

Report to Cabinet

Treasury Management Strategy Statement 2021/22

Including the Minimum Revenue Provision Policy Statement, Annual Investment Strategy and Prudential Indicators

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Cabinet Member for Finance and Green

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Reason for Decision

To present to Cabinet, the strategy for 2021/22 Treasury Management activities including the Minimum Revenue Provision Policy Statement, the Annual Investment Strategy and Prudential Indicators together with linkages to the Capital Strategy.

Executive Summary

The report outlines the Treasury Management Strategy for 2021/22 including the Minimum Revenue Provision Policy Statement, Annual Investment Strategy and Prudential Indicators together with linkages to the Capital Strategy.

The Council is required through regulations supporting the Local Government Act 2003 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. It is also required to produce an annual Treasury Strategy for borrowing and to prepare an Annual Investment Strategy setting out the Council's policies for managing its investments and for giving priority to security and liquidity of those investments.

The Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management 2017 (the Code) also requires the receipt by full Council of a Treasury Management Strategy Statement.

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 Statement

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
- The Policy on Borrowing in Advance of Need
- Debt Rescheduling
- The Investment Strategy
- The Creditworthiness Policy
- The Policy regarding the use of external service providers.

The report therefore outlines the implications and key factors in relation to each of the above Capital and Treasury Management issues and makes recommendations with regard to the Treasury Management Strategy for 2021/22.

The report includes an economic background commentary which has been updated to reflect the latest position, especially in relation to the UK leaving the EU on 31 December 2020.

The Audit Committee, the body charged with the detailed scrutiny of Treasury Management activities considered the proposed 2021/22 Treasury Management Strategy report at its meeting on 21 January 2021. It was also presented to the Overview and Scrutiny Performance and Value for Money Select Committee on 28 January 2021. Both the Audit Committee and the Select Committee were content to commend the report to Cabinet.

Recommendation

That Cabinet approves and commends to Council the:

- 1 Capital Expenditure Estimates as per paragraph 2.1.2;
- 2 MRP policy and method of calculation as per Appendix 1;
- 3 Capital Financing Requirement (CFR) Projections as per paragraph 2.2.4;
- 4 Projected treasury position as at 31 March 2021 as per paragraph 2.3.3;
- 5 Treasury Limit's as per section 2.4;
- 6 Borrowing Strategy for 2021/22 as per section 2.6;
- 7 Annual Investment Strategy as per section 2.10 including risk management and the creditworthiness policy at section 2.11; and
- 8 Level of investment in specified and non-specified investments detailed at Appendix 5.

Treasury Management Strategy Statement 2021/22 Including the Minimum Revenue Provision Policy Statement, Annual Investment Strategy and Prudential Indicators

1 Background

- 1.1 The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the Treasury Management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low investment risk appetite, providing adequate liquidity initially before considering investment return.
- 1.2 The second main function of the Treasury Management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning to ensure that the Council can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short term loans or using longer term cash flow surpluses. On occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.
- 1.3 The contribution the Treasury Management function makes to the Authority is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.
- 1.4 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.
- 1.5 Treasury management is defined as:

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

Source: The Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management in the Public Service's Code of Practice.

1.6 Reporting Requirements – Capital Strategy

- 1.6.1 The CIPFA Prudential and Treasury Management Codes (2017) 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; and
 - the implications for future financial sustainability.
- 1.6.2 The Councils capital strategy (which is elsewhere on the agenda) is therefore prepared following the required Codes of Practice to ensure that all Council Members are presented

with the overall long-term capital investment policy objectives and resulting capital strategy requirements, governance procedures and risk appetite.

1.6.3 The Council's capital strategy is reported separately from the Treasury Management Strategy Statement; non-treasury investments will be reported through the former. This ensures the separation of the core treasury function under security of capital, liquidity and yield principles, and the policy around commercial investments, usually driven by expenditure on an asset. Specifically, in relation to non-treasury investments, the capital strategy includes, where appropriate:

- The corporate governance arrangements for these types of activities;
- Any service objectives relating to the investments;
- The expected income, costs and resulting contribution to support the Councils budget;
- The debt related to the activity and the associated interest costs;
- The payback period (Minimum Revenue Provision (MRP) policy);
- For non-loan type investments, the cost against the current market value;
- The risks associated with each activity.

1.6.4 Where a physical asset is being bought, details of market research, advisers used, (and their monitoring), ongoing costs and investment requirements and any credit information will be disclosed, including the ability to sell the asset and realise the investment cash.

1.6.5 The Council will also follow the most recent guidance by CIPFA entitled Prudential Property Investment which was issued in November 2019. Having regard to all relevant guidance, the Council's Capital Strategy has been revised to take into account the recent change to the Public Works Loan Board (PWLB) lending criteria. Alongside, the 2020 Spending Review in November 2020, the Government largely confirmed the proposals set out in its consultation document issued in March 2020 that there would be stricter conditions associated with the approval of PWLB loans to Local Authorities. The PWLB will now no longer provide loans to a Local Authority if their Capital Strategies include any plans to buy investment assets primarily for income generation. The Council's Capital Strategy has therefore been revised so that it does not include income generation/commercial yield as a core principle.

1.6.6 If any non-treasury investment sustains a loss during the final accounts and audit process, the strategy and revenue implications will be reported through the same procedure as the capital strategy (to date there have been no such losses).

1.6.7 To demonstrate the proportionality between the treasury operations and the non-treasury operation, high-level comparators are shown throughout this report.

1.7 Treasury Management Reporting

1.7.1 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 which is a forward look to the year ahead 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.

1.7.2 The above reports are required to be adequately scrutinised before being recommended to Council. The Overview and Scrutiny Performance and Value for Money (PVFM) Select Committee scrutinised the Treasury Management Strategy Statement for 2021/22 on 28 January 2021 alongside all the other reports which are presented to the annual Budget Council meeting. The Audit Committee, the body charged with the detailed scrutiny of Treasury Management activities also considered the Strategy report on 21 January 2021. The Audit Committee also considers the mid-year and annual review reports prior to presentation to Cabinet and Council. Both the Audit Committee and the Select Committee were content to commend the Treasury Management Strategy for 2021/2 to Cabinet for approval.

1.8 Treasury Management Strategy for 2021/22

1.8.1 The strategy for 2021/22 covers two main areas:

1.8.2 Capital issues:

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

1.8.3 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.

1.8.4 These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, Ministry of Housing, Communities and Local Government (MHCLG) MRP Guidance, the CIPFA Treasury Management Code and MHCLG Investment Guidance.

1.9 Training

1.9.1 The CIPFA Code requires the responsible officer (in Oldham the Director of Finance) to ensure that Members with responsibility for treasury management receive adequate training in treasury management. This especially applies to Members responsible for scrutiny. Due

to the impact of the Covid-19 pandemic it has not been possible to deliver Treasury Management training during the financial year 2020/21 as initially envisaged therefore the most recent training was provided to Audit Committee Members on 1 October 2019. However, it must be noted that Members of the Audit Committee receive regular updates regarding any issues that affect Treasury Management. Training was also provided for Cabinet Members and Senior Officers in October 2018. The Council is planning external training session for Cabinet and Audit Committee Members during the financial year 2021/22.

1.9.2 The training needs of treasury management officers are periodically reviewed. The team is staffed by professionally qualified accountants with extensive Local Government finance experience. Team members attend all relevant training courses, workshops and events to ensure that their knowledge and skills are up to date and the Council is in a position to address all new technical developments. During 2020/21 these have all been held remotely via zoom or another online platform. All staff follow a Continuous Professional Development (CPD) Plan as part of their individual accountancy body accreditation. The overall responsibility for capital and treasury activities lies with the Council's Section 151 Officer (Director of Finance) who, in accordance with statute, is professionally qualified and is suitably experienced to hold the post.

1.10 Treasury Management Consultants

1.10.1 The Council uses Link Asset Services, Treasury Solutions as its external treasury management advisors.

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

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

1.10.4 When looking at a commercial element within a particular capital scheme that has a main focus on public services, housing, regeneration, preventative objectives or treasury management investments, the Council will require specialist advice that Link Asset Services may not provide. As part of the evaluation process and if required, appropriate external advice will be sought, and an extensive due diligence exercise will be undertaken.

2 Capital Plans & Prudential Indicators 2021/22 – 2023/24

2.1 Capital Plans

2.1.1 The Council's capital expenditure plans are the key driver of Treasury Management activity. The output of the capital expenditure plans is reflected in Prudential Indicators, which are designed to assist Members' overview and confirm capital expenditure plans. These indicators as per the Capital Programme include previous years' actual expenditure, forecast expenditure for this current year 2020/21 and estimates for the next three year period, the timeframe required by CIPFA's guidance.

Capital Expenditure Estimates

- 2.1.2 This first Prudential Indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. Cabinet is asked to approve the capital expenditure forecasts included in the table below presented to reflect previous years and current Portfolio management arrangements. The capital spending plans included in the Capital Strategy and Programme translate the ambition and vision for Oldham that were set out in the Cabinet reports.

Table 1 - Capital Expenditure Estimates

Capital Expenditure / Portfolio	2019/20 Actual £'000	2020/21 Estimate £'000	2021/22 Estimate £'000	2022/23 Estimate £'000	2023/24 Estimate £'000
Corporate Services *	913	13,195	5,320	69	69
Children's Services	17,548	10,457	6,110	13,200	13,742
Community Health & Adult Social Care	2,407	2,011	3,409	400	400
People & Place	27,317	46,190	64,581	68,770	46,093
Communities & Reform	107	125	637	0	0
Emerging Priorities	0	342	1,442	4,200	3,200
General Fund Services	48,292	72,320	81,500	86,639	63,504
Housing Revenue Account (HRA)	2,134	4,952	3,412	8,127	7,914
HRA	2,134	4,952	3,412	8,127	7,914
Commercial Activities / Non-Financial Investments **	3,957	3,741	0	0	0
Commercial Activities / Non-Financial Investments	3,957	3,741	0	0	0
Total	54,383	81,013	84,912	94,765	71,418

* Excludes any commercial activities which were included in the Corporate Services capital programme.

** Relates to areas such as capital expenditure on investment properties, loans to third parties, purchase of equity shares etc.

- 2.1.3 The capital expenditure shown above excludes other long-term liabilities, such as Private Finance Initiative (PFI) and leasing arrangements which already include borrowing instruments. It should be noted that any new expenditure commitments are likely to increase the borrowing requirement.
- 2.1.4 Table 2 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 need (borrowing).
- 2.1.5 The borrowing need for capital expenditure in 2021/22 is currently expected to be £42.871m. This will however change if there is a revision to the spending profile of the capital programme.
- 2.1.6 During 2020/21, the Council purchased the Spindles & Town Square Shopping Centres in borough. The purchase of the Shopping Centres was a key strand in the plan to regenerate the town centre of Oldham, as the shopping centres are a major strategic asset in the heart of the town. The purchase was made following a substantial due diligence process. Since

the purchase, the Centres continue to be operated in their present format in the short term while regeneration plans are prepared to remodel the asset, so it becomes a multi-functional town centre hub combining shopping, entertainment and office accommodation in one development.

Table 2 - Funding of the Capital Programme

Capital Expenditure	2019/20 Actual £'000	2020/21 Estimate £'000	2021/22 Estimate £'000	2022/23 Estimate £'000	2023/24 Estimate £'000
General Fund Services	52,249	76,061	81,500	86,638	63,504
HRA	2,134	4,952	3,412	8,127	7,914
Commercial Activities	0	0	0	0	0
Total	54,383	81,012	84,912	94,765	71,418
Financed by:					
Capital receipts	(9,914)	(2,335)	(3,999)	(7,178)	(2,502)
Capital grants - Ringfenced	(42,091)	(5,998)	(22,508)	0	0
Capital grants – Un-ringfenced		(13,829)	(12,071)	(4,605)	(8,971)
Revenue	(244)	(323)	(51)	0	0
HRA Resources	(2,134)	(4,974)	(3,412)	(8,127)	(7,914)
Net financing need for the year	0	53,553	42,871	74,856	52,031

2.1.7 All other prudential indicators included within this report are based on the above capital estimates.

2.2 The Council's Borrowing Need - the Capital Financing Requirement (CFR)

2.2.1 The second Prudential Indicator is the Council's CFR. The CFR represents total historic outstanding capital expenditure which has not yet been financed from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. Any capital expenditure above, which has not immediately been financed from cash backed resources, will increase the CFR.

2.2.2 The CFR does not increase indefinitely, as the Council makes 'prudent' provision for debt repayment which broadly reduces indebtedness in line with each asset's life and so charges the economic consumption of capital assets as they are used. The approach to making prudent provision is set out in the MRP Policy Statement at Appendix 1.

2.2.3 The MRP policy for 2021/22 has not been amended since the policy was approved at Council on 28 February 2020.

2.2.4 The CFR includes other long term liabilities (e.g. Private Finance Initiative (PFI) schemes, finance leases etc.). Whilst these arrangements increase the CFR, and therefore the Council's borrowing requirement, such schemes also include a 'loan' facility meaning the Council is not required to make separate borrowing arrangements. The Council currently estimates a net figure of £213.357m of such schemes within the CFR for 2021/22, decreasing to £193.773m by 2023/24. From 2021/22 and future years an estimated of £0.644m has been included in the CFR to reflect anticipated costs associated with the implementation of IFRS 16 (see paragraph 2.15.3).

Table 3 Capital Financing Requirement (CFR)

	2019/20 Actual £'000	2020/21 Estimate £'000	2021/22 Estimate £'000	2022/23 Estimate £'000	2023/24 Estimate £'000
Capital Financing Requirement (CFR)					
CFR - Services	472,377	504,935	525,647	579,968	608,139
CFR - Commercial Activities	0				
Total CFR	472,377	504,935	525,647	579,968	608,139
Movement in CFR	(21,503)	32,558	20,712	54,321	28,171
Movement in CFR represented by					
Net financing need for the year	0	53,553	42,871	74,856	52,031
PFI Repayments	(9,688)	(9,496)	(10,868)	(8,908)	(10,666)
Less MRP/VRP and other financing movements	(11,815)	(11,499)	(11,291)	(11,627)	(13,194)
Movement in CFR	(21,503)	32,558	20,712	54,321	28,171

2.2.5 A key aspect of the regulatory and professional guidance is that elected members are aware of the size and scope of any commercial activity in relation to the Authority's overall financial position. The capital expenditure figures shown in Table 1 at paragraph 2.1.2 and the details above demonstrate the scope of this activity and, by approving these figures, consider the scale proportionate to the Council's remaining activity.

2.3 Borrowing

2.3.1 The capital expenditure plans set out in section 2.1 to a large extent drive the borrowing estimates included in this 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 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 and Prudential Indicators, the current and projected debt positions and the Annual Investment Strategy.

Current Borrowing Portfolio Position

2.3.2 The overall treasury management portfolio as at 31 March 2020 and for the position as at December 2020 are shown below for both borrowing and investments.

Table 4 Current Treasury Position

Treasury Investments	Actual 31/03/2020 £'000	Actual 31/03/2020 %	Current February 2021 £'000	Current February 2021 %
Banks	37,500	31.75%	25,000	28.00%
Local Authorities	28,500	24.13%	15,000	16.80%
Money Market Funds	37,120	31.43%	34,300	38.40%
Total Managed in House	103,120	87.30%	74,300	83.20%
Property Funds	15,000	12.70%	15,000	16.80%
Total Managed Externally	15,000	12.70%	15,000	16.80%
Total Treasury Investments	118,120	100.00%	89,300	100.00%
Treasury External Borrowing				
PWLB	35,482	21.14%	35,482	20.53%
LOBO'S	85,500	50.94%	85,500	49.47%
Market	46,600	27.76%	46,600	26.96%
Temporary other	261	0.16%	5,261	3.04%
Total Treasury External Borrowing	167,843	100.00%	172,843	100.00%
Net Treasury Investments / (Borrowing)	(49,723)		(83,543)	

2.3.3 The Council's forward projections for borrowing are summarised below. The table shows the actual external debt, the Treasury Management operations, against the underlying capital borrowing need, the CFR, highlighting any over or under borrowing. Table 5 shows the forecast position of gross borrowing as at 31 March 2021 at £402.195m (debt at 31 March 2021 at £177.598m plus Closing OTIL at 31 March 2021 of £224.597m) and an under borrowed position of £102.740m.

Table 5 Current and Forecast Treasury Portfolio

	2019/20 Actual £'000	Forecast position as at 31/3/21 £'000	2021/22 Estimate £'000	2022/23 Estimate £'000	2023/24 Estimate £'000
External Debt					
Debt at 1 April	147,846	167,843	177,598	197,593	250,988
Actual/Expected change in debt	19,997	9,755	19,995	53,395	24,995
Debt at 31 March	167,843	177,598	197,593	250,988	275,983
Opening OLTL* at 1 April	246,610	235,867	224,597	213,729	204,816
Expected change in OLTL	(10,743)	(11,270)	(10,868)	(8,912)	(10,672)
Closing OLTL at 31 March	235,867	224,597	213,729	204,816	194,145
Actual/ Forecast gross debt (borrowing requirement) at 31 March	403,710	402,195	411,322	455,804	470,128
The Capital Financing Requirement	472,377	504,935	525,647	579,968	608,139
Under / (over) borrowing	68,667	102,740	114,325	124,164	138,011

* Other Long-Term Liabilities

2.3.4 Table 5 above shows the Council will need to undertake significant additional borrowing in

future years if capital programme expenditure matches the anticipated spending profile. The borrowing requirement is a key driver of the borrowing strategy as set out in section 2.6 below. The timing of any additional borrowing given the amounts indicated in the table above will be closely monitored. Members will recall that capital spending plans have been reprofiled year on year and it is possible that the trend could be repeated in 2021/22 and future years.

- 2.3.5 There are a number of key Prudential Indicators to ensure that the Council operates its activities within well-defined limits. The Council must ensure that 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. It is clear from the table above that the Council's gross borrowing position remains within these limits.
- 2.3.6 The Council has complied with this Prudential Indicator in the current year and does not envisage any difficulties with compliance in the future. This view takes into account current commitments, existing plans, and the proposals set out in this report.
- 2.3.7 The Council should include within the forecast gross borrowing figures in Table 5, any debt that relates to commercial activities / non-financial investment. The Council has no external debt for commercial activities/non-financial investment that is included in the gross borrowing figures in Table 5. Under the Prudential Code, there is a requirement to provide the information in the Treasury Management Strategy which shows that to date there has been a minimal impact on debt from potential investments in commercial activities compared to the Council's overall borrowing (excluding long-term liabilities).

2.4 Treasury Limits for 2021/22 to 2022/23

- 2.4.1 The Council is required to determine its Operational Boundary and Authorised Limit for external debt for the next three financial years.

Operational Boundary

- 2.4.2 The forecast Operational Boundary for 2020/21 together with the proposed operational boundaries for 2021/22 to 2023/24 are set out in Table 6 below. The boundary reflects the maximum anticipated level of external debt which is not expected to be exceeded. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on levels of actual debt and the ability to fund under-borrowing by other cash resources. This boundary will be used as a management tool for ongoing monitoring of external debt and may be breached temporarily due to unusual cash flow movements. However, a sustained or regular trend above the Operational Boundary should trigger a review of both the operational boundary and the authorised limit.

Table 6 Operational Boundary

Operational boundary	2020/21 Forecast £'000	2021/22 Estimate £'000	2022/23 Estimate £'000	2023/24 Estimate £'000
Borrowing	285,000	301,500	378,500	417,500
Other long term liabilities	227,500	215,000	207,500	196,500
Commercial activities / non-financial investments	0	0	0	0
Total	512,500	516,500	586,000	614,000

Authorised Limit

- 2.4.3 A further key Prudential Indicator, the Authorised Limit controls the maximum level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit may only be determined by full Council. It reflects the level of external debt which, while not desirable, is affordable in the short term, but is not sustainable in the longer term. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all Councils' plans, or those of a specific Council, although this power has not yet been exercised.
- 2.4.4 Cabinet is asked to approve the proposed Operational Boundary for each financial year from 2020/21 to 2023/24 as set out in Table 6 above and Authorised Limit as set out in Table 7 below:

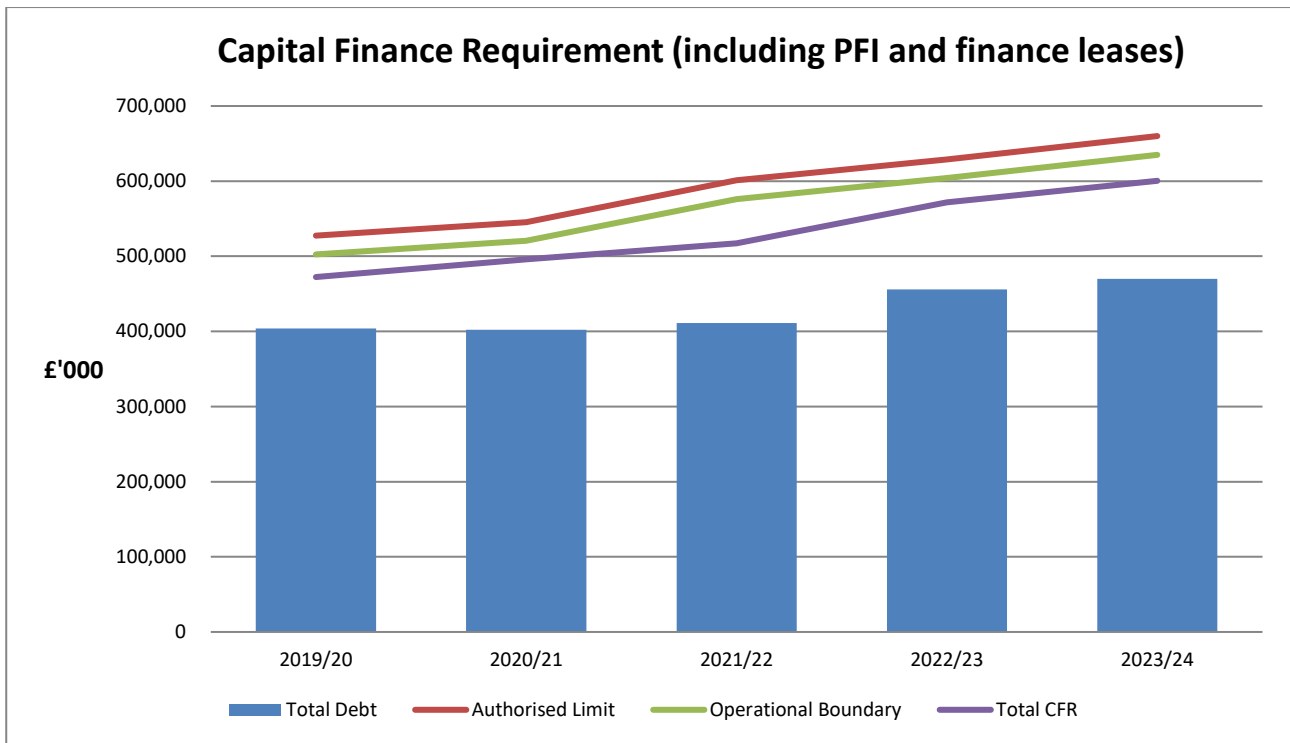
Table 7 Authorised Limit

Authorised Limit	2020/21 Forecast £'000	2021/22 Estimate £'000	2022/23 Estimate £'000	2023/24 Estimate £'000
Borrowing	305,000	321,500	398,500	437,500
Other long term liabilities	232,500	220,000	212,500	201,500
Commercial activities / non-financial investments	0	0	0	0
Total	537,500	541,500	611,000	639,000

- 2.4.5 Table 8 and the graph below show how the two indicators above, the Operational Boundary and the Authorised Limit compare to actual external debt and the CFR.

Table 8 Estimated Capital Financing Requirement, Debt and Treasury Indicators

Capital Financing Requirement (CFR) including PFI and finance leases	Actual 2019/20 £'000	2020/21 Estimate £'000	2021/22 Estimate £'000	2022/23 Estimate £'000	2023/24 Estimate £'000
General Fund CFR	472,377	504,935	525,647	579,968	608,139
Commercial activity / non-financial investments	0	0	0	0	0
Total CFR	472,377	504,935	525,647	579,968	608,139
External Borrowing	167,843	177,598	197,593	250,988	275,983
Other long term liabilities	235,867	224,597	213,729	204,816	194,145
Total Debt	403,710	402,195	411,322	455,804	470,128
Operational Boundary	495,000	512,500	516,500	586,000	614,000
Authorised Limit	512,000	537,500	541,500	611,000	639,000



2.5 Prospects for Interest Rate

2.5.1 The Council has appointed Link Asset Services as its Treasury Adviser and part of its service is to assist the Council to formulate a view on interest rates. The table below gives Link Asset Services central view of interest rates from March 2021 to March 2024. The rates are based on the PWLB Certainty Rate. The Certainty Rate is 80 basis points over gilt yields, and is a reduced rate offered to Local Authorities who qualify providing their plans for long-term borrowing and associated capital spending meet the criteria. The Council has applied for and been approved for the Certainty Rate which covers the period November 2020 to October 2021. The rates included in Table 9 are based on the Certainty Rate and include the 1% reduction announced as part of the change to the PWLB lending criteria.

Table 9 Interest Rate Forecast

Period Ending	Bank Rate	PWLB Borrowing Rates %			
	%	5 year	10 year	25 year	50 year
March 2021	0.10	0.90	1.30	1.90	1.70
June 2021	0.10	0.90	1.30	1.90	1.70
September 2021	0.10	0.90	1.30	1.90	1.70
December 2021	0.10	0.90	1.30	1.90	1.70
March 2022	0.10	1.00	1.40	2.00	1.80
June 2022	0.10	1.00	1.40	2.00	1.80
September 2022	0.10	1.10	1.50	2.10	1.90
December 2022	0.10	1.10	1.50	2.10	1.90
March 2023	0.10	1.10	1.50	2.10	1.90
June 2023	0.10	1.20	1.60	2.20	2.00
September 2023	0.10	1.20	1.60	2.20	2.00
December 2023	0.10	1.20	1.60	2.20	2.00
March 2024	0.10	1.20	1.60	2.20	2.00

- 2.5.2 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 4 February 2021, although some forecasters had suggested that a cut into negative territory could happen.
- 2.5.3 However, at that last meeting, it was clear 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.
- 2.5.4 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.

Gilt Yields / PWLB Rates.

- 2.5.5 There was much speculation during the second half of 2019 that bond markets were in a bubble which was driving bond prices up and yields down to historically very low levels. The context for that was a heightened expectation that the US could have been heading for a recession in 2020.
- 2.5.6 In addition, there were growing expectations of a downturn in world economic growth, especially due to fears around the impact of the trade war between the US and China, together with inflation generally at low levels in most countries and expected to remain subdued. Combined, these conditions were conducive to very low bond yields.
- 2.5.7 While inflation targeting by the major central banks has been successful over the last thirty years in lowering inflation expectations, the real equilibrium rate for central rates has fallen considerably due to the high level of borrowing by consumers. This means that central banks do not need to raise rates as much now to have a major impact on consumer spending, inflation, etc. The consequence of this has been the gradual lowering of the overall level of interest rates and bond yields in financial markets over the last 30 years.
- 2.5.8 Over the year prior to the coronavirus crisis, this has seen many bond yields up to 10 years turn negative in the Eurozone. In addition, there has, at times, been an inversion of bond yields in the US whereby 10-year yields have fallen below shorter-term yields. In the past, this has been a precursor of a recession.
- 2.5.9 The other side of this coin was that bond prices were elevated as investors would have been expected to be moving out of riskier assets i.e. shares, in anticipation of a downturn in corporate earnings and so selling out of equities.
- 2.5.10 Gilt yields had therefore already been on a generally falling trend up until the coronavirus crisis hit western economies during March 2020. After gilt yields spiked up during the financial crisis in March, these yields have fallen sharply to unprecedented lows as investors panicked during March in selling shares in anticipation of impending recessions in western economies and moved cash into safe haven assets i.e. Government bonds.
- 2.5.11 However, major western central banks took rapid action to deal with excessive stress in financial markets during March, and started massive quantitative easing purchases of Government bonds: this also acted to put downward pressure on Government bond yields at a time when there has been a huge and quick expansion of Government expenditure

financed by issuing Government bonds. Such unprecedented levels of issuance in “normal” times would have caused bond yields to rise sharply. Gilt yields and PWLB rates have been at remarkably low rates so far during 2020/21.

- 2.5.12 As the interest forecast table for PWLB Certainty Rate above shows, there is expected to be little upward movement in PWLB rates over the next two years as Government bond yields of major countries around the world are expected to rise little during this time in an environment where central bank rates are also expected to remain low for some years. This is the result of a change of inflation targeting policy of central banks to average inflation over a number of years. From time to time, gilt yields, and therefore PWLB rates, can be subject to exceptional levels of volatility due to geo-political, sovereign debt crisis, emerging market developments and sharp changes in investor sentiment (as shown on 9 November 2020 when the first results of a successful COVID-19 vaccine trial were announced). Such volatility could occur at any time during the forecast period.

Investment and borrowing rates

- 2.5.13 Investment returns are likely to remain low during 2021/22 with little increase in the following two years.
- 2.5.14 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 2020/21 but then jumped up after the Monetary Policy Report of 4 February 2021.
- 2.5.15 The policy of avoiding new borrowing by running down spare cash balances has served the Council well over the last few years. The unexpected increase of 100 basis points (bps) in PWLB rates on top of the then current margin over gilt yields of 80 bps in October 2019, required an initial major rethink of Local Authority treasury management strategy and risk management.
- 2.5.16 However, in March 2020, the Government started a consultation process for reviewing the margins over gilt rates for PWLB borrowing for different types of Local Authority capital expenditure. (It must be noted that the Council and other Local Authorities had concerns over this approach, as the fundamental principle of Local Authority borrowing is that borrowing is a treasury management activity and individual sums that are borrowed are not linked to specific capital projects). It also introduced the following rates for borrowing for different types of capital expenditure:
- PWLB Standard Rate – gilt plus 200 basis points (G+200bps)
 - PWLB Certainty Rate - gilt plus 180 basis points (G+180bps)
 - PWLB HRA Standard Rate - gilt plus 100 basis points (G+100bps)
 - PWLB HRA Certainty Rate - gilt plus 80 basis points (G+80bps)
 - Local Infrastructure Rate - gilt plus 60 basis points (G+60bps)
- 2.5.17 As a consequence of these increases in margins, many Local Authorities decided to refrain from PWLB borrowing unless it was for HRA or local infrastructure financing, until such time as the review of margins was concluded.
- 2.5.18 On 25 November 2020, alongside the Spending Review, 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 borrowing from the PWLB for any Local Authority which had purchase of assets for yield in its three year capital programme. The new margins over gilt yields are as follows:

- PWLB Standard Rate - gilt plus 100 basis points (G+100bps)
- PWLB Certainty Rate - gilt plus 80 basis points (G+80bps)
- PWLB HRA Standard Rate - gilt plus 100 basis points (G+100bps)
- PWLB HRA Certainty Rate - gilt plus 80 basis points (G+80bps)
- Local Infrastructure Rate - gilt plus 60 basis points (G+60bps)

Borrowing for capital expenditure

- 2.5.19 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 from the PWLB for all types of capital expenditure for all maturity periods, especially as current rates are at historic lows.
- 2.5.20 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.
- 2.5.21 The Council will not be able to avoid borrowing to finance new capital expenditure with the rundown of reserves. However, due to timing of the borrowing there may 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.

2.6 Borrowing Strategy

- 2.6.1 The factors that influence the 2021/22 strategy are:
- The movement in CFR as set out in Table 3 above;
 - Forthcoming 'Option' dates on £54m of Lender Option Borrower Option loans (LOBO's) in 2021/22;
 - The interest rate forecasts (set out in Table 9 above);
 - Aiming to minimise revenue costs to reduce the impact on the Council Tax Requirement; and
 - The impact of the Council's Capital and Property Investment Programmes.
- 2.6.2 The Council is currently maintaining an under-borrowed position. This means that the CFR has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is still an issue that needs to be considered.
- 2.6.3 Against this background and the risks within the economic forecast, caution will be adopted with the 2021/22 treasury operations. The Treasury Management team will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances so that:
- if it was considered that there was a significant risk of a sharp fall in long and short term rates (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowing will be postponed.
 - 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, perhaps arising from an acceleration in the start date and 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. The likely action would be that fixed rate funding will be drawn whilst interest rates are still lower than they will be in the next few years.

2.6.4 The forecast gross borrowing requirement in Table 5 at 2.3.3 above shows, based on current estimates, that the Council will need to drawdown a significant amount of new borrowing, to support the capital programme. Any additional borrowing will be completed with regard to the limits, indicators and interest rate forecasts set out above. As noted earlier, initial estimates of borrowing have changed in previous years due to the reprofiling of the capital programme once the financial year has begun.

2.6.5 During 2021/22, £54m of LOBO (Lender Option Borrower Option) debt will reach the option renewal date. Table 10 below, sets out the maturity structure of fixed rate debt. At the renewal date the loans will either:

- Move to the option rate of interest, which in all cases will be the same as the current rate; or
- Be offered at a rate above the option rate, in which case the Council has the option to repay. This would then require refinancing at the prevailing market rates.

Table 10 Maturity Structure of Fixed Rate Debt

Maturity Structure of fixed interest rate debt	2021/22 Actual
under 12 months	32.47%
12 months and within 24 months	9.89%
24 months and within 5 years	12.81%
5 years and within 10 years	4.47%
10 years to 20 years	7.59%
20 years to 30 years	2.98%
30 years to 40 years	2.98%
40 years to 50 years	14.89%
50 years to 60 years	11.92%
60 years and above	0.00%

2.6.6 Due to the current interest rate forecast it is not anticipated that any of these LOBO loans will be called.

2.6.7 The 2021/22 Capital Programme now shows anticipated prudential borrowing of £42.871m with £74.856 in 2022/23, £52.031m in 2023/24. These figures have been reflected in this report and factored into the borrowing strategy for 2021/22 and future years.

2.6.8 Members are advised that indicators for interest rate exposure are no longer a requirement under the Treasury Management Code. However, as interest rate exposure risk is an important issue, officers will continue to monitor the balance between fixed and variable interest rates for borrowing and investments. This will aim to ensure the Council is not exposed to adverse fluctuations in fixed or variable rate interest rate movements.

2.6.9 This is likely to reflect higher fixed interest rate borrowing if the borrowing need is high or fixed interest rates are likely to increase, or a higher variable rate exposure if fixed interest rates are expected to fall. Conversely if shorter term interest rates are likely to fall, investments may be fixed earlier, or kept shorter if short term investments are expected to rise.

2.6.10 The balance between variable rate debt and variable rate investments will be monitored as part of the overall treasury function in the context of the overall financial instruments structure and any under or over borrowing positions.

2.7 Policy on Borrowing in Advance of Need

2.7.1 The Council will not borrow more than or in advance of its needs, purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved CFR 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. Any borrowing will follow the most recent guidance issued by CIPFA.

2.7.2 Borrowing in advance will be made within the constraint that the Council would not look to borrow more than 24 months in advance of need.

2.7.3 Risks associated with any borrowing in advance of activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting arrangements.

2.8 Debt Rescheduling

2.8.1 In preparing the Treasury Management Strategy for 2021/22, it was important to consider publication by HM Treasury in March 2020 of a consultation document seeking views on proposed changes to the lending terms of the PWLB. The Government launched the consultation as it was concerned that PWLB resources were being used to fund commercial investments solely for income generation purposes and carried a significant degree of risk. To address this issue, the consultation proposed revising the terms of PWLB lending to ensure that Local Authorities continue to invest in housing, infrastructure, and public services whilst discouraging investment solely for income generation purposes. The Council provided its response to the consultation in July 2020.

2.8.2 Alongside the 2020 Spending Review in November 2020, the Government largely confirmed the proposals set out in the original consultation meaning there would be stricter conditions associated with the approval of PWLB loans to Local Authorities. The PWLB will now no longer provide loans to a Local Authority if their Capital Strategies include any plans to buy investment assets primarily for income generation.

2.8.3 These new terms apply to all loans arranged on or after 26 November 2020. Further guidance has been provided to help Local Authorities determine whether a proposed project meets the new lending criteria. The key features of the new lending terms are:

- As a condition of accessing the PWLB, Local Authorities will be asked to submit a high-level description of their capital spending and financing plans for the following three years, including their expected use of the PWLB. This will clearly align to the approved capital strategy;
- As part of this process, the PWLB will ask the Director of Finance (Section 151 Officer) to confirm that there is no intention to buy investment assets primarily for yield at any point during the next three years. This assessment must be based on the Director of Finance's professional interpretation of guidance issued alongside these lending terms.
- As it is impossible to reliably link individual loans to specific capital spending, this restriction of purchasing investment assets primarily for yield applies on a 'whole plan' basis. This means that the PWLB will not lend to any Local Authority which plans to buy investment assets primarily for yield anywhere in their Capital Strategy, regardless of whether the transaction would notionally be financed from a source other than the PWLB.

- When applying for a new loan, the Local Authority will be required to confirm that the plans they have submitted remain current and provide assurance that they still do not intend to buy investment assets primarily for yield.
- If HM Treasury has concerns that a loan may be used in a way that is incompatible with HM Treasury's duties to ensure that public spending represents good value for money to the taxpayer, it will contact the Local Authority to gain a better understanding of the situation. Should it transpire that a Local Authority has deliberately misused the PWLB, HM Treasury has the option to suspend access to the PWLB, and in the most extreme cases, to require that loans be repaid.

2.8.4 The Government will monitor the implementation of these reforms to make sure that the new lending arrangements are operating as intended. The Ministry of Housing, Communities and Local Government (MHCLG) is reviewing the effectiveness of the Local Government borrowing and investment framework and is developing options to intervene directly where there are concerns that Authorities are not complying with the intent of the Prudential regime. Any future amendments that effect the Council's Treasury Management Strategy will be reported to Members at the appropriate time.

2.8.5 The Councils Capital Strategy has been prepared to ensure it complies with requirements so that it has access to PWLB resources.

2.8.6 Rescheduling of current borrowing in the debt portfolio will be considered where appropriate given the changes to the PWLB borrowing criteria, however it must be stated that the 100 basis points reduction in PWLB rates only applied to new borrowing rates and not to premature debt repayment rates.

2.8.7 The reasons for any rescheduling to take place will include:

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

2.8.8 All re-scheduling will be reported to the Audit Committee, Cabinet and Council at the earliest meeting following its action.

2.9 New Financial Institutions as a Source of Borrowing

2.9.1 Following the reduction in PWLB rates announced in November 2020, alternative sources of funding are under review whilst Councils look at the impact of the PWLB rate reduction. It will make it more challenging for these alternative sources of funding to be a more competitive option than PWLB on the financing costs associated with new loans. However, consideration will still be given to sourcing funding from the following:

- Local Authorities (primarily shorter dated maturities);
- Financial institutions (primarily insurance companies and pension funds but also some banks. These deals may include borrowing based on forward dates and an agreed future market rate);
- UK Municipal Bonds Agency (which has recently negotiated its first bond issue). Members will recall that the Council has invested £0.100m in the UKMBA and would seek to make use of this new source of borrowing as and when appropriate.

2.9.2 The degree which any of these options proves cheaper than the PWLB Certainty Rate is still evolving, however, all funding options will be fully evaluated, and the most appropriate

option will be taken. Link Asset Services the Council's treasury advisors will keep the Council informed regarding different options available when borrowing is undertaken.

2.10 Annual Investment Strategy

Investment Policy – Management of Risk

2.10.1 The MHCLG and CIPFA have extended the meaning of 'investments' to include both financial and non-financial investments. This report deals solely with financial investments, (as managed by the treasury management team). Non-financial investments, essentially the purchase of income yielding assets, are covered in the Capital Strategy elsewhere on the agenda.

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"); and
- CIPFA Treasury Management Guidance Notes 2018.

2.10.2 The Council's investment priorities will be:

- firstly, the security of capital;
- secondly, the liquidity of its investments;
- thirdly, the optimum return on its investments commensurate with proper levels of security and liquidity; and
- finally, ethical investments.

2.10.3 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.

2.10.4 The above guidance from the MHCLG and CIPFA place 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: -

- 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.
- Other information: ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration the Council will engage with its advisors to maintain a monitor on market pricing such as "credit default swaps" and overlay that information on top of the credit ratings.
- Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

- 2.10.4 This report defines the list of types of investment instruments that the treasury management team are authorised to use. There are two lists in Appendix 5 under the categories of 'specified' and 'non-specified' investments.
- Specified investments are those with a high level of credit quality and subject to a maturity limit of 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. Once an investment is classed as non-specified, it remains non-specified all the way through to maturity i.e. an 18 month deposit would still be non-specified even if it has only 11 months left until maturity.
- 2.10.5 For non-specified investments, the Council has determined that it will limit the maximum total exposure to non-specified investments as being 50% of the total investment portfolio.
- 2.10.6 Lending limits, (amounts and maturity), for each counterparty, will be set through applying the matrix table in paragraph 2.11.3.
- 2.10.7 Transaction limits are set for each type of investment in 2.11.3.
- 2.10.8 The Council has set a limit for the amount of its investments which are invested for longer than 365 days, (see paragraph 2.13.12).
- 2.10.9 Investments will only be placed with counterparties from countries with a specified minimum sovereign rating, (see paragraph 2.12.3) and Appendix 6.
- 2.10.10 The Council has engaged external consultants, (see paragraph 1.10), to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of the Council in the context of the expected level of cash balances and need for liquidity throughout the year.
- 2.10.11 All investments will be denominated in sterling.
- 2.10.12 As a result of the change in accounting standards for 2020/21 under IFRS 9, consideration will be given to 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 five years commencing from April 2018, ending March 2023).
- 2.10.13 However, the Council 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 2.14). Regular monitoring of investment performance will be carried out during the year.
- 2.10.14 The risk management criteria are unchanged from last year.
- 2.11 Creditworthiness policy
- 2.11.1 Oldham Council utilises the creditworthiness service provided by Link Asset Services. This service employs a sophisticated modelling approach, utilising credit ratings from the three

main credit rating agencies - Fitch, Moody's and Standard and Poor. The credit ratings of counterparties are supplemented with the following overlays:

- credit watches and credit outlooks from credit rating agencies;
- Credit Default Swap (CDS) spreads to give early warning of likely changes in credit ratings;
- sovereign ratings to select counterparties from only the most creditworthy countries.

2.11.2 This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the duration and maximum investment value for each counterparty.

2.11.3 Institutions are split into colour bandings and the Council will therefore use counterparties within these colours, durational bands and investment limits. Table 12 below shows these limits.

Table 12 Investment Criteria

Counter Party	Link Colour Band and Long Term Rating where applicable	Maximum Duration	Maximum Principal Invested per Counterparty
Banks	Yellow (Note 1)	5 Years	£10m
Banks	Dark Pink (Note 2)	5 Years	£10m
Banks	Light Pink (Note 3)	5 Years	£10m
Banks	Purple	2 Years	£20m
Banks	Blue (Note 4)	1 Year	£20m
Banks	Orange (Note 5)	1 Year	£15m
Banks	Red	6 months	£10m
Banks	Green	100 days	£10m
Banks	No Colour	Not to be used	Not to be used
Local Authorities/ Public Bodies	Internal Due Diligence	5 Years	£10m
GMCA	Internal Due Diligence (Note 6)	5 Years	£30m
Debt Management Account Deposit Facility (DMADF)	UK Sovereign rating	6 months	£40m
	Fund Rating	Maximum Duration	Maximum Principal Invested per Counterparty
Money Market Fund			
Constant	AAA	Liquid	£20m
Low Volatile	AAA	Liquid	£20m
Variable	AAA	Liquid	£20m

Note 1 – UK Government debt or equivalent

Note 2 – Enhanced money market funds (EMMF) with a credit score of 1.25

Note 3 – Enhanced money market funds (EMMF) with a credit score of 1.5

Note 4 – Blue Institutions only applies to nationalised or semi nationalised UK Banks, which currently include the RBS Group (Royal Bank of Scotland, NatWest Bank and Ulster Bank).

Note 5 - Includes the Council's banking provider (currently Barclays), if it currently falls into category below this colour band.

Note 6 – The higher maximum principal is to facilitate joint initiatives and activities related to the devolution agenda.

2.11.4 The Link Asset Services creditworthiness service uses a wider array of information than just primary ratings and by using a risk weighted scoring system, does not give undue preponderance to just one agency's ratings.

2.11.5 Typically the minimum credit ratings criteria the Council uses will be a Short-Term rating (Fitch or equivalents) of F1 and a Long-Term rating of A-. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In this instance consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

2.11.6 All credit ratings will be monitored on a weekly basis. The Council is alerted to changes to ratings of all three agencies through its use of the Link Asset Services creditworthiness service.

- If a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn or notice given to withdraw immediately.
- In addition to the use of credit ratings the Council will be advised of information in movements in the Credit Default Swap Index against the iTraxx benchmark and other market data on a daily basis via its Passport website, provided exclusively to it by Link Asset Services. Extreme market movements may result in the downgrading of an institution or its removal from the Council's lending list.

2.11.7 Sole reliance will not be placed on the use of this external service. In addition, the Council will also use market data and market information, information on any external support banks to help support the decision making process.

Creditworthiness

2.11.8 Although the credit rating agencies changed their outlook on many UK banks from Stable to Negative during the quarter ended 30 June 2020 due to upcoming risks to banks' earnings and asset quality during the economic downturn caused by the pandemic, the majority of ratings were affirmed due to the continuing strong credit profiles of major financial institutions, including UK banks.

2.11.9 However, during Q1 and Q2 2020, banks made provisions for *expected* credit losses and the rating changes reflected these provisions. As we move into future quarters, more information will emerge on *actual* levels of credit losses. (Quarterly earnings reports are normally announced in the second half of the month following the end of the quarte.).

- 2.11.10 This has the potential to cause rating agencies to revisit their initial rating adjustments earlier in the current year. These adjustments could be negative or positive, although it should also be borne in mind that banks went into this pandemic with strong balance sheets. This is predominantly a result of regulatory changes imposed on banks following the Great Financial Crisis. Indeed, the Financial Policy Committee (FPC) report on 6 August 2020 revised down their expected credit losses for the UK banking sector to “somewhat less than £80bn”. It stated that in its assessment, “banks have buffers of capital more than sufficient to absorb the losses that are likely to arise under the MPC’s central projection”. The FPC stated that for real stress in the sector, the economic output would need to be twice as bad as the MPC’s projection, with unemployment rising to above 15%.
- 2.11.11 All three rating agencies have reviewed banks around the world with similar results in many countries of most banks being placed on Negative Outlook, but with a small number of actual downgrades.

CDS Price

- 2.11.12 Although bank CDS prices, (these are market indicators of credit risk), spiked upwards at the end of March / early April 2020 due to the heightened market uncertainty and ensuing liquidity crisis that affected financial markets, they have returned to more average levels since then. Nevertheless, prices are still elevated compared to the end of February 2020. Pricing is likely to remain volatile as uncertainty continues. However, sentiment can easily shift, so it will remain important to undertake continual monitoring of all aspects of risk and return in the current circumstances. Link monitor CDS prices as part of their creditworthiness service to Local Authorities and the Council has access to this information via its Link-provided Passport portal.

2.12 Country and Sector Limits

- 2.12.1 It is not proposed to restrict the Council’s investment policy to only UK banks and building societies. In addition to the credit rating criteria set out above consideration will be given to the sovereign rating of the country before any investment is made.
- 2.12.2 In February 2013 the UK lost its AAA rating and moved to an AA rating. The sovereign rating of the UK may come under more pressure due to COVID-19. The Council will however continue to invest with UK Banks, providing the individual institutions still meet the relevant criteria.
- 2.12.3 The Council has determined that it will only use approved counterparties from the UK and from other countries with a minimum sovereign credit rating of AAA from Fitch (or equivalent). The list of countries that qualify using this credit criteria as at the date of this report are shown in Appendix 6. This list will be amended by officers should ratings change in accordance with this policy, therefore for illustrative purposes the appended list is extended to also show AA- i.e. the countries currently assessed to be in the rating below those that currently qualify. It is important to note that although able to, the Council has chosen not to invest overseas in recent years.

2.13 Investment Strategy

- 2.13.1 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 to manage the ups and downs of cash flow, any cash identified that could be invested for longer periods will be carefully assessed.

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

2.13.2 The Council currently has six investments totalling £27.5m which span the financial year as shown in Table 13.

Table 13 The Investment maturing in 2021/22

Counterparty	Amount	Maturity Date	Rate
Santander UK Plc 180 Notice Account	£2,500,000	30/04/2021	0.58%
Santander UK Plc 180 Notice Account	£5,000,000	28/05/2021	0.58%
Goldman Sachs	£5,000,000	26/07/2021	0.11%
Aberdeen City Council	£5,000,000	05/08/2021	0.06%
Warrington Borough Council	£5,000,000	05/08/2021	0.06%
Blaenau Gwent County Council	£5,000,000	23/08/2021	0.08%
Total	£27,500,000		

2.13.3 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, as is evidenced by the Councils most recent investments shown in Table 13.

2.13.4 The suggested budgeted investment earnings rates for returns on investments placed for periods up to 100 days during each financial year are as follows (the long-term forecast is for periods over 10 years in the future):

- 2020/21 0.10%
- 2021/22 0.10%
- 2022/23 0.10%
- 2023/24 0.10%
- 2024/25 0.25%
- Longer term later years 2.00%

2.13.5 The overall balance of risks to economic growth in the UK is now probably more to the upside but is subject to major uncertainty due to the virus - both domestically and its potential effects worldwide.

2.13.6 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, or a return of investor confidence in equities, could impact gilt yields, (and so PWLB rates), in the UK.

Negative Interest Rates

- 2.13.7 While the Bank of England reported in August / September 2020 that it is unlikely to introduce a negative Bank Rate, at least in the next 6 -12 months, and in February 2021, the Bank of England stated that financial institutions would not be ready to implement negative rates for six months, some deposit accounts were offering negative rates for shorter periods prior to this latest announcement. As part of the response to the pandemic and lockdowns, the Bank and the Government have provided financial markets and businesses with plentiful access to credit, either directly or through commercial banks.
- 2.13.8 In addition, the Government has provided large sums of grants to Local Authorities to help deal with the Covid-19 pandemic. This has caused some Local Authorities to have sudden large increases in cash balances searching for an investment home, some of which was only very short term until those grants were paid out.
- 2.13.9 As for money market funds (MMFs), yields have fallen near to zero. Some fund managers have resorted to trimming fee levels to ensure that net yields for investors remain in positive territory where possible and practical. Investor cash flow uncertainty, and the need to maintain liquidity in these unprecedented times, has meant there is an excess of money in the market at the very short end of the market. This has seen a number of market operators, now including the Debt Management Accounting Deposit Facility (DMADF), offer nil or negative rates for very short-term maturities.
- 2.13.10 This is not universal, and MMFs are still offering a marginally positive return, as are a number of financial institutions for investments at the very short end of the yield curve.
- 2.13.11 Inter-Local Authority lending and borrowing rates have also declined due to the surge in the levels of cash seeking a short-term home at a time when many Local Authorities are probably having difficulties over accurately forecasting when disbursements of funds received will occur or when further large receipts will be received from the Government.

Investment Treasury Indicator and Limit

- 2.13.12 This indicator considers total principal funds invested for greater than 365 days. These limits have regard to the Council's liquidity requirements and reduce the need for the early redemption of investments and are based on the availability of funds after each year end.

Table 14 – Maximum principal sum invested greater than 365 days

Upper Limit for principal sums invested for longer than 365 days	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
Principal sums invested for longer than 365 days	£50m	£50m	£50m	£50m
Current investments as at February 2021 in excess of 1 year	£15m	£15m	£15m	£15m

- 2.13.13 For cash flow generated balances, the Council will seek to utilise its business reserve instant access and notice accounts, money market funds and short dated deposits (overnight to 100 days), in order to benefit from the compounding of interest.

2.14 Investment Risk Benchmarking

- 2.14.1 These benchmarks provide simple guides to maximum risk, and may be breached from time to time, depending on movements in interest rates and counterparty criteria. These

benchmarks provide officers with a baseline against which current and trend positions can be monitored. It may be necessary to amend the operational strategy to manage risk as conditions change. Any breach of the benchmarks will be reported, with supporting reasons in the mid-year or Annual Report to Members.

Liquidity – in respect of this area the Council seeks to maintain:

- A Bank overdraft facility of £0.100m;
- Liquid short term deposits of at least £10m available with a week's notice.

Yield - local measures of yield benchmarks are:

- Investments – internal returns above the 7 day LIBID (London Interbank Bid Rate) rate multiplied by 5%
- Investments – internal returns above the 1 month LIBID rate multiplied by 5%
- Investments – internal returns above the 3 month LIBID rate multiplied by 5%
- Investments – internal returns above the 6 month LIBID rate multiplied by 5%
- Investments – internal returns above the 12 month LIBID rate multiplied by 5%

2.14.2 The Council is aware that the provision of London Inter-Bank Offered Rate (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.

2.15 Other Treasury Management Issues

Legal Action being taken by the Council

2.15.1 The Council is currently involved in legal action against Barclays Bank with regards to certain Lender Option Borrower Option (LOBO) transactions. This is based on the Bank's involvement in manipulation of the LIBOR benchmark rate and the subsequent impact on the Council's financial position. This matter is on-going.

Brexit

2.15.2 The Council is mindful of the UK's exit from the EU and will continue to ensure that treasury activity is managed to minimise any risk to the Council.

International Financial Reporting Standard (IFRS) 16 – Leases

2.15.3 IFRS 16 is a new standard for lease accounting which came into force in January 2019. The changes apply to the accounting arrangements for lease agreements that organisations take out property, plant and equipment (PPE). It had previously been reported that the standard for the public sector would commence from 1 April 2020, however this date has been put back a further year and will be implemented in 2022/23, this will require implementation from 1 April 2021 to allow prior year comparison. Previously, leases were split into finance leases and operating leases however, from 1 April 2021 they will now be accounted for as finance leases. Under the current regime, operating leases were not included in Balance Sheets as assets and expenditure were charged to Comprehensive Income and Expenditure Statement in the Council's accounts. Under IFRS 16 all leases must now be accounted for on the Balance Sheet. Work is currently ongoing to assess the full impact, but an estimate has been included in the Council's CFR so that the Council's prudential indicators are not adversely affected by the implementation of IFRS 16.

3 Options/Alternatives

- 3.1 In order to comply with the CIPFA Code of Practice on Treasury Management, the Cabinet has no option other than to consider and approve the content of the report. Therefore, no options/alternatives have been presented.

4 Preferred Option

- 4.1 The preferred option is that the contents of this report are approved by Cabinet and commended to Council.

5 Consultation

- 5.1 There has been consultation with Link Asset Services, the Council's Treasury Management Advisors. The consideration of the Treasury Management Strategy for 2021/22 by the Audit Committee on 21 January 2021 (the body charged with scrutinising Treasury Management activities) and the Overview and Scrutiny Performance and Value for Money Select Committee on 28 January 2021 are a key strand in the consultation process. Members of both Committees asked questions in relation to the content of the report and were satisfied with the responses received. Both the Audit Committee and the Select Committee were content to commend the report to Cabinet and Council.

6 Financial Implications

- 6.1 Financial Implications are detailed within the report.

7 Legal Services Comments

- 7.1 There are no legal implications.

8 Co-operative Agenda

- 8.1 The Treasury Management strategy embraces the Council's cooperative agenda. The Council will develop its investment framework to ensure it complements the co-operative ethos of the Council.

9 Human Resources Comments

- 9.1 There are no Human Resource Implications.

10 Risk Assessments

- 10.1 There are considerable risks to the security of the Authority's resources if appropriate Treasury Management strategies and policies are not adopted and followed. The Council has established good practice in relation to Treasury Management which has previously been acknowledged in the Internal and External Auditors' reports presented to the Audit Committee. An issue dependent upon market developments which may need to be considered in the future is refinancing some of the long-term loans. This can be mitigated by effective monitoring of the market.

11 IT Implications

- 11.1 There are no IT Implications.

12 Property Implications

12.1 There are no Property Implications.

13 Procurement Implications

13.1 There are no Procurement Implications.

14 Environmental and Health & Safety Implications

14.1 There are no Environmental and Health & Safety Implications.

15 Equality, community cohesion and crime implications

15.1 There are no Equality, community cohesion and crime implications.

16 Equality Impact Assessment Completed?

16.1 No

17 Key Decision

17.1 Yes

18 Key Decision Reference

18.1 FG-10-20

19 Background Papers

19.1 The following is a list of background papers on which this report is based in accordance with the requirements of Section 100(1) of the Local Government Act 1972. It does not include documents which would disclose exempt or confidential information as defined by the Act:

File Ref: Background papers are provided in Appendices 1 - 8
Officer Name: Lee Walsh / Talei Whitmore
Contact No: 0161 770 6608/ 4924

20 Appendices

Appendix 1 Minimum Revenue Provision (MRP) Policy Statement
Appendix 2 Prudential and Treasury Indicators 2021/22 – 2023/24
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Appendix 6 Approved Countries for Investments
Appendix 7 Treasury Management Scheme of Delegation
Appendix 8 Treasury Management Role of the Statutory Chief Finance Officer (Director of Finance)

Appendix 1 – Minimum Revenue Provision (MRP) Policy Statement

1.1 General Principles and Practices

1.1.1 Local Authorities are required to set aside ‘prudent’ provision for debt repayment where they have used borrowing or credit arrangements to finance capital expenditure. Ministry for Housing, Communities and Local Government (MHCLG) regulations require the full MRP Statement to be decided upon at least annually and reported to the Council Meeting. The Council has to ensure that the chosen options are prudent.

1.2 Link to Asset Life/Economic Benefit

1.2.1 Where capital expenditure on an asset is financed wholly or partly by borrowing or credit arrangements, MRP will normally be determined by reference to asset life, economic benefit or MHCLG Guidance.

1.2.2 To the extent that expenditure cannot be linked to the creation/enhancement of an asset and is of a type that is subject to estimated life periods that are referred to in the MHCLG guidance (paragraph 24), these periods will generally be adopted by the Council.

1.2.3 Where certain types of capital expenditure incurred by the Council are not capable of being related to an individual asset, asset lives will be assessed on a basis which most reasonably reflects the anticipated period of benefit that arises from the expenditure.

1.2.4 Whatever type of expenditure is involved, it will be grouped together in a manner which reflects the nature of the main component of expenditure and will only be divided up in cases where there are two or more major components with substantially different useful economic lives.

1.3 Methods for Calculating MRP

1.3.1 Any of the methods for calculating MRP that are set out below may be used. MRP will commence in the financial year after the completion of assets rather than when expenditure is incurred. All methods, with the exception of the approach taken to Previously Supported General Fund Borrowing are based on Asset Life/Economic Benefit. These methods include but are not limited to:

The Annuity Method

1.3.2 This calculation seeks to ensure the revenue account bears an equal annual charge (for principal and interest) over the life of the asset by taking account of the time value of money. Since MRP relates only to ‘principal’, the amount of provision made annually gradually increases during the life of the asset. The interest rate used in annuity calculations will be referenced to either prevailing or average PWLB rates.

Equal Instalments of Principal

1.3.3 MRP is an equal annual charge calculated by dividing the original amount of borrowing by the useful life of the asset.

Previously Supported General Fund Borrowing

1.3.4 General Fund Borrowing that was previously supported through the Revenue Support Grant (RSG) system will be provided for in equal annual instalments over a 50 year period commencing 1 April 2016. As at 1 April 2016, the value of this borrowing equalled

£134,376,866 and results in an equal annual minimum revenue provision of £2,742,385; the final instalment of which will be provided for by no later than 31 March 2066. In the event of:

- transfers of Capital Financing Requirement between the General Fund element and Housing element;
- additional voluntary revenue provision being made

the annual MRP charge will be adjusted to ensure that full provision will continue to be made by no later than 31 March 2066.

Bespoke Repayment Profiles:

1.3.5 With regard to credit arrangements that are implicit in Finance Lease or PFI arrangements, any 'debt' repayment element (notional or otherwise) included in charges associated with these arrangements will be classified as MRP.

1.4 Voluntary Revenue Provision

1.4.1 The Council has the option of making additional Voluntary Revenue Provision (VRP) in addition to MRP. The Council may treat VRP as 'up-front' provision (having a similar impact to the early repayment of debt) and thus recalculate future MRP charges accordingly. Where the Council has made additional VRP's for debt repayment in previous years, in year MRP charges may be adjusted to reflect this provided it does not result in a negative MRP charge. To the extent charges are adjusted, current and future year's charges will be recalculated to ensure the Council continues to make prudent provision for debt repayment in relation to historic capital expenditure. The Council may in some circumstances apply VRP to relatively short-life assets/expenditure in order to facilitate a reduction in the future base revenue budget needed to fund capital financing costs.

1.5 Local Exceptions to the Guidance

1.5.1 The Council reserves the right to determine useful life periods and prudent MRP in certain circumstances or where the recommendations of the MHCLG guidance are not appropriate to local circumstances. Examples include:

Assets Under Construction

1.5.2 No MRP charge will be made until the financial year after that in which an item of capital expenditure is fully incurred and, in the case of a new asset, comes into service use.

Local Authority Mortgage Scheme (LAMS)

1.5.3 The Council operated a Local Authority Mortgage Scheme (LAMS) using the cash backed option. The mortgage lenders require a five-year deposit from the Local Authority to match the five-year life of the indemnity. The deposit placed with the mortgage lender provides an integral part of the mortgage lending and is treated as capital expenditure and a loan to a third party. The CFR will increase by the amount of the total indemnity. The cash advance is due to be returned in full at maturity, with interest paid annually. Once the cash advance matures and funds are returned to the Local Authority, the returned funds are classed as a capital receipt, which will be applied to reduce the CFR. As this is a temporary (five years) arrangement and the funds will be returned in full, there is no need to set aside MRP to repay the debt liability in the interim period. All previous LAMS schemes are now completed, with the deposits repaid in full. However, the option is still available should the Council see it as a corporate priority.

Loans to Third Parties

- 1.5.4 The Council has considered the Statutory Guidance, which recommends a 25 year repayment charge for loans to third parties and concluded that provision is not necessary. The Council considers an MRP charge is not necessary in respect of any loans made to third parties as the debt liability is covered by the existence of a debtor and the associated obligation to make repayments. Any loans given are subject to substantial due diligence process by both internal officers and were appropriate external advisors.

1.6 Borrowing in Lieu of Capital Receipts

- 1.6.1 The Council has concluded that MRP provision is not necessary for capital expenditure incurred in lieu of capital receipts. Any such schemes will be classified by the Capital Investment Programme Board (CIPB) as 'Borrowing in Lieu of Capital Receipts'. CIPB will also determine which capital receipts will be allocated to the scheme and as the receipts are achieved, they will be applied to repay the debt.

The Application of Capital Receipts in Lieu of MRP

- 1.6.2 Where the Council has received uncommitted and unapplied Capital Receipts, it retains the option to set aside those Capital Receipts as part of its arrangements for making 'prudent' provision for debt repayment rather than using them for capital financing purposes.

- 1.6.3 As Capital Receipts may form part of the Councils arrangements for making 'prudent' provision, setting aside Capital Receipts in this manner can be carried out in lieu of MRP whereby the MRP charge will be reduced by an amount equal to that set aside from Capital Receipts.

1.7 HRA Capital Financing Requirement (CFR)

- 1.7.1 MRP will equal the amount determined in accordance with the former regulations 28 and 29 of the 2003 Regulations (SI 2003/3146) as if they had not been revoked. This approach is consistent with paragraph 7 of the MHCLG Guidance on MRP.

- 1.7.2 The basic MRP charge relating to the HRA CFR is therefore nil. However, the Council may make 'Voluntary Revenue Provision' provided such an approach is prudent and appropriate in the context of financing the HRA capital programme and is consistent with the delivery of the HRA Business Plan.

Appendix 2 Prudential and Treasury 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.

Capital expenditure

Capital Expenditure / Portfolio	2019/20 Actual £'000	2020/21 Estimate £'000	2021/22 Estimate £'000	2022/23 Estimate £'000	2023/24 Estimate £'000
Corporate Services *	913	13,195	5,320	69	69
Children's Services	17,548	10,457	6,110	13,200	13,742
Community Health & Adult Social Care	2,407	2,011	3,409	400	400
People & Place	27,317	46,190	64,581	68,770	46,093
Communities & Reform	107	125	637	0	0
Emerging Priorities	0	342	1,442	4,200	3,200
General Fund Services	48,292	72,320	81,500	86,639	63,504
Housing Revenue Account (HRA)	2,134	4,951	3,412	8,127	7,914
HRA	2,134	4,952	3,412	8,127	7,914
Commercial Activities / Non-Financial Investments **	3,957	3,741	0	0	0
Commercial Activities / Non-Financial Investments	3,957	3,741	0	0	0
Total	54,383	81,012	84,912	94,766	71,418

* Excludes any commercial activities which were included in the Corporate Services capital programme.

** Relate to areas such as capital expenditure on investment properties, loans to third parties, purchase of equity shares etc.

Affordability prudential indicators

The table above presents 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.

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.

	2019/20 Actual £'000	2020/21 Estimate £'000	2021/22 Estimate £'000	2022/23 Estimate £'000	2023/24 Estimate £'000
General Fund excluding DSG*	13.41%	14.67%	13.34%	13.35%	14.77%

*Dedicated Schools Grant

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

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.

Cabinet is asked to approve the following treasury indicators and limits:

Maturity Structure of fixed interest rate debt 2021/22	Lower Limit	Upper Limit
Under 12 months	0.00%	40.00%
12 months and within 24 months	0.00%	40.00%
24 months and within 5 years	0.00%	40.00%
5 years and within 10 years	0.00%	40.00%
10 years to 20 years	0.00%	50.00%
20 years to 30 years	0.00%	50.00%
30 years to 40 years	0.00%	50.00%
40 years to 50 years	0.00%	50.00%
50 years to 60 years	0.00%	50.00%

Control of interest rate exposure

Members are advised that indicators for interest rate exposure are no longer a requirement under the new Treasury Management Code. However, as interest rate exposure risk is an important issue, officers will continue to monitor the balance between fixed and variable interest rates for borrowing and investments. This will aim to ensure the Council is not exposed to adverse fluctuations in fixed or variable rate interest rate movements.

This is likely to reflect higher fixed interest rate borrowing if the borrowing need is high or fixed interest rates are likely to increase, or a higher variable rate exposure if fixed interest rates are expected to fall. Conversely if shorter term interest rates are likely to fall, investments may be fixed earlier, or kept shorter if short term investments are expected to rise.

The balance between variable rate debt and variable rate investments will be monitored as part of the overall treasury function in the context of the overall financial instruments structure and any under or over borrowing positions.

Appendix 3 – Link Asset Services Interest rate forecast 2020 – 2024

The PWLB rates below are based on the new margins over gilts announced on 26th November 2020. PWLB forecasts shown below have taken into account the 20 basis point certainty rate reduction effective as of the 1st November 2012.

Link Group Interest Rate View		8.2.21												
	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	
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	
Bank Rate														
Link	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	
Capital Economics	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	-	-	-	-	-	
5yr PWLB Rate														
Link	0.90	0.90	0.90	0.90	1.00	1.00	1.10	1.10	1.10	1.20	1.20	1.20	1.20	
Capital Economics	0.90	0.90	0.90	1.00	1.00	1.00	1.00	1.00	-	-	-	-	-	
10yr PWLB Rate														
Link	1.30	1.30	1.30	1.30	1.40	1.40	1.50	1.50	1.50	1.60	1.60	1.60	1.60	
Capital Economics	1.30	1.30	1.30	1.30	1.30	1.30	1.30	1.30	-	-	-	-	-	
25yr PWLB Rate														
Link	1.90	1.90	1.90	1.90	2.00	2.00	2.10	2.10	2.10	2.20	2.20	2.20	2.20	
Capital Economics	1.80	1.80	1.80	1.80	1.80	1.80	1.80	1.80	-	-	-	-	-	
50yr PWLB Rate														
Link	1.70	1.70	1.70	1.70	1.80	1.80	1.90	1.90	1.90	2.00	2.00	2.00	2.00	
Capital Economics	1.70	1.70	1.70	1.70	1.70	1.70	1.70	1.70	-	-	-	-	-	

Appendix 4: Economic Background

Set out below is a more detailed analysis of the Economic Background used to support the preparation of the 2021/22 Treasury Management Strategy Statement.

UK.

The Bank of England's Monetary Policy Committee (MPC) kept Bank Rate and Quantitative Easing (QE) unchanged on 4 February 2021. However, it revised its economic forecasts to take account of a third national lockdown which started on 5 January 2021, which is obviously going to delay economic recovery and do further damage to the economy. Moreover, it had already decided in November 2020 to undertake a further tranche of QE of £150bn, to start in January 2021 when the previous programme of £300bn of QE, announced in March to June 2020, finished. As only about £16bn of the latest £150bn tranche had been used towards the end of January, it felt that there was already sufficient provision for QE - which would be made to last to the end of 2021. This implied that the current rate of purchases of £4.4bn per week would be slowed during the year.

Although its short-term forecasts were cut for 2021, the medium-term forecasts were more optimistic than in November 2020, based on an assumption that the current lockdown will be gradually eased after Q1 as vaccines are gradually rolled out and life can then start to go back to some sort of normality. The Bank's main assumptions were:

- The economy would start to recover strongly from Q3 2021.
- £125bn of savings made by consumers during the pandemic will give a big boost to the pace of economic recovery once lockdown restrictions are eased and consumers can resume high street shopping, going to pubs and restaurants and taking holidays.
- The economy would still recover to reach its pre-pandemic level by Q1 2022 despite a long lockdown in Q1 2021.
- Spare capacity in the economy would be eliminated in Q1 2022.
- The Bank also expects there to be excess demand in the economy by Q4 2022.
- Unemployment will peak at around 7.5% during late 2021 and then fall to about 4.2% by the end of 2022. This forecast implies that 0.5m foreign workers will have been lost from the UK workforce by their returning home.
- CPI inflation was forecast to rise quite sharply towards the 2% target in Q1 2021 due to some temporary factors, (e.g. the reduction in VAT for certain services comes to an end) and given developments in energy prices. CPI inflation was projected to be close to 2% in 2022 and 2023.
- The Monetary Policy Report acknowledged that there were downside risks to their forecasts e.g. from virus mutations, will vaccines be fully effective, how soon can tweaked vaccines be devised and administered to deal with mutations? There are also issues around achieving herd immunity around the world from this virus so that a proliferation of mutations does not occur which prolong the time it takes for the global economy to fully recover.
- The Report also mentioned a potential upside risk as an assumption had been made that consumers would only spend £6bn of their savings of £125bn once restrictions were eased. However, there is a risk that consumers could spend a lot more and more quickly.
- The Bank of England also removed negative interest rates as a possibility for at least six months as financial institutions are not ready to implement them. As in six months' time the economy should be starting to grow strongly, this effectively means that negative rates occurring are only a slim possibility in the current downturn. However, financial institutions have been requested to prepare for them so that, at a future time, this could be used as a monetary policy tool if deemed appropriate. (Gilt yields and PwLB rates jumped upwards after the removal of negative rates as a key risk in the short-term.)
- Prior to 4th February, the MPC's forward guidance outlined that the sequencing of a withdrawal of monetary policy support would be that Bank Rate would be increased first: and only once it had reached a certain level, 'around 1.5%', before a start would be made on winding down the

stock of asset purchases made under QE. However, the MPC decided at the February meeting that this policy should be reviewed as to whether a start should be made first on winding down QE rather than raising Bank Rate.

- The MPC reiterated its previous guidance that Bank Rate would not rise until inflation was sustainably above 2%. This means that it will tolerate inflation running above 2% from time to time to balance out periods during which inflation was below 2%. This is termed average inflation targeting.

There are two views in respect of Bank Rate beyond our three-year time horizon:

- The MPC will be keen to raise Bank Rate as soon as possible in order for it to be a usable tool when the next economic downturn comes along. This is in line with thinking on Bank Rate over the last 20 years.
- Conversely, that we need to adjust to the new post-pandemic era that we are now in. In this new era, the shift to average inflation targeting has set a high bar for raising Bank Rate i.e. only when inflation is demonstrably sustainably above 2%. In addition, many Governments around the world have accumulated high levels of debt. When central bank rates are low, and below the average GDP growth rate, the debt to GDP ratio will gradually fall each year without having to use fiscal tools such as raising taxes or austerity programmes, (which would depress economic growth and recovery). This could therefore result in Governments revising the setting of mandates to their national central banks to allow a higher rate of inflation linked to other economic targets. This is the Capital Economics view – that Bank Rate will not rise for the next five years and will probably then struggle to get to 1% within 10 years.

Public borrowing was forecast in November 2020 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 therefore PwLB rates. However, the QE undertaken 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. It is now likely that total borrowing will probably reach around £420bn due to further Government support measures introduced as a result of the third national lockdown.

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. While, the one month national lockdown that started on 5 November, caused a further contraction of 5.7% month on month (m/m) in November, this was much better than had been feared and showed that the economy is adapting to new ways of working. This left the economy 'only' 8.6% below the pre-crisis level. However, a strong recovery in the second half of 2021 is likely to mean that the economy recovers to its pre-pandemic level during Q1 2022.

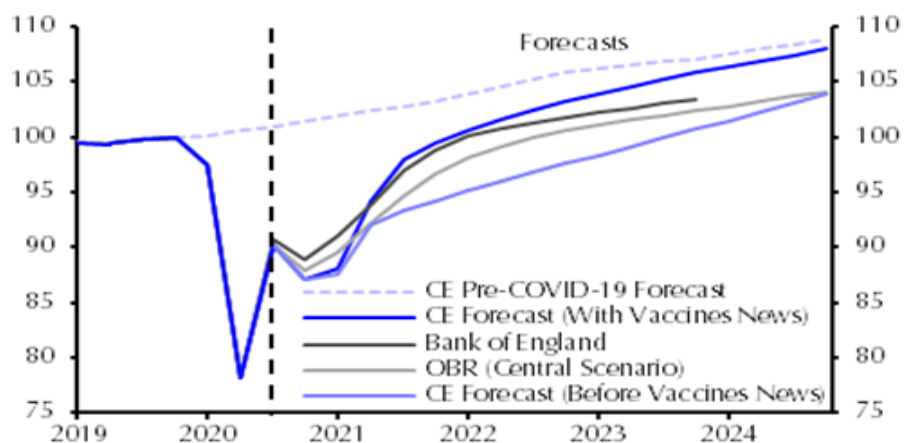
Vaccinations

The Pfizer announcement on 9 November of a successful vaccine has been followed by approval of the Oxford University/AstraZeneca and Moderna vaccines. The Government set a target to vaccinate 14 million people in the most at-risk sectors of the population by 15 February, and it has made good, and

accelerating progress in hitting that target. The aim is to vaccinate all over 50's by May 2021 and all adults by September 2021. This means that the national lockdown starting in early January, could be replaced by regional tiers of lighter restrictions, beginning possibly in Q2. At that point, there would be less reason to fear that hospitals could become overwhelmed. Effective vaccines have radically improved the economic outlook so that it may now be possible for GDP to recover to its pre-virus level as early as Q1 2022. These vaccines have enormously boosted confidence that life could largely return to normal during the second half of 2021. 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 when life returns to normal.

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 never happened. The major concern though, is that new mutations of the virus might defeat the current batch of vaccines. However, work is already advanced to produce what may well become annual revaccinations each autumn with updated vaccines. In addition, countries around the world have ramped up vaccine production facilities and vastly improved testing regimes; they are therefore now much better equipped to deal effectively with any new outbreaks of mutations of this virus.

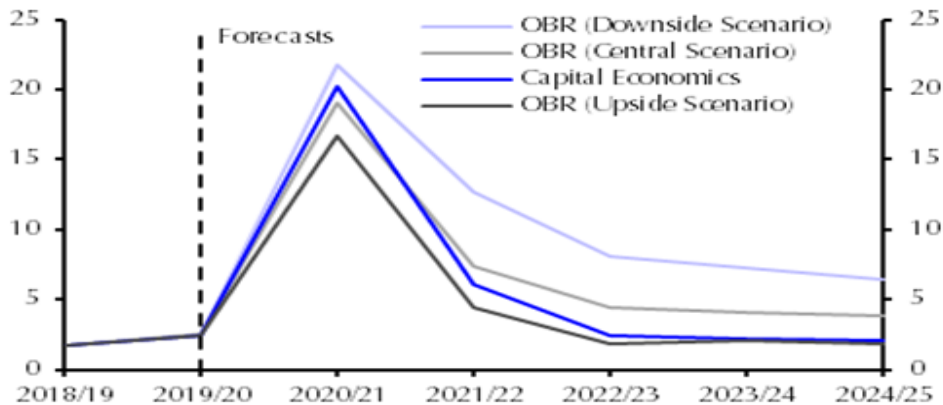
Chart: Level of real GDP (Q4 2019 = 100)



(if unable to print in colour..... the key describing each line in the above graph is in sequential order from top to bottom in parallel with the lines in the graph.)

This recovery of growth which eliminates the effects of the pandemic by about the middle of the decade would have major repercussions for public finances as it would be consistent with the government deficit falling to around 2.5% of GDP without any tax increases. This would be in line with the OBR's most optimistic forecast in the graph below, rather than their current central scenario which predicts a 4% deficit due to assuming much slower growth. However, Capital Economics forecasts in the graphs above and below, assumed that there is a reasonable Brexit deal and also that politicians do not raise taxes or embark on major austerity measures and so depress economic growth and recovery.

Chart: Public Sector Net Borrowing (As a % of GDP)



(if unable to print in colour..... the key describing each line in the above graph is in sequential order from top to bottom in parallel with the lines in the graph.)

- There will still be some longer-term adjustments as e.g. office space and travel by planes, trains and buses may not recover to their previous level of use for several years, or possibly ever, even if vaccines are fully successful in overcoming the current virus. There is also likely to be a reversal of globalisation as this crisis has exposed how vulnerable long-distance supply chains are. On the other hand, digital services are one area that has already seen huge growth.

Brexit

The final agreement of a trade deal on 24 December, 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. However, it is evident from problems with trade flows at ports in January and February, that work needs to be done to smooth out the issues and problems that have been created by complex customs paperwork to deal with bottle necks currently being caused.

Fiscal Policy

In December 2021, the Chancellor made a series of announcements to provide further support to the economy:

- An extension of the COVID-19 loan schemes from the end of January 2021 to the end of March 2021.
- The furlough scheme was lengthened from the end of March 2021 to the end of April 2021.
- The Budget on 3 March 2021 will lay out the “next phase of the plan to tackle the virus and protect jobs”. This does not sound like tax rises are imminent, which could hold back the speed of economic recovery.

The Financial Policy Committee (FPC) report on 6 August 2020 revised down their expected credit losses for the banking sector to somewhat less than £80bn. It stated that in its assessment, banks have buffers of capital more than sufficient to absorb the losses that are likely to arise under the MPC’s central projection. The FPC stated that for real stress in the sector, the economic output would need to be twice as bad as the MPC’s projection, with unemployment rising to above 15%.

US

Following elections for two senate seats in January, the Democrats now have a majority in the House of Representatives and a very slim majority in the Senate based on the vice president's casting vote. As the Democrats will be dependent on gaining the support of moderate Republican senators, there will be a limit on just how radical they can be with their legislative and financial programmes. The \$900bn fiscal stimulus passed in December will help the economy gain more traction in early 2021. There is a question mark, however, over whether they will be able to get a much bigger \$1.9bn fiscal stimulus through both houses, though a smaller package would stand much more chance of being approved. The rapid roll out of vaccines is well on course to vaccinate nearly the entire population by the end of the summer; this will help to underpin a strong economic recovery in 2021 after the economy wilted during Q4 2020 as more restrictions were imposed to contain the pandemic.

After Chair Jerome Powell unveiled the US Federal Reserve's (Fed) adoption of a flexible average inflation target in his Jackson Hole speech in late August 2020, at the mid-September 2020 meeting of the Fed agreed by a majority to a toned down version of the new inflation target in his speech, that it would likely be appropriate to maintain the current target range until labour market conditions were judged to be consistent with the Committee's assessments of maximum employment and inflation had risen to 2% and was on track to moderately exceed 2% for some time. This change was aimed to provide more stimulus for economic growth and higher levels of employment and to avoid the danger of getting caught in a deflationary trap like Japan. It is to be noted that inflation has actually been under the 2% target significantly for most of the last decade, so financial markets took note that higher levels of inflation are likely to be in the pipeline. As a result, long-term bond yields duly rose after the meeting. The Federal Open Market Committee's (FOMC) updated economic and rate projections in mid-September 2020 showed that under this new regime of average inflation targeting, that officials expected to leave the Fed funds rate at near-zero until at least end-2023 and probably for another year or two beyond that. Where the Fed has led in changing its monetary policy to one based on average inflation targeting in response to the damage that this pandemic has done to the economy, there was much expectation that other major central banks would also follow.

Subsequent meetings of the Fed have projected that inflation will not get back sustainably to above 2% for some years and so the vast majority of Fed officials expect the Fed funds rate to be still at near-zero until 2024 or later. The key message is still that policy will remain unusually accommodative – with near-zero rates and asset purchases – continuing for several more years. This is likely to result in keeping Treasury yields lower than might otherwise be expected, although treasury yields have increased somewhat due to financial markets adjusting to expectations of higher rates of inflation.

EU

The economy was recovering well from the first lockdowns towards the end of Q2 and during Q3 after a sharp drop in GDP. However, a second wave of the virus has caused a renewed fall back in growth during Q4. The slow roll out of vaccines during Q1 2021 will delay economic recovery.

In Q2, GDP was 15% below its pre-pandemic level. But in Q3 the economy grew by 12.5% Quarter on Quarter (q/q) leaving GDP down by "only" 4.4%. That was much better than had been expected earlier in the year. However, growth is likely to stagnate in Q1 of 2021, as a second wave of the virus has seriously affected many countries. The €750bn fiscal support package eventually agreed by the EU after prolonged disagreement between various countries, is likely to provide significant support, and quickly enough, to make an appreciable difference in the countries most affected by the first wave.

With inflation expected to be unlikely to get much above 1% over the next two years, the European Central Bank (ECB) has been struggling to get inflation up to its 2% target. It is currently unlikely that it will cut its central rate even further into negative territory from -0.5%, although the ECB has stated that it retains this as a possible tool to use. The ECB's December meeting added a further €500bn to the PEPP scheme (purchase of government and other bonds) and extended the duration of the programme

to March 2022 and re-investing maturities until December 2023. Three additional tranches of TLTRO (cheap loans to banks) were approved, indicating that support will last beyond the impact of the pandemic, implying indirect yield curve control for Government bonds for some time ahead. The Bank's forecast for a return to pre-virus activity levels was pushed back to the end of 2021, but stronger growth is projected in 2022. The current Pandemic Emergency Purchase Programme (PEPP) scheme of €1,350bn of QE which started in March 2020 is providing protection to the sovereign bond yields of weaker countries like Italy. There is therefore unlikely to be a euro crisis while the ECB is able to maintain this level of support.

However, as in the UK and the US, the advent of highly effective vaccines will be a game changer once the EU can get a comprehensive vaccination scheme up and running, although growth will struggle before Q2 of 2021.

China

After a concerted effort to get on top of the virus outbreak in Q1, economic recovery was strong in the rest of 2020. This has enabled China to recover all of the contraction in Q1. Policy makers have both quashed the virus and implemented a programme of monetary and fiscal support that has been particularly effective at stimulating short-term growth. At the same time, China's economy has benefited from the shift towards online spending by consumers in developed markets. These factors help to explain its comparative outperformance compared to western economies.

However, this was achieved by major Central Government funding of yet more infrastructure spending. After years of growth having been focused on this same area, any further spending in this area is likely to lead to increasingly weaker economic returns in the longer term. This could, therefore, lead to a further misallocation of resources which will weigh on growth in future years.

Japan

A third round of stimulus in early December took total fresh fiscal spending in response to the virus close to 12% of pre-virus GDP. That's huge by past standards, and one of the largest national fiscal responses. The budget deficit is now likely to reach 16% of GDP this year. Coupled with Japan's relative success in containing the virus without draconian measures so far, and the likelihood of effective vaccines being available in the coming months, the Government's latest fiscal arrow should help ensure a strong recovery and to get back to pre-virus levels by Q3 2021 – around the same time as the US and much sooner than the Eurozone. However, on the negative side, it has also been struggling - despite huge monetary and fiscal stimulus - to get out of a deflation trap for many years and to achieve consistent, significant GDP growth. Moreover, it has not consistently managed to raise inflation up to its target level of 2% and it is making little progress on fundamental reform of the economy.

World Growth

World growth has been in recession in 2020 and this is likely to continue into the first half of 2021 before recovery in the second half. Inflation is unlikely to be a problem for some years due to the creation of excess production capacity and depressed demand caused by the coronavirus crisis.

Until recent years, world growth has been boosted by increasing globalisation i.e. countries specialising in producing goods and commodities in which they have an economic advantage and which they then trade with the rest of the world. This has boosted worldwide productivity and growth, and, by lowering costs, has also depressed inflation. However, the rise of China as an economic superpower over the last thirty years, which now accounts for nearly 20% of total world GDP, has unbalanced the world economy. The Chinese Government has targeted achieving major world positions in specific key sectors and products, especially high-tech areas and production of rare earth minerals used in high tech products. It is achieving this by massive financial support, (i.e. subsidies), to state owned firms, Government directions to other firms, restrictions on market access by foreign firms and informal targets

for the domestic market share of Chinese producers in the selected sectors. This is regarded as being unfair competition that is putting western firms at an unfair disadvantage or even putting some out of business. It is also regarded with suspicion on the political front. The current trade war between the US and China therefore needs to be seen against that backdrop. It is, therefore, likely that we are heading into a period where there will be a reversal of world globalisation and a decoupling of western countries from dependence on China to supply products. This is likely to produce a backdrop in the coming years of weak global growth and so weak inflation.

Summary

Central banks are, therefore, likely to support growth by maintaining loose monetary policy through keeping rates very low for longer. Governments could also help a quicker recovery by providing more fiscal support for their economies at a time when total debt is affordable due to the very low rates of interest. They will also need to avoid significant increases in taxation or austerity measures that depress demand in their economies.

If there is a huge surge in investor confidence as a result of successful vaccines which leads to a major switch out of Government bonds into equities, which, in turn, causes Government debt yields to rise, then there will be pressure on central banks to actively manage debt yields by further QE purchases of Government debt. This would help to suppress the rise in debt yields and so keep the total interest bill on greatly expanded government debt portfolios within manageable parameters. It is also the main alternative to a programme of austerity.

Interest Rate Forecasts

The balance of risks to the UK:

- The overall balance of risks to economic growth in the UK is now probably more to the upside but is subject to major uncertainty due to the virus, both domestically and its potential effects worldwide
- There is relatively little domestic risk of increases or decreases in Bank Rate in the near-term, nor 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 but 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).

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

- Mutations of the virus render current vaccines ineffective, and tweaked vaccines to combat these mutations are delayed, resulting in further national lockdowns or severe regional restrictions.
- UK government takes too much action too quickly to raise taxation or introduce austerity measures that depress demand and the pace of recovery of 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.
- UK / EU trade arrangements – if there was a major impact on trade flows due to complications with customs paperwork or lack of co-operation in sorting out significant issues.
- A resurgence of the Eurozone sovereign debt crisis. The ECB has taken monetary policy action to support the bonds of EU states, with the positive impact most likely for weaker countries. In addition, the EU agreed a €750bn fiscal support package. These actions will help shield weaker economic regions for the next two or three years. However, in the case of Italy, the cost of the virus crisis has added to its already huge debt mountain and its slow economic growth will leave it vulnerable to markets returning to taking the view that its level of debt is unsupportable. There

remains a sharp divide between northern EU countries favouring low debt to GDP and annual balanced budgets and southern countries who want to see jointly issued Eurobonds to finance economic recovery. This divide could undermine the unity of the EU in time to come.

- Weak capitalisation of some European banks, which could be undermined further depending on extent of credit losses resultant of the pandemic.
- German minority government & general election in 2021. In the German general election of September 2017, Angela Merkel's CDU party was left in a vulnerable minority position dependent on the support of the SPD party, as a result of the rise in popularity of the AfD party. 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. Italy, Spain, Austria, Sweden, Portugal, Netherlands, Ireland and Belgium also have vulnerable minority governments dependent on coalitions which could prove fragile.
- Austria, the Czech Republic, Poland and Hungary now form a strongly bloc within the EU which had threatened to derail the 7-year EU budget until a compromise was agreed in late 2020.
- 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, for example 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 a 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.

Appendix 5: Treasury Management Practice (TMP1) – Credit and Counterparty Risk Management

Specified Investments: All such investments will be sterling denominated, with **maturities up to a maximum of 1 year**, meeting the minimum ‘high’ quality criteria where applicable.

Non-specified Investments: These are any investments which do not meet the specified investment criteria. A maximum of 50% will be held in aggregate in non-specified investment

A variety of investment instruments will be used, subject to the credit quality of the institution, and depending on the type of investment made it will fall into one of the above categories.

The criteria, time limits and monetary limits applying to institutions or investment vehicles are:

Specified Investments

	Minimum credit criteria / colour band	** Max % of total investments/ £ limit per institution	Max. maturity period
DMADF – UK Government Debt Management Account Deposit Facility	N/A	£40m	6 months
UK Government gilts	UK sovereign rating	£20m	12 months
UK Government Treasury bills	UK sovereign rating	£20m	12 months
Bonds issued by multilateral development banks	AAA	£10m	6 months
Money Market Funds Constant Net Asset Value (CNAV)	AAA	£20m	Liquid
Money Market Funds Low Volatility Net Asset Value (LVNAV)	AAA	£20m	Liquid
Money Market Funds Variable Net Asset Value (VNAV)	AAA	£20m	Liquid
Enhanced Cash Funds with a credit score of 1.25	AAA	£20m	Liquid
Enhanced Cash Funds with a credit score of 1.5	AAA	£20m	Liquid
Local Authorities	Yellow	£10m	12 months
Public Bodies	N/A	£10m	12 months
Term deposits with banks and building societies	Blue Orange Red Green No Colour	£20m £15m £10m £10m Not for use	12 months 12 months 6 months 100 days Not for use
CDs or corporate bonds with banks and building societies	Blue Orange Red Green No Colour	£20m £15m £10m £10m Not for use	12 months 12 months 6 months 100 days Not for use
Gilt funds	UK sovereign rating	£10m	12 months

REPO's (Collateralised deposit)	100% Collateral	£5m	12 months
GMCA	Internal Due Diligence	£30m	12 months
GM Public Bodies	Internal Due Diligence	£30m	12 months

Accounting treatment of investments. The accounting treatment may differ from the underlying cash transactions arising from investment decisions made by the Council. To ensure that the Council is protected from any adverse revenue implications, which may arise from these differences, the accounting implications of new transactions will be reviewed before they are undertaken.

Non-specified Investments: A maximum of 50% will be held in aggregate in non-specified investments

Maturities in excess of 1 year

	* Minimum Credit Criteria	Use	£ limit per institution	Max. maturity period
Term deposits – local authorities and other public institutions	Yellow	In-house	£10m	5 years
Term deposits – banks and building societies	Yellow Purple	In-house	£10m £10m	5 years 2 years
Certificates of deposit issued by banks and building societies	Yellow Purple	In-house	£10m £10m	5 years 2 years
Certificates of deposit issued by banks and building societies	Short-term F1 Long-term AA	Fund Managers	£5m	2 years
Collateralised deposit	UK sovereign rating	In-house and Fund Managers	£5m	2 years
UK Government Gilts	UK sovereign rating	In-house and Fund Managers	£10m	5 years
Bonds issued by multilateral development banks	AAA	In-house and Fund Managers	£10m	3 years
Sovereign bond issues (other than the UK Government)	AAA	In-house and Fund Managers	£5m	2 years
Corporate bonds	Short-term F1 Long-term AA	In-house and Fund Managers	£5m	5 years
Green Energy Bonds	Internal Due Diligence	In-house and Fund Managers	£10m	10 years
Property Funds	Internal Due Diligence	In-house	£30m	10 years
Floating Rate Notes	Long Term A	In-house	£5m	5 years
REPO's (Collateralised deposit)	100% Collateral	In-house	£5m	5 years
GMCA	Internal Due Diligence	In-house	£30m	5 years
Covered Bonds	Long term A	In-house	£5m	5 years
UK Municipal Bonds Agency	Internal Due Diligence	In-house	£1m	10 years
Local Authority Fixed Income Fund	Internal Due Diligence	In-house	£5m	10 years
Unrated Bonds, backed by securitised Assets	Internal Due Diligence	In-house and fund managers	£5m	5 years
Asset Backed Pooled Investment Funds	Internal Due Diligence	In-house and fund managers	£5m	5 years
Fixed term deposits with variable rate and variable maturities	Internal Due Diligence	In-house and External Advice	£20m	50 years
Debt Financing	Internal Due Diligence & External Advice	In-house and External Advice	£30m	10 years

Appendix 6: Approved Countries for Investments (as at January 2021)

AAA

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

AA+

- Finland
- U.S.A.

AA

- France
- U.K.

AA-

- Belgium

Appendix 7: Treasury Management Scheme of Delegation

The scheme of delegation is as follows:

Full Council is the responsible body for:

- receiving and reviewing reports on Treasury Management policies, practices and activities;
- the approval of the annual strategy, mid-year review and outturn report.
- approval of/amendments to the organisation's Treasury Management Policy Statement;
- budget consideration and approval;
- approval of the division of responsibilities;
- receiving and reviewing regular monitoring reports and acting on recommendations;

Cabinet is the responsible body for:

- considering the Treasury Management Policy and Procedures and making recommendations to the responsible body.
- considering Treasury Management reports and commending to Council.

Audit Committee is responsible for scrutiny:

- reviewing the Treasury Management Policy and Procedures and making recommendations to the responsible body.
- Reviewing Treasury Management reports and making recommendations to the responsible body.

Cabinet Member for Finance and Green is responsible for:

- approving the selection of external service providers and agreeing terms of appointment

Note : The Overview and Scrutiny Performance and Value for Money Select Committee reviews and scrutinises the Annual Treasury Management Strategy report along with the suite of other budget reports (including the Capital Strategy).

Appendix 8: The Treasury Management Role of the Statutory Chief Finance Officer (Director of Finance)

The Statutory Chief Financial Officer will discharge the Treasury Management role by:

- recommending 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 Treasury 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 processes, and liaising with external audit;
- recommending the appointment of external service providers.
- preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments and treasury management, with a long term timeframe
- ensuring that the capital strategy is prudent, sustainable, affordable and prudent in the long term and provides value for money
- ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the authority
- ensuring that the authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing
- ensuring the proportionality of all investments so that the authority does not undertake a level of investing which exposes the authority to an excessive level of risk compared to its financial resources
- ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long term liabilities
- the provision to Members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees
- ensuring that Members are adequately informed and understand the risk exposures taken on by an authority
- ensuring that the authority has adequate expertise, either in house or externally provided, to carry out the above
- the creation of Treasury Management Practices which specifically deal with how non treasury investments will be carried out and managed, to include the following -
 - Risk management (TMP1 and schedules), including investment and risk management criteria for any material non-treasury investment portfolios;
 - Performance measurement and management (TMP2 and schedules), including methodology and criteria for assessing the performance and success of non-treasury investments;
 - Decision making, governance and organisation (TMP5 and schedules), including a statement of the governance requirements for decision making in relation to non-treasury investments; and arrangements to ensure that appropriate professional due diligence is carried out to support decision making;

- Reporting and management information (TMP6 and schedules), including where and how often monitoring reports are taken;
- Ensuring appropriate training and qualifications (TMP10 and schedules), including how the relevant knowledge and skills in relation to non-treasury investments will be arranged.