Report Reference: SG.060220/16

Wards affected: General

Strategy Group – 6th February 2020

Treasury Management Strategy Statement and Annual Investment Strategy 2020/21

Including Commercial Activities/Non Treasury Investments

Resources Issues

1. Purpose of Report

1.1 To advise Strategy Group of the expected activities and appropriate operational parameters of the treasury management function in 2020/2021. To endorse the "Treasury Management Strategy Statement and Annual Investment Strategy 2020/2021".

2. Advice

That it be RECOMMENDED:	That the Council's Treasury Management Statement and Annual Investment Strategy 2020/21 be approved

3. Introduction

3.1 The Council is required to set 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 the cash flow is adequately planned, with funds being available when needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's risk appetite, providing adequate liquidity and security of funds before considering investment return.

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 flow may involve arranging long or short term loans or using longer term cash flow surpluses.

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 for 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.

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

CIPFA defines treasury management as:

"The management of the local authority's borrowings, 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."

3.2 Reporting Requirements

3.2.1 Capital Strategy

The CIPFA 2017 Prudential and Treasury Management Codes require all local authorities to prepare a capital strategy report, which will provide the following:

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

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.

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

- The corporate governance arrangements for these types of activities;
- Any service objectives relating to the investments;
- The expected income, costs and resulting contribution;
- Any debt related to the activity and the associated interest costs;
- The payback period (MRP Policy)
- The risks associated with each activity.

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.

If the council has to borrow externally to fund any non-treasury investment, there should also be an explanation of why borrowing is required and why the MHCLG Investment Guidance and CIPFA Prudential Code have not been adhered to.

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

3.2.2 Treasury Management Reporting

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

a. Prudential and treasury indicators and treasury strategy (this report) – The first and most important report covers:

- the capital plans (including prudential indicators);
- a minimum revenue provision (MRP) policy, (how residual capital expenditure is charged to revenue over time) (see Section 4.7);
- the Treasury Management Strategy (how the investments and borrowings are to be organised) including treasury indicators; and
- an investment strategy (the parameters on how investments are managed).

b. A Mid-Year Treasury Management Report – This will update members with the progress of the capital position, amending prudential indicators as necessary, and whether the treasury strategy is meeting the objectives or whether any policies require revision. In addition, quarterly reports are produced and taken to Resources Working Group and to Portfolios Holders.

c. An Annual Treasury Management Report – This provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

The above reports are required to be adequately scrutinised before being recommended to the Council. This role is undertaken by Strategy Group.

3.3 Treasury Management Strategy

The strategy for 2020/2021 covers two main areas:

Capital Issues

- the capital plans and prudential indicators;
- the minimum revenue provision (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;
- the investment strategy;
- creditworthiness policy;
- policy on use of external service providers.

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

3.4 Training

The CIPFA Treasury Management Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. Members training was undertaken on the 22nd January 2020, with further to be arranged as and when required.

The training needs of treasury management officers are periodically reviewed.

3.5 Treasury Management Consultants

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

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

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

The scopes of investments within the Council's operations now includes both conventional investments (the placing of residual cash from the Council's functions), and more commercial type investments, such as investment properties. The commercial type investments require specialist advisors, who will be used and when necessary.

4. The Capital Prudential Indicators 2020/2021 – 2022/2023 and Minimum Revenue Provision (MRP) Statement

4.1 Capital Expenditure

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

This prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously and those forming part of the budget cycle.

Capital Expenditure £m	**2019/20 Estimate**	**2020/21 Estimate**	**2021/22 Estimate**	**2022/23 Estimate**
Total Capital Expenditure	16.495	16.563	1.959	1.349
Financed by				
External Funding	6.931	6.755	0.753	0.533
Capital Reserves	9.564	9.389	1.078	0.816
Revenue	0.000	0.000	0.000	0.000
Net Financing Need for the year (CFR)	**0.000**	**0.410**	**0.128**	**0.000**

4.2 The Council's borrowing need (the Capital Financing Requirement)

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

The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the indebtedness in line with either the asset life or the lease term, and so charges the economic consumption of capital assets as they are used.

The CFR includes any other long term liabilities (e.g. finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility (e.g. by the lease provider), and so the Council is not required to separately borrow for these schemes.

The Council currently has no such schemes within the CFR, and the Council has no plans to borrow, under the current Medium Term Financial Plan and Capital Programme. However, from 1 April 2020 the majority of local authority lessee leases will be treated as finance leases (i.e. capital expenditure) financed by borrowing equivalent to the lease liability, which will affect the Council's CFR. The lease liabilities shown in the CFR at 4.1 are all for service delivery (i.e. there is no CFR for commercial activity).

4.3 Core funds and expected investment balances

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

Year End Resources £m	**2019/20 Estimate**	**2020/21 Estimate**	**2021/22 Estimate**	**2022/23 Estimate**
General Fund balances / reserves	30.475	28.987	26.084	21.903
Capital receipts reserve	9.055	1.666	2.674	2.209
Total core funds	**39.530**	**30.653**	**28.758**	**24.112**
Working capital	-6.474	-6.474	-6.474	-6.474
Expected investments	**33.056**	**24.179**	**22.284**	**17.638**

In addition to the expected investments total from the above table the Council has a cash element which would include the receipts of Council Tax and NNDR income prior to the payments being made to the government and precepting authorities. This would increase the level of investments held by the council at any one time.

4.5 Affordability Prudential Indicators

A number of sections throughout this report cover the prudential indicators for overall capital and control of borrowing and within this framework prudential indicators are also required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances.

4.5.1 Ratio of financing costs to revenue streams

This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream. In other words in 2019/20209 the interest earnings would be approximately 3.47% of the Council's net revenue spend.

%	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
Ratio	-3.47	-2.52	-3.23	-3.32

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

4.5.2 Incremental impact of capital investment decisions on council tax

In the revised Prudential Code 2017 this indicator is no longer compulsory. However after consideration it has been decided that the indicator provides useful information and will now be included in the report as a local indicator.

The indicator identifies the net revenue effects (expressed in terms of band D council tax) associated with proposed changes to the three year capital programme recommended in this budget report compared to the Council's existing approved commitments and current plans. The assumptions are based on the budget, but will invariably include some estimates, such as the level of Government support, which are not published over a three year period. Impacts on the revenue budget may be favourable or adverse as explained in the table below:

Favourable Impact Reduces the Incremental Impact on council tax (-)	Adverse Impact Increases the Incremental Impact on council tax (+)
Revenue Savings	Direct revenue funding of capital
Income Generation	Revenue running costs
	Loss of interest where capital receipts or other earmarked reserves are used to fund capital expenditure
	Cost of borrowing (if any)

The value of the revenue savings and income arising from the proposed capital programme changes exceeds the increase in revenue costs. Therefore the net effect on the revenue budget is beneficial and the incremental impact on council tax is shown as a minus figure.

£	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
Incremental impact of Capital Proposals on the Revenue	1.93	-3.51	-8.16	-8.19

4.5.3 Proportionality Indicators

There are two new proportionality indicators designed to control the level of debt the Council enters into and restrict the level of commercial income the council generates in order to mitigate the risks associated with debt and reliance on commercial income to fund service delivery. These are recommended in the Annex to the MHCLG Guidance, which says "The Guidance requires local authorities to develop quantitative indicators that allow Councillors and the public to assess a local authority's total risk exposure as a result of its investment decisions". These indicators are:

- Percentage of Debt compared to Net Service Expenditure (NSE). This identifies a maximum limit for the aggregate level of debt the Council holds compared to its net service expenditure (defined as Gross Service Expenditure less Fees and Charges).
- Percentage of Commercial Income compared to NSE. This identifies a limit on the proportion of income the Council earns from commercial activities (such as investment property, The Daventry Estate Company Ltd, and Daventry Norse) compared to its net service expenditure

This is to mitigate the risks relating over-reliance on commercial income for service delivery.

	2019/20 Limit	**2020/21 Limit**	**2021/22 Limit**
Debt as a Proportion of NSE	65%	65%	65%
Commercial Income as a Proportion of NSE	30%	30%	30%

4.6 Minimum Revenue Provision

The Council is required to pay off an element of the accumulated historic capital spend that has not yet been financed from capital and revenue resources each year (the CFR) through a revenue charge (the Minimum Revenue Provision MRP), although it is allowed to undertake additional voluntary payment if required (Voluntary Revenue Provision VRP).

The MRP is a statutory annual revenue charge which broadly reduces the borrowing need in line with each assets life.

MHCLG regulations have been issued which require Council to approve an MRP Statement in advance of each financial year. A variety of options is provided to councils, so long as there is a prudent provision. The Council is recommended to approve the following MRP Statement.

From 1 April 2020 for all unsupported borrowing (including finance leases) the

MRP policy will be either:

- • Asset life method – MRP will be based on the estimated life of the
- assets, in accordance with the regulations (this option must be applied for

any expenditure capitalised under a Capitalisation Direction);

- • Depreciation method – MRP will follow standard depreciation accounting procedures;
- • For MRP on lease liabilities only the MRP will be equivalent to the principal element of the annual lease payment for each asset after adjusting for sub-lease capital receipts and the other two options will not apply.

These options provide for a reduction in the borrowing need over approximately the asset's life.

5.0 Borrowing

5.1 Current Portfolio Position

The capital expenditure plans set out in Section 4 provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity and the Council's capital strategy. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury/prudential indicators, the current and projected debt positions and the annual investment strategy.

The Council has not previously had to borrow externally and this position is unlikely to change in the near future. However, looking into the future the Council needs to take into consideration that there may be a need to borrow money 'from itself' from other cash holdings that the Council may have. This is known as internal borrowing and means that not all of the reserves would be cash backed. Any borrowing undertaken would be in line with the prudential indicators and borrowing strategy outlined in this report.

Borrowing indicators will need to be adjusted to allow capacity for the lease liability debt associated with leases to be accounted for under IFRS16 (International Financial Reporting Standard 16 – Leases). This is reflected in the CFR, MRP Policy and relevant prudential indicators for borrowing.

5.2 Treasury Indicators: limits to borrowing activity

The operational boundary. This is the limit beyond which external debt is not normally expected to exceed. Whilst the council has no plans to borrow an operational boundary is set for occasions where very short term borrowing is required for cash flow purposes only and has been increased for IFRS16 and the service concession arrangement.

Operational Boundary £m	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
Debt	3.000	6.500	6.500	6.500
Other long term liabilities	0	0	0	0
Total	**3.000**	**6.500**	**6.500**	**6.500**

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

1. It is a statutory requirement to set an authorised limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.
2. The Council is asked to approve the following authorised limit:

Authorised Limit £m	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
Debt	5.000	9.000	9.000	9.000
Other long term liabilities	0	0	0	0
Total	**5.000**	**9.000**	**9.000**	**9.000**

5.3 Policy on Borrowing in Advance of Need

The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed in treasury investments. Therefore gross external debt will not (except in the short term) exceed the estimates of any capital financing (borrowing) requirements for the current and next two financial year's capital programme. Any decision to borrow in advance will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

Subject to affordability, the Council is willing to consider borrowing for any capital project that generates an asset where the freehold is owned by DDC and all external funding sources have been exhausted, but only within the prudential limits set. This may include investment property.

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

6. Prospects for Interest Rates

Link Asset Services as part of their service assist the Council to formulate a view on interest rates. The following table gives their central view. The 5, 10, 25 and 50 year views are for the PWLB borrowing rates (including the certainty rate adjustment).

Annual Average %	Bank Rate %	5 year	10 year	25 year	50 year
Mar 2020	0.75	2.40	2.70	3.30	3.20
Jun 2020	0.75	2.40	2.70	3.40	3.30
Sep 2020	0.75	2.50	2.70	3.40	3.30
Dec 2020	0.75	2.50	2.80	3.50	3.40
Mar 2021	1.00	2.60	2.90	3.60	3.50
Jun 2021	1.00	2.70	3.00	3.70	3.60
Sep 2021	1.00	2.80	3.10	3.70	3.60
Dec 2021	1.00	2.90	3.20	3.80	3.70
Mar 2022	1.00	2.90	3.20	3.90	3.80
Jun 2022	1.00	3.00	3.30	4.00	3.90
Sep 2022	1.25	3.10	3.30	4.00	3.90
Dec 2022	1.25	3.20	3.40	4.10	4.00
Mar 2023	1.25	3.20	3.50	4.10	4.00

The above forecasts have been based on an assumption that there is an agreed deal on Brexit, including agreement on the terms of trade between the UK and EU, at some point in time. The result of the general election has removed much uncertainty around this major assumption. However, it does not remove uncertainty around whether agreement can be reached with the EU on a trade deal within the short time to December 2020, as the prime minister has pledged.

At the time of writing this report our advisors have not forecast an interest rate cut, however current economic uncertainties mean that it is very much in the balance as to whether there will be a bank rate cut at the next Monetary Policy Committee Meeting.

7. Annual Investment Strategy

7.1 Investment Policy – management of risk

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

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

The Council's investment priorities will be security first, portfolio liquidity second and then yield, (return).

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: -

1. Minimum acceptable credit criteria are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short term and long-term ratings;

2. Other information: ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration the Council will engage with its advisors to maintain a monitor on market pricing such as "credit default swaps" and overlay that information on top of the credit ratings;

3. Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

4. This authority has defined the list of types of investment instruments that the treasury management team are authorised to use. There are two lists in section 7.4 under the categories of 'specified' and 'non-specified' investments.

- Specified investments are those with a high level of credit quality and subject to a maturity limit of one year.

- Non-specified investments are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use.

5. All investments will be denominated in sterling.

6. This authority will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund.

However, this authority will also pursue value for money in treasury management and will monitor the yield from investment income against the appropriate benchmarks for investment performance.

7.2 Creditworthiness Policy

This Council applies the creditworthiness service provided by Link Asset Services. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard and Poor's. The Council criteria are set on the Fitch credit rating and in the absence of this Moody's ratings will be taken. However, it does not rely solely on the current credit ratings of counterparties but also uses the following overlays:-

- credit watches and credit outlooks from credit rating agencies;
- sovereign ratings to select counterparties from only the most creditworthy countries.

This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of Credit Default Swaps (CDS) spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the suggested duration for investments. The Council will therefore use counterparties within the following durational bands:-

Yellow	5 years
Dark Pink	5 years for Enhanced money market funds with a credit score of 1.25
Dark Pink	5 years for Enhanced money market funds with a credit score of 1.5
Purple	2 years
Blue	1 year (only applies to nationalised or semi-nationalised UK banks)
Orange	1 year
Red	6 months
Green	100 days
No Colour	not to be used

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

All credit ratings will be monitored daily. The Council is alerted to changes to ratings of all three rating agencies though the use of the Link Asset Services' creditworthiness service.

- If a downgrade in rating results in the counterparty/investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
- If a body is placed on negative rating watch with Fitch or Moody's in the absence of a Fitch rating (i.e. there is a reasonable probability of a rating change and the likelihood of that change being negative) and it is currently near the floor of the minimum acceptable rating for placing investments with that body, then no further investments will be made with that body. Alternatively if the result of a negative rating watch keeps the counterparty within the credit ratings set out by the Council, the counterparty can be considered for investment.
- The Council uses Fitch ratings to derive its counterparty criteria. Where counterparty does not have a Fitch rating, the equivalent Moody's rating will be used. All credit ratings will be monitored daily.
- The Council is alerted to changes in Fitch ratings through its use of the Link Asset Services credit worthiness service.
- Sole reliance will not be placed on the use of this external service. In addition this Council will also use market data and information, information on government support for banks and the credit ratings of that government support.

UK Banks – ring fencing

The largest UK banks, (those with more than £25bn of retail / Small and Medium-sized Enterprise (SME) deposits), are required, by UK law, to separate core retail banking services from their investment and international banking activities by 1st January 2019. This is known as "ring-fencing". Whilst smaller banks with less than £25bn in deposits are exempt, they can choose to opt up. Several banks are very close to the threshold already and so may come into scope in the future regardless.

Ring-fencing is a regulatory initiative created in response to the global financial crisis. It mandates the separation of retail and SME deposits from investment banking, in order to improve the resilience and resolvability of banks by changing their structure. In general, simpler, activities offered from within a ring-fenced bank (RFB) will be focused on lower risk, day-to-day core transactions, whilst more complex and "riskier" activities are required to be housed in a separate entity, a non-ring-fenced bank, (NRFB). This is intended to ensure that an entity's core activities are not adversely affected by the acts or omissions of other members of its group.

While the structure of the banks included within this process may have changed, the fundamentals of credit assessment have not. The Council will continue to assess the new-formed entities in the same way that it does others and those with sufficiently high ratings, (and any other metrics considered), will be considered for investment purposes.

7.3 Country Limits

With the exception of the UK, the Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA from Fitch Ratings (or equivalent from other agencies if Fitch does not provide them).

7.4 Investment Strategy

In-house funds

Investments will be made with reference to the core balance and cash flow requirements and the outlook for short term interest rates (i.e. rates for up to 12 months). Greater returns are usually obtainable by investing for longer periods. Whilst most cash balances are required in order to manage day to day cash flow where funds can be identified that the funds could be invested for longer periods, the value of the longer term will be carefully assessed.

Investments returns expectations

On the assumption that the UK and EU agree a Brexit deal including the terms of trade by the end of 2020 or soon after, then Bank Rate is forecast to increase only slowly over the next few years to reach 1.00% by quarter 1 2022. Bank Rate forecasts for financial year ends (March) are:

- Q1 2021 0.75%
- Q1 2022 1.00%
- Q1 2023 1.25%

The Council will use an investment benchmark to assess the investment performance of its investment portfolio of the 3 and 6 month London Interbank Bid Rate (LIBID) rates, it is expected that an interest rate return above these levels will be achieved.

Treasury management limits on activity

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

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

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

Upper limit for fixed interest rate exposure	**2018/19**	**2019/20**	**2020/21**	**2021/22**
Net interest re fixed rate borrowing/investments	100%	100%	100%	100%
Upper limit for variable rate exposure				
Net interest re variable rate borrowing	0%	0%	0%	0%
Net interest re variable rate investments	30%	30%	30%	30%
Upper limit for total principal sums invested for over I Year (per maturity date)	**£15m**	**£15m**	**£15m**	**£15m**

Maturity structure of fixed rate borrowing during 2019/2020 (if required)	Upper Limit %	Lower Limit %
Under 12 months	100	0
Over 12 months and within 24 months	100	0
Over 24 months and within 5 years	100	0
Over 5 years and within 10 years	100	0
10 years and above	100	0

Investment instruments

Investment instruments identified for use in the financial year are listed below under the 'Specified' and 'Non-Specified' Investments categories.

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

	Minimum 'High' Credit Criteria	Use
Debt Management Account Deposit Facility		In house
Term Deposits – Other Local Authorities		In house
UK Nationalised and Semi Nationalised Banks	Semi-nationalised	In house
Term Deposits – Bank and Building Societies	Sovereignty AA Short Term F1 Long Term A	In house and Fund Managers
Certificates of deposits issued by banks building societies covered by UK government	Sovereignty AA Short Term F1 Long Term A	In house buy and sell and Fund Managers
UK Government Gilts	Sovereignty Rating AA	In house and Fund Managers
Treasury Bills	Sovereignty Rating AA	In house and Fund Managers
Money Market Funds	AA	In house and Fund Managers

Non-Specified Investments: A maximum of 60% or £15m, whichever is the lower of the total portfolio, will be held in aggregate in non-specified investment (i.e. over 1 year).

	Minimum Credit Criteria	Use	Max. Maturity Period
Term Deposits – Other Local Authorities		In house	5 years
UK Nationalised and Semi Nationalised Banks	Semi-nationalised	In house	5 years
Term Deposits – Bank and Building Societies	Sovereignty AA Short Term F1 Long Term A	In house and Fund Managers	5 years
Certificates of deposits issued by banks building societies covered by UK government	Sovereignty AA Short Term F1 Long Term A	In house buy and sell and Fund Managers	2 years
UK Government Gilts	Sovereignty Rating AA	In house and Fund Managers	5 years
Treasury Bills	Sovereignty Rating AA	In house and Fund Managers	5 years

For both specified and non-specified investments the UK is an exception to the stated criteria in that we will continue to deal with UK institutions in the event of a downgrading in the UK sovereign rate.

Use of additional information other than credit ratings

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

7.5 Treasury Management Practices

The Council's Treasury Management Practices (TMPs) set out the manner in which the Council will seek to achieve its treasury management policies and objectives, and how it will manage and control those activities.

The Council's TMPs schedules cover the detail of how the Council will apply the TMP Main Principles in carrying out its operational treasury activities. The schedule will be updated to take account of any relevant changes to the treasury management code and will be reviewed and approved annually by the Council's Chief Financial Officer.

7.6 End of year investment report

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

8. Implications

8.1 Financial – This report is wholly concerned with financial issues.

8.2 Personnel - None, other than those mentioned in the report above**.**

8.3 Legal/Constitutional – No implications.

8.4 Environmental – No implications.

8.5 Policy – No implications.

8.6 ICT – No implications.

8.7 Crime and Disorder – No implications.

8.8 Human Rights – No implications.

8.9 Equalities – No implications.

9. Conclusions

9.1 With the European Union (EU) Withdrawal Agreement Bill now passed, the UK will now enter into the transition period and trade talks with the EU. This could cause volatility within the economic climate, and, if appropriate, the Section 151 Officer will not hesitate to restrict investments, in line with the approved strategy, should there be a need to do so. Returns on investments will continue at a low level for the foreseeable future with security being the overriding factor.

Audra Statham
Chief Financial Officer

Background papers:
CIPFA Treasury Management Code of Practice 2017 (the Code)
CIPFA Prudential Code 2017
MHCLG Investment Guidance 2018
MHCLG Guidance on the Minimum Revenue Provision 2018

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