

# Treasury Management Policy and Strategy

2021/22

# **CONTENTS**

- 1. INTRODUCTION**
- 2. CIPFA REQUIREMENTS**
- 3. TREASURY MANAGEMENT POLICY STATEMENT**
- 4. TREASURY MANAGEMENT PRACTICES**
- 5. TREASURY MANAGEMENT STRATEGY**
  - 5.1 Current Investment Position**
  - 5.2 Prospects for Interest Rates**
  - 5.3 Borrowing Strategy**
  - 5.4 Prudential Indicators 2021/22 to 2023/24**
  - 5.5 Treasury Indicators 2021/22 to 2023/24**
- 6. ANNUAL INVESTMENT STRATEGY**
  - 6.1 Investment Policy**
  - 6.2 Specified and Non Specified Investments**
  - 6.3 Creditworthiness Policy**
  - 6.4 Interest Budget 2021/22**
  - 6.5 Treasury Management Targets 2021/22**
- 7. MINIMUM REVENUE PROVISION POLICY**
- 8. ROLE OF THE SECTION 151 OFFICER IN TREASURY MANAGEMENT**

# **1. INTRODUCTION**

## **1.1 Background**

The Treasury Management Policy and Strategy is one of the Council's key financial strategy documents and sets out the Council's approach to the management of its treasury management activities.

The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of treasury management 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. The management of its cash flow has been particularly crucial to the Council since the coronavirus outbreak which resulted in a significant impact to the income levels received.

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

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.

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. This Council has one investment property and one investment with the Churches, Charities and Local Authorities (CCLA) Property Fund.

The Chartered Institute of Public Finance and Accountancy (CIPFA) defines treasury management 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’.

## **1.2 Reporting Requirements**

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

1 - Prudential and treasury indicators and treasury strategy (this report) is forward looking and covers:

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

2 – A mid year management report – this is primarily a progress report and will update Members on the capital position, amending any prudential indicators as necessary and whether any policies require revision. This Council additionally provides quarterly report updates.

3 – An annual treasury report – this is a backward looking review document and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy. This Council produces this as the fourth quarter monitoring report.

## **2. CIPFA REQUIREMENTS**

The Council has adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management Code.

The primary requirements of the Code are as follows:

- Creation and maintenance of a Treasury Management Policy Statement stating the policies, objectives and approach to risk management of the Council's treasury management activities (Section 3).
- Creation and maintenance of suitable Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities (Section 4).
- Receipt by Full Council of an annual Treasury Management Strategy Statement (Section 5) including the Annual Investment Strategy (Section 6) and the Minimum Revenue Provision Policy (Section 7) for the year ahead.
- Production of a mid year review report and an annual report covering activities during the previous year (this Council presents a quarterly monitoring report to Cabinet with the fourth quarter taking the form of an annual review).
- Delegation by the Council of responsibilities for implementing and regular monitoring of its treasury management policies and practices and for the execution and administration of treasury management decisions. This Council delegates responsibility for implementation and monitoring treasury management to Cabinet and responsibility for the execution and administration of treasury management decisions to the Section 151 Officer. The role of the Section 151 Officer in treasury management is described in Section 8.
- Delegation by the Council of the role of scrutiny for treasury management strategy and policies to a specific named body (this Council delegates this responsibility to the Audit and Governance Committee).

### **3. TREASURY MANAGEMENT POLICY STATEMENT**

The policies and objectives of the Council's treasury management activities are as follows:

1. This Council defines its treasury management activities as

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

2. This 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 Council, and any financial instruments entered into to manage these risks.
3. This 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 management techniques, within the context of effective risk management.

#### **4. TREASURY MANAGEMENT PRACTICES**

The Council has created and maintains the following Treasury Management Practices (TMPs). These TMPs set out the manner in which the Council will seek to achieve its policies and objectives and how it will manage and control these activities.

TMP 1: Risk Management

TMP 2: Performance Management

TMP 3: Decision making and analysis

TMP 4: Approved instruments, methods and techniques

TMP 5: Organisation, clarity and segregation of responsibilities, and dealing arrangements

TMP 6: Reporting requirements and management information arrangements

TMP 7: Budgeting, accounting and audit arrangements

TMP 8: Cash and cash flow management

TMP 9: Money laundering

TMP 10: Training and qualifications

TMP 11: Use of external service providers

TMP 12: Corporate governance

The Treasury Management Practices are regularly updated and further details of these can be found within the Finance Section.

## **5. TREASURY MANAGEMENT STRATEGY**

### **5.1 Current Portfolio Position**

As at 30 November 2020 the Council had £48.0 million within its investments and bank account monies. The forecast equated principal for 2020/21 is estimated to be £43.0 million. The forecast average interest rate to be earned in 2020/21 is estimated at 1.04% and will earn the Council approximately £446,000 in interest.

The cash profile during 2020/21 has followed a very different pattern from previous years due to the impact of Covid-19. Initially cash balances were severely dented as the pandemic immediately reduced income from sales, fees and charges, as well as from council tax and business rates receipts. Whilst these losses have continued the Council has been compensated through Government grants to address immediate coronavirus costs and to compensate for lost income. Also, the Government deferred the payment of the £4.5 million the Council would normally pay per month to the Treasury, from business rates regardless of the amount collected.

Throughout the coronavirus pandemic the Council has been administering the business grants schemes provided by the Government to support small business, and business in the retail, hospitality and leisure sectors. The Government has provided the funding for these schemes up front and therefore it should be noted the current balance and average funds during 2020/21 have been increased from these short term cash balances, until the sums are able to be passed on to businesses.

All the Council's investments are held within the United Kingdom.

The Council currently has no external borrowing. The final instalment of the loan with the Public Works Loans Board was repaid in July 2020.

### **5.2 Prospects for Interest Rates**

The bank interest rate set by the Bank of England's Monetary Policy Committee had been 0.75% since August 2018 until early 2020. When it became clear that the coronavirus pandemic would pose a huge threat to the economy of the UK, two emergency cuts were applied in March 2020, first to 0.25% and then to 0.10%.

The coronavirus outbreak has done huge economic damage to the UK and economies around the world. The Bank of England has kept the rate unchanged at 0.10%, although some forecasters had suggested that a cut into negative territory could happen. There is still uncertainty over the Brexit deal and although any hit to

GDP may be small in comparison to the slump endured during the coronavirus crisis, the pandemic does mean there is less scope for policy to respond.

The Council has appointed Link Asset Services as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. They forecast that the interest rate is likely to stay at 0.10% until at least March 2024, as any economic recovery is expected to be only gradual and therefore prolonged. This forecast has been reflected in the Council's interest budget calculations.

### **5.3 Borrowing Strategy**

The Council borrowed £20 million in July 2010 for funding property investment. The final £1 million was repaid in July 2020 meaning the Council no longer has any external debt.

However, the Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement) has not been fully funded as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is still an issue that needs to be considered. Against this background, and the risks within the economic forecast, caution will be adopted with the 2021/22 treasury operations. The Director of Finance, Policy & Development will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances.

The Council is able to borrow from a variety of sources including financial institutions, other local authorities, and insurance and pensions funds. The interest rates charged by these organisations is unaffected by the cost of borrowing from the PWLB.

Link Asset Services forecast for the PWLB borrowing rates is as follows:

	<b>5 year</b>	<b>10 year</b>	<b>25 year</b>	<b>50 year</b>
Dec 2020	0.80%	1.10%	1.50%	1.30%
Mar 2021	0.80%	1.10%	1.50%	1.30%
Jun 2021	0.80%	1.10%	1.60%	1.40%
Sep 2021	0.80%	1.10%	1.60%	1.40%
Dec 2021	0.80%	1.10%	1.60%	1.40%
Mar 2022	0.80%	1.10%	1.60%	1.40%
Jun 2022	0.80%	1.10%	1.70%	1.50%
Sep 2022	0.80%	1.10%	1.70%	1.50%
Dec 2022	0.80%	1.10%	1.70%	1.50%
Mar 2023	0.80%	1.10%	1.70%	1.50%

Jun 2023	0.80%	1.10%	1.80%	1.60%
Sep 2023	0.80%	1.10%	1.80%	1.60%
Dec 2023	0.80%	1.10%	1.80%	1.60%
Mar 2024	0.80%	1.10%	1.80%	1.60%

These rates include a Government reduction of 0.20% which is given to authorities who provide information on their plans for long term borrowing and associated capital spend, of which we are one.

As the table shows there is expected to be little upward movement in PWLB rates over the next two years as it will take economies, including the UK, a prolonged period to recover all the momentum they have lost in the sharp recession caused during the coronavirus shut down period. From time to time, gilt yields, and therefore PWLB rates, can be subject to exceptional levels of volatility due to geo-political and sovereign debt crisis, emerging market developments and sharp changes in investor sentiment, as shown in November when the first results of a successful Covid-19 vaccine trial were announced. Such volatility could occur at any time during the forecast period.

Following a consultation, run by the Treasury, on the future lending terms of the PWLB, new lending terms were published in December 2020. The PWLB will no longer lend to local authorities that plan to buy commercial assets primarily for yield. In order to borrow from the PWLB, local authorities will now be required to submit a summary of their planned capital spending and PWLB borrowing for the following three years.

The Council will consider borrowing from the following:

- Temporary Borrowing from the money markets or other local authorities
- Public Works Loans Board (PWLB)
- Long term fixed rate market loans at rates significantly below PWLB rates
- Other financial institutions including banks, insurance and pension funds.
- Municipal Bonds Agency

The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

The Council will continue to take a flexible approach with regards to the funding of capital acquisitions. These schemes may involve the use of borrowing where it is

considered to be advantageous and such decisions will be taken by the Director of Finance, Policy and Development in accordance with market conditions at that time.

#### 5.4 Prudential Indicators 2021/22 to 2023/24

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

The Prudential Indicators for 2021/22 to 2023/24 are set out below:

##### - Capital Expenditure

This prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously:

	<b>2019/20 Actual £000's</b>	<b>2020/21 Estimate £000's</b>	<b>2021/22 Estimate £000's</b>	<b>2022/23 Estimate £000's</b>	<b>2023/24 Estimate £000's</b>
Capital Expenditure	5,832	19,652	10,430	854	854

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

	<b>2019/20 Actual £000's</b>	<b>2020/21 Estimate £000's</b>	<b>2021/22 Estimate £000's</b>	<b>2022/23 Estimate £000's</b>	<b>2023/24 Estimate £000's</b>
Capital Receipts	2,060	6,657	0	0	0
External Contributions	2,634	7,931	4,933	824	824
Earmarked Reserves	473	1,622	5,015	30	30
Net Financing Need	665	3,442	482	0	0
<b>Total</b>	<b>5,832</b>	<b>19,652</b>	<b>10,430</b>	<b>854</b>	<b>854</b>

##### - The Council's Borrowing Need

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

expenditure above, which has not immediately been paid for through a revenue or capital resource, 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 each asset's life, and so charges the economic consumption of capital assets to income and expenditure account as they are used.

	<b>2019/20 Actual £000's</b>	<b>2020/21 Estimate £000's</b>	<b>2021/22 Estimate £000's</b>	<b>2022/23 Estimate £000's</b>	<b>2023/24 Estimate £000's</b>
<b>Capital Financing Requirement</b>					
Opening CFR	9,800	5,799	8,951	9,085	8,638
Movement in CFR	(4,001)	3,152	134	(447)	(447)
Closing CFR	5,799	8,951	9,085	8,638	8,191
<b>Movement in CFR represented by</b>					
Net financing for year	665	3,442	482	0	0
Adjustment prior year	(4,442)	0	0	0	0
Less MRP	(224)	(290)	(348)	(447)	(447)
<b>Movement in CFR</b>	<b>(4,001)</b>	<b>3,152</b>	<b>134</b>	<b>(447)</b>	<b>(447)</b>

#### - Core Funds and Expected Investment Balances

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

	<b>2019/20 Actual £000's</b>	<b>2020/21 Estimate £000's</b>	<b>2021/22 Estimate £000's</b>	<b>2022/23 Estimate £000's</b>	<b>2023/24 Estimate £000's</b>
Reserve balances	15,351	12,534	6,906	6,431	5,956
Capital receipts	4,076	2,570	1,000	1,000	1,000
Other	1,802	1,802	1,802	1,802	1,802
<b>Total Core Funds</b>	<b>21,229</b>	<b>16,807</b>	<b>9,708</b>	<b>9,223</b>	<b>8,758</b>
Working Capital	13,861	4,093	2,992	2,467	1,942
<b>Investments Estimate</b>	<b>35,090</b>	<b>20,900</b>	<b>12,700</b>	<b>11,700</b>	<b>10,700</b>

#### - Ratio of Financing Costs to Net Revenue Stream

This indicator identifies the trend in the cost of capital, borrowing and long-term obligation costs net of investment income, against net revenue stream

	<b>2019/20 Actual £000's</b>	<b>2020/21 Estimate £000's</b>	<b>2021/22 Estimate £000's</b>	<b>2022/23 Estimate £000's</b>	<b>2023/24 Estimate £000's</b>
Net Cost of Services	14,231	18,760	14,730	15,024	15,325
Borrowing Costs	50	7	0	0	0
Percentage	0.35%	0.04%	0.00%	0.00%	0.00%

### 5.5 Treasury Indicators 2021/22 to 2023/24

The Treasury Management Code requires that Local Authorities set a number of indicators for treasury performance in addition to the Prudential Indicators which fall under the Prudential Code.

The Treasury Indicators for 2021/22 to 2023/24 are set out below:

#### - Limits to Borrowing Activity

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

<b>Operational Boundary</b>	<b>2020/21 £000's</b>	<b>2021/22 £000's</b>	<b>2022/23 £000's</b>	<b>2023/24 £000's</b>
Debt	92,000	20,000	20,000	20,000
Other long-term liabilities	5,000	5,000	5,000	5,000
<b>Total</b>	<b>97,000</b>	<b>25,000</b>	<b>25,000</b>	<b>25,000</b>

The authorised limit for external debt represents a control on the maximum level of borrowing. It represents a legal limit beyond which external debt is prohibited, and this limit needs to be set or revised by Full Council. It reflects the level of external debt which, whilst not desired, could be afforded in the short term, but is not sustainable in the longer term.

<b>Authorised Limit</b>	<b>2020/21 £000's</b>	<b>2021/22 £000's</b>	<b>2022/23 £000's</b>	<b>2023/24 £000's</b>
Debt	92,000	20,000	20,000	20,000
Other long-term liabilities	5,000	5,000	5,000	5,000
<b>Total</b>	<b>97,000</b>	<b>25,000</b>	<b>25,000</b>	<b>25,000</b>

## **6. ANNUAL INVESTMENT STRATEGY**

### **6.1 Investment Policy**

The Council's investment policy has regard to the following:

- MHCLG's Guidance on Local Government Investments
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017
- CIPFA Treasury Management Guidance Notes 2018
- CIPFA Prudential Property Investment

The Council's investment priorities will be:

- (a) the security of capital and
- (b) the liquidity of its investments
- (c) return

The Council aims to achieve the optimum return on its investments commensurate with proper levels of security and liquidity. The risk appetite of this Council is low in order to give priority to security of its investments.

The above guidance from the MHCLG and CIPFA places 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 high 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.
- 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 and overlay that information on top of the credit ratings.

In accordance with guidance from the MHCLG and CIPFA, and in order to minimise the risk to investments, the Council stipulates the minimum acceptable credit quality of counterparties for inclusion on the lending list. Furthermore, the

Council recognises that ratings should not be the sole determinant of the quality of an institution and that it is important to continually assess and monitor the financial sector in relation to the economic and political environments in which institutes operate.

As a result of the change in accounting standards for 2020/21 under IFRS 9 Financial Instruments, the Council 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. In November 2018 MHCLG, concluded a consultation for a temporary override to allow English local authorities time to adjust their portfolio of all pooled investments by announcing a statutory override to delay implementation of IFRS 9 for five years ending 31 March 2023.

The Council will invest in property within the borough that is strategically important for the economic vitality of the borough and in doing so improves the longer-term revenue and capital position of the Council.

The 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.

The Council will ensure that all the organisation's investments are covered in the capital programme and investment strategy 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 organisation will maintain a schedule setting out a summary of existing material investments, subsidiaries, joint ventures and liabilities including financial guarantees and the organisation's risk exposure.

The borrowing of monies purely to invest or on-lend and make a return may be ultra vires and this Council will not engage in such activity.

## **6.2 Creditworthiness Policy**

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

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

The Director of Finance, Policy and Development will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to Cabinet for approval as necessary.

This Council uses Fitch as its main agency but also monitors ratings from the other agencies, Moody's and Standard and Poor's. In line with Link Asset Services the Council focuses on the short and long-term ratings of an institution. These are defined as follows:

Long Term	Long-term ratings consider periods of longer than 13 months and are a benchmark measure of the probability of default.
Short Term	Short-term ratings place greater emphasis on the liquidity necessary to meet financial commitments in a timely manner.

Link Asset Services provides the Council with information on Credit Default Swap spreads, which give an early warning of likely changes in credit ratings, which the Council also takes into account.

All credit ratings are monitored weekly and the Council is alerted to changes in ratings through its use of the Link Asset Services creditworthiness service. If a downgrade results in the counterparty no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.

### **6.3 Proposed Limits 2021/22**

The proposed investment criteria and limits for 2021/22 are:

- Banks – the Council will only use banks which are UK banks or are non-UK and domiciled in a country which has a minimum sovereign long term rating of AAA and have the following Fitch credit rating:

<b>Long Term</b>	<b>Short Term</b>	<b>Maximum Investment</b>	<b>Maximum Duration</b>
AA+ AA AA-	F1+	£20 million	5 years
A+ A A-	F1	£10 million	3 years

- The Council's own banker – Lloyds Banking Group  
The Council has its bank account with Lloyds who as well as providing banking services accept Treasury Management Deposits. Having accepted that Lloyds is sufficiently secure to undertake our banking arrangements it is proposed to include them within the same top rating as banks. This will ensure that deposits and overnight current balances do not breach the current Treasury Management Policy.

<b>Maximum Investment</b>	<b>Maximum Duration</b>
£20 million	5 years

It is proposed that the limit applies to investment deposits and is in addition to the amount held in the Lloyds current account. This is because the Council has negotiated an advantageous rate of interest paid by Lloyds for its current account balances which is often more favourable than placing a longer-term investment.

- Bank subsidiary and treasury operation - the Council will use these where the parent bank has provided an appropriate guarantee or has the necessary ratings outlined above.
- Building Societies – the Council will use all societies which meet the ratings for banks outlined above.
- Money Market Funds (rated AAA) – a maximum investment per body of £5 million up to a maximum duration of 5 years
- Local Authorities - a maximum investment per body of £5 million up to a maximum duration of 5 years
- UK Government DMADF account – a maximum investment of £30 million up to a maximum duration of 5 years.
- UK Government Gilts and treasury bills – a maximum investment of £10 million up to a maximum duration of 5 years.

- Bonds issued by multilateral development banks (AAA rated) – a maximum investment of £5 million up to a maximum duration of 1 year.
- Collective Investment Schemes (Pooled Funds) – on advice from Link Asset Services up to a maximum of £10 million.
- Investment in organisations for the purposes of improving the Council's Assets – following a satisfactory external credit report. A maximum investment of £5 million per body up to a maximum duration of 5 years.
- Derivatives – these will only be used for the management of risk and the prudent management of financial affairs. The Council will only use derivatives where they can clearly be demonstrated to reduce the overall level of financial risks the authority is exposed to. Additional risks presented such as exposure to derivative counterparties will be taken into account when determining the overall level of risk.

#### **6.4 Potential Impact of Covid-19 and Brexit on Credit Ratings**

The potential impact of Covid-19 on the UK economy and, at the time of writing, the continuing uncertainty over a potential Brexit deal, could place downside pressure on the UK's sovereign rating. This may have a knock-on impact on the financial ratings of UK financial institutions.

The Director of Finance, Policy and Development will consider all investment decisions on an individual basis and investments will not be made based only on satisfying the criteria set out above. If a change in rating results in an existing investment being outside of the policy, the investment will be recalled at the earliest opportunity and any breach in the policy reported in the next quarterly management report.

#### **6.5 Interest Budget 2021/22**

The interest income included in the 2020/21 budget was £633,000. The forecast has been decreased to £446,000 as at Quarter 2 due to the decrease in interest rates and reduction in the amount being achieved from the Property Fund investment. The interest cost from the PWLB loan, which was held during April to July, was £7,210.

The estimated average funds available for investment in 2021/22 are £26.8 million. This includes money that it is expected to be kept in the Council's bank account

throughout the year rather than invested. This forecast takes into account the draft budget, in which a gap of £3 million is proposed to be balanced through the reallocation of existing reserves.

The Council currently has £9 million worth of units in The Local Authorities' Property Fund which pays a dividend to the Council on a quarterly basis. It is expected that the Council will keep the £9 million of units with the Fund during 2021/22. An estimated rate, net of fees, of 3.60% has been applied which results in interest of £324,000.

It is estimated that, on average, a rate of 0.22% will be achieved on the remaining funds of £17.8 million resulting in interest of £38,000. The rate is low compared to the rest of the portfolio as much of this money will need to be kept short term to meet the Council's cash flow requirements. This, along with the £324,000 from the Property Fund, brings the total interest budget to £362,000, an overall average rate of interest of 1.35%.

## **6.6 Treasury Management Targets 2021/22**

The Treasury Management targets for 2021/22 are:

- 1 To achieve an average investment rate of 1.35% in 2021/22;
- 2 Longer term investment decisions (in excess of one year) to be made in the context of a minimum investment rate of 0.25% in 2021/22, 0.25% in 2022/23 and 0.50% in 2023/24; and
- 3 Overall cash flow will be managed to achieve a nil borrowing requirement although borrowing will be considered an option where it is prudent to do so.

The annual strategy and targets will need to take into account changing market conditions. Therefore, the Director of Finance, Policy and Development will make investment decisions in accordance with market conditions prevailing at the time. Changes to the general strategy position will be reported to the next appropriate Cabinet.

## **7. MINIMUM REVENUE PROVISION POLICY**

Where a Local Authority finances capital expenditure by debt, it must put aside resources to repay that debt in later years. This amount is charged to the revenue budget for the repayment of debt and is known as Minimum Revenue Provision (MRP). It is also allowed to undertake additional voluntary payments if required, Voluntary Revenue Provision (VRP).

MHCLG regulations have been issued which require the Full Council to approve an MRP statement in advance of each year. The Councils can choose its method for calculating MRP long as there is a prudent provision.

The proposed Policy Statement for 2021/22 is below:

### **Minimum Revenue Provision Policy Statement**

From 1 April 2008 for all unsupported borrowing (not supported by the Revenue Support Grant) there are two options for calculating MRP. They are:

- Asset Life Method – MRP will be based on the estimated life of the assets, in accordance with the regulations
- Depreciation Method – MRP will follow standard depreciation accounting procedures

For capital expenditure financed from borrowing or credit arrangements, the MRP for this Council will be Asset Life Method, with the asset life determined from the outset and MRP charged in the year following the one in which the expenditure occurred. Where expenditure is incurred over more than one year, then the MRP shall commence in the year following the year in which the asset becomes operational. If no life can be reasonably attributed to an asset, such as freehold land, the life should be taken to be a maximum of 50 years.

It is thought that this is the most appropriate method as this provides for the Council to make revenue provision over the estimated life of the asset for which the borrowing is undertaken. In effect, the charge to the Comprehensive Income and Expenditure account will be the amount borrowed in respect of the asset, divided by the number of years of estimated life of the asset, and will result in an equal annual amount being charged as MRP.

The regulations require Full Council approval in advance of the year to which the MRP applies. The Council can change the method of calculating MRP on an annual basis but once a method has been approved for a particular year, any assets purchased through borrowing that year must continue to have MRP

charged in the same way. The Council cannot change the method of calculating MRP on individual assets.

### **MRP Overpayments**

A change introduced by the revised MHCLG MRP Guidance was the allowance that any charges made over the statutory MRP, voluntary provision or overpayments can, if needed, be reclaimed in later years if deemed necessary or prudent. In order for these sums to be reclaimed for use in the budget, this policy must disclose the cumulative overpayment made each year.

Up until 31 March 2020 the total VRP overpayments have been £89,071. Dowding House, which was funded through borrowing, was expected to become operational during 2017/18 and therefore an MRP budget was set for 2018/19 (the year following the year in which the asset was to become operational). The opening was delayed until 2018/19 so therefore there was no requirement to set aside MRP during 2018/19. The Council chose to make a VRP payment in 2018/19 instead as the budget was available to do this.

## **8. ROLE OF THE SECTION 151 OFFICER IN TREASURY MANAGEMENT**

The Section 151 officer has the following role in treasury management:

- Recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance
- Submitting regular treasury management policy reports
- Submitting budgets and budget variations
- Receiving and reviewing management information reports
- Reviewing the performance of the treasury management function
- Ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function
- Ensuring the adequacy of internal audit, and liaising with external audit
- Recommending the appointment of external service providers
- Preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments and treasury management, with a long term timeframe
- Ensuring that the capital strategy is prudent, sustainable, affordable and prudent in the long term and provides value for money
- Ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the authority
- Ensure that the authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing
- Ensuring the proportionality of all investments so that the authority does not undertake a level of investing which exposes the authority to an excessive level of risk compared to its financial resources
- Ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long term liabilities
- Provision to members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees

- Ensuring that members are adequately informed and understand the risk exposures taken on by an authority
- Ensuring that the authority has adequate expertise, either in house or externally provided, to carry out the above
- Creation of Treasury Management Practices which specifically deal with how non treasury investments will be carried out and managed