For General Release

REPORT TO:	**CABINET 1 March 2021**
SUBJECT:	**Treasury Management Strategy Statement, Capital Strategy, Minimum Revenue Provision Policy Statement and Annual Investment Strategy 2021/2022**
LEAD OFFICER:	**Chris Buss** **Interim Director of Finance, Investment and Risk (S151 Officer)**
CABINET MEMBER:	**Councillor Stuart King** **Deputy Leader (Statutory) and Cabinet Member for Croydon Renewal** **Councillor Callton Young,** **Cabinet Member for Resources and Financial Governance**
WARDS:	**All**

CORPORATE PRIORITY/POLICY CONTEXT/AMBITIONS FOR CROYDON:

The prime function of the treasury management operation is to ensure that cash flow is adequately managed, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite where providing adequate liquidity is prioritised over investment return.

The treasury management service finances the Council's capital plans. These 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.

The contribution the treasury management function makes to the achievement of the Council's objectives is critical, as the balance of debt and investment operations ensures liquidity or the ability to meet spending commitments as they fall due, either as day-to-day revenue spend or for larger capital projects. The treasury operation carefully assesses the balance of the interest costs of debt and the investment income arising from cash deposits as this impacts directly on the Council's finances. 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 Sheet.

Much of this treasury activity focusses on risk assessment, monitoring and mitigation. Principal among these risks are concerns about liquidity, interest rates, and security, that is to say whether the Council can obtain the cash it needs, whether those loans are affordable and what are the risks of losing those principal sums. Much of this report describes how these risks are monitored, what steps are taken to manage them and what concerns have been identified. It must be noted though that not all risks can be foreseen and treasury management is about understanding and managing risk not avoiding it. There are risks inherent in all aspects of this function.

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

Revised reporting on Treasury Management has been required since the 2019/2020 reporting cycle due to revisions of the Ministry of Housing Communities and Local Government (MHCLG) Investment Guidance, the MHCLG Minimum Revenue Provision (MRP) Guidance, the Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code and the CIPFA Treasury Management Code. This report complies with these requirements.

FINANCIAL IMPACT:

This report sets out the Council's Treasury Management objectives, which are to manage the Council's cash flows, borrowing and investments whilst minimising the level of risk exposure; maximising investment yield returns within those risk parameters; and ensuring that capital expenditure and financing plans are prudent, affordable and sustainable. The report details the activities that will be undertaken by the Council in the financial year 2021/2022 and the capital borrowing needs of the Council for 2021/2022:

		£m	Total £m
1.	**In Year Borrowing Requirement (Net)**		**95.78**
2.	**Total Interest Payable on Debt**		
	- chargeable to Housing Revenue Account (HRA)	12.1	
	- chargeable to General Fund (GF)	26.0	
			38.1

In addition the report details the investment activities and the estimated level of income earned.

Investment Income net of interest apportioned to Non-General Fund accounts e.g. HRA and other cash balances:- (0.05m)

FORWARD PLAN KEY DECISION REFERENCE NO.:

This is not an executive key decision – this is reserved to the full Council for decision as part of the budget and policy framework.

1. RECOMMENDATIONS

The Leader of the Council has delegated to the Cabinet the power to make the decisions set out in the recommendations below.

The Cabinet is asked to recommend to Full Council that it approve:

1.1. The Treasury Management Strategy Statement 2021/2022 as set out in this report including the recommendations:

1.1.1. That the Council takes up borrowing requirements as set out in paragraph 4.12.

1.1.2. That for the reasons detailed in paragraph 4.17, opportunities for debt rescheduling are reviewed throughout the year by the Director of Finance, Investment and Risk (S151 Officer) and that they be given delegated authority, in consultation with the

Cabinet Member for Resources & Financial Governance and Deputy Leader (Statutory) and Cabinet Member for Croydon Renewal in conjunction with the Council's independent treasury advisers, to undertake such rescheduling only if revenue savings or additional cost avoidance can be achieved at minimal risk in line with organisational considerations and with regard to the Housing Revenue Account (HRA) as set out in the Council's Medium Term Financial Strategy 2020/2024.

1.1.3. That delegated authority be given to the Director of Finance, Investment and Risk (S151 Officer), in consultation with the Cabinet Member for Finance and Resources, to make any necessary decisions to protect the Council's financial position in light of market changes or investment risk exposure.

1.2. That the Council adopts the Annual Investment Strategy as set out in paragraphs 4.19 and 4.20 of this report.

1.3. That the Authorised Limit (required by Section 3 of the Local Government Act 2003) as set out in paragraph 4.13 and as detailed in **Appendix C** be as follows:

2021/2022	2022/2023	2023/2024
£2,037.804m	**£2,090.958m**	**£2,134.928m**

1.4. That the Council approve the Prudential Indicators as set out in **Appendix C** of this report.

1.5. That the Annual Minimum Revenue Provision Policy Statement (required by the Local Authorities (Capital Financing and Accounting) (England) (Amendment) Regulations 2008SI 2008/414) as set out in **Appendix D** of this report be approved.

1.6. That the Council's authorised counterparty lending list as at 31st December 2020 as set out in **Appendix E** of this report and the rating criteria set for inclusion onto this list be approved.

1.7. That the Council adopts the Capital Strategy Statement set out below in section 3.

1.8. That in the event of the Council receiving a Capitalisation direction that requires amendments to any part of the statements, strategies or policies contained in this report that the statutory Chief finance officer (Sec151 officer) be authorised to implement those changes and to report them to the next meeting of the Cabinet and council.

2. EXECUTIVE SUMMARY

2.1 Under regulations made pursuant to the Local Government Act 2003 the Council is required to have regard to CIPFA's Prudential Code for Capital Finance in Local Authorities, 2017, (the Prudential Code), to ensure that the Council's capital investment plans are affordable, prudent and sustainable. In particular, the Prudential Code requires the Council set a number of Prudential Indicators for the next three financial years. This report, which incorporates these indicators, also details the expected treasury activities for the year 2021/2022, in the context of the longer term planning forecasts for the Council. The implications of these key indicators function as the overriding control and guidance mechanism for the future capital programme and the revenue consequences that arise for the Council in future financial years.

2.2 The revised CIPFA Prudential and Treasury Management Codes (the Codes) require that all local authorities must prepare a Capital Strategy Statement, which provides 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.

3. CAPITAL STRATEGY STATEMENT

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

3.2 This capital strategy is reported separately from the Treasury Management Strategy Statement so that there is a clear separation of the core treasury function under security, liquidity and yield principles. The capital strategy will show:

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

3.3 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.

3.4 Where the Council has borrowed to fund any non-treasury investment, there should also be an explanation of why borrowing was required and why the MHCLG Investment Guidance and CIPFA Prudential Code have not been adhered to.

3.5 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.

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

The Capital Strategy Statement

Context: the revised CIPFA Prudential and Treasury Management Codes

3.7 The framework established by the revised CIPFA Prudential and Treasury Management Codes (the Codes) codes supports local strategic planning, local asset management planning and proper option appraisal.

3.8 The objectives of the Codes are to ensure that the capital expenditure plans of local authorities are affordable, prudent and sustainable and that treasury management decisions are taken in accordance with good professional practice and with a full understanding of the risks involved.

3.9 The Codes require authorities to look at capital expenditure and investment plans in the light of overall organisational strategy and resources and ensure that decisions are made with sufficient regard to the long term financing implications and potential risks to the authority.

3.10 The Codes set out that in order to demonstrate that the authority takes capital expenditure and investment decisions in line with service objectives and properly takes account of stewardship, value for money, prudence, sustainability and affordability, authorities should have in place a capital strategy. The capital strategy should set out the long term context in which capital expenditure and investment decisions are made and gives due consideration to both risk and reward and impact on the achievement of priority outcomes.

Purpose and aims of this Capital Strategy

3.11 This capital strategy sets out how capital investment supports the delivery of the Council's objectives. It describes the main objectives for the Council over a four-year horizon.

Delivery of these objectives

3.12 This Capital Strategy has been drafted to support the delivery of the Council's core objectives.

3.13 The Council employs a number of different delivery strategies and these are described below. This document describes the funding streams available to the Council and used in the delivery of these objectives.

3.14 The component elements that comprise the capital programme are drawn from specific, detailed strategy documents, including, for example the Asset Investment Strategy and the Education Estates Strategy.

3.15 These elements are described in more detail below, including a description of the process whereby schemes are prioritised to ensure best fit to these corporate priorities as capital projects. Taken together these schemes make up the Council's capital investment programme.

3.16 The next section considers the resources available to the Council to deliver this capital programme.

Resources

3.17 The Council can call upon a range of resources to deliver its capital programme.

These resources include:

Borrowing;
Capital receipts;
Grant funding;
Planning obligations; and
Revenue.

There are also resources relating to the Housing Revenue Account which fall outside the scope of this Strategy.

3.17.1 **Borrowing**. The level of debt incurred by the Council is governed by the indicators set by the Prudential Code. The Code provides a framework to enable the Council to assess the affordability, sustainability and prudence of the level of borrowing. These links to the Code are detailed further below. Sources of debt include the Public Works Loans Board, who are the principal source of loans for the Council, commercial debt from banks and financial institutions, (this includes legacy so-called Lender Option Borrower Option loans, or LOBOs), the London Energy Efficiency Fund and the European Investment Bank.

3.17.2 The Public Works Loans Board, (the PWLB) is operated by the UK Debt Management Office (DMO) on behalf of HM Treasury and provides loans to local authorities, and other specified bodies, from the National Loans Fund, operating within a policy framework set by HM Treasury. The terms and arrangements for borrowing are determined by HM Treasury. Since 2004, under the prudential regime, local authorities are responsible for their own financial decision making. Recently, in response to local authorities using borrowing to fund investments in return for a yield, HM Treasury has announced targeted interventions which make some changes to the PWLB lending arrangements. Taking effect from 26th November 2020, these are:

3.17.3 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 to access debt.

- The PWLB will ask the S151 Officer to confirm that there is no intention to buy investment assets primarily for yield at any point in the next three years. This assessment is based on the finance director's professional interpretation of guidance issued alongside these lending terms.
- The PWLB will not lend to a local authority that plans to buy investment assets primarily for yield anywhere in their capital plans, 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 that the assurance that they do not intend to buy investment assets primarily for yield remains valid.
- If HM Treasury has concerns that a loan may be used in a way that is incompatible with HM Treasury's own duties to ensure that public spending represents good value for money to the taxpayer, the department will contact the local authority to gain a fuller understanding of the situation. Should it transpire that a Local Authority has deliberately misused the PWLB, HM

Treasury has the option to suspend that LA's access to the PWLB, and in the most extreme cases, to require that loans be repaid. In practice such an eventuality is highly unlikely and would only occur after extensive discussion with the local authority in question. The PWLB will allow the authority to borrow to fund expenditure by Brick by Brick because this expenditure is defined as 'housing delivered through a local authority housing company' and is thus allowable.

3.17.4 **Developments in Respect of Borrowing from the PWLB:** The narrative below describes how borrowing has been applied to support these capital schemes. These programmes, the Revolving Investment Fund, the Growth Zone and the lending to housing development companies, have been scaled back. Borrowing is still being applied to other priority capital schemes that cannot be funded from external sources subject to a revenue appraisal as to the affordability of any borrowing prior to contractual commitments being entered into. Allowance needs to then be made in the revenue budget for repayment of capital and payment of interest. The policy regarding the repayment of principal sums (MRP) is discussed below in section 4.10. Since the publication of a Section 114 Notice and the application to central government for a Capitalisation Direction the conditions attached to the loan requested have changed. Although, at the time of writing, these have not been finalised, it would appear that significant and onerous stipulations may apply, including a 1% margin on the interest charged.

3.17.5 **Capital Receipts** are generated by the sale of an asset. Disposals of surplus assets in the property portfolio, typically generated by a rationalising of the estate, represent an important source of funding. Capital receipts can only be applied to fund capital investment, with the exception of the use of capital receipts to fund transformation expenditure, according to the principles set out in the MHCLG's Flexible Use of Capital Receipts guidance of March 2016.

3.17.6 **Grant funding** covers a range of funding sources. These might include grants from the Education and Skills Funding Agency; Education Basic Needs grants; Transport for London, NHS, and the Community Infrastructure Levy. Typically grants are specific and often have conditions associated with them which define the purposes for which they should be applied.

3.17.7 **Planning obligations**, Planning obligations under Section 106 of the Town and Country Planning Act 1990 (as amended), commonly known as s106 agreements, are a mechanism which makes a development proposal acceptable in planning terms, that would not otherwise be so. Typically they are negotiated as part of planning gain agreements. They are focused on site specific mitigation of the impact of development. S106 agreements are often referred to as 'developer contributions' along with highway contributions and the Community Infrastructure Levy, as mentioned above. They were introduced to allow local authorities to recover costs associated with private developments. These range from additional school places through to transport links.

3.17.8 **Revenue funding** can be applied but is rarely used to support capital investment.

3.18 Croydon has adopted a number of different approaches for delivering capital investment. These are described in more detail here.

The Revolving Investment Fund

3.18.1 The Revolving Investment Fund (RIF) was established through borrowing. It was the intention that loans will be acquired at rates comparable to the mark up on gilts applied by the Government's Debt Management Office. The RIF would lend on at commercial rates thus generating a margin. Debts would be repaid on completion of each individual project.

The RIF also acted as a funder to the Council's Housing Development Company Brick by Brick, enabling the development of homes in the Borough. The Council has commissioned a review of the RIF which was reported to the Cabinet in November 2020. No new investments other than a loan for working capital to Brick by Brick will be made in 2021/22.

Housing LLPs

3.18.2 The Council has also set up Housing Limited Liability Partnerships (LLPs) to increase the provision of affordable homes in the Borough. To enable the increase of the provision of affordable housing in the Borough, the Council, via wholly owned entities, has entered into three separate partnerships with a local charity to develop units across the Borough and acquire street properties as affordable rented homes. The LLPs are able to utilise the Council's retained right to buy receipts, which the Council is unable to use due to the limited resources in the Housing Revenue Account, with the Council acting as lender for the balance of the funds for the purchase of the leases and development of the sites. If the Council did not use the right to buy receipts in this manner, it would obliged to repay them to Central Government with interest.

3.18.3 Croydon will retain a long term interest in the properties via the freehold of the sites or properties and receive an income stream to the General Fund from each LLP. This arrangement was also subject to review at the same time as the RIF (see above) and no new investments are proposed at present into this arrangements.

Growth Zone

3.18.4 The Growth Zone is a singular element of the capital programme. It is funded through growth in future business rates within the Zone; these are ring fenced for investment within the Zone. The growth in business rates from the Zone is ring-fenced separately from within the Council's Collection Fund, and will be used to repay debt. The Growth Zone strategy enables the Council to bid to access Public Works Loan Board Infrastructure rate borrowing at preferential rates. Similarly to the RIF and Croydon Affordable Homes the Growth Zone has been subject to review and expenditure will be substantially curtailed in 2021/2022.

Context – the strategy hierarchy

3.19 The capital programme comprises the capital schemes that contribute towards meeting the objectives described above. They are described in detail in the Asset Investment Strategy, Education Estates Strategy, the Brick by Brick business plan and other strategies and plans. A capital budget, setting out the forecast expenditure and capital funding, is presented elsewhere on this agenda.

3.20 The revenue impact of long-term borrowing is set out in the MRP Policy (attached as Appendix D and covered in section 4.10) and the Treasury Management Issues (discussed in section 4.8).

3.21 The MRP deals with different categories of assets in different ways, setting out how debt principal is repaid from contributions from revenue. The Treasury Management Strategy considers, amongst a number of issues, projections as to the cost of debt and issues around long-term affordability and sustainability.

3.22 Alongside and informing this Strategy is the MTFS which is part of the 2021/2022 Budget Report.

3.23 Capital projects are assessed and prioritised according to their fit within the strategic context described above. The Council will invest in programmes and projects in line with statutory and core functions with priority for funding being given to those schemes along with invest to save projects. The return on investment helps to prioritise some schemes. The MTFS assumes continuing maximum use of planning gain from the Community Infrastructure Levy and s106 planning obligations where possible to reduce borrowing requirements.

Risk appetite and governance processes for managing that risk

3.24 The MTFS is explicit in setting out the Council's appetite for risk. The Council has a significantly reduced risk appetite reflecting its current financial circumstances. The Council recognises that good financial management is key to delivering effective services and maintaining financial sustainability and control and needs to be embedded in everything it does. This has not previously been the case. The MTFS sets out the key strategic priorities for how the Council will manage the medium term budget position including the competing demands of service growth and the need to reduce expenditure to balance the revenue budget.

The Prudential Indicators

3.25 Good practice suggests that the Council reviews this Strategy annually to ensure it continues to reflect the needs and priorities of residents.

3.26 Prudential Indicators are set at the same time as the budget and reviewed mid-year and at the year-end. These indicators are set out in Appendix C.

3.27 Capital Expenditure is monitored on a quarterly basis and reported to Cabinet. Cabinet reports consider spend to date, forecasts for the year and subsequent periods and any adjustments required to the agreed budget. This robust level of scrutiny ensures the most efficient use of capital resources to support corporate objectives.

Request for Capitalisation directive

3.28 The Council has requested that the Government provide exceptional financial support to the Council. This will take the form, if granted, of a capitalisation direction. This direction, if issued, will in all probability be conditional. If these conditions require any amendments to existing policies such as that for MRP, then delegated authority will need to be given to the Section 151 officer to implement those changes to enable the Council to implement the directive and to report back to the next possible meeting of the cabinet and Council.

4. TREASURY MANAGEMENT STRATEGY FOR 2021/2022

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

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

4.3 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.

4.4 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.

4.5 The Council defines its treasury management activities as:

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

4.6 The Council is required to receive and approve, as a minimum, three main treasury reports each year, which incorporate a variety of strategies and policies, and estimated and actual figures.

1. **The prudential and treasury indicators and treasury strategy (this report)** - The first, and most significant report covers:

    - the capital plans (including prudential indicators);
    - an MRP policy (how residual capital expenditure is charged to revenue over time);
    - the treasury management strategy (how the investments and borrowings are to be arranged) including treasury indicators; and
    - an investment strategy (the parameters for managing investments).

2. **A mid-year treasury management report** – To update members with the progress of the capital position, amend prudential indicators as necessary,

and flag whether any policies require revision;

3 **An annual treasury report** – This is a backward looking review document and provides details of the prudential and treasury indicators and treasury operations. The indicators are calculated on the basis of published outturn figures compared to the estimates within the Strategy.

4.7 The Strategy for 2021/22 covers these three main areas, capital, treasury management and the annual investment strategy:

Capital issues

- Capital expenditure plans and borrowing need and associated prudential indicators (paragraphs 4.8 and 4.9);
- The Minimum Revenue Provision (MRP) policy (paragraph 4.10).

Treasury management issues

- Current treasury position (paragraph 4.11);
- Borrowing strategy and borrowing requirement (paragraph 4.12);
- Treasury indicators which limit the treasury risk and activities of the Council (paragraph 4.13);
- Interest rate exposure and prospects for interest rates (paragraph 4.14) ;
- Borrowing strategy (paragraph 4.15);
- Policy on borrowing in advance of need (paragraph 4.16);
- Debt rescheduling and repayment (paragraph 4.17);
- Sources of finance (paragraph 4.18);

Annual Investment Strategy

- Investment policy (paragraph 4.19);
- Annual Investment Strategy (paragraph 4.20);
- Prudential Indicators (paragraph 4.21).

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

Training

4.7.1 The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny. The training needs of treasury management officers are periodically reviewed. As required training can be offered for elected members to enable effective scrutiny and monitoring of treasury functions and costs.

Treasury management consultants

4.7.2 The Council uses Link Treasury Services Ltd (Link) as its external treasury management advisors. The Council recognises that responsibility for treasury management decisions remains with itself at all times and will ensure that undue reliance is not placed upon external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisers. The Council also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented and subjected to regular review reflecting sound governance practices.

CAPITAL ISSUES

4.8 **Capital Expenditure and Borrowing Need**

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

Capital expenditure

4.8.2 The Council has an extensive capital programme which includes funding for housing, highways, education, libraries, leisure and environmental schemes. These schemes include recurring key projects and programmes linked to the Council's statutory responsibilities and include the Highways Maintenance programme and the Education Estates Programme. In addition the programme includes recurring elements to ensure that the Council's infrastructure is repaired and maintained, which includes digital infrastructure, the corporate property programme and one – off elements linked to the Council's corporate priorities.

4.8.3 Members are asked to note the capital expenditure estimates summarised in the table below:

Table 1: Capital Expenditure

	2019/2020 Actual £m	2020/2021 Forecast £m	2021/2022 Estimate £m	2022/2023 Estimate £m	2023/2024 Estimate £m
General Fund services	116.7	85.6	62.0	28.2	18.4
Commercial activities and non-financial investments	63.7	0.0	0.0	0.0	0.0
HRA services	51.4	101.7	81.5	27.0	27.0
TOTAL	**231.8**	**187.4**	**143.5**	**55.3**	**45.4**
Capitalisation Direction	-	70.0	50.0	25.0	5.0

4.8.4 In addition to the total for each year included in this table, other long term liabilities, such as PFI and leasing arrangements require borrowing for the purpose of financing this spend. If awarded, the Capitalisation Direction will allow for certain items of revenue spend to be charged to Capital and this expenditure will be financed by borrowing from the PWLB.

4.8.5 The Council's financing need is funded from various capital and revenue resources plus borrowing as summarised below:

Table 2: Resources

	2019/2020 Actual £m	2020/2021 Forecast £m	2021/2022 Estimate £m	2022/2023 Estimate £m	2023/2024 Estimate £m
Capital receipts	19.0	-	-	-	-
Capital grants	25.2	29.1	14.5	6.7	5.9
S106 payments	0.6	5.0	0.8	-	-
S141 receipts		21.8	0.0	-	-
Community Infrastructure Levy	6.5	8.6	6.8	6.8	6.8
Revenue	10.0	5.8	-	-	-
Major Repairs Allowance	12.3	12.5	12.5	21.2	21.2
Borrowing	158.2	104.6	104.3	14.7	5.7
TOTAL	**231.8**	**187.4**	**90.0**	**49.4**	**39.6**
Capitalisation Direction	-	70.0	50.0	25.0	5.0

4.9 **The Council's borrowing need (Capital Financing Requirement)**

4.9.1 The Council's Capital Financing Requirement (CFR) is the total of historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's indebtedness, effectively its underlying borrowing need. Any capital expenditure, which has not immediately been paid for, will increase the CFR. The CFR does not increase indefinitely, as the MRP is a statutory annual revenue charge which reduces the borrowing need in line with each asset's life. The CFR includes any other long term liabilities such as PFI schemes and finance leases. Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility and so the Council is not required to borrow separately to deliver them.

4.9.2 The Council's estimated CFR is detailed in the table below:

Table 3: Estimated Capital Financing Requirement

	2019/2020 Actual £m	2020/2021 Forecast £m	2021/2022 Estimate £m	2022/2023 Estimate £m	2023/2024 Estimate £m
Capital expenditure	231.757	187.395	143.5	55.2	45.4
Less amount funded from resources	(73.544)	(82.8)	(17.881)	(10.314)	(6.029)
Gross In Year Borrowing Requirement (CFR)	**158.213**	**104.595**	**59.554**	**50.570**	**26.322**
Less In Year MRP for debt repayment.	(10.366)	(8.815)	(9.764)	(11.225)	(11.809)
In Year Borrowing Requirement (Net)	147.847	95.78	115.855	33.661	27.562
1. Loans repaid during year	258.814	269.000	110.000	36.500	5.000
2. Less loans taken up in-year	(414.500)				
3. Less reduction in investment balances (internal borrowing)					
In Year Borrowing Requirement outstanding	**(7.816)**	**364.78**	**225.855**	**70.161**	**32.562**

4.9.3 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 above and the details above demonstrate the scope of this activity and, by approving these figures, consider the scale proportionate to the Authority’s remaining activity.

Core funds and expected investment balances

4.9.4 The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.). Detailed below are estimates of the year-end balances for each resource and anticipated day-to-day cash flow balances.

Table 4: Core Funds and Cash Balances

Year End Resources £m	2019/20 Actual	2020/21 Forecast	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
General Fund balances / reserves	16.6	16.6	16.6	16.6	16.6
HRA balance	15.4	15.4	14.9	14.9	14.9
Capital receipts	19.0				
Capital Grants	25.2	29.1	14.5	6.7	5.8
Other	-		1.2	0.2	
Total core funds	**76.2**	**61.1**	**47.2**	**38.4**	**37.3**
Working capital*	(240.9)	(100.0)	(100.0)	(100.0)	(100.0)
Under/over borrowing**	17.8	9.2	(2.8)	(15.8)	(29.8)
Expected investments	**37.7**	**40.0**	**40.0**	**40.0**	**40.0**

*Working capital balances shown are estimated year-end; these may be higher mid-year

4.10 Minimum Revenue Provision

4.10.1 Minimum Revenue Provision (the MRP), which is often referred to as a provision for the repayment of debt, is a charge to revenue in relation to capital expenditure financed from borrowing or through credit arrangements.

4.10.2 Under Regulation 27 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, as amended, local authorities are required to charge MRP to their revenue account in each financial year. Before 2008, the 2003 Regulations contained details of the method that local authorities were required to use when calculating MRP. This has been replaced by the current Regulation 28 of the 2003 Regulations, which gives local authorities flexibility in how they calculate MRP, providing the calculation is ‘prudent’. In calculating a prudent provision, local authorities are required to have regard to the statutory guidance issued by MHCLG. The latest version of the Guidance was issued on 2 February 2018 and is applicable for accounting periods starting on or after 1 April 2019.

4.10.3 The Guidance states that before the start of each financial year, the Council should prepare a statement of its policy on making MRP in respect of that financial year and submit it to full Council for approval.

4.10.4 Regulation 28 of the 2003 Regulations requires a local authority to calculate in each financial year an amount of MRP that it considers to be prudent. An underpinning principle of the local authority financial system is that all capital expenditure has to be financed either from capital receipts, capital grants (or other contributions) or, eventually, from revenue income. The broad aim of prudent provision is to require local authorities to put aside revenue over time to cover their CFR (Capital Funding Requirement). In doing so, local authorities should align the period over which they charge MRP to one that is commensurate with the period over which their capital expenditure provides benefits.

4.10.5 The Director of Finance, Investment and Risk (S151 Officer) is responsible for ensuring that accounting policies and the MRP Policy comply with the statutory Guidance in determining a prudent level of MRP.

4.10.6 The Treasury Annual Review for 2017/2018 was presented to the Council's General Purposes and Audit Committee on 10 October 2018 (Minute 24/17). At the meeting the Committee resolved that a revised MRP Statement be recommended for adoption at the next Council meeting to be held on 3 December 2018. The revised MRP Policy Statement for 2018/2019 was adopted by full Council on 3 December 2018 (Minute 47/18) and is attached at Appendix D. It was approved for 2019/20 by full Council on 4 March 2019 (Minute 20/17). The policy statement appended to this report as Appendix D places additional emphasis on the need to have robust risk assessment processes in place to ensure that an adequate provision is maintained, especially in those circumstances where loan repayments are anticipated. This revised policy is recommended for adoption for 2021/2022.

TREASURY MANAGEMENT ISSUES

The Current Treasury Position

4.11 The Council's Treasury position as at 31st December 2020 comprised:

Table 5: Borrowing as at 31 December 2020

		Principal £m	Average Rate %
Fixed Rate Funding	- PWLB[1]	907.426	3.29
	- Local Authorities[2]	428.500	1.02
	- Amber Green LEEF 2LLP	8.575	1.68
	- European Investment Bank	102.000	2.20
Variable Rate Funding	- LOBO [3]	20.000	4.20
Total External Debt as 31/12/2020		1,466.501	2.55
Debt repayment		0	
Estimated Debt as at 31/03/2021		1,466.501	2.55

1. PWLB is the Public Works Loan Board, the branch of Government that is the principle lender to local authorities. Included within this amount is the £223.1m borrowed for the HRA self-financing settlement made on 28/3/2012.
2. As an alternative to borrowing from the Government, local authorities have come to the market offering loans at competitive rates.
3. Lender's Option Borrower's Option (LOBOs) loans are commercial debts with options for the lender to vary the rate at pre-set intervals. If the option is exercised, then the Council can either accept the new rate or repay the loan with no penalty.

4.11.2 The Council's debt maturity profile is included in **Appendix A**.

Table 6: Temporary Investments as at 31 December 2020

	Principal £m	Average Rate %
Temporary investments outstanding as at 31/12/2020	80.000	0.75
Estimated temporary investments outstanding as at 31/03/2021	40.000	0.75

4.12 The Borrowing Strategy and Borrowing Requirement

4.12.1 The Council's capital expenditure plans are set out in Section 4.8 and referenced by the Capital Strategy Statement. The treasury management function ensures that the Council's cash is managed in accordance with the relevant professional codes, as issued by CIPFA and MHCLG, so that sufficient cash is available to meet this service activity. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

4.12.2 The Council's treasury portfolio position at 31 March 2020 and forward projections are summarised below. The table shows the actual external debt against the CFR, highlighting any over or under borrowing.

Table 7: Borrowing and the Capital Financing Requirement

	2019/2020 Actual £m	2020/2021 Forecast £m	2021/2022 Estimate £m	2022/2023 Estimate £m	2023/2024 Estimate £m
Debt at 1 April	1,278.822	1,445.001	1,538.532	1,591.686	1,635.656
Expected change in debt	166.179	93.531	53.154	43.970	19.722
Other long term liabilities	78.291	75.821	75.821	75.821	75.821
Expected change in other long term liabilities	(2.470)				
Actual gross debt at 31 March	**1,520.822**	**1,614.353**	**1,667.507**	**1,711.477**	**1,731.199**
CFR	**1,538.213**	**1,623.591**	**1,664.745**	**1,695.715**	**1,701.437**
Under/ (over) borrowing	**17.391**	**9.238**	**(2.762)**	**(15.762)**	**(29.762)**

Note: this calculation does not allow for the impact of internal borrowing which has the effect of reducing real borrowing (see Table 3, above).

Within the above figures the level of debt relating to commercial activities / non-financial investment is:

Table 8: Debt relating to commercial activities / non-financial investment

	2019/2020 Actual	2020/2021 Forecast	2021/2022 Estimate	2022/2023 Estimate	2023/2024 Estimate
Debt at 1 April (£m)	291.92	297.63	297.63	297.63	297.63
Percentage of total external debt (%)	19.2%	18.4%	19.8%	17.4%	17.2%

4.12.3 Within the prudential regime there are a number of key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2020/2021 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 purposes.

4.12.4 The Director of Finance, Investment and Risk (S151 Officer) reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this budget report.

4.13 Treasury Indicators: limits to borrowing activity

4.13.1 Section 3 of the Local Government Act 2003 requires the Council to set limits and to keep under review how much it can afford to borrow. The amounts so determined are to be set on a rolling basis, for the forthcoming financial year and two successive financial years.

4.13.2 **Operational boundary for external debt**. This is the limit which external debt is not normally expected to exceed. It reflects the Council's expectations according to probable events.

Table 9: Operational boundary

	2019/2020 Actual £m	2020/2021 Forecast £m	2021/2022 Estimate £m	2022/2023 Estimate £m
Debt	1,520.822	1,614.353	1,667.507	1,711.477
Other long term liabilities	75.821	75.821	75.821	75.821
Commercial activities / non-financial investments	291.92	297.63	297.63	297.63
TOTAL	**1,888.563**	**1,987.804**	**2,040.958**	**2,084.928**

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

4.13.4 The Cabinet is asked to recommend to Full Council that it should approve the following authorised limit:

Table 10: Authorised limit

	2019/2020 Actual £m	2020/2021 Forecast £m	2021/2022 Estimate £m	2022/2023 Estimate £m
Debt	1,570.822	1,664.353	1,717.507	1,761.477
Other long term liabilities	75.821	75.821	75.821	75.821
Commercial activities / non-financial investments	291.92	297.63	297.63	297.63
TOTAL	**1,938.563**	**2,037.804**	**2,090.958**	**2,134.928**

4.14 Interest Rate Exposure and Prospects for Interest Rates

4.14.1 The Council manages its exposure to interest rate risk by borrowing the majority of its funding requirements at fixed rates over a range of durations. This limits the impact on the Council's ability to cover interest costs when interest rates are rising. The Council is also looking into securing borrowing using forward agreements to limit exposure to future increases in interest over the short term. This is a significant tool for managing interest rate exposure risk. Part of the service provided by Link is to assist the Council to formulate a view on interest rates. The following table gives their current view.

Table 12: Interest Rate Forecast March 2021 to March 2024

Link Group Interest Rate View	9.11.20							(The Capital Economics forecasts were done 11.11.20)					
These Link forecasts have been amended for the reduction in PWLB margins by 1.0% from 26.11.20													
	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
BANK RATE	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
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	0.80	0.80	0.80	0.80	0.90	0.90	0.90	0.90	0.90	1.00	1.00	1.00	1.00
10 yr PWLB	1.10	1.10	1.10	1.10	1.20	1.20	1.20	1.20	1.20	1.30	1.30	1.30	1.30
25 yr PWLB	1.50	1.60	1.60	1.60	1.60	1.70	1.70	1.70	1.70	1.80	1.80	1.80	1.80
50 yr PWLB	1.30	1.40	1.40	1.40	1.40	1.50	1.50	1.50	1.50	1.60	1.60	1.60	1.60
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	0.80	0.80	0.80	0.80	0.90	0.90	0.90	0.90	0.90	1.00	1.00	1.00	1.00
Capital Economics	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	-	-	-	-	-
10yr PWLB Rate													
Link	1.10	1.10	1.10	1.10	1.20	1.20	1.20	1.20	1.20	1.30	1.30	1.30	1.30
Capital Economics	1.30	1.30	1.30	1.30	1.30	1.30	1.30	1.30	-	-	-	-	-
25yr PWLB Rate													
Link	1.50	1.60	1.60	1.60	1.60	1.70	1.70	1.70	1.70	1.80	1.80	1.80	1.80
Capital Economics	1.80	1.80	1.80	1.80	1.80	1.80	1.80	1.80	-	-	-	-	-
50yr PWLB Rate													
Link	1.30	1.40	1.40	1.40	1.40	1.50	1.50	1.50	1.50	1.60	1.60	1.60	1.60
Capital Economics	1.70	1.70	1.70	1.70	1.70	1.70	1.70	1.70	-	-	-	-	-

4.14.2 Link advise that the PWLB rates above are based on the new margins over gilts announced on 26th November 2020. The PWLB forecasts take into account the 20 basis point certainty rate reduction effective as of the 1st November 2012. Link further advise that these forecasts remain current as at 5 January 2021.

4.14.3 Commentary on these interest rate forecasts has been provided by Link in **Appendix E**.

4.15 Borrowing strategy

4.15.1 The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (CFR) has not been fully funded with borrowing as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent when investment returns are low but counterparty risk, such as a bank failing or borrower defaulting, is still an issue that needs to be considered. Against this background and the risks within economic forecasts officers will be cautious when undertaking 2021/2022 treasury operations. The Director of Finance, Investment and Risk (S151 Officer) will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- if it was felt that there was a significant risk of a sharp fall in borrowing rates then borrowing will be postponed;

- if it was felt that there was a significant risk of a much sharper rise in borrowing rates than that currently forecast, perhaps arising from an acceleration in the rate of increase in central rates in the USA and UK, an increase in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised. Most likely, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.

4.15.2 Any decisions will be reported to Cabinet at the next available opportunity.

4.16 Policy on borrowing in advance of need

4.16.1 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.

4.17 Debt rescheduling and repayment

4.17.1 The reasons for any debt rescheduling to take place, that is to say, early repayment of debt and, or, substitution with other loans, will include:

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

4.17.2 However, rescheduling is not likely to occur at present because the Public Works Loan Board rates act as a disincentive. Nevertheless, should circumstances change, any rescheduling will be reported to Cabinet, at the earliest meeting following its action.

4.18 Sources of finance

4.18.1 The Council's main source of finance has traditionally been borrowing from the Public Works Loan Board (PWLB) where funds can be borrowed for up to 50 years at both fixed and variable rates. The Council has qualified for borrowing from the PWLB at the 'certainty rate' which is the prevailing PWLB interest rate on the date of borrowing less a discount of 0.20%. This discounted rate applies for funding of capital schemes through prudential borrowing and for the refinancing of maturing long term debt.

4.18.2 The PWLB has recently increased their margin over gilt yields to control the level of borrowing. This will now be reversed so rates still remain low and the certainty rate will continue to be used as a benchmark. To mitigate against any future issues the Council continues to attempt to source cheaper alternatives to the PWLB. The Council currently uses other UK local authorities willing to offer loans up to 5 years and the European Investment Bank, both of which provide financing below the PWLB certainty rate. The Council has also found and will make use of commercial lenders willing to lend at competitive rates and continues to look at options such as local authority bonds and the Municipal Bond Agency. In order to reduce the risk that loans will mature when interest rates are peaking, debt is taken on in tranches that mature over a spread of years. New loans will be taken to fit into gaps in the Authority's existing debt maturity profile.

4.18.3 In the Autumn Budget 2017, the government announced that it would make available £1bn of lending at the Local Infrastructure Rate of gilts + 60bps to English local authorities. Following the announcement local authorities were asked to apply to HM Treasury to access funds at this reduced borrowing rate. Two bidding rounds were introduced running from 1 May 2018 to 31 July 2018 and 1 January 2019 to 31 March 2019. Up to £500m was made available in each bidding round, with a maximum of £100m available for any one local authority. The Council successfully submitted a bid and was granted access to borrowing of £43m for specific Growth Zone projects.

4.18.4 The most significant risk that the Treasury team manage is that relating to dependence on the PWLB for debt. The Government has shown itself willing to manipulate local authorities by moving interest rates offered to local authorities. The Government has also declared itself prepared to shut off the supply of debt if local authorities take policy decision that are at odds with the Government's policy. HM Treasury may reach the statutory limit on lending to local authorities or the Government might seek to impose a limit. The introduction of new processes will inevitably make the process of applying for loans more cumbersome and time consuming so that deals might well be not as advantageous as they might be because the market may move in the intervening period of time. Almost certainly this represents a liquidity issue and may well require the authority to hold greater cash reserves. If any of these events occur the outcome might be reputational damage to the authority and hence dearer debt or difficulties securing debt.

ANNUAL INVESTMENT STRATEGY

4.19 **Investment policy**

4.19.1 The Council's investment policy has regard to the MHCLG Guidance on Local Government Investments, the CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017(Treasury Management Code) and the CIPFA Treasury Management Guidance Notes 2018. Whilst MHCLG and CIPFA have extended the meaning of 'investments' to include both financial and non-financial investments this section of the 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.

4.19.2 The Council's investment priorities will be security first, liquidity second, then return. In accordance with the above guidance from the MHCLG and CIPFA, and in order to minimise the risk to investments, the Council applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of concentration risk.

4.19.3 The key ratings used to monitor counterparties are the Short-Term and Long-Term ratings.

4.19.4 Ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro- and macro-basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To this end 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.

4.19.5 Investment instruments identified for use in the financial year are summarised in paragraph 4.20 with further detail provided in **Appendix B** under the 'specified' and 'non-specified' investments categories. Specified investments are those with a high level of credit quality and subject to a maturity limit of one year whilst non-specified investments are of less high credit quality and may be used for periods in excess of one year.

4.19.6 The Council may wish, from time to time, to take advantage of financial derivative instruments in order better to manage risks, such as exposure to interest rate movements. Local authorities, including the Council, have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. Lender Option Borrower Option [or LOBO] loans). However, previous legislation was understood to prevent the use of such tools where they were not embedded in other instruments. The Localism Act 2011 includes a general power of competence that removes the uncertain legal position over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment). The latest CIPFA Treasury Management Code requires local authorities to clearly detail their policy on the use of derivatives in their annual strategy.

4.19.7 The Council will only use financial derivatives (such as swaps, forwards, futures and options) either on a standalone, or embedded basis, where it can be clearly demonstrated that as part of the prudent management of the Council's financial affairs the use of financial derivatives will have the effect of reducing the level of financial risks that the Council is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. This will be determined in liaison with the Council's external advisors. Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit if applicable.

4.19.8 At all times the Council will comply with CIPFA advice and guidance on the use of financial derivatives and have regard to CIPFA publications on risk management.

4.20 Annual Investment Strategy

4.20.1 From time to time, under Section 15 (1) of the Local Government Act 2003 the Secretary of State issues statutory guidance on local government investments to which local authorities are required to "have regard."

4.20.2 The current guidance defines investments as "Specified" and "Non-specified".

4.20.3 An investment is a specified investment if all of the following apply:

- the investment and any associated payments or repayments are denominated in sterling;
- the investment has a maximum maturity of one year;
- the investment is not defined as capital expenditure; and
- the investment is made with a body or in an investment scheme described as high quality or with the UK Government, a UK local authority or a parish or community council.

4.20.4 A non-specified investment is any investment that does not meet all the conditions in paragraph 4.17.3 above.

4.20.5 The Council's criteria for the selection of counterparties for investments are based on formal credit ratings issued by Fitch Ratings and supplemented by additional market data such as rating outlooks, the pricing of credit default swaps (CDs) and bank share prices. In addition to the Fitch rated institutions all UK local authorities and some public bodies comprise the Council's Approved Lending List.

4.20.6 Each week, the Council, along with other clients, receives from Link Group a "Suggested Credit List." This is accompanied by a disclaimer reminding recipients, inter alia, as follows:

> *This document is intended for the use and assistance of customers of Link Asset Services. It should not be regarded as a substitute for the exercise by the recipient of its own judgement.*

4.20.7 Notwithstanding this and other similar clauses Link are the largest suppliers of treasury management advisory services to UK local authorities and understand the market well. In their analysis they take into account the views of each of the three major credit ratings agencies along with the pricing of credit default swaps and market intelligence. They are better placed than Council officers to carry out this analysis and the Council has adopted the following lending list criteria:

Specified investments

AAA rated money market funds - limit £20m
Debt Management Office – no limit
Royal Bank of Scotland* – limit £25m
Duration of up to one year.

*Royal Bank of Scotland is included as a specified investment since it is the Council's banker and the UK Government holds a majority stake.

Non-specified investments

All institutions included on Link's weekly "Suggested Credit List" – limit £10m
All UK local authorities – limit £10m
Duration to be determined by the "Suggested Credit List" from Link

4.20.8 As at 31st December 2020, short-term (1-3 months) investment interest rates were between 0.70% and 0.80% with longer term (up to 1 year) rates between 0.95% and 1.10%. Investments will be made to take advantage of higher yields and to hedge against future decreases in bank rates. Daily liquidity requirements will be met by investing in AAA-rated MMFs. As investment rates are influenced throughout the year by the release of key items of data, there may be occasions when some investments will be pitched towards specific periods to take advantage of any unexpected higher rates resulting from data issued.

4.20.9 Based on cashflow forecasts for 2021/2022 the Council anticipates its average daily cash balances for the year to be £70m which includes new borrowing of £270m due to be borrowed during the year. The overall balances include schools balances and HRA revenue balances for which an apportionment of interest earned is made. The net income then due to the General Fund is estimated at £0.525m.

4.21 **Prudential Indicators**

4.21.1 The Prudential Indicators for 2021/2022 to 2023/2024 are attached in Appendix C in accordance with the Code.

4.21.2 The Director of Finance, Investment and Risk (S151 Officer) is responsible for setting up and monitoring the Prudential Indicators in accordance with the Council's Capital Strategy.

4.21.3 The Council is also required to confirm that it has adopted the CIPFA Code of Practice on Treasury Management.

4.21.4 The Prudential Indicators set will be monitored throughout the year and will be reported to Cabinet on a regular basis.

4.21.5 The indicators break down into four blocks relating to capital expenditure; the affordability of the investment programme; debt; and treasury management as follows:

1. The capital investment indicators reflect the Council's future plans to undertake capital works, and the extent to which these will be funded through borrowing. (**See Appendix C**).

2. Apart from borrowing that is directly supported by government grant funding, the cost of new prudential borrowing to the Council will be £74 per Band D council taxpayer in 2020/2021. This Prudential Indicator reflects the impact of funding decisions relating to capital investment. The Code specifically indicates that it is not appropriate to compare this indicator with those of other authorities.

3. The external debt indicators illustrate the calculation of the authorised borrowing limit.

4. The treasury indicators show that the Council will limit its exposure to variable rate debt to no more than 20% of total debt and will only invest up to 30% of the total investments for periods in excess of one year, for reasons of limiting exposure to risk and guaranteeing adequate liquidity. The final indicator sets a profile for the maturing of new debt.

5 CONSULTATION

5.1 Full consultation in respect of the contents of this report has taken place with the Council's treasury management advisors, Link, in preparing this report.

6 FINANCIAL AND RISK ASSESSMENT CONSIDERATIONS

6.1 Revenue and Capital consequences of this report are dealt with within this report. There are no additional financial considerations other than those identified in this report.

The effect of the decision

Approval to this report will ensure that the Council meets both its legal and financial management requirements in respect of Treasury Management.

6.2 **Risks**

There are no further risks issues other than those already detailed in this report**.**

6.3 **Options**

These are fully dealt with in this report.

6.4 **Future savings/efficiencies**

This report sets out the Treasury Management Strategy and identifies that new loans will only be undertaken if affordable in revenue terms debt restructuring will only be undertaken on advice from our treasury management advisors.

Approved by: Chris Buss, Director of Finance, Investment and Risk (S151 Officer)

7 LEGAL CONSIDERATIONS

7.1 The Head of Litigation and Corporate Law comments on behalf of the Director of Law and Governance that the recommendations within this report are reserved matters for decision by Full Council. The legal implications are set out under the various sections within the report but in particular these include the requirement for the Council to produce a balanced budget of which the various strategies and limits detailed within this report form a part.

7.2 Furthermore, the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 (as amended) made pursuant to the Local Government Act 2003 requires the Council to have regard to CIPFA's Prudential Code for Capital Finance in Local Authorities ("The Prudential Code"). Regulations 23 and 24 provide respectively that capital receipts may only be used for specified purposes and that in carrying out its capital finance functions, a local authority must have regard to the code of practice in "Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes (2017 Edition)" ("The Treasury Code") issued by CIPFA.

7.3 In relation to the Annual investment strategy, the Council is required to have regard to the Guidance is issued by the Secretary of State under section 15(1)(a) of the Local Government Act 2003 entitled "Statutory guidance on Local Government Investments 3rd Edition" which is applicable from and effective for financial years commencing on or after 1 April 2018.

7.4 In addition, two codes of practice issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) contain investment guidance which complements the Ministry of Housing Communities and Local Government (MHCLG) guidance. These publications are:

- Treasury Management in the Public Services: Code of Practice and Cross Sectoral Guidance Notes

- The Prudential Code for Capital Finance in Local Authorities

7.5 Local authorities are required to have regard to the current editions of the CIPFA codes by regulations 2 and 24 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 as amended.

7.6 The requirement for a Capital Strategy Statement stems from the provisions of the Prudential Code which was most recently updated in December 2017. The Prudential Code requires authorities to look at capital expenditure and investment plans in the light of overall organisational strategy and resources and ensure that decisions are made with sufficient regard to the long run financing implications and potential risks to the authority. The Prudential Code sets out that in order to demonstrate that the authority takes capital expenditure and investment decisions in line with service objectives and properly takes account of stewardship, value for money, prudence, sustainability and affordability, authorities should have in place a capital strategy.

Approved by: Sandra Herbert, Head of Litigation and Corporate Law on behalf of the Director of Law and Governance & Deputy Monitoring Officer

8 HUMAN RESOURCES IMPACT

8.1 There are no immediate Human Resources considerations arising from this report. If there are subsequent proposals that may affect the workforce as a result of the Treasury management strategy, consultation and planning must be in line with HR policies and procedures and HR advice must be sought.

Approved by: Sue Moorman Director of Human Resources

9 EQUALITIES IMPACT

9.1 The Council's Capital and Revenue Budget 2021/2022 is not subject to an equality impact assessment. However, in those areas where the setting of the capital and revenue budget result in new policies or policy change, then it is the responsibility of the relevant service department to carry out an equality impact assessment which evaluates how the new or changed policy will impact on groups that share a protected characteristic, including disabled people. The impact assessment includes consultation with people with disabilities and user-led disabled people organisations.

Approved by: Yvonne Okiyo, Equalities Manager

10 ENVIRONMENTAL IMPACT

10.1 There are no Environment and Design impacts arising from this report.

11 CRIME AND DISORDER REDUCTION IMPACT

11.1 There are no Crime and Disorder reduction impacts arising from this report.

12 REASONS FOR RECOMMENDATIONS/PROPOSED DECISION

12.1 The recommendations proposed are in accordance with the Treasury Management in the Public Services Code of Practice 2017 Edition and the Prudential Code for Capital Finance in Local Authorities 2017.

13 OPTIONS CONSIDERED AND REJECTED

13.1 Consideration and evaluation of alternative options are dealt with within this report.

14 DATA PROTECTION IMPLICATIONS

14.1 **WILL THE SUBJECT OF THE REPORT INVOILVE THE PROCESSING OF "PERSONAL DATA."**

No

14.2 **HAS A DATA PROTECTION IMPACT ASSESSMENT (DPIA) BEEN COMPLETED?**

No

CONTACT OFFICER:	Nigel Cook, Head of Pensions and Treasury Ext 62552
APPENDICES:	**Appendix A:** Long-term debt profile **Appendix B:** Specified and non-specified investments **Appendix C:** Prudential Indicators **Appendix D:** Minimum Revenue Provision Policy **Appendix E:** Commentary on Interest Rate Forecasts
BACKGROUND DOCUMENTS:	None