Havering
LONDON BOROUGH

Cabinet	**16th February 2022**
Subject Heading:	**Treasury Management Strategy Statement 2022/23 and Annual Investment Strategy 2022/23 ("TMSS"), Treasury Indicators**
Cabinet Member:	**Councillor Roger Ramsey** **Cabinet Member for Finance & Property**
SLT Lead:	**Jane West** **Chief Financial Officer**
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Policy context:	**The CIPFA Code of Practice ("CIPFA TM Code") on treasury management 2017 recommends that the TMSS is reported to a scrutiny committee for effective scrutiny- this role is undertaken by the Audit Committee and this report will be reviewed at its re scheduled meeting on the 22nd February 2022 and final version of the report will be presented to Full Council on 2nd March 2022.**
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?	**Annually**
Reviewing OSC:	**Overview and Scrutiny Committee**

The subject matter of this report deals with the following Authority 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. The TMSS also sets out recently introduced changes to the legislative framework, which are generally designed to place restrictions on authorities' commercial activity.

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 - there is a change to them from the revised CIPFA TM published in December 2021 and is discussed later in this report and will be reported upon in the 2023-24 TMSS.

RECOMMENDATIONS

Cabinet is asked to:

1. Approve the TMSS 2022/23.
2. Approve the Prudential and Treasury Indicators set out in Appendices 2 and 3 of this report.
3. Recommend the annual TMSS 2022/23 to Council for approval.
4. Delegate future changes required to this Strategy to the Chief Financial Officer in the consultation with the Cabinet Member for Finance and Property. This will provide the additional flexibility to swiftly respond to changing circumstances.

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 The other main function of treasury management is to help fund the Authority's capital plans. These capital plans provide a guide to the borrowing need of the Authority, essentially the longer term cash flow planning required to meet its capital spending operations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses, and on occasion any debt previously drawn may be restructured to meet the Authority's risk or cost objectives

1.3 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."

1.4 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".

1.5 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, TMSS** (this report) - The first, and most important report is forward looking and covers:

- The capital plans, (including prudential indicators)
- The treasury management strategy statement, (how the investments and borrowings are to be organised), including treasury indicators
- 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.

1.6 The minimum revenue provision policy is now included in the 5 Year Capital Programme and Strategy Report which is presented to Cabinet alongside the Budget report.

1.7 The above reports are required to be adequately reviewed before being adopted by the Authority. This role is undertaken by the Audit Committee.

2. Key Considerations and Sustainability

2.1 TMSS 2022/23

2.1.1 The strategy for 2022/23 covers two main areas:

a) Treasury Management Issues

- The borrowing strategy
- Debt rescheduling
- The investment strategy
- TM regulation – newly agreed changes and consultations
- The policy on use of external service providers
- The current treasury position as shown in **appendix 1**
- The treasury indicators which limits the treasury risk and activities of the Authority; **appendix 3** these indicators are unchanged from the approved 2021/22 TMSS
- The prospects for interest rates; **appendix 4**
- The policy on borrowing in advance of need; **appendix 5** This policy is unchanged from the approved 2021/22 TMSS
- The Counterparty & Investment policy; **appendix 6 & 7** This policy is unchanged from the approved 2021/22 TMSS

b) Capital issues

- the capital expenditure plans and the associated prudential indicators are set out in **appendix 2**

2.1.2 These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, the CIPFA TM Code and the Department for Levelling-Up Housing and Communities or DLUHC (formerly MHCLG) Investment Guidance.

2.2 Training

2.2.1 A key requirement of the CIPFA TM Code is Member consideration of treasury management matters and the new Knowledge and Skills framework set out in the revised CIPFA TM Code published in December 2021. 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**

2.2.1 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 The Authority continues to utilise internal borrowing, (£125.8m at 31/3/21). This means that the capital borrowing needed as measured by 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 expedient to fund capital spend and generate revenue savings. This strategy has been prudent as investment returns have approached zero while counterparty risk has remained an issue. As the Authority's CFR continues to grow, external cash balances will be maintained to provide a liquidity buffer of £50m (or at a level the CFO determines to be appropriate) and which is consistent with the liquidity benchmark approach advocated by CIPFA. Going forward the growth in CFR increases the Authority's exposure to short term interest rates and refinancing risk in its debt portfolio and as such is not a sustainable approach over the long term. Those risks need to be carefully managed through the judicious introduction of new long term external borrowing into the debt portfolio.

3.2.2 The CFO in conjunction with treasury will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- Where there is a significant risk of a much sharper rise in long and short term rates than that currently forecast, facilitated by an increase in global demand, rises in central bank rates and further increases in inflation risks, then the portfolio position will be re-appraised. Long term fixed rate funding will be drawn whilst interest rates are lower than they are projected to be over the medium to long term.

New Borrowing

3.2.3 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 cash flow 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 and long 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.

3.2.4 The Authority will continue to borrow in respect of the following

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

3.2.5 The type, period, rate and timing of new borrowing will be determined by the CFO under delegated powers, taking into account the following factors

- Expected movements in interest rates as outlined above
- Maturity profile of the debt portfolio set out in graph 1 and table 1 below very little new borrowing will be required to replace maturing long term debt until 2026/27 when £85m will be required over the next five years
- The impact on the medium term financial strategy, MTFS
- Proposed Prudential Indicators and limits as set out in **appendix 2**.

Graph 1: Debt Maturity Profile

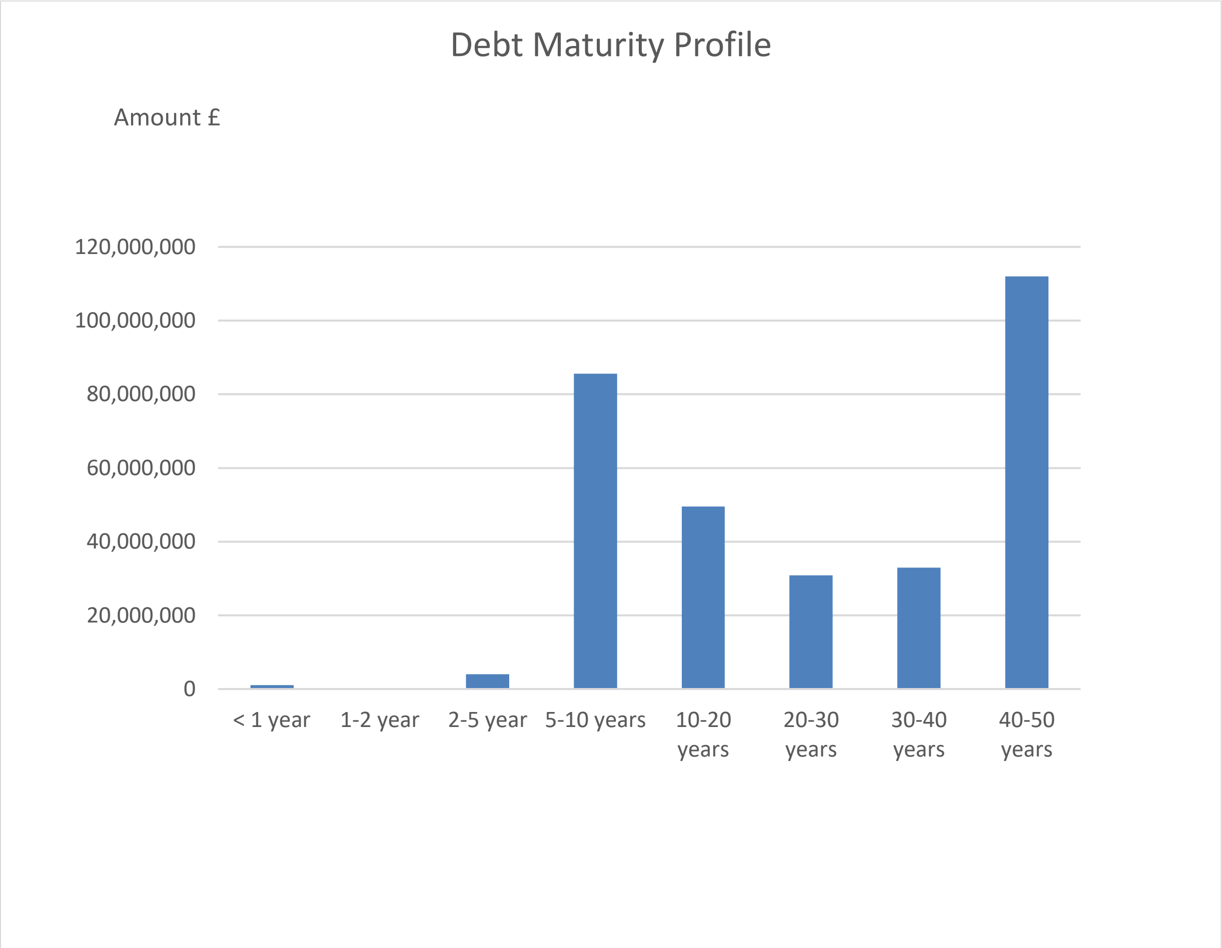

Table 1: Debt Maturity profile and cost

Tenor by time Bucket	Total £,000	Average rate %
< 1 Year	1,109	4.88
1 - 2 Years	0	N/A
2 - 5 years	4,028	3.40
5 - 10 years	85,561	3.21
10 - 20 years	49,574	3.34
20 - 30 years	30,853	3.41
30 - 40 years	32,959	5.03
40 - 50 years	112,000	1.66
> 50 Years	0	N/A
Total	316,087	2.90%

3.2.6 Appendix 2 table 2 shows estimated new borrowing of £605.1m required to fund capital expenditure between financial year end 2020/21 and 2024/25 at of which £50m PWLB borrowing has already been drawn down in 2021/22. However it should be noted that this increase in debt is unlikely to be that high due to external factors, for example, if new government grants are announced, new decisions that the Authority may take such as if new items are added/removed from the capital programme or disposals of surplus assets were to be agreed. Moreover, it also depends on the amount of slippage in the capital programme and to what extent the Authority may borrow in advance. This growth in debt will be reviewed annually against the available budget and will be adjusted to what the Authority can afford.

Treasury Management Limits on borrowing activity

3.2.7 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.

3.2.8 The indicators cover 2020/21 - 2024/25. The CIPFA Prudential Code and the CIPFA TM Code requires authorities to set treasury indicators and these are set out in **Appendix 3**. No breaches in the indicators are expected in the period covered in this report.

Policy on borrowing in advance of need

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

Debt Rescheduling

3.2.10 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 <u>Annual Investment Strategy</u>

3.3.1 The DLUHC 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

- DLUCH'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 and have regard to the TM Code and Guidance Notes from 2021 once the guidance notes are published.

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 DLUHC 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**. This policy is unchanged from the approved 2021/22 TMSS.

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 l*i*sted in **Appendix 7** This policy is unchanged from the approved 2021/22 TMSS. The 'specified' and 'non-specified' investment categories are in accordance with the DLUHC Investment Guidance.

3.3.9 The CFO 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 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 may result in cash saving for the Authority. The Authority has not previously adopted such advance payments.

3.5 TM regulation – newly agreed changes and consultations

3.5.1 CIPFA published revised codes on 20th December 2021 and has stated that formal adoption is not required until the 2023/24 financial year. The Authority has to have regard to these codes of practice when it prepares the Treasury Management Strategy Statement and Annual Investment Strategy, and related reports during the financial year..

3.5.2 The revised codes will have the following implications

A requirement for the Authority to adopt a new debt liability benchmark treasury indicator to support the financing risk management of the capital financing requirement

Clarify what CIPFA expects a Local Authority to borrow for and what they do not view as appropriate. This will include the requirement to set a proportionate approach to commercial and service capital investment

Address Environment Social and Governance (ESG) issues within the Capital Strategy

- Require implementation of a policy to review commercial property, with a view to divest where appropriate and a requirement to have an annual strategy/policy on reviewing commercial portfolios.

Create new Investment Practices to manage risks associated with non-treasury investment (similar to the current Treasury Management Practices)

Ensure that any long term treasury investment is supported by a business model

A requirement to effectively manage liquidity and longer term cash flow requirements

Amendment to Treasury Management Practices (TMP) 1 to address ESG policy within the treasury management risk framework (TMPs are detailed operational practice notes that support the treasury strategy)

Amendment to the knowledge and skills register for individuals involved in the treasury management function - to be proportionate to the size and complexity of the treasury management conducted by each council

A new requirement to clarify reporting requirements for service and commercial investment, (especially where supported by borrowing/leverage).

3.5.3 In addition, all investments and investment income must be attributed to one of the following three purposes

Treasury management

Arising from the organisation's cash flows or treasury risk management activity, this type of investment represents balances which are only held until the cash is required for use. Treasury investments may also arise from other treasury risk management activity which seeks to prudently manage the risks, costs or income relating to existing or forecast debt or treasury investments.

Service delivery

Investments held primarily and directly for the delivery of public services including housing, regeneration and local infrastructure. Returns on this category of investment which are funded by borrowing are permitted only in cases where the income is "either related to the financial viability of the project in question or otherwise incidental to the primary purpose".

Commercial return
Investments held primarily for financial return with no treasury management or direct service provision purpose. Risks on such investments should be proportionate to a council's financial capacity – i.e., that 'plausible losses' could be absorbed in budgets or reserves without unmanageable detriment to local services. A Council must not borrow to invest primarily for financial return.

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 DLUHC Guidance and the CIPFA Code do not prescribe any particular treasury management strategy for local authorities to adopt. The CFO, 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 Authority's financial risks associated with cash management via borrowing and investments.

For the financial year 2022/23, the budget for investment income has been set at £0.25m, based on known maturities in 2022/23 and a forecasted future investment yield at 0.25%. However this may need to be revised down during the year depending on the balance between internal and external borrowing and the level of liquidity buffer kept, with any corresponding offset made to the interest payable budget.

The budget for long term debt interest payable in 2022/23 based on the current debt portfolio and future anticipated borrowing is forecasted to be £11.5m. The budget was increased in 2021/22 in anticipation of borrowing for the capital programme, Theme Board agreed borrowing increase of £121m. The ongoing COVID pandemic has led to both delays in the programme and accordingly only £50m of new long term debt being taken at historically low levels.

Based on existing and planned long term borrowing the 2022-23 budget for HRA debt interest payable has been set at £8m and General Fund interest payable at £3.5m.

Progress made on the TMSS will be reported in an half year report to Audit Committee.

<u>Legal implications and risks:</u>

Local Authorities are required by Regulations 2 and 24 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003/3146 as amended to have regard to the “Prudential Code for Capital Finance in Local Authorities” and Treasury Management in the Public Services Code of Practice published by CIPFA when considering their duties under Part 1 of the Local Government Act 2003.

The Authority must comply with section 3 of the Local Government Act 2003 to keep under review the amount of money the Authority can afford to borrow.
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 its disposal. The Strategies being proposed for approval seek to discharge those duties in a reasonable and prudent manner.

There are no other apparent legal implications arising as a result of this Report.

<u>Human Resources implications and risks:</u>

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 employees and residents in respect of socio-economics and health determinants. There are no direct implications to the Authority's workforce and resident's health and wellbeing as a result of this report.

BACKGROUND PAPERS

NONE

Appendix 1

Current Treasury Position and Capital Financing Requirement (CFR)

As at 31 March 2021 and 31st December 2021, Investments and borrowings set in table 1 below includes new borrowing of £50m from PWLB, pending capital spend.

Table1: Treasury Portfolio Position

TREASURY PORTFOLIO				
	Actual 31/3/21 £m	**Actual 31/3/21 %**	**Actual 31/12/21 £m**	**Actual 31/12/21 %**
Treasury Investments				
Banks & Building Societies	35.0	68.2	89.9	58.0
Government (including Local Authorities)	75.0	31.8	45.0	29.1
Money Market funds	0	0	20.0	12.9
Total Treasury Investments	**110.0**	**100**	**154.9**	**100**
Treasury Borrowing				
PWLB	258.2	93.7	308.3	97.5
LOBO loan from bank	7.0	2.5	7.0	2.2
Temporary loan (LA)	10.0	3.6	0	0
Other loans	0.4	0.2	0.8	0.3
Total External Borrowing	**275.6**	**100**	**316.1**	**100**
Net Treasury Investments/(Borrowing)	**(165.6)**		**(161.2)**	

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 CFR and long term interest rates.

However it should be noted that this change in debt is due to external factors set out in the covering report and capital slippage. Table 2 shows internal borrowing of £230m but this is dependent on the changes to the Authority's cash backed reserves and changes in net working capital. External cash balances of £50m are maintained over the medium term to mitigate liquidity risk.

Table 2: Capital Financing Requirement (CFR) and Borrowing

£m	2020/21 Actual	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
External Debt					
Debt at 1 April	**265.6**	**275.7**	**354.3**	**574.7**	**751.5**
Expected change in Debt	**10.1**	**78.6**	**220.4**	**176.8**	**129.3**
Actual gross debt at 31 March	**275.7**	**354.3**	**574.7**	**751.5**	**880.8**
The Capital Financing Requirement	**401.5**	**584.3**	**804.7**	**981.5**	**1,110.8**
Under / (over) borrowing	**125.8**	**230.0**	**230.0**	**230.0**	**230.0**

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

Table 3: Regeneration Programme debt

	2020/21 Actual	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
CFR at 31 March £m	63.4	81.6	168.7	259.3	277.5
Percentage of total CFR %	15.80	13.97	20.96	26.42	24.98

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:

Table 1: Capital expenditure forecast 2020/21 - 2024/25

Capital expenditure £m	2020/21 Actual	2021/22 Budget	2022/23 Budget	2023/24 Budget	2024/25 Budget
Non-HRA	**41.3**	**79.9**	**60.1**	**24.9**	**31.2**
HRA	**59.2**	**207.8**	**170.6**	**181.0**	**195.3**
Regeneration Program *	**17.2**	**28.6**	**168.0**	**198.1**	**23.6**
**Total ** **	**117.7**	**316.3**	**398.7**	**404.0**	**250.1**

* 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.

Table 2: Financing of Capital expenditure forecast 2020/21 - 2024/25

Financing of capital expenditure £m	2020/21 Actual	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
Capital receipts	20.6	57.0	119.4	120.2	14.6
Capital grants	21.1	34.7	29.9	83.7	61.9
Revenue and Reserves	21.1	33.3	16.4	12.6	14.4
Net financing need for the year ***	**54.9**	**191.2**	**233.1**	**187.5**	**159.2**

***** Net financing need, example (**117.7- 20.6-21.1-21.1) = 54.9m)**

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

Table 3: Regeneration Programme forecast 2020/21 - 2024/25

Regeneration Programme £m	**2020/21 Actual**	**2021/22 Estimate**	**2022/23 Estimate**	**2023/24 Estimate**	**2024/25 Estimate**
Capital Expenditure	17.2	28.6	168.0	198.1	23.6
Other Sources of Financing	0	0	78.0	103.5	0
Net financing need for the year	**17.2**	**28.6**	**90.0**	**94.6**	**23.6**
Percentage of total net financing need	**31.3%**	**14.9%**	**38.6%**	**50.5%**	**14.8%**

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:

Table 4: Capital financing requirement forecast 2020/21 - 2024/25

Capital Financing Requirement £m	2020/21 Actual	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
Non Housing	125.3	153.3	167.5	176.3	177.6
Housing	212.8	349.4	468.5	546.0	655.7
Regeneration	63.4	81.6	168.7	259.3	277.5
Total CFR	**401.5**	**584.3**	**804.7**	**981.5**	**1,110.8**
Movement in CFR		**182.8**	**220.4**	**176.8**	**129.3**
Movement in CFR represented by					
Net financing need for the year	-	191.2	233.1	187.5	159.2
Less MRP	-	4.7	7.0	9.5	13.4
Less receipts set aside	-	3.7	5.7	1.2	16.5
Movement in CFR	**-**	**182.8**	**220.4**	**176.8**	**129.3**

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), against the net revenue stream.

Table 5: Ratio of financing costs to net revenue stream 2020/21 - 2024/25

%	2020/21 Actual	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
Non-HRA	4.43	5.28	6.35	6.71	7.90
HRA	4.67	7.46	9.74	11.02	12.86
Regeneration	1.97	2.53	4.69	7.40	8.30
Total	11.07	15.27	20.78	25.13	29.06

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

Within the above figures, table 6 shows the trend in the Non-HRA (including Regeneration) cost of capital (borrowing and other long term obligation costs net of Mercury Land Holding regeneration investment income), against the net revenue stream.

Table 6: Ratio of Non HRA net financing costs to net revenue stream 2020/21 – 2024/25.

%	2020/21 Actual	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
Non-HRA	4.43	5.28	6.35	6.71	7.90
Regeneration	1.39	1.69	2.99	5.30	5.38
Total	5.82	6.97	9.34	12.01	13.28

Regeneration investment income from Mercury Land Holdings (MLH) is forecast at £45m in the nine year period 2025/26 to 2033/34 (approx. £5m per year). It is expected that MLH will make loan repayments of £14m over the same period (of which £8m will be repaid in 2025/26) and the balance thereafter. Equity repayments of £7.2m are expected in 2024/25. These repayments together with increased investment income should lower net financing costs as a proportion of net revenue stream post 2024/25.

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.

Table 7: Operational boundary 2020/21 - 2024/25

Operational boundary £m	2020/21 Limit	2021/22 Limit	2022/23 Limit	2023/24 Limit	2024/25 Limit
Debt	328.1	496.4	696.3	770.7	852.5
Other long term liabilities	10	10	10	10	10
Regeneration Programme	63.4	81.6	168.7	259.3	277.5
Total	401.5	588	875	1,040	1,140

The authorised limit for external debt TM code

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 Authority. 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 Authorities' plans, or those of a specific Authority, although this power has not yet been exercised.
2. The Authority is asked to approve the following authorised limit:

Table 8: Authorised limit 2020/21 - 2024/25

Authorised limit £m	2020/21 Limit	2021/22 Limit	2022/23 Limit	2023/24 Limit	2024/25 Limit
Debt	468	642	805	853	903
Other long term liabilities	10	10	10	10	10
Regeneration Programme	88	162	248	300	350
Total	566	814	1,063	1,163	1,263

Appendix 3

TREASURY LIMITS

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 2022/23		
	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 2022/23		
	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	**2021/22**	**2022/23**	**2023/24**
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 commentary and table gives their central view.

Bank Rate

We are not expecting Bank Rate to go up fast after the initial rate rise; our view is that the supply potential of the economy has not taken a major hit during the pandemic: it should, therefore, be able to cope well with meeting demand after supply shortages subside over the next year, without causing inflation to remain elevated in the medium-term, or to inhibit inflation from falling back towards the MPC's 2% target after the spike up to 5%. We are, therefore, forecasting four increases in Bank Rate over the forecast period to March 2025, ending at 1.25%.

PWLB rates and gilt yields

Since the start of 2021, we have seen a lot of volatility in gilt yields, and hence PWLB rates. Our forecasts show a steady, but slow, rise in both Bank Rate and gilt yields during the forecast period to March 2025 but there will doubtless be a lot of unpredictable volatility during this forecast period

Link Group Interest Rate View 20.12.21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25
BANK RATE	0.25	0.25	0.50	0.50	0.50	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.25
5 yr PWLB	1.40	1.50	1.50	1.60	1.60	1.70	1.80	1.80	1.80	1.90	1.90	1.90	2.00	2.00
10 yr PWLB	1.60	1.70	1.80	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.10	2.20	2.30
25 yr PWLB	1.80	1.90	2.00	2.10	2.10	2.20	2.20	2.20	2.30	2.30	2.40	2.40	2.50	2.50
50 yr PWLB	1.50	1.70	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.20	2.20	2.30	2.30

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. 2021/22, plus the estimates of any additional CFR for the year 2022/23 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 Counterparty Credit policy, 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 CFO will agree an operational lending list within these parameters.

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.

10. **Ring Fenced Banks, (RFB**) The largest UK banks, (those with more than £25bn of retail / Small and Medium-sized Enterprise (SME) deposits), were required, by UK law, in response to the global financial crisis 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. 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).** 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.

<u>Table 1: Approved investment counterparties and limits</u>

These limits are unchanged from last years approved TMSS report.

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 DLUHC 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 Authority or community Authority, 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.

Table 1: Specified Investments

Instrument	Institution Type	Instrument Minimum 'High' Credit Criteria	Limit	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				

<u>Table 2 : NON SPECIFIED INVESTMENTS</u>

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**

<u>Non-specified investments</u>:

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 3 below.

Table 3: 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**