Havering
LONDON BOROUGH

Full Council	**3rd March 2021**
Subject Heading:	**Treasury Management Strategy Statement 2021/22 and Annual Investment Strategy 2021/22 (“TMSS”), Treasury Indicators and Minimum Revenue Provision (MRP) Policy Statement for 2021/22**
Cabinet Member:	**Councillor Roger Ramsey** **Cabinet Member for Finance & Property**
SLT Lead:	**Jane West** **Chief Financial Officer**
Report Author and contact details:	**Zainab Roberts / Stephen Wild** **Zainab.Roberts@havering.gov.uk** **Stephen.Wild@onesource.co.uk** **01708 434 306 / 0203 373 3881**
Policy context:	**The CIPFA Code of Practice (“CIPFA TM Code”) on treasury management 2017 recommends that the TMSS and MRP Policy Statement are reported to a scrutiny committee for effective scrutiny- this role is undertaken by the Audit Committee and this report will be reviewed at its meeting on 24thrd February 2021. It was presented to Cabinet for approval on 17 February 2021 and is to be laid before Full Council on 3rd March 2021 for adoption.**
Financial summary:	**The TMSS forms part of the Authority’s overall budget strategy and financial management framework.**
Is this a Key Decision?	**No**

When should this matter be reviewed?	**Biannually**
Reviewing OSC:	**Overview and Scrutiny Committee**

The subject matter of this report deals with the following Council Objectives

Communities making Havering []
Places making Havering []
Opportunities making Havering []
Connections making Havering []

SUMMARY

The TMSS is part of the authority's reporting procedures as recommended by the Chartered Institute of Public Finance and Accountancy (CIPFA) TM Code and its Prudential code ("The CIPFA Prudential Code") for capital finance in local authorities. The Local Government Act 2003 requires authorities to comply with both codes.

This report fulfils the authority's legal obligation under the Local Government Act 2003 to have regard to both the CIPFA TM Code and Government Guidance, and it covers:

- The Borrowing and Investment Strategies
- Treasury Management and Prudential Indicators
- A MRP Policy Statement (the means by which capital expenditure which is financed from borrowing is paid for by authority tax payers)

RECOMMENDATIONS

Full Council is asked to adopt the report.

REPORT DETAIL

1. Introduction

1.1 The authority is required to set a balanced budget each financial year, which broadly means that income received during the year will meet its operational expenditure. As part of the overall financial management arrangements, a primary objective of the Treasury Management service is to ensure that the authority's cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in counterparties or instruments in accordance with the authority's appetite for risk and liquidity requirements, as priorities before considering investment return.

1.2 CIPFA define treasury management 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."

1.3 Whilst any regeneration initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activities, (arising usually from capital expenditure), and are separate from the day to day treasury management activities. This expenditure is shown throughout this report as the "regeneration programme".

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

a. **Prudential and treasury indicators and treasury strategy** (this report) - The first, and most important report is forward looking and covers:
- the capital plans, (including prudential indicators);
- MRP Policy Statement, (how residual capital expenditure is charged to revenue over time).
- the treasury management strategy, (how the investments and borrowings are to be organised), including treasury indicators; and
- an investment strategy, (the parameters on how investments are to be managed).

b. **A mid-year treasury management report** – a progress report and updates Members on the capital position, amending prudential/treasury indicators as necessary, and whether any policies require revision.

c. **An annual treasury report** – a backward looking review document providing outturn details on actual prudential and treasury indicators and treasury activity compared to the estimates within the strategy.

1.5 The above reports are required to be adequately scrutinised before being adopted by the authority. This role is undertaken by the Audit Committee. Ideally the draft TMSS would be presented at this committee prior approval by Cabinet but owing to committee scheduling this was not possible on this occasion and it's a statutory requirement that the TMSS is adopted by the authority in the year preceding the year it refers to.

2. Key Considerations and Sustainability

2.1 TMSS 2021/22

2.1.1 The strategy for 2021/22 covers two main areas:

a) Capital issues

- the capital expenditure plans and the associated prudential indicators set out in **appendix 2**;
- the MRP policy.

b) Treasury management issues

- the current treasury position as shown in **appendix 1**
- treasury indicators which limit the treasury risk and activities of the authority; **appendix 3**
- prospects for interest rates; **appendix 4**
- the borrowing strategy;
- policy on borrowing in advance of need; **appendix 5**
- debt rescheduling;
- the investment strategy;
- creditworthiness policy;
- the policy on use of external service providers.

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

2.2 Training

2.2.1 A key requirement of the CIPFA TM Code is Member consideration of treasury management matters. The authority addresses this important issue by:

- Providing training sessions, briefings and reports on treasury management and investment issues to those Members responsible for the monitoring and scrutiny of treasury management.
- Requires all relevant Officers to keep their skills up to date through training, workshops and seminars, and participating in the CIPFA Treasury Management Forum and other relevant local groups and societies.

2.3 **Treasury Management Consultants**

2.3.1 The authority uses Link Asset Services ("Link") as its external treasury management adviser. The authority recognises that responsibility for treasury management decisions remains with itself at all times and ensures that undue reliance is not placed upon external service providers. 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 agreed and subjected to regular review.

3. Service Delivery and Performance Issues

3.1 The authority's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, shown in **appendix 2**, which are designed to assist Members' overview and confirm capital expenditure plans.

3.2 Borrowing Strategy

3.2.1 Caution will be applied to the 2021/22 treasury operations. The Chief Financial Officer will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances.

3.2.2 The authority has maintained an internal borrowing position (£118m at 31/3/20). This means that the capital borrowing need (the Capital Financing Requirement (CFR)), has not been fully funded with external loan debt as cash supporting the authority's reserves, balances and cash flow has been used as a temporary measure. This strategy has been prudent as investment returns have approached zero while counterparty risk has remained an issue. However as the authority's CFR continues to grow, internal cash balances will become strained resulting in temporary borrowing thereby increasing interest rate and refinancing risk in the debt portfolio. Those risks need to be carefully managed through the judicious introduction of new long term external borrowing into the debt portfolio.

3.2.3 The PWLB consultation concluded their review effective 26th November 2020 the main headlines were:

- PWLB rate lowered 100bps (or one percentage point) for all new Standard Rate and Certainty Rate loans. This takes PWLB borrowing back to a margin of 80bps (0.8%) above the Gilt which was the position pre October 2019 and prior to the PWLB consultation.
- As a condition to access PWLB, authorities were asked to submit a high level description of capital spending for 3 years.
- The S151 officer of the authority to confirm no intention to buy investment assets primarily for yield any time in the next 3 years
- The PWLB will not lend to an authority that plans to buy investment assets primarily for yield anywhere in their capital plans, regardless of whether the transaction would notionally be financed from a source other than the PWLB.

It is against this backdrop and the continued uncertainty of economic and interest rate forecasts, that caution will be exercised in managing the 2021/22 treasury operations. The Chief Financial Officer will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- Where there is a significant risk of a sharp fall in long and short term rates, (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowing will be postponed, and potential rescheduling from fixed rate funding into short borrowing will be considered.

- Where there is 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 USA and UK, an increase in world economic activity, or a sudden increase in inflation

risks, then the portfolio position will be re-appraised. Most likely, long term fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.

New Borrowing

3.2.4 The authority's borrowing strategy will give consideration to the following forms of borrowing to finance capital requirements:

- Internal borrowing: The need to undertake external borrowing can be reduced by the temporary use of internal balances held for provisions and reserves within the authority's accounts and cashflow movements on a day-to-day basis. The option of postponing borrowing and running down investment balances may provide short term revenue savings and reduce investment risk. The use of internal balances, however, must be monitored in order to mitigate the risks arising from the need to externally refinance when rates are unfavourable and protect the budget strategy from volatility in short term interest rates;
- Temporary Borrowing: from the money market or other local authorities;
- Shorter Term Borrowing (1 – 5 years): from non PWLB and other sources;
- Long Term Market Debt: where rates are significantly below those offered by the PWLB for an equivalent maturity period, and to provide diversity within the debt portfolio;
- PWLB: borrowing for periods across all durations where rates offer best value.
- Other borrowing arrangements: such as the use of leasing, specialist 'green' funding that may be more cost efficient for some types of capital expenditure such as for vehicles, equipment and decarbonisation schemes.

3.2.5 The authority will continue to borrow in respect of the following:

- Maturing debt;
- Approved (prudential) capital expenditure / capital investment;
- To finance short-term cashflow fluctuations.

3.2.6 The type, period, rate and timing of new borrowing will be determined by the Chief Financial Officer under delegated powers, taking into account the following factors:

- Expected movements in interest rates as outlined above;
- Maturity profile of the debt portfolio;

- The impact on the medium term financial strategy;
- Proposed Prudential Indicators and limits as set out in **appendix 2**.

Treasury Management Limits on borrowing activity

3.2.8. There are three debt related treasury activity limits. The purpose of these are to manage the activity of the treasury function within a flexibly set remit for risk management, yet not impose undue restraints that constrict opportunities for cost reduction or performance improvement. The indicators are:
- Upper limits on variable interest rate exposure net of investments;
- Upper limits on fixed interest rate exposure;
- Maturity structure of borrowing to manage refinancing risk.

3.2.9. The proposed indicators are set out in **appendix 3**.

Policy on borrowing in advance of need

3.2.10. This is set out in **appendix 5** of this report.

Debt Rescheduling

3.2.11 All rescheduling will be reported to the Cabinet at the earliest meeting following its action.

Where short term borrowing rates are considerably cheaper than longer term fixed interest rates, there may be potential opportunities to generate savings by switching from long term debt to short term debt. However, these savings will be considered in the light of the current treasury position and the size of the cost of debt repayment (premiums incurred).

The reasons for any rescheduling to take place will include:
- The generation of cash savings and / or discounted cash flow savings;
- To fulfil the treasury strategy;
- To enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).
- Consideration will also be given to identify if there is any residual potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.

3.3 Annual Investment Strategy

3.3.1 The MHCLG and CIPFA have extended the meaning of 'investments' to include both treasury and non-treasury investments. This report deals solely with treasury investments, (as managed by the treasury management team).

3.3.2 The Authority's investment policy has regard to the following: -

- MHCLG's Guidance on Local Government Investments ("the Guidance")
- CIPFA Treasury Management in Public Services Code of Practice 2017 ("the TM Code") .
- CIPFA Treasury Management Guidance Notes 2018.

3.3.3 The key intention of the Guidance is to maintain the requirement for authorities to invest prudently and that priority is given to the security and liquidity of investments before yield. The authority's objective is therefore to achieve, within this constraint, the optimum return on its investments with the appropriate levels of security and liquidity. Within the prudent management of its financial affairs, the authority may temporarily invest funds that are borrowed for the purpose of expenditure expected to be incurred in the reasonably near future. Borrowing purely to invest or on-lend for speculative purposes remains unlawful and this authority does not engage in such activity.

3.3.4 The above guidance from the MHCLG and CIPFA place a high priority on the management of risk. This authority has adopted a prudent approach to managing risk, its minimum credit criteria is set out in **Appendix 6**.

3.3.5 The authority will consider placing longer term treasury deals while investment rates are at historically low levels and where attractive interest rates with high quality counterparties become available.

3.3.6 Investments will make reference to the core balance, cash flow requirements and the outlook for short and medium term interest rates.

3.3.7 Credit ratings should not be the sole determinant of the quality of an institution, this authority is not bound by the agency with the lowest rating and, importantly, officers will continually assess and monitor the financial sector and the economic/political environment in which institutions operate.

3.3.8 Treasury investment instruments identified for use in the financial year are listed in **Appendix 7** under the 'specified' and 'non-specified' investment categories in accordance with the MHCLG Investment Guidance.

3.3.9 The Chief Financial Officer will, on advice, make operational changes to these limits in response to prevailing market conditions and regulatory changes.

3.3.10 All investments will be denominated in sterling.

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

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

3.3.13 Whilst the structure of the banks included within this process may have changed, the fundamentals of credit assessment have not. The authority 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.

3.3.14 This authority will also pursue value for money in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance. Regular monitoring of investment performance will be carried out during the year.

3.4 Loans to Third Parties or Non Treasury investments

3.4.1 The authority may borrow to make grants or loans to third parties for the purpose of capital expenditure, as allowable under paragraph 25 (1) (b) of the Local Authorities (Capital Financing and Accounting) (England) Regulations 2003 (Statutory Instrument No. 3146). This facility is likely to be used to support local economic regeneration and development activity but not limited to those purposes. The additional capital expenditure may be funded by external borrowing. Loans for working capital or revenue purposes are permitted as long as these are funded from the authority's internal cash balances as external borrowing is not permitted in such circumstances.

3.4.2 **Pension Fund Cash** - The Local Government Pension Scheme (Management and Investment) Regulations 2016 requires the Authority to maintain a separate bank account for the Pension Fund. For the management of Pension Fund cash, there is in place an agreement to pool internally held pension fund balances (working cash and those pending external investment) with the investment balances of the Authority. These balances are invested in accordance with the Authority's Treasury Management Strategy.
The Pension Fund receives interest annually on their cash balances at a rate commensurate with that received by the Authority. Pension Fund cash balances may be withdrawn anytime. In the event of loss of any investment, this will be borne on a pro rata basis equivalent to the value of each party's contribution to the investment which incurred the loss.

3.4.3 **Pension Fund Prefunding** – The authority can choose to enter into an agreement to made advance payment to fund the employee pension contribution for up to 3 years. The benefit of this is to take advantage of discount rate provided by the Pension Fund Actuary which will results in cash saving for the authority. The authority has not previously adopted such advance payments.

3.5 Treasury Indicators

3.5.1 The indicators cover 2019/20 -2023/24. The CIPFA Prudential Code and the TM Code requires authorities to set treasury indicators and these are set out in **Appendix 3**. No breaches in the indicators are expected in 2020/21.

3.6 Minimum Revenue Provision (MRP)

3.6.1 The MRP Policy Statement 2021/22 is set out in **Appendix 8** of this report.

3.7 Policy on the use of external service providers

3.7.1 The authority uses Link Asset Services as its external treasury management advisors.

3.7.2 The authority recognises that responsibility for treasury management decisions remains with the organisation at all times. All decisions will be

undertaken with regards to all available information, including, but not solely, our treasury advisers.

REASONS AND OPTIONS

Reasons for the decision:

The statutory Codes set out that the authority ought to approve a Treasury Management Strategy Statement, the MRP Policy Statement and the Prudential Indicators.

Other options considered:

The MHCLG Guidance and the CIPFA Code do not prescribe any particular treasury management strategy for local authorities to adopt. The Chief Financial Officer, having consulted the Cabinet Member for Finance and Property, believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

Alternative	Impact on income and expenditure	Impact on risk management
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses may be greater
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses may be smaller
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs may be more certain

Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long-term costs may be less certain

IMPLICATIONS AND RISKS

Financial implications and risks:

The Treasury Management Strategy Statement is a key part of the overall budget strategy and financial management framework and governs the strategic and operational treasury management activities throughout each financial year in order to manage the Council's financial risks associated with cash management via borrowing and investments.

For the financial year 2021/22, the budget for investment income has been set at £0.5m, based on known maturing investments in 2021/22 and a future lending of 0.15%. However this may need to be revised down during the year depending on the balance between internal and external borrowing with any corresponding offset made to the interest payable budget.

The budget for long term debt interest payable in 2021/22 has been reduced from £14.0m to £12.4m. The budget was increased significantly in 2020/21 in anticipation of borrowing for the capital programme. The COVID pandemic has led to both delays in the programme and the opportunity for new borrowing at lower interest rates. This has allowed for the external borrowing budget for 2021/22 to be reduced.

Of the existing £265m of long term debt, £228m is in relation to the HRA, with a budget for debt interest payable of £6.8m.

The General Fund Budget for debt interest on external debt has been increased from £4.1m to £5.6m to reflect the latest capital programme.

If actual levels of investments and borrowing, and actual interest rates differ from those forecast, performance against budget will be correspondingly different. Variance from budget will be reported on a bi-annual basis to full Council.

Legal implications and risks:

The Authority must comply with its duty under section 3 Local Government Act 2003 to keep under review the amount of money the Authority can afford to borrow. Regulation 2 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003/3146 requires the Authority to have regard to the code of practice entitled the "Prudential Code for Capital Finance in Local Authorities" published by CIPFA when considering its duty under section 3.

The Authority has fiduciary duties toward its tax payers to act in good faith in the interests of those tax payers with the considerable sums of money at their disposal. The Strategies being proposed for approval seek to discharge those duties in a reasonable and prudent fashion and therefore there is a low risk of successful challenge.

Otherwise there are no apparent legal implications arising as a result of this Report.

Agreed by: Stephen Doye.

Human Resources implications and risks:

There are no direct Human Resources implications arising as a result of this report

Equalities Implications and Risks:

The Public Sector Equality Duty (PSED) under section 149 of the Equality Act 2010 requires the Authority, when exercising its functions, to have due regard to:

(i) The need to eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Equality Act 2010;
(ii) The need to advance equality of opportunity between persons who share protected characteristics and those who do not, and;
(iii) Foster good relations between those who have protected characteristics and those who do not.

The Authority is committed to all of the above in the provision, procurement and commissioning of its services, and the employment of its workforce.
There are no equalities implications within this report

Health and Wellbeing Implications and Risks:

The Authority is committed to improving the quality of life and wellbeing for all Havering employee's and residents in respect of socio-economics and health

determinants. There are no direct implications to the Authority’s workforce and residents health and wellbeing as a result of this report.

BACKGROUND PAPERS

NONE

Appendix 1

Current Portfolio Position and Capital Financing Requirement (CFR)
The overall treasury management portfolio as at 31 March 2020 and the position as at 31st December 2020 for both borrowing and investments.

Table1: Current Portfolio Position

TREASURY PORTFOLIO				
	Actual 31/3/20 £m	**Actual 31/3/20 %**	**Current 31/12/20 £m**	**Current 31/12/20 %**
Treasury Investments				
Banks & Building Societies	52.800	31	20.000	15
Government (including Local Authorities)	100.000	58	90.000	68
Money Market funds	15.850	9	22.500	17
Bonds	3.000	2		
Total Treasury Investments	**171.650**	**100**	**132.500**	**100**
Treasury External Borrowing				
PWLB	228.234	83	258.234	97
LOBO loan from bank	7.000	3	7.000	3
Temporary loan (LA)	38.000	14		
Other loans	0.351		0.451	
Total External Borrowing	**273.585**	**100**	**265.685**	**100**
Net Treasury Investments/(Borrowing)	**(101.935)**		**(133.185)**	

The authority's forward projections for borrowing are summarised below in Table 2. The table shows the actual external debt, against the underlying capital borrowing need, (the Capital Financing Requirement - CFR), highlighting any over or under borrowing. The expected change in debt will be influenced by changes in the interest rate yield curve.

Table 2: Capital Financing Requirement (CFR) and Borrowing

£m	2019/20 Actual	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
External Debt					
Debt at 1 April	210	235	353	464	670
Expected change in Debt	25	118	111	206	207
Actual gross debt at 31 March	**235**	**353**	**464**	**670**	**877**
The Capital Financing Requirement	**353**	**464**	**670**	**877**	**1031**
Under / (over) borrowing	**118**	**111**	**206**	**207**	**154**

Within the above figures the level of debt relating to regeneration activities is detailed in table 3 below.

Table 3: Regeneration Programme debt

	2019/20 Actual	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
Actual debt at 31 March £m	56	74	135	206	234
Percentage of total CFR %	16	16	20	23	23

PRUDENTIAL INDICATORS **Appendix 2**

Capital expenditure

This prudential indicator is a summary of the authority's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. Members are asked to approve the capital expenditure forecasts:

Capital expenditure £m	2019/20 Actual	2020/21 Budget	2021/22 Budget	2022/23 Budget	2023/24 Budget
Non-HRA	**77.807**	**94.386**	**70.563**	**31.235**	**14.770**
HRA	**61.831**	**158.795**	**142.970**	**174.740**	**167.649**
Regeneration Programme *	**15.155**	**19.036**	**137.819**	**153.067**	**82.470**
Total	**154.793**	**272.216**	**351.352**	**359.042**	**264.890**

* these activities relate to areas such as capital expenditure on investment properties, loans to third parties etc.

Other long-term liabilities - The above financing need excludes other long-term liabilities that already include borrowing instruments.

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

Financing of capital expenditure £m	2019/20 Actual	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
Capital receipts	18.231	27.816	95.080	88.558	47.084
Capital grants	27.347	94.516	22.335	41.581	26.961
Revenue and Reserves	26.937	35.443	18.143	12.533	14.584
Net financing need for the year	**82.278**	**114.441**	**215.795**	**216.370**	**176.261**

The net financing need for regeneration programme activities included in the above table against expenditure is shown below:

Regeneration Programme £m	2019/20 Actual	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
Capital Expenditure	15.155	19.036	137.819	153.067	82.470
Other Sources of Financing	0.000	0.250	71.240	78.510	40.000
Net financing need for the year	**15.155**	**18.786**	**66.579**	**74.557**	**42.470**
Percentage of total net financing need %	**18.42**	**16.42**	**30.85**	**34.46**	**24.09**

The Authority's borrowing need (the Capital Financing Requirement)

The second prudential indicator is the authority's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the authority's indebtedness and so its underlying borrowing need. Any capital expenditure above, which has not immediately been paid for (e.g. by capital grants), through a revenue or capital resource, will increase the CFR.

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

The CFR includes any other long-term liabilities (OLTL) which relates to PFI schemes and finance leases. The authority currently has no such liabilities within the CFR.

The authority is asked to approve the CFR projections below:

£m	2019/20 Actual	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
Capital Financing Requirement					
CFR – non housing	100.366	124.546	155.955	172.415	178.535
CFR – housing	197.217	265.946	379.631	498.675	618.061
CFR – Regeneration Programme	55.844	73.688	135.384	206.691	234.765
Total CFR	**353.427**	**464.180**	**670.971**	**877.782**	**1031.361**
Movement in CFR	**80.084**	**110.753**	**206.791**	**206.811**	**153.579**

Movement in CFR represented by					
Net financing need for the year	82.278	114.441	215.795	216.370	176.261
Less MRP and other financing movements	2.194	3.688	9.004	9.559	22.682
Movement in CFR	**80.084**	**110.753**	**206.791**	**206.811**	**153.579**

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

Within the range of prudential indicators there are a number of key indicators to ensure that the authority operates its activities within well-defined limits. One of these is that the authority needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2021/22 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue or speculative purposes.

The Chief Financial Officer reports that the authority complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this budget report.

Core funds and expected investment balances

The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.).

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

Affordability prudential indicators

The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Authority's overall finances. The authority is asked to approve the following indicator:

Ratio of financing costs to net revenue stream

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

%	2019/20 Actual	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
Non-HRA	3.20	4.41	5.82	7.34	8.46
HRA	4.45	5.84	8.17	10.53	12.79
Regeneration Programme	1.64	2.19	3.78	6.27	7.35
Total	9.30	12.44	17.78	24.13	28.60

Prior to 2019/20 regeneration programme activities are not shown separately in this table

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

Appendix 3

TREASURY LIMITS

The operational boundary

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

Operational boundary £m	2020/21 Limit	2021/22 Limit	2022/23 Limit	2023/24 Limit
Debt	390	535	671	796
Other long term liabilities	10	10	10	10
Regeneration Programme	73	135	206	235
Total	473	680	887	1041

The authorised limit for external debt

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

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

Authorised limit £m	2020/21 Limit	2021/22 Limit	2022/23 Limit	2023/24 Limit
Debt	468	642	805	894
Other long term liabilities	10	10	10	10
Regeneration Programme	88	162	248	258
Total	566	814	1063	1162

Treasury Management Limits on Activity

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

The Code requires that for LOBO loans the maturity date is now deemed to be the next call date.

The indicators are:

Maturity structure of borrowing

These gross limits are set to reduce the authority's exposure of large fixed rate sums falling due for refinancing; these have been kept deliberately wide to provide flexibility for any restructuring that might be carried out to de-risk the debt portfolio.

Maturity structure of fixed interest rate borrowing 2021/22		
	Lower	**Upper**
Under 12 months	0%	40%
12 months to 2 years	0%	60%
2 years to 5 years	0%	70%
5 years to 10 years	0%	80%
10 years to 20 years	0%	100%
20 years to 30 years	0%	100%
30 years to 40 years	0%	100%
40 years to 50 years	0%	100%
Maturity structure of variable interest rate borrowing 2021/22		
	Lower	Upper
Under 12 months	0%	90%
12 months to 2 years	0%	90%
2 years to 5 years	0%	100%
5 years to 10 years	0%	100%
10 years to 20 years	0%	100%
20 years to 30 years	0%	100%
30 years to 40 years	0%	100%
40 years to 50 years	0%	100%

Investment treasury indicator and limit

Total principal funds invested for greater than 365 days. These limits are set with regard to the authority's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.

The Authority is asked to approve the following treasury indicator and limit:

Upper limit for principal sums invested for longer than 365 days			
£m	**2020/21**	**2021/22**	**2022/23**
Principal sums invested for longer than 365 days	£120m	£120m	£100m

Appendix 4

PROSPECTS FOR INTEREST RATES

The authority has appointed Link Asset Services as its treasury advisor and part of their service is to assist the Authority to formulate a view on interest rates. The following table gives their central view.

APPENDIX: Interest Rate Forecasts 2020 – 2024.

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.

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

	Dec-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	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	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	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	0.20
5 yr PWLB	0.80	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	1.10	1.20	1.20	1.20	1.20	1.20	1.30	1.30	1.30	1.30
25 yr PWLB	1.50	1.50	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	1.30	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	0.10
Capital Economics	0.10	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	0.80	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	0.90	-	-	-	-	-
10yr PWLB Rate														
Link	1.10	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	1.30	-	-	-	-	-
25yr PWLB Rate														
Link	1.50	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	1.80	-	-	-	-	-
50yr PWLB Rate														
Link	1.30	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	1.70	-	-	-	-	-

The UK Interest rates are forecast to stay low following the Brexit deal agreed on the 31st December 2020 and as a result of the pandemic impact. The Bank of England is likely to stay focused on supporting the economic recovery with interest rates not expected to rise before late 2022. On the other hand, a combination of lower oil prices, temporary tax cuts and weaker demand will keep inflation well below the Bank of England's 2% target. That should help keep base interest rate at 0.1% or below until at least the end of 2021 (the forecast above is from Link, Capital Economics suggest longer). The pandemic will exercise a strain on public finances, with the deficit remaining above pre-COVID levels in the medium term.

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Appendix 5

POLICY ON BORROWING IN ADVANCE OF NEED

The authority must ensure that its total debt does not, except in the short-term, exceed the total of the CFR in the preceding year i.e. 2020/21, plus the estimates of any additional CFR for the year 2021/22 and the following two financial years. This allows some flexibility for early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.

Any decision to borrow in advance will be considered carefully to ensure that value for money can be demonstrated, and that the authority can ensure the security of such funds.
In determining whether borrowing will be undertaken in advance of need the Authority will:

- Ensure that the ongoing revenue liabilities created, and the implications for future capital plans and budgets have been considered;
- Evaluate economic and market factors that might influence the manner and timing of the decision to borrow;
- Consider the pros and cons of alternative forms of funding, interest rate structures and repayment profiles;
- Consider the positive and negative impacts of borrowing in advance of need on the authority's cash balances, in particular the increased exposure to credit risk that will arise as a result of investing this additional cash in advance of need.

Appendix 6

The Authority's minimum credit ratings criteria

Credit Rating: Investment decisions are made by reference to the lowest appropriate published credit rating from Fitch, Moody's or Standard & Poor's. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

Within the parameters set out below the authority works together with Link Asset Services (the treasury management advisor) to establish an operational lending list using Link's creditworthiness methodology.

The notes below should be read in conjunction with table 1 overleaf.

1. **Banks (Unsecured) and Building Societies**: Accounts, deposits, certificates of deposit and senior unsecured bonds with banks other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail.

   For non UK Banks, the authority's credit criteria will require that banks from AA+ rated countries and above can be used.

   Current bank accounts: the authority's own banker, Should the credit rating fall below A-, for liquidity purposes the authority may continue to deposit surplus cash with the group providing that investments can be withdrawn on the next working day. Balances will be reviewed on a daily basis to assess their appropriateness.
   Banks (secured): Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits.
   The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

2. **Rated Building Societies -** The authority's credit rating criteria for UK Building Societies in 2021/22 will continue to limit deposits to those UK Building Societies that meet the credit criteria in table 1 below.
3. **Non Rated Building Societies –** The criteria in table 1 overleaf will apply.
4. **Government:** Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is an insignificant risk of insolvency. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years.
5. **Corporates:** Loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in, but are exposed to the risk of the company going insolvent. Loans to unrated companies will only be made following an external credit assessment as part of a diversified pool in order to spread the risk widely.
6. **Registered providers:** Loans and bonds issued by, guaranteed by or secured on the assets of registered providers of social housing, formerly known as housing associations. These bodies are tightly regulated by the Regulator of Social Housing and, as providers of public services, they retain the likelihood of receiving government support if needed.
7. **Residential Mortgage Based Schemes** - Investment will be restricted to AAA rated funds with only UK exposure. These funds offer stronger risk-adjusted returns whilst maintaining high daily liquidity with time plus two days (T+2) access.
8. **Pooled funds:** Shares in diversified investment vehicles consisting of any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee.
9. **Money Market Funds (MMF):** The authority will continue to use MMF's, which provide lower interest returns but do provide a highly liquid, diversified investment via a highly credit-rated pooled investment vehicle.

   Bond, equity and property funds offer enhanced returns over the longer term, but are more volatile in the short term. These allow the authority to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the authority's investment objectives will be monitored regularly.

Table 1: Approved investment counterparties and limits

Credit rating	Banks unsecured*	Banks secured	Government	Corporates	Registered Providers
UK Govt	n/a	n/a	£ Unlimited 50 years	n/a	n/a
AAA	£35m 5 years	£35m 20 years	£35m 50 years	£15m 20 years	£15m 20 years
AA+	£35m 5 years	£35m 10 years	£35m 25 years	£15m 10 years	£15m 10 years
AA	£35m 4 years	£35m 5 years	n/a	£15m 5 years	£15m 10 years
AA-	£35m 3 years	£35m 4 years	n/a	£15m 4 years	£15m 10 years
A+	£35m 2 years	£35m 3 years	n/a	£25m 3 years	£15m 5 years
A	£35m 13 months	£35m 2 years	n/a	£25m 2 years	£15m 5 years
A-	£35m 6 months	£35m 13 months	n/a	£15m 13 months	£15m 5 years
None	£1m 6 months	n/a	n/a	£5m 5 years	£10m 5 years
	UK Local Authorities £35m per authority; 50 years				
Pooled funds	£25m per fund These include Bond Funds, Gilt Funds, Equity, Enhanced Cash Funds, Mixed Asset Funds and Money Market Funds, Residential Mortgage Based Schemes (RMBS)				

* Includes Building Societies

Investment Limits

The authority further proposes the investment limits as set out in the table below to protect the security of its investments. A group of banks under the same ownership will be treated as a single organisation for limit purposes. Limits will also be placed on fund managers, investments in brokers' nominee accounts, foreign countries and industry sectors as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

Table 2: Investment limits

	Cash limit
UK Central Government	unlimited
Any single organisation, except the UK Central Government	£35m each
Any group of organisations under the same ownership	£35m per group
Any group of pooled funds under the same management	£35m per manager
Financial instruments held in a broker's nominee account	£50m per broker
Foreign countries	£35m per country
Registered providers	£35m in total
Unsecured investments with building societies	£50m in total
Loans to unrated corporates	£35m in total
Money Market Funds	£50m in total
UK Residential Mortgage Backed Securities (RMBS)	£25m in total

Appendix 7

Specified and Non Specified Investments

Specified investments:

The MHCLG Guidance defines specified investments as those:

- denominated in pound sterling,
- due to be repaid within 12 months of arrangement,
- not defined as capital expenditure by legislation, and
- invested with one of:
  - the UK Government,
  - a UK local authority, parish council or community council, or
  - a body or investment scheme of "high credit quality".

The authority defines "high credit quality" organisations and securities as those having a credit rating of A- or higher that are domiciled in the UK or a foreign country with a sovereign rating of AA+ or higher. For money market funds and other pooled funds "high credit quality" is defined as those having a credit rating of A- or higher.

Limits on specified investments are shown in table 1 below.

Table 1: Specified Investments

Instrument	Institution Type	Instrument Minimum 'High' Credit Criteria	Limits	Max. Maturity Period
Accounts, deposits, certificates of deposit and senior unsecured bonds with banks other than multilateral development banks, UK Government Gilts.	UK Banks and UK Banking Groups[1]	per Appendix 6, Table 1	£35m	per Appendix 6, Table 1
	UK Building Societies	per Appendix 6, Table 1	£35m	per Appendix 6, Table 1
	Non UK Banks	Sovereign Rating of AA+ and above and meet Credit Criteria in Appendix 6, Table 1	£35m	per Appendix 6, Table 1
Covered bonds, floating rate notes, reverse repurchase agreements and other collateralised arrangements with banks and building societies	UK Banks and Building Societies and Non UK Banks	Per Appendix 6, Table 1 (and Sovereign Rating of AA+ minimum for Non UK Banks)	See Note 2	per Appendix 6, Table 1
Term Deposits	Local Authorities and other Public Institutions	UK Sovereign Rating	£35m	per Appendix 6, Table 1

Loans and bonds issued by, guaranteed by or secured on the assets of registered providers of social housing.	Registered Social Housing Providers	per Appendix 6, Table 1		per Appendix 6, Table 1
Money Market Fund		AAA [3]	£25m	
Enhanced Cash Funds		AA/Aa[4]	£25m	
Residential Mortgage Based Schemes (RMBS)		UK AAA	£25m	
1. £35m Limit per bank / banking group.				
2. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.				
3. Investments will be made with those MMF's which have a rating of AAA				
4. Minimum of Fitch / Standard & Poor's AA or Moody's Aa rating				

NON SPECIFIED INVESTMENTS

Instruments	Non Specified Investments	Institution Type	Minimum Credit Criteria	Maximum Duration	Cash limit
Accounts, deposits, certificates of deposit, structured deposits and senior unsecured bonds with banks other than multilateral development banks. Covered bonds, reverse repurchase agreements, and other collateralised arrangements with banks and building societies. Short Dated Bond Funds, Diversified Growth Funds, Absolute Return Funds and Property Funds. Unrated Bonds.	Total long-term investments (investments over 1 year)	UK and Non UK Banks and Building Societies, Rated Registered Social Housing Providers (RSP)	Per Appendix 6, Table 1	10 yrs.	£120m
	Total investments without credit ratings or rated below A- (except UK Government and local authorities)	Unrated Registered Social Housing Providers (RSP), Unrated Banks and Building Societies	N/A	5 yrs.	£40m
	Total Investments made in pooled investment vehicles.			7 yrs.	
	Total Investments made in un-rated bonds.				
	Total non-specified investments				**£160m**

Non-specified investments:

Any investment not meeting the definition of a specified investment is classed as non-specified. The authority does not intend to make any investments denominated in foreign currencies, nor any that are defined as capital expenditure by legislation, such as company shares. Non-specified investments will therefore be limited to long-term investments, i.e. those that are due to mature 12 months or longer from the date of arrangement, and investments with bodies and schemes not meeting the definition on high credit quality.

Limits on non-specified investments are shown in table 2 below.

Table 2: Non-specified investment limits

	Cash Limit £m
Total long-term investments	120
Total Investments without credit ratings or rated below A- (subject to due diligence)	40
Total non-specified investments	**160**

Appendix 8

Minimum Revenue Provision Policy Statement

Where the Authority finances capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP). Although there has been no statutory minimum provision requirement since 2008, The Local Government Act 2003 requires the Authority to have regard to the MHCLG *Guidance on Minimum Revenue Provision* updated in 2018.

The broad aim of the MHCLG Guidance is to ensure that debt is repaid over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant.

The MHCLG Guidance requires the Authority to approve an Annual MRP Statement each year, and recommends a number of options for calculating a prudent amount of MRP. The following statement only incorporates options recommended in the Guidance.

For capital expenditure incurred before 1st April 2008, MRP will be determined in accordance with the former regulations that applied on 31st March 2008, incorporating an “Adjustment A” of £2.9m on a reducing balance method

For capital expenditure incurred after 31st March 2008, MRP will be determined by charging the expenditure over the expected useful life of the relevant assets in equal instalments, but under exceptional circumstances MRP the annuity method may apply. Furthermore, where appropriate provision of MRP will commence in the year after the asset becomes operational.

Estimated life periods will be determined under delegated powers. The Authority may defer to the estimated useful economic life periods specified in the MRP guidance, but reserves the right to determine such periods and prudent MRP.
As some types of capital expenditure incurred by the Authority are not capable of being related to an individual asset, asset lives will be assessed on a basis which most reasonably reflects the anticipated period of benefit that arises from the expenditure. Also, whatever type of expenditure is involved, it will be grouped together in a manner which reflects the nature of the main component of expenditure and will only be divided up in cases where there are two or more major components with substantially different useful economic lives.

For assets acquired by finance leases or the Private Finance Initiative, MRP will be determined as being equal to the element of the rent or charge that goes to write down the balance sheet liability.

No MRP will be charged in respect of assets held within the Housing Revenue Account.

Third party loans – Under statutory requirements the payment of the loan will normally be treated as capital expenditure. The subsequent loan repayments, (which are treated as capital receipts under statutory requirements), will be used to reduce the long term liability and consequently the CFR. As a result MRP will not generally be charged on the loan as it is not appropriate to do so. The Authority keeps under review all loans to 3rd parties and should there be an expectation that loans will not be repaid in full MRP would be made in this respect.