Hull City Council

Report to:

Finance and Value for Money Overview and Scrutiny Commission – 19 February 2021
Cabinet – 22 February 2021
Council – 25 February 2021

Wards All

Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement and Annual Investment Strategy 2021-22

Report of the Director of Finance and Transformation (S151 Officer)

This item is not exempt
Therefore exempt reasons are not applicable

This is a Non-Key Decision

1. Purpose of the Report and Summary

1.1 To provide details of the Treasury Management Strategy Statement (incorporating Prudential and Treasury Indicators), Minimum Revenue Provision Policy Statement and Annual Investment Strategy proposed for the financial year 2021-22.

1.2 The Council's constitution requires that the Strategy and Policy Statements be approved by Council and this responsibility cannot be delegated.

1.3 The scope and content of this report are in line with the requirements of the Treasury Management Code of Practice and the Prudential Code for Capital Finance, therefore there needs to be more detail included than standard committee reports.

1.4 Due to the nature and complexity of this report, an overview is provided at Appendix 6 which provides Members of the Council with a summary of the main contents of the report. A Glossary of Terms is also included at Appendix 7.

2. Executive Summary

2.1 Treasury Management is an important part of the finance function of the Council. Under the Prudential Regime, the Council has greater freedom with regard to borrowing and investment decisions and the Prudential Indicators provide an important monitoring framework.

2.2 Through the Council's Borrowing and Investment Strategies, the Director of Finance and Transformation will seek to minimise borrowing costs and maximise investment income whilst controlling the Council's exposure to financial risk.

2.3 The Government guidance issued regarding repayment of debt on borrowings (Minimum Revenue Provision) provides the Council with the ability to set realistic levels of provision for the repayment of debt. The MRP Policy remains unchanged for 2021/22.

2.4 This report reaffirms the overall Treasury Management Strategy in place and proposes no changes in 2021/22 to the Treasury Management Strategy Statement, Borrowing and Investment Strategies.

3. Recommendations

3.1 That Council approves;

i. The Prudential and Treasury Indicators, as set out in the main body of this report and summarised at Appendix 1, numbered 1 to 9;

ii. The Treasury Management Strategy Statement 2021-22, incorporating the Annual Investment Strategy 2021-22, as set out in the main body of this report, and specifically;

iii. The Investment Instruments shown at Appendix 2;

iv. The list of organisations used for the on-lending of surplus funds, shown at Appendix 3, up to the monetary limits stated;

v. The Minimum Revenue Provision Policy Statement 2021-22 detailed at Appendix 4.

4. Reasons for Recommendations

4.1 Approval of the annual Treasury Management Strategy and Policy Statements cannot be delegated and therefore is required to be approved by Full Council.

5. Impact on other Executive Committees (including Area Committees)

5.1 This report has no impact on other Executive Committees.

6. Introduction

6.1 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.

6.2 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.

6.3 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.

6.4 CIPFA defines treasury management as:

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

This authority has not engaged in any commercial investments and has no non-treasury investments.

7. Statutory Requirements

7.1 The Local Government Act 2003 (the Act) and supporting regulations requires the Council to 'have regard to' the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice to set Prudential and Treasury Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable. These are shown in the report and are summarised in Appendix 1.

7.2 The Act therefore requires the Council to set out its Treasury Strategy for borrowing and to prepare an Annual Investment Strategy (as required by Investment Guidance subsequent to the Act and included in section 21 of this report); this sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments as set out in Appendices 2 and 3. The ongoing turbulence in the international financial markets over the last few years highlights the importance of a robust and fully risk assessed strategy.

8. CIPFA Requirements

8.1 The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised 2017) was adopted by the Council on 25 February 2010.

8.2 The five primary requirements of the Code are as follows:

1. Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.

2. Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.

3. Receipt by the full Council of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a Mid-year Review Report and an Annual Report (stewardship report) covering activities during the previous year.

4. Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.

5. Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body.

8.3 The Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of polices, estimates and actuals. These reports are required to be adequately scrutinised by committee. This role is undertaken by the Finance and Value for Money Overview and Scrutiny Commission.

8.4 Prudential and Treasury Indicators and Treasury Strategy which covers:

- The Council's 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 investments and borrowings are to be organised) including treasury indicators;
- An investment strategy (the parameters on how investments are to be managed).

8.5 A Mid-Year Treasury Management Report – this will update members with the progress of the capital position, amending prudential indicators as necessary, and whether any policies require revision.

8.6 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.

8.7 The Council has adopted the following scheme of delegation and reporting arrangements in accordance with the requirements of the Code:-

Area of Responsibility	**Authority/ Committee/ Officer**	**Frequency**
Treasury Management Strategy / Annual Investment Strategy / MRP policy	Full Council	Annually before the start of the year
Treasury Management Strategy / Annual Investment Strategy / MRP policy – midyear report	Cabinet	Mid-year

Treasury Management Strategy / Annual Investment Strategy / MRP policy – updates or revisions at other times	Cabinet	As necessary
Annual Treasury Outturn Report	Cabinet	Annually by 30 September after the end of the year
Treasury Management Monitoring Reports	Director of Finance & Transformation (S151 Officer)	Prudential Indicators to be monitored periodically
Treasury Management Practices	Director of Finance & Transformation (S151 Officer)	Updated on an ongoing basis
Scrutiny of Treasury Management Strategy / Annual Investment Strategy / MRP policy	Finance and Value for Money Overview & Scrutiny Commission	Annually before the start of the year
Scrutiny of treasury management performance	Finance and Value for Money Overview & Scrutiny Commission	At outturn and mid-year monitoring reports

Recent Developments

8.8 CIPFA have recently released a consultation on proposed changes to the current Treasury Management Code and Prudential Code. The Treasury Management Code was last updated in 2017. Since then the landscape for public services has changed. The increasing profile of the role of treasury management as a result of the pandemic, the disciplines and skills required to meet the advances brought forward by issues such as the Markets in Financial Instruments Directive, known as MIFID II, and the increasing complexity of transactions in the sector all underline the importance of the Treasury Management Code and its guidance. In addition, the rise in commercial non-treasury investments is a contributing factor behind the need to strengthen its provisions to ensure that they are fit for the 21st century.

8.9 In response to the recommendation of the Public Accounts Committee and the substantial increase in commercial investment, CIPFA is also proposing to strengthen the provisions within the Prudential Code to ensure that the Code and its objectives continue to support borrowing and capital investment in the modern era and ensure risks taken with public money are robustly managed and taken appropriately.

8.10 The key areas the review is keen to strengthen include:

- Further strengthen provisions to state clearly, that borrowing for debt-for-yield investment is not permissible under the Prudential Code. While recognising that commercial activity is part of regeneration, it does not constitute the primary purpose of investment and unnecessary risk to public funds.
- Any commercial investment undertaken should be consistent with statutory provisions, proportionate to service and revenue budgets and consistent with effective treasury management practice.

8.11 The growing trend in commercial investment was met with intervention from central government through changes to the PWLB lending terms. These revised lending terms came into force in November 2020, and in order for Local Authorities to continue to access PWLB loans, the following is now required:

- The PWLB will ask the finance director (s151 Officer) of the local authority to confirm that there is no intention to buy investment assets primarily for yield at any point in the next three years.
- The PWLB will not lend to any local authority which 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 is still accurate.

8.12 Therefore if Councils continue to pursue 'Commercial Investments' then they will not be able to access low/discounted borrowing rates from the PWLB and the cost of borrowing to finance the Capital Strategy is likely to be significantly higher and will become an additional burden on their revenue budgets.

8.13 The Council continues not to pursue investment on commercial activity purely for yield purposes.

8.14 The Council will continue to adhere to the Treasury Management and Prudential Codes and review and update the Treasury Management Strategy following the consultation process and any subsequent amendments to both Codes.

9. Treasury Management Policy Statement 2021-22

9.1 The Treasury Management Policy Statement recommended for adoption defines the policies and objectives of the Council's treasury management activities:

This organisation defines its treasury management activities as:

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

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

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

10. Treasury Management Strategy for 2021-22

10.1 The proposed strategy for 2021-22 in respect of the following aspects of the treasury management function is based upon the treasury officers' views on interest rates, supplemented with leading market forecasts provided by the Council's treasury management advisors, Link Asset Services.

10.2 The strategy for 2021-22 covers two main areas:

Capital Issues

- the capital expenditure plans and the prudential indicators;
- the Minimum Revenue Provision (MRP) policy.

Treasury Management Issues

- the current treasury position;
- treasury indicators which will 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.

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

11. The Capital Prudential Indicators 2021-22 – 2023-24

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

11.2 Capital Expenditure – this prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. Capital expenditure forecasts are summarised in the table below:

Capital Expenditure by Programme Theme	2019/20 Actual £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m
Adult Services and Public Health	0.200	0.041	0.000	0.000	0.000
Corporate Services	11.697	5.740	6.902	3.889	1.000
Culture, Leisure and Tourism	1.378	5.262	4.130	4.560	0.600
Economic Investment, Regeneration and Planning, Land and property	16.996	18.291	7.053	3.100	15.070
Housing	5.150	7.098	10.590	3.450	4.170
Learning, Skills and Safeguarding Children	7.673	14.750	16.496	4.000	4.000
Neighbourhood and Communities	1.370	4.194	5.183	2.533	1.000
Operational Services	8.714	18.348	26.967	13.900	4.000
Hull World Class Visitor Destination	13.878	10.762	21.115	34.396	0.000
Other (LGF/Growing Places)	20.983	0.000	0.000	0.000	0.000
Non-HRA	**88.039**	**84.486**	**98.436**	**69.828**	**29.840**
HRA	**26.108**	**40.933**	**59.668**	**53.990**	**43.983**
Total	**114.147**	**125.419**	**158.104**	**123.818**	**73.823**

11.3 The above and below tables include other long term liabilities, such as Private Finance Initiative (PFI) and leasing arrangements which have their own borrowing instruments.

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

Capital Expenditure	2019/20 Actual £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m
Non-HRA	88.039	84.486	98.436	69.828	29.840
HRA	26.108	40.933	59.668	53.990	43.983
Total	**114.147**	**125.419**	**158.104**	**123.818**	**73.823**
Financed by:					
Capital receipts	8.505	10.720	21.284	6.774	5.610
Capital grants	42.460	36.475	39.158	16.525	10.800
Capital reserves	23.755	26.844	28.417	29.922	31.393
Revenue	0.497	1.451	5.116	17.971	-
Net financing need for the year	**38.930**	**49.929**	**64.129**	**52.626**	**26.020**

12. The Council's Borrowing Need (the Capital Financing Requirement)

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

12.2 The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the borrowing need in line with each assets life, and so charges the economic consumption of capital assets as they are used.

12.3 The CFR includes any other long term liabilities (e.g. PFI schemes, finance leases) brought onto the balance sheet. Whilst this increases 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 separately borrow for these schemes. The Council currently has £172 million of such schemes within the CFR.

12.4 The Council is asked to approve the CFR projections below:

	2019/20 Actual £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m
Capital Financing Requirement					
CFR – non housing	626.825	665.033	690.004	713.056	712.669
CFR - housing	229.817	215.548	231.808	241.502	247.882
Total CFR	**856.642**	**880.581**	**921.812**	**954.558**	**960.551**
Movement in CFR	**24.587**	**23.939**	**41.231**	**32.746**	**5.993**

Movement in CFR represented by					
Net financing need for the year (above) - General CapEx - PFI liabilities	38.930	49.929	64.129	52.626	26.020
Less MRP/VRP and other financing movements	14.343	25.990	22.898	19.880	20.027
Movement in CFR	**24.587**	**23.939**	**41.231**	**32.746**	**5.993**

13. Minimum Revenue Provision (MRP) Policy Statement

Background

13.1 Capital expenditure is generally expenditure on assets which have a life expectancy of more than one year e.g. buildings, vehicles, machinery etc. In accordance with proper practice, the financing of such expenditure is spread over several years in order to try to match the years over which such assets benefit the local community through their useful life. The Council is therefore required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the minimum revenue provision - MRP), although it is also allowed to undertake additional voluntary payments if required (voluntary revenue provision – VRP), which is determined by the Council under guidance.

13.2 The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 (as amended by Statutory Instrument 2008 no. 414 s4) lay down that:

"A local authority shall determine for the current financial year an amount of minimum revenue provision that it considers to be prudent."

13.3 For balance sheet liabilities relating to finance leases and on balance-sheet PFI contracts, the MRP Guidance suggests that the requirement to make prudent MRP would be regarded as met by a charge equal to the element of the rent/charge that goes to reduce the Balance Sheet liability. However, the Council's current policy is for the MRP charge to be calculated on the basis of the expected life of the asset which has been acquired, which is consistent with policy in place for general borrowing.

13.4 As at 31/3/20 the Council currently holds £172m of PFI Finance Lease Liabilities on the Balance, incorporating Schools (BSF) and Extra Care Facilities.

13.5 However, the key principle of MRP is that the annual amount set aside should be prudent. The relevant regulations state that Local Authorities are required to have regard to the MRP guidance when setting MRP Policy. The guidance gives flexibility in how it calculates MRP, providing the calculation is deemed prudent.

Government Guidance

13.6 The Council is legally obliged to 'have regard' to the guidance issued by MHCLG, which is intended to enable a more flexible approach to assessing the amount of annual minimum revenue provision (MRP) than was required under the previous statutory requirements. Although it is up to each Council to determine for itself how to calculate MRP, the guidance suggests four methodologies, with an overriding recommendation that the Council should make prudent provision to redeem its debt liability over a period which is reasonably commensurate with that over which the capital expenditure is estimated to provide benefits.

13.7 The requirement to ‘have regard’ to the guidance means that:

- Although four main options are recommended in the guidance, there is no intention to be prescriptive by making these the only methods of charge under which a local authority may consider its MRP to be prudent.
- It is the responsibility of each authority to decide upon the most appropriate method of making a prudent provision after having had regard to the guidance

13.8 The MRP Policy for 2021/22 is detailed at Appendix 4.

13.9 A schedule of the current MRP commitments and forecast commitments based on the current capital programme is provided at Appendix 5.

14. Affordability Prudential Indicators

14.1 The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council’s overall finances. The Council is asked to approve the following indicators.

14.2 The 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 %	**2020/21 Estimate %**	**2021/22 Estimate %**	**2022/23 Estimate %**	**2023/24 Estimate %**
Non-HRA	3.0	2.7	3.7	3.8	3.9
HRA	23.9	23.9	35.6	45.2	38.2

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

14.3 The incremental impact of capital investment decisions on council tax. This indicator identifies the revenue costs associated with proposed changes to the three year capital programme recommended in the budget report compared to the Council’s existing approved commitments and current plans. The assumptions are based on the budget, but will invariably include some estimates, such as the level of Government support, which are not published over a three year period.

Incremental impact of capital investment decisions on the band D council tax

	2019/20 Actual £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m
Council tax - band D	2.84	3.91	3.44	9.96	14.45

14.4 The incremental impact of capital investment decisions on housing rent levels. Similar to the council tax calculation, this indicator identifies the trend in the cost of proposed changes in the housing capital programme recommended in this budget report compared to the Council's existing commitments and current plans, expressed as a discrete impact on weekly rent levels. This indicator shows the revenue impact on any newly proposed changes, although any discrete impact will be constrained by rent controls.

Incremental impact of capital investment decisions on housing rent levels

	2019/20 Actual £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m
Weekly housing rent levels	0.01	0.19	0.46	0.75	1.40

15. Treasury Management Strategy

15.1 The capital expenditure plans set out in Section 11 provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of approporiate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

16. Current Portfolio Position

16.1 The Council's treasury portfolio position at 31 March 2020 with forward projections are summarised below. The table shows the actual external debt (the treasury management operations), against the underlying capital borrowing need (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

	2019/20 Actual £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m
External Debt					
Borrowing at 1 April	616.562	701.370	612.897	677.026	729.652
Expected change in borrowing	84.808	-88.473	64.129	52.626	26.020
Other long-term liabilities (OLTL)	172.971	171.252	170.259	169.233	168.174
Expected change in OLTL	-1.719	-0.993	-1.026	-1.059	-1.094
Actual gross debt at 31 March	**872.622**	**783.156**	**846.259**	**897.826**	**922.752**
CFR – the borrowing need	**856.642**	**880.581**	**921.812**	**954.558**	**960.551**
Over / (under) borrowing	**15.980**	**-97.425**	**-75.553**	**-56.732**	**-37.799**
Total investments at 1 April	60.661	50.000	50.000	50.000	50.000
Total investments at 31 March	60.661	50.000	50.000	50.000	50.000
Investment change	0.000	0.000	0.000	0.000	0.000
Net debt	**811.961**	**733.156**	**796.259**	**847.826**	**872.752**

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

16.3 The Director of Finance and Transformation (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 the budget report.

17. Treasury Indicators: Limits to Borrowing Activity

17.1 The Operational Boundary. This is the limit beyond which external borrowing is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt and the ability to fund under-borrowing by other cash resources.

Operational boundary	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m
Borrowing	701.370	612.897	677.026	729.652
Additional Borrowing	-88.473	64.129	52.626	26.020
10% Net Budget Requirement	31.226	34.227	33.457	34.105
Other long term liabilities	170.259	169.233	168.174	167.080
Total	**814.382**	**880.486**	**931.283**	**956.857**

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

17.3 The Authorised Limit is the statutory limit determined under section 3 (1) of the Local Government Act 2003.

17.4 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.

17.5 The Council is asked to approve the following Authorised Limit:

Authorised limit	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m
Operational Debt (as above)	814.382	880.486	931.283	956.857
Possible additional borrowing (grants/capital receipts)	47.195	60.442	23.299	16.410
Total	**861.577**	**940.928**	**954.582**	**973.267**

18. Prospect for Interest Rates and Economic Environment

18.1 The Council has appointed Link Asset Services as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. Link provided the following updated forecasts on 08/02/21. PWLB rate forecasts are based on the Certainty Rate (the standard rate minus 20 bps) which has been accessible since 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

18.2 There are no changes to forecasts for Bank Rate or investment earning rates. Bank Rate is forecast to stay at 0.10% during this forecast period. There are, however, increases in PWLB rate forecasts – 10-20 bps on 5 year, 20-30 bps on 10 year and 30-40 bps on 25 and 50 year. The above table reflects these forecast updates.

18.3 The Bank of England's Monetary Policy Committee kept Bank Rate and quantitative easing (QE) unchanged on 4th February. However, it revised its economic forecasts to take account of a third national lockdown which started on 5th January, which is obviously going to delay economic recovery and do further damage to the economy. Moreover, it had already decided in November to undertake a further tranche of quantitative easing (QE) of £150bn, to start in January 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.

18.4 Although its short-term forecasts were cut for 2021, the medium-term forecasts were more optimistic than in November, 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 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.

18.5 **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 been saddled with 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.

18.6 Apart from the above uncertainties, 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/EU trade agreements – 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.
- UK - Bank of England takes action too quickly, or too far, over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- A resurgence of the Eurozone sovereign debt crisis.
- 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.
- Other minority EU governments. Austria, Sweden, Spain, Portugal, Netherlands, Ireland and Belgium also have vulnerable minority governments dependent on coalitions which could prove fragile.
- 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.

18.7 The potential for upside risks to current forecasts for UK gilt yields and PWLB rates, include: -

- Stronger than currently expected recovery in the UK and/or other developed countries.
- 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.

19. Investment and borrowing rates

19.1 Investment returns are likely to remain exceptionally low during 2021/22 with little increase in the following two years.

19.2 Borrowing interest rates fell to historically low rates as a result of the COVID crisis and the quantitative easing operations of the Bank of England: indeed, gilt yields up to 6 years were negative during most of the first half of 20/21. The policy of avoiding new borrowing by running down spare cash balances has served local authorities well over the last few years. The unexpected increase of 100 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.

19.3 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. On 25.11.20, 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.

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

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

20. Economic Commentary

20.1 The following paragraphs are designed to impart a degree of knowledge around factors impacting on the treasury management function at the Council. This environment is constantly changing, no more so than in recent years. Any significant issues that arise between the report being written and the actual committee date will be reported verbally.

UK Economy

20.2 The Bank of England's Monetary Policy Committee kept Bank Rate and quantitative easing (QE) unchanged on 4th February. However, it revised its economic forecasts to take account of a third national lockdown which started on 5th January, which is obviously going to delay economic recovery and do further damage to the economy. It had already decided to do a further tranche of quantitative easing (QE) of £150bn, to start in January when the current programme of £300bn of QE announced in March to June, runs out. It did this so that "announcing further asset purchases now should support the economy and help to ensure the unavoidable near-term slowdown in activity was not amplified by a tightening in monetary conditions that could slow the return of inflation to the target". Its forecasts appeared, at the time, to be rather optimistic in terms of three areas:

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

20.3 Significantly, 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, suggesting that the MPC remains some way from being persuaded of the case for such a policy, at least for the next 6 -12 months. However, rather than saying that it “stands ready to adjust monetary policy”, the MPC this time said that it will take “whatever additional action was necessary to achieve its remit”. The latter seems stronger and wider and may indicate the Bank’s willingness to embrace new tools.

20.4 One key addition to the Bank’s forward guidance in August was a new phrase in the policy statement, namely that “it does not intend to tighten monetary policy until there is clear evidence that significant progress is being made in eliminating spare capacity and achieving the 2% target sustainably”. That seems designed to say, in effect, that even if inflation rises to 2% in a couple of years’ time, do not expect any action from the MPC to raise Bank Rate – until they can clearly see that level of inflation is going to be persistently above target if it takes no action to raise Bank Rate. Our Bank Rate forecast currently shows no increase through to quarter 1 2024 but there could well be no increase during the next five years due to the slow rate of recovery of the economy and the need for the Government to see the burden of the elevated debt to GDP ratio falling significantly. Inflation is expected to briefly peak at just over 2% towards the end of 2021, but this is a temporary short lived factor due to base effects from twelve months ago falling out of the calculation, and so is not a concern. Looking further ahead, it is also unlikely to be a problem for some years as it will take a prolonged time for spare capacity in the economy, created by this downturn, to be used up.

20.5 Public borrowing was forecast in November by the Office for Budget Responsibility (the OBR) to reach £394bn in the current financial year, the highest ever peace time deficit and equivalent to 19% of GDP. In normal times, such an increase in total gilt issuance would lead to a rise in gilt yields, and so PWLB rates. However, the QE done by the Bank of England has depressed gilt yields to historic low levels, (as has similarly occurred with QE and debt issued in the US, the EU and Japan). This means that new UK debt being issued, and this is being done across the whole yield curve in all maturities, is locking in those historic low levels through until maturity.

20.6 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.

20.7 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 second national lockdown that started on 5th November caused a further contraction of 5.7% 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.

20.8 The Pfizer announcement on 9th November of a successful vaccine has been followed by approval of the Oxford University/AstraZeneca and Moderna vaccines. The Government has a set a target to vaccinate 14 million people in the most at risk sectors of the population by 15th February; as of mid-January, it has made good, and accelerating progress in hitting that target. The aim is to vaccinate all adults by September. 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 any more. 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.

20.9 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 significant risk is if another mutation of COVID-19 appears that defeats the current batch of vaccines. However, now that science and technology have caught up with understanding this virus, new vaccines ought to be able to be developed more quickly to counter such a development, and vaccine production facilities are being ramped up around the world. 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 assumed that politicians do not raise taxes or embark on major austerity measures and so, (perversely!), depress economic growth and recovery.

20.10 There will still be some painful 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.

20.11 The final agreement of a trade deal on 24 December 2020 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.

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

20.13 In the same week as the MPC meeting, 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. The furlough scheme was lengthened from the end of March to the end of April and the Budget on 3.3.21 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.

20.14 The Financial Policy Committee (FPC) report on 6th August 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%.

Global Economy

20.15 **World Growth**. World growth will has been in recession in 2020 but should recover during 2021. 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.

20.16 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, technology theft, 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 as China is an authoritarian country that is not averse to using economic and military power for political advantage.

20.17 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.

20.18 **USA.** The Democrats gained the presidency and a majority in the House of Representatives in the November elections: after winning two key Senate seats in Georgia in elections in early January, they now also have a very slim majority in the Senate due to the vice president's casting vote. President Biden will consequently have a much easier path to implement his election manifesto. However, he will not have a completely free hand as more radical Democrat plans may not be supported by all Democrat senators. His initial radical plan for a fiscal stimulus of $1.9trn, (9% of GDP), is therefore likely to be toned down in order to get through both houses. .

20.19 The economy had been recovering quite strongly from its contraction in 2020 of 10.2% due to the pandemic with GDP only 3.5% below its pre-pandemic level and the unemployment rate dropping below 7%. However, the rise in new cases during quarter 4, to the highest level since mid-August, suggests that the US could be in the early stages of a fourth wave. The latest upturn poses a threat that the recovery in the economy could stall. This is the single biggest downside risk to the shorter term outlook – a more widespread and severe wave of infections over the winter months, which is compounded by the impact of the regular flu season and, as a consequence, threatens to overwhelm health care facilities. Under those circumstances, individual states might feel it necessary to return to more draconian lockdowns.

20.20 The restrictions imposed to control the spread of the virus are once again weighing on the economy with employment growth slowing sharply in November and declining in December, and retail sales dropping back. The economy is set for further weakness into the spring. GDP growth is expected to rebound markedly from the second quarter of 2021 onwards as vaccines are rolled out on a widespread basis and restrictions are loosened.

20.21 After Chair Jerome Powell unveiled the Fed's adoption of a flexible average inflation target in his Jackson Hole speech in late August, the mid-September 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.

20.22 It is to be noted that inflation has actually been under-shooting the 2% target significantly for most of the last decade, (and this year), so financial markets took note that higher levels of inflation are likely to be in the pipeline; long-term bond yields duly rose after the meeting. The FOMC's updated economic and rate projections in mid-September showed that officials expect to leave the fed funds rate at near-zero until at least end-2023 and probably for another year or two beyond that. There is now some expectation that where the Fed has led in changing its inflation target, other major central banks will follow. The increase in tension over the last year between the US and China is likely to lead to a lack of momentum in progressing the initial positive moves to agree a phase one trade deal.

20.23 The Fed's meeting on 5 November was unremarkable - but at a politically sensitive time around the elections. At its 16 December meeting the Fed tweaked the guidance for its monthly asset quantitative easing purchases with the new language implying those purchases could continue for longer than previously believed. Nevertheless, with officials still projecting that inflation will only get back to 2.0% in 2023, the vast majority expect the Fed funds rate to be still at near-zero until 2024 or later. Furthermore, officials think the balance of risks surrounding that median inflation forecast are firmly skewed to the downside. 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 low – which will also have an influence on gilt yields in this country.

20.24 Nonetheless, the roll out of vaccines 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.

20.25 **EU**. In early December, the figures for Q3 GDP confirmed that the economy staged a rapid rebound from the first lockdowns. This provides grounds for optimism about growth prospects for next year. In Q2, GDP was 15% below its pre-pandemic level, but in Q3 the economy grew by 12.5% q/q leaving GDP down by 4.4%. That was much better than had been expected earlier in the year. However, growth is likely to stagnate during Q4 and 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 unlikely to provide significant support, and quickly enough, to make an appreciable difference in the countries most affected by the first wave.

20.26 With inflation expected to be unlikely to get much above 1% over the next two years, the 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 for an additional year 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.

20.27 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 total PEPP scheme of €1,850bn 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, nevertheless the slow role out of vaccines during Q1 2021 will delay economic recovery.

20.28 **China**. After a concerted effort to get on top of the virus outbreak in Q1, economic recovery was strong for the rest of the year; this has enabled China to recover all the initial contraction. 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.

20.29 **Japan.** Japan's success in containing the virus without imposing draconian restrictions on activity should enable a faster return to pre-virus levels of output than in many major economies. Despite now being in a third wave of the virus, the role of the vaccines should enable a string recovery to pre-pandemic levels, possibly by mid-year**.** However, on the negative side, it has 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 got inflation up to its target level of 2% and it is making little progress on fundamental reform.

20.30 **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.

20.31 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.

21. Borrowing Strategy

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

21.2 Against this background and the risks within the economic forecast, caution will be adopted with the 2020-21 treasury operations. The Director of Finance and Transformation 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.

21.3 Any decisions will be reported to the appropriate decision making body at the next available opportunity.

Treasury Management Limits on Activity

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

- Upper limits on variable interest rate exposure. This identifies a maximum limit for variable interest rates based upon the debt position, net of investments.

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

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

	2021/22 %	**2022/23 %**	**2023/24 %**
Interest Rate Exposures			
Limits on fixed interest rates based on net debt	90	90	90
Limits on variable interest rates based on net debt	75	75	75

Maturity Structure of interest rate borrowing (fixed and variable) 2021/22		
	Lower %	**Upper %**
Under 12 months	0.00	35
12 months to 2 years	0.00	30
2 years to 5 years	0.00	50
5 years to 10 years	0.00	75
10 years and above	0.00	90

22. Policy on Borrowing in Advance of Need

22.1 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 Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

22.2 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 mechanism.

23. Debt Rescheduling

23.1 Rescheduling of current borrowing in our debt portfolio is unlikely to occur as the 100 bps increase in PWLB rates only applied to new borrowing rates and not to premature debt repayment rates.

23.2 All rescheduling will be reported to Cabinet, at the earliest meeting following its action.

24. Other Issues

<u>Capital Strategy</u>

24.1 In December 2017, CIPFA issued revised Prudential and Treasury Management Codes. As from 2019-20, all local authorities are required to prepare an additional report, a Capital Strategy report, which is intended to provide the following: -

- a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
- an overview of how the associated risk is managed
- the implications for future financial sustainability

24.2 The aim of this report is to ensure that all elected members of Council fully understand the overall strategy, governance procedures and risk appetite entailed by this Strategy. The Capital Strategy allows all members to understand how stewardship, value for money, prudence, sustainability and affordability will be secured.

24.3 The Capital Strategy for 2021/22 to 2023/24 is presented to Council on this agenda.

25. Annual Investment Strategy

Investment Policy

25.1 The Council’s investment policy has regard to the MHCLG’s Guidance on Local Government Investments (the Guidance), the CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017 (the CIPFA TM Code) and CIPFA Treasury Management Guidance Notes 2018. The Council’s investment priorities will be security first, portfolio liquidity second, then return (yield).

25.2 In accordance with guidance from MHCLG and CIPFA, and in order to minimise the risk to investments, the Council has below clearly stipulated the minimum acceptable credit quality of counterparties for inclusion on the lending list. The creditworthiness methodology used to create the counterparty list fully accounts for the ratings, watches and outlooks published by all three ratings agencies with a full understanding of what these reflect in the eyes of each agency. Using the Link ratings service potential counterparty ratings are monitored on a real time basis with knowledge of any changes notified electronically as the agencies notify modifications.

25.3 Furthermore, the Council’s officers recognise that ratings should not be the sole determinant of the quality of an institution and that 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.

25.4 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.

25.5 The aim of the strategy is to generate a list of highly creditworthy counterparties which will also enable diversification and thus avoidance of concentration risk.

25.6 The intention of the strategy is to provide security of investment and minimisation of risk.

25.7 The key requirements of both the Code and the investment guidance are to set an annual investment strategy, as part of its annual treasury strategy for the following year, covering the identification and approval of the following:

- The strategy guidelines for choosing and placing investments;
- The principles to be used to determine the maximum periods for which funds can be committed;
- Specified investments that the Council will use. These are high security (i.e. high credit rating, although this is defined by the Council, and no guidelines are given), and high liquidity investments in sterling and with a maturity of no more than a year.

25.8 The investment instruments identified for use in the financial year 2021-22 are set out at Appendix 2 under the ‘Specified’ and ‘Non-Specified’ Investments categories. Organisations to which the Council will lend and associated counterparty limits are detailed at Appendix 3.

Creditworthiness Policy

25.9 The Council applies the creditworthiness service provided by Link Asset Services. This service employs sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moodys and Standard and Poor’s. 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.

25.10 Credit Default Swap (CDS) is a contract between two counterparties, which basically gives protection, or insurance, in case of credit default. The payments involved in the contract are based on a spread currently traded in the market. The spread of CDS indicates the market perception of the likelihood of a credit event or default occurring. The higher the spread the more likely the market considers an event of default will occur.

25.11 This modelling approach combines credit ratings, and any assigned Watches and Outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads. The end product of this 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 for investments. The Council will therefore use counterparties within the following durational bands:

- Blue 1 year (only applies to nationalised or semi-nationalised UK banks)
- Orange 1 year
- Red 6 months
- Green 100 days
- No colour not to be used

25.12 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. The Council is satisfied with the level of security this provides for its investments. It is also a service which the Council would not be able to replicate using in house resources.

25.13 Typically the minimum credit ratings criteria the Council use will be a short term rating (Fitch or equivalents) of short term rating F1, long term rating 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 these instances consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

25.14 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 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 immediately.

- In addition to the use of credit ratings the Council will be advised of information in movements in Credit Default Swap 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 downgrade of an institution or removal from the Council's lending list.

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

25.16 If financial institutions are upgraded in rating and therefore meet the Council's criteria as defined, then committee approval will be sought prior to inclusion on the counterparty list.

Country Limits

25.17 The Council has determined that it will only use approved counterparties from the UK only.

Investment Counterparty Selection Criteria

25.18 The primary principle governing the Council's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. After this main principle the Council will ensure that:

- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the Specified and Non-Specified investment sections below; and
- It has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested.

25.19 The Director of Finance and Transformation will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to Council for approval as necessary. These criteria are separate to that which determines which types of investment instrument are either Specified or Non-Specified as it provides an overall pool of counterparties considered high quality which the Council may use, rather than defining what types of investment instruments are to be used.

25.20 The minimum rating criteria use the lowest common denominator method of selecting counterparties and applying limits. This means that the application of the Council's minimum criteria will apply to the lowest available rating for any institution. For instance, if an institution is rated by two agencies, one meets the Council's criteria, the other does not, then the institution will fall outside the lending criteria. This is in compliance with a CIPFA Treasury Management Panel recommendation in March 2009 and the CIPFA Treasury Management Code of Practice.

25.21 Credit rating information is supplied by Link Asset Services, the Council's treasury advisors, on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. Any rating changes, rating watches (notification of a likely change), rating outlooks (notification of a possible longer term change) are provided to officers almost immediately after they occur and this information is considered before dealing. For instance, a negative rating watch applying to a counterparty at the minimum Council criteria will be considered for suspension from use, with all others being reviewed in light of market conditions.

25.22 On occasions ratings may be downgraded when an investment has already been made. The criteria used are such that a minor downgrading should not affect the full receipt of the principal and interest.

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

- Banks 1 – a good credit quality – the Council will only use banks which are UK banks and hold a minimum Fitch rating of:
  - Short term – F1
  - Long term – A-

- Banks 2 – part nationalised UK bank – Royal Bank of Scotland ring fenced operations. This bank can be included if it continues to be part nationalised or it meets the rating in Banks 1 above.

- Banks 3 – The Council's own banker (Natwest Bank) for transactional purposes if the bank falls below the above criteria, although in this case balances will be minimised in both monetary size and time invested.

- Bank subsidiary and treasury operation – The Council will use these where the parent bank has provided an appropriate guarantee or has the necessary ratings outlined above.

- Building societies – The Council will use all societies which meet the ratings for banks as outlined above.

- Money Market Funds – AAA rating.

- Enhanced Money Market Funds – AAA rating.

- UK Government (DMADF)

- Local authorities.

Group Considerations

25.24 Due care will be taken will be taken to consider the group exposure of the Council's investments. In addition limits in place above will apply to a group of companies.

Use of Additional Information other than Credit Ratings

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

Time and Monetary Limits Applying to Investments

25.26 The time and monetary limits for institutions on the Council's counterparty list are as follows (these will cover specified and non-specified investments):

	Fitch Long Term Rating (minimum)	*Fitch Short Term Rating (minimum)*	*Money Limit*	*Time Limit*
Banks 1 category high quality	AA-	F1+	£15 million	1 yr
Banks 1 category medium quality	A	F1	£7.5 million	1 yr
Banks 1 category lower quality	A-	F1	£5 million	1 yr
Banks 2 category – part nationalised – high quality	AA-	F1+	£20 million	1 yr
Banks 2 category – part nationalised – medium quality	A	F1	£10 million	1 yr
Banks 2 category – part nationalised – low quality	A-	F1	£7.5 million	1 yr
Limit 3 category – Council's banker (not meeting Banks 1)	N/A	N/A	£2.5 million	1 day
UK Government (DMADF)	N/A	N/A	Unlimited	6 mths
Local authorities	N/A	N/A	£15 million	1 yr
Money Market Funds	AAA		£15 million	liquid

25.27 The proposed criteria for Specified and Non-Specified investments are shown in Appendix 2 for approval.

26. Investment Strategy

In House Funds

26.1 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 in order to manage the ups and downs of cash flow, where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer term investments will be carefully assessed.

Investment Returns Expectations

26.2 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.

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

Average earnings in each year	Now	Previously
2020/21	0.10%	0.10%
2021/22	0.10%	0.10%
2022/23	0.10%	0.10%
2023/24	0.25%	0.25%
2024/25	0.75%	0.75%
Long term later years	2.00%	2.00%

26.4 The overall balance of risks to economic growth in the UK is probably relatively even, but is subject to major uncertainty due to the virus. It may also be affected by what, if any, deal the UK agrees as part of Brexit.

26.5 There is relatively little UK domestic risk of increases or decreases in Bank Rate and shorter term PWLB rates until 2023/24 at the earliest.

26.6 While the Bank of England said in August / September 2020 that it is unlikely to introduce a negative Bank Rate, at least in the next 6 -12 months, some deposit accounts are already offering negative rates for shorter periods. As part of the response to the pandemic and lockdown, the Bank and the Government have provided financial markets and businesses with plentiful access to credit, either directly or through commercial banks. In addition, the Government has provided large sums of grants to local authorities to help deal with the COVID crisis; 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 sums were able to be passed on.

26.7 As for money market funds (MMFs), yields have continued to drift lower. Some managers have already 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 a surfeit of money swilling around at the very short end of the market. This has seen a number of market operators, now including the DMADF, offer nil or negative rates for very short term maturities. 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.

26.8 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

26.9 Total principal funds invested for greater than 365 days. These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.

26.10 The Council is asked to approved the treasury indicator and limit:

Maximum principal sums invested > 364 days			
	2021/22 £m	2022/23 £m	2023/24 £m
Principal sums invested > 364 days	0	0	0

26.11 For its 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.

End of Year Investment Report

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

Policy on the use of External Service Providers

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

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

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

Training

26.16 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. Members attended a Treasury Management update session, provided by the Director of Finance and Transformation and Council's Principal Treasury Officer, in November 2017. Training requirements will be continually assessed and further training will be arranged as required.

26.17 The training needs of treasury management officers are periodically reviewed.

The Treasury Management role of the Section 151 Officer

26.18 The Director of Finance and Transformation (S151 Officer) will be responsible for:

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance;
- submitting regular treasury management policy reports;
- submitting budgets and budget variations;
- receiving and reviewing management information reports;
- reviewing the performance of the treasury management function;
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
- ensuring the adequacy of internal audit, and liaising with external audit;
- recommending the appointment of external service providers.
- preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments and treasury management
- 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 is in accordance with the risk appetite of the authority

27. Options and Risk Assessment

27.1 Although the content and criteria stated in the Treasury Management Strategy are statutory requirements, there are some options available to the Council in how this is managed, in terms of the following:

- Investment Options – alternative investment products, counterparties, limits and durations.
- Prudential Indicators – alternative limits for certain indicators, i.e. debt maturity profile, interest rate exposure.
- Minimum Revenue Provision – alternative options for the revenue charge.

27.2 The options proposed are based on the Council investing surplus monies with low risk counterparties in line with the Council's low risk appetite. This provides the Council with adequate liquidity and security of funds before considering investment return.

28. Risk Assessment

28.1 The main risks surrounding the Council's Treasury operations, mitigated through the Treasury Management Strategy and Investment Policy, are as follows:

- Prudential Indicator limits are breached – set and approved locally and regularly monitored as part of ongoing Treasury Management activity.
- Investments lost due to the inability of a Bank or Building Society to repay the loan – key criteria as part of the Creditworthiness Policy which ensures investments are made with only high credit quality counterparties for set durations.
- Too cautious an approach to investments could result in lower investment income being achieved – Investment Policy provides flexibility to use other non-specific investment products if it is considered prudent.

29. Consultation

29.1 This report requires no further consultation.

30. Comments of the Town Clerk (Monitoring Officer)

30.1 There are no significant Policy change in the proposed Treasury Management Statement for 2021/2, consequently there are no new legal implications that require consideration. (IA)

31. Comments of the Section 151 Officer

31.1 The Director of Finance and Transformation (S151 Officer) is the author of the report.

32. Comments of the HR City Manager and Compliance with the Equality Duty

32.1 There are no staffing or equality issues arising from the report as there are no significant changes to proposed policy or Treasury Management.

33. Comments of Overview and Scrutiny

33.1 This report will be considered by the Finance and Value for Money Overview and Scrutiny Commission at its Budget meeting of Friday, 19 February, 2021. Any comments or recommendations made by the Commission will be tabled alongside the report at the meetings of Cabinet and Full Council. (Ref. Sc6037 (FH))

34. Comments of the Portfolio Holder for Strategic Finance

34.1 There are a number of ongoing external pressures that could influence the Council's future finances with the primary factor likely to be the Government's approach to rebalancing the country's finances in the light of the pandemic, Brexit, and the consequential impact on interest rates, inflation and the value of the pound. That being said at the moment the Council's borrowing is under control but I would add that any opportunity to reschedule debt in cooperation with our financial advisors should be taken.

David Bell
Director of Finance and Transformation (S151 Officer)

Background Documents:	CIPFA Prudential Code and Treasury Management Code of Practice (2011 Edition) Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 Guidance on Minimum Revenue Provision issued by DCLG – Feb 2008
Officer Interest	None
Contact Officer: Telephone No.:	David Bell/Mike Armstrong 613084/613282

Implications Matrix

I have informed and sought advice from HR, Legal, Finance, Overview and Scrutiny and the Climate Change Advisor and any other key stakeholders i.e. Portfolio Holder, relevant Ward Members etc. prior to submitting this report for official comments	Yes
I have considered whether this report requests a decision that is outside the Budget and Policy Framework approved by Council	Yes
Value for money considerations have been accounted for within the report	Yes
The report is approved by the relevant City Manager	Yes
I have included any procurement/commercial issues/implications within the report	n/a
I have considered the potential media interest in this report and liaised with the Media Team to ensure that they are briefed to respond to media interest.	Yes
I have included any equalities and diversity implications within the report and where necessary I have completed an Equalities Impact Assessment and the outcomes are included within the report	There are no equality and diversity implications within this report.
Any Health and Safety implications are included within the report	n/a
Any human rights implications are included within the report	There are no human rights implications within this report.
I have included any community safety implications and paid regard to Section 17 of the Crime and Disorder Act within the report	n/a
I have liaised with the Climate Change Advisor and any environmental and climate change issues/sustainability implications are included within the report	n/a
I have included information about how this report contributes to the City Plan/ Area priorities within the report	n/a

Appendix 1

Prudential and Treasury Indicators

1. Prudential and Treasury Indicators

1.1 The following show the proposed Prudential and Treasury Indicators referred to in section six of the main report

1.2 Affordability of Capital Plans

(a) Indicator 1 – Capital Expenditure

“The local authority will make reasonable estimates of the total capital expenditure that it plans to incur during the forthcoming financial year and at least the following two financial years. These prudential indicators will be referred to as estimates of capital expenditure and shall be expressed in the following manner:

Estimate of total capital expenditure to be incurred in years 1, 2 and 3 (and 4 etc. if applicable)” (paragraph 47 of the code)

This details the Council’s capital spending plans over the next 3 years and reports on the outturn from the previous financial year. These estimates are in line with the General Fund, HRA and Capital Strategy Reports to be considered by Council on 25 February 2021. There is no subjectivity to this indicator.

	2019/20 Actual	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
	£m	£m	£m	£m	£m
Non-HRA	88.039	84.486	98.436	69.828	29.840
HRA	26.108	40.933	59.668	53.990	43.983
Total	**114.147**	**125.419**	**158.104**	**123.818**	**73.823**

(b) Indicator 2 – Ratio of Financing Costs to Net Revenue Stream

“The local authority will estimate for the forthcoming financial year and the following two financial years the ratio of financing costs to net revenue stream. This prudential indicator shall be referred to as estimates of the ratio of financing costs to net revenue stream and shall be expressed in the following manner:

Estimates of financing costs / estimate of net revenue stream * 100 %

For years 1, 2 and 3“(paragraph 38 of the code)

Shows the revenue costs (the capital financing costs less investment income earned) associated with funding previous and future capital spending, as a percentage of total revenue spending. Again, as in the previous indicator, these estimates are in line with the General Fund, HRA and Capital Strategy Reports to be considered by Council on 25 February 2021. There is no subjectivity to this indicator.

	2019/20 Actual	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
	%	%	%	%	%
Non-HRA	3.0	2.7	3.7	3.8	3.9
HRA	23.9	23.9	35.6	45.2	38.2

(c) Indicator 3 – Capital Financing Requirement

"The local authority will make reasonable estimates of the total of the capital financing requirement at the end of the forthcoming financial year and the following two years. These prudential indicators will be referred to as the estimates of capital financing requirement and shall be expressed as follows:

Estimate of capital financing requirements as at the end of years 1, 2 and 3" (paragraph 50 of the code)

The Capital Financing Requirement measures the Council's underlying need to borrow for a capital purpose i.e. that element of previous and proposed capital spending which has been/will be funded from borrowing. In order to ensure borrowing is maintained within sustainable limits, the Prudential Code requires that net external borrowing does not exceed the total of the capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years. The Director of Finance and Transformation (S151 Officer) can confirm that this requirement will be met.

	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
	£m	£m	£m
Non-HRA	690.004	713.056	712.669
HRA	231.808	241.502	247.882
CFR Total	**921.812**	**954.558**	**960.551**
Borrowing	**846.259**	**897.826**	**922.752**

(d) Indicator 4 – Incremental impact of Capital Investment Decisions on Council Tax and Housing Rents

"The local authority will forecast the total budgetary requirements for the authority arising from proposed changes to the capital programme and calculate the addition or reduction to the council tax/housing rents that would result.

This calculation shall be undertaken for the forthcoming year and the following two financial years or longer timeframe if required to capture the full effect of capital investment decisions on the council tax/housing rents.

This prudential indicator will be referred to as estimates of the impact of the new capital investment decisions on the council tax/average weekly housing rents, and shall be expressed in the following manner:

£xx.xx (Paragraph 39 of the code)

The indicator seeks to demonstrate the additional costs, to be funded from the Council Tax and Housing Rents, of the Council's capital spending plans.

Again, these estimates are in line with the General Fund, HRA and Capital Strategy Reports to be considered by Council on 25 February 2021.

	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
	£	£	£
Non-HRA (Council Tax)	3.44	9.96	14.45
HRA (average weekly rent)	0.46	0.75	1.40

1.3 **Treasury Management**

(a) Acceptance of the CIPFA TM Code

The Council formally adopted the CIPFA's Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes on 25th February 2010.

(b) Indicator 5 – Authorised Limit for External Debt

"The local authority will set for the forthcoming financial year and the following two financial years an authorised limit for its total external debt, excluding investments, separately identifying borrowing from other long term liabilities. This prudential indicator will be referred to as the authorised limit and shall be expressed in the following manner:

Authorised limit for external debt = authorised limit for borrowing + authorised limit for other long term liabilities

For years 1, 2 and 3." (Paragraph 54 of the code)

With regard to external debt the Council is required to identify limits consistent with the Revenue Budget and Capital Programme. The Authorised Limit is based on a prudent, but not worst case scenario, with additional headroom to allow for unusual cash movements. The authorised limit will be the statutory limit determined under Section 3 (1) of the Local Government Act 2003.

The indicator is calculated by taking the results from indicator six, Operational boundary for external debt, plus the amount of capital spend forecast to be financed from grants and capital receipts. This would cover the unlikely event of contractually committed spend not being financed from grants/contributions and/or capital receipts as planned and having to be financed from borrowing.

	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
	£m	**£m**	**£m**	**£m**
Operational debt indicator (indicator 6)	814.382	880.486	931.283	956.857
Possible additional capital spend financed from borrowing (grants/receipts not received)	47.195	60.442	23.299	16.410
Total Amount	**861.577**	**940.928**	**954.582**	**973.267**
Rounded for indicator	**862.000**	**941.000**	**955.000**	**973.000**

(c) Indicator 6 – Operational Boundary for External Debt

"The local authority will also set for the forthcoming financial year and the following two financial years an operational boundary for its total external debt, excluding investments, separately identifying borrowing from other long term liabilities. This prudential indicator will be referred to as the operational boundary and shall be expressed in the following manner:

Operational boundary for external debt = operational boundary for borrowing + operational boundary for other long term liabilities.

For years 1, 2 and 3." (Paragraph 55 of the code)

The Operational Boundary for external debt is based on the same estimates which underpin the Authorised Limit but does not include the additional headroom included within the Authorised Limit. The Operational Boundary provides an important tool for in year monitoring.

The code goes on to say "It will probably not be significant if the operational boundary is breached temporarily on occasions due to variations in cash flow. However, a sustained or regular trend above the operational boundary would be significant and should lead to further investigation and action as appropriate"

The Operational Limit for external debt has been calculated as the current amount of debt, plus additional borrowing, plus ten per cent of the year's net revenue budget for cash flow purposes in the event of expenditure being higher than income at points during the year.

	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
	£m	**£m**	**£m**	**£m**
Debt	701.370	612.897	677.026	729.652
Additional borrowing	-88.473	64.129	52.626	26.020
10% Net budget requirement	31.226	34.227	33.457	34.105
Other liabilities	170.259	169.233	168.174	167.080
Calculated Operational Limit	**814.382**	**880.486**	**931.283**	**956.857**

The Council's actual external debt at 31 March 2020 was £873 million, and is forecast to be £783 million at the 31 March 2021, all of which related to borrowing for capital purposes.

(d) Indicator 7 – Fixed and Variable Rate Exposure

"**The local authority will set for the forthcoming financial year and the following two financial year's upper limits to its exposure to the effects of changes in interest rates. These prudential indicators will relate to both fixed interest rates and variable interest rates and be referred to respectively as the upper limits on fixed interest rates and variable interest rate exposures.**

The upper limits on fixed interest rates and variable interest rates exposures may be expressed either as absolute amounts or as percentages. They may be related either to the authority's net interest on, or to its net principal sum outstanding on, its borrowings/investments." (Paragraph 67 and 68)

The indicator seeks to ensure that the Council limits its exposure to the risk of interest rate changes and the consequent impact on the investment income and interest payments on loans, by restricting the proportion of variable rate borrowing.

	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
	%	**%**	**%**	**%**
Limits on fixed interest rates based on net debt – Upper Limit	90	90	90	90
Limits on variable interest rates based on net debt – Upper Limit	75	75	75	75

(e) Indicator 8 – Upper and Lower Limits for the maturity structure of borrowings

"The local authority will set for the forthcoming financial year both upper and lower limits with respect to the maturity structure of its borrowings. The prudential indicators will be referred to as the upper and lower limits respectively for the maturity structure of borrowing and shall be calculated as follows:

Amount of projected borrowing that is fixed and variable rate maturing in each period expressed as a percentage of total projected borrowing that is fixed and variable rate.

Where the periods in question are

- **Under 12 months**
- **12 months and within 24 months**
- **24 months and within 5 years**
- **5 years and within 10 years**
- **10 years and above"**

(paragraph 74 of the code)

The indicator also seeks to ensure the Council controls its exposure to the risk of interest rate changes by limiting the proportion of debt maturing in any single period. Ordinarily debt is replaced on maturity and therefore it is important that the Council is not forced to replace a large proportion of loans at a time of relatively high interest rates.

	Upper Limit	**Lower Limit**
	%	**%**
Under 12 Months	35	0
12 months and within 24 months	30	0
24 months and within 5 years	50	0
5 years and within 10 years	75	0
10 years and above	90	0

(f) Indicator 9 – Upper limit for maturity structure of investments

"Where a local authority invests, or plans to invest, for periods longer than 364 days, the local authority will set an upper limit for each forward financial year period for the maturing of such investments. These prudential indicators will be referred to as prudential limits for principal sums invested for periods longer than 364 days and shall be calculated as follows:

Total principal invested to final maturities beyond the period end."
(paragraph 77 of the code)

Under the Prudential Regime Councils are free to invest for periods of greater than 1 year. This indicator sets restrictions on the proportion of investments committed for longer periods in order to limit the risks associated with being unable to meet unexpected cash flows and/or being able to take advantage of future increases in interest rates.

	Upper Limit
	%
Under 12 Months	100
12 months and within 24 months	25
24 months and within 3 years	20
3 years and within 4 years	15
4 years and within 5 years	10
5 years and above	10

Appendix 2

Credit and Counterparty Risk Management – Specified and Non-Specified Investments and Limits (Treasury Management Practice (TMP1))

1. Specified and Non-Specified Investments

1.1 Specified investments are investments denominated in sterling, do not exceed 364 days in term, do not involve the acquisition of share or loan capital, are made with the UK Government or a local authority, or with a body or investment scheme meeting the minimum 'high' credit quality criteria where applicable. Non-specified investments are anything that does not satisfy the specified investment criteria, i.e. investments with a maturity of greater than 1 year.

1.2 Importantly the acquisition of share capital or loan capital in any body corporate is defined as capital expenditure under Section 16(2) of the Local Government Act 2003. Such investments will have to be funded out of capital or revenue resources and will be classified as 'non-specified investments'. As a result no such investment instruments, such as equities, are included within this Appendix.

Specified Investments

	Minimum 'High' Credit Criteria	**Use**
Term deposits – banks	Short-term F1, Long-term A-	In-house
Term deposits – building societies	Short-term F1, Long-term A-	In-house
Term deposits – local authorities	--	In-house
Term deposits – UK part nationalised banks	Short-term F1, Long-term A-	In-house
Debt Management Agency Deposit Facility (DMADF)– UK Government	UK Sovereign Rating	In-house
Money Market Funds	AAA	In-house

1.3 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 impact, which may arise from these differences, Treasury Officers in consultation with Link Asset Services will review the accounting implications of any new transactions before they are undertaken.

Non-specified Investments

Maturities of ANY period (not applicable for 2021-22 Investment Strategy)

	Minimum Credit Criteria	Use	Max % of total investments	Max. maturity period
Term deposits with unrated counterparties	Market Capitalisation above £500 million	In-house	Nil - no longer applicable	Nil – no longer applicable

Maturities in excess of 1 year (not applicable for 2021-22 Investment Strategy)

	Minimum Credit Criteria	Use	Max % of total investments	Max. maturity period
Term deposits – banks	Short-term F1, Long-term A+	In-house	Nil - no longer applicable	Nil - no longer applicable
Term deposits – local authorities	--	In-house	Nil - no longer applicable	Nil - no longer applicable

Appendix 3

Approved Organisations for on-lending of Surplus Funds

Note – the organisations listed below currently meet the specified criteria as per the Investment Policy of the above report, section 26.29 refers.

UK Banks (Maximum Investment Period of up to 1 year)

	Approved Investment Limit (max)	**Proposed Investment Limit (max)**	**Current Investment Limit ****
Santander UK plc	£15 million	£15 million	Nil
Barclays Bank plc	£15 million	£15 million	£7.5 million
Clydesdale Bank (trading as Yorkshire Bank)	£15 million	£15 million	Nil
HSBC Bank plc	£15 million	£15 million	£15 million
Lloyds Banking Group inc: * Lloyds TSB Bank plc Bank of Scotland plc	£20 million	£20 million	£10 million
Royal Bank of Scotland Group inc: * Royal Bank of Scotland NatWest Bank plc Ulster Bank Ltd	£20 million	£20 million	£2.5 million

Note * - The higher limits are based on Lloyds and RBS being part-nationalised therefore carrying additional UK Government security (section 26.31 refers).

Note **: The current investment limits above reflect the action taken as per the creditworthiness criteria included in the Investment Policy stated at paragraph 26.31 in the above report. Current investment limits have been reduced due the previous wholescale downgrade of ratings of some of the above organisations.

UK Building Societies (Maximum Investment Period of up to 1 year)

	Approved Investment Limit (max)	Proposed Investment Limit (max)	Current Investment Limit **
Nationwide Building Society	£15 million	£15 million	£7.5 million
Coventry Building Society	£15 million	£15 million	£7.5 million
Leeds Building Society	£15 million	£15 million	£5 million
Skipton Building Society	£15 million	£15 million	£5 million
Yorkshire Building Society	£15 million	£15 million	£5 million

Other (Maximum Investment Period of up to 1 year)

	Approved Investment Limit (max)	Proposed Investment Limit (max)	Current Investment Limit
Any Local Authority	£15 million (each)	£15 million (each)	£15 million (each)
Debt Management Agency Deposit Facility (DMADF) ***	Unlimited	Unlimited	Unlimited
Money Market Funds	£15 million (each)	£15 million (each)	£15 million (each)

Note *** - The unlimited investment limit for the DMADF is based on the current uncertainties within the banking sector, and if further bank failures occur, this account would provide for the security of the Council's cash surpluses.

Appendix 4

Minimum Revenue Provision (Repayment of Debt) Policy Statement 2021-22

1. What is Minimum Revenue Provision?

1.1 Capital expenditure is generally expenditure on assets which have a life expectancy of more than one year e.g. buildings, vehicles, machinery etc. In accordance with proper practice, the financing of such expenditure is spread over several years in order to try to match the years over which such assets benefit the local community through their useful life. The manner of spreading these costs is through an annual charge known as Minimum Revenue Provision (MRP), which is determined by the Council under guidance.

2. Statutory duty

2.1 The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 (as amended by Statutory Instrument 2008 no. 414 s4) lay down that:

"A local authority shall determine for the current financial year an amount of minimum revenue provision that it considers to be prudent."

3. Government guidance

3.1 Along with the above duty, the Government issued guidance which came into force on 31 March 2008 which requires that a Statement on the Council's policy for its annual MRP should be submitted to the full Council for approval before the start of the financial year to which the provision will relate.

3.2 The Council is legally obliged to "have regard" to the guidance, which is intended to enable a more flexible approach to assessing the amount of annual provision than was required under the previous statutory requirements. Although it is up to each Council to determine for itself how to calculate its MRP, the guidance suggests four methodologies, with an overriding recommendation that the Council should make prudent provision to redeem its debt liability over a period which is reasonably commensurate with that over which the capital expenditure is estimated to provide benefits. The requirement to 'have regard' to the guidance therefore means that:

- Although four main options are recommended in the guidance, there is no intention to be prescriptive by making these the only methods of charge under which a local authority may consider its MRP to be prudent.

- It is the responsibility of each authority to decide upon the most appropriate method of making a prudent provision, after having had regard to the guidance.

4. Method

4.1 The Policy to be adopted for 2021/22 incorporates the following methods;

4.1.1 For capital expenditure incurred before 1 April 2008 or which in the future will be Supported Capital Expenditure, the MRP Policy will be:

Calculating MRP in accordance with the annuity method over 60 years. The 60 year repayment period is considered a reasonable average assumption for the lives of the assets funded by capital expenditure. This method will ensure the debt is fully repaid after 60 years, which was not the case under the existing method.

4.1.2 For capital expenditure incurred from 1 April 2008 for all unsupported borrowing (excluding PFI and finance leases) the MRP Policy will be:

Asset Life Method – MRP will be calculated in accordance with the annuity method based on the estimated life of the asset, in accordance with the proposed regulations (this option must be applied for any expenditure capitalised under a Capitalisation Direction), using the annuity method. This method also ensures that the debt is fully repaid at the end of the estimated useful lives of each asset.

4.1.3 For PFI and Finance Lease Assets the MRP Policy will be:

Asset Life Method – MRP will be calculated in accordance with the annuity method based on the estimated life of the asset, in accordance with the proposed regulations. This method also ensures that the debt is fully repaid at the end of the estimated useful lives of each asset.

4.1.4 The specified rate of interest will be the average interest rate of the Council's debt as at the end of the year in which the annuity rate is to be applied.

Minimum Revenue Provision - Current and Forecast Charges				APPENDIX 5
	Current Charge		Forecast	Total
Year	Pre 2008 Debt	Post 2008 Debt	Charge	Charge
	£'000	£'000	£'000	£'000
2021/22	490	7,884	433	8,807
2022/23	516	8,261	1,111	9,888
2023/24	543	8,615	1,658	10,816
2024/25	572	8,900	1,852	11,324
2025/26	602	9,081	1,924	11,607
2026/27	634	9,471	1,998	12,103
2027/28	668	9,804	2,075	12,547
2028/29	703	10,225	2,155	13,084
2029/30	740	9,625	2,238	12,603
2030/31	779	8,562	2,325	11,666
2031/32	820	7,481	2,415	10,716
2032/33	864	7,148	2,508	10,520
2033/34	910	7,082	2,605	10,596
2034/35	958	6,813	2,705	10,476
2035/36	1,008	6,583	2,810	10,401
2036/37	1,062	5,875	2,919	9,856
2037/38	1,118	4,822	3,031	8,972
2038/39	1,177	4,640	3,149	8,965
2039/40	1,240	4,221	3,270	8,731
2040/41	1,305	3,847	3,397	8,549
2041/42	1,374	3,844	3,058	8,277
2042/43	1,447	3,925	2,060	7,432
2043/44	1,524	4,002	1,338	6,863
2044/45	1,605	4,082	1,315	7,002
2045/46	1,689	4,036	1,365	7,090
2046/47	1,779	4,174	1,368	7,321
2047/48	1,873	4,197	1,421	7,491
2048/49	1,972	4,343	1,429	7,745
2049/50	2,077	4,328	1,439	7,843
2050/51	2,187	4,483	1,494	8,164
2051/52	2,303	4,567	1,551	8,421
2052/53	2,425	4,706	1,611	8,742
2053/54	2,553	4,872	1,673	9,098
2054/55	2,689	4,962	1,737	9,388
2055/56	2,831	4,668	1,804	9,303
2056/57	2,981	4,839	1,873	9,693
2057/58	3,139	4,909	1,945	9,993
2058/59	3,306	4,657	2,020	9,982
2059/60	3,481	4,774	2,097	10,352
2060/61	3,666	4,930	2,178	10,773
2061/62	3,860	5,112	2,157	11,129

	Current Charge		Forecast	Total
Year	Pre 2008 Debt	Post 2008 Debt	Charge	Charge
	£'000	£'000	£'000	£'000
2062/63	4,065	5,301	1,915	11,281
2063/64	4,280	5,497	1,964	11,740
2064/65	4,507	5,689	1,977	12,174
2065/66	4,746	5,850	2,053	12,649
2066/67	4,998	6,059	2,132	13,189
2067/68	5,263	6,283	2,214	13,759
2068/69	674	6,515	2,299	9,488
2069/70	290	6,694	2,387	9,371
2070/71	0	6,874	2,478	9,352
2071/72	0	6,718	2,573	9,291
2072/73	0	6,859	2,672	9,531
2073/74	0	7,041	2,775	9,815
2074/75	0	5,362	2,881	8,243
2075/76	0	4,801	2,992	7,792
2076/77	0	4,465	3,107	7,571
2077/78	0	3,578	3,226	6,804
2078/79	0	1,982	3,350	5,332
2079/80	0	1,261	3,478	4,740
2080/81	0	517	3,612	4,129
2081/82	0	504	2,567	3,071
2082/83	0	0	1,780	1,780
2083/84	0	0	649	649
TOTAL	**96,294**	**341,200**	**138,591**	**576,084**

Appendix 6

Summary of the Report Content

1. Background

1.1 The scope and content of the Treasury Management Strategy Statement report are in line with the requirements of the Treasury Management Code of Practice and the Prudential Code for Capital Finance, and therefore the report is more detailed than standard committee reports.

1.2 The scope and content of the Treasury Management Strategy Statement report is also consistent with previous reports submitted to Members, in line with the reporting requirements stated within the Strategy Statement, and is consistent with the Treasury Management reports of other Local Authorities.

1.3 Members are provided with 3 reports on an annual basis as follows:

- Treasury Strategy Statement (this report)
- A Mid-Year Treasury Management Report – update on progress of capital position and Prudential Indicators
- An Annual Treasury Management Report – actual Prudential Indicators and actual treasury operations as compared to estimates.

2. Main Content of Report and Key Areas for Consideration

2.1 The report covers the following key areas of Treasury Management:

- Investment Strategy
- Prudential and Treasury Indicators
- Minimum Revenue Provision Policy Statement

3. Investment Strategy

3.1 The Investment Strategy provides clear criteria as to creation of the Council's approved lending list and selection of counterparties to be included.

3.2 The criterion covers investment limits and duration of investment.

3.3 The Strategy covers the Council's creditworthiness policy, stating how the Council monitors the approved list of counterparties.

4. Prudential and Treasury Indicators

4.1 These indicators cover an assessment of the affordability of the Council's capital plans and the impact of these plans on the General Fund and HRA revenue budgets. They also set limits on the amount of borrowing the Council can undertake and the structure of the Council's debt portfolio in terms of type of debt held and maturity periods.

4.2 These indicators are set for the forthcoming financial year and subsequent 2 years, and are in line with the Council's Budget Report and Medium Term Financial Plan.

5. Minimum Revenue Provision Policy Statement

5.1 The Council is required to pay off an element of the accumulated General Fund capital spend each year through a revenue charge – the minimum revenue provision (MRP). The provision (revenue charge) is in respect of capital expenditure financed from borrowing. The MRP statement provides the basis in which this is done.

5.2 There are options available to the Council in how the revenue charge is derived, so long as the there is a prudent provision. The options recommended for approval are based on the ones which have the least impact on the revenue budget in each year.

6. Options Available

6.1 Although the content and criteria stated in the Treasury Management Strategy are statutory requirements, there are some options available to the Council in how this is managed, in terms of the following:

- Investment Options – alternative investment products, counterparties, limits and durations.
- Prudential Indicators – alternative limits for certain indicators, i.e. debt maturity profile, interest rate exposure.
- Minimum Revenue Provision – alternative options for the revenue charge.

6.2 The options proposed are based on the Council investing surplus monies with low risk counterparties in line with the Council's low risk appetite. This provides the Council with adequate liquidity and security of funds before considering investment return.

7. Member Training

7.1 It is a requirement of the Code that all officers and members with the responsibility for treasury management receive adequate training. Members last attended a Treasury Management update session in November 2017.

7.2 The Council's Treasury advisors, Link Asset Services, Treasury Solutions, are also able to provide the required training as part of their advisory contract with the Council.

8. Conclusion

8.1 The Treasury Management Strategy Statement (including Prudential Indicators) is linked to and underpins the annual General Fund and HRA Revenue Budget Setting Report and Capital Strategy, and is therefore not subjective.

8.2 The other important element of the Treasury Management Strategy Statement is in relation to the borrowing and investment objectives which must be robust and satisfy the Council’s priorities and risk appetite.

Appendix 7

GLOSSARY OF TERMS

Base Rate	Minimum lending rate of a bank or financial institution in the UK determined by the Bank of England.
Basis Point	1/100th of 1%, i.e. 0.01%.
Call Account	Deposits/investments placed with a bank or other financial institutions which are available immediately, i.e. no advance notice is required.
Capital Expenditure	Expenditure on the acquisition of fixed assets which has a long term value to the Council (e.g. the purchase of land, erection of buildings), or expenditure that adds to the value of these assets and not just maintains their existing value.
Capital Financing Requirement (CFR)	The total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. This is the cumulative total of the Council's borrowing need.
Capital Grants	Monies provided to local authorities, usually from Government departments, for capital expenditure only.
Capital Receipts	These are proceeds from the sale of capital assets such as land or property. These receipts can be used to fund the capital programme but are not available to support the Revenue Budget.
Counterparty	Another (or the other) party to an agreement or other market contract (e.g. lender or borrower). In the Council's case this generally relates to a bank or building society.
Credit Default Swap	This provides protection (insurance) to a financial institution following a loan or investment against any potential default, i.e. protection against non-repayment of loan or investment.
Credit Outlook	A formal indication by a credit rating agency that it anticipates a change in a particular credit rating of a bank or other financial institution at some time in the foreseeable future.
Credit Rating	An assessment of the creditworthiness of a bank or other financial institution, made by a credit rating agency, i.e. Fitch, Moody's and Standard & Poor's.
Credit Rating Agency	Independent organisations that assess the credit quality of corporate and government debt. The main agencies are Moody's, Standard & Poor's and Fitch.
Credit Watch	Attached to a bank or other financial institution in which a downgrading or upgrading of the credit rating could be imminent.
Creditworthiness	A measure of the ability and the willingness of a bank or other financial institution to honour their financial obligations.

Debt Cap	A limit set on the council housing borrowing requirement for each local authority.
Debt Rescheduling	Refinancing of current debt/loans to generate revenue savings if rates are favourable.
Investment Instrument	Investment options available to local authorities, i.e. fixed term deposits, notice accounts.
Liquidity	The ability to convert an asset (investment) easily into cash quickly without affecting the asset's price or value.
Maturity	The end date of a loan, borrowing, investment or other form of capital financing.
Minimum Revenue Provision (MRP)	Local authorities are required each year to set aside some of their revenues as provision for debt repayment. The provision (revenue charge) is in respect of capital expenditure financed by borrowing.
Money Market	Consists of financial institutions (e.g. banks and building societies) and dealers in money and credit.
Money Market Fund	A well rated, highly diversified pooled investment vehicle whose assets mainly comprise of short term instruments.
Non-Specified Investments	Anything that does not satisfy the specific investment criteria, i.e. investments with a term of greater than 1 year.
Notice Account	Deposits/investments placed with a bank or other financial institutions which are available at notice, i.e. 15/30 day notice to withdraw is required.
PFI	Private Finance Initiative – a Government initiative in which private sector companies usually design, build and operate a public facility for a set period of time, often 25 years.
Prudential and Treasury Indicators *(see below for description of each indicator)*	As required by The Prudential Code, requires local authorities to self-regulate the affordability, prudence and sustainability of their capital plans, buy setting estimates and limits, and publishing actuals, for a range of indicators.
Prudential Borrowing	Permissible borrowing within defined affordable limits.
Prudential Code (CIPFA)	Local Authorities determine their own programmes of capital investment in fixed assets that are central to the delivery of quality local public services. The Prudential Code has been developed as a professional code of practice to support them in taking these decisions. The Prudential Code underpins the overall system of capital finance. The objectives of the Prudential Code are to ensure, within a clear framework, that

	the capital investment plans of local authorities are affordable, prudent and sustainable.
PWLB	Public Works Loans Board – a statutory body operating within the Debt Management Office of the HM Treasury and is responsible for lending money to local authorities and other prescribed bodies.
Risk Appetite	The level of risk Local Authorities wish to take in the lending of surplus monies. The Council operates a low risk appetite, i.e. only investing with low risk counterparties, where the security and liquidity of cash are more important than yield (return).
Specified Investments	Investments that are made in sterling, do not exceed 364 days in term, do not involve the acquisition of share or loan capital, are made with the UK Government or a local authority, or with a financial institution and meet the minimum credit criteria.
Treasury Management Code of Practice (CIPFA)	Provides Local Authorities with standards and guidance to support and underpin their overall Treasury Management activities.
Yield (Return)	The return on an investor's capital investment. The higher the yield the higher the risk of the capital invested.

Prudential and Treasury Indicators	
Affordability of Capital Plans:	
Indicator 1 – Capital Expenditure	This details the Council's approved capital spending plans for the next 3 years and reports on the outturn from the previous financial year. These estimates are reporting decisions agreed previously in the Capital Programme report, and therefore there is no subjectivity to this indicator.
Indicator 2 - Ratio of Financing Costs to Net Review Stream	This shows the revenue costs (the capital financing costs less investment income earned) as a percentage of the total revenue budget. There is a separate calculation for the General Fund and the HRA. Again, these estimates have been agreed by Committee through the Revenue Budget setting report or in the Medium Term Financial Strategy.
Indicator 3 – Capital Financing Requirement (CFR)	The CFR measures the Council's overall borrowing requirement for capital purposes, i.e. that element of previous and proposed capital spending which has been/will be funded from borrowing. The Prudential Code requires that net external borrowing does not exceed the CFR.
Indicator 4 – Incremental Impact of Capital Investment Decisions on Council Tax and Housing Rents	This indicator seeks to demonstrate the additional costs, to be funded from the Council Tax and Housing Rent of the Council's capital spending plans, i.e. the capital plans to be funded from borrowing. These estimates are in line with the General Fund and HRA Revenue Budget setting reports.

Treasury Management	
Indicator 5 – Authorised Limit for External Debt	The Council is required to set external borrowing limits consistent with the Revenue Budget and Capital Programme. The Authorised Limit is based on a prudent limit, with additional headroom to allow for unusual cash movements.
Indicator 6 – Operational Boundary for External Debt	The Operational Boundary is based on the same estimates as the Authorised Limit, but does not include any additional headroom. The Operational Boundary is the current debt plus additional planned borrowing, plus 10% of next year's revenue budget for cash flow purposes.
Indicator 7 – Fixed and Variable Interest Rate Exposure	This indicator seeks to ensure that the Council limits its exposure to the risk of interest rate changes and the subsequent impact of such changes on the interest payments on loans (a revenue expense), by restricting the proportion of variable rate borrowing.
Indicator 8 – Upper and Lower Limits for the maturity structure of borrowings	This indicator also seeks to ensure the Council controls its exposure to the risk of interest rate changes by limiting the proportion of debt due to be repaid in any one year. Debt is ordinarily replaced on maturity and therefore it is important that the Council is not forced to replace a large proportion of loans at a time of relatively high interest rates (aimed at mitigating any potential impact on the revenue budget).
Indicator 9 – Upper Limit for the maturity structure of Investments	Under the Prudential Code councils are free to invest for periods of greater than 1 year. This indicator sets restrictions on the proportion of investments committed for longer periods in order to limit the risks associated with being unable to meet unexpected cash flows and/or being able to take advantage of future increases in interest rates.