TYNE & WEAR FIRE AND RESCUE AUTHORITY **Item No. 4**

MEETING: 15TH MARCH 2021

SUBJECT: TREASURY MANAGEMENT POLICY AND STRATEGY 2021/2022, INCLUDING PRUDENTIAL 'TREASURY MANAGEMENT' INDICATORS FOR 2021/2022 TO 2024/2025

REPORT OF THE FINANCE DIRECTOR

1. **Purpose of the Report**

1.1 To approve the proposed Treasury Management Policy and Strategy (including both borrowing and investment strategies) for 2021/2022 and the Prudential 'Treasury Management' Indicators for 2021/2022 to 2024/2025 and to take into account any comments provided by the Governance Committee.

2. **Treasury Management**

2.1 Treasury Management is defined 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."

2.2 The Treasury Management function is a specialist service that is carried out by Sunderland City Council on behalf of the Authority and in consultation with the Finance Director.

3. **Statutory requirements**

3.1 The Local Government Act 2003 (the Act) requires the Authority to:

- 'have regard to' the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice to set Prudential Indicators including specific Treasury Management Indicators) for a minimum period of three years to ensure that the Authority's capital investment plans are affordable, prudent and sustainable. These are detailed at Appendix 1.
- adopt a Treasury Management Policy Statement (detailed in Appendix 2), and
- to set out its Treasury Management Strategy Statement comprising the Authority's strategy for borrowing and the Authority's policies for managing its investments and giving priority to the security and liquidity of those investments (set out in Appendix 3).

3.2 The Ministry of Housing, Communities & Local Government (MHCLG) 'Statutory Guidance on Local Government Investments' was updated in February 2018 and CIPFA updated its Treasury Management in the Public Services Code of Practice in December 2017. The Council is statutorily required to have regard to this advice when setting its Treasury Management Policy Statement and Treasury Management Strategy. Changes to the MHCLG investment guidance focused particularly on non-treasury commercial investments which are reported within the Commercial Activity – Investment Strategy section of the Capital Strategy rather than in the Treasury Management Strategy. This ensures the separation of the core treasury function where investments are made under security, liquidity and yield principles, and non-treasury commercial and strategic investments.

4. CIPFA requirements

4.1 The Authority continues to fully adopt and to re-affirm annually its adherence to the updated CIPFA Code of Practice on Treasury Management.

The primary requirements of the Code include that:

1. The Authority will create and maintain, as the cornerstones for effective treasury management:

    - a treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities;
    - suitable treasury management practices (TMP's), setting out the manner in which the organisation will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

    The content of the treasury management policy statement is detailed in Appendix 2 and the TMP's follow the recommendations contained in Sections 6 and 7 of the Code, subject only to very minor variations where necessary to reflect the particular circumstances of the Authority, and these do not result in the Authority materially deviating from the Code's key principles.

2. The Authority will receive reports on treasury management policies, practices and activities, including, as a minimum, an annual strategy and plan, in advance of the year ahead, a mid-year review and an annual report after its close, in the form prescribed in its TMP's.
3. The Authority delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to this Committee, and for the execution and administration of treasury management decisions to the Finance Director, who acts in accordance with the organisation's Policy Statement, TMPs and CIPFA's Standard of Professional Practice on Treasury Management.
4. The Authority has previously nominated the Governance Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

5 Treasury Management Strategy Statement for 2021/2022

5.1 The Treasury Management Strategy Statement comprises a Borrowing and an Investment Strategy. These set out the Authority's policies for managing its borrowing and investments in 2021/2022.

5.2 There are no major changes being proposed to the overall Treasury Management Strategy in 2021/2022, which maintains the careful and prudent approach adopted by the Authority in previous years. Areas that inform the strategy include the extent of potential borrowing included in the Authority's capital programme, the availability of borrowing, and the current and forecast world and UK economic positions, in particular forecasts relating to interest rates and security of investments.

5.3 The proposed Treasury Management Strategy Statement for 2021/2022 is set out in Appendix 3 and is based upon the views of the Finance Director, supplemented with market data, market information and leading market forecasts and views provided by the Authority's treasury adviser, Link Asset Services.

5.4 The Authority's treasury management practices are subject to regular review to ensure compliance to the agreed treasury management strategy and that the strategy adapts to changing financial markets as appropriate so that the Lead Authority, on behalf of this Authority, can take a view on the optimum time to carry out further borrowing or debt rescheduling.

6. Recommendation

6.1 Authority is requested to approve the:

- Proposed Annual Treasury Management Policy and Strategy for 2021/2022 (including specifically the Annual Borrowing and Investment Strategies) and,
- The proposed Prudential 'Treasury Management' Indicators 2021/2022 to 2024/2025.

Appendix 1

Prudential 'Treasury Management' Indicators 2021/2022 to 2024/2025

The indicators below relate to Treasury Management (all indicators relating to capital financing have been removed for clarity and can be found in the Capital Programme 2020/2021 including Prudential Indicators for 2021/2022 to 2024/2025 report presented to the Authority on 15th February 2021).

P5 In respect of its external debt, it is recommended that the Authority approves the following authorised limits for its total external debt (gross of investments) for the next four financial years. These limits must separately identify borrowing from other long-term liabilities such as PFI schemes and finance leases. The Authority is asked to approve these limits and to delegate authority to the Finance Director, within the total limit for any individual year, to effect movement between the separately agreed limits for borrowing and other long-term liabilities, in accordance with option appraisal and best value for the Authority. Any such changes made will be reported to the Authority at the next meeting following the change.

Authorised Limit for External Debt

	2020/2021 £'000	**2021/2022 £'000**	**2022/2023 £'000**	**2023/2024 £'000**	**2024/2025 £'000**
Borrowing	23,701	34,454	36,311	36,827	38,791
Other long-term liabilities	16,939	15,818	14,457	13,032	11,297
Total	**40,640**	**50,272**	**50,768**	**49,859**	**50,088**

The above authorised limits are consistent with the Authority's current commitments, existing plans within the recently approved Capital Programme 2021/2022 to 2024/2025 which set out its agreed capital expenditure and financing, and with its proposed treasury management policy statement and practices. The Finance Director also confirms they are based on the estimate of most likely, prudent, but not worst-case scenario, with, in addition, sufficient headroom over and above this to allow for operational management, for example unusual cash movements. Risk analysis and risk management strategies have been taken into account, as have plans for capital expenditure, estimates of the Capital Financing Requirement and estimates of cash flow requirements for all purposes.

In taking its decisions on the Revenue Budget and Capital Programme for 2021/2022, the Authority has already agreed the authorised limit determined for 2021/2022 (see P5 above) will be the statutory limit determined under section 3(1) of the Local Government Act 2003.

P6 The Authority has also agreed to the following operational boundary for external debt for the same time period as part of the Capital programme 2021/2022 to 2024/2025 report. The operational boundary for external debt is based on the same estimates as the authorised limit, but reflects directly the estimate of the most likely, prudent but not worst-case scenario level, without the additional headroom included within the authorised limit to allow, for example, for unusual cash flow movements. It equates to the projected maximum external debt and represents a key management tool for in-year monitoring. Within the operational boundary, figures for borrowing and other long-term liabilities are separately identified.

The Authority is also requested to delegate authority to the Finance Director, within the total operational boundary for any individual year, to effect movement between the separately agreed figures for borrowing and other long-term liabilities, similar to the authorised limit set out in P5.

The operational boundary limit will be closely monitored and a report will be made to the Authority if it is exceeded at any point in the financial year ahead. It is generally only expected that the actual debt outstanding will approach the operational boundary when all of the long-term borrowing has been undertaken for that particular year and will only be exceeded temporarily as a result of the timing of debt rescheduling.

Operational Boundary for External Debt

	2020/2021 £'000	**2021/2022 £'000**	**2022/2023 £'000**	**2023/2024 £'000**	**2024/2025 £'000**
Borrowing	18,701	29,454	31,311	31,827	33,791
Other long term liabilities	16,939	15,818	14,457	13,032	11,297
Total	**35,640**	**45,272**	**45,768**	**44,859**	**45,088**

P7 The Authority's actual external debt at 31st March 2020 was £29.904 million (calculated on the basis that all Authority debt is classed as external) and was made up of actual borrowing of £11.695 million and £18.209 million in respect of other long-term liabilities.

The Authority includes an element for long-term liabilities relating to PFI schemes and leases in its calculation of the operational and authorised boundaries to allow further flexibility over future financing. It should be noted that actual external debt is not directly comparable to the authorised limit and operational boundary, since the actual external debt reflects the position at any one point in time and allowance needs to be made for borrowing and cash flow variations.

P8 The Lead Authority is no longer required to formally indicate if it has adopted the CIPFA Code of Practice on Treasury Management. However, the revised Code was adopted on 3rd March 2010 and adherence to the Code is re-affirmed annually.

The objective of the Prudential Code is to provide a clear framework for local authority capital finance that will ensure for individual local authorities that:

(a) capital expenditure plans are <u>affordable;</u>
(b) all external borrowing and other long-term liabilities are within <u>prudent and sustainable levels</u>;
(c) treasury management and investment decisions are taken in accordance with professional good practice and in full understanding of the risks involved;

and that in taking decisions in relation to (a) to (c) above the local authority is: <u>accountable</u>, by providing a clear and transparent framework.

Further, the framework established by the Code should be consistent with and support:

(a) local strategic planning;
(b) local asset management planning;
(c) proper option appraisal.

In exceptional circumstances the objective of the Code is to provide a framework that will demonstrate that where there is a danger of not ensuring the above, the Authority can take timely remedial action.

CIPFA Treasury Management in the Public Services Code of Practice - Indicators 2021/2022 to 2024/2025

P9 It is recommended that the Authority sets upper and lower limits for the maturity structure of its borrowings, consistent with the Lead Authority's policy, as follows:

Amount of projected borrowing that is fixed rate maturing in each period expressed as a percentage of total projected borrowing that is fixed rate at the start of the period:

	Upper limit	Lower limit
Under 12 months	50%	0%
12 months and within 24 months	60%	0%
24 months and within 5 years	80%	0%
5 years and within 10 years	100%	0%
10 years and over	100%	0%

P10 A maximum maturity limit of £75 million is set for each financial year (2021/2022, 2022/2023, 2023/2024 and 2024/2025) for long-term investments (those over 365 days). This gives additional flexibility to the Authority in undertaking its Treasury Management function. It is proposed that Authority funds may be invested within the limits set by the Lead Authority as set out in the Annual Investment Strategy (Appendix 3).

Appendix 2

1. Treasury Management Policy Statement

1.1 In line with CIPFA recommendations, the Authority adopted the following Treasury Management Policy Statement, which defines the policies and objectives of its treasury management activities:

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

1.2 The Authority has an agreed Borrowing and Investment Strategy, the high-level policies of which are as follows:

1.2.1 The basis of the agreed Borrowing Strategy is to:

- continuously monitor prevailing interest rates and forecasts;
- secure long-term funds to meet the Authority’s future borrowing requirement when market conditions are considered favourable;
- use a benchmark financing rate of 2.60% for any new long-term borrowing (i.e. all borrowing for a period of one year or more); and
- take advantage of debt rescheduling opportunities, as appropriate.

1.2.2 The general policy objective for the Authority in considering potential investments is the prudent investment of its treasury balances.

- the Authority’s investment priorities in order of importance are:
  1) The security of its capital
  2) The liquidity of its investments and then
  3) The Authority aims to achieve the optimum yield on its investments, but this is commensurate with the proper levels of security and liquidity

- the Authority has a detailed Lending List and criteria must be observed when placing funds – these are determined using expert treasury management advice, view of money market conditions and using detailed rating agency information as well as using our own market intelligence.

- Limits are also placed on the amounts that can be invested with individual and grouped financial institutions based on the Lending List and detailed criteria which is regularly reviewed.

1.3 The Authority re-affirms its commitment to the Treasury Management Policy and Strategy Statement in 2021/2022 as it does every year.

Appendix 3

1. **Treasury Management Strategy Statement for 2021/2022**

1.1 **Introduction**

1.2 The Local Government Act 2003 and subsequent guidance requires the Authority to set out its Treasury Management Strategy for Borrowing and to prepare an Annual Investment Strategy. This sets out the Authority's policies for managing both its borrowing and its investments, which gives priority to the security and liquidity of those investments.

1.3 The suggested strategy for 2021/2022 is set out below and is based upon the Finance Director's views on interest rates, supplemented with leading market forecasts and other financial data available and advice provided by the Authority's treasury adviser, Link Asset Services.

1.4 In December 2017 CIPFA issued a revised Treasury Management Code of Practice and Cross-Sectoral Guidance Notes, and a revised Prudential Code. In February 2018 MHCLG revised their Guidance on Local Government Investments and also their Statutory Guidance on Minimum Revenue Provision. A particular focus of these revised codes is how to deal with local authority investments which are not treasury type investments e.g. by investing in purchasing property in order to generate income for the authority at a higher level than can be attained by treasury investments. This report deals solely with financial investments managed by the lead authority's Treasury Management function. Non-financial investments, essentially the purchase of income yielding assets, are covered in the lead authority's Capital Strategy which was approved in December 2020. This ensures the separation of the core treasury function where investments are made under security, liquidity and yield principles, and non-treasury commercial and strategic investments.

1.5 The treasury management strategy covers the:

- current treasury management position;
- treasury indicators and limits;
- prospects for interest rates;
- borrowing strategy;
- policy on borrowing in advance of need;
- policy on debt rescheduling;
- investment policy and management of risk;
- creditworthiness policy;
- outlook and proposed treasury investment strategy;
- policy on the use of external service providers; and
- non-treasury investments.

2. Treasury Management Strategy

Borrowing

2.1 Current Treasury Management Position

The treasury portfolio position at 31st December 2020 for Sunderland City Council, which the Fire and Rescue Authority forms part of, comprised

		Principal (£m)	Total (£m)	Average Rate (%)
Treasury external borrowing				
Fixed Rate Funding	PWLB	343.6		
	Market	39.6		
	Other	8.0	391.2	3.06
Variable Rate Funding	Temporary / Other		27.6	0.72
Total Borrowing			**418.8**	**2.91**
Total Investments				
	In house – short term		**216.9**	**0.46**
Net treasury borrowing			**201.9**	

Currently there is a net deficit of £201.9m which represents the difference between gross debt and total investments and is significantly lower than the lead authority's capital financing requirement (capital borrowing need).

2.2 Treasury Indicators and Limits

2.2.1 Prudential and Treasury Indicators (as set out in Appendix 1) are a requirement of the CIPFA Prudential Code and are relevant for the purposes of setting an integrated treasury management strategy and to ensure that treasury management decisions are taken in accordance with good professional practice. It is a statutory duty under Section 3 of the Local Government Act 2003 and supporting regulations, for the Authority to determine and keep under review how much it can afford to borrow. The amount so determined is termed the "Affordable Borrowing Limit". In England and Wales, the Authorised Limit represents the legislative limit specified in the Act.

2.2.2 The Authority must have regard to the Prudential Code when setting the Authorised Limit, which essentially requires it to ensure that total capital investment remains within sustainable limits and, in particular, that the impact upon its future council tax is 'acceptable'.

2.2.3 Whilst termed an "Affordable Borrowing Limit", the capital plans to be considered for inclusion incorporate financing by both external borrowing and other forms of liability, such as credit arrangements. The Authorised Limit is set, on a rolling basis, for the forthcoming financial year and three successive financial years and details can be found in Appendix 1 (P5) of this report. The Authority is requested to note these already agreed limits and to delegate authority to the Finance Director, within the total limit for any individual year, to action movement between the separately agreed limits for borrowing and other long-term liabilities where this would be appropriate. Any such changes made will be reported to the Authority at their next meeting following the change.

2.2.4 Also, the Authority is requested to note the already agreed Operational Boundary Limit (P6) which is included in the Prudential Indicators set out in Appendix 1. This operational boundary represents a key management tool for in-year monitoring. Within the operational boundary, figures for borrowing and other long-term liabilities are separately identified and the Authority is also asked to delegate authority to the Finance Director, within the total operational boundary for any individual year, to action movement between the separately agreed figures for borrowing and other long-term liabilities, in a similar fashion to the authorised limit.

2.2.5 The requirement for the Authority to indicate it has adopted the CIPFA Code of Practice on Treasury Management was removed in the revised 2017 edition of the code. However, this is still considered to be good practice. The original 2001 Code was adopted on 20th November 2002 and the revised Code in 2011 was adopted in March 2012. The Authority re-affirms its full adherence to the latest 2017 edition of the Code and will continue to do so annually (as set out in Appendix 2).

2.3 Prospects for Interest Rates

2.3.1 The coronavirus outbreak has done huge economic damage to the UK and economies around the world. After the Bank of England (BoE) took emergency action in March to cut the bank interest rate to first 0.25%, and then to 0.10%, it left the rate unchanged at its subsequent meetings to 16th December. Some forecasters have suggested that the bank rate might be cut further and a negative rate applied, however Andrew Bailey, Governor of the BoE has made it clear that he currently thinks that such a move would do more damage than good and that more quantitative easing is the favoured tool to pursue if further action becomes necessary. The BoE's forward guidance makes it clear that the Bank 'does not intend to tighten monetary policy until there is clear evidence that significant progress is being made in eliminating spare capacity and achieving the 2% inflation target sustainably'.

2.3.2 Link Asset Services, the Authority's treasury advisors, think the next increase of in Bank Rate will not be until quarter 1 in 2024 and that there could well be no increase during the next five years due to the slow rate of recovery of the economy and the need for the Government to see the burden of the elevated debt to GDP ratio falling significantly. They think that inflation is unlikely to pose a threat requiring increases in Bank Rate during this period as there is likely to be spare capacity in the economy for a considerable time. They expect inflation to briefly peak at around 2% towards the end of 2021, but that this will be a temporary increase will not be a significant concern to the BoE.

2.3.3 Gilt yields had been on a generally falling trend up until the coronavirus crisis hit western economies during March 2020. Gilt yields increased during the financial crisis in March but have since fallen sharply to unprecedented lows as investors sold shares in anticipation of impending recessions in western economies, moving cash into assets seen as having less risk attached to them such as government bonds. Central banks took rapid action to deal with excessive stress in financial markets during March starting large quantitative easing purchases of government bonds which also acted to put downward pressure on government bond yields.

2.3.4 Public borrowing is now forecast by the Office for Budget Responsibility (OBR) to reach £394bn in the current financial year, the highest ever peace time deficit and equivalent to 19% of GDP. In normal times, such an increase in total gilt issuance would lead to a rise in gilt yields, and therefore PWLB rates. However, as in other major economies, the quantitative easing implemented by the Bank of England has depressed gilt yields to historic low levels. This means that new UK debt being issued is locking in those historic low levels through until maturity. In addition, the UK has one of the longest average maturities for its entire debt portfolio, of any country in the world. Overall, this means that the total interest bill paid by the Government is seen to be more manageable despite the huge increase in the total amount of debt. The OBR is also forecasting that the Government will still be running a budget deficit of £102bn (3.9% of GDP) by 2025/26.

2.3.5 Gilt yields and PWLB rates have been at very low rates so far during 2020/2021 with many bond yields up to 10 years in the Eurozone turning negative. 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. Link Asset Services predict a very gradual rise in PWLB rates reaching 0.80%, 1.10%, 1.50% and 1.30% for 5, 10, 25, and 50-year durations respectively by 31st March 2021 with further increases of 0.20% to 0.30% each year for the following three years.

2.3.6 With so many external influences weighing on the UK and world economies, interest rate forecasting remains very difficult. From time to time, gilt yields, and consequently PWLB rates, can be subject to exceptional levels of volatility due to geo-political, sovereign debt crisis, emerging market developments and sharp changes in investor sentiment, (as shown on 9th November when the first results of a successful COVID-19 vaccine trial were announced led to a large increase in rates). Such volatility could occur at any time during the forecast period. In addition, PWLB rates are subject to ad hoc decisions by the UK Government to change the margin over gilt yields charged in PWLB rates. Such changes could be up or down.

2.3.7 The above forecasts, and MPC decisions, will be liable to further amendment depending on how economic data and developments in financial markets transpire over the next year. The Brexit agreement reached on 24th December, and subsequently approved by Parliament on 31st December 2020, has removed some uncertainty and significant downside risks to the UK economy. However, high levels of volatility in PWLB rates and bond yields are expected to continue during 2021 and 2022.

2.3.8 The government introduced a 0.20% discount on PWLB loans under the prudential borrowing regime in March 2012 for those authorities that provided ‘improved information and transparency on their locally determined long-term borrowing and associated capital spending plans’. The Lead Authority applied to access PWLB loans at a discount of 0.20% and has been successful in extending its access to the PWLB certainty rate until 31st October 2022.

2.3.9 The following table shows the average PWLB rates for Quarters 1, 2 and 3 and the figures for Quarter 4 to 11th January 2021.

2020/2021	Qtr 1* (Apr - Jun) %	Qtr 2* (Jul - Sep) %	Qtr 3* (Oct – Dec) %	Qtr 4* (rates to 11th Jan 2021) %
7 days notice	-0.04	-0.07	-0.08	-0.08
1 year	1.84*	1.76*	1.38*	0.67*
5 year	1.85*	1.74*	1.43*	0.77*
10 year	2.07*	2.02*	1.74*	1.08*
25 year	2.50*	2.57*	2.30*	1.65*
50 year	2.26*	2.39*	2.12*	1.46*

*rates take account of the 0.2% discount to the PWLB rates available to eligible authorities that came into effect on 1st November 2012.

2.3.10 The Link Asset Services forecast in respect of interest rates for loans charged by the PWLB is as follows:-

Date	Bank Rate %	PWLB Borrowing Rates (including certainty rate adjustment) %		
		5 year	25 year	50 year
March 2021	0.10	0.80	1.50	1.30
June 2021	0.10	0.80	1.60	1.40
Sept 2021	0.10	0.80	1.60	1.40
Dec 2021	0.10	0.80	1.60	1.40
March 2022	0.10	0.90	1.60	1.40
June 2022	0.10	0.90	1.70	1.50
Sept 2022	0.10	0.90	1.70	1.50
Dec 2022	0.10	0.90	1.70	1.50
March 2023	0.10	0.90	1.70	1.50
June 2023	0.10	1.00	1.80	1.60
Sept 2023	0.10	1.00	1.80	1.60
Dec 2023	0.10	1.00	1.80	1.60
March 2024	0.10	1.00	1.80	1.60

2.3.11 The main sensitivities of the forecast are likely to be:

- if it were felt that there was a significant risk of a much sharper rise in long and short term rates than that currently forecast, perhaps arising from an acceleration in the rate of increase in central rates in the US and UK, an increase in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised with the likely action that fixed rate borrowing will be undertaken whilst interest rates are still lower than they will be in the next few years.
- if it were felt that there was a significant risk of a sharp fall in long and short-term rates, e.g. due to extended lockdowns into 2022, a marked increase of risks around a relapse into recession, or a risk of deflation, then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.

2.4 **Borrowing Strategy**

2.4.1 The Authority's strategy for 2020/2021 was to adopt a pragmatic approach in identifying the low points in the interest rate cycle at which to borrow and to respond to any changing circumstances to seek to secure benefit for the Authority. A benchmark financing rate of 4.25% for long-term borrowing was set considering the views prevalent at the time the Treasury Management policy was set in March 2020 before the pandemic.

2.5.2 In the Government's Spending Review 2020 on 25th November the Chancellor announced the conclusion to the review of interest rate yields above gilt yields for Public Works Loans Board (PWLB) loans. PWLB interest rates were effectively reduced by the 1% rise in rates that had been implemented in October 2019. However, a prohibition has been introduced that will deny access to any new borrowing from the PWLB for a local authority that has plans to purchase investment assets primarily for yield. When applying for PWLB borrowing authorities must now submit a high-level description of their capital spending and financing plans for the following three years. In addition, the Lead Authority's Section 151 Officer must confirm that there is no intention to buy investment assets primarily for yield at any point in the next three years. This assessment will be based on the Section 151 Officer's professional interpretation of guidance issued along with PWLB lending terms.

2.5.3 The Government have said that they will monitor the implementation of these reforms to make sure that the new lending arrangements are working as intended. MHCLG is also reviewing the effectiveness of the local government borrowing and investment framework, and it is developing options to intervene directly where there are concerns that local authorities are not complying with the intent of the prudential regime.

2.5.4 In line with discussions with the Authority's economic advisors, the Lead Authority delayed taking out any new borrowing with PWLB whilst the margin offered above gilt rates was 1.80%. PWLB rates continue to be volatile but the overall longer-term expectation is for gilt yields and PWLB rates to rise slowly.

2.5.5 The reduction to PWLB interest rates is likely to make this the cheapest option available to fund the large borrowing requirement needed to support the capital programme and it will benefit the Authority's revenue budget over the longer term. The Treasury Management team continues to closely monitor interest rates to assess the value of possible further new borrowing in line with future Capital Programme requirements. Consideration will also be given to various other funding options, including taking out shorter term borrowing, utilising investment balances, and use of other financial institutions to provide borrowing facilities.

2.5.10 There are currently seven market Lender's Option / Borrower's Option (LOBO) loans totalling £39.5 million. The lender has the option to alter the rate on these loans at set intervals and theses can either be accepted at the new rate or repaid without penalty. The following table shows the LOBOs that were subject to a potential rollover in 2020/201. No changes to loan rates have been received and so these arrangements will continue.

Roll Over Dates	Lender	Amount £m	Rate %	Roll Over Periods
21/04/2020 And 21/10/2020	Barclays	5.0	4.50	Every 6 months
10/12/2020	Barclays	9.5	4.37%	Every 3 years
27/01/2021	Dexia Credit Local	5.0	4.32	Every 3 years
Total		**19.5**		

2.5.11 The potential borrowing requirement for the Lead Authority, which the Fire and Rescue Authority forms part of, is as follows:

		2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m
1.	Capital Programme Borrowing	**189.8**	**187.8**	**57.8**	**14.8**
2.	Replacement borrowing (PWLB)	**5.0**	**5.0**	**0.0**	**0.0**
3.	Replacement LOBO	**20.0**	**10.0**	**19.5**	**20.0**
TOTAL:		**214.8**	**202.8**	**77.3**	**34.8**

2.5.12 Currently there is a deficit of £201.9m which represents the difference between gross debt and total investments. This means that the capital borrowing need (the capital financing requirement) has not been fully funded with loan debt, as cash supporting the lead authority's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and it also reduces counterparty risk. Consideration will be given by the lead authority to continue utilising some investment balances to fund the borrowing requirement in 2021/2022. This position will be carefully reviewed to avoid incurring higher borrowing costs over the long-term whilst ensuring that financing is available to support capital expenditure plans.

2.5.13 There are a number of risks and benefits associated with having both a large amount of debt whilst at the same time having a considerable amount of investments.

2.5.14 Benefits of having a high level of investments are:

- liquidity risk – having a large amount of investments means that the Authority is at less of a risk should money markets become restricted or borrowing less generally available, this mitigates against liquidity risk;
- interest is received on investments which helps the Authority to address its Strategic Priorities; and
- of more importance, the Authority has greater freedom in the timing of its borrowing as it can afford to wait until the timing is right rather than be subject to the need to borrow at a time when interest rates are not advantageous.

2.5.15 Risks associated with holding a high level of investments are;

- the counterparty risk – institutions cannot repay the Authority investments placed with them; and
- interest rate risk – the rate of interest earned on the investments will be less than that paid on debt, thus causing a loss to the Authority.

2.5.16 The Authority has mitigated these risks by having a risk averse Treasury Management Investment Strategy and by detailed monitoring of counterparties through its borrowing and investment strategies and treasury management working practices and procedures.

2.5.17 A Municipal Bonds Agency, set up by the Local Government Association, has begun to offer bonds to local authorities. The rates offered by the Agency will be assessed and use made of this, and any other new sources of funding that may become available, where it is considered advantageous.

2.5.18 The need to adapt to changing circumstances and revisions to profiling of capital expenditure is required when considering borrowing opportunities, and flexibility needs to be retained to adapt to any changes that may occur.

2.5.19 The Authority, taking advice from its treasury advisers, will continue to monitor rates closely, and whilst implementing the borrowing strategy, will adopt a pragmatic approach in identifying the low points in the interest rate cycle at which to borrow, wherever possible.

2.5.20 Taking into account potential market volatility and the advice of the Authority's treasury adviser, a benchmark financing rate of 2.60% for any further long-term borrowing for 2021/2022 is considered to be appropriate.

2.6 Policy on Borrowing in Advance of Need

2.6.1 The Authority will not borrow more than or in advance of its needs purely to profit from treasury investments of the extra sums borrowed. Any decision to borrow in advance will be assessed within the relevant Capital Financing Requirement estimates, with regard to current policies, and will be considered carefully to ensure value for money can be demonstrated and that the Authority can ensure the security of such funds.

2.6.2 Risks associated with any borrowing in advance of activity will be subject to appraisal and any borrowing undertaken will be reported to the Authority as part of the agreed treasury management reporting arrangements.

2.7 Policy on Debt Rescheduling

2.7.1 The reasons for any rescheduling of debt will include:

- the generation of cash savings at minimum risk;
- in order to help fulfil the Treasury Management Strategy; and
- in order to enhance the balance of the long-term portfolio (by amending the maturity profile and/or the balance of volatility).

2.7.2 In previous years, debt rescheduling has achieved significant savings in interest charges and discounts and these interest savings have been secured for many years to come. However, the very low underlying rate of the Authority’s long-term borrowing together with the current spread between the rates applied to new PWLB borrowing and repayment of PWLB debt means that PWLB debt restructuring is much less attractive. Consideration will also be given to other options where interest savings may be achievable by using LOBO (Lenders Option Borrowers Option) loans, and / or other market loans, in rescheduling exercises rather than solely using PWLB borrowing as the source of replacement financing but this would only be the case where this would represent best value to the Authority.

2.7.3 Following consultation and advice from the Authority's treasury advisors the Authority has taken the decision to borrow over longer-term periods and much of the existing borrowing is for periods over 40 years and on a fixed interest rate basis. This borrowing has been taken out where it offered good value and to allow for the potential to benefit from refinancing debt in the future. A further benefit is that it reduces risk by giving certainty of borrowing rates over the long-term. The latest interest rate projections for 2021/2022 show short-term borrowing rates will be cheaper than longer term rates and as such there may be potential for some opportunities to generate savings by switching from long-term debt to short-term debt. These potential savings will need to be considered in the light of the current treasury position and the size of the cost of debt repayment premiums incurred, their short-term nature, and the likely cost of refinancing those short-term loans, once they mature, compared to the current rates of longer term debt in the existing debt portfolio.

2.7.4 The Authority is keeping a watching brief on market conditions in order to secure further debt rescheduling when, and if, appropriate opportunities arise. The timing of all borrowing and investment decisions inevitably includes an element of risk, as those decisions are based upon expectations of future interest rates. The policy to date has been very firmly one of risk spread and this prudent approach will be continued.

2.7.5 Any rescheduling undertaken will be reported to the Authority, as part of the agreed treasury management reporting arrangements.

Annual Investment Policy and Strategy

2.8 **Investment Policy and Management of Risk**

2.8.1 When considering its investment policy and objectives, the Authority has taken regard to the MHCLG Guidance on Local Government Investments ("the Guidance"), CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017 ("the CIPFA TM Code"), and CIPFA Treasury Management Guidance Notes 2018.

2.8.2 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 lead authority's Treasury Management function.

2.8.3 The Authority's investment objectives are: -

(a) the security of capital, and
(b) the liquidity of its investments.

2.8.4 The Authority also aims to achieve the optimum return on its investments, but this is commensurate with proper levels of security and liquidity.

2.8.5 In the current economic climate, it is considered appropriate to keep investments short term to cover cash flow needs. However, where appropriate the Authority will also consider the value available in placing investments for longer periods with high credit rated financial institutions, as well as wider range fund options.

2.8.6 The guidance from the MHCLG and CIPFA places a high priority on the management of risk. The Authority has adopted a prudent approach to managing risk and in order to minimise the risk to investments, the Authority will;

- apply minimum acceptable credit criteria (detailed in Appendix 5) in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of risk. The risk appetite of the Authority is regarded as low in order to give priority to security of its investments.

- monitor credit ratings daily. The Authority has access to all three credit ratings agencies and is alerted to changes through its use of Link Asset Services counterparty service. If a counterparty's rating is downgraded with the result that it no longer meets the Authority's minimum criteria, the Authority will cease to place funds with that counterparty. If a counterparty's rating is downgraded with the result that their rating is still sufficient for the counterparty to remain on the Approved Lending List, then the counterparty's authorised investment limit will be reviewed accordingly. A downgraded credit rating may result in the lowering of the counterparty's investment limit and vice versa;

- not use ratings as the sole determinant of the quality of an institution. The Authority will continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To this end the Authority will engage with its advisors to monitor market pricing such as "credit default swaps" and overlay that information on top of the credit ratings provided.

- use other information sources including 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.

- define the type of investment instrument that the treasury management team are authorised to use. The Authority is allowed to invest in two types of investment, namely Specified Investments and Non-specified investments:

    - Specified Investments are sterling investments that are for a period of not more than one-year maturity, or those which could be for a longer period but where the Authority has the right to be repaid within 12 months if it wishes. These are placed with high rated counterparties and are considered low risk assets where the possibility of loss of principal or investment income is small. Within these bodies and in accordance with the Code, the Authority has set additional criteria to limit the time and amount of monies that will be invested with these bodies
    - Non-Specified Investments are any investments which are not classified as specified investments. As the Authority only uses investment grade high credit rated counterparties for treasury management investments this means in effect that any investments placed with those counterparties for a period over one year will be classed as Non-specified Investments. A limit on the amount of investments which can be invested for longer than 365 days is set in the Authority's creditworthiness policy.

- the type of investments to be used by the in-house treasury management team will be limited to Certificates of Deposit, variable term deposits, fixed term deposits, interest bearing accounts, Money Market Funds, Government debt instruments, floating rate notes, corporate bonds, municipal / local authority bonds, bond funds, gilt funds, and gilt-edged securities and will follow the criteria as set out in Appendix 5.
- assess the risk of default and if any of the Authority's investments appear at risk of loss due to default, (i.e. a credit-related loss, and not one resulting from a fall in price due to movements in interest rates), then the lead authority will make revenue provision of an appropriate amount in accordance with proper accounting practice or any prevailing government regulations, if applicable. The lead authority mitigates this risk with its prudent investment policy;
- set an approved lending list which shows lending limits and the maximum duration of any investment for each counterparty (detailed in Appendix 6). These are set using the agreed lending list criteria (detailed in Appendix 5).
- only place investments with counterparties from countries with a specified minimum sovereign rating as set out in the agreed lending list criteria (detailed in Appendix 5). Should the UK Government AA- sovereign rating be withdrawn the Authority's Investment Strategy and Lending List criteria will be reviewed and any changes necessary will be reported to the Authority; and
- engage external consultants to provide expect advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of this authority in the context of the expected level of cash balances and need for liquidity throughout the year.

2.8.7 In accordance with accounting standard IFRS9**,** the authority considers the implications of investment instruments which could result in an adverse movement in the value of the amount invested and lead to 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 for five years ending 31st March 2023.

2.8.8 The prudential code states that authorities must not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed. The Authority will not engage in such activity without full consideration of all financial and non-financial risks and subject to the appropriate approval process. The Investment Strategy would subsequently be updated to reflect any such change in approach.

2.9 Creditworthiness Policy

2.9.1 The creditworthiness policy adopted by the Authority takes into account the credit ratings issued by all three credit rating agencies (Fitch, Moody's and Standard & Poor's). Credit rating information is supplied by Link Asset Services, our treasury advisors, on all active counterparties that comply with the Authority's counterparty criteria.

2.9.2 Although the credit rating agencies changed their outlook on many UK banks from stable to negative during the quarter ended 30th June 2020, due to upcoming risks to banks' earnings and asset quality during the economic downturn caused by the pandemic, the majority of ratings were affirmed due to the continuing strong credit profiles of major financial institutions, including UK banks. Banks made provisions for expected credit losses and the rating changes reflected these provisions. Future quarters assessments will be based on actual levels of credit losses which has the potential to cause rating agencies to revisit their initial rating adjustments earlier in the current year. These adjustments could be negative or positive, although it should also be borne in mind that banks went into this pandemic with strong balance sheets. This is predominantly a result of regulatory changes imposed on banks following the 2008 Financial Crisis. Indeed, the Financial Policy Committee (FPC) report on 6th August 2020 revised down their expected credit losses for the UK banking sector to “somewhat less than £80bn”. It stated that in its assessment, “banks have buffers of capital more than sufficient to absorb the losses that are likely to arise under the MPC’s central projection”. The FPC stated that for real stress in the sector, the economic output would need to be twice as bad as the MPC’s projection, with unemployment rising to above 15%.

2.9.3 All three credit rating agencies have reviewed banks around the world with similar results in many countries of most banks being placed on Negative Outlook, but with a small number of actual downgrades.

2.9.4 While the Authority understands changes that have taken place to reduce ratings, it will specify a minimum sovereign rating of AA-. This is due 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. It is important to stress the ongoing regulatory changes made in the UK and the rest of Europe are designed to make the financial system sounder. Banks are now expected to have sufficiently strong balance sheets to be able to withstand foreseeable adverse financial circumstances without government support. In many cases, the balance sheets of banks are now much more robust than they were before the 2008 financial crisis when they had higher ratings than now.

2.9.5 In keeping with the agencies’ new methodologies, the rating element of the Authority’s credit assessment process now focuses solely on the Short and Long Term ratings of an institution.

2.9.6 One of the recommendations of the Code is that local authorities should set limits for the amounts of investments that can be placed with institutions by country, sector and group. These limits are applied in the lead authority's Counterparty criteria set out in Appendix 5.

2.9.7 Set out in Appendix 6 is the detailed criteria that will be used, subject to approval, in determining the level of investments that can be invested with each counterparty or institution. Where a counterparty is rated differently by any of the 3 rating agencies, the lowest rating will be used to determine the level of investment. If the lead authority’s own banker, National Westminster Bank plc should fail to meet the minimum credit criteria to allow investments from the Authority then balances will be minimized as far as possible.

2.9.8 The Finance Director will monitor long-term investment rates and identify any investment opportunities if market conditions change. It is proposed that delegated authority continues for the Finance Director to vary the Lending List Criteria and Lending List itself should circumstances dictate, on the basis that changes be reported to the Authority retrospectively, in accordance with normal treasury management reporting procedures.

2.10 **Outlook and Proposed Treasury Investment Strategy**

2.10.1 Based on its cash flow forecasts, the Authority together with the Lead Authority anticipates its fund balances in 2021/2022 are likely to range between £50 million and £250 million. This represents a cautious approach and provides for funding being received in excess of the level budgeted for, and also for unexpected and unplanned levels of capital underspending in the year or reprofiling of spend into future years. In 2020/2021 short-term interest rates have been materially below long-term rates and some investment balances have been used to fund some long-term borrowing requirements. It is likely that this will continue into 2021/2022 with investment balances being used to fund some long-term borrowing or used for debt rescheduling. Such funding is wholly dependent upon market conditions and will be assessed and reported to the Authority if and when the appropriate conditions arise.

2.10.2 Activities likely to have a significant effect on investment balances are:

- Capital expenditure during the financial year, (dependent upon timing) will affect cash flow and short-term investment balances;
- Any reprofiling of capital expenditure from, and to, other financial years will also affect cash flow (no reprofiling has been taken into account in current estimates);
- Any unexpected capital receipts or other income;
- Timing of new long-term borrowing to fund capital expenditure;
- Possible funding of long-term borrowing from investment balances (dependent upon appropriate market conditions).

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

2.10.4 The minimum amount of overall investments that will be held in short-term investments (less than one year) is £50 million. As the lead authority has decided to restrict most of its investments to term deposits, it will maintain liquidity by having a minimum of 30% of the total value of short-term investments maturing within 6 months.

2.10.5 A maximum limit of £75 million is to be set for in-house Non-Specified Investments over 365 days up to a maximum period of 2 years (excluding non-treasury management investments and all other investments defined as capital expenditure). This amount has been calculated by reference to the lead authority's cash flows, including the potential use of earmarked reserves.

2.10.6 The Authority is not committed to any investments which are due to commence in 2021/2022 (i.e. it has not agreed any forward deals).

2.10.7 The Finance Director, in conjunction with the Authority's treasury adviser Link Asset Services, and taking into account the minimum amount to be maintained in short-term investments, will continue to monitor investment rates closely and to identify any appropriate investment opportunities that may arise.

2.10.8 During 2020/2021 the Authority did not employ any external fund managers; all funds being managed by the lead authority's in-house team. The performance of the fund managed by the Lead Authority's in-house team is shown below and compares favourably with the relevant benchmarks and performance from the previous year:

Return	2019/20 Benchmark %	2019/20 Return %	To date 2020/21 Benchmark %	To date 2020/21 %
Performance	0.53	0.73	-0.07*	0.14

* the Benchmark rate is set at 0.125% less than the corresponding 7-Day LIBOR rate which due to the fall in gilts means the benchmark rate in 2020/21 has become negative.

Investment returns are likely to remain low during 2021/2022 and are likely to remain very low until the Bank Base Rate increases.

2.10.9 During 2021/2022 the Authority will continue to review the optimum arrangements for the investment of its funds whilst fully observing the investment strategy in place. The Authority uses the 7-day London Interbank Bid (LIBID) rate as a benchmark for its investments. Performance is significantly above the benchmark rate, whilst still adhering to the prudent policy agreed by the Authority, in what remains a very challenging market. The Authority's treasury management advisor reports the rate of return achieved compares favourably with their other local authority clients.

2.11 Policy on the Use of External Service Providers

2.11.1 At present the Authority does not employ any external fund managers.

2.11.2 Should the Authority appoint any external fund managers in the future, they will have to agree to strict investment limits and investment criteria prior to being appointed. These will be reported to the Authority prior to any fund manager being appointed.

2.11.3 The Authority uses Link Asset Services as its external treasury management advisors. The Authority recognises that responsibility for treasury management decisions remain with the Authority at all times and will ensure that undue reliance is not placed upon our external service providers.

2.11.4 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 Authority will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subject to regular review.

2.12 Non-Treasury Investments

2.12.1 The Authority may make other type of investments (usually defined by regulation as capital expenditure) that are not part of treasury management activity. Treasury management investment activity covers those investments which arise from the Authority's cash flows and debt management activity, and ultimately represent balances which need to be invested until the cash is required for use in the course of business.

2.12.2 Investments that may be made for policy reasons outside of normal treasury management activities may include:

- service investments held clearly and explicitly in the course of the provision, and for the purposes of, operational services, including regeneration. This may include loans to local enterprises as part of a wider strategy for local economic growth
- commercial investments which are taken for mainly financial reasons. These may include investments arising as part of business structures, such as shares and loans in subsidiaries or other outsourcing structures; or investments explicitly taken with the aim of making a financial surplus for the Authority. Commercial investments also include non-financial assets which are held primarily for financial benefit, such as investment properties.

2.12.3 The Finance Director will maintain a schedule setting out a summary of existing material investments, subsidiaries, joint ventures and liabilities including financial guarantees and the Authority's risk exposure.

2.12.4 Investment objectives in relation to these types of investments will still be primarily security and liquidity but with the understanding that the liquidity for these types of investments may be less than those for treasury management activities and that these may be subject to higher levels of risk. When non-treasury management investments are considered due diligence will take place with all proposed investments being subjected to a detailed financial appraisal that will include financial sustainability of the investment and the identification of risk to both capital and returns. An assessment against loss will be carried out periodically and if the value of non-financial investments is no longer sufficient to provide security against loss mitigating actions will be taken. Decisions relating to non-treasury management investments will follow appropriate governance arrangements.

2.12.5 Non-treasury investments are covered within the Capital Strategy.

3. Scheme of Delegation

3.1 The Treasury Management Strategy Statement has been prepared in accordance with the revised Code. Accordingly, the Authority's Treasury Management Strategy (TMS) is approved annually by the Authority. In addition, the Governance Committee receives, as a minimum, a mid-year TMS report and an annual Treasury Management outturn report for the previous year by no later than the 30th September of the following year. The aim of these reporting arrangements is to ensure that those with ultimate responsibility for the treasury management function appreciate fully the implications of treasury management policies and activities, and that those implementing policies and executing transactions have properly fulfilled their responsibilities with regard to delegation and reporting.

3.2 The Authority has the following reporting arrangements in place in accordance with the requirements of the Code:

Area of Responsibility	**Authority / Committee / Officer**	**Frequency**
Treasury Management Policy Statement	Full Authority	Reaffirmed annually and updated as appropriate

Area of Responsibility	Authority / Committee / Officer	Frequency
Treasury Management Strategy / Annual Investment Strategy	Full Authority	Annually before the start of the year
Treasury Management Strategy / Annual Investment Strategy – mid-year report	Full Authority	Annually – mid year
Treasury Management Strategy / Annual Investment Strategy – updates or revisions at other times	Full Authority	As appropriate
Treasury Management Practices	Finance Director	Annually
Scrutiny of Treasury Management Strategy	Governance Committee	Annually before Full Authority
Scrutiny of Treasury Management Performance	Governance Committee	Quarterly
Annual Treasury Management Outturn Report	Full Authority	Annually by 30/9 after the end of the financial year

4. The Treasury Management Role of the Section 151 Officer

4.1 The Finance Director is the Authority's Section 151 Officer and has specific delegated responsibility in the Authority's Constitution to manage the borrowing, financing, and investment requirements of the Authority in accordance with the Treasury Management Policy agreed by the Authority. This includes:

- 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;
- preparing 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;
- ensuring 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 the Authority; and
- ensuring that the Authority has adequate expertise, either in house or externally provided, to carry out the above.

Appendix 4

1. Interest Rate Forecasts

1.1 The data set out overleaf shows a variety of forecasts published by Link Asset Services and Capital Economics (an independent forecasting consultancy). The PWLB rates below are based on the new margins over gilts announced on 26th November 2020. PWLB forecasts shown below have taken into account the 20 basis point certainty rate reduction effective as of the 1st November 2012. There are no changes to these forecasts at this point.

1.2 The forecast within this strategy statement has been drawn from these diverse sources and officers' own views.

Link Group Interest Rate View	9.11.20						(The Capital Economics forecasts were done 11.11.20)						
These Link forecasts have been amended for the reduction in PWLB margins by 1.0% from 26.11.20													
	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
BANK RATE	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
6 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
12 month ave earnings	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20
5 yr PWLB	0.80	0.80	0.80	0.80	0.90	0.90	0.90	0.90	0.90	1.00	1.00	1.00	1.00
10 yr PWLB	1.10	1.10	1.10	1.10	1.20	1.20	1.20	1.20	1.20	1.30	1.30	1.30	1.30
25 yr PWLB	1.50	1.60	1.60	1.60	1.60	1.70	1.70	1.70	1.70	1.80	1.80	1.80	1.80
50 yr PWLB	1.30	1.40	1.40	1.40	1.40	1.50	1.50	1.50	1.50	1.60	1.60	1.60	1.60
Bank Rate													
Link	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Capital Economics	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	-	-	-	-	-
5yr PWLB Rate													
Link	0.80	0.80	0.80	0.80	0.90	0.90	0.90	0.90	0.90	1.00	1.00	1.00	1.00
Capital Economics	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	-	-	-	-	-
10yr PWLB Rate													
Link	1.10	1.10	1.10	1.10	1.20	1.20	1.20	1.20	1.20	1.30	1.30	1.30	1.30
Capital Economics	1.30	1.30	1.30	1.30	1.30	1.30	1.30	1.30	-	-	-	-	-
25yr PWLB Rate													
Link	1.50	1.60	1.60	1.60	1.60	1.70	1.70	1.70	1.70	1.80	1.80	1.80	1.80
Capital Economics	1.80	1.80	1.80	1.80	1.80	1.80	1.80	1.80	-	-	-	-	-
50yr PWLB Rate													
Link	1.30	1.40	1.40	1.40	1.40	1.50	1.50	1.50	1.50	1.60	1.60	1.60	1.60
Capital Economics	1.70	1.70	1.70	1.70	1.70	1.70	1.70	1.70	-	-	-	-	-

2. Survey of Economic Forecasts

2.1 HM Treasury November 2020

The current 2020 base rate forecasts are based from samples of both City and non-City forecasters included in the HM Treasury November 2020 report.

BANK RATE FORECASTS	Annual Average Bank Rate Ave. 2020	Ave. 2021	Ave. 2022	Ave. 2023	Ave. 2024
Average	0.17%	0.24%	0.49%	0.71%	0.89%
Highest	0.23%	1.90%	4.50%	5.00%	5.00%
Lowest	0.10%	0.02%	-0.10%	-0.06%	0.07%

Source: HM Treasury: Forecasts for the UK Economy Nov. 2020 (No.400, Table M4)

Appendix 5

Lending List Criteria

1. Counterparty Criteria

1.1 The lead authority takes into account not only the individual institution's credit ratings issued by all three credit rating agencies (Fitch, Moody's and Standard & Poor's), but also all available market data and intelligence, the level of government support and advice from its Treasury Management advisers.

1.2 Set out below are the criteria to be used in determining the level of funds that can be invested with each institution. Where an institution is rated differently by the rating agencies, the lowest rating will determine the level of investment.

Fitch / S&P's Long Term Rating	Fitch Short Term Rating	S&P's Short Term Rating	Moody's Long Term Rating	Moody's Short Term Rating	Maximum Deposit £m	Maximum Duration
AAA	F1+	A1+	Aaa	P-1	120	2 Years
AA+	F1+	A1+	Aa1	P-1	100	2 Years
AA	F1+	A1+	Aa2	P-1	80	2 Years
AA-	F1+ / F1	A1+ / A-1	Aa3	P-1	75	2 Years
A+	F1	A-1	A1	P-1	70	365 days
A	F1 / F2	A-1 / A-2	A2	P-1 / P-2	65	365 days
A-	F1 / F2	A-2	A3	P-1 / P-2	50	365 days
Local Authorities (limit for each local authority)					30	2 years
UK Government (including debt management office, gilts and treasury bills)					300	2 years
Money Market Funds (CNAV, LVNAV and VNAV) Maximum amount to be invested in Money Market Funds is £120m with a maximum of £50m in any one fund.					120	Liquid Deposits
Local Authority controlled companies					40	20 years

1.3 Where the UK Government holds a shareholding in an institution the UK Government's credit rating of AA- will be applied to that institution to determine the amount the lead authority can place with that institution for a maximum period of 2 years.

1.4 The Code of Practice for Treasury Management in the Public Services recommends that consideration should also be given to country, sector, and group limits in addition to the individual limits set out above. These limits are as follows:

2. Country Limit

2.1 It is proposed that only non-UK countries with a minimum sovereign credit rating of AA+ by all three rating agencies will be considered for inclusion on the Approved Lending List.

2.2 It is also proposed to set a total limit of £50m which can be invested in other countries provided they meet the above criteria. A separate limit of £300m will be applied to the United Kingdom and is based on the fact that the government has done and is willing to take action to protect the UK banking system.

Country	Limit £m
UK	300
Non-UK	50

3. Sector Limit

3.1 The Code recommends a limit be set for each sector in which the Council can place investments. These limits are set out below:

Sector	Limit £m
Central Government	300
Local Government	300
UK Banks	300
Money Market Funds	120
UK Building Societies	100
Foreign Banks	50

4. Group Limit

4.1 Where institutions are part of a group of companies e.g. Lloyds Banking Group, Santander and RBS, the total limit of investments that can be placed with that group of companies will be determined by the highest credit rating of a counterparty within that group, unless the government rating has been applied. This will apply provided that:

- the UK continues to have a sovereign credit rating of AA- and,
- market intelligence and professional advice is taken into account.

4.2 Proposed group limits are set out in Appendix 6:

Approved Lending List **Appendix 6**

	Fitch		Moody's		Standard & Poor's			
	L Term	S Term	L Term	S Term	L Term	S Term	Limit £m	Max Deposit Period
UK	AA-	-	Aa2	-	AA	-	300	
Lloyds Banking Group							Group Limit 70	
Lloyds Bank Plc (RFB)	A+	F1	A1	P-1	A+	A-1	70	365 days
Lloyds Bank Corporate Markets plc (NRFB)	A+	F1	A1	P-1	A	A-1	70	365 days
Bank of Scotland Plc (RFB)	A+	F1	A1	P-1	A+	A-1	70	365 days
Royal Bank of Scotland Group (See Note 1)							Group Limit 75	
The Royal Bank of Scotland Plc (RFB)	A+	F1	A1	P-1	A	A-1	75	2 years
National Westminster Bank Plc (RFB)	A+	F1	A1	P-1	A	A-1	75	2 years
NatWest Markets plc (NRFB)	A+	F1	A3	P-2	A-	A-2	75	2 years
Santander UK plc	A+	F1	A1	P-1	A	A-1	65	365 days
Barclays Bank plc (NRFB)	A+	F1	A1	P-1	A	A-1	65	365 days
Barclays Bank plc (RFB)	A+	F1	A1	P-1	A	A-1	65	365 days
Clydesdale Bank *	A-	F2	Baa1	P-2	BBB+	A-2	0	
Co-Operative Bank Plc	B-	B	B3	NP	-	-	0	
Goldman Sachs International Bank	A+	F1	A1	P-1	A+	A-1	70	365 days
HSBC Bank plc (NRFB)	AA-	F1+	A1	P-1	A+	A-1	70	365 days
HSBC UK Bank plc (RFB)	AA-	F1+	Aa3	P-1	A+	A-1	70	365 days
Nationwide BS	A	F1	A1	P-1	A	A-1	65	365 days
Standard Chartered Bank	A+	F1	A1	P-1	A	A-1	65	365 days
Top Building Societies (by asset value)								
Nationwide BS (see above)								
Coventry BS	A-	F1	A2	P-1	-	-	50	365 days
Leeds BS	A-	F1	A3	P-2	-	-	50	365 days
Nottingham BS **	-	-	Baa2	P-2	-	-	0	
Principality BS **	BBB+	F2	Baa2	P-2	-	-	0	
Skipton BS **	A-	F1	Baa1	P-2	-	-	0	
West Bromwich BS **	-	-	Ba3	NP	-	-	0	
Yorkshire BS **	A-	F1	A3	P-2	-	-	50	365 days

	Fitch		Moody's		Standard & Poor's			
	L Term	S Term	L Term	S Term	L Term	S Term	Limit £m	Max Deposit Period
Money Market Funds							120	Liquid
Prime Rate Stirling Liquidity	AAA				AAA		50	Liquid
Insight Liquidity Fund	AAA		-		AAA		50	Liquid
Aberdeen Liquidity Fund (Lux)	AAA		AAA		AAA		50	Liquid
Deutsche Managed Sterling Fund	AAA		Aaa		AAA		50	Liquid
Foreign Banks have a combined total limit of £50m								
Australia	AAA		Aaa		AAA		50	
Australia and New Zealand Banking Group Ltd	A+	F1	Aa3	P-1	AA-	A-1+	50	365 days
Commonwealth Bank of Australia	A+	F1	Aa3	P-1	AA-	A-1+	50	365 days
National Australia Bank	A+	F1	Aa3	P-1	AA-	A-1+	50	365 days
Westpac Banking Corporation	A+	F1	Aa3	P-1	AA-	A-1+	50	365 days
Canada	AA+		Aaa		AAA		50	
Bank of Nova Scotia	AA-	F1+	Aa2	P-1	A+	A-1	50	365 days
Royal Bank of Canada	AA	F1+	Aa2	P-1	AA-	A-1+	50	2 years
Toronto Dominion Bank	AA-	F1+	Aa1	P-1	AA-	A-1+	50	2 years
Denmark	AAA		Aaa		AAA		50	
Danske A/S	A	F1	A2	P-1	A	A-1	50	365 days
Finland	AA+		Aa1		AA+		50	
OP Corporate Bank plc	WD	WD	Aa3	P-1	AA-	A-1+	50	2 years
Germany	AAA		Aaa		AAA		50	
DZ Bank AG (Deutsche Zentral-Genossenschaftsbank)	AA-	F1+	Aa1	P-1	AA-	A-1+	50	2 years
Landwirtschaftliche Rentenbank	AAA	F1+	Aaa	P-1	AAA	A-1+	50	2 years
NRW Bank	AAA	F1+	Aa1	P-1	AA	A-1+	50	2 years
Netherlands	AAA		Aaa		AAA		50	
Bank Nederlandse Gemeenten	AAA	F1+	Aaa	P-1	AAA	A-1+	50	2 years
Cooperatieve Rabobank U.A.	A+	F1	Aa3	P-1	A+	A-1	50	365 days
Nederlandse Waterschapsbank NV	-	-	Aaa	P-1	AAA	A-1+	50	2 years
Singapore	AAA		Aaa		AAA		50	
DBS Bank Ltd	AA-	F1+	Aa1	P-1	AA-	A-1+	50	2 years

	Fitch		Moody's		Standard & Poor's			
	L Term	S Term	L Term	S Term	L Term	S Term	Limit £m	Max Deposit Period
Oversea Chinese Banking Corporation Ltd	AA-	F1+	Aa1	P-1	AA-	A-1+	50	2 years
United Overseas Bank Ltd	AA-	F1+	Aa1	P-1	AA-	A-1+	50	2 years
Sweden	AAA		Aaa		AAA		50	
Svenska Handelsbanken AB	AA	F1+	Aa2	P-1	AA-	A-1+	50	2 years
Switzerland	AAA		Aaa		AAA		50	
Credit Suisse AG	A	F1	Aa3	P-1	A+	A-1	50	365 days
UBS AG	AA-	F1+	Aa2	P-1	A+	A-1	50	365 days
USA	AAA		Aaa		AA+		50	
Bank of New York Mellon	AA	F1+	Aa1	P-1	AA-	A-1+	50	2 years
JP Morgan Chase Bank NA	AA	F1+	Aa1	P-1	A+	A-1	50	365 days
Wells Fargo Bank NA	AA-	F1+	Aa1	P-1	A+	A-1	50	365 days

Notes

Note 1 **Nationalised / Part Nationalised**
The counterparties in this section will have the UK Government's AA- rating applied to them thus giving them a credit limit of £75m.

* The Clydesdale Bank (under the UK section) is owned by National Australia Bank

** These will be revisited and used only if they meet the minimum criteria (ratings of A- and above)

Any bank which is incorporated in the United Kingdom and controlled by the Prudential Regulation Authority (PRA) is classed as a UK bank for the purposes of the Approved Lending List.