APPENDIX A

Treasury Management Strategy Statement

Annual Investment Strategy and Minimum Revenue Provision Policy Statement

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2020/21

1. Introduction

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

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

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

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

1.5. Treasury Management is defined by the Chartered Institute of Public Finance and Accountancy (CIPFA) 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.” The Council’s Treasury Management Policy Statement is included at <u>Annex 1.</u>

2. Reporting Requirements

Capital Strategy

2.1. The CIPFA 2017 Prudential and Treasury Management Codes require all local authorities to prepare an additional report - a capital strategy - 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.

2.2. The aim of the Capital Strategy is to ensure that all elected Members fully understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite.

2.3. The Capital Strategy is reported separately from the Treasury Management Strategy Statement and includes non-treasury investments. This ensures the separation of the core treasury function under security, liquidity and yield principles, and the policy and commercialism investments usually driven by expenditure on an asset.

2.4. The capital strategy also includes a section specifically on loans to third parties – how these are assessed and the steps undertaken to determine the interest rate.

2.5. Where a physical asset is being purchased as part of the capital strategy, details of research, advice, ongoing costs and investment requirements and any credit information will be disclosed as part of the business case, including the ability to sell the asset and realise the investment cash.

2.6. Where the Council has borrowed to fund any non-treasury investment, there should also be consideration in the business case of why borrowing was required and if applicable, why the MHCLG Investment Guidance and CIPFA Prudential Code have not been adhered to.

2.7. If any non-treasury investment sustains a loss during the final accounts and audit process, the strategy and revenue implications will be reported.

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

Treasury Management Reporting

2.9. The Council is required to receive and approve, as a minimum, three main reports each year:

a. **Treasury Strategy**, which looks forward at least three years and includes:
   - Treasury Management Strategy, explaining how the investments and borrowings are to be organised, including treasury indicators;
   - The Council's capital plans, including prudential indicators;
   - Minimum Revenue Provision (MRP) policy, stating how residual capital expenditure is charged to revenue over time; and
   - Investment Strategy, stating the parameters on how investments are to be managed.

b. **Mid-Year Treasury Management Report***,* which updates members on treasury activities during the financial year and provides for revisions to the Treasury Strategy and indicators as necessary.

c. **Annual Treasury Report**, which provides the outturn for the previous financial year, summarises the treasury activity for that year and includes a full listing of actual prudential indictors.

2.10. The Treasury Management Strategy Statement contained in this Appendix addresses the first of these requirements.

2.11. The Audit & Accounts Committee has delegated responsibility for scrutinising the treasury function prior to reports being formally approved at Council.

2.12. The respective roles & responsibilities of the Council, its Audit & Accounts Committee and the Section 151 Officer are noted in <u>Annex 2</u>.

3. Treasury Management Strategy Statement 2020/21

3.1. The 2020/21 Treasury Management Strategy Statement comprises the following principal elements:

Capital Programme *(section 6)*	Capital plans and the prudential indicators Minimum revenue provision (MRP) policy
Treasury Management *(section 7)*	Current treasury position Treasury indicators Prospects for interest rates The borrowing strategy
The Annual Investment Strategy *(section 8)*	Investment policy Creditworthiness policy Investment income

3.2. The Treasury Management Strategy Statement meets the requirements of the Local Government Act 2003, the CIPFA Prudential Code, MHCLG MRP Guidance, the CIPFA Treasury Management Code and MHCLG Guidance.

4. Training

4.1. The CIPFA Code requires the responsible officer (the Chief Finance Officer) to ensure that Members and Officers with responsibility for treasury management receive adequate training. Training is particularly important for Members who are responsible for the scrutiny of the Council's treasury management. A bite size briefing training session was provided for the Audit Committee in June 2019.

4.2. A skills assessments is completed by Members of the Audit Committee periodically. The outcomes of these assessments will be incorporated into a training plan – including any treasury management training needs and training events organised as required.

5. Treasury Management Consultants

5.1. The Council has appointed Link Asset Services: Treasury solutions as its external treasury management advisor, providing the Council with access to specialist skills and resources. The Council recognises that the 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.

5.2. It also recognises that there is a 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 appointment of treasury advisors and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

6. The Capital Programme & Prudential Indicators

Capital Expenditure

6.1. The capital expenditure prudential indicator comprises a summary of the Council's capital programme, which is a key driver of treasury management activity.

6.2. The table below summarises the Council's capital expenditure plans and how these plans are to be financed. Any shortfall of resources results in a funding borrowing need:

	2018/19 Actual	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
	£	£	£	£	£	£
Capital Expenditure:	**2,227,000**	**3,308,000**	**6,005,000**	**3,413,000**	**2,608,000**	**2,371,000**
General Fund Services	2,227,000	3,249,000	6,005,000	3,395,000	2,608,000	2,310,000
*Commercial activities/ non-financial investments**	0	59,000	0	18,000	0	61,000
Financed by:						
External Contributions	878,000	1,211,000	1,227,000	1,500,000	1,500,000	1,500,000
S106 Contributions	130,000	0	0	0	0	0
Capital Receipts	0	0	93,000	16,000	0	11,000
Earmarked Reserves	0	0	221,000	0	0	0
Capital Reserves	574,000	1,285,000	215,000	0	0	0
Net Financing Need for Year	**645,000**	**812,000**	**4,249,000**	**1,897,000**	**1,108,000**	**860,000**

**Commercial activities/ non-financial investments relate to areas such as capital expenditure on investment properties, loans to third parties etc.*

6.3. The net financing need for commercial activities/ non-financial investments included in the above table against expenditure is shown below:

	2018/19 Actual	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
	£	£	£	£	£	£
Commercial activities/ non-financial investments	0	59,000	0	18,000	0	61,000
Financed by	0	0	0	0	0	0
Net Financing Need for Year	**0**	**59,000**	**0**	**18,000**	**0**	**61,000**
Percentage of total net financing need	0%	7%	0%	1%	0%	7%

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

6.4. The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is the total outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. This is essentially a measure of the Council's underlying borrowing need.

6.5. The CFR increases each time the Council procures capital expenditure that it does not immediately pay for (i.e. the CFR increases when its expenditure is financed through borrowing).

6.6. Local authorities are required each year to set aside some of their revenues as provision for debt repayment. This is known as the Minimum Revenue Provision (MRP). The CFR is reduced each year by this MRP; each year's borrowing need is divided by the life of the assets for which borrowing was undertaken, resulting in an annual charge to revenue, thus reducing the Council's CFR.

6.7. The CFR includes any other long term liabilities (e.g. leases held on the balance sheet). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility and so the Council is not required to separately borrow for these schemes. The Council had £0 of these schemes within the CFR at 1st April 2019.

6.8. A new accounting standard, IFRS16, is being implemented in the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom and therefore the Council's accounts from 20202/21. This standard relates to 'Right-of-Use' assets and effectively replaces the former accounting standard for Leasing. The value of the Right-of-Use assets will similarly increase the CFR. The estimated impact of this change is expected to be immaterial, therefore is not included at this stage. Should any changes to the CFR be significant, this will be revised during the year.

6.9. The Council's Capital Financing Requirement is shown in the table below:

	2018/19 Actual	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
Capital Financing Requirement (CFR)	**£**	**£**	**£**	**£**	**£**	**£**
CFR – services	16,230,000	16,936,000	21,182,000	22,732,000	23,495,000	23,907,000
CFR – Commercial activities/ non-financial investments	0	59,000	(1,000)	17,000	(2,000)	59,000
Total CFR	**16,230,000**	**16,995,000**	**21,181,000**	**22,749,000**	**23,493,000**	**23,966,000**
Movement in CFR	*(242,000)*	*765,000*	*4,186,000*	*1,568,000*	*744,000*	*473,000*
Represented by:						
Net financing need for the year	645,000	812,000	4,249,000	1,897,000	1,108,000	860,000
Less Minimum Revenue Provision*	(887,000)	(47,000)	(63,000)	(329,000)	(364,000)	(387,000)
Movement in CFR	***(242,000)***	***765,000***	***4,186,000***	***1,568,000***	***744,000***	***473,000***

* *MRP in 2018/19 includes cessation of former finance leases; increase in MRP in 2021/22 onwards due to purchase of fleet vehicles*

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

Minimum Revenue Provision (MRP) Policy Statement

6.11. The Council is required each year to set aside some of its revenues as provision for debt repayment. This essentially allows to Council to "pay off" an element of the Capital Financing Requirement annually through a revenue charge known as the Minimum Revenue Provision (MRP). The Council is also allowed to undertake additional voluntary payments if required (voluntary revenue provision, VRP).

6.12. MHCLG regulations require the full Council to approve an MRP Statement in advance of each year. A variety of options are provided to councils, so long as there is a prudent provision. The Council is recommended to approve the following: For capital expenditure incurred before 1 April 2008, the MRP is based on a 4% reduction on the CFR balance each year; from 1 April 2008 for all unsupported borrowing (including finance leases) the Council will apply the 'Asset Life Method' under which MRP is based on the estimated life of the asset for which the borrowing is undertaken. This provides a reduction in the borrowing need over the asset's life.

6.13. If the Council makes a capital loan to a third party without repayment until maturity which creates a borrowing requirement for the Council, it will consider whether MRP should be set aside. Where security is in place against the loan, an Expected Credit Loss assessment will be performed periodically, at least at each Balance Sheet date, under IFRS9. Where this security is found to have maintained or increased its value to the satisfaction of the value of the loan, MRP will not necessarily be required. Where the Expected Credit Loss assessment is not favourable, a voluntary revenue provision will be made, which could be reversed at a later date should the situation improve.

6.14. The MHCLG MRP Guidance allows any charges made in excess of the statutory minimum revenue provision, i.e. voluntary revenue provision (VRP) or overpayments to be reclaimed in later years if deemed necessary or prudent. In order for these sums to be reclaimed for use in the budget, this policy must disclose the cumulative overpayment made each year. Up until 31st March 2019, the total VRP overpayments were £0.

6.15. Any deviation from the MRP policy – for example in respect of commercial investment, must be fully appraised and justified in consideration of risk.

6.16. The Council agreed to provide a loan of £20m to Ascent LLP for an initial period of 5 years, with an option to refinance on maturity. £14million of this loan has now been drawn; £6million of the original facility remains.

6.17. The Council has funded the majority of the loan through external borrowing with internal borrowing where appropriate. The initial term of the loan is 5 years (relatively short-term) and the loan is secured as a priority debtor of the company, therefore there is no MRP requirement for the borrowing undertaken in respect of the Ascent loan.

6.18. The first tranche of the loan of £7,000,000 reached the end of the initial 5 year term in October 2017 and has been refinanced between Ascent and the Council on a rolling 1 year basis, with the most recent arrangement in place until October 2020. Similarly, the second tranche of the loan of

£7,000,000 reached the end of the initial term in November 2019; this too has been refinanced until November 2020. These refinancing arrangements are pending the outcome of the Ascent Business Plan Review which will inform any further longer-term refinancing. Therefore, at this stage there is still no requirement for MRP.

Use of the Council's Resources and Investment Position

6.19. The Council builds up capital and revenue reserves as necessary for future application. The application of these resources to either finance capital expenditure or to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (for example, asset sales, revenue surpluses). Reserves are invested, pending application, to earn a return which supplements the revenue budget.

6.20. An estimate of the amount available at year end for core investment including revenue and capital reserves and balances is shown in the table below:

Year End Resources	2018/19 Actual	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
	£	£	£	£	£	£
Total Reserves	**10,547,000**	**9,902,000**	**10,280,000**	**10,233,000**	**10,070,000**	**10,121,000**
Working capital *	180,000	0	0	0	0	0
(Under)/over borrowing	(5,230,000)	(4,995,000)	(4,932,000)	(4,603,000)	(4,239,000)	(3,852,000)
Expected core investments	**5,497,000**	**4,907,000**	**5,348,000**	**5,630,000**	**5,831,000**	**6,269,000**

** Shown as '0' for estimation purposes as dependent on the value of creditors/debtors at year end*

Affordability Prudential Indicators

6.21. The previous sections outline the Council's capital expenditure plans and funding requirements. This section assesses the affordability of capital investment plans and the impact on the Council's overall finances.

Ratio of financing costs to net revenue stream

6.22. This indicator identifies the trend in the cost of capital (borrowing costs net of investment income) as a percentage of the Council's net revenue stream (Council Tax and Business Rates receipts & Government funding).

	2018/19 Actual	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
Services	0.76%	(0.45%)	0.10%	3.19%*	3.51%	3.62%
Commercial activities/ Non-financial investments**	(3.79%)	(5.24%)	(4.21%)	(3.69%)	(3.48%)	(3.38%)
Total	**(3.03%)**	**(5.69%)**	**(4.11%)**	**(0.50%)**	**0.03%**	**0.24%**

** increasing financing costs (MRP) in 2021/22 from forecast borrowing on fleet programme.*
*** financing costs on commercial activities/ non-financial investments are a net income.*

Interest payable & interest receivable

6.23. Given the capital projections above, interest payable & interest receivable budgets for the next three years are forecast as follows:

	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
Borrowing Costs*	£332,730	£724,750	£810,210	£866,870
Ascent Loan & Debenture Income	(£645,390)	(£655,100)	(£665,100)	(£655,100)
Investment Income	(£88,510)	(£119,970)	(£152,030)	(£186,370)

*MRP related to IFRS16 Right-of-Use assets not included in the budget

7. Treasury Management

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

Current Debt Position

7.2. The Council's debt position at 31st March 2019 and its forward projections are summarised below. The table shows the actual external debt against the underlying borrowing need (the Capital Financing Requirement) highlighting any under or over borrowing.

	March '19 Actual £	**March '20 Estimate £**	**March '21 Estimate £**	**March '22 Estimate £**	**March '23 Estimate £**	**March '24 Estimate £**
External Borrowing	11,000,000	12,000,000	16,249,000	18,146,000	19,254,000	20,114,000
Other long-term liabilities*	0	0	0	0	0	0
Gross Debt at 31st March	**11,000,000**	**12,000,000**	**16,249,000**	**18,146,000**	**19,254,000**	**20,114,000**
Change in Debt position	(1,854,000)	1,000,000	4,249,000	1,897,000	1,108,000	860,000
Capital Financing Requirement	**16,230,000**	**16,995,000**	**21,181,000**	**22,749,000**	**23,493,000**	**23,966,000**
(Under)/ over borrowing	(5,230,000)	(4,995,000)	(4,932,000)	(4,603,000)	(4,239,000)	(3,852,000)

* Other *long-term liabilities will include Right-of-Use assets under accounting standard IFRS16 to be adopted from 2020/21. These are assets formerly known as operating leases which will be included on the balance sheet and therefore increase the CFR, similar to the former treatment of Finance Leases. The impact is expected to be immaterial therefore is not included at this stage. Should any changes be significant, the CFR limit and forecast will be revised during the year.*

7.3. The Council is required to ensure that its Gross Debt does not, except in the short term, exceed the total of the Capital Financing Requirement (CFR) in the preceding year plus the estimates of any additional CFR for the current year and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue or speculative purposes.

7.4. The Council is complying with this indicator in the current year and does not envisage any difficulty in complying over the life of the Medium Term Financial Plan. This view takes into account current budget and future proposals with regard to the capital programme.

Treasury Indicators - Limits to Borrowing Activity

7.5. The Council sets limits to ensure that the revenue consequences of the capital programme on external borrowing remain affordable.

Operational Boundary

7.6. This is the limit beyond which external debt is not normally expected to exceed. This represents the Capital Financing Requirement plus an additional allowance to cover short-term liquidity requirements.

Operational boundary	**2019/20 Set**	**2020/21 Settimg**	**2021/22 Estimate**	**2022/23 Estimate**	**2023/24 Estimate**
	£	**£**	**£**	**£**	**£**
Capital Financing Requirement	18,318,000	21,181,000	22,749,000	23,493,000	23,966,000
Remaining Ascent Loan facility*	6,000,000	6,000,000	6,000,000	6,000,000	6,000,000
Allowance for borrowing to cover short-term cash flow**	5,166,000	5,494,000	5,719,000	5,928,000	6,150,000
Total Gross Debt	**29,484,000**	**32,675,000**	**34,468,000**	**35,421,000**	**36,116,000**

** Pending Ascent Business Plan Review*
***Amount required in short-term to cover precepts (the highest cash outflow)*

Authorised Limit for External Debt

7.7. This indicator represents a control on the maximum level of borrowing – a legal limit beyond which external debt is prohibited. This limit needs to be set or revised by the full Council. It is the statutory limit determined under Section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils’ plans, or those of a specific council, although this power has not yet been exercised.

Authorised limit	**2019/20 Set**	**2020/21 Setting**	**2021/22 Estimate**	**2022/23 Estimate**	**2023/24 Estimate**
	£	**£**	**£**	**£**	**£**
Operational Boundary	29,484,000	32,675,000	34,468,000	35,421,000	36,116,000
‘Headroom’	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000
Total Gross Debt	**30,984,000**	**34,175,000**	**35,968,000**	**36,921,000**	**37,616,000**

Prospects for Interest Rates

7.8. The table in Annex 4, provided by Link, draws together a number of current City forecasts for short term (Bank Rate) and borrowing rates. The table and comments below summarise Link's view on average interest rates:

%	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Bank Rate	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.25	1.25	1.25	1.25
5yr PWLB rate	2.40	2.40	2.50	2.50	2.60	2.70	2.80	2.90	2.90	3.00	3.10	3.20	3.20
10r PWLB rate	2.70	2.70	2.70	2.80	2.90	3.00	3.10	3.20	3.20	3.30	3.30	3.40	3.50
25yr PWLB rate	3.30	3.40	3.40	3.50	3.60	3.70	3.70	3.80	3.90	4.00	4.00	4.10	4.10
50yr PWLB rate	3.20	3.30	3.30	3.40	3.50	3.60	3.60	3.70	3.80	3.90	3.90	4.00	4.00

7.9. Link's interest rate forecast incorporates the assumption that Parliament and the EU agree a Brexit deal including terms of trade between the UK and EU by December 2020. At the time of writing, the next Bank of England base rate rise is forecast to take place at the beginning of 2021.

7.10. However, there is much speculation about the thinking of the members of the Monetary Policy Committee (MPC) who make these decisions about base rate moves. Potential scenarios therefore could see a move in either direction. For example, subdued GDP growth continuing due to uncertainties surrounding Brexit depressing consumer and business confidence could encourage the Bank of England to make a cut in Bank Rate from 0.75% in order to help economic growth and deal with the adverse effects of this situation. Conversely an agreement on the detailed terms of a trade deal and the resulting increased confidence could lead to a boost to the rate of growth in subsequent years. This could, in turn, increase inflationary pressures in the economy and so cause the Bank of England to resume a series of gentle increases in Bank Rate.

7.11. Overall the expectation is that investment returns are likely to remain low during 202/21 but to be on a gently rising trend over the next few years.

7.12. Borrowing rates with the PWLB were increased in October 2019 by 1% as a reaction to their historically low prices. This source of borrowing has therefore become comparatively expensive and Local Authority lending markets have once again increased there activity offering low risk relatively low cost funding for up to five years. Some financial institutions would also consider lending to local authorities for longer terms. A full assessment would be undertaken if this were to be required.

7.13. The use of internal borrowing, i.e. using cash balances to temporarily reduce external borrowing, has produced savings over the last few years. However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in the future when authorities may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt.

7.14. There would 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.

Borrowing Strategy

7.15. The Council's capital financing requirement is currently funded in the majority by external borrowing but also and maintains an under-borrowed position.

7.16. As highlighted above, the Council has an estimated total net financing requirement of £8,114,000 over the four years ending March 2024. The Treasury Strategy assumes that this will be funded via external borrowing. Options for internal borrowing will be considered against any changes to forecast capital spend and forecast interest rates.

7.17. 'New borrowing' is anticipated during each year to support the general fund capital programme net financing need occurring in those years. The existing external debt relating to the Ascent Loan funding matures during 2020/21. The capital financing requirement will be closely monitored in order to make a decision on any necessary financing. Interest rate forecasts will also be monitored to identify any opportunities to refinance maturing debt in advance to reduce interest charges in the long-term.

Policy on Borrowing in Advance of Need

7.18. The Council will not borrow more than or in advance of its need purely to profit from the investment of the extra sums borrowed.

7.19. The Council however may consider borrowing in advance to protect it from higher borrowing costs within approved Capital Financing Requirement estimates to finance new capital expenditure or refinance existing loans.

7.20. This will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds. Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year reporting mechanism.

Debt Rescheduling

7.21. Debt rescheduling is the reorganisation of existing debt in such a way as to amend the debt repayments, reduce the principal sum borrowed, alter the degree of volatility of debt or vary the interest payable, thus managing the risk. The treasury team, supported by the Council's treasury advisors, will monitor prospects for debt rescheduling to achieve overall financial benefit to the Council.

Maturity Structure of Borrowing

7.22. These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits. The Council is asked to approve the following treasury indicators and limits:

Maturity Structure of Borrowing* 2020/21 (Fixed Interest Rates)		
	Lower	**Upper****
Under 12 months	0%	100%
12 months to 2 years	0%	100%
2 years to 5 years	0%	100%
5 years to 10 years	0%	100%
10 years and above	0%	100%

**external debt only (excludes Leases)*
***this will be reviewed pending the outcome of the Ascent Business Review – 100% allows flexibility at this stage*

Maturity Structure of Borrowing* 2020/21 (Variable Interest Rates)		
	Lower	**Upper****
Under 12 months	0%	100%
12 months to 2 years	0%	50%
2 years to 5 years	0%	0%
5 years to 10 years	0%	0%
10 years and above	0%	0%

**external debt only (excludes Leases)*
***this will be reviewed pending the outcome of the Ascent Business Review – 100% allows flexibility at this stage*
Variable borrowing would not be utilised where interest rate risk is too greater in the longer term.

Control of Interest Rate Exposure

7.23. The Council reviews and manages the interest rate exposure of both borrowing and investments through the borrowing and investment strategies included in this document. Officers will monitor the balance between variable and fixed interest rates to ensure the Council is not exposed to adverse fluctuations in fixed or variable interest rate movements.

8. Annual Investment Strategy

Investment Policy

8.1. The MHCLG and CIPFA have extended the meaning of ‘investments’ to included both financial and non-financial investments. This report deals solely with financial investments (as managed by the treasury management team). Non-financial investments, essentially the purchase of income yielding assets, are covered in the Capital Strategy document.

8.2. 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 the CIPFA Treasury Management Guidance Notes 2018.

8.3. The Council’s principal investment priorities are the security of capital and the liquidity of its investments. In addition to this, the Council will aim to achieve the optimum return on its investments commensurate with proper levels of security and liquidity.

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

- Minimum acceptable **credit criteria** are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short and long-term ratings.
- Ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration, the Council will engage with its advisors to maintain a monitor on market pricing such as ‘credit default swaps’ and overlay that information on top of the credit ratings.

8.5. The investment instruments identified for use in the financial year are listed in Annex 5 under the headings, ‘Specified’ and ‘Non-Specified’ Investments. ‘Specified’ investments are those with a high level of credit quaity and subject to a maturity limit of one year. ‘Non-specified’ investments are more complex instruments, those with less high credit quality, may be for periods of more than one year and should be subject to greater consideration by members and officers before use.

8.6. Counterparty limits will be set as part of the Treasury Strategy and maintained as part of the Council's treasury management practices.

8.7. The Council will pursue value for money in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance. Regular monitoring of investment performance will be carried out and reported on during the year and at the end of the financial year in its Annual Treasury Report.

8.8. The above criteria on risk management are unchanged from last year.

Creditworthiness Policy

8.9. This Council applies the creditworthiness service provided by Link Asset Services. This service employs a sophisticated modelling approach utilising credit ratings from three main credit rating agencies – Fitch, Moody's 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; and
- Sovereign ratings to select counterparties from only the most creditworthy countries.

8.10. Credit watches and outlooks are issued by the ratings agencies. 'Credit watches' are considered short-term actions, whereas 'outlooks' are considered over a longer term time horizon. Link includes the release of a negative or positive watch/outlook in its creditworthiness analysis.

8.11. A 'Credit Default Swap' is a contract between two counterparties in which the buyer of the contract makes quarterly payments to the seller of the contract in exchange for a payoff if there is a credit event of the reference entity. The contract essentially gives protection or 'insurance'. Therefore, CDS spreads provide perceived market sentiment regarding the credit quality of an institution and are also used in the creditworthiness analysis to determine the durational band of investment with a financial institution.

8.12. Link's creditworthiness model combines credit ratings, credit watches and outlooks in a weighted scoring system, with an overlay of CDS spreads, to produce a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are then used to determine the duration for investments.

8.13. Only counterparties that fall within a 'durational band' will be included on the Council's lending list. In conjunction with the recommended durational limits, the Council has assigned corresponding investment limits to each banding. The limits have been set separately for UK banks and International banks.

UK Banks

Category	Principal Limit	Maximum Length	Portfolio (% of highest balance**)
Yellow*	£4.6m	Up to 5 years	20%
Purple	£4.6m	Up to 2 years	20%
Orange	£4.1m	Up to 1 year	18%
Red	£3.4m	Up to 6 months	15%
Green	£2.9m	Up to 100 days	13%
No Colour	-	Not to be used	-

** UK Government debt instruments*
***assumes highest balance in 2020/21 is £23,000,000*

International Banks

Category	Principal Limit	Maximum Length	Portfolio (% of highest balance*)
Purple	£3.4m	Up to 2 years	15%
Orange	£2.7m	Up to 1 year	12%
Red	£2.3m	Up to 6 months	10%
Green	£1.8m	Up to 3 months	8%
No Colour	-	Not to be used	-

** assumes highest balance in 2020/21 is £23,000,000*

8.14. The Council's lending list includes part and fully Nationalised UK banks, which have been assigned the 'blue' category as per Link's creditworthiness matrix. This category has been allocated a longer durational period and higher investment limit since it has strong Government support. The table below assigns investment limits:

Category	Principal Limit	Maximum Length	Portfolio (% of highest balance*)
Blue	£4.6m	Up to 1 year	20%
NatWest (the Council's main bank account)	£6.9m	Up to 1 year	30%

** assumes highest balance in 2020/21is £23,000,000*

8.15. The Council is alerted to changes in ratings and market movements through its use of the Link creditworthiness service. If a downgrade results in the counterparty no longer meeting the Council's minimum criteria, it will no longer be used for new investments. All ratings will be monitored prior to any new investments being placed.

Group Limits

8.16. To reduce its risk further the Council has set a group limit for fixed term deposits in institutions with the same parent. The group limit will increase to the portfolio percentage of the colour band the institution is rated in at the time by a further 50% where at least the additional amount is held in an instant access account:

Category	Portfolio (% of highest balance*)	Individual Principal Limit	Portfolio % increased by 50%	Group Principal Limit
Blue	20%	£4.6m	30%	£6.9m
Purple	20%	£4.6m	30%	£6.9m
Orange	18%	£4.1m	27%	£6.2m
Red	15%	£3.4m	23%	£5.2m
Green	13%	£2.9m	20%	£4.6m

** assumes highest balance in 2020/21 is £23,000,000*

Money Market Funds

8.17. The Council has access to several Money Market Funds (MMF) - all of which are 'AAA' rated. A 'Money Market Fund' is a pooled vehicle investing in a number of investment instruments with varying maturity periods in a number of different countries. Money Market Funds provide an alternative option for the Council when placing short-term funds and provide for diversification of the investment portfolio.

8.18. The Council has set an investment limit for each Money Market Fund:

	Principal Limit	Maximum Length	Portfolio (% of highest balance*)
Individual MMF	£4.6m	Up to 1 year	20%
Total MMF investments**	£6.9m	Up to 1 year	30%

** assumes highest balance in 2020/21 is £23,000,000*
*** maximum held in MMF's at any one time*

Country Limits

8.19. A sovereign credit rating is the credit rating of a sovereign entity i.e. a country. The highest sovereign rating awarded is 'AAA'. The evolving regulatory environment, in tandem with the rating agencies' new methodologies, means that sovereign ratings are now of lesser importance in the assessment process and the new regulatory environment is attempting to break the link between sovereign support and domestic financial institutions.

8.20. While the Council understands the changes that have taken place, it will continue to use sovereign ratings of individual counties in addition to credit ratings when making investment decisions. When investing with institutions outside the UK, only banks and building societies located in countries with a minimum sovereign rating of 'AAA' will be used. This is in relation to the fact that the underlying domestic and, where appropriate, international economic and wider political and social background will still have an influence on the ratings of a financial institution. There are currently 10 'AAA' rated countries approved for investments, as follows, this list will be updated during the year should any sovereign ratings change:

Australia	**Canada**	**Denmark**	**Germany**	**Luxembourg**
Netherlands	**Norway**	**Singapore**	**Sweden**	**Switzerland**

Ethical investing

8.21. Investment guidance, both statutory and from CIPFA, makes clear that all investing must adopt the SLY principals, whereby security of investments is always the priority, followed by liquidity, then yield. There is a growing interest in local authority investing around Environmental, Social and Governance (ESG) issues including the incorporation of ESG metrics into credit rating agency assessments and a small number of financial institutions promoting ESG products. However, this is still an emerging market and any ESG consideration must always be subordinate to the SLY priorities in order to protect the Council's funds. The Council, with the assistance of the Council's advisors, Link, will maintain an interest in and keep under review investment opportunities with ESG links.

Investment income

8.22. The Council's in-house managed funds are derived from a core balance available for capital and revenue funding and day-to-day cash flows. At 31st March 2019 the core balances available for investment were £10,547,000. Core balances are available for investment in line with the profile of capital expenditure and requirements of the revenue budget. Investments are therefore made with reference to the core balance and cash flow requirements and the outlook for interest rates.

Investment Return Expectations

8.23. Bank Rate forecasts for financial year ends (March) are:

- March 2021 0.75%
- March 2022 1.00%
- March 2023 1.25%
- March 2024 1.50%

8.24. For 2020/21 the Council has budgeted for an average investment return of 0.75%. The average rates assumed on new investments is as follows:

- Fixed Term Investments (3 month to 1 year), 1.04%
- Instant Access Business Accounts and short-term fixed deposits, an average of 0.61%.

8.25. The 2020/21 income budget is as follows:

- £645,390 from the loan/ debenture to Ascent LLP
- £88,150 from investments with other institutions

Long-term Investments *(greater than 365 days)*

8.26. When placing long-term investments with counterparties, other than under the Ascent LLP agreement, the Council's liquidity requirements, availability of funds and counterparty eligibility need to be taken into consideration.

8.27. These longer-term investments could include Property Funds or Multi-Asset Funds. A full review and selection process would take place with input from the Council's advisors, Link, in advance of entering in to any commitment to fully ensure that it is appropriate for the Council.

8.28. The table below sets the limit on the total principal funds that may be invested for greater than 365 days.

Maximum principal sums invested > 365 days				
	2020/21	**2021/22**	**2022/23**	**2023/24**
Principal sums invested > 365 days	£3,500,000	£3,500,000	£3,500,000	£3,500,000

ANNEX 1

<u>Treasury Management Policy Statement</u>

In accordance with the CIPFA Code of Practice on Treasury Management, Staffordshire Moorlands District Council defines the policies and objectives of its treasury management activities as follows:

1. The Council defines its treasury management activities as: *"The management of the 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."*

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.

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.

ANNEX 2

Treasury Management Scheme of Delegation

(i) Full Council

- receiving and reviewing reports on treasury management policies, practices and activities;
- approval of annual strategy.

(ii) Audit & Accounts Committee

- approval of/ amendments to the Council's adopted clauses, treasury management policy statement and treasury management practices;
- reviewing the treasury management policy and procedures and making recommendations to the responsible body;
- budget consideration and approval;
- approval of the division of responsibilities;
- receiving and reviewing regular monitoring reports and acting on recommendations;
- approving the selection of external service providers and agreeing terms of appointment.

The treasury management role of the section 151 (responsible) officer

- 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.

ANNEX 3

Management Practices for Non-Treasury Investments

This Council recognises that investment in other financial assets and property primarily for financial return, taken for non-treasury management purposes, requires careful investment management. Such activity includes loans supporting service outcomes, investments in subsidiaries, and investment property portfolios.

This Council will ensure that all the Council's investments are covered in the capital strategy, investment strategy or equivalent, and will set out, where relevant, the organisation's risk appetite and specific policies and arrangements for non-treasury investments. It will be recognised that the risk appetite for these activities may differ from that for treasury management.

The Council will maintain a schedule setting out a summary of existing material investments, subsidiaries, joint venture and liabilities including financial guarantees and the organisation's risk exposure.

ANNEX 4

UK Interest Rate Forecast (Link)

Link Asset Services Interest Rate View	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Bank Rate View	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.25	1.25	1.25	1.25
3 Month LIBID	0.70	0.70	0.80	0.90	1.00	1.00	1.00	1.10	1.20	1.30	1.30	1.30	1.30
6 Month LIBID	0.80	0.80	0.90	1.00	1.10	1.10	1.20	1.30	1.40	1.50	1.50	1.50	1.50
12 Month LIBID	1.00	1.00	1.10	1.20	1.30	1.30	1.40	1.50	1.60	1.70	1.70	1.70	1.70
5yr PWLB Rate	2.40	2.40	2.50	2.50	2.60	2.70	2.80	2.90	2.90	3.00	3.10	3.20	3.20
10yr PWLB Rate	2.70	2.70	2.70	2.80	2.90	3.00	3.10	3.20	3.20	3.30	3.30	3.40	3.50
25yr PWLB Rate	3.30	3.40	3.40	3.50	3.60	3.70	3.70	3.80	3.90	4.00	4.00	4.10	4.10
50yr PWLB Rate	3.20	3.30	3.30	3.40	3.50	3.60	3.60	3.70	3.80	3.90	3.90	4.00	4.00
Bank Rate													
Link Asset Services	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%	1.25%
Capital Economics	0.75%	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	-	-	-	-	-
5yr PWLB Rate													
Link Asset Services	2.40%	2.40%	2.50%	2.50%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%	3.20%	3.20%
Capital Economics	2.40%	2.50%	2.50%	2.60%	2.60%	2.80%	2.80%	2.90%	-	-	-	-	-
10yr PWLB Rate													
Link Asset Services	2.70%	2.70%	2.70%	2.80%	2.90%	3.00%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%	3.50%
Capital Economics	2.70%	2.70%	2.80%	2.80%	2.90%	3.00%	3.00%	3.10%	-	-	-	-	-
25yr PWLB Rate													
Link Asset Services	3.30%	3.40%	3.40%	3.50%	3.60%	3.70%	3.70%	3.80%	3.90%	4.00%	4.00%	4.10%	4.10%
Capital Economics	3.10%	3.10%	3.20%	3.20%	3.20%	3.30%	3.30%	3.40%	-	-	-	-	-
50yr PWLB Rate													
Link Asset Services	3.20%	3.30%	3.30%	3.40%	3.50%	3.60%	3.60%	3.70%	3.80%	3.90%	3.90%	4.00%	4.00%
Capital Economics	3.10%	3.10%	3.20%	3.20%	3.30%	3.40%	3.40%	3.50%	-	-	-	-	-

ANNEX 5

Specified and Non-Specified Investments

Specified Investments

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

Investment Instrument	Minimum ‘High’ Credit Criteria	Investment Limit**
Debt Management Agency Deposit Facility (DMADF)	n/a	n/a
Term deposits – local authorities	n/a	As per lending limits Yellow UK
Term deposits – housing associations	n/a	n/a
Bridging Loans (Community Groups within LA area)	Decision made on individual basis & subject to presentation of required documents	n/a
UK Government Gilts and Treasury Bills	UK sovereign rating	As per lending limits Yellow UK
Certificates of deposits (CDs) or corporate bonds with banks and building societies	Based on Link Creditworthiness analysis. Lowest Band – GREEN Sovereignty Rating –AAA (exc UK)	As per individual / group lending limits
Term deposits – banks and building societies	Based on Link Creditworthiness analysis. Lowest Band – GREEN Sovereignty Rating –AAA (exc UK)	As per individual / group lending limits
UK (Part-)Nationalised Banks	Based on Link Creditworthiness analysis. Lowest Band – BLUE	As per individual / group lending limits
UK Instant Access Accounts	Based on Link Creditworthiness analysis. Lowest Band – GREEN	As per individual / group lending limits

** If forward deposits are to be made, the forward period plus the deal period should not exceed one year in aggregate*

*** must conform to both institution and group limits set*

Collective Investment Schemes structured as Open Ended Investment Companies (OEICs):			
Investments	**Minimum Credit Criteria**	**Investment Limit/ Max. % of total investments**	**Max. maturity period**
Money Market Funds (CNAV & LVNAV)	AAA rated	As per individual / group lending limits	Liquid

Non-specified Investments

Non-specified investment instruments are assumed to take on greater risk and should therefore be subject to greater scrutiny. They include investments that are for a period of more than one year and instruments that the Council has very limited experience and expertise in dealing with. A maximum of £9,200,000 (40% of the projected highest balance) will be held in aggregate in non-specified investments.

Non-specified Investments	Minimum Credit Criteria	Investment Limit / Max. % of total investments	Max. maturity period
Term deposits – UK government (maturities in excess of 1 year)	UK Sovereign Rating	> 365 day limit	5 years
Term deposits – other LAs / Parish Councils (maturities in excess of a year)	n/a	> 365 day limit	Individual case basis, inclusive of options for the Council to review terms at specified periods of time (no greater than 5 years)
Term & Callable deposits – banks and building societies (maturities in excess of 1 year)	Based on Link Creditworthiness analysis. Lowest Band – PURPLE	> 365 day limit	2 years
Commercial Paper	Based on Link Creditworthiness analysis. Lowest Band – GREEN Sovereignty Rating AAA/ UK	£2,300,000 (10% of highest balance)	1 year
UK Government Gilts – all maturities	UK Sovereign Rating	£2,300,000 (10% of highest balance)	2 years
Bonds issued by multilateral development banks - all maturities	Long term AAA	£2,300,000 (10% of highest balance)	6 months
Bonds issued by a financial institution which is guaranteed by the UK government – all maturities	UK Sovereign Rating	£2,300,000 (10% of highest balance)	2 years
Sovereign bond issues (i.e. other than the UK govt) – all maturities	Long Term AAA	£2,300,000 (10% of highest balance)	2 years
Treasury Bills – all maturities	UK Sovereign Rating	£3,400,000 (15% of highest balance)	2 years
Property Funds/ Multi Asset Funds	Full due diligence to select appropriate fund	> 365 day limit	n/a

Collective Investment Schemes structured as Open Ended Investment Companies (OEICs):			
Investments	**Minimum Credit Criteria**	**Investment Limit/ Max. % of total investments**	**Max. maturity period**
Government Liquidity Funds – all maturities	AAA rated	£3,400,000 (15% of highest balance)	2 years
Enhanced cash funds – all maturities	AAA rated	£2,300,000 (10% of highest balance)	Liquid
Gilt Funds – all maturities	UK Sovereign Rating	£2,300,000 (10% of highest balance)	2 years