Report No.
FSD21011

London Borough of Bromley

PART 1 - PUBLIC

Decision Maker:	**Resources, Commissioning and Contract Management Portfolio Holder** **Council**
Date:	**For pre-decision scrutiny by Executive, Resources and Contracts PDS Committee on 3rd February 2021** **Council 1st March 2021**
Decision Type:	Non-Urgent Executive Key
Title:	**TREASURY MANAGEMENT - ANNUAL INVESTMENT STRATEGY 2021/22 AND QUARTER 3 PERFORMANCE 2020/21**
Contact Officer:	Katherine Ball, Principal Accountant Tel: 020 8313 4792 E-mail: Katherine.ball@bromley.gov.uk
Chief Officer:	Director of Finance
Ward:	All

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1. Reason for report

1.1. This report summarises Treasury Management activity during the third quarter of 2020/21 and presents the Treasury Management Strategy and the Annual Investment Strategy for 2021/22, which are required by the CIPFA Code of Practice for Treasury Management in the Public Services to be approved by the Council. The report also includes prudential indicators and the MRP (Minimum Revenue Provision) Policy Statement, both of which require the approval of Council. For clarification, the Council is required by statute to agree and publish prudential indicators, primarily to confirm that the Council's capital expenditure plans are affordable and sustainable. As Members will be aware, Bromley does not currently borrow to finance its capital expenditure and, as a result, many of the indicators do not have any real relevance for the Council. The 2020/21 strategy was agreed by Council in February 2020, and there is a change proposed to increase the limit invested with Housing Associations from £50m to £80m.

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2. RECOMMENDATION(S)

2.1. The Resources, Commissioning and Contract Management Portfolio Holder is requested to:

a) note the report;

b) **note the Treasury Management performance for the third quarter of 2020/21;**

c) **note the further advances to Project Beckenham Ltd extending the arrangement previously agreed by Members, as set out in Section 3.4.3;**

d) **recommend that Council approves an increase in the limit to £80m for investments with Housing Associations, as set out in Section 3.5.5;**

e) **recommend that Council agrees to adopt the Treasury Management Statement and the Annual Investment Strategy for 2021/22 (Appendix 4) including the prudential indicators (summarised on page 47) and the Minimum Revenue Provision (MRP) policy statement (page 22),**

2.2. **Council is requested to:**

a) **note the report, and**

b) **agree an increase in the limit to £80m for investments with Housing Associations, as set out in Section 3.5.5;**

c) **agree to adopt the Treasury Management Statement and the Annual Investment Strategy for 2021/22 (Appendix 4), including the prudential indicators (summarised on page 47) and the Minimum Revenue Provision (MRP) policy statement (page 22).**

Corporate Policy

1. Policy Status: Existing policy. To maintain appropriate levels of risk, particularly security and liquidity, whilst seeking to achieve the highest rate of return on investments.

2. BBB Priority: Excellent Council

Financial

1. Cost of proposal: N/A

2. Ongoing costs: N/A

3. Budget head/performance centre: Interest on balances

4. Total current budget for this head: £3,591k (net) in 2020/21, £1,250k surplus currently projected, draft budget for 2021/22 £3,591k

5. Source of funding: Net investment income

Staff

1. Number of staff (current and additional): 0.25 fte

2. If from existing staff resources, number of staff hours: 9 hours per week

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Legal

1. Legal Requirement: Non-statutory - Government guidance.

2. Call-in: Call-in is applicable

Customer Impact

1. Estimated number of users/beneficiaries (current and projected): N/A

Ward Councillor Views

1. Have Ward Councillors been asked for comments? N/A.

2. Summary of Ward Councillors comments: N/A

3. COMMENTARY

3.1 General

3.1.1 Under the requirements of the CIPFA Code of Practice on Treasury Management, the Council is required, as a minimum, to approve an annual treasury strategy in advance of the year, a mid-year review report and an annual report following the year comparing actual activity to the strategy. Until recently, the Director of Finance reported quarterly on treasury management activity as well as reporting the annual strategy before the year and the annual report after the year-end. Following consideration by this Committee, on 10th December 2018 Council approved the non-reporting of treasury management activity quarterly. This effectively means that in-year monitoring will be incorporated into the three reports required by the Code of Practice and that Quarter 1 monitoring will no longer be reported unless there are any matters that officers feel should come before the Committee sooner.

3.1.2 The 2020/21 annual treasury strategy, including the MRP (Minimum Revenue Provision) Policy Statement and prudential indicators, was originally approved by Council in February 2020. The annual report for financial year 2019/20 was reported to this PDS Committee and to Council in September and October 2020 and included no proposed changes to the 2020/21 strategy. The mid-year review for 2020/21 was reported to this PDS Committee in November 2020 and was approved by Council on 7th December 2020.

3.1.3 This report includes details of investment performance in the third quarter of 2020/21. Details of treasury management activity during the first two quarters of 2020/21 were incorporated into the mid-year review and reported to this PDS Committee on 18th November 2020.

3.1.4 Changes in the regulatory environment have places a much greater onus on Members to undertake the review and scrutiny of treasury management policy and activities. This report is important in that respect as it provides details of the actual position for treasury activities and highlights compliance with the Council's policies previously approved by Members.

3.1.5 The Council has monies available for Treasury Management investment as a result of the following:

- Positive cash flow;
- Monies owed to creditors was lower than monies owed by debtors;
- Receipts (mainly from Government) received in advance of payments being made;
- Capital receipts not yet utilised to fund capital expenditure;
- Provisions made in the accounts for liabilities e.g. provision for outstanding legal cases which have not yet materialised;
- General and earmarked reserves retained by the Council.

3.1.6 Some of the monies identified above are short term and investment of these needs to be highly "liquid", particularly if it relates to a positive cash flow position which can change in the future. Future monies available for Treasury Management investment will depend on the budget position of the Council and whether the Council will need to substantially run down capital receipts and reserves. Against a backdrop of unprecedented cuts in Government funding, which will require the Council to make further revenue savings to balance the budget in future years, there is a likelihood that such actions may be required in the medium term which will reduce the monies available for investment.

3.1.7 The Council has also identified an alternative investment strategy relating to property investment. To date, this has resulted in actual and planned acquisitions which generated £3m income in 2015/16, £4.6m in 2016/17, £5.6m in 2017/18, £5.5m in 2018/19, £5.4m in 2019/20 and is budgeted to achieve £5.4m in 2020/21 (although this is being closely monitored in light of the potential impact of Covid-19). This is based on a longer-term investment timeframe of at least 3 to 5 years and ensures that the monies available can attract higher yields over the longer term.

3.1.8 A combination of lower risk investment relating to Treasury Management and a separate investment strategy in the form of property acquisitions (generating higher yields and risks) provides a balanced investment strategy. Any investment decisions will also need to consider the likelihood that interest rates will increase at some point. The available resources for the medium term will need to be regularly reviewed.

3.2 Treasury Management Performance in the quarter ended 31st December 2020

3.2.1 **Borrowing:** The Council's healthy cashflow position continues and, other than some short-term borrowing at the end of 2015/16, no borrowing has been required for a number of years.

3.2.2 **Investments:** The following table sets out details of investment activity during the third quarter of 2020/21 and 2020/21 year to date:-

	Qtr Ended 31/12/20		2020/21 Year to Date		
	Deposits	Ave Rate	Deposits	Ave Rate	Paragraph
	£m	%	£m	%	
Balance of "core" investments b/f	260.00	1.28	220.00	1.25	
New investments made in period	65.00	0.51	200.00	0.99	
Investments redeemed in period	-55.00	1.13	-150.00	1.13	
"Core" investments at end of period	270.00	1.12	270.00	1.28	
Money Market Funds	44.80	0.02	44.80	0.12	3.4.1
CCLA Property Fund*	40.00	8.49	40.00	0.04	3.4.4.5
Multi-Asset Income Funds*	40.00	18.59	40.00	19.00	3.4.4.7
Project Beckenham Loan	2.10	6.00	2.10	6.00	3.4.3
"Alternative" investments at end of period	126.90	8.64	126.90	6.14	
Total Investments at end of Period	**396.90**	3.53	**396.90**	2.84	
* The rates shown in here are the total return (ie. the dividend income plus the change in capital value). A more detailed breakdown of the rates for these investments is shown in the relevant					

3.2.3 Details of the outstanding investments at 31st December 2020 are shown in maturity date order in Appendix 2 and by individual counterparty in Appendix 3. The return on the new "core" investments placed during the third quarter of 2020/21 was 0.51%.

3.2.4 Reports to previous meetings have highlighted the fact that options with regard to the re-investment of maturing deposits have become seriously limited in recent years following bank credit rating downgrades. Changes to lending limits and eligibility criteria, as well as the introduction of pooled funds and housing associations, have alleviated this to some

extent but there are still not many investment options available other than placing money with instant access accounts at relatively low interest rates.

3.2.5 Despite this, the Council's treasury management performance compares very well with that of other authorities. The Council was in the top decile nationally for 2014/15, 2015/16, 2016/17 and 2017/18 (the most recent CIPFA treasury management statistics available) and officers continue to look for alternative investment opportunities, both within the current strategy and outside, for consideration as part of the ongoing review of the strategy.

3.2.6 Active UK banks and building societies on the Council's list now comprise only Lloyds, RBS (ring-fenced – including National Westminster Bank), Santander UK, Goldman Sachs International Bank, Close Brothers, and Yorkshire, Principality, Nottingham & Skipton Building Societies, and all of these have reduced their interest rates significantly in recent years. The Director of Finance will continue to monitor rates and counterparty quality and take account of external advice prior to any investment decisions.

3.2.7 The chart in Appendix 1 shows total investments at quarter-end dates back to 1st April 2004 and shows how available funds have increased steadily over the years. This has been a significant contributor to the over-achievement of investment income against budgeted income in recent years.

3.3 Interest Rate Forecast (provided by Link Asset Services)

3.3.1 The latest forecasts are shown in the table below:

Date	LATEST FORECAST (Dec20)				PREVIOUS FORECAST (Nov20)			
	Base Rate	3 month Libid	6 month Libid	1 year Libid	Base Rate	3 month Libid	6 month Libid	1 year Libid
Dec-20	0.10%	0.10%	0.10%	0.20%	0.10%	0.10%	0.10%	0.10%
Jun-21	0.10%	0.10%	0.10%	0.20%	0.10%	0.10%	0.10%	0.10%
Dec-21	0.10%	0.10%	0.10%	0.20%	0.10%	0.10%	0.10%	0.10%
Jun-22	0.10%	0.10%	0.10%	0.20%	0.10%			

3.4 Other accounts

3.4.1 <u>Money Market Funds</u>

3.4.1.1 The Council currently has 7 AAA-rated Money Market Fund accounts, with Prime Rate, Aberdeen Standard (formerly known as Ignis), Insight, Blackrock, Fidelity, Morgan Stanley and Legal & General, all of which have a maximum investment limit of £15m. In common with market rates for fixed-term investments, interest rates on money market funds have fallen considerably in recent years. The Aberdeen Standard, Prime Rate and Fidelity currently offer the best rate at around 0.01%.

3.4.1.2 The total balance held in Money Market Funds has varied during the year to date moving from £34.8m as at 31st March 2020, to £31.7m at 30th September 2020, £44.8m as at 31st December 2020, and currently stands at £48.8m (as at 7th January 2021). The Money Market Funds currently offer the lowest interest of all eligible investment vehicles along with the Government Debt Management Account Deposit Facility (current indicative rate 0.01%); however they are the most liquid, with funds able to be redeemed up until midday for same day settlement

Money Market Funds	Date Account Opened	Actual Balance 31/03/20	Actual Balance 31/12/20	Ave. daily balance to 30/12/20	Ave. daily rate 01/04/20 to 31/012/20	Latest Balance 07/01/21	Latest Rate 08/01/21
		£m	£m	£m	%	£m	%
Prime Rate (Federated)	15/06/2009	15.00	15.00	13.68	0.15	15.00	0.01
Aberdeen Standard	25/01/2010	15.00	9.50	14.63	0.17	15.00	0.01
Insight	03/07/2009	-	3.40	2.83	0.10	-	0.00
Legal & General (LGIM)	23/08/2012	4.80	1.90	8.87	0.14	3.80	0.00
Blackrock	16/09/2009	-	-	-	-	-	-
Fidelity	20/11/2002	-	15.00	6.12	0.11	15.00	0.01
Morgan Stanley		-	-	-	-	-	-
TOTAL		34.80	44.80	46.13		48.80	

3.4.1.3 Current balances in MMFs are higher than usual for several reasons, mainly due to a number of government grants relating to Covid-19 that have been received since April 2020. Funds are also being held to cover cashflow requirements in February and March when income from Council Tax and Business Rates is significantly lower than the rest of the year, as well as ensuring the Council has sufficient liquidity to cover any 'non-standard' expenditure such as investment property purchases.

3.4.2 Housing Associations

3.4.2.1 Following the reduction of the counterparty rating criteria to A- for Housing Associations approved by Council in June 2017, deposits of £10m each were placed with Hyde Housing Association (A+) and Places for People Homes (A) for two years at rates of 1.30% and 1.60% respectively. Both of these investments have since matured. More recently, a deposit of £5m was placed with Metropolitan Housing Trust (A+) in April 2018 for two years at a rate of 1.75%. On 25th February 2019, Council approved an increase in the limit for investments with Housing Associations from £25m to £50m. On 28th March 2019 a further investment of £10m was made with Southern Housing Group (A2) for two years at a rate of 1.70%. On 9th April 2019 a £5m investment was made with Thames Valley Housing Association (A-) for 2 years at a rate of 1.73% and on 22nd August with Optivo Housing (A2) for 2 years at a rate of 1.45%. On April 14th 2020, a £10m investment was made with Places for People Homes Ltd (A3) for two years at a rate of 2.15%, and on June 12th 2020, a £5m investment was made with Metropolitan Housing Trust (A-) for two years at a rate of 1.50%. Current investments in Housing Associations total £40m.

3.4.2.2 The Treasury Management Strategy statement (Appendix 4) sets out a proposed increase in the limit for investments with Housing Associations from £50m to £80m, with a limit of £10m for each housing association.

3.4.3 Loan to Project Beckenham

3.4.3.1 On 26th June 2017 Council approved the inclusion in the strategy of a secured loan to Project Beckenham relating to the provision of temporary accommodation for the homeless that had previously been agreed to be advanced from the Investment Fund. A loan of £2.3m was made in June 2017, at a rate of 6%, although that may increase to 7.5% if the loan to value ratio exceeds a specified value. £0.7m of this loan was re-paid during August

2019 and £0.3m was re-paid in September 2019 leaving a balance of £1.3m as at the end of March 2020. Sums of £0.350m and £0.45m were advanced in August 2020 and December 2020 respectively and the current balance is £2.1m.

Loan for Housing purposes

3.4.3.1 Outside of the Council's Treasury Management arrangements, a partnership proposal is being progressed with a private sector body which will help meet the Council's priorities in relation to housing. This will involve an £20m funding loan to a limited liability partnership that will be part owned by the Council. Funds will be made available directly from the Council's Earmarked Reserves that have been aside for housing schemes. Full details of this scheme, including details of loan repayments, will be reported separately to members.

3.4.4.1 Pooled Investment Schemes

3.4.4.2 In September 2013, the Portfolio Holder and subsequently Council approved the inclusion of collective (pooled) investment schemes as eligible investment vehicles in the Council's Investment Strategy with an overall limit of £25m and a maximum duration of 5 years. The limit was subsequently increased to £40m by Council in October 2015, £80m in June 2017 and £100m in December 2017. Such investments would require the approval of the Director of Finance in consultation with the Resources Portfolio Holder.

3.4.4.3 Until March 2018, accounting rules required that the change in capital value of these investments be held in the Available for Sale Financial Assets Reserve, and only recognised in revenue on the sale of the investment. In year projections for interest on balances therefore only reflected the dividends from these investments.

3.4.4.3 However, from 2018/19 onwards, local authorities have been required to account for financial instruments in accordance with IFRS9. One of the results of this is that changes in the capital value of pooled fund investments are recognised in revenue in-year. MHCLG have since issued regulations providing a statutory override to reverse the impact of IFRS9 on the Council's General Fund, which came into force in December 2018. The regulations are currently only applicable for a period of five years to March 2023, when it is intended for movements in value to be recognised in year.

3.4.4.4 Due to the regulations being time limited and the potentially volatile nature of these investments, interest/dividend earnings above 2.5% (£1,196k in 2019/20, £1,509k in 2018/19 and £3,790k to date) relating to the CCLA Property Fund and Fidelity Multi-Asset Income Fund have been set aside in an Income Equalisation earmarked reserve. This will protect the Council against unexpected variations in the capital value of these investments and any timing issues arising from the expiry of the statutory override.

CCLA Property Fund

3.4.4.5 Following consultation between the Director of Finance and the Resources Portfolio Holder, an account was opened in January 2014 with the CCLA Local Authorities' Property Fund and an initial deposit of £5m was made, followed by further deposits of £5m in July 2014, £5m in March 2015, £10m in October 2015, £5m in October 2016 and £10m in October 2017. The investment in the CCLA Fund is viewed as a medium to long-term investment and dividends are paid quarterly. A breakdown of the dividend earned and capital growth is provided in the table below.

Annualised net return	Dividend %	Capital growth %	Total return %
01/02/14 - 31/03/14	4.29%	-29.64%	-25.34%
01/04/14 - 31/03/15	5.03%	3.44%	8.47%
01/04/15 - 31/03/16	5.02%	1.63%	6.65%
01/04/16 - 31/03/17	4.55%	-2.50%	2.05%
01/04/17 - 31/03/18	4.58%	2.41%	6.99%
01/04/18 - 31/03/19	4.46%	1.57%	6.03%
01/04/19 - 31/03/20	4.45%	-3.68%	0.77%
01/04/20 - 31/12/20	3.70%	-3.66%	0.04%
Cumulative return	4.45%	-0.70%	3.75%

3.4.4.5.1 The negative "growth", particularly in the first two months, was mainly a result of the bid-offer spread that is inherent in property funds when the original and subsequent investments were made. This has less of an effect over the longer term that these investments are expected to be held. Overall, there has been a modest capital decline of -0.7%, with the negative capital growth in 2019/20 and the first three quarters of 2020/21 due to market volatility caused by the Covid-19 pandemic.

Multi Asset Income Fund

3.4.4.7 Following approval by Council in June 2017, the limit for pooled investment schemes was increased to £80m and an investment of £30m was made on 12th July 2017 in the Fidelity Multi-Asset Income Fund following the agreement of the Resources, Commissioning and Contract Management Portfolio Holder. The annualised fund return for the year to 31st December 2020 was capital growth of 14.11% and dividends paid of 4.9% resulting in a total return of 19%.

3.4.4.8 Since inception, dividends paid have averaged 4.45% per annum and the capital value has reduced slightly by 0.55% per annum resulting in a net annual return of 3.9%. It should be noted that the Fund represents a longer-term investment of around five years.

Annualised net return	Dividend %	Capital growth %	Total return %
12/07/2017 - 31/03/18	4.24%	-6.02%	-1.78%
01/04/2018 - 31/03/19	4.26%	1.38%	5.64%
01/04/19 - 31/03/19	4.37%	-11.81%	-7.44%
01/04/20 - 31/12/20	4.90%	14.11%	19.00%
Cumulative since start	4.45%	-0.55%	3.90%

3.4.5 Investment with Heritable Bank

3.4.5.1 Members will be aware from previous updates to the Resources Portfolio Holder and the Executive that the Council had £5m invested with the Heritable Bank, a UK subsidiary of the Icelandic bank, Landsbanki. In October 2008, the bank was placed in administration and the investment was frozen. To date, a total of £5,034k has been received (99% of the total claim of £5,087k) leaving a balance of £53k (1%).

3.4.6 Housing Revenue Account

3.4.6.1 It has been assumed in the accompanying Treasury Management Strategy Statement and Annual Investment Strategy 2021/22 that following the appropriation of land from the General Fund to the Housing Revenue Account, that this will be financed solely through internal borrowing of £10m.

3.5 Treasury Management Strategy Statement and Annual Investment Strategy 2021/22

3.5.1 Appendix 4 sets out the Treasury Management Strategy Statement and Annual Investment Strategy for 2021/22. This combines the requirements of the CIPFA Code of Practice for Treasury Management in the Public Services (revised in 2009 and updated in 2011 and 2017) and the Prudential Code. The Strategy includes throughout details of proposed prudential indicators, which are summarised in Annex 3 (page 47) and will be submitted for approval to the February Council meeting. Many of the indicators are academic as far as the Council is concerned, as they seek to control debt and borrowing (generally not applicable for Bromley), but they are a statutory requirement.

3.5.2 Members will be aware that, since the Icelandic bank crisis in October 2008, the Council has approved a number of changes to the eligibility criteria and maximum exposure limits (both monetary and time) for banks and building societies. The Council also applies a minimum sovereign rating of A- to investment counterparties.

3.5.3 While the Council effectively determines its own eligible counterparties and limits, it also uses Link Asset Services (formerly Capita) as an advisor in investment matters. Link use a sophisticated modelling approach that combines credit ratings, credit watches, credit outlooks and CDS spreads in a weighted scoring system for which the end product is a series of colour code bands which indicate the relative creditworthiness of counterparties. These colour codes indicate Link's recommendations on the maximum duration for investments. The Council will use its own eligibility criteria for all investment decisions, but will also be mindful of Link's advice and information and will not use any counterparty not considered by Link to be a reasonable risk. In line with the requirements of the CIPFA Treasury Management Code of Practice, the Council will always ensure the security of the principal sum and the Council's liquidity position before the interest rate.

3.5.4 A number of UK banks have been the subject of credit ratings downgrades in recent years, which has resulted in reductions to the number of eligible counterparties and to monetary and duration limits on the Council's lending list. It should be emphasised that the downgrades were, in most cases, relatively minor and were not an indication of a likely bank default but, nevertheless, they were enough to impact on the Council's lending list. As a result, the total of investments placed with money market funds has increased significantly in recent years, although this has reduced following Council approval to invest in pooled vehicles and increased limits for the part-nationalised banks.

3.5.5 The treasury management strategy is kept under constant review and the following change is being proposed in this report:

- Increase the counterparty limit for housing associations from a total of £50m to £80m; the limit for any one housing association remains at £10m

3.5.6 Details of eligible types of investment and counterparties are set out in the Annual Investment Strategy (Annex 2 of Appendix 4).

3.6 Regulatory Framework, Risk and Performance

3.6.1 The Council's treasury management activities are regulated by a variety of professional codes and statutes and guidance:

- The Local Government Act 2003 (the Act), which provides the powers to borrow and invest as well as providing controls and limits on this activity;

- The Act permits the Secretary of State to set limits either on the Council or nationally on all local authorities restricting the amount of borrowing that may be undertaken (although no restrictions have been made to date);

- Statutory Instrument (SI) 3146 2003, as amended, develops the controls and powers within the Act;

- The SI requires the Council to undertake any borrowing activity with regard to the CIPFA Prudential Code for Capital Finance in Local Authorities;

- The SI also requires the Council to operate the overall treasury function with regard to the CIPFA Code of Practice for Treasury Management in the Public Services;

- Under the Act, the CLG has issued Investment Guidance to structure and regulate the Council's investment activities;

- Under section 238(2) of the Local Government and Public Involvement in Health Act 2007, the Secretary of State has taken powers to issue guidance on accounting practices. Guidance on Minimum Revenue Provision was issued under this section on 8th November 2007.

3.6.2 The Council has complied with all of the above relevant statutory and regulatory requirements, which limit the levels of risk associated with its treasury management activities. In particular, its adoption and implementation of both the Prudential Code and the Code of Practice for Treasury Management means that its capital expenditure is prudent, affordable and sustainable and its treasury practices demonstrate a low risk approach.

4 POLICY IMPLICATIONS

4.1 In line with government guidance, the Council's policy is to seek to achieve the highest rate of return on investments whilst maintaining appropriate levels of risk, particularly security and liquidity.

5 FINANCIAL IMPLICATIONS

5.1 There has been a decrease in the Bank of England base rate from 0.25% to 0.10%, and this has led to new core investments being taken out at lower rates; this is not forecast to have a substantial impact on the amount of interest received in 2020/21 as most of the rates on the core investments were already fixed, but is projected to have an impact over the next few years as the core investments taken out at higher rates mature and are replaced by investments at lower rates.

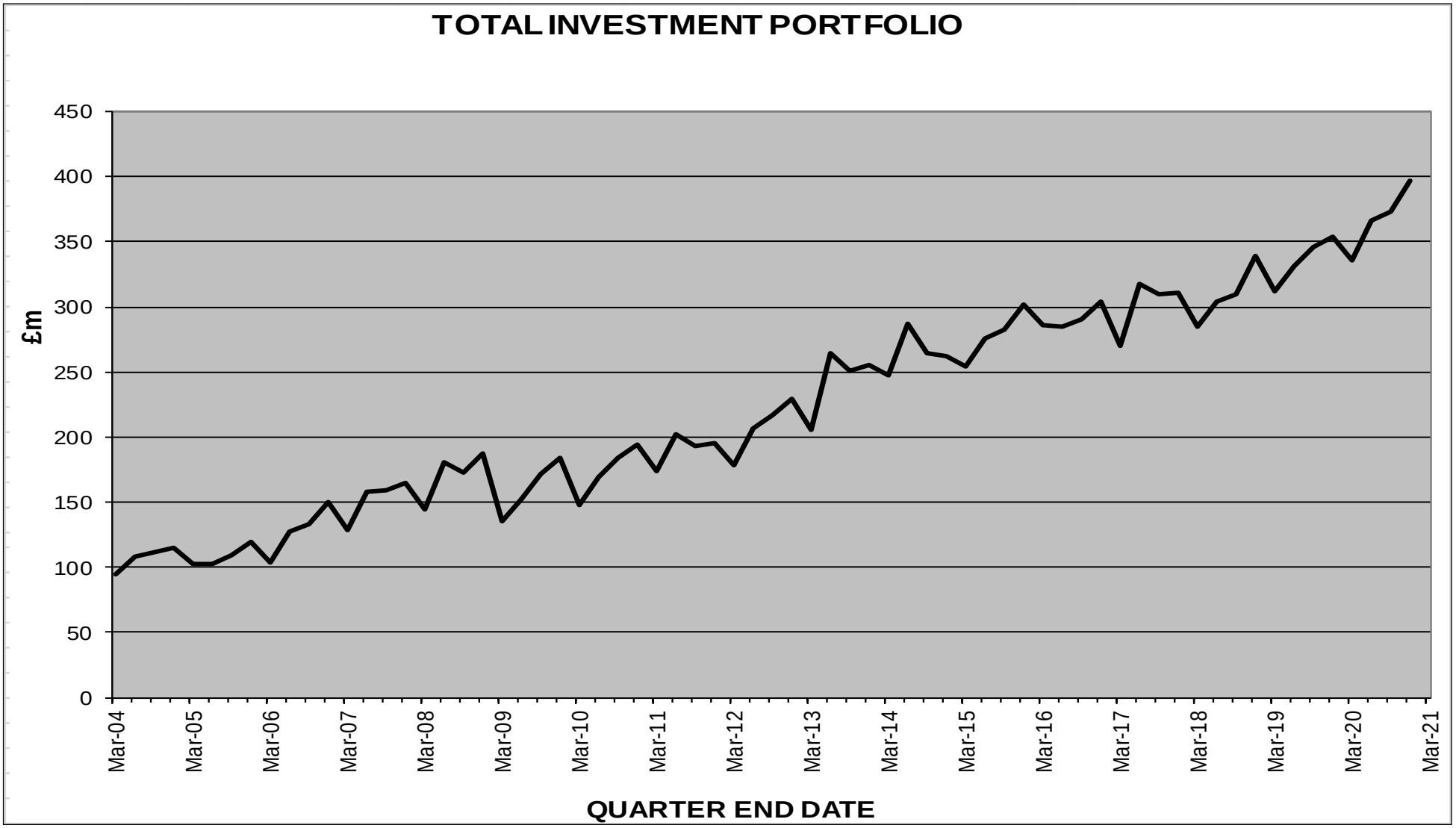
5.2 The treasury management strategy has previously been revised to enable alternative investments of £100m which will generate additional income of around £2m compared with lending to banks.

5.3 Although the Council has seen a significant reduction in the rates offered for new fixed-term investments as well as overnight money market funds, as part of the treasury management strategy there are a number of existing longer-term fixed investments at higher rates that are cushioning the Council from the impact of the drop in interest rates, and are partly responsible for the currently projected surplus of £1,250k for the year. The projected surplus is also due to higher interest earned on the pooled funds and the Project Beckenham loan.

5.4 With regard to 2021/22, the draft budget has remained at £3,591k, to reflect the increased level of interest earnings from alternative investments as set out above which is in part offset by an expected reduction in balances available for investment as a result of the utilisation of capital receipts and grants/contributions as well as earmarked revenue reserves.

Non-Applicable Sections:	Legal, Personnel & Procurement Implications, Impact on Vulnerable Adults and Children
Background Documents: (Access via Contact Officer)	CIPFA Code of Practice on Treasury Management CIPFA Prudential Code for Capital Finance in Local Authorities CLG Guidance on Investments External advice from Link Asset Services

APPENDIX 1


TOTAL INVESTMENT PORTFOLIO
£m
450
400
350
300
250
200
150
100
50
0
Mar-04
Mar-05
Mar-06
Mar-07
Mar-08
Mar-09
Mar-10
Mar-11
Mar-12
Mar-13
Mar-14
Mar-15
Mar-16
Mar-17
Mar-18
Mar-19
Mar-20
Mar-21
QUARTER END DATE

INVESTMENTS HELD AS AT 31ST DECEMBER 2020 **APPENDIX 2**

Counterparty	Start date	Maturity date	Rate of Interest	Amount	Fitch		Moodys		S&P ratings		Fitch		Moodys		S&P ratings	
					Long Term	Short Term	Long Term	Short Term	Long Term	Short Term	Long Term	Short Term	Long Term	Short Term	Long Term	Short Term
			%	£m												
					Ratings at time of Investment						Ratings as at 31st December 2020					
BIRMINGHAM CITY COUNCIL	20/04/2020	20/01/2021	1.33	15.0	N/A						N/A					
CHERWELL DISTRICT COUNCIL	21/01/2019	21/01/2021	1.45	5.0	N/A						N/A					
CAMBRIDGESHIRE COUNTY COUNCIL	28/02/2019	26/02/2021	1.45	10.0	N/A						N/A					
CLOSE BROTHERS	17/07/2020	18/03/2021	1.20	10.0	A	F1	Aa3	P-1			A-	F2	Aa3	P-1		
SOUTHERN HOUSING GROUP	28/03/2019	29/03/2021	1.70	10.0			A2									
BATH & NE SOMERSET DC	01/04/2020	01/04/2021	1.50	15.0	N/A						N/A					
STOCKTON ON TEES BC	01/04/2020	01/04/2021	1.50	5.0	N/A						N/A					
CHESHIRE EAST COUNCIL	17/09/2020	06/04/2021	0.45	5.0	N/A						N/A					
NATWEST BANK	09/04/2019	09/04/2021	1.35	10.0	A+	F1	A1	P-1	A-	A-2	A+	F1	A1	P-1	A	A-1
THAMES VALLEY HOUSING ASSOCIATION LTD	09/04/2019	09/04/2021	1.73	5.0					A-						A-	
CHESHIRE EAST COUNCIL	21/09/2020	12/04/2021	0.42	5.0	N/A						N/A					
THURROCK COUNCIL	16/04/2020	16/04/2021	1.90	10.0	N/A						N/A					
PRINCIPALITY BUILDING SOCIETY- CARDIFF	31/07/2020	30/07/2021	0.38	10.0	BBB+	F2	Baa2	P-2			BBB+	F2	Baa2	P-2		
LANCASHIRE COUNTY COUNCIL	05/08/2020	04/08/2021	0.40	10.0	N/A						N/A					
CLOSE BROTHERS	14/08/2020	16/08/2021	0.80	10.0	A-	F2	Aa3	P-1			A-	F2	Aa3	P-1		
LANCASHIRE COUNTY COUNCIL	19/08/2020	19/08/2021	0.43	5.0							N/A					
OPTIVO	22/08/2019	23/08/2021	1.45	10.0			A2	P-1					A2			
WARRINGTON BOROUGH COUNCIL	29/10/2019	29/10/2021	1.55	15.0	N/A						N/A					
CLOSE BROTHERS	30/10/2020	29/10/2021	0.70	10.0	A-	F2	Aa3	P-1			A-	F2	Aa3	P-1		
SANTANDER BANK	16/11/2020	16/11/2021	0.45	15.0	A+	F1	A1	P-1	A	A-1	A+	F1	A1	P-1	A	A-1
QATAR NATIONAL BANK SAQ	04/12/2020	03/12/2021	0.58	10.0	A+	F1	Aa3	P-1	A	A-1	A+	F1	Aa3	P-1	A	A-1
QATAR NATIONAL BANK SAQ	04/12/2020	06/12/2021	0.54	5.0	A+	F1	Aa3	P-1	A	A-1	A+	F1	Aa3	P-1	A	A-1
NORTHUMBERLAND COUNTY COUNCIL	18/12/2020	17/12/2021	0.40	10.0	N/A						N/A					
SANTANDER BANK	18/12/2020	17/12/2021	0.45	15.0	A+	F1	A1	P-1	A	A-1	A+	F1	A1	P-1	A	A-1
CAMBRIDGESHIRE COUNTY COUNCIL	23/12/2019	23/12/2021	1.40	5.0	N/A						N/A					
PLACES FOR PEOPLE HOMES LTD	14/04/2020	14/04/2022	2.15	10.0			A3						A3			
WALSALL METROPOLITAN BOROUGH COUNCIL	20/04/2020	20/04/2022	1.45	5.0	N/A						N/A					
METROPOLITAN HOUSING TRUST	12/06/2020	10/06/2022	1.50	5.0					A-						A-	
THURROCK COUNCIL	12/06/2020	13/06/2022	1.55	5.0	N/A						N/A					
WALSALL METROPOLITAN BOROUGH COUNCIL	20/04/2020	20/04/2023	1.68	10.0	N/A						N/A					
TOTAL FIXED INVESTMENTS				**270.0**												
OTHER FUNDS																
FIDELITY MONEY MARKET FUND				15.0												
ABERDEEN -STANDARD LIFE (IGNIS) LIQUIDITY FUND				9.5												
INSIGHT STERLING LIQUIDITY FUND				3.4												
LGIM STERLING LIQUIDITY FUND				1.9												
FEDERATED (PRIME RATE) STERLING LIQUIDITY FUND				15.0												
CCLA LOCAL AUTHORITY PROPERTY FUND				40.0												
FIDELITY MULTI-ASSET INCOME FUND				40.0												
SPRING CAPITAL LOAN				2.1												
TOTAL INVESTMENTS				**396.9**												

INVESTMENTS HELD AS AT 31st DECEMBER 2020							APPENDIX 3
	Start Date	Maturity Date	Rate of Interest %	Amount £m	Total £m	Limit £m	Remaining £m
UK BANKS							
CLOSE BROTHERS	17/07/2020	18/03/2021	1.20	10.0			
CLOSE BROTHERS	14/08/2020	16/08/2021	0.80	10.0			
CLOSE BROTHERS	30/10/2020	29/10/2021	0.70	10.0	30.0	30.0	0.0
NATWEST BANK	09/04/2019	09/04/2021	1.35	10.0	10.0	80.0	70.0
SANTANDER BANK	16/11/2020	16/11/2021	0.45	15.0			
SANTANDER BANK	18/12/2020	17/12/2021	0.45	15.0	30.0	30.0	0.0
UK BUILDING SOCIETIES							
PRINCIPALITY BUILDING SOCIETY- CARDIFF	31/07/2020	30/07/2021	0.38	10.0	10.0	10.0	0.0
LOCAL AUTHORITIES							
BIRMINGHAM CITY COUNCIL	20/04/2020	20/01/2021	1.33	15.0	15.0	15.0	0.0
CHERWELL DISTRICT COUNCIL	21/01/2019	21/01/2021	1.45	5.0	5.0	15.0	10.0
CAMBRIDGESHIRE COUNTY COUNCIL	28/02/2019	26/02/2021	1.45	10.0			
CAMBRIDGESHIRE COUNTY COUNCIL	23/12/2019	23/12/2021	1.40	5.0	15.0	15.0	0.0
BATH & NE SOMERSET DC	01/04/2020	01/04/2021	1.50	15.0	15.0	15.0	0.0
STOCKTON ON TEES BC	01/04/2020	01/04/2021	1.50	5.0	5.0	15.0	10.0
CHESHIRE EAST COUNCIL	17/09/2020	06/04/2021	0.45	5.0			
CHESHIRE EAST COUNCIL	21/09/2020	12/04/2021	0.42	5.0	10.0	15.0	5.0
THURROCK COUNCIL	16/04/2020	16/04/2021	1.90	10.0			
THURROCK COUNCIL	12/06/2020	13/06/2022	1.55	5.0	15.0	15.0	0.0
LANCASHIRE COUNTY COUNCIL	05/08/2020	04/08/2021	0.40	10.0			
LANCASHIRE COUNTY COUNCIL	19/08/2020	19/08/2021	0.43	5.0	15.0	15.0	0.0
WALSALL METROPOLITAN BOROUGH COUNCIL	20/04/2020	20/04/2022	1.45	5.0			
WALSALL METROPOLITAN BOROUGH COUNCIL	20/04/2020	20/04/2023	1.68	10.0	15.0	15.0	0.0
WARRINGTON BOROUGH COUNCIL	29/10/2019	29/10/2021	1.55	15.0	15.0	15.0	0.0
NORTHUMBERLAND COUNTY COUNCIL	18/12/2020	17/12/2021	0.40	10.0	10.0	15.0	5.0
REST OF THE WORLD							
QATAR NATIONAL BANK SAQ	04/12/2020	03/12/2021	0.58	10.0			
QATAR NATIONAL BANK SAQ	04/12/2020	06/12/2021	0.54	5.0	15.0	15.0	0.0
HOUSING ASSOCIATIONS							
PLACES FOR PEOPLE HOMES LTD	14/04/2020	14/04/2022	2.15	10.0	10.0	10.0	0.0
SOUTHERN HOUSING GROUP	28/03/2019	29/03/2021	1.70	10.0	10.0	10.0	0.0
METROPOLITAN HOUSING TRUST	12/06/2020	10/06/2022	1.50	5.0	5.0	10.0	5.0
THAMES VALLEY HOUSING ASSOCIATION LTD	09/04/2019	09/04/2021	1.73	5.0	5.0	10.0	5.0
OPTIVO	22/08/2019	23/08/2021	1.45	10.0	10.0	10.0	0.0
OTHER INVESTMENTS							
FIDELITY MONEY MARKET FUND				15.0	15.0	15.0	0.0
ABERDEEN -STANDARD LIFE (IGNIS) LIQUIDITY FUND				9.5	9.5	15.0	5.5
INSIGHT STERLING LIQUIDITY FUND				3.4	3.4	15.0	11.6
LGIM STERLING LIQUIDITY FUND				1.9	1.9	15.0	13.1
FEDERATED (PRIME RATE) STERLING LIQUIDITY FUND				15.0	15.0	15.0	0.0
CCLA LOCAL AUTHORITY PROPERTY FUND	30/01/2014			40.0			
FIDELITY MULTI-ASSET INCOME FUND	12/07/2017			40.0	80.0	100.0	20.0
SPRING CAPITAL LOAN (PROJECT BECKENHAM)	09/06/2017		6.00	2.1	2.1	2.3	0.2
TOTAL INVESTMENTS				**396.9**	**396.9**		

THE LONDON BOROUGH
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Treasury Management Strategy Statement

Minimum Revenue Provision Policy Statement and Annual Investment Strategy: 2021/22

Contents

Introduction

1.1 Background

The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.

The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council. Although the Council does not borrow to finance its general fund capital spending plans, officers still plan and forecast the longer term cash flow position in order to ensure that the Council can meet its capital spending obligations and that it maintains balances (working capital) at a prudent and sustainable level.

Having obtained the requisite permissions to re-open its Housing Revenue Account (HRA) during 2020/21 the Council will provide immediate finance through internal borrowing, with no external borrowing required. Repayments and interest will be made through the internal movement of funds to the general fund.

CIPFA 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."*

This authority has not engaged in any commercial property investments.

1.2 Statutory and Reporting requirements

The Local Government Act 2003 (the Act) and supporting regulations requires the Council to 'have regard to' the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice to set Prudential and Treasury Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable.

The Council is currently required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals. These reports are required to be adequately scrutinised by Members before being recommended to the Council. This role is undertaken by the Executive, Resources and Contracts Policy Development & Scrutiny Committee.

Prudential and Treasury Indicators and Treasury Strategy (this report) - This covers:

- the capital plans (including prudential indicators);
- a Minimum Revenue Provision Policy (how residual capital expenditure is charged to revenue over time);
- the Treasury Management Strategy (how the investments and borrowings are to be organised) including treasury indicators; and

- an investment strategy (the parameters on how investments are to be managed).

A Part-Year Treasury Management Report (approved by Council in December 2020) – This will update members with the progress of the capital position, amending prudential indicators as necessary, and whether the treasury strategy is meeting the strategy or whether any policies require revision.

An Annual Treasury Report – This provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

Capital Strategy

In December 2017, CIPFA issued revised Prudential and Treasury Management Codes. As from 2019-20, all local authorities were required to prepare an additional report, a Capital Strategy report, which is intended to provide the following:

- a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
- an overview of how the associated risk is managed
- the implications for future financial sustainability

The aim of this report is to ensure that all elected members on the full council fully understand the overall strategy, governance procedures and risk appetite entailed by this Strategy.

The Capital Strategy will include capital expenditure, investments and liabilities and treasury management in sufficient detail to allow all members to understand how stewardship, value for money, prudence, sustainability and affordability will be secured.

1.3 Treasury Management Strategy for 2021/22

The strategy for 2021/22 covers two main areas:

Capital issues

- the capital expenditure plans and the associated prudential indicators;
- the minimum revenue provision (MRP) policy.

Treasury management issues

- the current treasury position;
- treasury indicators which limit the treasury risk and activities of the Council;
- prospects for interest rates;
- the borrowing strategy;
- policy on borrowing in advance of need;
- debt rescheduling;
- the investment strategy;

- creditworthiness policy; and
- the policy on use of external service providers.

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

1.4 Treasury management consultants

The Council uses Link Group, Treasury solutions as its external treasury management advisors.

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

It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented and subjected to regular review.

1.5 Elective Professional Client Status

From 3rd January 2018 the Financial Conduct Authority is obligated to treat all Local Authorities as “retail clients” under European Union legislation, the Markets in Financial Instruments Directive II (MiFID II). The client status of the Local Authority relates to its knowledge and experience with regards to the use of regulated investment products and the decision-making processes it has in place for making such investments. The directive is focused on products such as Certificates of Deposit, Gilts, Corporate Bonds and investment funds, including Money Market Funds.

The Council will opt up to “elective professional” status in order to continue to have access to these funds as an investment option as they are not available to retail clients. The Council had opted up to elective professional status with all relevant counterparties, including its advisers and brokers, prior to the deadline. This will be kept under regular review and counterparties will be added or removed as necessary for the Council’s investment needs.

The Capital Prudential Indicators 2021/22 – 2023/24

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

2.1 Capital Expenditure

This prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. Members are asked to approve the capital expenditure forecasts (as per the capital monitoring and review report to the Leader in November 2020)

Capital expenditure £m	2019/20 Actual	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
Non-HRA	24.4	36.4	48.6	39.9	25.7
HRA	-	-	-	-	-
Total	**24.4**	**36.4**	**48.6**	**39.9**	**25.7**

Note: The above financing need excludes other long-term liabilities, such as PFI and leasing arrangements that already include borrowing instruments.

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

Financing of capital expenditure £m	2019/20 Actual	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
Total Expenditure	**23.4**	**36.4**	**48.6**	**39.9**	**25.7**
Financed by:					
Capital receipts	6.6	1.9	26.9	21.0	21.3
Capital grants/contributions	16.8	23.4	19.5	2.2	2.2
Internal borrowing	-	-	-	16.4	1.9
Revenue contributions	-	11.1	2.2	0.3	0.3
Net financing need	**23.4**	**36.4**	**48.6**	**39.9**	**25.7**

2.2 The Council's borrowing need (Capital Financing Requirement)

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

If the CFR is positive, the Council may borrow from the Public Works Loans Board (PWLB) or the market (external borrowing) or from internal balances on a temporary basis (internal borrowing). The Council's CFR represents liabilities arising from finance leases entered into in recent years in respect of various items of plant and equipment (primarily equipment in schools and vehicles and plant built into highways and waste contracts). The Council currently has no external borrowing as such. Any capital expenditure above, which has not immediately been paid for, will increase the CFR.

The Council is asked to approve the CFR projections below:

£m	2019/20 Actual	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
Capital Financing Requirement					
CFR – non housing	9.6	-1.0	-1.6	-2.2	-2.8
CFR – housing	-	10.0	10.0	10.0	10.0
Total CFR	**9.6**	**9.0**	**8.4**	**7.8**	**7.2**
Movement in CFR	**8.4**	**-0.6**	**-0.6**	**-0.6**	**-0.6**

Movement in CFR represented by					
Net financing need for the year (above)	10.2	-	-	-	-
Less MRP/VRP and other financing movements	-1.8	-0.6	-0.6	-0.6	-0.6
Movement in CFR	**8.4**	**-0.6**	**-0.6**	**-0.6**	**-0.6**

2.3 Minimum revenue provision (MRP) policy statement

The Council is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the minimum revenue provision - MRP), although it is also allowed to undertake additional voluntary payments if required (voluntary revenue provision - VRP).

MHCLG regulations have been issued which require the full Council to approve an MRP Statement in advance of each year. A variety of options are provided to councils, so long as there is a prudent provision.

The Council is recommended to approve the following MRP Statement :

The MRP will be based on the estimated lives of the assets, in accordance with the regulations, and will follow standard depreciation accounting procedures. Estimated life periods will be determined under delegated powers. To the extent that expenditure is not on the creation of an asset and is of a type that is subject to estimated life periods that are referred to in the guidance, these periods will generally be adopted by the Council. However, the Council reserves the right to determine useful life periods and prudent MRP in exceptional circumstances where the recommendations of the guidance would not be appropriate.

In practice, the Council's capital financing MRP is assessed as 4% of the outstanding balance on the finance leases the Council has entered into. A Voluntary Revenue Provision (VRP) may also be made in respect of additional repayments.

Note: There is no requirement on the HRA to make a minimum revenue provision but there is a requirement for a charge for depreciation to be made (although there are transitional arrangements in place).

2.4 Core Funds and Expected Investment Balances

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

new sources (asset sales, etc.). Detailed below are estimates of the year end balances for each resource and anticipated day to day cash flow balances.

Year End Resources	2019/20 Actual	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
	£m	£m	£m	£m	£m
General Fund balance	20	20	20	20	18.1
Capital receipts	24.4	26.5	13.3	7.4	1.8
Capital grants	9.8	11.2	16.5	-	-
Provisions	15.8	15.8	15.8	15.8	15.8
Other (earmarked reserves)	167.6	151.7	141.4	111.8	89.4
Total core funds	**237.6**	**225.2**	**207.0**	**155.0**	**125.1**
Working capital*	98.5	132.9	87.5	121.3	98.7
Under/over borrowing	-	-	-	-	-
Investments	**336.10**	**358.10**	**294.5**	**276.3**	**223.8**

*Working capital balances shown are estimated year end; these may be higher mid-year.

2.5 Affordability prudential indicators

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

2.5.1 Ratio of financing costs to net revenue stream

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

%	2019/20 Actual %	2020/21 Estimate %	2021/22 Estimate] %	2022/23 Estimate %	2023/24 Estimate %
Non-HRA	-	-	-	-	-
HRA	-	-	-	-	-
Total	-	-	-	-	-

Treasury Management Strategy

The capital expenditure plans set out in Section 2 provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity and the Council's capital strategy. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

3.1 Current portfolio position

The overall treasury management portfolio as at 31 March 2020 is summarised below, together with forward projections. The table shows the actual external borrowing (the treasury management operations) against the capital borrowing (the Capital Financing Requirement) highlighting any over or under borrowing.

	2019/20 Actual	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
	£m	£m	£m	£m	£m
External borrowing					
Borrowing at 1 April	-	-	-	-	-
Expected change in borrowing	-	-	-	-	-
Other long-term liabilities (OLTL)	9.6	9.0	8.4	7.8	7.2
Expected change in OLTL	8.4	-0.6	-0.6	-0.6	-0.6
Actual borrowing at 31 March	**-**	**-**	**-**	**-**	**-**
CFR – the borrowing need	**9.6**	**9.0**	**8.4**	**7.8**	**7.2**
Under / (over) borrowing	**9.6**	**9.0**	**8.4**	**7.8**	**7.2**
Investments	**336.1**	**358.1**	**294.5**	**276.3**	**223.8**
Net investments	326.5	349.1	286.1	268.5	216.6
Change in Net investments	16.1	22.6	-63.0	-17.6	-51.9

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

The Director of Finance reports that the Council complied with this prudential indicator in the current year and does not envisage non-compliance in the future. This view takes into account current commitments, existing plans, and the proposals in this year's budget report.

3.2 Treasury Indicators: limits to borrowing activity

3.2.1 The Operational Boundary

This is the total figure that external borrowing is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual borrowing.

Operational boundary £m	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
Borrowing	10.0	10.0	10.0	10.0
Other long-term liabilities	20.0	20.0	20.0	20.0
Total Operational Boundary	30.0	30.0	30.0	30.0

3.2.2 The Authorised Limit for external borrowing

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

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

Authorised limit £m	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
	£m	£m	£m	£m
Borrowing	30.0	30.0	30.0	30.0
Other long-term liabilities	30.0	30.0	30.0	30.0
Total Authorised Limit	60.0	60.0	60.0	60.0

3.3 Prospects for Interest Rates

The Council has appointed Link Asset Services as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. The following table and narrative gives their view on short-term (Bank Rate) and longer-term fixed interest rates.

Quarter	Bank Rate	PWLB Borrowing Rates		
		5 year	25 year	50 year
Mar 2021	**0.1**	**0.8**	**1.5**	**1.3**
Jun 2021	**0.1**	**0.8**	**1.6**	**1.4**
Sep 2021	**0.1**	**0.8**	**1.6**	**1.4**
Dec 2021	**0.1**	**0.8**	**1.6**	**1.4**
Mar 2022	**0.1**	**0.9**	**1.6**	**1.4**
Jun 2022	**0.1**	**0.9**	**1.7**	**1.5**
Sep 2022	**0.1**	**0.9**	**1.7**	**1.5**
Dec 2022	**0.1**	**0.9**	**1.7**	**1.5**
Mar 2023	**0.1**	**0.9**	**1.7**	**1.5**
Jun 2023	**0.1**	**1.0**	**1.8**	**1.6**
Sep 2023	**0.1**	**1.0**	**1.8**	**1.6**
Dec 2023	**0.1**	**1.0**	**1.8**	**1.6**

Quarter	Bank Rate	PWLB Borrowing Rates		
		5 year	25 year	50 year
Mar 2024	**0.1**	**1.0**	**1.8**	**1.6**

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 16th December, 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 near-term as economic recovery is expected to be only gradual and, therefore, prolonged. These forecasts were based on an assumption that a Brexit trade deal would be agreed by the end of 2020, as this has now occurred, these forecasts do not need to be revised.

Gilt yields / PWLB rates

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.

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.

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

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

- 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. The policy of avoiding new borrowing by running down spare cash balances has served local authorities well over the last few years. The unexpected increase of 100 bps in PWLB rates on top of the then current margin over gilt yields of 80 bps in October 2019, required an initial major rethink of local authority treasury management strategy and risk management. However, in March 2020, the Government started a consultation process for reviewing the margins over gilt rates for PWLB borrowing for different types of local authority capital expenditure.

3.4 Borrowing Strategy

The Council currently has no plans to borrow to finance either general fund or HRA capital expenditure It finances all expenditure from external grants and contributions, capital receipts or internal balances. The Council does, however, have a Capital Financing Requirement (CFR) of £9.6m (as at 31st March 2020), which is the outstanding liability on finance leases taken out in respect of plant, equipment and vehicles.

The uncertainty over future interest rates increases the risks associated with treasury activity. As a result the Council will take a cautious approach to its treasury strategy and will monitor interest rates in financial markets.

3.4.1 Treasury indicators for debt

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

- Upper limits on variable interest rate exposure. This identifies a maximum limit for variable interest rates based upon the debt position net of investments;
- Upper limits on fixed interest rate exposure. This is similar to the previous indicator and covers a maximum limit on fixed interest rates;
- Maturity structure of borrowing. These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.

The Council is asked to approve the following treasury indicators and limits:

£m	2020/21	2021/22	2022/23
Interest rate Exposures			
	Upper	Upper	Upper
Limits on fixed interest rates based on net debt	100%	100%	100%
Limits on variable interest rates based on net debt	20%	20%	20%
Maturity Structure of fixed interest rate borrowing 2020/21			
		Lower	**Upper**
Under 12 months (temporary borrowing only)		100%	100%
12 months to 2 years		N/A	N/A
2 years to 5 years		N/A	N/A
5 years to 10 years		N/A	N/A
10 years and above		N/A	N/A

3.5 Policy on Borrowing in Advance of Need

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.

Annual Investment Strategy

4.1 Investment Policy

The Council's investment policy has regard to the following:

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

The Council's investment priorities will be security first, portfolio liquidity second and then yield, (return).

In accordance with the above guidance from the MHCLG and CIPFA, and in order to minimise the risk to investments, the Council applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the Short Term and Long Term ratings.

Ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration 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.

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.

Investment instruments identified for use in the financial year are listed in Annex 2 under the ‘specified’ and ‘non-specified’ investments categories. Counterparty limits will be as set through the Council’s treasury management practices – schedules.

The intention of the strategy is to provide security of investment and minimisation of risk.

4.2 Creditworthiness policy

Investment instruments identified for use in the financial year are listed in Annex 2 under the ‘Specified’ and ‘Non-Specified’ Investments categories. Counterparty limits will be as set through the Council’s Treasury Management Practices – Schedules.

Investment Counterparty Selection Criteria - The primary principles governing the Council’s investment criteria are the security and liquidity of its investments, although the yield or return on the investment is also a key consideration. After these main principles, the Council will ensure that:

- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the Specified and Non-Specified investment sections below; and
- It has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council’s prudential indicators covering the maximum principal sums invested.

The Director of Finance will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to Council for approval as necessary. These criteria are separate to those that determine which types of investment instrument are either Specified or Non-Specified as they provide an overall pool of counterparties considered high quality which the Council may use, rather than defining what types of investment instruments are to be used.

The rating criteria require at least one of the ratings provided by the three ratings agencies (Fitch, Moody’s and Standard & Poors) to meet the Council’s minimum credit ratings criteria. This approach is supported by Link and is in compliance with a CIPFA Treasury Management Panel recommendation in March 2009 and the CIPFA Treasury Management Code of Practice.

Credit rating information is supplied by Link, on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. 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. For instance, a negative rating watch applying to

counterparty at the minimum Council criteria may be suspended from use, with all others being reviewed in light of market conditions.

In addition, the Council receives weekly credit lists as part of the creditworthiness service provided by Link. This service employs a sophisticated modelling approach utlilising credit ratings from the three main credit rating agencies - Fitch, Moodys and Standard and Poors. The credit ratings of counterparties are supplemented with the following overlays:

- credit watches and credit outlooks from credit rating agencies;
- CDS (Credit Default Swap) spreads to give early warning of likely changes in credit ratings (these provide an indication of the likelihood of bank default);
- sovereign ratings to select counterparties from only the most creditworthy countries.

This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour code bands which indicate the relative creditworthiness of counterparties and a recommendation on the maximum duration for investments. The Council would not be able to replicate this level of detail using in-house resources, but uses this information, together with its own view on the acceptable level of counterparty risk, to inform its creditworthiness policy. The Council will also apply a minimum sovereign rating of A- to investment counterparties.

The criteria for providing a pool of high-quality investment counterparties (both Specified and Non-specified investments) are:

- **Banks 1** - good credit quality **–** the Council will only use banks which:
  a) are UK banks;
  b) are non-UK and domiciled in a country with a minimum long-term sovereign rating of A- or equivalent;
  c) have, <u>as a minimum</u>, at least one of the following Fitch, Moody's and Standard and Poors credit ratings (where rated):

    - Short term – Fitch F3; Moody's P-3; S&P A-3
    - Long term – Fitch BBB+; Moody's Baa3; S&P BBB+

- **Banks 2** – Part nationalised UK bank – Royal Bank of Scotland. This bank can be included provided it continues to be part nationalised (Lloyds is also temporarily included until existing investments mature in 2020/21).

- **Bank subsidiary and treasury operation** - The Council will use these where the parent bank has provided an appropriate guarantee or has the necessary ratings in Banks 1 above.

- **Building societies** - The Council will use all societies that meet the ratings in Banks 1 above.

- **Money Market Funds** – The Council will use AAA-rated Money Market Funds, including VNAV funds.

- **UK Government** (including gilts and the DMADF)

- **Other Local Authorities, Parish Councils, etc.**
- **Housing Associations**
- **Collective (pooled) investment schemes**
- **Supranational institutions**
- **Corporate Bonds**
- **Certificates of Deposit, Commercial Paper and Floating Rate Notes**

The Council's detailed eligibility criteria for investments with counterparties are included in Annex 2.

All credit ratings will be continuously monitored. The Council is alerted to changes to ratings of all three agencies through its use of the Link creditworthiness service.

- if a downgrade results in the counterparty no longer meeting the Council's minimum criteria, its further use for new investments 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 against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

Sole reliance will not be placed on the external advisers. In addition, this Council will also use market data and market information, information on government support for banks and the credit ratings of that government support. The Council forms a view and determines its investment policy and actions after taking all these factors into account.

4.3 Country limits

The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of A- from Fitch Ratings (or equivalent from other agencies if Fitch does not provide). The list of countries that qualify using these credit criteria as at the date of this report is shown in Annex 2. This list will be amended by officers should ratings change in accordance with this policy.

4.4 Investment Strategy

In-house funds: The Council's core portfolio is around £330m although cashflow variations during the course of the year have the effect from time to time of increasing the total investment portfolio to a maximum of around £400m. Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months).

Investment returns expectations.
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 may be best to assume that investment earnings from money market-related instruments will be sub 0.50% for the foreseeable future.

The suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year are as follows (the long-term forecast is for periods over 10 years in the future):

Average earnings in each year	Now	Previously
2020/21	0.10%	0.10%
2021/22	0.10%	0.10%
2022/23	0.10%	0.10%
2023/24	0.25%	0.25%
2024/25	0.75%	0.75%
Long term later years	2.00%	2.00%

- The overall balance of risks to economic growth in the UK is probably relatively even but is subject to major uncertainty due to the virus. It may also be affected by what, if any, deal the UK agrees as part of Brexit.
- There is relatively little UK domestic risk of increases or decreases in Bank Rate and shorter term PWLB rates until 2023/24 at the earliest.

Investment treasury indicator and limit - total principal funds invested for greater than 365 days. These limits are 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 the treasury indicator and limit: -

As at year end	2020/21	2021/22	2022/23	2023/23
	£m	£m	£m	£m
Principal sums invested > 365 days	170.0	170.0	170.0	170.0

For its cash flow generated balances, the Council will seek to utilise its short notice accounts, money market funds and short-dated deposits (overnight to three months) in order to benefit from the compounding of interest.

4.5 End of year investment report

After the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Report.

4.6 Scheme of Delegation

(i) Full board/council

- receiving and reviewing reports on treasury management policies, practices and activities
- approval of annual strategy.

(ii**) Boards/committees/council/responsible body**

- approval of/amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices
- budget consideration and approval

- approval of the division of responsibilities
- receiving and reviewing regular monitoring reports and acting on recommendations
- approving the selection of external service providers and agreeing terms of appointment.

(iii) Body/person(s) with responsibility for scrutiny

- reviewing the treasury management policy and procedures and making recommendations to the responsible body.

4.7 Role of the Section 151 Officer

The S151 officer is responsible for:

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance;
- submitting regular treasury management policy reports;
- submitting budgets and budget variations;
- receiving and reviewing management information reports;
- reviewing the performance of the treasury management function;
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
- ensuring the adequacy of internal audit, and liaising with external audit;
- recommending the appointment of external service providers;
- preparation of a capital strategy to include capital expenditure, capital financing, and treasury management, with a long-term timeframe;
- ensuring that the capital strategy is prudent, sustainable, affordable and prudent in the long term and provides value for money;
- ensuring that due diligence has been carried out on all treasury and is in accordance with the risk appetite of the authority.

ANNEX 1: Economic Background

- **UK.** The key quarterly meeting of the Bank of England Monetary Policy Committee kept Bank Rate unchanged on 5.11.20. However, it revised its economic forecasts to take account of a second national lockdown from 5.11.20 to 2.12.20 which is obviously going to put back economic recovery and do further damage to the economy. It therefore decided to do a further tranche of quantitative easing (QE) of £150bn, to start in January when the current programme of £300bn of QE, announced in March to June, runs out. It did this so that "announcing further asset purchases now should support the economy and help to ensure the unavoidable near-term slowdown in activity was not amplified by a tightening in monetary conditions that could slow the return of inflation to the target".
- Its forecasts appeared, at that time, to be rather optimistic in terms of three areas:
    - The economy would recover to reach its pre-pandemic level in Q1 2022
    - The Bank also expected there to be excess demand in the economy by Q4 2022.
    - CPI inflation was therefore projected to be a bit above its 2% target by the start of 2023 and the "inflation risks were judged to be balanced".
- Significantly, there was no mention of negative interest rates in the minutes or Monetary Policy Report, suggesting that the MPC remains some way from being persuaded of the case for such a policy, at least for the next 6 -12 months. However, rather than saying that it "stands ready to adjust monetary policy", the MPC this time said that it will take "whatever additional action was necessary to achieve its remit". The latter seems stronger and wider and may indicate the Bank's willingness to embrace new tools.
- One key addition to the Bank's forward guidance in August was a new phrase in the policy statement, namely that "it does not intend to tighten monetary policy until there is clear evidence that significant progress is being made in eliminating spare capacity and achieving the 2% target sustainably". That seems designed to say, in effect, that even if inflation rises to 2% in a couple of years' time, do not expect any action from the MPC to raise Bank Rate – until they can clearly see that level of inflation is going to be persistently above target if it takes no action to raise Bank Rate. Our Bank Rate forecast currently shows no increase, (or decrease), through to quarter 1 2024 but there could well be no increase during the next five years as it will take some years to eliminate spare capacity in the economy, and therefore for inflationary pressures to rise to cause the MPC concern. Inflation is expected to briefly peak at just over 2% towards the end of 2021, but this is a temporary short-lived factor and so not a concern.
- However, the minutes did contain several references to downside risks. The MPC reiterated that the "recovery would take time, and the risks around the GDP projection were judged to be skewed to the downside". It also said "the risk of a more persistent period of elevated unemployment remained material". Downside risks could well include severe restrictions remaining in place in some form during the rest of December and most of January too. Upside risks included the early roll out of effective vaccines.

- **COVID-19 vaccines.** We had been waiting expectantly for news that various COVID-19 vaccines would be cleared as being safe and effective for administering to the general public. The Pfizer announcement on 9th November was very encouraging as its 90% effectiveness was much higher than the 50-60% rate of effectiveness of flu vaccines which might otherwise have been expected.

However, this vaccine has demanding cold storage requirements of minus 70c that impairs the speed of application to the general population. It has therefore been particularly welcome that the Oxford University/AstraZeneca vaccine has now also been approved which is much cheaper and only requires fridge temperatures for storage. The Government has 60m doses on order and is aiming to vaccinate at a rate of 2m people per week starting in January, though this rate is currently restricted by a bottleneck on vaccine production; (a new UK production facility is due to be completed in June).

- These announcements, plus expected further announcements that other vaccines could be approved soon, have enormously boosted confidence that life could largely return to normal during the second half of 2021, with activity in the still-depressed sectors like restaurants, travel and hotels returning to their pre-pandemic levels; this would help to bring the unemployment rate down. With the household saving rate having been exceptionally high since the first lockdown in March, there is plenty of pent-up demand and purchasing power stored up for these services. A comprehensive roll-out of vaccines might take into late 2021 to fully complete; but if these vaccines prove to be highly effective, then there is a possibility that restrictions could start to be eased, beginning possibly in Q2 2021 once vulnerable people and front-line workers have been vaccinated. At that point, there would be less reason to fear that hospitals could become overwhelmed any more. Effective vaccines would radically improve the economic outlook once they have been widely administered; it may allow GDP to rise to its pre-virus level a year earlier than otherwise and mean that the unemployment rate peaks at 7% in 2021 instead of 9%.

- **Public borrowing** was forecast in November by the Office for Budget Responsibility (the OBR) to reach £394bn in the current financial year, the highest ever peace time deficit and equivalent to 19% of GDP. In normal times, such an increase in total gilt issuance would lead to a rise in gilt yields, and so PWLB rates. However, the QE done by the Bank of England has depressed gilt yields to historic low levels, (as has similarly occurred with QE and debt issued in the US, the EU and Japan). This means that new UK debt being issued, and this is being done across the whole yield curve in all maturities, is locking in those historic low levels through until maturity. In addition, the UK has one of the longest average maturities for its entire debt portfolio, of any country in the world. Overall, this means that the total interest bill paid by the Government is manageable despite the huge increase in the total amount of debt. The OBR was also forecasting that the government will still be running a budget deficit of £102bn (3.9% of GDP) by 2025/26. However, initial impressions are that they have taken a pessimistic view of the impact that vaccines could make in the speed of economic recovery.

- Overall, the pace of recovery was not expected to be in the form of a rapid V shape, but a more elongated and prolonged one. The initial recovery was sharp after quarter 1 saw growth at -3.0% followed by -18.8% in quarter 2 and then an upswing of +16.0% in quarter 3; this still left the economy 8.6% smaller than in Q4 2019. It is likely that the one-month national lockdown that started on 5th November, will have caused a further contraction of 8% m/m in November so the economy may have then been 14% below its pre-crisis level.

- **December 2020 / January 2021**. Since then, there has been rapid backtracking on easing restrictions due to the spread of a new mutation of the virus, and severe restrictions were imposed across all four nations. These restrictions were changed

on 5.1.21 to national lockdowns of various initial lengths in each of the four nations as the NHS was under extreme pressure. It is now likely that wide swathes of the UK will remain under these new restrictions for some months; this means that the near-term outlook for the economy is grim. However, the distribution of vaccines and the expected consequent removal of COVID-19 restrictions, should allow GDP to rebound rapidly in the second half of 2021 so that the economy could climb back to its pre-pandemic peak as soon as late in 2022. Provided that both monetary and fiscal policy are kept loose for a few years yet, then it is still possible that in the second half of this decade, the economy may be no smaller than it would have been if COVID-19 never happened. The significant caveat is if another mutation of COVID-19 appears that defeats the current batch of vaccines. However, now that science and technology have caught up with understanding this virus, new vaccines ought to be able to be developed more quickly to counter such a development and vaccine production facilities are being ramped up around the world.

- This recovery of growth which eliminates the effects of the pandemic by about the middle of the decade would have major repercussions for public finances as it would be consistent with the government deficit falling to around 2.5% of GDP without any tax increases. This would be in line with the OBR's most optimistic forecast in the graph below, rather than their current central scenario which predicts a 4% deficit due to assuming much slower growth. However, Capital Economics forecasts assumed that there is a reasonable Brexit deal and also that politicians do not raise taxes or embark on major austerity measures and so, (perversely!), depress economic growth and recovery.

- There will still be some painful longer-term adjustments as e.g. office space and travel by planes, trains and buses may not recover to their previous level of use for several years, or possibly ever, even if vaccines are fully successful in overcoming the current virus. There is also likely to be a reversal of globalisation as this crisis has exposed how vulnerable long-distance supply chains are. On the other hand, digital services are one area that has already seen huge growth.

- **Brexit.** While the UK has been gripped by the long running saga of whether or not a deal would be made by 31.12.20, the final agreement on 24.12.20, followed by ratification by Parliament and all 27 EU countries in the following week, has eliminated a significant downside risk for the UK economy. The initial agreement only covers trade so there is further work to be done on the services sector where temporary equivalence has been granted in both directions between the UK and EU; that now needs to be formalised on a permanent basis. As the forecasts in this report were based on an assumption of a Brexit agreement being reached, there is no need to amend these forecasts.

- **Monetary Policy Committee meeting of 17 December.** All nine Committee members voted to keep interest rates on hold at +0.10% and the Quantitative Easing (QE) target at £895bn. The MPC commented that the successful rollout of vaccines had reduced the downsides risks to the economy that it had highlighted in November. But this was caveated by it saying, "Although all members agreed that this would reduce downside risks, they placed different weights on the degree to which this was also

expected to lead to stronger GDP growth in the central case." So, while the vaccine is a positive development, in the eyes of the MPC at least, the economy is far from out of the woods. As a result of these continued concerns, the MPC voted to extend the availability of the Term Funding Scheme, (cheap borrowing), with additional incentives for small and medium size enterprises for six months from 30th April 2021 until 31st October 2021. (The MPC had assumed that a Brexit deal would be agreed.)

- **Fiscal policy.** In the same week as the MPC meeting, the Chancellor made a series of announcements to provide further support to the economy:
    - An extension of the COVID-19 loan schemes from the end of January 2021 to the end of March.
    - The furlough scheme was lengthened from the end of March to the end of April.
    - The Budget on 3rd March 2021 will lay out the "next phase of the plan to tackle the virus and protect jobs". This does not sound like tax rises are imminent, (which could hold back the speed of economic recovery).

- The **Financial Policy Committee** (FPC) report on 6th August.2020 revised down their expected credit losses for the banking sector to "somewhat less than £80bn". It stated that in its assessment, "banks have buffers of capital more than sufficient to absorb the losses that are likely to arise under the MPC's central projection". The FPC stated that for real stress in the sector, the economic output would need to be twice as bad as the MPC's projection, with unemployment rising to above 15%.

- **US.** The result of the November elections meant that while the Democrats gained the presidency and a majority in the House of Representatives, it looks as if the Republicans could retain their slim majority in the Senate provided they keep hold of two key seats in Georgia in elections in early January. If those two seats do swing to the Democrats, they will then control both Houses and President Biden will consequently have a free hand to determine policy and to implement his election manifesto.

- **The economy** had been recovering quite strongly from its contraction in 2020 of 10.2% due to the pandemic with GDP only 3.5% below its pre-pandemic level and the unemployment rate dropping below 7%. However, the rise in new cases during quarter 4, to the highest level since mid-August, suggests that the US could be in the early stages of a fourth wave. While the first wave in March and April was concentrated in the Northeast, and the second wave in the South and West, the third wave in the Midwest looks as if it now abating. However, it also looks as if the virus is rising again in the rest of the country. The latest upturn poses a threat that the recovery in the economy could stall. This is the single biggest downside risk to the shorter term outlook – a more widespread and severe wave of infections over the winter months, which is compounded by the impact of the regular flu season and, as a consequence, threatens to overwhelm health care facilities. Under those circumstances, states might feel it necessary to return to more draconian lockdowns.

- The restrictions imposed to control the spread of the virus are once again weighing on the economy with employment growth slowing sharply in November and retail sales dropping back. The economy is set for further weakness in December and into the spring. However, a $900bn fiscal stimulus deal passed by Congress in late December will limit the downside through measures which included a second

round of direct payments to households worth $600 per person and a three-month extension of enhanced unemployment insurance (including a $300 weekly top-up payment for all claimants). GDP growth is expected to rebound markedly from the second quarter of 2021 onwards as vaccines are rolled out on a widespread basis and restrictions are loosened.

- After Chair Jerome Powell unveiled the Fed's adoption of a flexible average inflation target in his Jackson Hole speech in late August 2020, the mid-September meeting of the Fed agreed by a majority to a toned down version of the new inflation target in his speech - that *"it would likely be appropriate to maintain the current target range until labour market conditions were judged to be consistent with the Committee's assessments of maximum employment and inflation had risen to 2% and was on track to moderately exceed 2% for some time."* This change was aimed to provide more stimulus for economic growth and higher levels of employment and to avoid the danger of getting caught in a deflationary "trap" like Japan. It is to be noted that inflation has actually been under-shooting the 2% target significantly for most of the last decade, (and this year), so financial markets took note that higher levels of inflation are likely to be in the pipeline; long-term bond yields duly rose after the meeting. The FOMC's updated economic and rate projections in mid-September showed that officials expect to leave the fed funds rate at near-zero until at least end-2023 and probably for another year or two beyond that. There is now some expectation that where the Fed has led in changing its inflation target, other major central banks will follow. The increase in tension over the last year between the US and China is likely to lead to a lack of momentum in progressing the initial positive moves to agree a phase one trade deal.

- The Fed's meeting on 5th November was unremarkable - but at a politically sensitive time around the elections. At its 16th December meeting the Fed tweaked the guidance for its monthly asset quantitative easing purchases with the new language implying those purchases could continue for longer than previously believed. Nevertheless, with officials still projecting that inflation will only get back to 2.0% in 2023, the vast majority expect the fed funds rate to be still at near-zero until 2024 or later. Furthermore, officials think the balance of risks surrounding that median inflation forecast are firmly skewed to the downside. The key message is still that policy will remain unusually accommodative – with near-zero rates and asset purchases – continuing for several more years. This is likely to result in keeping Treasury yields low – which will also have an influence on gilt yields in this country.

- **EU.** In early December, the figures for Q3 GDP confirmed that the economy staged a rapid rebound from the first lockdowns. This provides grounds for optimism about growth prospects for next year. In Q2, GDP was 15% below its pre-pandemic level. But in Q3 the economy grew by 12.5% q/q leaving GDP down by "only" 4.4%. That was much better than had been expected earlier in the year. However, growth is likely to stagnate during Q4 and in Q1 of 2021, as a second wave of the virus has affected many countries: it is likely to hit hardest those countries more dependent on tourism. The €750bn fiscal support package eventually agreed by the EU after prolonged disagreement between various countries, is unlikely to provide significant support, and quickly enough, to make an appreciable difference in the countries most affected by the first wave.

- With inflation expected to be unlikely to get much above 1% over the next two years, the ECB has been struggling to get inflation up to its 2% target. It is

currently unlikely that it will cut its central rate even further into negative territory from -0.5%, although the ECB has stated that it retains this as a possible tool to use. The ECB's December meeting added a further €500bn to the PEPP scheme, (purchase of government and other bonds), and extended the duration of the programme to March 2022 and re-investing maturities for an additional year until December 2023. Three additional tranches of TLTRO, (cheap loans to banks), were approved, indicating that support will last beyond the impact of the pandemic, implying indirect yield curve control for government bonds for some time ahead. The Bank's forecast for a return to pre-virus activity levels was pushed back to the end of 2021, but stronger growth is projected in 2022. The total PEPP scheme of €1,850bn of QE which started in March 2020 is providing protection to the sovereign bond yields of weaker countries like Italy. There is therefore unlikely to be a euro crisis while the ECB is able to maintain this level of support. However, as in the UK and the US, the advent of highly effective vaccines will be a game changer, although growth will struggle before later in quarter 2 of 2021.

- **China.** After a concerted effort to get on top of the virus outbreak in Q1, economic recovery was strong in Q2 and then into Q3 and Q4; this has enabled China to recover all of the contraction in Q1. Policy makers have both quashed the virus and implemented a programme of monetary and fiscal support that has been particularly effective at stimulating short-term growth. At the same time, China's economy has benefited from the shift towards online spending by consumers in developed markets. These factors help to explain its comparative outperformance compared to western economies. However, this was achieved by major central government funding of yet more infrastructure spending. After years of growth having been focused on this same area, any further spending in this area is likely to lead to increasingly weaker economic returns in the longer term. This could, therefore, lead to a further misallocation of resources which will weigh on growth in future years.

- **Japan.** A third round of fiscal stimulus in early December took total fresh fiscal spending this year in response to the virus close to 12% of pre-virus GDP. That's huge by past standards, and one of the largest national fiscal responses. The budget deficit is now likely to reach 16% of GDP this year. Coupled with Japan's relative success in containing the virus without draconian measures so far, and the likelihood of effective vaccines being available in the coming months, the government's latest fiscal effort should help ensure a strong recovery and to get back to pre-virus levels by Q3 2021 – around the same time as the US and much sooner than the Eurozone.

- **World growth.** World growth will have been in recession in 2020. Inflation is unlikely to be a problem for some years due to the creation of excess production capacity and depressed demand caused by the coronavirus crisis.

- Until recent years, world growth has been boosted by increasing globalisation i.e. countries specialising in producing goods and commodities in which they have an economic advantage and which they then trade with the rest of the world. This has boosted worldwide productivity and growth, and, by lowering costs, has also depressed inflation. However, the rise of China as an economic superpower over the last thirty years, which now accounts for nearly 20% of total world GDP, has unbalanced the world economy. The Chinese government has targeted achieving major world positions in specific key sectors and products, especially high tech areas and production of rare earth minerals used in high tech products. It is achieving this by massive financial support, (i.e. subsidies), to state owned firms,

government directions to other firms, technology theft, restrictions on market access by foreign firms and informal targets for the domestic market share of Chinese producers in the selected sectors. This is regarded as being unfair competition that is putting western firms at an unfair disadvantage or even putting some out of business. It is also regarded with suspicion on the political front as China is an authoritarian country that is not averse to using economic and military power for political advantage. The current trade war between the US and China therefore needs to be seen against that backdrop. It is, therefore, likely that we are heading into a period where there will be a reversal of world globalisation and a decoupling of western countries from dependence on China to supply products. This is likely to produce a backdrop in the coming years of weak global growth and so weak inflation.

Summary

Central banks are, therefore, likely to support growth by maintaining loose monetary policy through keeping rates very low for longer. Governments could also help a quicker recovery by providing more fiscal support for their economies at a time when total debt is affordable due to the very low rates of interest. They will also need to avoid significant increases in taxation or austerity measures that depress demand in their economies.

If there is a huge surge in investor confidence as a result of successful vaccines which leads to a major switch out of government bonds into equities, which, in turn, causes government debt yields to rise, then there will be pressure on central banks to actively manage debt yields by further QE purchases of government debt; this would help to suppress the rise in debt yields and so keep the total interest bill on greatly expanded government debt portfolios within manageable parameters. It is also the main alternative to a programme of austerity.

INTEREST RATE FORECASTS

Brexit. The interest rate forecasts provided by Link in paragraph 3.3 were predicated on an assumption of a reasonable agreement being reached on trade negotiations between the UK and the EU by 31.12.20. There is therefore no need to revise these forecasts now that a trade deal has been agreed. Brexit may reduce the economy's potential growth rate in the long run. However, much of that drag is now likely to be offset by an acceleration of productivity growth triggered by the digital revolution brought about by the COVID crisis.

The balance of risks to the UK

- The overall balance of risks to economic growth in the UK is probably now skewed to the upside, but is still subject to some uncertainty due to the virus and the effect of any mutations, and how quick vaccines are in enabling a relaxation of restrictions.
- There is relatively little UK domestic risk of increases or decreases in Bank Rate and significant changes in shorter term PWLB rates. The Bank of England has effectively ruled out the use of negative interest rates in the near term and increases in Bank Rate are likely to be some years away given the underlying economic expectations. However, it is always possible that safe haven flows, due to unexpected domestic developments and those in other major economies, could impact gilt yields, (and so PWLB rates), in the UK.

Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

- **UK government** takes too much action too quickly to raise taxation or introduce austerity measures that depress demand in the economy.
- **UK - Bank of England** takes action too quickly, or too far, over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- A resurgence of the Eurozone sovereign debt crisis. The ECB has taken monetary policy action to support the bonds of EU states, with the positive impact most likely for "weaker" countries. In addition, the EU agreed a €750bn fiscal support package. These actions will help shield weaker economic regions for the next two or three years. However, in the case of Italy, the cost of the virus crisis has added to its already huge debt mountain and its slow economic growth will leave it vulnerable to markets returning to taking the view that its level of debt is unsupportable. There remains a sharp divide between northern EU countries favouring low debt to GDP and annual balanced budgets and southern countries who want to see jointly issued Eurobonds to finance economic recovery. This divide could undermine the unity of the EU in time to come.
- Weak capitalisation of some European banks, which could be undermined further depending on extent of credit losses resultant of the pandemic.
- **German minority government & general election in 2021.** In the German general election of September 2017, Angela Merkel's CDU party was left in a vulnerable minority position dependent on the fractious support of the SPD party, as a result of the rise in popularity of the anti-immigration AfD party. The CDU has done badly in subsequent state elections but the SPD has done particularly badly. Angela Merkel has stepped down from being the CDU party leader but she will remain as Chancellor until the general election in 2021. This then leaves a major question mark over who will be the major guiding hand and driver of EU unity when she steps down.
- **Other minority EU governments.** Austria, Sweden, Spain, Portugal, Netherlands, Ireland and Belgium also have vulnerable minority governments dependent on coalitions which could prove fragile.
- **Austria, the Czech Republic, Poland and Hungary** now form a strongly anti-immigration bloc within the EU, and they had threatened to derail the 7 year EU budget until a compromise was thrashed out in late 2020. There has also been a rise in anti-immigration sentiment in Germany and France.
- **Geopolitical risks,** for example in China, Iran or North Korea, but also in Europe and other Middle Eastern countries, which could lead to increasing safe haven flows.

Upside risks to current forecasts for UK gilt yields and PWLB rates

- **UK -** a significant rise in inflationary pressures e.g. caused by a stronger than currently expected recovery in the UK economy after effective vaccines are administered quickly to the UK population, leading to a rapid resumption of normal life and return to full economic activity across all sectors of the economy.
- **The Bank of England** is too slow in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to build up too strongly within the UK economy, which then necessitates a rapid series of increases in Bank Rate to stifle inflation.

ANNEX 2: Specified and Non-Specified Investments – Eligibility Criteria

Eligibility Criteria for investment counterparties

SPECIFIED INVESTMENTS: All such investments will be sterling denominated, with maturities up to a maximum of 1 year, meeting the minimum 'high' quality criteria where applicable.

NON-SPECIFIED INVESTMENTS: These are any investments which do not meet the Specified Investment criteria (i.e. non-sterling and placed for periods greater than 1 year).

A variety of investment instruments will be used. Subject to the credit quality of the institution and depending on the type of investment made, investments will fall into one of the above categories.

The criteria, time limits and monetary limits applying to institutions or investment vehicles are:

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 relatively low risk investments where the possibility of loss of principal or investment income is small. These would include investments with:

1. The UK Government (such as the Debt Management Account deposit facility, a UK Treasury Bill or a Gilt with a maximum of 1 year to maturity).
2. A local authority, parish council or community council (maximum duration of 1 year).
3. Corporate or supranational bonds of no more than 1 year's duration.
4. Pooled investment vehicles (such as money market funds) that have been awarded a high credit rating by a credit rating agency.
5. A bank or building society that has been awarded a high credit rating by a credit rating agency (only investments placed for a maximum of 1 year).
6. Certificates of deposit, commercial paper or floating rate notes (maximum duration of 1 year).

Minimum credit ratings (as rated by Fitch, Moody's and Standard & Poors) and monetary and time period limits for all of the above categories are set out below. The rating criteria require at least one of the ratings provided by the three ratings agencies (Fitch, Moody's and Standard & Poors) to meet the Council's minimum credit ratings criteria. The Council will take into account other factors in determining whether an investment should be placed with a particular counterparty, but all investment decisions will be based initially on these credit ratings criteria. The Council will also apply a minimum sovereign rating of A- (or equivalent) to investment counterparties.

NON-SPECIFIED INVESTMENTS
Non-specified investments are any other type of investment (i.e. not defined as Specified above) and can be for any period over 1 year. The identification and

rationale supporting the selection of these other investments and the maximum limits to be applied are set out below.

	Non-Specified Investment Category	Limit (£ or %)
	Bank Deposits with a maturity of more than one year and up to a maximum of 3 years. These can be placed in accordance with the limits of the Council's counterparty list criteria (i.e. subject to satisfaction of Fitch, Moody's and Standard & Poors credit ratings criteria shown below).	£80m and 3 years limits with RBS (Lloyds is also temporarily included until existing investments mature in 2020/21).
	Building Society Deposits with a maturity of more than one year. These can be placed in accordance with the limits of the Council's counterparty list criteria (i.e. subject to satisfaction of Fitch, Moody's and Standard & Poors credit ratings criteria shown below).	None permitted at present.
	Deposits with other local authorities with a maturity of greater than 1 year and up to a maximum of 3 years. Maximum total investment of £15m with each local authority.	£15m limit with each local authority; maximum duration 3 years.
	Gilt edged securities with a maturity of greater than one year. These are Government bonds and so provide the highest security of interest and the repayment of principal on maturity. The use of UK Government gilts is restricted to fixed date, fixed rate stock with a maximum maturity of five years. The total investment in gilts is limited to £25m and will normally be held to maturity, but the value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity. The Director of Finance must personally approve gilt investments. The Council currently has no exposure to gilt investments.	£25m in total; maximum duration 5 years.
	Non-rated subsidiary of a credit-rated institution that satisfies the Council's counterparty list criteria. Investments with non-rated subsidiaries are permitted, but the credit-rated parent company and its subsidiaries will be set an overall group limit for the total of funds to be invested at any time.	Subject to group limit dependent on parent company's ratings.
	Corporate Bonds with a duration of greater than 1 year and up to a maximum of 5 years, subject to satisfaction of credit ratings criteria as set out below.	£25m in total; maximum duration 5 years.
	Collective (pooled) investment schemes with a duration of greater than 1 year. The total investment in collective (pooled) investment schemes is limited to £100m and can include property funds, diversified growth funds and other eligible funds.	£100m in total.
	Certificates of Deposit, Commercial Paper and Floating Rate Notes with a duration of greater than 1 year, subject to satisfaction of credit ratings criteria as set out below.	Subject to group banking limits dependent on bank / building society credit ratings.
	Housing Associations with a duration of between 1 and 2 years, subject to satisfaction of credit ratings criteria as set out below.	£80m in total; maximum duration 2 years.

CRITERIA FOR FUNDS MANAGED INTERNALLY AND EXTERNALLY

- **Banks General** - good credit quality **–** the Council may only use banks which:
  a) are UK banks;
  b) are non-UK and domiciled in a country with a minimum long-term sovereign rating of A- or equivalent;
  c) have, as a minimum, at least one of the following Fitch, Moody's and Standard and Poors credit ratings (where rated):

    - Short term – Fitch F3; Moody's P-3; S&P A-3
    - Long term – Fitch BBB+; Moody's Baa3; S&P BBB+

- **Banks 1A – UK and Overseas Banks (highest ratings)** - the Council may place investments up to a total of £30m for a maximum period of 1 year with UK banks (and up to a total of £15m for a maximum period of 1 year with Overseas banks) that have, as a minimum, at least at least one of the following Fitch, Moody's and Standard & Poors ratings (where rated).

	Short-Term	Long-Term
Fitch	F1+	AA-
Moody's	P-1	Aa3
S & P	A-1+	AA-

- **Banks 1B – UK and Overseas Banks (very high ratings)** - the Council may place investments up to a total of £20m for a maximum period of 1 year with UK banks (and up to a total of £10m for a maximum period of 6 months with Overseas banks) that have, as a minimum, at least one of the following Fitch, Moody's and Standard & Poors ratings (where rated).

	Short-Term	Long-Term
Fitch	F1	A
Moody's	P-1	A2
S & P	A-1	A

- **Banks 1C – UK and Overseas Banks (high ratings)** – the Council may place investments up to a total of £10m for a maximum period of 1 year with UK banks (and up to a total of £5m for a maximum period of 3 months with Overseas banks) that have, as a minimum, at least one of the following Fitch, Moody's and Standard & Poors ratings (where rated):

	Short-Term	Long-Term
Fitch	F3	BBB+
Moodys	P-3	Baa3
S & P	A-3	BBB+

- **Banks 2 - Part nationalised UK banks (Royal Bank of Scotland)** - the Council may place investments up to a total of £80m for up to 3 years with the part-

nationalised UK Royal Bank of Scotland provided it remain part-nationalised (Lloyds is also temporarily included until existing investments mature in 2020/21).

- **Bank subsidiary and treasury operation** - The Council may use these where the parent bank has provided an appropriate guarantee and has the necessary ratings in Banks 1 above. The total investment limit and period will be determined by the parent company credit ratings.

- **Building societies** - The Council may use all societies that meet the ratings in Banks 1 above.

- **Money Market Funds** – The Council may invest in AAA rated Money Market Funds, including Constant Net Asset Value (CNAV) Funds, Low Volatility Net Asset Value (LVNAV) funds and Variable Net Asset value (VNAV) funds. The total invested in each of the CNAV and LVNAV Funds must not exceed £15m at any time and £10m for VNAV funds. This includes the Payden Sterling Reserve Fund for which a limit of £15m is also applied. No more than £25m in total may be invested in VNAV funds at any time."

- **UK Government (including gilts and the DMADF)** – The Council may invest in the government's DMO facility for a maximum of 1 year, but with no limit on total investment. The use of UK Government gilts is restricted to a total of £25m and to fixed date, fixed rate stock with a maximum maturity of 5 years. The Director of Finance must personally approve gilt investments.

- **Local Authorities, Parish Councils etc** – The Council may invest with any number of local authorities, subject to a maximum exposure of £15m for up to 3 years with each local authority.

- **Business Reserve Accounts** - Business reserve accounts may be used from time to time, but value and time limits will apply to counterparties as detailed above.

- **Corporate Bonds** – Investment in corporate bonds with a minimum credit rating of A- is permitted, subject to a maximum duration of 5 years and a maximum total exposure of £25m.

- **Collective (pooled) investment schemes** – these may comprise property funds, diversified growth funds and other eligible funds and are permitted up to a maximum (total) of £100m.

- **Certificates of Deposit, Commercial Paper and Floating Rate Notes** – These are permitted, subject to satisfaction of minimum credit ratings in Banks General above.

- **Housing Associations** – The Council may invest with Housing Associations with a minimum credit rating of A-, for a maximum duration of 2 years, and with a maximum deposit of £10m with any one Housing Association and £80m in total.

- **Sovereign Ratings** – The Council may only use counterparties in countries with sovereign ratings (all 3 agencies) of A- or higher.

  These currently include:

  AAA

- Australia
- Canada
- Denmark
- Germany
- Luxembourg
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland

AA+

- Finland
- Hong Kong
- U.S.A.

AA

- U.K
- Abu Dhabi (UAE)
- France

AA-

- Belgium
- Qatar

ANNEX 3: Prudential Indicators – Summary for Approval by Council

Prudential and Treasury Indicators are relevant for the purposes of setting an integrated treasury management strategy and require the approval of the Council. They are included separately in Appendix 1 together with relevant narrative and are summarised here for submission to the Council meeting for approval.

The Council is also required to indicate if it has adopted the CIPFA Code of Practice on Treasury Management. The revised Code (published in 2009 and updated in 2011 and 2017) was initially adopted by full Council on 15th February 2010 and has subsequently been re-adopted each year in February.

PRUDENTIAL INDICATORS	2019/20	2020/21	2021/22	2022/23	2023/24
	actual	estimate	estimate	estimate	estimate
GF Capital Expenditure	£23.4m	£36.4m	£48.6m	£39.9m	£25.7m
HRA Capital Expenditure	-	-	-	-	-
Total Capital Expenditure	£23.4m	£36.4m	£48.6m	£39.9m	£25.7m
Ratio of financing costs to net revenue stream	0.0%	0.0%	0.0%	0.0%	0.0%
Net borrowing requirement (net investments for Bromley)					
brought forward 1 April	£310.4m	£326.5m	£349.1m	£286.1m	£268.5m
carried forward 31 March	£326.5m	£349.1m	£286.1m	£268.5m	£216.6m
in year borrowing requirement (movement in net investments for Bromley)	+£16.1m	+£22.6m	-£63.0m	-£17.6m	-£51.9m
Capital Financing Requirement as at 31 March	£9.6m	£9.0m	£8.4m	£7.8m	£7.2m
Annual change in Cap. Financing Requirement	+£8.4m	-£0.6m	-£0.6m	-£0.6m	-£0.6m

TREASURY MANAGEMENT INDICATORS	2019/20	2020/21	2021/22	2022/23	2023/24
	actual	estimate	estimate	estimate	estimate
Authorised Limit for external debt -					
borrowing	£30.0m	£30.0m	£30.0m	£30.0m	£30.0m
other long-term liabilities	£30.0m	£30.0m	£30.0m	£30.0m	£30.0m
TOTAL	£60.0m	£60.0m	£60.0m	£60.0m	£60.0m
Operational Boundary for external debt -					
borrowing	£10.0m	£10.0m	£10.0m	£10.0m	£10.0m
other long term liabilities	£20.0m	£20.0m	£20.0m	£20.0m	£20.0m
TOTAL	£30.0m	£30.0m	£30.0m	£30.0m	£30.0m
Upper limit for fixed interest rate exposure	100%	100%	100%	100%	100%
Upper limit for variable rate exposure	20%	20%	20%	20%	20%
Upper limit for total principal sums invested for more than 365 days beyond year-end dates	£170.0m	£170.0m	£170.0m	£170.0m	£170.0m