PETERBOROUGH CITY COUNCIL

Treasury Management Strategy 2021/22 to 2023/24

Including:
Minimum Revenue Provision (MRP) Policy 2020/21 & 2021/22

1. Introduction

1.1. Background

1.1.1. The Council is required to operate a balanced budget, which means that cash raised through the year will meet its cash expenditure. The Treasury Management Strategy (TMS) has four fundamental roles:

- Manage external investments - security, liquidity and yield
- Ensure debt is prudent and economic
- Produce and monitor the Prudential Indicators
- To ensure that decisions comply with regulations.

1.1.2. The role of treasury management is to ensure cash flow is adequately planned so that cash is available when it is needed. Surplus monies are invested in low-risk counterparties commensurate with the Council's low risk appetite ensuring that security and liquidity are achieved before considering investment return.

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

1.1.4. The contribution the treasury management function makes to the authority is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.

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

1.1.6. CIPFA defines treasury management 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."

1.2. Reporting Requirements

1.2.1. Capital Strategy

1.2.2. The CIPFA revised 2017 Prudential and Treasury Management Codes requires all local authorities to prepare an additional report, a capital strategy report, which will provide the following:

- a high-level long-term overview of how capital expenditure, capital financing; and treasury management activity contribute to the provision of services

- an overview of how the associated risk is managed
- the implications for future financial sustainability

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

1.2.4. This Capital Strategy is reported separately from the Treasury Management Strategy and non-treasury investments will be reported through the former. This ensures the separation of the core treasury function under security, liquidity and yield principles, and the policy and investments usually driven by expenditure on an asset. The Capital Strategy shows:

- the corporate governance arrangements for these types of activities
- any service objectives relating to the investments
- the expected income, costs and resulting contribution
- for non-loan type investments, the cost against the current market value
- the risks associated with each activity

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

1.2.6. Where the Council has borrowed to fund any non-treasury investment, there would be an explanation of why borrowing was required and why the MHCLG Investment Guidance and CIPFA Prudential Code have not been adhered to, see section 14 for further details.

1.2.7. The Council does not hold any non-treasury investment for purely yield and financial return purposes. However, if a loss is incurred on any non-treasury investment during the final accounts and audit process, the strategy and revenue implications will be reported through the budgetary control process.

1.3. Treasury Management Reporting

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

1.3.2. **Prudential and Treasury Indicators and Treasury Strategy** - the first, and most important report is forward looking and covers:

- the capital plans, (including prudential indicators)
- a Minimum Revenue Provision (MRP) policy, (how residual capital expenditure is charged to revenue over time)
- the treasury management strategy, (how the investments and borrowings are to be organised), including treasury indicators
- an investment strategy, (the parameters on how investments are to be managed)

1.3.3. **A Mid-Year Treasury Management Report** – this is primarily a progress report and will update members on the capital position, amending prudential indicators as necessary, and whether any policies require revision.

1.3.4. **An Annual Treasury Report** – this is a backward-looking review document and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

1.3.5. **Scrutiny**

1.3.6. The above reports are required to be adequately scrutinised and this role is undertaken by the Audit Committee, Cabinet and full Council.

1.4. **Treasury Management Strategy for 2021/22**

1.4.1. The strategy for 2021/22 covers:

Capital issues

- the capital expenditure plans and the associated prudential indicators
- the MRP policy

Treasury management issues

- the current treasury position
- treasury indicators which limit the treasury risk and activities of the Council
- prospects for interest rates
- the borrowing strategy
- policy on borrowing in advance of need
- debt rescheduling
- the investment strategy
- creditworthiness policy
- the policy on use of external service providers

1.4.2. These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code 2017, the MHCLG MRP Guidance, the CIPFA Treasury Management Code 2017, and the MHCLG Investment Guidance.

1.5. **IFRS16 - Leases**

1.5.1. A new International Financial Reporting Standard (IFRS) on leases is due to be adopted by the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) with effect from 1 April 2022. IFRS 16 defines a lease as a contract or part of a contract, which conveys the right to use as asset (the underlying asset) for a period in exchange for a consideration. The CIPFA/LASAAC Local Authority Accounting Code Board has agreed to defer the implementation of IFRS 16 *Leases* until the 2022/23 financial year. This decision was taken in response to pressures on council finance teams as a result of the COVID-19 pandemic.

1.5.2. Under the standard the distinction between finance leases and operating leases under the previous leasing standard is removed and all leases are treated as finance leases. A 'right of use' asset is shown on the balance sheet with a corresponding liability of the discounted value of the future lease payments. There are exceptions for short-dated leases (under a year, or with less than a year remaining at transition) and low value leases (low value to be determined by the Council using its approach to determining de minimus items).

1.5.3. All leases that do not meet the exceptions will be treated as capital expenditure from 2022/23 and form part of the Capital Financing Requirement (CFR). An estimate of the impact of the transition to the new standard has been built into the relevant indicators. The full impact will not be known until the 2022 Code has been issued and the detailed assessment completed. If this has a material impact on the Prudential Indicators then a revised Treasury Management Strategy will be produced.

1.6. Training

1.6.1. The CIPFA Code requires the responsible officer to ensure that Council members with responsibility for treasury management receive adequate training in treasury management. This requirement is reviewed annually as part of the annual Performance Development Review (PDR) and monthly supervisions. This requirement also applies to Council members responsible for scrutiny.

1.7. Changes to the current Treasury Management Code and Prudential Code

1.7.1. CIPFA have released proposed changes to the current Treasury Management Code and Prudential Code.

1.7.2. 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. The proposed changes to the treasury management practices guidance includes increased monitoring of training and skills, and a formal policy requirement for documenting training. CIPFA is also proposing new guidance for environmental, social and governance risk management, so that local authorities consider the ecological impact of the company they are looking to work with.

1.7.3. In response to the recommendation of the Public Accounts Committee and the substantial increase in commercial investment, CIPFA is proposing to strengthen the provisions within the Prudential Code of Capital Finance in Local Authorities, CIPFA 2017 (Prudential Code), and will require any local authority commercial investment undertaken to be consistent with statutory provisions, proportionate to service and revenue budgets and consistent with effective treasury management practice. The proposed revisions to the Prudential Code also strengthen the requirement to assess the affordability of commercial activity within local authorities' capital strategies.

1.7.4. The closing date for responding to the consultations is 12 April 2021 and the Council intends to respond to both.

1.8. Treasury Management Advisors

1.8.1. The Council uses Link Group, Treasury solutions as its external treasury management advisors who have a contract until September 2021.

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

1.8.3. The Council also recognises that there is value in employing external providers of treasury management services in order to access 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, documented and subjected to regular review.

1.9. Treasury Management Policy Statement

1.9.1. The Treasury Management Policy Statement sets out the policies and objectives of Treasury Management Activities which is revised annually. It reflects December 2017 guidance.

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

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

1.9.4. Investments cover all financial assets of the organisation, as well as other non-financial assets which the organisation holds and attracts a financial return such as existing historic investment property portfolios. This may therefore include investments which are not managed as part of normal treasury management or under treasury management delegations. All investments require an appropriate investment management and risk management framework. For the investment property portfolio this is incorporated in the Asset Management Plan.

1.9.5. The Council's high-level policies for borrowing and investments are set out below:

- to reduce the revenue cost of the Council's debt in the medium term by obtaining financing at the cheapest rate possible
- to invest available cash balances with a few high-quality investment counterparties over a spread of maturity dates in accordance with the Council's lending list
- to seek to reschedule or repay debt at the optimum time

1.10. **The Treasury Management Role of the Section 151 Officer**

The S151 (responsible) officer must do the following:

- recommend clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance
- submit regular treasury management policy reports
- submit budgets and budget variations
- receive and reviewing management information reports
- review 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, with a long-term timeframe
- ensuring that the capital strategy is prudent, sustainable, affordable and prudent in the long-term and provides value for money

- ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the authority
- ensure that the authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing
- ensuring the proportionality of all investments so that the authority does not undertake a level of investing which exposes the authority to an excessive level of risk compared to its financial resources
- ensuring that an adequate governance process is in place for the approval, monitoring and ongoing-risk management of all non-financial investments and long-term liabilities
- provision to members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees
- ensuring that members are adequately informed and understand the risk exposures taken on by an authority. This is done by regular training presentations to the Audit Committee.
- ensuring that the authority has adequate expertise, either in house or externally provided, to carry out the above. This is done by regular attendance at courses and conferences and joint working with the Link Group as treasury advisors
- creation of Treasury Management Practices (TMPs) which specifically deal with how non treasury investments will be carried out and managed, to include the following -
    - Risk management (TMP1 and schedules), including investment and risk management criteria for any material non-treasury investment portfolios
    - Performance measurement and management (TMP2 and schedules), including methodology and criteria for assessing the performance and success of non-treasury investments
    - Decision making, governance and organisation (TMP5 and schedules), including a statement of the governance requirements for decision making in relation to non-treasury investments; and arrangements to ensure that appropriate professional due diligence is carried out to support decision making
    - Reporting and management information (TMP6 and schedules), including where and how often monitoring reports are taken to the various committees
    - Training and qualifications (TMP10 and schedules), including how the relevant knowledge and skills in relation to non-treasury investments will be arranged

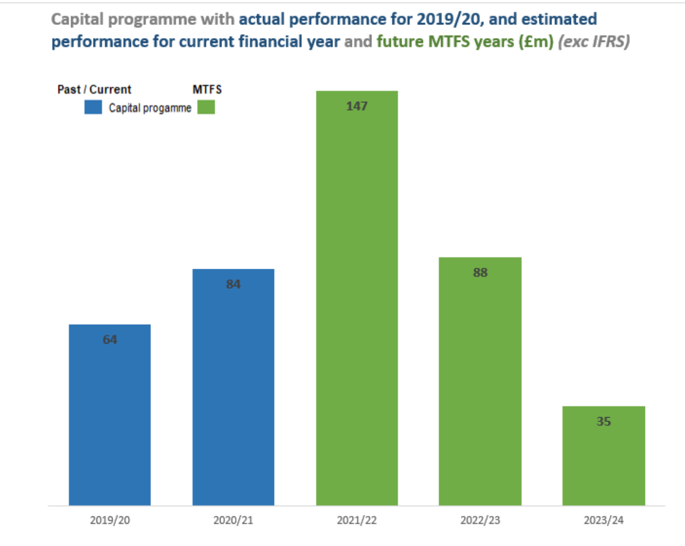
2. Capital Prudential Indicators 2021/22 to 2023/24

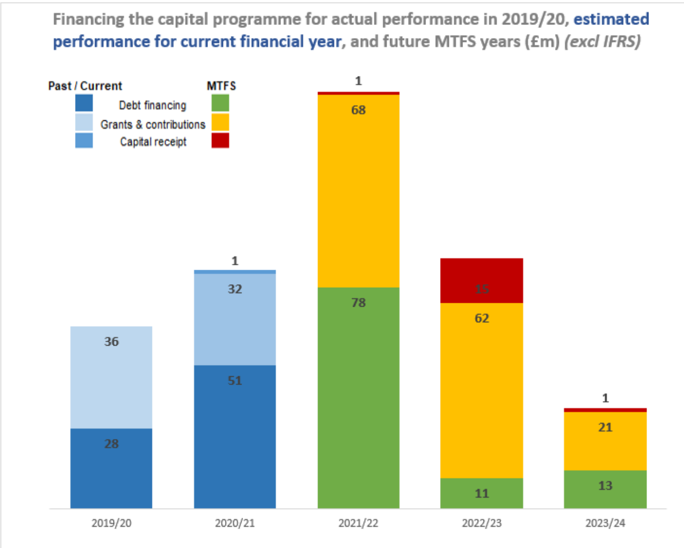
2.1. The Council's capital programme is the key driver of the treasury management activity. The output of the capital programme is reflected in the prudential indicators which are designed to assist member's overview and confirm the capital programme.

2.2. **Indicator 1** – Capital Expenditure – this Prudential Indicator is a summary of the Council's estimated capital expenditure for the forthcoming financial year and the following two financial years including how it will be funded either from grants, contributions, or capital receipts with the remaining being the 'net financing requirement'

Capital Expenditure	**2019/20 Actual £m**	**2020/21 Est £m**	**2021/22 Est £m**	**2022/23 Est £m**	**2023/24 Est £m**
Customer & Digital Services	3.0	4.6	2.5	3.0	3.0
People & Communities	21.0	20.6	46.1	13.1	16.5
Place & Economy	18.1	33.0	46.6	53.3	13.8
Resources	16.6	13.8	18.2	12.1	2.0
Capitalisation Direction	5.6	6.0	20.0	-	-
Invest to Save	-	5.9	13.5	6.6	-
Total	**64.3**	**83.9**	**146.9**	**88.1**	**35.3**
Financed by:					
Capital receipts (repayment of capital loans)	-	1.4	1.1	15.5	1.2
Capital grants & contributions	36.2	32.0	67.8	62.0	20.6
Net Financing Requirement	28.1	50.5	78.0	10.6	13.5
Total	**64.3**	**83.9**	**146.9**	**88.1**	**35.3**
IFRS16 Transition				*22.0*	

The below charts show the capital programme in visual form along with funding breakdown.





2.3. The capital receipts (repayment of capital loans) shown in the table relate to:

- 2020/21 - ECS Peterborough 1LLP – capital loan repayment - £1.0m and Vivacity £0.4m
- 2021/22 - ECS Peterborough 1LLP – capital loan repayment - £1.1m
- 2022/23 - ECS Peterborough 1LLP – capital loan repayment - £1.2m and Hotel £14.3m

- 2023/24 - ECS Peterborough 1LLP – capital loan repayment - £1.2m

2.4. The Invest to Save schemes are included in total capital expenditure and the funding resources to be used. However, these schemes will either generate income or generate savings on revenue budgets elsewhere in the Council's services. Therefore, the borrowing costs associated with these projects will have a minimal impact on the Council's MTFS position.

2.5. **Indicator 2** – Capital Financing Requirement (CFR) – the CFR is the total historical capital expenditure which has not yet been paid for from either revenue or capital resources. It is a measure of the Council's underlying borrowing requirement. Any capital expenditure which has not immediately been paid for will increase the CFR.

2.6. The CFR does not increase indefinitely, as the MRP is a statutory annual revenue charge which broadly reduces the indebtedness in line with each asset's life, and so charges the economic consumption of capital assets as they are used.

2.7. The CFR includes any other long-term liabilities (e.g. PFI schemes, finance leases) included on the Council's balance sheet. Whilst this increases the CFR, and therefore the Council's borrowing requirement, these types of schemes include a borrowing facility and so the Council is not required to separately borrow for these schemes. The following table shows the CFR estimates for the next three financial years for Council approval:

Capital Financing Requirement	**2019/20 Actual £m**	**2020/21 Est £m**	**2021/22 Est £m**	**2022/23 Est £m**	**2023/24 Est £m**
CFR brought forward	577.4	588.4	622.0	682.2	694.4
Borrowing / (Repayment)	5.4	27.7	26.7	(15.5)	(5.1)
Invest to Save	-	5.9	13.5	6.6	-
IFRS16 Transition adjustment & MRP	-	-	-	22.0	(0.8)
Capitalisation Direction & MRP	5.6	-	20.0	(0.9)	(0.9)
CFR carried forward	**588.4**	**622.0**	**682.2**	**694.4**	**687.6**
Movement in CFR	*11.0*	*33.6*	*60.2*	*12.2*	*(6.8)*
Net financing requirement	28.1	50.5	78.0	10.5	13.5
Lease Liability (*est IFRS16 adj)*	-	-	-	22.0	-
Less MRP & other financing	(17.1)	(16.9)	(17.8)	(20.3)	(20.3)
Movement in CFR	**11.0**	**33.6**	**60.2**	**12.2**	**(6.8)**

2.8. **Indicator 3 –** Actual and estimates of the ratio of financing costs to net revenue budget. This indicator identifies the proportion of the revenue budget which is taken up in financing capital expenditure i.e. the net interest cost and the provision to repay debt.

Ratio of Gross Financing Costs to Net Revenue Budget	**2019/20 Actual**	**2020/21 Est**	**2021/22 Est**	**2022/23 Est**	**2023/24 Est**
Total Ratio	20.0%	16.1%	15.2%	17.0%	17.7%
Ratio with gross MRP charge (capital receipts to redeem debt not factored into financing)	22.0%	21.8%	16.5%	18.4%	17.9%
Relating to Capitalisation Direction	0.0%	0.2%	0.3%	0.8%	0.8%

3. Minimum Revenue Provision (MRP) Policy Statement

3.1. Capital expenditure is generally expenditure on assets which have a life expectancy of more than one year e.g., buildings, vehicles, equipment, etc. 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 MRP.

3.2. MHCLG Regulations require full Council to approve an MRP statement in advance of each year. A variety of options are provided to Councils to calculate this revenue charge and the Council must satisfy itself that the provision is prudent.

3.3. A change introduced by the revised MHCLG MRP Guidance was the allowance that any charges made over the statutory MRP, voluntary revenue provision (VRP) or overpayments, can, if needed, be reclaimed in later years if deemed necessary or prudent. In order for these sums to be reclaimed for use in the budget, this policy must disclose the cumulative overpayment made each year. Previous accumulated overpayments were fully utilised as at 31 March 2020.

3.4. Councils are allowed by statute to use capital receipts for the repayment of any borrowing previously incurred. The application of capital receipts to repay debt would reduce the level of MRP chargeable to revenue, but statutory guidance does not address how such a reduction should be calculated. When the Council uses its capital receipts to redeem borrowing, the value of the MRP which would otherwise have been set aside for that year will be reduced by the amounts which have instead been repaid from capital receipts. This results in a prudent level of MRP, as there will be no reduction in the overall level of funding set aside to redeem debt.

3.5. During 2019/20 detailed discussions were held with MHCLG with regards to the Council's application of capital receipts to redeem debt. Following these discussions there remains a possibility that the government could amend legislation to provide additional clarity with regards to the use of capital receipts to redeem debt. At the time of drafting there has been no additional clarity provided and therefore the Council has not amended its approach and continues to use the receipt from asset sales to redeem its debt. Once clarity is provided the Council will review its application of receipts and amend its policy accordingly if it is deemed necessary with relevant reports presented to the member meetings.

3.6. There are other possible uses for capital receipts, as per the Capital Strategy, the level of capital receipts used to redeem debt will be at the discretion of the S151 officer and their judgements as to which option provides better value for money for the Council's financial strategy.

3.7. Repayments for the PFI scheme and finance leases are applied as MRP, and the associated amounts are included in these Prudential Indicators.

3.8. The following table summarises the MRP Policy.

Capital Expenditure Incurred	MRP Policy Update 2020/21 & 2021/22
Expenditure funded by unsupported borrowing	Asset Life, annuity method – MRP will be based on the prevailing PWLB interest rate for a loan with a term equivalent to the estimated life of the project. If capital receipts have been used to repay borrowing for the year then the value of MRP which would have otherwise been set aside to repay borrowing will be reduced by the amounts which have instead been repaid

Capital Expenditure Incurred	MRP Policy Update 2020/21 & 2021/22
	from capital receipts. The level of capital receipts to be applied to redeem borrowing will be determined annually by the Chief Finance Officer (S151), taking into account forecasts for future expenditure, the generation of further receipts and alternative uses which may provide better value for money for the Council's financial strategy. The same process will apply for S106, POIS and CIL receipts.
Private Finance Initiative (PFI) - Finance Lease	Use the annuity method of calculation over the remaining asset life
Other Finance Leases	The MRP requirement would be regarded as met by a charge equal to the element of the rent/charge that goes to write down the balance sheet liability. Where a lease (or part of a lease) is brought onto the balance sheet, having previously been accounted for off- balance sheet, the MRP requirement would be regarded as having been met by the inclusion in the charge for the year in which the restatement occurs, of an amount equal to the write-down for that year plus retrospective writing down of the balance sheet liability that arises from the restatement.
Secured loans to third parties repaid in bullet form.	No MRP will be charged each year as reliance can be placed on the capital receipt that will be generated when the loan is repaid or, in the event of a default, the realisation of the security. If realisation of the security does not equate to the original loaned amount the Council will recognise the associated impairment and will charge MRP for the outstanding loan amount over the next MTFS periods or remaining life of the asset, whichever is longer. Impairment relating to IFRS9 adjustments will attract the same treatment.
Secured loans to third parties repaid over the life of the loan.	MRP will be charged each year equal to the Annual Base Repayment Amounts profiled in the legal agreement. Where additional repayments are made by the borrower the Council will make voluntary MRP charges to match. In the event of default reliance will be placed on the capital receipt that will be generated on realisation of the security. If realisation of the security does not equate to the remaining balance of the loan the Council will recognise the associated impairment and charge MRP on this amount over the next MTFS period or remaining life of the asset, whichever is longer. Impairment relating to IFRS9 adjustments will attract the same treatment.

4. Current Treasury Position

4.1. The capital expenditure plans set out in Section 2 provides a summary of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity and the Council's capital strategy. This will involve both the organisation of the cash flow and, where capital plans require, and the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

4.2. The overall treasury management portfolio as at 31 March 2020, and for the position as at at 8 February 2021, are shown in the following table for both borrowing and investment.

Treasury Portfolio	Actual 31.03.20 £000	Actual 31.03.20 %	Current 08.02.21 £000	Current 08.02.21 %
Treasury Investments				
Banks	9,700	100	13,800	58
DMADF (HM Treasury)	-	-	-	-
Money Market Funds	-	-	10,000	42
Total Treasury Investments	**9,700**	**100**	**23,800**	**100**
Treasury External Borrowing				
Local Authorities	(90,500)	19	(55,000)	12
PWLB	(369,587)	77	(369,587)	84
LOBOs	(17,500)	4	(17,500)	4
Total External Borrowing	**(477,587)**	**100**	**(442,087)**	**100**
Net Treasury Investment / (Borrowing)	**(467,887)**		**(418,177**	

4.3. **Indicator 4** - The Council's estimated treasury position at 31 March 2021, with estimates for future years, is summarised below. The table below shows the actual external borrowing (Gross Debt) against the estimated CFR.

Gross debt & capital financing requirement	2019/20 Actual £m	2020/21 Est £m	2021/22 Est £m	2022/23 Est £m	2023/24 Est £m
External Borrowing					
Market Borrowing	457.6	477.6	511.2	571.4	541.7
Repayment of borrowing	(17.5)	(110.5)	(49.6)	(12.1)	(5.0)
Expected change in borrowing	37.5	144.1	89.8	3.3	(0.2)
Capitalisation Direction	-	-	20.0	(0.9)	(0.9)
Other long-term liabilities	49.8	48.8	48.0	69.2	67.5
Gross Debt at 31 March	**527.4**	**560.0**	**619.4**	**630.9**	**603.1**
CFR	588.4	622.0	682.2	694.4	687.6
% of Gross Debt to CFR	**89.6%**	**90.0%**	**90.8%**	**90.8%**	**87.8%**

4.4. Based on the prudential indicators there are a number of key measures to ensure that the Council operates its activities within defined limits. One of these is that the Council needs to ensure that its total borrowing does not, except in the short-term, exceed the total of the CFR in the 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.

4.5. The Chief Finance Officer (S151) reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans and the proposals in this Medium-Term Financial Strategy (MTFS).

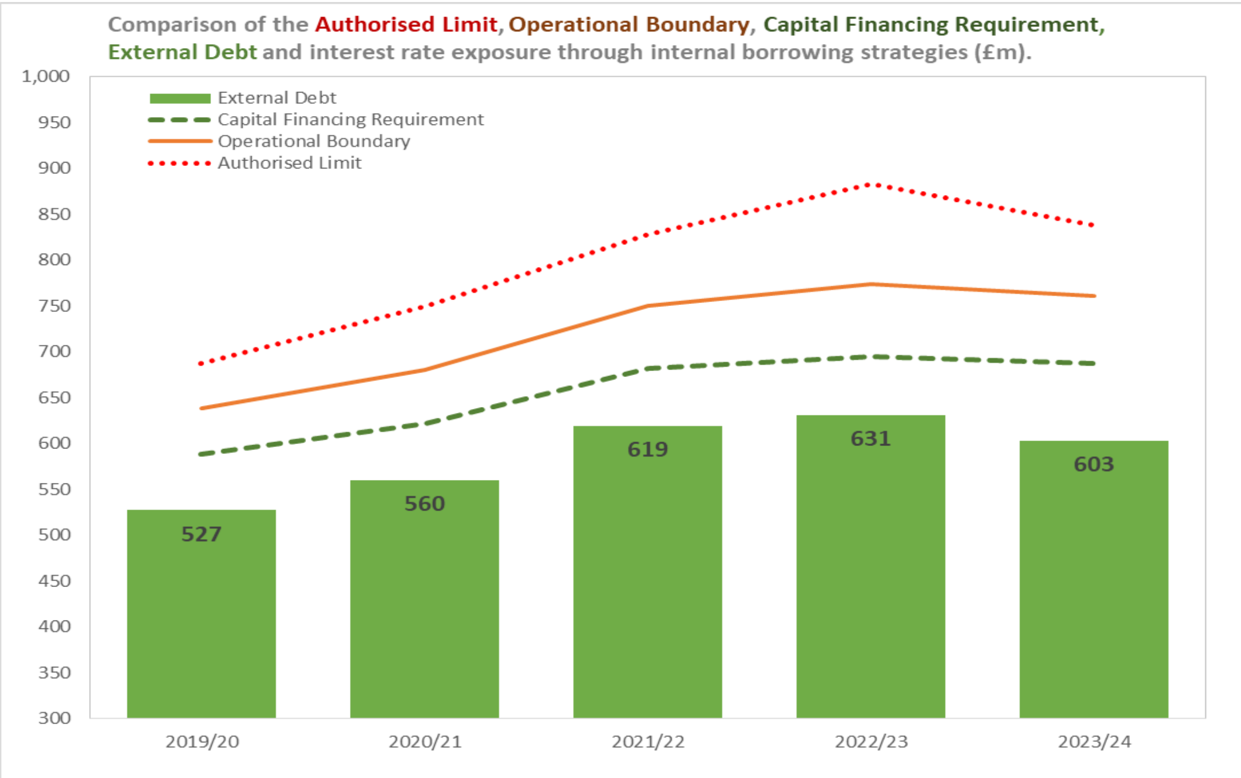
4.6. **Indicator 5** - The Operational Boundary - external borrowing is not normally expected to exceed this limit. If the operational boundary was exceeded this would be reported immediately to the members of the Audit Committee with a full report taken to the next committee meeting. In the current year it has not been exceeded. The Operational Boundary is set out below:

Operational Boundary	**2019/20 Actual £m**	**2020/21 Est £m**	**2021/22 Est £m**	**2022/23Est £m**	**2023/24 Est £m**
Borrowing	477.6	632.0	702.2	704.5	693.4
Other long-term liabilities	49.8	48.8	48.0	69.2	67.5
Total	**527.4**	**680.8**	**750.2**	**773.7**	**760.9**

4.7. **Indicator 6** - The Authorised Limit for external borrowing - this represents a limit beyond which external borrowing is prohibited. This limit is set and revised by full Council.

Authorised Limit	**2019/20 Actual £m**	**2020/21 Est £m**	**2021/22 Est £m**	**2022/23 Est £m**	**2023/24 Est £m**
Borrowing	477.6	700.8	780.2	813.7	770.9
Other long-term liabilities	49.8	48.8	48.0	69.2	67.5
Total	**527.4**	**749.6**	**828.2**	**882.9**	**838.4**

4.8. This is a statutory limit determined under section 3 (1) of the Local Government Act 2003. Government under sections 4(1) and 4(2) may limit either the total of all Council borrowing, or those of a specific Council, although this power has not yet been exercised.



5. Prospects for Interest Rates

5.1. The Council utilises the treasury services of Link Group and part of their service is to assist the Council to formulate a view on interest rates to assist with borrowing and investment decisions.

5.2. The Link Group forecast for bank base rate and PWLB new borrowing was updated on the 9th February 2021 as a consequence of the outcome of the Monetary Policy Report and is as follows (note that the PWLB Borrowing Rate includes the Certainty Rate adjustment).

Interest Rate *(All rates shown as %)*	Bank Rate View	5yr PWLB Rate	10yr PWLB Rate	25yr PWLB Rate	50yr PWLB Rate	Budget Assumption
Mar-21	0.10	0.90	1.30	1.90	1.70	1.50
Jun-21	0.10	0.90	1.30	1.90	1.70	1.40
Sep-21	0.10	0.90	1.30	1.90	1.70	
Dec-21	0.10	0.90	1.30	1.90	1.70	
Mar-22	0.10	1.00	1.40	2.00	1.80	
Jun-22	0.10	1.00	1.40	2.00	1.80	1.50
Sep-22	0.10	1.10	1.50	2.10	1.90	
Dec-22	0.10	1.10	1.50	2.10	1.90	
Mar-23	0.10	1.10	1.50	2.10	1.90	
Jun-23	0.10	1.20	1.60	2.20	2.00	1.60
Sep-23	0.10	1.20	1.60	2.20	2.00	
Dec-23	0.10	1.20	1.60	2.20	2.00	
Mar-24	0.10	1.20	1.60	2.20	2.00	

5.3. The Council successfully applied to be one of the principal local authorities that would qualify for the Certainty Rate, during the period 1 November 2020 to 31 October 2021. This results in the Council being able to benefit from reduced interest rates on PWLB loans by 20 basis points (0.20%). The Council is assuming that there will be a similar scheme in place when this scheme expires. The Council will submit a new application to ensure it qualifies.

5.4. When borrowing is undertaken an assessment of the prevailing interest rates is performed across the different period lengths and the debt taken will represent best value for money in accordance with the existing debt maturity profile and capital financing budget performance.

5.5. Link Group interest rate forecasts, are based on their views of the future economic climate, and below are some extracts taken from their economic forecasts:

- The Bank of England's Monetary Policy Committee (MPC) 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.
- 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 Report also mentioned a potential upside risk as an assumption had been made that consumers would only spend £6bn of their savings of £125bn once restrictions were eased. However, the risk is that that consumers could spend a lot more and more quickly.

• The Bank of England also removed negative interest rates as a possibility for at least six months as financial institutions are not ready to implement them. As in six months' time the economy should be starting to grow strongly, this effectively means that negative rates occurring are only a slim possibility in the current downturn. However, financial institutions have been requested to prepare for them so that, at a future time, this could be used as a monetary policy tool if deemed appropriate. (Gilt yields and PWLB rates jumped upwards after the removal of negative rates as a key risk in the short-term.)

• Prior to 4th February, the MPC's forward guidance outlined that the sequencing of a withdrawal of monetary policy support would be that Bank Rate would be increased first: and only once it had reached a certain level, 'around 1.5%', before a start would be made on winding down the stock of asset purchases made under QE. However, the MPC decided at the February meeting that this policy should be reviewed as to whether a start should be made first on winding down QE rather than raising Bank Rate.

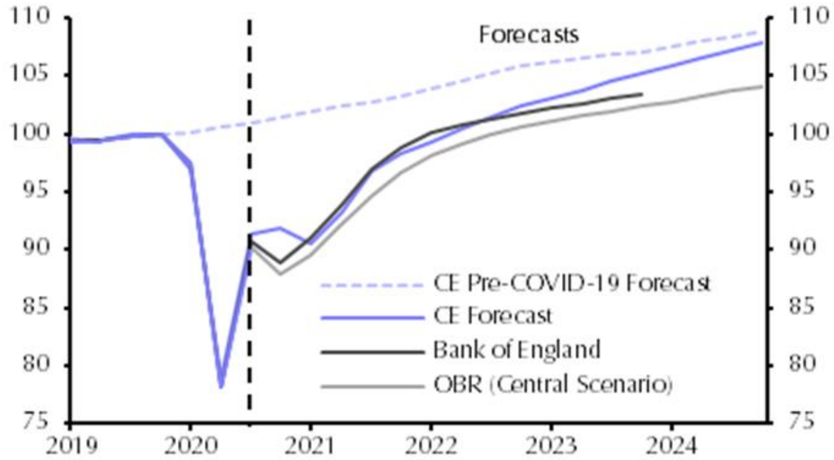
• The MPC reiterated its previous guidance that Bank Rate would not rise until inflation was sustainably above 2%. This means that it will tolerate inflation running above 2%

from time to time to balance out periods during which inflation was below 2%. This is termed average inflation targeting.

- Public borrowing was forecast in November 2020 by the Office for Budget Responsibility (the OBR) to reach £394bn in the current financial year, the highest ever peace time deficit and equivalent to 19% of GDP. In normal times, such an increase in total gilt issuance would lead to a rise in gilt yields, and so PWLB rates. However, the QE done by the Bank of England has depressed gilt yields to historic low levels, (as has similarly occurred with QE and debt issued in the US, the EU and Japan). This means that new UK debt being issued, and this is being done across the whole yield curve in all maturities, is locking in those historic low levels through until maturity. In addition, the UK has one of the longest average maturities for its entire debt portfolio, of any country in the world. Overall, this means that the total interest bill paid by the Government is manageable despite the huge increase in the total amount of debt. The OBR was also forecasting that the government will still be running a budget deficit of £102bn (3.9% of GDP) by 2025/26. However, initial impressions are that they have taken a pessimistic view of the impact that vaccines could make in the speed of economic recovery. It is now likely that total borrowing will probably reach around £420bn due to further Government support measures introduced as a result of further restrictions and the third national lockdown.

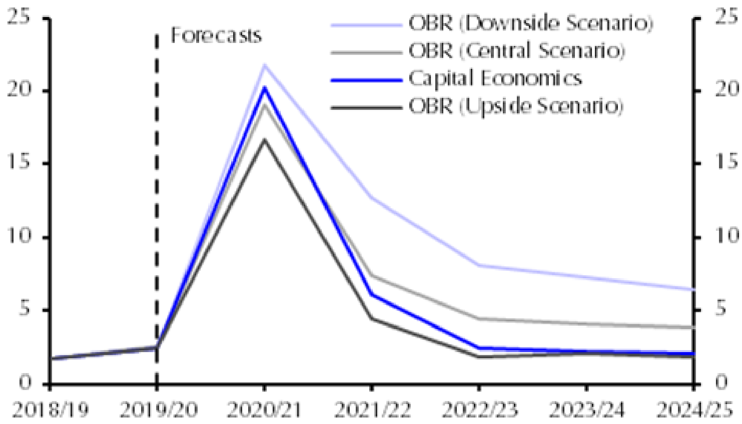
- Overall, the pace of recovery was not expected to be in the form of a rapid V shape, but a more elongated and prolonged one. The initial recovery was sharp after quarter 1 saw growth at -3.0% followed by -18.8% in quarter 2 and then an upswing of +16.0% in quarter 3; this still left the economy 8.6% smaller than in Q4 2019. While the one month 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. However, a strong recovery from a further contraction during quarter 1 2021 is expected in the second half of 2021 and is likely to mean that the economy recovers to its pre-pandemic level during Q1 2022.
- Vaccines – the game changer. 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 set a target to vaccinate 14 million people in the most at risk sectors of the population by 15th February; it has made good, and accelerating progress in hitting that target. The aim is also to vaccinate all over 50s by May and 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.
- Provided that both monetary and fiscal policy are kept loose for a few years yet, then it is still possible that in the second half of this decade, the economy may be no smaller than it would have been if COVID-19 never happened. The major concern though, is that new mutations of the virus might defeat the current batch of vaccines. However, work is already advanced to produce what may well become annual revaccinations each autumn with updated vaccines. In addition, countries around the world have ramped up vaccine production facilities and vastly improved testing regimes; they are therefore now much better equipped to deal effectively with any new outbreaks of mutations of this virus.

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



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

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



- 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.
- Brexit. The final agreement of a trade deal on 24.12.20 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. However, it is evident from problems with trade flows at ports in January and February, that work needs to be done to smooth out the issues and problems that have been created by complex customs paperwork, in order to deal with bottle necks currently being caused.
- Fiscal policy. In December, 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.
  - 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).
- The Financial Policy Committee (FPC) report on 6.8.20 revised down the 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%.

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

  - There is relatively little domestic risk of increases or decreases in Bank Rate in the near-term, nor significant changes in shorter-term PWLB rates. The Bank of England has effectively ruled out the use of negative interest rates anytime soon but increases in Bank Rate are likely to be some years away given the underlying economic expectations. However, it is always possible that safe haven flows, due to unexpected domestic developments and those in other major economies, could impact gilt yields, (and so PWLB rates).

6. Investment and Borrowing Rates

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

6.2. Borrowing interest rates fell to historically very low rates as a result of the COVID crisis and the quantitative easing operations of the Bank of England: Indeed, gilt yields up to six years were negative during most of the first half of 2020/21. 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. 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.

6.3. As a consequence of these increases in margins, many local authorities decided to refrain from PWLB borrowing unless it was for HRA or local infrastructure financing, until such time as the review of margins was concluded.

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

6.5. Borrowing for capital expenditure - 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.

6.6. Against this background and the risks within the economic forecast, caution will be adopted with the 2021/22 treasury operations. The Chief Finance Officer (S151) will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances.

6.7. There will remain a cost of carry to any new long-term borrowing that temporarily increases cash balances. This revenue cost is the difference between borrowing costs and investment returns.

7. Borrowing Strategy

7.1. The Council is currently maintaining an under-borrowed position, where the CFR balance is greater than gross debt, see Indicator 2, and chart on page 13. This is in line with the agreed strategy that the Council's cash balances be used to fund capital expenditure before additional borrowing is undertaken. This strategy is prudent as investment returns are low and counterparty risk is still an issue that needs to be considered.

7.2. The capital programme consists of three main types of capital projects:

- Invest to Save – Self Funding Schemes
- Specific Schemes – e.g. School Extensions

- Rolling Capital Projects e.g. Enhancing current assets

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

7.4. The MTFS is based on the following borrowing strategy for the next three years. The borrowing strategy is under constant review throughout the year monitoring changes in interest rates and borrowing opportunities. The proposed strategy for 2021/22 financial year is:

a) To consider the rescheduling (early redemption and replacement) of loans to maximise interest rate savings and possible redemption discounts.

b) Significant risk of a sharp fall in long- and short-term rates may arise. In this case long-term borrowings will be postponed, and potential rescheduling from fixed rate funding into short-term borrowing will be considered.

c) Significant risk of a much sharper rise in long and short-term rates than currently forecast may arise. This may arise due to a greater than expected increase in world economic activity or a sudden increase in inflation risks. In this case the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates were still relatively cheap.

d) To maintain an appropriate balance between PWLB, Local Authority and other market debt in the debt portfolio and a balance in the maturity profile of debt.

e) To give full consideration to other debt instruments e.g., Local Authority Bonds as an alternative to PWLB borrowing. Due regard will be given to money laundering regulations. The Council is monitoring the development of the scheme and may participate if this proves beneficial.

8. New Borrowing Approaches to Be Considered

8.1. To realign the loan maturity profile with the rate of the existing CFR debt will be financed by taking out shorter term Local Authority Loans. In the current climate this will reduce interest costs in the short term.

8.2. Currently the PWLB Certainty Rate is set at gilts + 80 basis points for both HRA and non-HRA borrowing. However, consideration may still need to be given to sourcing funding at cheaper rates from financial institutions (primarily insurance companies and pension funds but also some banks, out of spot or forward dates) and the Municipal Bonds Agency. The Council's advisors will keep us informed as to the relative merits of each of these alternative funding sources.

8.3. Maturing long-term debt is replaced by new borrowing. To achieve long-term financial sustainability the Council should aim to reduce its overall debt and the associated financing costs including interest. A high value of outstanding debt represents a financial risk because of potential interest rate changes.

8.4. The use of Capital receipts or S106 receipts to make MRP is a one-off revenue saving. Using these funds in this way means they are not available to fund Capital assets and reduce the overall borrowing requirement.

8.5. Interest rates are liable to change. In the event of significant changes, the Council seeks to avoid an increased revenue cost on its capital financing charges.

8.6. The Treasury Management Strategy uses the planned Capital Programme to calculate the borrowing requirement. Typically, the Council does not spend at the planned level in any financial year.

8.7. Link Group have a product that will allow the Council to borrow from the market at current interest rates with a small premium but not draw down the funds until they are required - ‘forward borrow’.

9. Treasury Debt Prudential Indicators

9.1. There are three debt treasury indicators which ensure debt structure remains within appropriate limits. This manages risk and reduces the impact of any adverse movement in interest rates.

9.2. **Indicator 7** – Upper limit on fixed interest rate exposure. This identifies a maximum limit for fixed interest rates based upon the debt position net of investments. This has been set at 100% of the borrowing requirement.

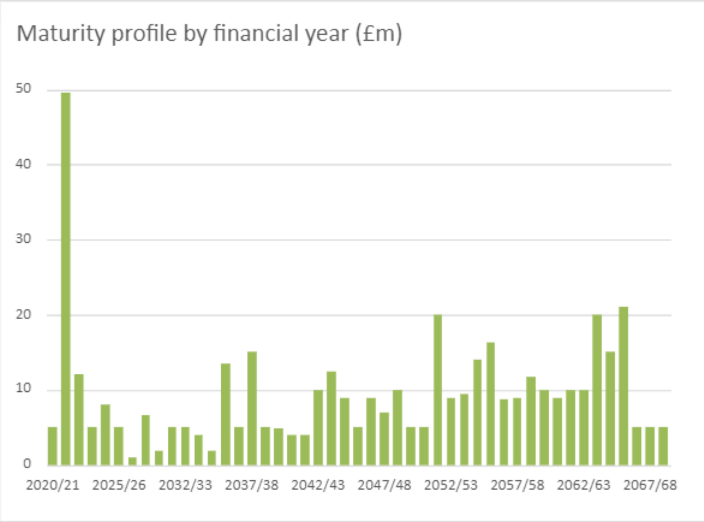
9.3. **Indicator 8** - Upper limit on variable rate exposure. This identifies a maximum limit for variable interest rates based upon the debt position net of investments. This has been set at 25% of the borrowing requirement.

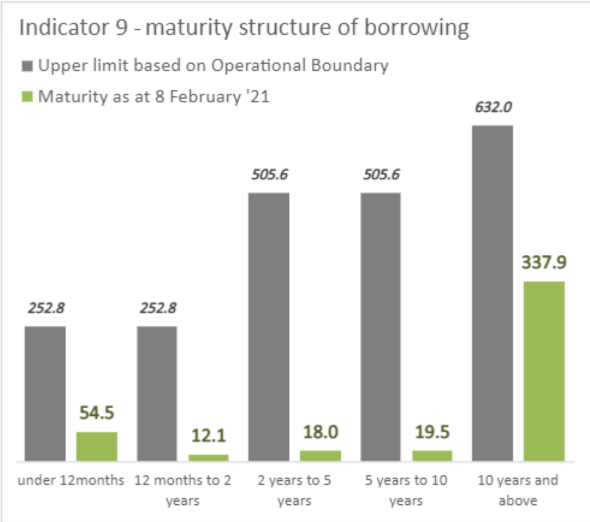
Interest Rate Exposure (Upper Limits)	**2019/20 Actual £m**	**2020/21 Est £m**	**2021/22 Est £m**	**2022/23 Est £m**	**2023/24 Est £m**
(7) Limits on fixed interest rate net debt	477.6	712.1	744.4	744.5	703.4
% of fixed interest rate exposure	100%	100%	100%	100%	100%
(8) Limits on variable interest rate on net debt	-	178.0	186.1	186.1	175.9
% of variable interest rate exposure	0%	25%	25%	25%	25%

9.4. **Indicator 9** - Maturity structure of borrowing. These gross limits are set to reduce the Council’s immediate exposure to large fixed rate sums falling due for refinancing.

Maturity structure of borrowing	**Upper Limit**	**As at 8 February 2021**
Under 12 months	40%	12.33%
12 months to 2 years	40%	2.74%
2 years to 5 years	80%	4.07%
5 years to 10 years	80%	4.42%
10 years and above	100%	76.44%

9.5. The following chart shows the Council’s debt maturity profile by financial year as at 8 February 2021, and the above indicator limits based on the Operational Boundary compared with current perfomance:





10. Policy on Borrowing in Advance of Need (Future Capital Expenditure)

10.1. The Council will not borrow more than it requires, or in advance of its needs, purely in order to profit from the investment of the extra sums borrowed. However, at any time the Council may obtain a loan or other financing at what are considered advantageous terms in anticipation of future capital expenditure. The money borrowed will be invested temporarily. The Council may also borrow in the day-to- day management of its cash flow operations or as an alternative to redeeming higher yielding investments.

10.2. The Council will ensure there is a clear link between the capital programme across the future years and the maturity profile of the existing debt portfolio which supports the need to take funding in advance of capital expenditure.

10.3. The Council will ensure the ongoing revenue liabilities created, and the implications for the future plans and budgets have been considered and factored into the MTFS.

10.4. Consideration will be given to the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use.

11. Debt Rescheduling on Existing Debt Portfolio

11.1. Rescheduling of current borrowing in our debt portfolio is unlikely to occur as there is still a very large difference between premature redemption rates and new borrowing rates, even though the general margin of PWLB rates over gilt yields was reduced by 100 bps in November 2020.

12. Investment Strategy Principles

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

12.2. The Council’s investment policy has regard to the following: -

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

12.3. The MHCLG and CIPFA have extended the meaning of ‘investments’ to include both financial and non-financial investments. This report deals solely with financial investments, (as managed by the treasury management team).

13. Investment Counterparty Selection Criteria and Financial Investment Strategy

13.1. As the Council has run down its cash balances, surplus cash will be generated from cash flow movements e.g., a grant received in advance of spend or from borrowing in advance of need. Therefore, investment activity will be kept to a minimum.

13.2. However, where it is necessary for investments to be undertaken in order to manage the Council’s cash flows, the Council’s primary principle is for the security of its investments. 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.
- 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.

13.3. The Chief Finance Officer (S151) will maintain a counterparty list in compliance with the set out below. Any revision of the criteria will be submitted to Council for approval as necessary.

13.4. The Councils minimum criteria will apply to the lowest rating for any institution according to the type of investment account being used. For instance, the credit rating criteria for the use of the Council’s call accounts and Money Market Funds, which are used for short-term investments only, will use the Short-Term credit ratings in the table shown within 13.5. If an institution is rated by the three credit agencies and two meet the Council’s criteria and the other one does not, the institution will fall outside the lending criteria. This complies with a CIPFA Treasury Management Panel recommendation in March 2009 and the CIPFA Treasury Management Code of Practice 2017.

13.5. In order to minimise the risk to investing, the Council has clearly stipulated the minimum acceptable credit quality of counterparties for inclusion on the lending list. The Council uses the creditworthiness service provided by Link Group which uses ratings from all three rating agencies, Fitch, Moody’s and Standard and Poor’s, as well as Credit Default Swap (CDS) spreads. Link Group monitors ratings on a real time basis and notifies clients immediately on any rating changes or possible downgrades. Minimum Credit Ratings Criteria – further explanations are given in Annex 1.

Minimum Credit Ratings for Group 2 Banks		
Agency	**Short-Term**	**Long-Term**
Fitch	F1	AA+

Moody's	P-1	Aa1
Standard & Poor's	A-1	AA+

13.6. All credit ratings will be monitored weekly. The Council is alerted to changes to ratings of all three rating agencies by Link creditworthiness service

13.7. The Council does not place sole reliance on the use of Link Groups advice as the Council uses internal expertise and knowledge to make decisions. Market data, market information, information on government support for banks and the credit ratings of that government support are also considered when making treasury decisions.

13.8. The criteria for providing a pool of high-quality investment counterparties (both Specified and Non-Specified investments), and is shown in the order of use by the Council, all of the following are subject to continuous credit rating reviews:

- Money Market Funds
- UK Government (including gilts and the Debt Management Account Deposit Facility (DMADF)).
- Bank of Scotland call account (part of the Lloyds Banking Group).
- UK Local Authorities.

13.9. The Council also uses Barclays Bank, the Council's own banker. If Barclays fall below the criterion in 13.5 then the following strategy will be followed:

- with regard to the three credit rating agencies, if one reduces its rating but the other two remain the same or improve, the Council will reduce the maximum of £15m in the call account to £5m and a keep a low balance in the current account.
- if two or more credit rating agencies reduce their ratings below the criteria in 13.5 the Council will still require to use the Barclays accounts for transactional purposes, so maximum balance of £500k will be left overnight in the current account to prevent the account becoming overdrawn and incurring overdraft fees.
- Seek advice from Link Group

13.10. The above action applies to Barclays only due to its status as the Council's banking provider. Use of other bank accounts would be subject to criteria set out in the point 13.5. The above approach to Barclay's Bank has been developed following consideration that the Council needs banking facilities to process daily banking transactions, and such activity presents a lower risk profile compared to investment activity the significant impact, resource requirement, and risk exposure of changing bank provider the possible state and stability of the banking sector and viable alternative suppliers.

- Banks Group 1 - Part nationalised UK banks - Lloyds Banking Group Plc. (Bank of Scotland and Lloyds) and Royal Bank of Scotland Group Plc. (National Westminster Bank, The Royal Bank of Scotland and Ulster Bank Ltd). These banks can be included if they continue to be part nationalised and / or they meet the ratings in 14.6.
- Banks Group 2 – good credit quality - the Council will only use banks which are UK banks and have the minimum credit ratings criteria relating to the type of investment being undertaken.
- Building Societies – if they meet the ratings above
- Money Market Funds – AAA - rated by Fitch
- Bill Payment Service – The Council currently has a contract with Santander UK who collect payments of Council Tax through the post office via various methods of payment such as Paypoint. The funds that are collected are transferred to the Council daily thus

minimising the risk of Santander UK holding the Council's cash. This arrangement for the bill payment service falls outside the investment criteria for investments therefore any downgrade of Santander UK will not affect this service. However, this arrangement will be closely monitored to ensure funds continue to be transferred daily.

13.11. The Council's lending list will comprise of the institutions that meet the investment criteria above. Each counterparty on the list is assigned a counterparty limit as per the table in Annex 1. Counterparties that no longer meet the investment criteria due to a credit rating downgrade will be removed from the list and any changes will be approved by Council. Approval will also be required if any new counterparties are added to the lending list.

13.12. Link Group approach to assessing creditworthiness of institutions is by combining credit ratings, credit watches and credit outlooks to produce a colour coding system. The Council will use counterparties within the following maximum maturity periods, in order to mitigate the risk of investing in these institutions:

Link Asset Services Banding	Description
Blue	1 year (only applies to nationalised / semi nationalised UK banks)
Orange	1 year
Red	6 months
Green	100 days
No colour	The Council will not invest with these institutions

13.13. The proposed criteria for Specified and Non-Specified investments are shown in Annex 1 for approval.

13.14. **Indicator 10** - Upper limit for total principal sums invested for over 365 days excluding loans. This limit is set with regard to the Council's liquidity requirements and to reduce the need for an early sale of an investment and is based on the availability of funds after each year-end and up-dates are reported to the Audit Committee at midyear.

Overall limit for sums invested over 365 days	2019/20 Actual £m	2020/21 Est £m	2021/22 Est £m	2022/23 Est £m	2023/24 Est £m
Principal sums invested 365 days	0.0	0.0	10.0	10.0	10.0

14. Loans Made to Third Parties

14.1. The Council makes secured loans to third parties to advance the Council's strategic interests.

14.2. Loans are only made after the Council's formal decision-making process has been followed. This includes formal approval by the Chief Finance Officer (S151).

14.3. As part of the formal decision to make the loan, the security for the loan will be assessed as to its adequacy in the event of the third party defaulting on repayment.

14.4. Non treasury investments are disclosed in the Capital Strategy.

14.5. A facility for an unsecured loan to Peterborough Limited, a Council wholly own company, of £1.75m was agreed at the end of the 2019/20 financial year for a period of five years. As at

31 March 2020, the full £1.75m of this loan had been draw down, £0.15m of which was a capital loan.

14.6. Further unsecured loans to Council owned Local Authority Trading Companies (LATCo's) only may require to be issued during the financial year and will only be issued in accordance with the governance set out in point 14.2 above.

15. Non-financial Investments

15.1. The Council does currently not hold any non-financial investments whose purpose is to generate revenue to support core services. For further information see the Acquisitions Policy.

16. Treasury Management Scheme of Delegation

16.1. The following is a list of the main tasks involved in treasury management and who in the Council is responsible for them:

Full Council / Audit Committee

- Receiving and reviewing reports on treasury management policies, practices and activities.
- Approval of the Annual Strategy.

Audit Committee / S151 Officer (Chief Finance Officer (S151))

- Approval of / amendments to the Council's adopted clauses, Treasury Management Policy Statement and Treasury Management Practices.
- Budget consideration and approval.
- Approval of the division of responsibilities.
- Receiving and reviewing regular monitoring reports and acting on recommendations.

Section 151 Officer (Chief Finance Officer (S151)) / Head of Corporate Finance

- Reviewing the Treasury Management Policy and procedures and making recommendations to the responsible body.
- Recommending clauses, treasury management policy/practices and making recommendations to the responsible body.
- Submitting regular treasury management 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 advisors

17. Housing Revenue Account (HRA)

17.1. The Regulator of Social Housing confirmed the Council as a Registered Provider on 2nd November 2020. This follows the Cabinet decision of September 2019 to explore the viability of opening an HRA and engaging in the supply of affordable housing. Discussions have taken place with Homes England to explore potential funding opportunities. An outline business case and project timetable are due to be presented at the March Cabinet where the strategic direction of this area will be decided. As detailed plans for its mobilisation will be dependent on this strategic decision, these plans have not been included in the current Treasury Management strategy.

17.2. If it is agreed to move forward with an HRA a revised Treasury Management Strategy will be produced which will include separately identified HRA capital expenditure and associated accumulated debt and further indicators relating to the affordability of this expenditure.

Specified Investment Credit Criteria and Limits

Specified Investment:

- Offer high perceived security such as placements with Central Government Agencies, Local Authorities or with organisations that have strong credit ratings
- They offer high liquidity i.e. short-term or easy access to funds
- Are denominated in £ sterling
- Have maturity dates of no more than 1 year
- For an institution scheme to qualify as a 'Specified Investment' it must have a minimum rating (see Section 14.6)

Investment Type	Maximum Maturity Period	Minimum Credit Criteria	Collective Limit £m	Individual Limit £m
Deposit accounts with regulated UK Banks and UK Building Societies	Repayable on call, without notice	Minimum of two short-term rating criteria	100	15
Money Market Funds repayable on call, no notice	Call	Minimum rating – AAA (Fitch)	50	10
Debt Management Agency Deposit Facility	6 months currently	UK Government backed	N/A	75
Term Deposits UK Government & Local Authorities	Maturities of up to 1 year	Sovereign risk high security not credit rated	100	20
Term Deposits & Certificates of Deposit Banks Group 1	Maturities of up to 1 year	Minimum of three short-term rating criteria	100	75
UK Government & Local Authority Stock Issues	Maturities of up to 1 year	Sovereign risk high security not credit rated	100	20
Term deposits & Certificates of Deposit Banks Group 2	6 months	Minimum of three short-term rating criteria	50	10
Forward Term Deposits with Regulated UK Banks	Maturities of up to 1 year	Minimum of three short-term rating criteria	100	15

Non-specified Investment Credit Criteria and Limits

- With the same institutions classified as “specified” investments but have maturity dates in excess of one year – once an investment is classed as non-specified, it remains non-specified all the way through to maturity i.e. an 18 month deposit would still be non-specified even if it has only 11 months left until maturity -, or
- Are offered by organisations that are not credit rated or the credit rating does not meet the criteria set out above
- In the current economic climate, the Council has run down its cash balances as an alternative to borrowing and investments have been made short-term and the Council would not consider using investments that fall under the ‘Non-Specified’ Investments category at this time
- If the Council decide to use these investments then Indicator 11 will need to be revised

Investment Type	Maximum Maturity Period	Minimum Credit Criteria	Collective Limit £m	Individual Limit £m
Term deposits with UK Government & Local Authorities	1-5 years	Sovereign risk high security not credit rated	20	20
Term deposits & Certificates of Deposit with Banks Group 1	1-5 years (tradable)	F1(Fitch – short-term) AAA (long-term)	10	10
UK Government & Local Authority Stock Issues	1-10 years (tradable)	Sovereign risk high security not credit rated	10	10
Term deposits & Certificates of Deposit with Banks Group 2	1-5 years (tradable)	F1 (Fitch-short-term) A (long--term)	20	10
Deposit accounts with regulated UK building societies	1 – 5 years	F1 (Fitch short-term) A (long-term)	5	5
Term deposits UK building societies no formal credit rating	Up to 1 year	Financial position assessed by Chief Finance Officer (S151).	5	5
Bonds issued by financial institution guaranteed by UK Govt	1-10 years (tradable)	UK Govt backed AAA (Fitch, S&P etc.)	5	5

In the current economic climate, the Council has run down its cash balances as an alternative to borrowing and investments have been made short-term and the Council would not consider using investments that fall under the ‘Non-Specified’ Investments category at this time.

Explanation of Credit Ratings

Agency	Short-Term	Long-Term
Fitch	F1-Highest short-term credit quality. Indicates the strongest intrinsic capacity for timely payment of financial commitments; a “+” may be added to denote any exceptionally strong credit feature.	A-High credit quality. ‘A’ ratings denote expectations of low credit risk. The capacity for payment of financial commitments is considered strong. This capacity may, nevertheless, be more vulnerable to adverse business or economic conditions than is the case for higher ratings.
Moody’s	P-1-superior ability to repay short-term debt obligations	Aa-high quality and are subject to very low credit risk
Standard & Poor’s	A-1-The obligor’s capacity to meet its financial commitment on the obligation is strong. Within this category, certain obligations are designated with a plus sign (+). This indicates that the obligor’s capacity to meet its financial commitment on these obligations is extremely strong.	A-more susceptible to the adverse effects of changes in circumstances and economic conditions. However, the obligor’s capacity to meet its financial commitment on the obligation is still strong.

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