Appendix B
Treasury Management Strategy Statement
Minimum Revenue Provision Policy Statement and
Annual Investment Strategy
2021/22

1 Introduction

1.1 The Statement includes the Minimum Revenue Provision Policy Statement and Annual Investment Strategy.

1.2 Cash flows, in and out of the Council's accounts must be effectively managed. 'Treasury management' is the term used to capture this money movement and management. The Council must ensure money is available when needed to meet bills due, to pay salaries or to invest safely, to secure a good rate of return.

1.3 The second main function of treasury management is to fund the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council. This longer-term cash flow planning may involve long or short-term loans and or the use of longer-term cash flow surpluses. If borrowing costs or circumstances change, debts may be restructured, paid off or borrowing periods changed.

1.4 The contribution treasury management makes to the authority is critical, as it ensures the Council can meet spending commitments as they fall due, either for day-to-day requirements or larger capital projects.

1.5 Treasury management balances the interest costs of debt and the investment income arising from cash deposits and invests safely to minimise the risk of any losses.

1.6 The Council may provide funding to commercial initiatives or loans to third parties. These must also be managed effectively and reported openly, in accordance with the Localism Act 2011. They are classed as non-treasury activities, usually arising from capital expenditure, separate from day-to-day treasury management activities.

1.7 The Chartered Institute of Public Finance and Accountancy Code defines 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'.

1.8 Treasury management arrangements affect the Council's revenue budget and Medium Term Financial Forecast. Interest paid as a result of borrowing must be met in year, and income due from investments must be recognised. The Treasury Management Strategy is an integral part of setting the Council's budget, as is the Capital Strategy provided elsewhere on the Cabinet agenda to provide transparency as to the Council's long term investment plans.

Reporting requirements

1.9 The Council is currently required to receive three main reports each year, which incorporate a variety of polices, estimates and actuals. These reports are all required to be scrutinised and reviewed. This role is undertaken by the Council's Scrutiny Panel and Governance and Audit Committee.

1.10 The Treasury Management Strategy is set ahead of the financial year. A Mid-Year Treasury Management Report updates on the capital position, amending prudential indicators as necessary, and any policies require revision. The Annual Treasury Report, after the financial year end, reports on actual spend, borrowing and performance compared to estimates and intent.

Prudential and Treasury Indicators and Treasury Strategy

1.11 The year's Treasury Strategy is recommended to Full Council following consideration by the Scrutiny Panel. It covers:

- Capital plans and related borrowing
- Minimum Revenue Provision policy (MRP) - how and when capital expenditure is charged to the revenue budget over time
- Treasury Management Strategy - how the investments and borrowings are to be organised and repaid
- Investment Strategy - how investments are to be managed.

Training

1.12 The Chartered Institute of Public Finance and Accountancy Code requires the S151 Officer to ensure that Members with responsibility for treasury management or scrutiny receive adequate training in treasury management. Further training will be arranged as required. The training needs of treasury management officers are periodically reviewed.

Treasury Management Strategy for 2021/22

1.13 The Treasury Management Strategy for 2021/22 covers two main areas:

Table 1 – Content of Treasury Management Strategy	
Capital	capital expenditure plans and the associated prudential indicators
	minimum revenue provision (MRP) policy
Treasury management	current treasury position
	treasury indicators which limit the treasury risk and activities of the Council
	prospects for interest rates
	borrowing strategy
	policy on borrowing in advance of need
	debt rescheduling
	investment strategy
	creditworthiness policy
	policy on use of external service providers

1.14 The above meets the requirements of:

- the Local Government Act 2003
- the Chartered Institute of Public Finance and Accountancy Prudential Code
- the Ministry of Housing Communities and Local Government Minimum Revenue Provision Guidance
- the Chartered Institute of Public Finance and Accountancy Code and Treasury Management Code
- Ministry of Housing Communities and Local Government Investment Guidance.

Treasury management consultants

1.15 The Council uses Link Asset Services as its external treasury management advisors but responsibility for treasury management decisions remains with the Council.

International Financial Reporting Standard 16 Leases

1.16 This standard replaces the current guidance on leases in International Accounting Standard 17. The new Standard provides a single lessee accounting model. This requires lessees to recognise assets and liabilities for all leases. (Unless the lease term is 12 months or less or the underlying asset has a low value.) Lessors continue to classify leases as operating or finance. International Financial Reporting Standard 16 approach to lessor accounting remaining substantially unchanged from Internationl Accounting Standard 17.

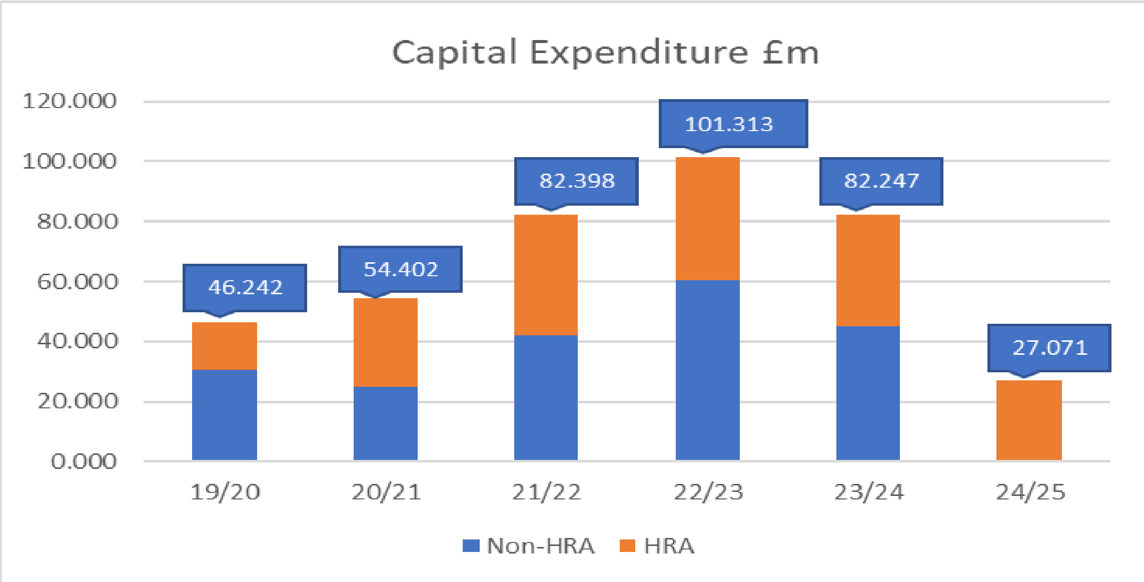
1.17 The Chartered Institute of Public Finance and Accountancy has now delayed implementation of International Financial Reporting Standard 16 in the Accounts Code until 1 April 2022. The impact of adopting International Financial Reporting Standard 16 will be disclosed in the financial statements for the year ending 31 March 2023.

2 The Capital Prudential Indicators 2019/20 – 2024/25

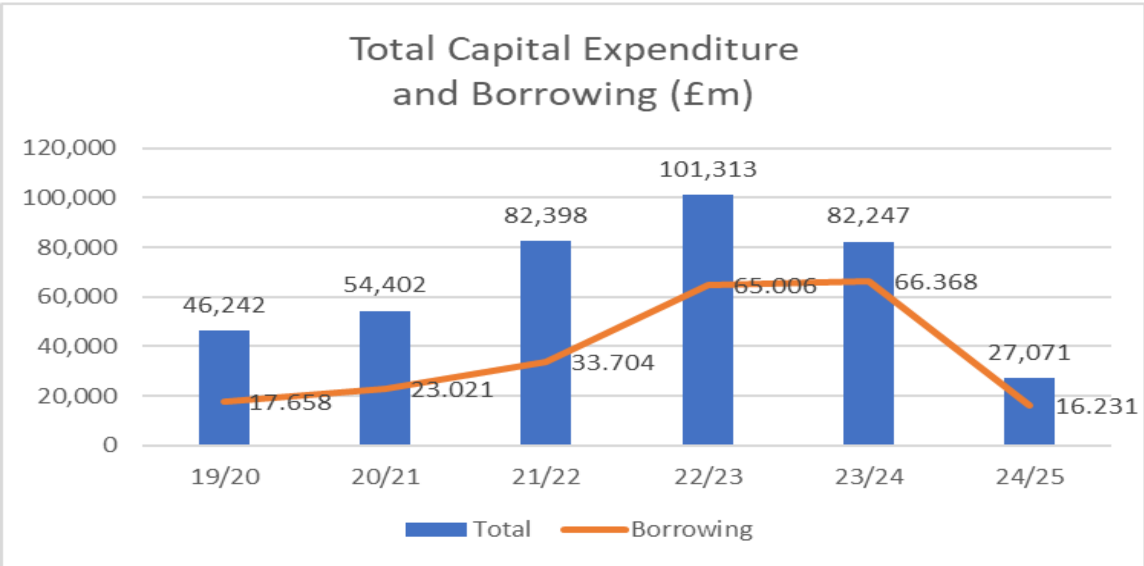
2.1 The Council's capital expenditure plans are the key driver of treasury management and the prudential Indicators are the measures against which performance can be assessed.

Capital expenditure

2.2 This prudential Indicator is a summary of the Council's capital expenditure plans as set out in a separate report on this agenda.

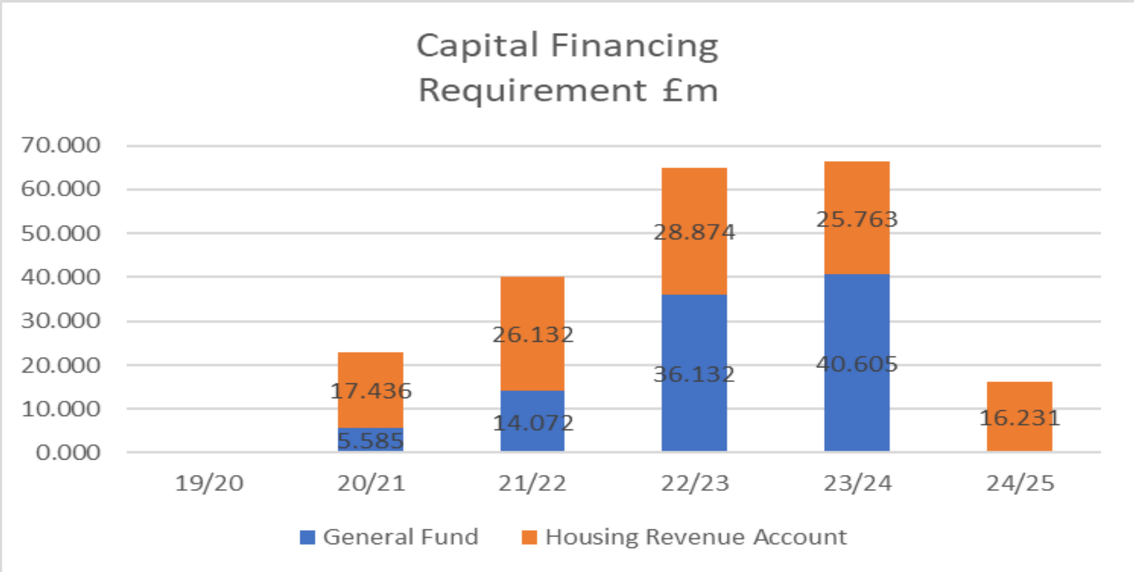


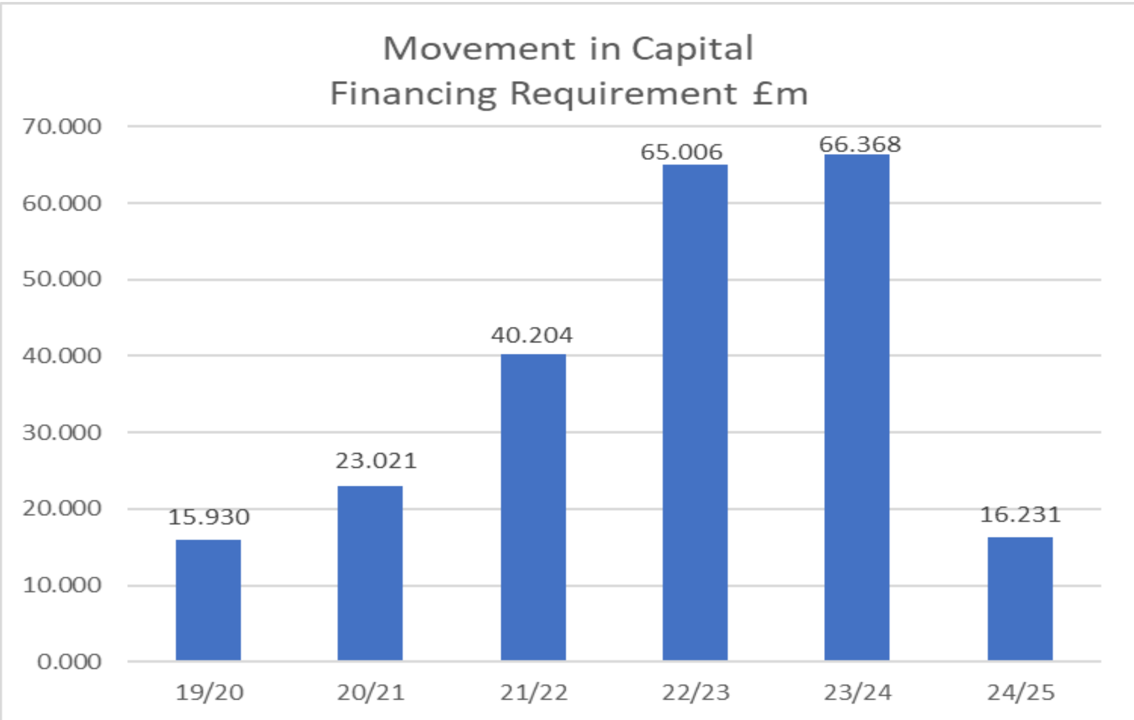
2.3 The table below summarises plans for financing **capital expenditure** from capital or revenue resources.



The Council's borrowing need

2.4 The second prudential indicator is the Council's **Capital Financing Requirement**. This is the outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is a measure of the Council's underlying borrowing need. The Minimum Revenue Provision (MRP) is a statutory annual revenue charge which that reflects the loss in value of capital assets as they are used. MRP is not required in the Housing Revenue Account. These Capital Financing Requirement projections are set out below





Minimum Revenue Provision Policy Statement

2.5 The Council is required to pay off an element of the accumulated General Fund capital spend each year through a revenue charge (the Minimum Revenue Provision), although it is also allowed to undertake additional voluntary payments.

2.6 Government regulations require the full Council to approve a Minimum Revenue Provision Statement in advance of each year. A variety of options can be provided to councils, so long as prudent. This Council is recommended to approve the Minimum Revenue Provision Statement set out in sections 2.7 to 2.09 below.

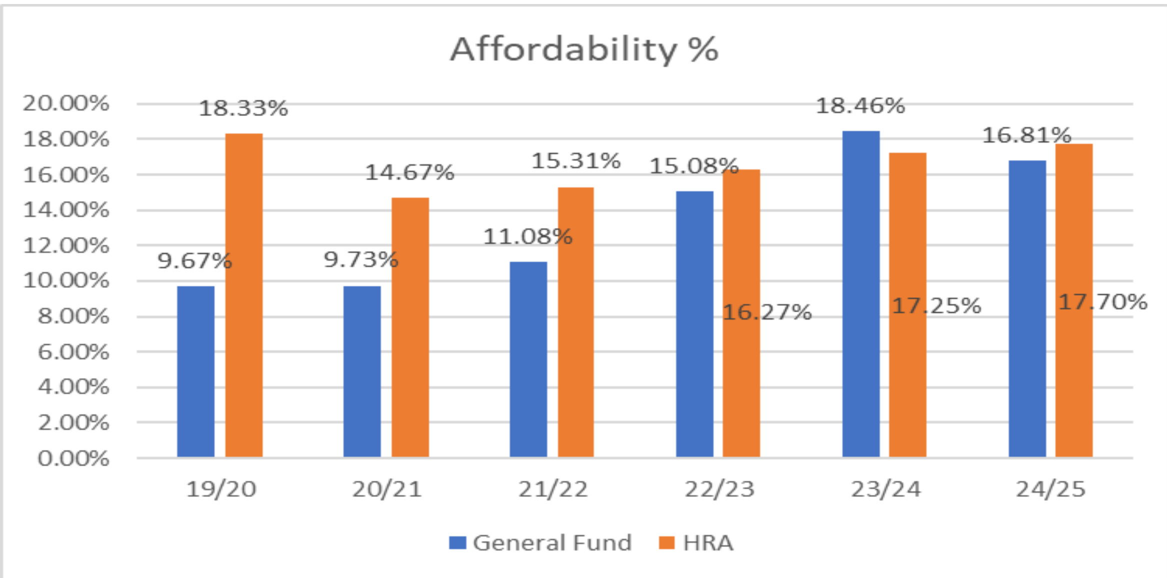
2.7 For capital expenditure incurred before 1 April 2008 or which in the future will be Supported Capital Expenditure, borrowing need is repaid on an equal instalment basis over a period of 50 years. This has the benefits of reducing the amount payable for the first 17 years, introducing a consistent level of charge, and ensuring that this element of Minimum Revenue Provision is eventually completely repaid.

2.8 For all unsupported borrowing (including finance leases) the Minimum Revenue Provision policy will be the Asset Life Method. Minimum Revenue Provision will be based on the estimated life of the assets, in accordance with the regulations. This provides for a reduction in the borrowing need over the asset's life. Repayments included in finance leases are applied as Minimum Revenue Provision.

2.9 There is no requirement in the Housing Revenue Account to make a minimum revenue provision but there is a requirement for depreciation to be made. The S151 Officer will keep the Council's MRP policy under review to ensure that it remains fit for purpose in relation to its borrowing requirements.

Affordability Prudential Indicators

2.10 The previous paragraphs cover the overall capital, and control of borrowing prudential indicators, but a prudential indicator is also required to assess the affordability of the capital investment plans. Affordability is defined as the ratio of financing costs to net revenue stream. This indicator identifies the trend in the cost of capital (borrowing and other long-term obligation costs net of investment income) against the net revenue stream.



The estimates of financing costs include current commitments and capital programme proposals on this agenda.

3 Economic Outlook provided by Link Asset Services

3.1 The Council has appointed Link Asset Services as its treasury advisor and part of the service is to assist the Council to formulate a view on interest rates. This section of the Strategy is provided by Link.

Link Group Interest Rate View 9.11.20														
These Link forecasts have been amended for the reduction in PWLB margins by 1.0% from 26.11.20														
	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
BANK RATE	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
6 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
12 month ave earnings	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20
5 yr PWLB	0.80	0.80	0.80	0.80	0.80	0.90	0.90	0.90	0.90	0.90	1.00	1.00	1.00	1.00
10 yr PWLB	1.10	1.10	1.10	1.10	1.10	1.20	1.20	1.20	1.20	1.20	1.30	1.30	1.30	1.30
25 yr PWLB	1.50	1.50	1.60	1.60	1.60	1.60	1.70	1.70	1.70	1.70	1.80	1.80	1.80	1.80
50 yr PWLB	1.30	1.30	1.40	1.40	1.40	1.40	1.50	1.50	1.50	1.50	1.60	1.60	1.60	1.60

3.2 The coronavirus outbreak has done huge economic damage to the UK and economies around the world. After the Bank of England took emergency action in March to cut Bank Rate to first 0.25%, and then to 0.10%, it left Bank Rate unchanged at its subsequent meetings to 5th November, although some forecasters had suggested that a cut into negative territory could happen. However, the Governor of the Bank of England has made it clear that he currently thinks that such a move would do more damage than good and that more quantitative easing is the favoured tool if further action becomes necessary. As shown in the forecast table above, no increase in Bank Rate is expected in the forecast table above as economic recovery is expected to be only gradual and, therefore, prolonged.

Bond yields / Public Works Loan Board rates

3.3 There was much speculation during the second half of 2019 that bond markets were in a bubble which was driving bond prices up and yields down to historically very low levels. The context for that was a heightened expectation that the US could have been heading for a recession in 2020. In addition, there were growing expectations of a downturn in world economic growth, especially due to fears around the impact of the trade war between the US and China, together with inflation generally at low levels in most countries and expected to remain subdued. Combined, these conditions were conducive to very low bond yields. While inflation targeting by the major central banks has been successful over the last thirty years in lowering inflation expectations, the real equilibrium rate for central rates has fallen considerably due to the high level of borrowing by consumers. This means that central banks do not need to raise rates as much now to have a major impact on consumer spending, inflation, etc. The consequence of this has been the gradual lowering of the overall level of interest rates and bond yields in financial markets over the last 30 years. Over the year prior to the coronavirus crisis, this has seen many bond yields up to 10 years turn negative in the Eurozone. In addition, there has, at times, been an inversion of bond yields in the US whereby 10 year yields have fallen below shorter term yields. In the past, this has been a precursor of a recession. The other side of this coin is that bond prices are elevated as investors would be expected to be moving out of riskier assets i.e. shares, in anticipation of a downturn in corporate earnings and so selling out of equities.

3.4 Gilt yields had therefore already been on a generally falling trend up until the coronavirus crisis hit western economies during March 2020. After gilt yields spiked up during the financial crisis in March, we have seen these yields fall sharply to unprecedented lows as investors panicked during March in selling shares in anticipation of impending recessions in western economies, and moved cash into safe haven assets i.e. government bonds. However, major western central banks took rapid action to deal with excessive stress in financial markets during March, and started massive quantitative easing purchases of government bonds: this also acted to put downward pressure on government bond yields at a time when there has been a huge and quick expansion of government expenditure financed by issuing government bonds. Such unprecedented levels of issuance in "normal" times would have caused bond yields to rise sharply. Gilt yields and PWLB rates have been at remarkably low rates so far during 2020/21.

3.5 As the interest forecast table for PWLB certainty rates above shows, there is expected to be little upward movement in PWLB rates over the next two years as it will take economies, including the UK, a prolonged period to recover all the momentum they have lost in the sharp recession caused during the coronavirus shut down period. From time to time, gilt yields, and therefore PWLB rates, can be subject to exceptional levels of volatility due to geo-political, sovereign debt crisis, emerging market developments and sharp changes in investor sentiment, (as shown on 9th November when the first results of a successful COVID-19 vaccine trial were announced). Such volatility could occur at any time during the forecast period.

Investment and borrowing rates

3.6 Investment returns are likely to remain exceptionally low during 2021/22 with little increase in the following two years.

3.7 Borrowing interest rates fell to historically very low rates as a result of the COVID crisis and the quantitative easing operations of the Bank of England: indeed, gilt yields up to 6 years were negative during most of the first half of 20/21.

3.8 The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in the future when the Council may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt.

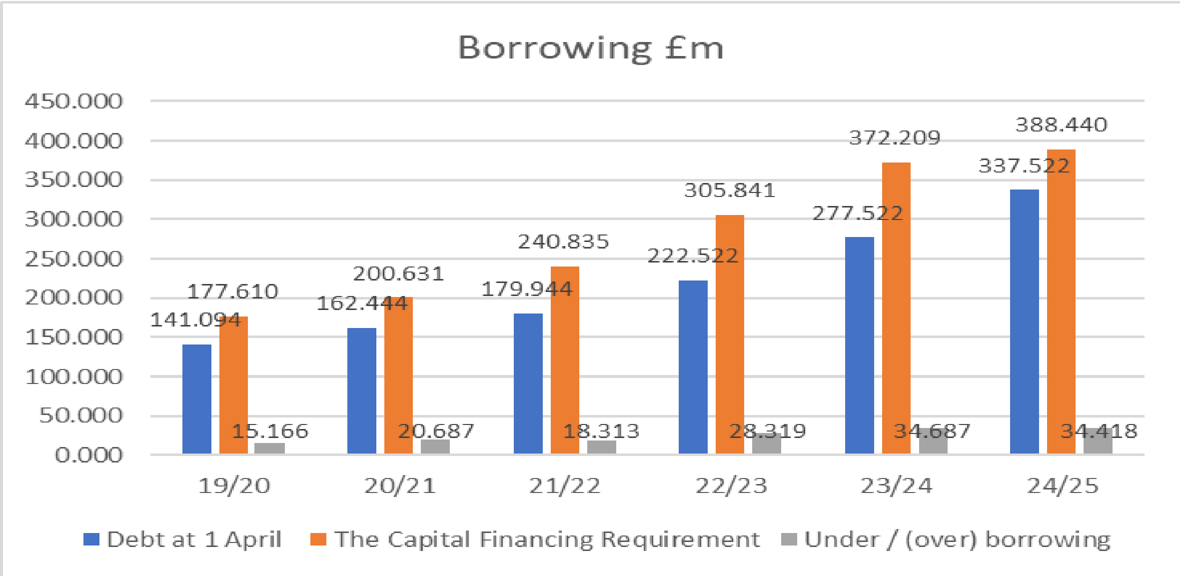
3.9 If long term borrowing causes a temporary increase in cash balances this will incur a revenue cost. The difference between borrowing costs and investment returns is the cost of carry.

Borrowing

3.10 Treasury management ensures that the Council's cash is organised in accordance with the relevant professional codes, including the organisation of cash flow and, where capital plans require, appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

Current portfolio position

3.11 The Council's treasury portfolio position at 31 March 2020, with forward projections are summarised below. The table shows the actual external debt against the underlying capital borrowing need (the Capital Financing Requirement), highlighting any over or under borrowing.

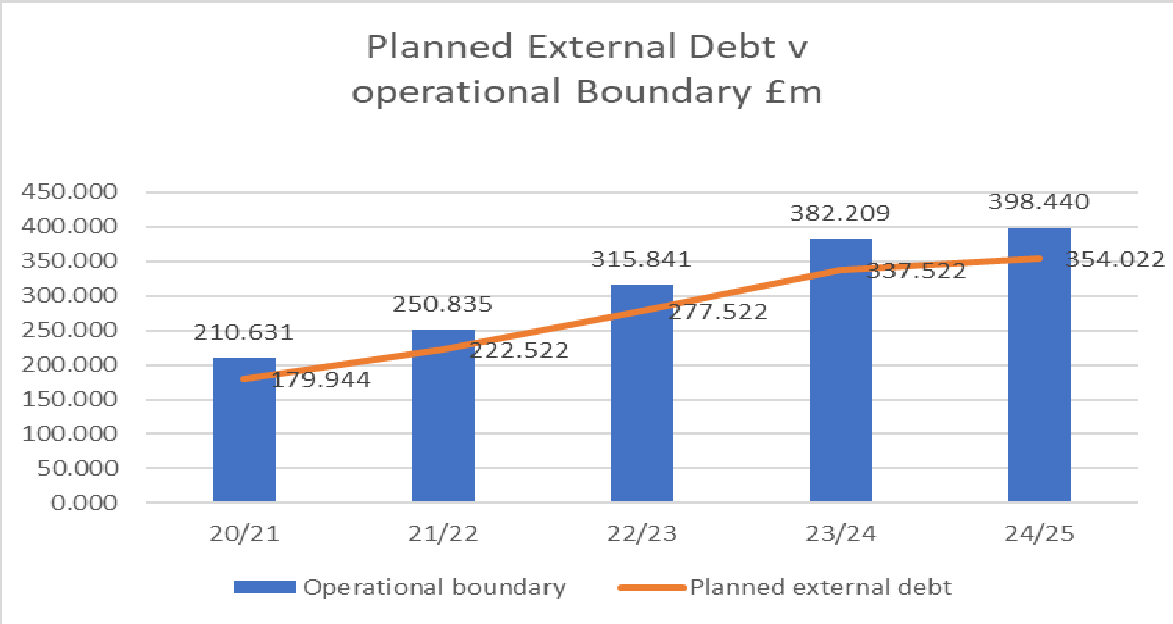


3.12 Prudential indicators ensure that the Council operates within well-defined limits. One of these is that the Council must ensure that its gross debt does not, except in the short-term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for the current year 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.

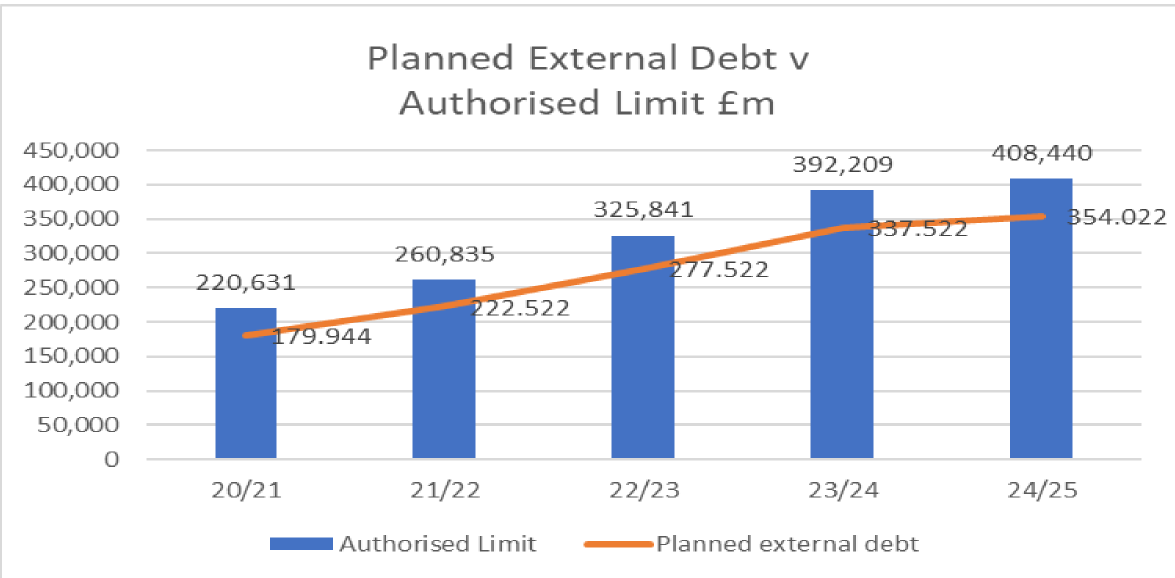
3.13 The S151 Officer reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties in later years. This reflects current commitments, existing plans, and the proposals on this agenda.

Treasury Indicators: The 'Operational Boundary' Limits to Borrowing Activity

3.14 The Operational Boundary is the limit beyond which external debt is not normally expected to exceed. Planned external debt is well within the operational boundary limit.



The **Authorised Limit** for external debt represents a control on the maximum level of borrowing. This is a statutory limit determined under section 3 (1) of the Local Government Act 2003. This limit needs to be set or revised by the full Council. It reflects the level of external debt which, while not desired, could be afforded in the short-term, but is not sustainable in the longer term. The chart shows that planned external debt is well within the authorised limit sought. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.



Borrowing Strategy

3.15 The Council is currently maintaining an ‘under-borrowed’ position. This means that the capital borrowing need (the Capital Financing Requirement), has not had to be met by loans alone, but by from reserves, balances and cash flow. This strategy is prudent as investment returns are low and counterparty risk needs to be considered.

3.16 Against this background and the risks within the economic forecast, caution will be adopted with the 2021/22 treasury operations. The S151 Officer will monitor interest rates in financial markets and respond to changing circumstances:

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

- if it was felt that there was a significant risk of a much sharper **RISE** in long and short-term rates than that currently forecast, perhaps arising from an acceleration in the start date and in the rate of increase in central rates in the USA and UK, an increase in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.

3.17 Any decisions will be reported to the Scrutiny Panel or Governance and Audit Committee at the next available opportunity.

Treasury Management Limits on Activity

3.18 There are three debt related treasury activity limits. The purpose of these is to minimise risk and reduce the impact of any adverse movement in interest rates, whilst leaving sufficient flexibility to take opportunities to reduce costs and or to improve performance. The indicators are:

- **Upper limit on variable interest rate exposure**. This identifies a maximum limit for variable interest rates based upon the debt position net of investments;

- **Upper limit on fixed interest rate exposure**. This is similar to the previous indicator and covers a maximum limit on fixed interest rates;

- **The maturity structure of borrowing**

Maturity structure of borrowing.

3.19 These gross limits reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits, as below

Maturity structure of fixed interest rate borrowing 2021/22		
	Lower	**Upper**
Under 12 months	0%	15%
12 months to 2 years	0%	15%
2 years to 5 years	0%	15%
5 years to 10 years	0%	15%
10 years to 20 years	0%	40%
20 years to 30 years	0%	40%
30 years to 40 years	0%	40%
40 years to 50 years	0%	10%

Policy on Borrowing in Advance of Need

3.20 The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds. Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

Debt Rescheduling

3.21 Where short-term borrowing rates become considerably cheaper than longer term fixed interest rates, there may be opportunities to generate savings by switching from long-term debt to short-term debt. These savings will need to be considered in the light of the current treasury position and the size of the cost of debt repayment (premiums incurred). The reasons for any rescheduling to take place will include:

- the generation of cash savings or discounted cash flow savings;
- helping to fulfil the Council's Treasury Management Strategy;
- enhance the balance of the portfolio (by amending the maturity profile or the balance of volatility).

3.22 Consideration will also be given to making savings by running down investment balances and repaying debt prematurely, as short-term rates on investments are likely to be lower than rates paid on current debt.

3.23 Any rescheduling will be reported to the Scrutiny Panel or the Governance and Audit Committee at the earliest meeting following its action.

Municipal Bond Agency

3.24 It is possible that the Municipal Bond Agency will be offering loans to local authorities in the future. The Agency hopes that the borrowing rates will be lower than those offered by the Public Works Loan Board. The Council will consider making use of this new source of borrowing as and when appropriate.

Housing Revenue Account borrowing

3.25 As part of the Housing Revenue Account reform arrangements in April 2012, the Council decided to follow the 'two pool' approach to allocating existing debt, taking into account those loans that were originally raised for HRA purposes. This assumed that the Housing Revenue Account would be fully borrowed, however the Housing Revenue Account is now in a position where it may need to borrow to fund the Housing Investment Programme.

3.26 As the Council is maintaining an under-borrowed position, the HRA will be charged for the cost of any new borrowing requirement based on the average balance of unfinanced Housing Revenue Account borrowing during the year, using the Public Works Loan Board variable rate as at 31 March of the previous year. In an environment of low investment returns and relatively stable borrowing rates, this provides a recharge that is beneficial to both the Housing Revenue Account and General Fund, and can be reasonably forecast from early on in the financial year. This approach will be reviewed annually in conjunction with the Treasury Management Strategy Statement and projected investment returns.

4 Annual Investment Strategy

Investment Policy

4.1 The Ministry of Housing Communities and Local Government and the Chartered Institute of Public Finance and Accountancy have extended the meaning of 'investments' to include both financial and non-financial investments. This report deals solely with financial investments, as managed by the treasury management team. Non-financial investments, such as the purchase of income yielding assets, are covered in the Capital Strategy elsewhere on this agenda.

4.2 In accordance with the above guidance, and in order to minimise the risk to investments, the Council deals only with highly creditworthy counterparties, using Short-term and Long-term credit ratings.

4.3 Ratings will not be the sole determinant of the quality of an institution, and the Council will also continually assess and monitor the financial sector taking account of the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this the Council will engage with its advisors to maintain a monitor on market pricing such as Credit Default Swaps and overlay that information on top of the credit ratings.

4.4 Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

4.5 Investment instruments identified for use in the financial year are listed in Appendix B to this Strategy, which includes Counterparty, time and monetary limits. These will cover both 'Specified' and 'Non-Specified' Investments.

4.6 Such investments are treated as expenditure for treasury management and prudential borrowing purposes even though they do not create physical assets in the Council's accounts. Appropriate budgets in respect of these activities are agreed as part of the Council's budget setting and ongoing monitoring processes and considered as part of the Investment Strategy.

4.7 Specified Investments are sterling denominated investments of not more than one-year maturity, meeting the minimum 'high' criteria where applicable. These are considered low risk assets where the possibility of loss of principal or investment income is small. Non-Specified Investments are those that do not meet the specified investment criteria. A limit of £20m will be applied to the use of Non-Specified Investments (this will partially be driven by the long-term investment limits).

Creditworthiness policy

4.8 This Council applies the creditworthiness service provided by Link Asset Services. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard & Poor's. The credit ratings of counterparties are supplemented with the following overlays:

- "watches" and "outlooks" from credit rating agencies;

- Credit Default Swap spreads that may give early warning of likely changes in credit ratings;
- Sovereign ratings to select counterparties from only the most creditworthy countries.

4.9 This modelling approach combines credit ratings, and any assigned Watches and Outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads. The end product of this is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the suggested duration for investments. The Council will, therefore, use counterparties within the following durational bands

- Yellow 5 years *
- Dark pink 5 years for Ultra-Short Dated Bond Funds with a credit score of 1.25
- Light pink 5 years for Ultra-Short Dated Bond Funds with a credit score of 1.5
- Purple 2 years
- Blue 1 year (only applies to nationalised or semi nationalised UK Banks)
- Orange 1 year
- Red 6 months
- Green 100 days
- No colour not to be used

Y	Pi1	Pi2	P	B	O	R	G	N/C
1	1.25	1.5	2	3	4	5	6	7
Up to 5yrs	Up to 5yrs	Up to 5yrs	Up to 2yrs	Up to 1yr	Up to 1yr	Up to 6mths	Up to 100days	No Colour

4.10 The creditworthiness service uses a wider array of information than just primary ratings. Furthermore, by using a risk weighted scoring system, it does not give undue preponderance to just one agency's ratings.

4.11 Typically the minimum credit ratings criteria the Council uses will be a Short-term rating (Fitch or equivalents) of F1, and a Long-term rating of A-. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

4.12 All credit ratings will be monitored on a monthly basis. The Council is alerted to changes to ratings of all three agencies through its use of the creditworthiness service. Any rating changes, rating watches (notification of a likely change), rating outlooks (notification of a possible longer term change) are provided to officers almost immediately after they occur and this information is considered before dealing.

- if a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
- in addition to the use of credit ratings the Council will be advised of information in movements in credit default swap spreads against the iTraxx benchmark and other market data on a daily basis via its Passport website, provided exclusively to it by Link Asset Services. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

4.13 Sole reliance will not be placed on the use of this external service. In addition the Council will also use market data and market information, and information on any external support for banks to help support its decision making process.

Country limits

4.14 The Council will only use approved counterparties from countries with a minimum sovereign credit rating of AA-, based on the lowest available rating. However this policy excludes UK counterparties. The list of countries that qualify using this credit criteria as at the date of this report are shown in the Appendix C to this Treasury Management Strategy. This list will be amended by officers should ratings change in accordance with this policy.

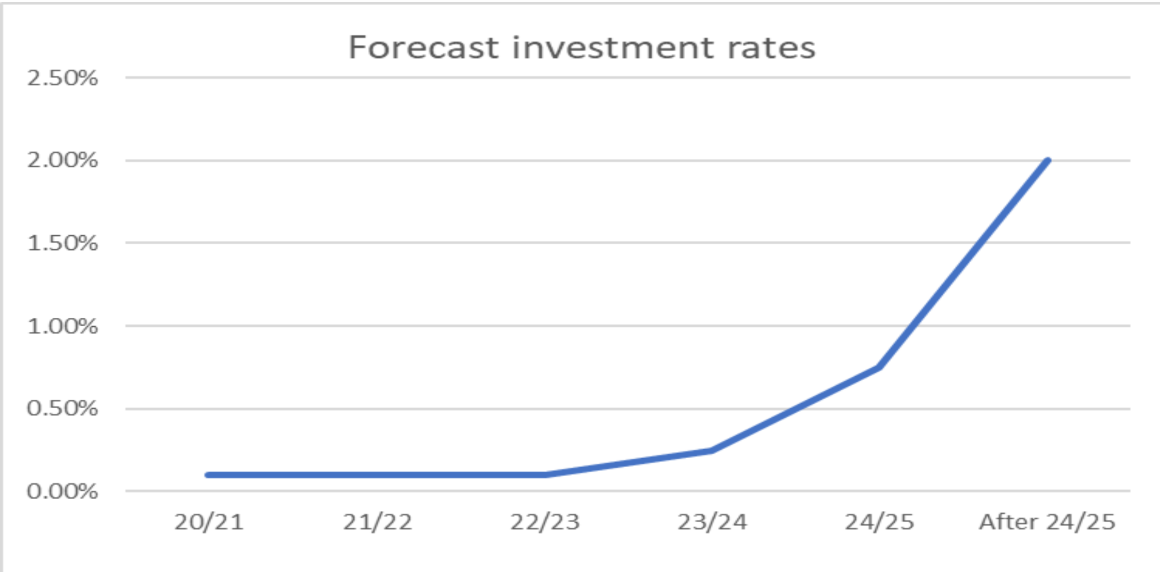
4.15 In addition:

- no more than £15m will be placed with any non-UK country at any time;
- the limits will apply to a group of companies;
- sector limits will be monitored regularly for appropriateness.

Investment strategy

4.16 The Council will manage all of its investments in-house. Investments will be made with reference to the core balance and cash flow requirements and the outlook for short to medium term interest rates.

4.17 Bank Rate is unlikely to rise from 0.10% for a considerable period. It is very difficult to say when it may start rising so it is likely that investment earnings from money market-related instruments will be sub 0.50% for the foreseeable future.



4.18 The overall balance of risks to economic growth in the UK is uneven with the rate of recovery from the current deep pandemic-induced recession dependent on restrictions being lifted and with continued uncertainty as to the practical issues and economic impacts of the UK leaving the EU.

4.19 There is relatively little UK domestic risk of increases or decreases in Bank Rate and shorter-term Public Works Loan Board rates until 2023/24 at the earliest.

Negative investment rates

4.20 While the Bank of England said in August / September 2020 that it is unlikely to introduce a negative Bank Rate, at least in the next 6 -12 months, some deposit accounts are already offering negative rates for shorter periods. As part of the response to the pandemic and lockdown, the Bank and the Government have provided financial markets and businesses with plentiful access to credit, either directly or through commercial banks. In addition, the Government has provided large sums of grants to local authorities to help deal with the COVID crisis; this has caused some local authorities to have sudden large increases in cash balances searching for an investment home, some of which was only very short term until those sums were able to be passed on.

Investment treasury indicator and limit

4.21 The limit for the total principal funds invested for greater than 365 days is set with regard to the Council'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 Council is asked to approve a limit of £10m for 2021/22 and subsequent years.

£000	2020/21	2021/22	2022/23
Max. principal sums invested> 365 days	£10,000	10,000	10,000

End of year investment report

4.22 At the end of the financial year, the Council will report on its investment activity to the Governance & Audit Committee as part of its Annual Treasury Report.

The PWLB rates below are based on the new margins over gilts announced on 26th November 2020. PWLB forecasts shown below have taken into account the 20 basis point certainty rate reduction effective as of the 1st November 2012.

Link Group Interest Rate View 9.11.20										(The Capital Economics forecasts were done 11.11.20)				
These Link forecasts have been amended for the reduction in PWLB margins by 1.0% from 26.11.20														
	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
BANK RATE	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
6 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
12 month ave earnings	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20
5 yr PWLB	0.80	0.80	0.80	0.80	0.80	0.90	0.90	0.90	0.90	0.90	1.00	1.00	1.00	1.00
10 yr PWLB	1.10	1.10	1.10	1.10	1.10	1.20	1.20	1.20	1.20	1.20	1.30	1.30	1.30	1.30
25 yr PWLB	1.50	1.50	1.60	1.60	1.60	1.60	1.70	1.70	1.70	1.70	1.80	1.80	1.80	1.80
50 yr PWLB	1.30	1.30	1.40	1.40	1.40	1.40	1.50	1.50	1.50	1.50	1.60	1.60	1.60	1.60
Bank Rate														
Link	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Capital Economics	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	-	-	-	-	-
5yr PWLB Rate														
Link	0.80	0.80	0.80	0.80	0.80	0.90	0.90	0.90	0.90	0.90	1.00	1.00	1.00	1.00
Capital Economics	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	-	-	-	-	-
10yr PWLB Rate														
Link	1.10	1.10	1.10	1.10	1.10	1.20	1.20	1.20	1.20	1.20	1.30	1.30	1.30	1.30
Capital Economics	1.30	1.30	1.30	1.30	1.30	1.30	1.30	1.30	1.30	-	-	-	-	-
25yr PWLB Rate														
Link	1.50	1.50	1.60	1.60	1.60	1.60	1.70	1.70	1.70	1.70	1.80	1.80	1.80	1.80
Capital Economics	1.80	1.80	1.80	1.80	1.80	1.80	1.80	1.80	1.80	-	-	-	-	-
50yr PWLB Rate														
Link	1.30	1.30	1.40	1.40	1.40	1.40	1.50	1.50	1.50	1.50	1.60	1.60	1.60	1.60
Capital Economics	1.70	1.70	1.70	1.70	1.70	1.70	1.70	1.70	1.70	-	-	-	-	-

Specified investments – These investments are sterling investments of not more than one-year maturity, or those which could be for a longer period but where the Council has the right to be repaid within 12 months if it wishes. These are considered low risk assets where the possibility of loss of principal or investment income is small

Organisation	**Min. Credit Criteria**	**Money Limit**	**Maturity Limit**
Banks and Building Societies (including term deposits, CDs or corporate bonds)	Yellow	£10m	1 years
	Purple	£10m	1 years
	Orange	£10m	1 year
	Blue	£10m	1 year
	Red	£7.5m	6 months
	Green	£5m	100 days
	No colour	Not to be used	
UK Government Gilts	UK sovereign rating	£10m	1 year
UK Government Treasury Bills	UK sovereign rating	£10m	1 year
UK Local & Police Authorities	N/A	Unlimited	1 years
Debt Management Agency Deposit Facility	AAA	Unlimited	6 months
Money Market Funds	AAA	£10m	Liquid
Enhanced Money Market Funds	Dark Pink / Light Pink / AAA	£10m	Liquid
Bonds issued by Multilateral Development Banks	AAA	£3m	6 months

Non-Specified Investments – These are investments that do not meet the specified investment criteria. A limit of the lesser of £20m or 50% of the portfolio will be held in aggregate in non-specified investments.

Organisation	**Min. Credit Criteria**	**Money Limit**	**Maturity Limit**
UK Local & Police Authorities	N/A	£10m	5 years
Banks and Building Societies (including term deposits, CDs or corporate bonds)	Yellow / Purple	£10m	5 years
UK Government Gilts	UK sovereign rating	£10m	5 years
UK Government Treasury Bills	UK sovereign rating	£10m	5 years
Property fund	AAA	£5m	5 years

Notes:

- Non U.K. country limit of £15m
- Limit in all Building Societies of £10m

The use of property funds can be deemed capital expenditure, and as such will be an application of capital resources. The Council will seek guidance on the status of any fund it may consider using. Appropriate due diligence will also be undertaken before investment of this type is undertaken.

The criteria in this appendix are intended to be the operational criteria in normal times. At times of heightened volatility, risk and concern in financial markets, this strategy may be amended by temporary operational criteria further limiting investments to counterparties of a higher creditworthiness and / or restricted time limits.

This list is based on those countries that have sovereign ratings of AA- or higher and also have banks operating in sterling markets, which have credit ratings of green or above in the Link Asset Services credit worthiness service.

AAA	Australia Denmark Germany Luxembourg Netherlands Norway Singapore Sweden Switzerland
AA+	Finland Canada U.S.A.
AA	Abu Dhabi (UAE) France
AA-	Belgium Hong Kong Qatar UK