TORBAY COUNCIL

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Date:	Thursday, 28 January 2021	Torquay
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Dear Member

ADJOURNED COUNCIL - THURSDAY, 11 FEBRUARY 2021

I am now able to enclose, for consideration at the Thursday, 11 February 2021 adjourned meeting of the Council, the following reports that were unavailable when the agenda was printed.

Agenda No	Item	Page
5.	**Treasury Management Strategy 2021/2022 (incorporating the Annual Investment Strategy 2021/2022 and the Minimum Revenue Provision Policy 2021/2022)**	(Pages 2 - 34)

Yours sincerely

June Gurry
Clerk

TORBAY COUNCIL

Meeting: Adjourned Council **Date: 11 February 2021**

Wards Affected: All Wards in Torbay

Report Title: Treasury Management Strategy 2021/22

Is the decision a key decision? No

When does the decision need to be implemented?

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1. Purpose of Report

1.1 The Treasury Management Strategy appended to this report aims to support the provision of all Council services by the management of the Council's cash flow, debt and investment operations in 2021/22 and effectively control the associated risks and the pursuit of optimum performance consistent with those risks.

1.2 The views of the Audit Committee are sought ahead of the consideration of this Policy Framework document by the Council at its meetings in February 2021

2. Reason for Proposal and its benefits

2.1 The Treasury Management Strategy is considered under a requirement of the CIPFA Code of Practice on Treasury Management which was adopted by the Council on 25 March 2010.

2.2 The approval of an Annual Investment Strategy by Council is a requirement of MHCLG Guidance on Local Government Investments issued by the Secretary of State under section 15(1)(a) of the Local Government Act 2003. This Strategy sets out the Council's policies for managing its investments under the priorities of security first, liquidity second and then returns.

2.3 In addition, the Treasury Management Strategy gives regard to the CIFPA Prudential Code and to set Prudential Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable.

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3. Recommendation(s) / Proposed Decision

3.1 That the Council approve:

- **the Treasury Management Strategy for 2021/22;**
- **the Prudential Indicators 2021/22; and**
- **the Annual Minimum Revenue Provision Policy Statement for 2021/22**

as set out in the Appendix to this report.

Appendices

Appendix 1: Treasury Management Strategy 2021/22

Supporting Information

1. Introduction

1.1 The proposed Treasury Management Strategy for 2021/22 is set out in Appendix 1

1.2 The Strategy was considered by Audit Committee as scrutiny body on 23rd November 2020 and the Committee's comments are incorporated in Appendix 1.

1.3 Since Audit Committee, the outcome of the consultation on future PWLB borrowing has been published and does not allow access to PWLB borrowing for any capital plan which includes a "debt for yield" project. The strategy has therefore been amended to remove future investment fund projects. A further outcome was the reduction in PWLB rates by 100 basis points from November 2020.

2. Options under consideration

2.1 As set out in Appendix 1

3. Financial Opportunities and Implications

3.1 As set out in Appendix 1

4. Legal Implications

4.1 Treasury risk management at the Council is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2017 Edition (the CIPFA Code) which requires full Council to approve a treasury management strategy before the start of each financial year. This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.

5. Engagement and Consultation

5.1 N/A

6. Purchasing or Hiring of Goods and/or Services

6.1 N/A

7. Tackling Climate Change

7.1 N/A

8**. Associated Risks**

8.1 Treasury management associated risks are managed by compliance with the CIPFA code

Agenda Item 5
Appendix 1

TORBAY COUNCIL

Treasury Management Strategy 2021/22

January 2021

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This document can be made available in other languages and formats.

For more information please contact financial.services@torbay.gov.uk

1 Introduction

Treasury management is the management of the Council's cash flows, borrowing and investments, and the associated risks. The Council has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of financial risk are therefore central to the Council's prudent financial management.

Treasury risk management at the Council is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2017 Edition (the CIPFA Code) which requires full Council to approve a treasury management strategy before the start of each financial year. This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.

The Strategy for 2021/22 covers:

- Capital expenditure and prudential indicators
- the minimum revenue provision (MRP) policy
- prospects for interest rates;
- the borrowing strategy;
- the investment strategy;
- treasury indicators which limit the treasury risk and activities of the Council
- policy on use of external service providers;
- reporting arrangements and management evaluation
- other matters

2 Capital Expenditure and Prudential Indicators

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

Capital Expenditure and Financing

Capital expenditure is where the Council spends money on assets, such as property or vehicles, which will be used for more than one year. In local government this includes spending on assets owned by other bodies, and loans and grants to other bodies enabling them to buy assets.

In 2021/22, the Council is planning capital expenditure of £125.4m as summarised below (figures as per draft quarter 3 capital monitoring):

Table 1: Prudential Indicator: Estimates of Capital Expenditure in £ millions

£M	2019/20 actual	2020/21 forecast	2021/22 budget	2022/23 budget	2023/24 budget
General Fund services	38.3	42.1	125.4	105.7	28.4
Capital investments	76.5	0.0	0.0	0.0	0.0
TOTAL	**114.8**	**42.1**	**125.4**	**105.7**	**28.4**

All capital expenditure must be financed, either from external sources (government grants and other contributions), the Council’s own resources (revenue, reserves and capital receipts) or debt (borrowing, leasing and Private Finance Initiative). The planned financing of the above expenditure is as follows:

Table 2: Capital financing in £ millions

£m	2019/20 actual	2020/21 forecast	2021/22 budget	2022/23 budget	2023/24 budget
External sources	13.1	19.7	22.5	25.5	18.4
Own resources	2.7	1.7	3.3	4.7	0.0
Debt	98.9	20.7	99.6	75.5	10.0
TOTAL	**114.8**	**42.1**	**125.4**	**105.7**	**528.4**

Debt is only a temporary source of finance, since loans and leases must be repaid, and this is therefore replaced over time by other financing, usually from revenue which is known as minimum

revenue provision (MRP). Alternatively, proceeds from selling capital assets (known as capital receipts) may be used to replace debt finance. Planned MRP and use of capital receipts are as follows:

Table 3: Replacement of debt finance in £ millions

	2019/20 actual	2020/21 forecast	2021/22 budget	2022/23 budget	2023/24 budget
MRP	5.3	7.2	7.6	8.2	10.0

The Council's full policy on Minimum Revenue Provision is statement is available at Appendix 1

Affordable borrowing limit: The Council is legally obliged to set an affordable borrowing limit (also termed the authorised limit for external debt) each year. In line with statutory guidance, a lower "operational boundary" is also set as a warning level should debt approach the limit.

Table 4: Prudential Indicators: Authorised limit and operational boundary for external debt in £m

	2020/21 limit	2021/22 limit	2022/23 limit	2023/24 limit
Authorised limit – borrowing	690	700	700	700
Authorised limit – PFI and leases	20	20	20	20
Authorised limit – total external debt	710	720	720	720
Operational boundary – borrowing	570	590	650	660
Operational boundary – PFI and leases	20	20	20	20
Operational boundary – total external debt	590	610	670	680

Revenue Budget Implications

Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue, offset by any investment income receivable. The net annual charge is known as financing costs; this is compared to the net revenue stream i.e. the amount funded from Council Tax, business rates and general government grants.

Table 5: Prudential Indicator: Proportion of financing costs to net revenue stream

	2019/20 actual	**2020/21 forecast**	**2021/22 budget**	**2022/23 budget**	**2023/24 budget**
Net Revenue Stream	£111m	£116m	£115m	£115m	£115m
Financing costs (£m)	£15m	£20m	£19m	£19m	£19m
Proportion of net revenue stream	**13%**	**17%**	**17%**	**17%**	**17%**
Financing costs excludes income from Investment Property portfolio which is included within the Net Revenue Stream. *Gross Rental Income (as at Sept 20)*	£(10)m	£(15)m	£(13)m	£(13)m	£(13)m
Percentage of Financing Costs to Net Revenue Stream including Investment Property Gross Rental Income	4%	5%	6%	6%	6%

3 Local Context

On 30th September 2020, the Council held £391.8m of borrowing and £78.8m of treasury investments. Forecast changes in these sums are shown in the balance sheet analysis in table 1 below.

Table 6: Balance sheet summary and forecast

	31.3.20 Actual £m	31.3.21 Estimate £m	31.3.22 Forecast £m	31.3.23 Forecast £m	31.3.24 Forecast £m
Total CFR	**413.4**	**427.0**	**519.0**	**586.2**	**586.2**
Less: Other debt liabilities *	(17.5)	(16.8)	(16.1)	(15.4)	(14.7)
Loans CFR	**395.9**	**410.2**	**502.9**	**570.8**	**571.5**
Less: External borrowing **	(395.2)	(391.5)	(388.9)	(385.3)	(377.7)
Internal borrowing	**0.7**	**18.7**	**114.0**	**185.5**	**193.8**
Less: Usable reserves	(48.0)	(22.8)	(17.3)	(15.1)	(15.3)
Less: Working capital	(18.9)	(10.0)	(10.0)	(10.0)	(10.0)
(Treasury investments)/New borrowing	**(66.2)**	**(14.1)**	**86.7**	**160.4**	**168.5**

* PFI liabilities that form part of the Council's total debt

** shows only loans to which the Council is committed and excludes optional refinancing

The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. The Council's current strategy is to apply its cash resources in place of external borrowing in the short term, i.e. internal borrowing.

The Council has an increasing CFR due to the capital programme, but limited investments and will therefore be required to borrow up to £168.5m over the forecast period.

CIPFA's *Prudential Code for Capital Finance in Local Authorities* recommends that the Council's total debt should be lower than its highest forecast CFR over the next three years. Table 1 shows that the Council expects to comply with this recommendation during 2021/22.

Liability benchmark: To compare the Council's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes

the same forecasts as table 1 above, but that cash and investment balances are kept to a minimum level of £15m at each year-end to maintain sufficient liquidity but minimise credit risk.

Table 7: Liability benchmark

	31.3.20 Actual £m	31.3.21 Estimate £m	31.3.22 Forecast £m	31.3.23 Forecast £m	31.3.24 Forecast £m
Loans CFR	**395.9**	**427.0**	**519.0**	**586.2**	**586.2**
Less: Usable reserves	(48.0)	(22.8)	(17.3)	(15.1)	(15.3)
Less: Working capital	(18.9)	(10.0)	(10.0)	(10.0)	(10.0)
Plus: Minimum liquid investments	10.0	15.0	15.0	15.0	15.0
Liability Benchmark	**339.0**	**409.2**	**506.7**	**576.1**	**575.9**

4 Economic and Interest Rate Forecast

The Council's advisors, Arlingclose Ltd has provided an economic commentary (updated for December 2020) available at Appendix 2 together with their interest rate forecasts for future years:

Underlying assumptions:

- The medium-term global economic outlook has improved with the distribution of vaccines, but the recent upsurge in coronavirus cases has worsened economic prospects over the short term.
- Restrictive measures and further lockdowns are likely to continue in the UK and Europe until the majority of the population is vaccinated by the second half of 2021. The recovery period will be strong thereafter, but potentially longer than previously envisaged.
- Signs of a slowing UK economic recovery were already evident in UK monthly GDP and PMI data, even before the second lockdown and Tier 4 restrictions. Employment is falling despite an extension to support packages.
- The need to support economic recoveries and use up spare capacity will result in central banks maintaining low interest rates for the medium term.
- Brexit will weigh on UK activity. The combined effect of Brexit and the after-effects of the pandemic will dampen growth relative to peers, maintain spare capacity and limit domestically generated inflation. The Bank of England will therefore maintain loose monetary conditions for the foreseeable future.
- Longer-term yields will also remain depressed, anchored by low central bank policy rates, expectations for potentially even lower rates and insipid longer-term inflation expectations. There is a chance yields may follow a slightly different path in the medium term, depending on investor perceptions of growth and inflation, or the deployment of vaccines.

Arlingclose's view of interest rates is set out in table 8 below:

Table 8: Arlingclose Ltd interest rates forecast

	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
Official Bank Rate													
Upside risk	0.00	0.00	0.15	0.15	0.15	0.15	0.30	0.30	0.30	0.30	0.30	0.30	0.30
Arlingclose Central Case	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
Downside risk	0.30	0.40	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
3-month money market r.													
Upside risk	0.05	0.05	0.10	0.10	0.15	0.20	0.30	0.30	0.30	0.30	0.30	0.30	0.30
Arlingclose Central Case	0.10	0.10	0.15	0.15	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20
Downside risk	0.30	0.40	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
1yr money market rate													
Upside risk	0.05	0.05	0.10	0.10	0.15	0.20	0.40	0.40	0.40	0.40	0.40	0.40	0.40
Arlingclose Central Case	0.15	0.15	0.25	0.25	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30
Downside risk	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15
5yr gilt yield													
Upside risk	0.40	0.40	0.45	0.45	0.50	0.50	0.55	0.60	0.60	0.65	0.65	0.70	0.70
Arlingclose Central Case	0.00	0.00	0.05	0.10	0.15	0.20	0.20	0.20	0.25	0.25	0.25	0.25	0.25
Downside risk	0.40	0.45	0.50	0.55	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60
10yr gilt yield													
Upside risk	0.30	0.35	0.40	0.45	0.50	0.50	0.55	0.60	0.60	0.65	0.65	0.70	0.70
Arlingclose Central Case	0.25	0.30	0.35	0.35	0.40	0.40	0.45	0.45	0.50	0.55	0.55	0.55	0.60
Downside risk	0.50	0.50	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55
20yr gilt yield													
Upside risk	0.40	0.40	0.45	0.45	0.50	0.50	0.55	0.60	0.60	0.65	0.65	0.70	0.70
Arlingclose Central Case	0.70	0.70	0.75	0.75	0.75	0.80	0.80	0.85	0.85	0.85	0.85	0.90	0.90
Downside risk	0.30	0.30	0.35	0.35	0.35	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40
50yr gilt yield													
Upside risk	0.40	0.40	0.45	0.45	0.50	0.50	0.55	0.60	0.60	0.65	0.65	0.70	0.70
Arlingclose Central Case	0.60	0.60	0.65	0.65	0.65	0.70	0.70	0.75	0.75	0.75	0.75	0.80	0.80
Downside risk	0.30	0.30	0.35	0.35	0.35	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40

PWLB Certainty Rate (Maturity Loans) = Gilt yield + 0.80%

- Arlingclose Ltd expects Bank Rate to remain at the current 0.10% level.
- Additional monetary loosening through increased financial asset purchases was delivered as expected. The central case for Bank Rate is no change, but further cuts to zero, or perhaps even into negative territory, cannot be completely ruled out.
- Gilt yields will remain very low in the medium term. Shorter term gilt yields are currently negative and will remain around zero or below until either the Bank expressly rules out negative Bank Rate or growth/inflation prospects improve.

Downside risks remain in the near term, as the government continues to react to escalation in infection rates and the Brexit transition period comes to an end.

5 Borrowing Strategy

The Council currently holds £391.8million of loans, a decrease of £3.4 million on the previous year, as part of its strategy for funding previous years' capital programmes. The balance sheet forecast in table 1 shows that the Council expects to borrow up to £125.4million in 2021/22. The Council may also borrow additional sums to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing of £720 million.

Objectives: The Council's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should the Council's long-term plans change is a secondary objective.

Strategy: Given the significant cuts to public expenditure and in particular to local government funding, the Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With investment income rates currently close to zero, it is likely to be most cost effective in the short-term to use internal cash resources instead.

By doing so, the Council is able to reduce net borrowing costs and reduce overall treasury risk. The benefits of internal borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly.

For external borrowing requirements over and above internal borrowing capacity, the Council will look to the Public Works Loan Board (PWLB) to secure long term funding of projects. (The Council has previously raised the majority of its long-term borrowing from the PWLB). This approach may also be combined with short term borrowing to augment the affordability criteria

The budget for payment of interest on debt for 2021/22 has been based on an assumed £391m of borrowing as at 31/03/21 with an overall borrowing rate of 2.99% (3.03% in 2020/21).

A capital budget for investment property has been removed following the outcome of the HM Treasury consultation on use of PWLB which does not allow access to PWLB borrowing for 'debt for yield' projects. This restriction applies on a 'whole plan' basis – meaning that the PWLB will not lend to a local authority that plans to buy investment assets primarily for yield anywhere in their capital plans.

A further, positive, outcome of the consultation was the lowering of PWLB interest rates by 100 basis points for all new loans from 26th November 2020.

The borrowing strategy will be highly influenced about clarity around the value and timing of capital projects expected to be funded from borrowing, in particular around housing and regeneration activity.

Sources of borrowing: The approved sources of long-term and short-term borrowing are:

- Public Works Loan Board (PWLB) and any successor body
- any institution approved for investments (see below)
- any other bank or building society authorised to operate in the UK
- any other UK public sector body
- UK public and private sector pension funds (except Peninsula Pension Fund)
- capital market bond investors
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues
- “Green” bonds

Other sources of debt finance: In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- leasing
- hire purchase
- Private Finance Initiative
- sale and leaseback

Municipal Bonds Agency: UK Municipal Bonds Agency plc was established in 2014 by the Local Government Association as an alternative to the PWLB. It plans to issue bonds on the capital markets and lend the proceeds to local authorities. This will be a more complicated source of finance than the PWLB for two reasons: borrowing authorities will be required to provide bond investors with a guarantee to refund their investment in the event that the agency is unable to for any reason; and there will be a lead time of several months between committing to borrow and knowing the interest rate payable.

Short-term and variable rate loans: These loans leave the Council exposed to the risk of short-term interest rate rises and are therefore subject to the interest rate exposure limits in the treasury management indicators below in section 7 Treasury Management Indicators.

Debt rescheduling: The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The Chief Finance Officer may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk.

6 Investment Strategy

The Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. Currently the Council's investment balance is around £110 million, artificially boosted by significant levels of emergency Covid-19 funding. As such levels are expected to be substantially lower in the forthcoming year.

Objectives: The CIPFA Code requires the Council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the Council will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested. Whilst this is the aim, in the current climate this may not be achievable and longer term investments will provide protection against the impact of negative rates, discussed below.

Negative interest rates: The potential is increasing for the Bank of England to set its Bank Rate at or below zero, which could feed through to negative interest rates on all low risk, short-term investment options. This situation already exists in many other European countries. In this event, security will be measured as receiving the contractually agreed amount at maturity, even though this may be less than the amount originally invested.

Strategy: The Council believes that the current ultra-low level of returns is insufficient reward for the risk of locking into longer deposits. The bulk of cash balances will therefore continue to be held in short-term liquid deposits and it is accepted that there will likely be zero returns from these investments. Cash levels will be run down by applying to capital funding as per the borrowing strategy in section 5 thereby reducing the cost of external borrowing. Obtaining any yield on 2021/22 investments will rely on existing fixed term deposits and the Council's strategic investment in the CCLA Local Authorities Property Fund.

In the event of cash levels remaining significantly high (e.g. from changes or slippage to the capital plan) the CFO will evaluate options for further diversifying into strategic investments over a longer term to gain yield, subject to appropriate risk management and an overall limit of £15million (representing the minimum forecast level of future Reserves).

The policy for counterparty selection and investment limits is presented at Appendix 3.

Non-Financial Investments Strategy

The MHCLG and CIPFA have extended the meaning of 'investments' to include both financial and non-financial investments.

The previous sections relate solely to treasury management "cash" investments and the current schedule of non-financial investments is detailed at Appendix 4. All decisions have followed

appropriate risk management framework and strategy for non-financial investments approved by Council in February 2019.

Any involvement by the Council in community investment schemes such as Credit Unions and Mutual Banks would fall into this category and would not be managed within the treasury management policies.

Environmental, Social and Governance (ESG) Investments

The Council does not have a formal ethical investment policy and currently has no investment specifically in ESG instruments. Officers will continue to monitor and evaluate ESG investment opportunities and these may be incorporated into future investment strategies subject to yield and security.

7 Treasury Management Indicators

The Council measures and manages its exposures to treasury management risks using the following indicators.

Security: The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating/credit score of its investment portfolio. The credit score is calculated by applying a value to each investment (AAA=1, AA+=2, …. A=6 etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

Credit risk indicator	Target
Portfolio average credit rating (score)	A (6)

Liquidity: The Council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling one month period, without additional borrowing.

Liquidity risk indicator	Target
Total cash available within 1 months	£15m

Interest rate exposures: This indicator is set to control the Council's exposure to interest rate risk. The upper limits on the one-year revenue impact of a 1% rise or fall in interest rates will be:

Interest rate risk indicator	Limit
Upper limit on one-year revenue impact of a 1% rise in interest rates	£300,000
Upper limit on one-year revenue impact of a 1% fall in interest rates	£300,000

The above limits recognise the majority of current borrowing as fixed (no effect of a 1% change) and a net impact with a change on investments. In the current climate a 1% rate reduction will result in negative returns on investments.

Maturity structure of borrowing: This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of borrowing will be:

Refinancing rate risk indicator	Upper limit	Lower limit
Under 12 months	40%	0%
12 months and within 24 months	40%	0%

24 months and within 5 years	30%	0%
5 years and within 10 years	40%	0%
10 years and within 20 years	50%	0%
20 years and within 30 years	60%	0%
30 years and within 40 years	50%	0%
40 years and above	50%	0%

Principal sums invested for periods longer than a year: The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end will be:

Price risk indicator	**2020/21**	**2021/22**	**2022/23**
Limit on principal invested beyond year end	£25m	£20m	£20m

8 Treasury Management Consultants

Arlingclose Ltd was appointed as the Council's external treasury management advisors for three years from April 2020, following a full tender process.

The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon the services of our external service providers. All decisions will be undertaken with regard to all available information including, but not solely, our treasury advisers.

9 Reporting Arrangements and Management Evaluation

Members will receive the following reports for 2021/22 as standard in line with the requirements of the Code of Practice:

- Annual Treasury Management Strategy
- Mid-Year Treasury Review report
- Annual Treasury Outturn report

The Chief Finance Officer will inform the Cabinet Member for Finance of any long-term borrowing or repayment undertaken or any significant events that may affect the Council's treasury management activities. The CFO will maintain a list of staff authorised to undertake treasury management transactions on behalf of the Council.

The Chief Finance Officer is authorised to approve any movement between borrowing and other long-term liabilities within the Authorised Limit (see Section 2). Any such change will be reported to the next meeting of the Council.

The impact of these policies will be reflected as part of the Council's revenue budget and therefore will be reported through the quarterly budget monitoring process.

The Council's management and evaluation arrangements for Treasury Management will be as follows:

- Monthly monitoring report to the Chief Finance Officer and lead Members.
- Quarterly meeting of the Treasury Manager/ Finance Manager / Chief Finance Officer to review previous quarter performance and plan following period activities
- Regular meetings with the Council's treasury advisors
- Investment benchmarking via Arlingclose Ltd
- The Audit Committee is the body responsible for scrutiny of Treasury Management.

The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny and appropriate training was made available to Audit Committee members in June 2019. Further training is intended for Members during 2021/22.

The training needs of treasury management officers are periodically reviewed.

10 Other Matters

Soft Loans

Accounting for financial instruments require the recognition of soft loans i.e. where a loan is made at a lower than 'competitive' rate the cost implicit in achieving the lower rate must be reflected in the Council's accounts.

Anti-Money Laundering

The Council will comply with all relevant regulations.

IFRS 16 Lease Accounting

The Director of Finance will monitor any implications of the introduction of IRFS16 on leases. Now expected to be implemented from April 2022.

Appendix 1

Policy on Minimum Revenue Provision for 2021/22

The Minimum Revenue Provision is a statutory charge that the Council is required to make from its revenue budget. This provision enables the Council to generate cash resources for the repayment of borrowing.

The basis for the calculation of the provision is prescribed by legislation (Local Authorities (Capital Finance and Accounting (England) (Amendment) Regulations 2012 and supported by statutory guidance (last issued March 2018), which states that Councils are required to "determine for the current financial year an amount of MRP that it considers to be prudent" and prepare an annual statement on their MRP calculation to their full Council.

One of the aims of this legislation is to ensure that the repayment of principal owed for Capital expenditure is charged on a prudent basis. Central Government guidance says:

> "*the broad aim of prudent provision is to ensure that debt is repaid over a period that is either reasonably commensurate with that over which the Capital expenditure provides benefits"*

For Supported Borrowing, (borrowing funded by central government), the Council will charge MRP at 2% of the balance as at 31 March after the deduction of the value of adjustment A (a set value in 2004), fixed at the same cash value as that of the whole debt is repaid after 50 years.

The Council will charge a VRP (voluntary revenue provision) for the supported borrowing within the adjustment A value that is outstanding as at 31 March relating to transferred debt from Devon County Council fixed at the same cash value as that of the whole debt is repaid after 50 years (which is similar to the supported borrowing calculation).

For capital expenditure funded from unsupported borrowing the Council will make a MRP based on the cumulative expenditure incurred on each asset (including investment fund properties) in the previous financial years using a prudent asset life, which reflects the estimated usable life of that asset. (See table on the following page.)

The MRP for each asset will be calculated on the asset life method using an annuity calculation. MRP will be calculated, on the total expenditure on that asset, in the financial year after the asset becomes operational or 12 months after operational or when there is an income stream in relation to that asset.

The Council will continue to charge services for their use of unsupported borrowing using a prudent asset life (or a shorter period) on an annuity calculation. Where possible the same asset life and borrowing interest rate will be used for both the charge to services and the calculation of the MRP.

To mitigate any negative impact from the changes in accounting for leases and PFI schemes the Council will include in the annual MRP charge an amount equal to the amount that has been taken to the balance sheet to reduce the balance sheet liability for a PFI scheme or a finance lease. The calculation will be based on the annuity method using the Internal Rate of Return (IRR) implicit in the PFI or lease agreement.

Where loans are given for capital purposes they come within the scope of the prudential controls established by the Local Government Act 2003 and the Local Authorities (Finance and Accounting) (England) Regulations 2008.

The Capital Financing Requirement (CFR) will increase by the amount of the loan. Once the funds are returned to the local authority, the returned funds are classed as a capital receipt with those receipts being earmarked specifically to that loan, and the CFR and loan will reduce accordingly. If the expectation is that funds will be repaid in full at some point in the future, there is no requirement to set aside prudent provision to repay the debt liability in the interim period, so there

is no MRP application. The position of each loan will be reviewed on an annual basis by Chief Finance Officer.

Where expenditure is on an investment fund property a MRP may not be applied where there is a clear decision or realistic expectation that an asset purchased as an investment property will be sold within twelve months where the capital receipts from that sale will be set aside to enable repayment of the borrowing associated with the asset.

Where relevant, the suggested asset lives for certain types of capitalised expenditure as detailed in the MRP statutory guidance issued by DCLG will be used. The latest guidance issued in March 2018 suggests a maximum asset life of 50 years.

Each asset life will be considered in relation to the asset being constructed; however as a guide the following are typical ranges for asset lives that will be used.

Asset Type	Range of Asset Life
Freehold Land (speciifed in DCLG statutory gudiance)	50 years
Buildings	20-40 years
Investment Properties	25-50 years
Software	5-10 years
Vehicles & Equipment	5-8 years
Highway Network	25-40 years
Structural Enhancements	10-25 years
Infrastructure	25-50 years

For capital expenditure where land and buildings are not separately identified a blended asset life can be used.

Appendix 2
Economic Commentary

Economic background (provided by Arlingclose Ltd, January 2021)

The impact on the UK from coronavirus, lockdown measures, the rollout of vaccines, as well as the new trading arrangements with the European Union (EU), will remain major influences on the Authority's treasury management strategy for 2021/22.

The Bank of England (BoE) maintained Bank Rate at 0.10% in December 2020 and Quantitative Easing programme at £895 billion having extended it by £150 billion in the previous month. The Monetary Policy Committee (MPC) voted unanimously for both, but no mention was made of the potential future use of negative interest rates. In the November Monetary Policy Report (MPR) forecasts, the Bank expects the UK economy to shrink -2% in Q4 2020 before growing by 7.25% in 2021, lower than the previous forecast of 9%. The BoE also forecasts the economy will now take until Q1 2022 to reach its pre-pandemic level rather than the end of 2021 as previously forecast. By the time of the December MPC announcement, a COVID-19 vaccine was approved for use, which the Bank noted would reduce some of the downside risks to the economic outlook outlined in the November MPR.

UK Consumer Price Inflation (CPI) for November 2020 registered 0.3% year on year, down from 0.7% in the previous month. Core inflation, which excludes the more volatile components, fell to 1.1% from 1.5%. The most recent labour market data for the three months to October 2020 showed the unemployment rate rose to 4.9% while the employment rate fell to 75.2%. Both measures are expected to deteriorate further due to the ongoing impact of coronavirus on the jobs market, particularly when the various government job retention schemes start to be unwound in 2021, with the BoE forecasting unemployment will peak at 7.75% in Q2 2021. In October, the headline 3-month average annual growth rate for wages were 2.7% for total pay and 2.8% for regular pay. In real terms, after adjusting for inflation, total pay growth was up by 1.9% while regular pay was up 2.1%.

GDP growth rebounded by 16.0% in Q3 2020 having fallen by -18.8% in the second quarter, with the annual rate rising to -8.6% from -20.8%. All sectors rose quarter-on-quarter, with dramatic gains in construction (41.2%), followed by services and production (both 14.7%). Monthly GDP estimates have shown the economic recovery slowing and remains well below its pre-pandemic peak. Looking ahead, the BoE's November MPR forecasts economic growth will rise in 2021 with GDP reaching 11% in Q4 2021, 3.1% in Q4 2022 and 1.6% in Q4 2023.

GDP growth in the euro zone rebounded by 12.7% in Q3 2020 after contracting by -3.7% and -11.8% in the first and second quarters, respectively. Headline inflation, however, remains extremely weak, registering -0.3% year-on-year in November, the fourth successive month of deflation. Core inflation registered 0.2% y/y, well below the European Central Bank's (ECB) target of 'below, but close to 2%'. The ECB is expected to continue holding its main interest rate of 0% and deposit facility rate of -0.5% for some time but expanded its monetary stimulus in December 2020, increasing the size of its asset purchase scheme to €1.85 trillion and extended it until March 2022.

The US economy contracted at an annualised rate of 31.4% in Q2 2020 and then rebounded by 33.4% in Q3. The Federal Reserve maintained the Fed Funds rate at between 0% and 0.25% and announced a change to its inflation targeting regime to a more flexible form of average targeting.

The Fed also provided strong indications that interest rates are unlikely to change from current levels over the next three years.

Former vice-president Joe Biden won the 2020 US presidential election. Mr Biden is making tackling coronavirus his immediate priority and will also be reversing several executive orders signed by his predecessor and take the US back into the Paris climate accord and the World Health Organization.

Credit outlook: After spiking in late March as coronavirus became a global pandemic and then rising again in October/November, credit default swap (CDS) prices for the larger UK banks have steadily fallen back to almost pre-pandemic levels. Although uncertainly around COVID-19 related loan defaults lead to banks provisioning billions for potential losses in the first half of 2020, drastically reducing profits, reported impairments for Q3 were much reduced in some institutions. However, general bank profitability in 2020 and 2021 may be significantly lower than in previous years.

The credit ratings for many UK institutions were downgraded on the back of downgrades to the sovereign rating. Credit conditions more generally though in banks and building societies have tended to be relatively benign, despite the impact of the pandemic.

Looking forward, the potential for bank losses to be greater than expected when government and central bank support starts to be removed remains a risk, suggesting a cautious approach to bank deposits in 2021/22 remains advisable.

Interest rate forecast: The Authority's treasury management adviser Arlingclose is forecasting that BoE Bank Rate will remain at 0.1% until at least the first quarter of 2024. The risks to this forecast are judged to be to the downside as the BoE and UK government continue to react to the coronavirus pandemic and the new EU trading arrangements. The BoE extended its asset purchase programme to £895 billion in November while keeping Bank Rate on hold and maintained this position in December. However, further interest rate cuts to zero, or possibly negative, cannot yet be ruled out but this is not part of the Arlingclose central forecast.

Gilt yields are expected to remain very low in the medium-term while short-term yields are likely remain below or at zero until such time as the BoE expressly rules out the chance of negative interest rates or growth/inflation prospects improve. The central case is for 10-year and 20-year to rise to around 0.60% and 0.90% respectively over the time horizon. The risks around the gilt yield forecasts are judged to be broadly balanced between upside and downside risks, but there will almost certainly be short-term volatility due to economic and political uncertainty and events.

Appendix 3
Creditworthiness Policy and Investment Limits

The following policies are proposed in terms of normal economic and market conditions. Given the significant volatility generated by the Covid-19 pandemic and other factors such as Brexit the limits approved may need to be varied at any time to remain viable and relevant. Accordingly the Chief Finance Officer will exercise his delegated powers "to take any decisions (including Key Decisions) and to exercise all legal powers relevant to the Council's borrowing, investments and financial management)" (s.7.1 of the Constitution – Officer Scheme of Delegation) to achieve this.

Approved counterparties: The Council may invest its surplus funds with any of the counterparty types in table 3 below, subject to the cash limits (per counterparty) and the time limits shown.

Table 9: Approved investment counterparties and limits

Credit rating	Banks unsecured	Banks secured	Government	Corporates
UK Govt	n/a	n/a	£ Unlimited 50 years	n/a
AAA	£9m 5 years	£10m 20 years	£15m 50 years	£5m 20 years
AA+	£9m 5 years	£10m 10 years	£10m 25 years	£5m 10 years
AA	£9m 4 years	£10m 5 years		£5m 5 years
AA-	£9m 3 years	£10m 4 years		£5m 4 years
A+	£9m 2 years	£10m 3 years		£5m 3 years
A	£6m 13 months	£10m 2 years		£5m 2 years
A-	£3m 6 months	£10m 13 months		£5m 13 months
Pooled funds and real estate investment trusts		£9m per fund or trust		

This table should be read in conjunction with the notes below

Credit rating: Investment limits are set by reference to the lowest published long-term credit rating from a selection of external rating agencies. 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.

Banks unsecured: Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, 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. See below for arrangements relating to operational bank accounts.

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.

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 generally a lower risk of insolvency, although they are not zero risk. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years.

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 either following an external credit assessment or as part of a diversified pool in order to spread the risk widely.

Pooled funds: Shares or units in diversified investment vehicles consisting of the 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. Short-term Money Market Funds that offer same-day liquidity and very low or no volatility will be used as an alternative to instant access bank accounts, while pooled funds whose value changes with market prices and/or have a notice period will be used for longer investment periods.

Bond, equity and property funds offer enhanced returns over the longer term, but are more volatile in the short term. These allow the Council 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 Council's investment objectives will be monitored regularly.

Operational bank accounts: The Council may incur operational exposures, through current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments, but are still subject to the risk of a bank bail-in, and balances will therefore be kept below £500,000 per bank. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Council maintaining operational continuity.

NB. The Council holds a Business Reserve account as part of its operational suite of accounts with Nat West bank, this facility is classed as an investment and is not subject to the above criteria.

Risk assessment and credit ratings: Credit ratings are obtained and monitored by the Council's treasury advisers, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made,
- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "rating watch negative" or "credit watch negative") so that it may fall below the approved rating criteria, then only new investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

Other information on the security of investments: The Council understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support, reports in the quality financial press and analysis and advice from the Council's treasury management adviser. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may otherwise meet the above criteria.

When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2011, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Council will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Council's cash balances, then the surplus will be deposited with the UK Government via the Debt Management Office or invested in government treasury bills for example, or with other local authorities. This will cause a reduction in the level of investment income earned but will protect the principal sum invested.

Investment limits: The Council's revenue reserves available to cover investment losses are forecast to be £23 million on 31st March 2021. In order that no more than 50% of available reserves will be put at risk in the case of a single default, the maximum that will be lent to any one organisation (other than the UK Government) will be £10 million. 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 10: Investment limits

	Cash limit
Any single organisation, except the UK Central Government	£10m each
UK Central Government	unlimited
Any group of organisations under the same ownership	£18m per group
Any group of pooled funds under the same management	£20m per manager
Negotiable instruments held in a broker's nominee account	£20m per broker
Foreign countries	£10m per country
Loans to unrated corporates	£10m in total
Money market funds	£60m in total

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A of the Local Government Act 1972.

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