Sunderland City Council

Item No. 7

AUDIT AND GOVERNANCE COMMITTEE **7 FEBRUARY 2020**

TREASURY MANAGEMENT POLICY AND STRATEGY 2020/2021, INCLUDING PRUDENTIAL INDICATORS FOR 2020/2021 TO 2023/2024

Report of the Executive Director of Corporate Services

1. Purpose of the Report

1.1 To inform the Audit and Governance Committee on the Treasury Management Policy and Strategy (including both borrowing and investment strategies) proposed for 2020/2021 and to note the Prudential 'Treasury Management' Indicators for 2020/2021 to 2023/2024 and to provide comments to Council on the proposed policy and indicators where appropriate.

2 Treasury Management

2.1 Treasury Management is defined as "the management of the local authority's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

2.2 Statutory requirements

2.2.1 The Local Government Act 2003 (the Act) requires the Council 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 Council'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 comprising the Council's strategy for borrowing and the Council's policies for managing its investments and giving priority to the security and liquidity of those investments (set out in Appendix 3).

2.2.2 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 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.

2.2.3 Should the Council borrow to fund any non-treasury investment, there will be an explanation of why borrowing was required and why the MHCLG Investment Guidance and CIPFA Prudential Code have not been adhered to.

2.3 CIPFA requirements

2.3.1 The Council 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 Council 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 (TMPs), setting out the way the Council 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 TMPs follow the recommendations contained in Sections 6 and 7 of the Code, subject only to minor variations where necessary to reflect the circumstances of the Council and these do not result in the Council materially deviating from the Code's key principles.

2. The Council will receive reports on its 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 TMPs.

3. The Council delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to Cabinet, and for the execution and administration of treasury management decisions to the Executive Director of Corporate Services, who acts in accordance with the Council's Treasury Management Policy Statement, TMPs and CIPFA's Standard of Professional Practice on Treasury Management.

4. The Council's Audit and Governance Committee is responsible for ensuring effective scrutiny of the treasury management strategy and policies.

2.4 Treasury Management Strategy Statement for 2020/2021

2.4.1 The Treasury Management Strategy Statement comprises a Borrowing and an Investment Strategy. These set out the Council's policies for managing its borrowing and investments in 2020/2021.

2.4.2 There are no major changes proposed to the overall Treasury Management Strategy in 2020/2021, which maintains the careful and prudent approach adopted by the Council in previous years. Areas that inform the strategy include the extent of potential borrowing included in the Capital Programme, the availability of borrowing, and the current and forecast global and UK economic positions, in particular forecasts relating to interest rates and security of investments.

2.4.3 The proposed Treasury Management Strategy Statement for 2020/2021 is set out in Appendix 3 and has been informed by market data, market information and leading market forecasts and views provided by the Council's treasury adviser, Link Asset Services.

2.4.4 The Council'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 Council can take a view on the optimum time to carry out further borrowing or debt rescheduling.

3 Recommendation

3.1 Committee is requested to:

3.1.1 Note the proposed:

- Annual Treasury Management Policy and Strategy for 2020/2021 (including specifically the Annual Borrowing and Investment Strategies) and;
- Prudential 'Treasury Management' indicators 2020/2021 to 2023/2024.

3.1.2 Provide and appropriate comments to Council on the proposals.

Appendix 1

Prudential and Treasury Indicators 2020/2021 to 2023/2024

The indicators below relate to Treasury Management (all indicators relating to capital financing can be found in the Capital Programme 2020/2021 and Treasury Management Policy and Strategy 2020/2021, including Prudential Indicators for 2020/2021 to 2022/2023 report to Cabinet – 11th February 2020).

P5 In respect of its external debt, it is recommended that the Council 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 Council is asked to approve these limits and to delegate authority to the Executive Director of Corporate Services, 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 Cabinet and the Council at the next available meeting.

Authorised Limit for External Debt

	2019/2020	**2020/2021**	**2021/2022**	**2022/2023**	**2023/2024**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Borrowing	598.239	767,185	787,608	802,633	817,906
Other long-term liabilities	75.388	75,058	125,341	120,002	114,479
Total	**673,627**	**842,243**	**912,949**	**922,635**	**932,385**

The above authorised limits are consistent with the Council's current commitments, existing plans and the proposals in this report for capital expenditure and financing, and with its approved treasury management policy statement and practices. 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, commercial investments/non-financial investments and refinancing of all internal borrowing. 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.

The Council also undertakes investment and borrowing on behalf of external bodies such as Tyne and Wear Fire and Rescue Authority. Treasury Management undertaken on behalf of other authorities is included in the Council's borrowing limits, however it is excluded when considering financing costs and when calculating net borrowing for the Council. A specific element of risk has also been taken into account for these bodies. The capital expenditure and borrowing of companies where the Council has an interest such as International Advanced Manufacturing Park (IAMP LLP), Siglion, Sunderland Care and Support Ltd, Sunderland Lifestyle Partnership Ltd and Together for Children Sunderland Ltd is not included within the Council's prudential indicators, however regard to the financial commitments and obligations to those bodies is taken into account when deciding whether borrowing is affordable.

In taking its decisions on the Revenue Budget and Capital Programme for 2020/2021, the Council is asked to note that the authorised limit determined for 2020/2021 will be the statutory limit determined under section 3(1) of the Local Government Act 2003.

P6 The Council is also asked to approve the following operational boundary for external debt for the same time period. The proposed 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 Council is also requested to delegate authority to the Executive Director of Corporate Services, 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 Cabinet 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 needed to support the Councils Capital Programme has been undertaken for that particular year and the next two financial years and that it will only be exceeded temporarily as a result of the timing of debt rescheduling.

Operational Boundary for External Debt

	2019/2020 £'000	**2020/2021 £'000**	**2021/2022 £'000**	**2022/2023 £'000**	**2023/2024 £'000**
Borrowing	573,239	742,185	762,608	777,633	792,906
Other long-term liabilities	75,388	75,058	125,341	120,002	114,479
Total	**648,627**	**817,243**	**887,949**	**897,635**	**907,385**

P7 The Council's actual external debt at 31st March 2019 was £456.877 million and was made up of borrowing of £378.535 million and other long-term liabilities of £78.342 million.

The Council 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 internal borrowing and cash flow variations.

P8 The Council 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 by full Council and 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 affordable;
(b) all external borrowing and other long-term liabilities are within prudent and sustainable levels;
(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 accountable, 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; and

(c) proper option appraisal.

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

CIPFA Treasury Management in the Public Services Code of Practice - Indicators 2020/2021 to 2023/2024

P9 It is recommended that the Council sets upper and lower limits for the maturity structure of its borrowings as follows:

Amount of projected borrowing maturing in each period expressed as a percentage of total projected borrowing 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 within 20 years	100%	0%
20 years and within 30 years	100%	0%
30 years and within 40 years	100%	0%
40 years and within 50 years	100%	0%
over 50 years	100%	0%

P10 A maximum maturity limit of £75 million is set for each financial year (2020/2021, 2021/2022, 2022/2023 and 2023/2024) for long-term investments (those over 365 days), made by the Council. This gives additional flexibility to the Council in undertaking its Treasury Management function. Should the Council appoint any external fund managers during the year, these limits will be apportioned accordingly. The types of investments to be allowed are detailed in the Annual Investment Strategy (Appendix 3).

At present the Council has £29.571m of long-term investments. This is £16.553m for the value of share capital held in NIAL Holdings PLC (a 9.62% share), a £12.350m equity investment in Siglion (a 100% share), a £0.500m equity share in Sunderland Lifestyle Partnership Ltd (a 50% share) and the Council also holds £0.168m in shares and unit trusts.

Appendix 2

Treasury Management Policy Statement

1.1 In line with CIPFA recommendations, on the 3rd March 2010 the Council adopted the following Treasury Management Policy Statement, which defines the policies and objectives of its treasury management activities:

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

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

1.2 The Council 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 Council’s future borrowing requirement when market conditions are considered favourable;
- use a benchmark financing rate of 4.25% for 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 Council in considering potential investments is the prudent investment of its treasury balances.

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

- the Council 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 Council re-affirms its commitment to the Treasury Management Policy and Strategy Statement in 2020/2021 as it does every year.

Appendix 3

Treasury Management Strategy Statement for 2020/2021

1. Introduction

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

1.2 The suggested strategy for 2020/2021 is set out below and is based upon the Treasury Management team's view on interest rates, supplemented with leading market forecasts and other financial data available and advice provided by the Council's treasury adviser, Link Asset Services.

1.3 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 Council's Treasury Management function. Non-financial investments, essentially the purchase of income yielding assets, are covered in the Capital Strategy which was approved by Council in November 2019. 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.

1.4 The treasury management strategy covers the:

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

2. Treasury Management Strategy

Borrowing

2.1 Current Treasury Management Position

The Council's treasury portfolio position at 31st December 2019 comprised:

		Principal (£m)	Total (£m)	Average Rate (%)
Treasury external borrowing				
Fixed Rate Funding	PWLB	343.7		
	Market	39.6		
	Other	9.5	392.8	3.05
Variable Rate Funding	Temporary / Other		27.6	0.65
Total external borrowing			**420.4**	**2.89**
Total treasury investments				
	In house – short term		**216.7**	**1.01**
Net treasury borrowing			**203.7**	

The Council currently has a net deficit of £203.7m which represents the difference between gross debt and total investments and is significantly lower that the Council'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 Council 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 Council 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 (and Council rent levels where relevant) 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 two successive financial years and details can be found in Appendix 1 (P5) of this report. The Council is asked to approve these limits and to delegate authority to the Executive Director of Corporate Services, 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 Cabinet and the Council at their next meetings following the change.

2.2.4 Also, the Council is requested to approve the 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 Council is also asked to delegate authority to the Executive Director of Corporate Services, 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 Council 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 by the full Council on 3rd March 2012. The Council 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 At its meeting on 19th December 2019, the BoE Monetary Policy Committee (MPC) voted by a margin of 7-2 to maintain Bank Rate at 0.75%. The two dissenting committee members voted for a reduction in rates to 0.5%, having concerns over global growth. If economic growth were to weaken considerably, with bank rates at the low level of 0.75%, the MPC has relatively little room to make a big impact, although recent comments by BoE governor Mark Carney, and by other members of the MPC suggest that if economic growth does not improve the MPC will cut the Bank Rate. An alternative would be for the Chancellor to provide help to support growth by way of a fiscal boost using measures such as tax cuts, increases to government department budgets and expenditure on infrastructure projects. The Government has already made moves in this direction and made significant promises in its election manifesto to increase government spending by up to £20bn pa by investing primarily in infrastructure. This is likely to be announced in the next Budget which will take place on 11th March 2020. The Chancellor also amended the fiscal rules in November to allow for an increase in government expenditure.

2.3.2 In its November quarterly inflation report the MPC revised its inflation forecasts down to 1.25% in 2019, 1.5% in 2020, and 2.0% in 2021. Inflation reduced from 1.5% to 1.3% in December and at these low levels the potential to reduce the Bank Rate has increased. The MPC may wait until after the March budget before cutting rates as any fiscal relaxation may generate inflationary pressures on the economy.

2.3.3 With regard to the labour market**,** growth in numbers employed has been stable through 2019. The unemployment rate held steady at a 44-year low of 3.8% on the Independent Labour Organisation measure in October and wage inflation has been steadily falling from a high point of 3.9% in July to 3.5% in October. This means that in real terms, (i.e. wage rates higher than CPI inflation), earnings grew by about 2.0%. As the UK economy is very much services sector driven, an increase in household spending power is likely to feed through into providing some support to the overall rate of economic growth in the coming months. The other message from the fall in wage growth is that employers are beginning to find it easier to hire suitable staff, indicating that supply pressure in the labour market is easing, although this may change depending on how negotiations with the EU progress.

2.3.4 Link Asset Services, the Authority's treasury advisors, think the next increase of 0.25% in Bank Rate will be in March 2021, followed by a further increase of 0.25% in June 2022. This forecast assumes that there is agreement on the terms of trade between the UK and EU, at some point in time. The result of the general election has provided political certainty but there are still concerns around whether agreement can be reached with the EU on a trade deal within the short time to December 2020, as the prime minister has pledged. Until that major uncertainty is removed, or the period for agreeing a deal is extended, they feel that it is unlikely that the MPC would raise Bank Rate.

2.3.5 There have again been high levels of volatility in the financial markets during 2019/2020. Uncertainty surrounding world economic growth and also over the outcome of Brexit negotiations led to gilt yields decreasing as investors moved from riskier assets such as shares and into bonds. During the first 10 months of 2019 there was a sharp fall in longer term PWLB rates to completely unprecedented historic low levels.

2.3.6 However, on 9th October 2019 the government took the decision to increase the interest rate for the Public Works Loan Board (PWLB) by 1%, meaning the rate for a 50-year maturity loan increased with immediate effect from 1.80% to 2.80%. No notice was provided, nor any specific reason for the increase given, but it is thought to have taken place because of high levels of borrowing by local authorities in the preceding months and to discourage local authorities from borrowing to fund commercial investments.

2.3.7 Since then, fears of a slowdown in world economic growth partially subsided and gilt yields and PWLB rates began to rise further until renewed geo-political concerns arose between the United States and Iran in January 2020. Link Asset Services predict a gradual rise in PWLB rates reaching 2.40%, 2.70%, 3.30% and 3.20% for 5, 10, 25 and 50-year durations respectively by 31st March 2020 with further increases of 0.20% to 0.30% each year for the following three years. With so many external influences weighing on the UK economic, interest rate forecasting remains difficult. From time to time, gilt yields, and consequently PWLB rates, can be subject to exceptional levels of volatility which 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 and it is not clear that if gilt yields were to rise back up again by over 1% within the next year or so, whether the Government would remove the extra 1% margin implemented in October.

2.3.8 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. High levels of volatility in PWLB rates and bond yields are expected to continue during 2020.

2.3.9 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 Council 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 2020.

2.3.10 The following table shows the average PWLB rates for Quarters 1, 2 and 3 and the figures for Quarter 4 to 8th January 2020.

2019/2020	**Qtr 1* (Apr - Jun) %**	**Qtr 2* (Jul - Sep) %**	**Qtr 3* (Oct – Dec) %**	**Qtr 4* (rates to 8th Jan 2020) %**
7 days notice	0.57	0.56	0.57	0.57
1 year	1.48*	1.32*	2.30*	2.41*
5 year	1.54*	1.21*	2.18*	2.38*
10 year	1.85*	1.42*	2.38*	2.58*
25 year	2.41*	2.02*	2.95*	3.09*
50 year	2.26*	1.89*	2.79*	2.92*

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

2.3.11 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 2020	0.75	2.40	3.30	3.20
June 2020	0.75	2.40	3.40	3.30
Sept 2020	0.75	2.50	3.40	3.30
Dec 2020	0.75	2.50	3.50	3.40
March 2021	1.00	2.60	3.60	3.50
June 2021	1.00	2.70	3.70	3.60
Sept 2021	1.00	2.80	3.70	3.60
Dec 2021	1.00	2.90	3.80	3.70
March 2022	1.00	2.90	3.90	3.80
June 2022	1.25	3.00	4.00	3.90
Sept 2022	1.25	3.10	4.00	3.90
Dec 2022	1.25	3.20	4.10	4.00
March 2023	1.25	3.20	4.10	4.00

2.3.12 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 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 Council's strategy for 2019/2020 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 Council. A benchmark financing rate of 3.50% for long-term borrowing was set considering the views prevalent at the time the Treasury Management policy was set in March 2019.

2.4.2 There have been high levels of volatility in the financial markets during 2019/2020 with PWLB borrowing rates reducing to historic low levels. In line with discussions with the Council's economic advisors, the Council took advantage of low borrowing rate troughs that occurred and undertook £50 million of new borrowing during August and September, which will benefit the revenue budget over the longer term. The new borrowing is summarised in the following table:

Duration	Date of the transaction	Start	Matures	Rate %	Loan Amount £m
50 years	13/08/2019	15/08/2019	15/08/2069	1.89	20.0
50 years	06/09/2019	10/09/2019	10/09/2069	1.82	30.0

2.4.3 The government have said that they will monitor the impact of their change to PWLB borrowing rates made in October 2019 and will keep its rates policy under review, although the Government see the PWLB rates as being favourable and a further policy change is not anticipated in the short-term. The impact of this change will have the effect of increasing revenue costs by over £2 million pa over the medium term, based on the current Capital Programme and local authority bodies are lobbying for the decision to be reversed.

2.4.4 PWLB rates continue to be volatile, with the overall longer-term expectation being for gilt yields and PWLB rates to rise. The Treasury Management team continues to closely monitor rates to assess the value of possible further new borrowing in line with future Capital Programme requirements. Consideration will be given to various funding options depending on prevailing interest rates, including taking out shorter term borrowing, utilising investment balances to fund the Council's borrowing requirement and use of other financial institutions to provide borrowing facilities. The degree to which alternative options are more cost effective than PWLB rates is still evolving and all options available to support the Council's capital programme will be assessed in conjunction with our treasury advisors.

2.4.5 The Council has 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 the Council can either accept the new rate or repay the loan without penalty. The following table shows the LOBOs that were subject to a potential rollover this financial year. No changes to loan rates have been received and so these arrangements will continue.

Roll Over Dates	Lender	Amount £m	Rate %	Roll Over Periods
14/08/2019	Barclays	5.0	4.45	Every 3 years
21/04/2019 And 21/10/2019	Barclays	5.0	4.50	Every 6 months
Total		**10.0**		

2.4.6 The Council's potential borrowing requirement is as follows:

		2020/21 £m	2021/22 £m	2022/23 £m
1.	Capital Programme Borrowing	**122.0**	**148.3**	**59.9**
2.	Replacement borrowing (PWLB)	**4.0**	**5.0**	**5.0**
3.	Replacement LOBO	**19.5**	**20.0**	**10.0**
TOTAL:		**145.5**	**173.3**	**74.9**

2.4.7 The Council currently has net treasury borrowing of £203.7m 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 Council'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 to continue utilising some investment balances to fund the borrowing requirement in 2020/2021. This policy has served the Council well over the last few years as investment returns continue to be low. As a result, the Council is currently maintaining a large under-borrowed position. 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.

2.4.8 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.

2.4.9 Benefits of having a high level of investments are;

- liquidity risk – having a large amount of investments means that the Council 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 Council to address its Strategic Priorities; and
- of more importance, the Council 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.

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

- the counterparty risk – institutions cannot repay the Council investment 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 Council.

2.4.11 The Council 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.

2.4.12 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.

2.4.13 The Council, taking advice from the Council's 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.

2.4.14 Taking into account potential market volatility and the advice of the Council's treasury adviser, a benchmark financing rate of 4.25% for any further long-term borrowing for 2020/2021 is considered to be appropriate.

2.5 **Policy on borrowing in advance of need**

2.5.1 The Council 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 forward approved 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 Council can ensure the security of such funds.

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

2.6 **Debt Rescheduling**

2.6.1 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).

2.6.2 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, in 2007 the PWLB introduced a spread between the rates applied to new borrowing and repayment of debt which was compounded in 2010 and has again been compounded in 2019 as the 1.00% increase in PWLB rates only applied to new borrowing rates and not to premature debt repayment rates.

2.6.3 This means that PWLB debt restructuring is much less attractive than it was before both of these measures were introduced. 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 Council.

2.6.4 Following consultation and advice from the Council's treasury advisers the Council has taken the decision to borrow over longer term periods and much of the Council borrowing is for periods over 40 years. This borrowing has been taken out where it offers 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 2020/2021 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.

2.6.5 The Council 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.

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

Annual Investment Policy and Strategy

2.7 **Investment Policy and Management of Risk**

2.7.1 When considering its investment policy and objectives, the Council 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.

2.7.2 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 Council’s Treasury Management function). Non-financial investments, essentially the purchase of income yielding assets, are covered within the Capital Strategy approved by Council in November 2019.

The Council’s investment objectives are:-
(a) the security of capital, and
(b) the liquidity of its investments.

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

2.7.3 The guidance from the MHCLG and CIPFA places a high priority on the management of risk. The Council has adopted a prudent approach to managing risk and in order to minimise the risk to investments, the Council 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 Council is regarded as low in order to give priority to security of its investments;
- monitor credit ratings daily. The Council 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 Council’s minimum criteria, the Council 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 Council 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 Council 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 source 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 Council 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 Council 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 Council 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 Council 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 are can be invested for longer than 365 days is set in the Councils creditworthiness policy.
- the type of investments to be used by the in-house treasury management team will be limited to Certificates of Deposit, 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 Council’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 Council will make revenue provision of an appropriate amount in accordance with proper accounting practice or any prevailing government regulations, if applicable. This position has not occurred and the Council 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 6C). 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 Council’s Investment Strategy and Lending List criteria will be reviewed and any changes necessary will be reported to Cabinet; and
- engage external consultants to provide expert 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.

2.7.4 As a result of a change in accounting standards for 2018/19 under IFRS9**,** 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 for five years commencing from 1st April 2018.

2.7.5 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 Council 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.

2.8 Creditworthiness policy

2.8.1 The creditworthiness policy adopted by the Council 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 Council's counterparty criteria.

2.8.2 Following the financial crisis of 2008 it was recognised that investors, who largely remained unaffected through this period, should share the burden in future by making them forfeit part of their investment to "bail in" a bank before taxpayers are called upon. Regulatory changes that have been made in the banking sector are designed to see greater stability, lower risk and reduce expectations of Government financial support should an institution fail. To reflect these changes the three credit rating agencies have carried out a wider reassessment of methodologies. In addition to the removal of implied government support, new methodologies are now taking into account additional factors, such as regulatory capital levels.

2.8.3 While the Council understands the changes that have taken place, it will continue to 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.

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

2.8.5 The largest UK banks, (those with more than £25bn of retail/Small and Medium-sized Enterprise (SME) deposits), are required, by UK law, to separate core retail banking services from their investment and international banking activities. This is known as “ring-fencing” and is a regulatory initiative created in response to the global financial crisis. It mandates the separation of retail and SME deposits from investment banking, in order to improve the resilience and resolvability of banks by changing their structure. In general, simpler, activities offered from within a ring-fenced bank will be focused on lower risk, day-to-day core transactions, whilst more complex and “riskier” activities are required to be housed in a separate entity, a non-ring-fenced bank. This is intended to ensure that an entity’s core activities are not adversely affected by the acts or omissions of other members of its group.

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

2.8.7 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.

2.8.8 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 Council's Counterparty criteria set out in Appendix 5.

2.8.9 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 Council’s own banker, National Westminster Bank plc, should fail to meet the minimum credit criteria to allow investments from the Council then balances will be minimized as far as possible.

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

2.9 **Outlook and Proposed Treasury Investment Strategy**

2.9.1 Based on its cash flow forecasts, the Council anticipates its fund balances in 2020/2021 are likely to range between £50 million and £200 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 2019/2020 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 2020/2021 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 Cabinet if and when the appropriate conditions arise.

2.9.2 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).

2.9.3 The minimum amount of overall investments that the Council will hold in short-term investments (less than one year) is £50 million. As the Council 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.

2.9.4 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 Council's cash flows, including the potential use of earmarked reserves.

2.9.5 The Council is not committed to any investments which are due to commence in 2020/2021 (i.e. it has not agreed any forward deals).

2.9.6 European Financial Directives known as MiFID II came into force in January 2018. These directives are designed to strengthen transparency and investor protection in financial markets across the EU. Under the directives each client is classed as either retail or professional. All Local Authorities are initially classified as de facto retail counterparties under MiFID II but with the option to ask to opt up to professional status subject to meeting qualitative and quantitative criteria. The Council has opted up to professional client status with a number of financial institutions to allow access to specific products and will seek to opt up to with others where this is appropriate.

2.9.7 The Council, in conjunction with the Council'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.

2.9.8 During 2019/2020 the Council did not employ any external fund managers; all funds being managed by the in-house team. The performance of the fund by the in-house team is shown below and compares this with the relevant benchmarks and performance from the previous year:

Return	**2018/19 Benchmark %**	**2018/19 Return %**	**To date 2019/20 Benchmark %**	**To date 2019/20 %**
Council	0.51	0.93	0.57	1.01

Investment returns are likely to remain low during 2020/21 and are likely to remain low until the Bank base rate increases.

2.9.9 During 2020/2021 the Council will continue to review the optimum arrangements for the investment of its funds whilst fully observing the investment strategy in place. The Council 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 Council, in what remains a very challenging market. The Council's treasury management advisor reports the rate of return achieved compares favourably with their other local authority clients.

2.10 **Policy on the use of external service providers**

2.10.1 At present the Council does not employ any external fund managers.

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

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

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

2.11 Non - Treasury Investments

2.11.1 The Council may make other type of investments (usually defined by regulation as capital expenditure) that are not part of treasury management activity. Treasury management investments activity covers those investments which arise from the Council'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.

2.11.2 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 Council. Commercial investments also include non-financial assets which are held primarily for financial benefit, such as investment properties.

2.11.3 The Executive Director of Corporate Services will maintain a schedule setting out a summary of existing material investments, subsidiaries, joint ventures and liabilities including financial guarantees and the Council's risk exposure.

2.11.4 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.

2.11.5 Non-treasury investments are covered within the Capital Strategy approved by Council in November 2019.

3. Scheme of delegation

3.1 The Treasury Management Strategy Statement has been prepared in accordance with the revised Code. Accordingly, the Council's Treasury Management Strategy (TMS) is approved annually by the full Council. In addition, quarterly reports are made to Cabinet and the Audit and Governance Committee and monitoring reports are reviewed by members in both executive and scrutiny functions respectively. 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 Council has the following reporting arrangements in place in accordance with the requirements of the Code: -

Area of Responsibility	Council/ Committee/ Officer	Frequency
Treasury Management Policy Statement	Full Council	Reaffirmed annually and updated as appropriate
Treasury Management Strategy / Annual Investment Strategy	Full Council	Annually before the start of the year
Treasury Management Strategy / Annual Investment Strategy –updates or revisions at other times	Full Council	As appropriate
Treasury Management Monitoring Reports	Executive Director of Corporate Services	Monthly
Treasury Management Practices	Executive Director of Corporate Services	Annually
Scrutiny of Treasury Management Strategy	Cabinet / Audit and Governance Committee	Annually before Full Council
Scrutiny of Treasury Management Performance	Cabinet / Audit and Governance Committee	Quarterly
Annual Treasury Management Outturn Report	Cabinet / Audit and Governance	Annually by 30/9 after the end of the financial year

4. The Treasury Management Role of the Section 151 Officer

4.1 The Executive Director of Corporate Services is the Council's Section 151 Officer and has specific delegated responsibility in the Council's Constitution to manage the borrowing, financing, and investment requirements of the Council in accordance with the Treasury Management Policy agreed by the Council. 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 Council;
- ensuring that the Council has the appropriate legal powers to undertake expenditure on non-financial assets and their financing;
- ensuring the proportionality of all investments so that the Council does not undertake a level of investing which exposes the Council 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;
- providing to members 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 Council; and
- ensuring that the Council 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).

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

Bank Rate														
	NOW	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Link Asset Services	**0.75%**	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%	1.25%
Capital Economics	**0.75%**	0.75%	0.75%	0.75%	0.75%	-	-	-	1.00%	-	-	-	-	-
5yr PWLB Rate														
	NOW	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Link Asset Services	**2.34%**	2.40%	2.40%	2.50%	2.50%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%	3.20%	3.20%
Capital Economics	**2.34%**	2.40%	2.50%	2.50%	2.60%	-	-	-	2.80%	-	-	-	-	-
10yr PWLB Rate														
	NOW	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Link Asset Services	**2.55%**	2.70%	2.70%	2.70%	2.80%	2.90%	3.00%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%	3.50%
Capital Economics	**2.55%**	2.60%	2.70%	2.80%	2.80%	-	-	-	3.10%	-	-	-	-	-
25yr PWLB Rate														
	NOW	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Link Asset Services	**3.07%**	3.30%	3.40%	3.40%	3.50%	3.60%	3.70%	3.70%	3.80%	3.90%	4.00%	4.00%	4.10%	4.10%
Capital Economics	**3.07%**	3.00%	3.10%	3.20%	3.20%	-	-	-	3.40%	-	-	-	-	-
50yr PWLB Rate														
	NOW	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Link Asset Services	**2.90%**	3.20%	3.30%	3.30%	3.40%	3.50%	3.60%	3.60%	3.70%	3.80%	3.90%	3.90%	4.00%	4.00%
Capital Economics	**2.90%**	3.00%	3.10%	3.20%	3.20%	-	-	-	3.50%	-	-	-	-	-

2. Survey of Economic Forecasts

2.1 HM Treasury December 2019

The current 2019 base rate forecasts are based from samples of both City and non-City forecasters included in the HM Treasury December 2019 report.

BANK RATE FORECASTS	Annual Average Bank Rate Ave. 2019	Ave. 2020	Ave. 2021	Ave. 2022	Ave. 2023
Average	0.75%	0.78%	0.95%	1.24%	1.44%
Highest	0.75%	1.20%	1.75%	2.25%	2.50%
Lowest	0.75%	0.50%	0.13%	0.05%	0.05%

Source: HM Treasury: Forecasts for the UK Economy Dec. 2019 (No.389, Table M4)

Appendix 5

Lending List Criteria

1. Counterparty Criteria

1.1 The Council 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 Council 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, then 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
- that market intelligence and professional advice is taken into account.

4.2 Proposed group limits are set out in Annex 6.

Appendix 6

Approved Lending List

	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	-	350	
Lloyds Banking Group							Group Limit 70	
Lloyds Bank Plc (RFB)	A+	F1	Aa3	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	Aa3	P-1	A+	A-1	70	365 days
Royal Bank of Scotland Group (See Note 1)							Group Limit 80	
The Royal Bank of Scotland Plc (RFB)	A+	F1	A1	P-1	A	A-1	80	2 years
National Westminster Bank Plc (RFB)	A+	F1	A1	P-1	A	A-1	80	2 years
NatWest Markets plc (NRFB)	A	F1	Baa2	P-2	A-	A-2	80	2 years
Santander UK plc	A+	F1	Aa3	P-1	A	A-1	65	365 days
Barclays Bank plc (NRFB)	A+	F1	A2	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	65	365 days
HSBC Bank plc (NRFB)	A+	F1+	Aa3	P-1	AA-	A-1+	70	365 days
HSBC UK Bank plc (RFB)	A+	F1+	-	-	AA-	A-1+	70	365 days
Nationwide BS	A	F1	Aa3	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 **	-	-	Baa1	P-2	-	-	0	

	Fitch		Moody's		Standard & Poor's			
	L Term	S Term	L Term	S Term	L Term	S Term	Limit £m	Max Deposit Period
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
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	AA-	F1+	Aa3	P-1	AA-	A-1+	50	2 years
Commonwealth Bank of Australia	AA-	F1+	Aa3	P-1	AA-	A-1+	50	2 years
National Australia Bank	AA-	F1+	Aa3	P-1	AA-	A-1+	50	2 years
Westpac Banking Corporation	AA-	F1+	Aa3	P-1	AA-	A-1+	50	2 years
Canada	AAA		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

	Fitch		Moody's		Standard & Poor's			
	L Term	S Term	L Term	S Term	L Term	S Term	Limit £m	Max Deposit Period
Cooperatieve Centrale Raiffeisen Boerenleenbank BA (Rabobank Nederland)	AA-	F1+	Aa3	P-1	A+	A-1	50	365 days
Nederlandse Waterschapsbank N.V	-	-	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
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	A1	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 £80m.

* 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.