Total	300.510	309.554	326.264	329.487

CFR and External Borrowing

CAPITAL FINANCING REQUIREMENT (CFR)	Actual 2019/20 £m	Est. 2020/21 £m	Est. 2021/22 £m	Est. 2022/23 £m	Est. 2023/24 £m	Est. 2024/25 £m	Est. 2025/26 £m	Est. 2026/27 £m	Est. 2027/28 £m	Est. 2028/29 £m	Est. 2029/30 £m
Capital Financing Requirement	244.3	255.5	264.6	265.5	267.9	269.9	271.7	273.0	274.1	274.8	275.0
Forecast net change in borrowing		-33.4	30.7	6.0	12.7	12.4	16.8	7.7	7.3	8.9	9.4
Total Debt	203.8	170.5	201.1	207.1	219.8	232.2	248.9	256.6	263.9	272.7	282.2
Operational Boundary	251.3	262.5	271.6	287.5	289.9	291.9	293.7	295.0	296.1	296.8	297.0
Authorised Limit	289.3	300.5	309.6	326.3	329.5	332.3	335.0	337.2	339.2	340.7	341.9



3.3 Prospects for interest rates

The Council has appointed Link Group as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. Link provided the following forecasts on 9th February 2021.

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
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
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

The coronavirus outbreak has done huge 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 subsequently left Bank Rate unchanged at its subsequent meetings, including its last meeting on 4th February 2021 although some forecasters had suggested that a cut into negative territory could happen. However, at that last meeting, we were informed that financial institutions were not prepared for implementing negative rates. The Monetary Policy Committee (MPC), therefore, requested that the Prudential Regulation Authority require financial institutions to prepare for such implementation if, at any time in the future, the MPC may wish to use that as a new monetary policy tool. The MPC made it clear that this did not in any way imply that they were about to use this tool in the near future. As shown in the forecast table above, no increase in Bank Rate is expected in the near-term as it is unlikely that inflation will rise sustainably above 2% during this period so as to warrant increasing Bank Rate.

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, some yields up to 6 years were negative during most of the first half of 20/21. Interest rates are expected to stay low in next 2 years.

- **Borrowing for capital expenditure.** As Link's long-term forecast for Bank Rate is 2.00%, and all PWLB rates are under 2.00%, there is now value in borrowing for all types of capital expenditure for all maturity periods, especially as current rates are at historic lows. However, greater value can be obtained in borrowing for shorter maturity periods so the Council will assess its risk appetite in conjunction with budgetary pressures to reduce total interest costs. Longer-term borrowing could also be undertaken for the purpose of certainty, where that is desirable, or for flattening the profile of a heavily unbalanced maturity profile.

- While this authority will not be able to avoid borrowing to finance new capital expenditure, to replace maturing debt and the rundown of reserves, there will be a cost of carry, (the difference between higher borrowing costs and lower investment returns), to any new borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost.

3.4 Borrowing strategy

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.

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

- In FY 2021/22, Council plans to borrow multiple short term loans to meet funding requirement as interest rates for short term loans are at a historic low.
- This strategy will provide flexibility to adjust to market situation and adopt most prudent approach towards borrowing and keeping the cost at lowest possible level.
- If it was felt that there was a significant risk of a sharp FALL in borrowing rates, then borrowing will be postponed.
- If it was felt that there was a significant risk of a much sharper RISE in borrowing rates than that currently forecast, perhaps 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. Most likely, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.

Any decisions will be reported to the audit committee at the next available opportunity.

3.5 Policy on borrowing in advance of need

The Council will not borrow more than or in advance of its needs primarily 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.

Borrowing in advance will be made within the constraints that; The authority would not look to borrow more than 60 months in advance of need.

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.

3.6 Debt rescheduling

Rescheduling of current borrowing in our debt portfolio is unlikely to occur as there is still a very large difference between premature redemption rates and new borrowing rates, even though the general margin of PWLB rates over gilt yields was reduced by 100 bps in November 2020. If rescheduling was done, it will be reported to the audit committee at the earliest meeting following its action.

New financial institutions as a source of borrowing and / or types of borrowing
Currently the PWLB Certainty Rate is set at gilts + 0.8%. Consideration may still need to be given to sourcing funding from the following sources for the following reasons:

- Local authorities (primarily shorter dated maturities out to 3 years or so – still cheaper than the Certainty Rate).
- Financial institutions (primarily insurance companies and pension funds but also some banks, out of forward dates where the objective is to avoid a "cost of carry" or to achieve refinancing certainty over the next few years).
- Municipal Bonds Agency.
- Any other source offering cheapest and favourable terms for borrowing.

Our advisors will keep us informed as to the relative merits of each of these alternative funding sources.

3.7 Approved Sources of Long and Short-term Borrowing

On Balance Sheet	Fixed	Variable
PWLB	●	●
Municipal bond agency	●	●
Local authorities	●	●
Banks	●	●
Pension funds	●	●
Insurance companies	●	●
Market (long-term)	●	●
Market (temporary)	●	●
Local temporary	●	●
Local Bonds	●	
Local authority bills	●	●
Overdraft		●
Negotiable Bonds	●	●
Internal (capital receipts & revenue balances)	●	●
Finance leases	●	●

3.8 Maturity structure of borrowing

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.

The Council is asked to approve the following treasury indicators and limits:

Maturity structure of fixed interest rate borrowing 2021/22		
	Lower	**Upper**
Under 12 months	0%	60%
12 months to 2 years	0%	30%
2 years to 5 years	0%	50%
5 years to 10 years	0%	50%
10 years to 20 years	0%	75%
20 years to 30 years	0%	75%
30 years and above	0%	100%
Maturity structure of variable interest rate borrowing 2021/22		
	Lower	**Upper**
Under 12 months	0%	60%
12 months to 2 years	0%	30%
2 years to 5 years	0%	50%
5 years to 10 years	0%	50%
10 years to 20 years	0%	75%
20 years to 30 years	0%	75%
30 years and above	0%	100%

4 ANNUAL INVESTMENT STRATEGY

4.1 Investment policy – management of risk

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 **security first, portfolio liquidity second and then yield, (return).** The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and with the Council's risk appetite. In the current economic climate it is considered appropriate to keep investments short term to cover cash flow needs. However, where appropriate (from an internal as well as external perspective), the Council will also consider the value available in periods up to 12 months with high credit rated financial institutions, as well as wider range fund options.

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

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

2. **Other information sources** used will include the financial press, share price and other such information pertaining to the financial sector in order to establish

the most robust scrutiny process on the suitability of potential investment counterparties.

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

   - **Specified investments** are those with a high level of credit quality and subject to a maturity limit of one year or have less than a year left to run to maturity if originally they were originally classified as being non-specified investments solely due to the maturity period exceeding one year.

   - **Non-specified investments** are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use.

4. **Non-specified and loan investment limits.** The council's use of non-specified investments will be limited.

5. **Lending limits**, (amounts and maturity), for each counterparty will be set through applying the matrix table in paragraph 4.1-13.

6. **Transaction limits** are set for each type of investment in 4.1-14.

7. This authority will set a limit for its investments which are invested for **longer than 365 days**, (see paragraph 4.4).

8. Investments will only be placed with counterparties from countries with a specified minimum **sovereign rating**, (see paragraph 4.3-C).

9. This authority has engaged **external consultants**, (see paragraph 1.5), 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.

10. All investments will be denominated in **sterling**.

11. As a result of the change in accounting standards for 2020/21 under IFRS 9, this authority will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. (In November 2018, the Ministry of Housing, Communities and Local Government, [MHCLG], concluded a consultation for a temporary override to allow English local authorities time to adjust their portfolio of all pooled investments by announcing a statutory override to delay implementation of IFRS 9 for five years ending 31.3.23.

12. Investment limits

	Cash limit
For durations less than 366 days in any single organisation, except the UK Central Government	£5m each
UK Central Government	unlimited
Any group of organisations under the same ownership	£5m per group
Any group of pooled funds under the same management	£5m per manager
Negotiable instruments held in a Tri-party Agent/broker's nominee account	£25m per broker
Foreign countries (Minimum Sovereign rating AA-)	£5m per country
Main operating bank	£5m in total
Unsecured investments with Building Societies	£2m in total
Loans to unrated corporates	£5m in total
Money Market Funds	50% of overall balances as at date of investment

13. The Council may invest its surplus funds with any of the counterparty types in table below, subject to the cash limits (per counterparty) and the time limits shown and minimum rating from any two of main three rating agencies S&P, Moody's and Fitch.

Credit Rating	Banks Unsecured	Banks Secured	Government	Corporates	Registered Providers
UK Govt	n/a	n/a	£ Unlimited 50 years	n/a	n/a
AAA	£3m 5 years	£5m 20 years	£5m 20 years	£2m 5 years	£2m 20 years
AA+	£3m 5 years	£5m 10 years	£5m 10 years	£2m 5 years	£2m 10 years
AA	£3m 4 years	£5m 5 years	£5m 5 years	£2m 4 years	£2m 5 years
AA-	£3m 3 years	£5m 4 years	£5m 4 years	£2m 3 years	£2m 4 years
A+	£3m 2 years	£5m 3 years	£5m 3 years	£2m 2 years	£2m 3 years
A	£2m 13 months	£4m 2 years	£5m 2 years	£2m 13 months	£2m 2 years
A-	£2m 6 months	£3m 13 months	£3m 13 months	£1m 6 months	£1m 13 months
BBB+	£1m 100 days	£1.5m 6 months	£1.5m 6 months	£1m 100 days	£1m 6 months
None	n/a	n/a	£5m* 5 years	£0.1m 5 years	£1m 6 months
Pooled funds	Money Market Funds - CNAV or LVNAV - £3m per fund, VNAV £1m per fund but not more than 50% of overall balances in aggregate				

* Other UK Local Authorities – per Authority

The above table is derived from an assessment of Available Reserves and our Advisors general guidance across the ratings spectrum.

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

Changes in risk management policy from last year.
The above criterion has a minor change from last year. Limit of cash holding in main operating bank was increased to £5.00 million.

4.2 Creditworthiness policy

The primary principle governing the Council's investment criteria is the security of its investments, 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.

The Director of Governance and Partnerships 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.

Credit rating information is supplied by the Link Group, 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. Any rating changes, rating Watches (notification of a likely change), rating Outlooks (notification of the longer-term bias outside the central rating view) are provided to officers almost immediately after they occur and this information is considered before dealing. For instance, a negative rating Watch applying to counterparty at the minimum Council criteria will be suspended from use, with all others being reviewed in light of market conditions.

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

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

  and have, as a minimum, the following Fitch, Moody's and Standard & Poor's credit ratings (where rated):
    i. Short Term – *A*-
    ii. Long Term – Stable. However, due to pandemic all banks have current long-term rating of negative. Therefore, other stability factors will be considered while initiating any transaction.
- Banks 2 – Part nationalised UK bank – Royal Bank of Scotland ring-fenced operations. This bank can be included provided they continue to be part nationalised or meet the ratings in Banks 1 above.
- Banks 3 – The Council's own banker for transactional purposes if the bank falls below the above criteria, although in this case balances will be minimised in both monetary size and time invested.
- Money Market Funds (MMFs) with minimum rating of A-
- Ultra-Short Dated Bond Funds with a credit rating of at least A-
- UK Government – DMADF
- UK Government – Treasury Bills from Secondary Market
- Local authorities, parish councils etc
- Housing associations
- Supranational institutions

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, rating Watches/Outlooks) will be applied to compare the relative security of differing investment opportunities.

4.3 Other limits

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

a) **Non-specified treasury management investment limit.** The Council has determined that it will limit the maximum total exposure of treasury management investments to non-specified treasury management investments as being £5M.

	Cash limit
Total long-term investments	£2m
Total investments without credit ratings or rated below A- (excluding other Local Authorities)	£1.5m
Total investments (except pooled funds) with institutions domiciled in foreign countries rated below AA+	£1.5m
Total non-specified investments	£5m

b) **Country limit.** The Council has determined that it will only use approved counterparties from the UK and from countries with a minimum sovereign credit rating of equal to UK or A- from Fitch or equivalent, whichever is higher.

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

- limits in place above will apply to a group of companies.
- sector limits will be monitored regularly for appropriateness.

4.4 Investment strategy

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 period, consideration will be given to locking in higher rates currently obtainable, for longer periods.

Investment returns expectations.
Bank Rate is unlikely to rise from 0.10% for a considerable period. It is very difficult to say when it may start rising so it may be best to assume that investment earnings from money

market-related instruments will be sub 0.50% for the foreseeable future. The suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year are as follows (the long term forecast is for periods over 10 years in the future):

Average earnings in each year	Rate
2020/21	0.10%
2021/22	0.10%
2022/23	0.10%
2023/24	0.10%
2024/25	0.25%
Long term later years	2.00%

4.5 Changes of investment strategy

There is no fundamental change in investment strategy.

4.6 Investment performance / risk benchmarking

This Council will use an investment benchmark to assess the investment performance of its investment portfolio of 7 day LIBID uncompounded. The Council is appreciative that the provision of LIBOR and associated LIBID rates is expected to cease at the end of 2021. It will work with its advisors in determining suitable replacement investment benchmark(s) ahead of this cessation and will report back to members accordingly.