REPORT FOR DECISION

Bury COUNCIL

Agenda Item	

DECISION OF:	**OVERVIEW & SCRUTINY COMMITTEE** **CABINET** **COUNCIL**
DATE:	**11th FEBRUARY 2020** **26th FEBRUARY 2020** **26th FEBRUARY 2020**
SUBJECT:	**TREASURY MANAGEMENT STRATEGY AND PRUDENTIAL INDICATORS 2020/21**
REPORT FROM:	**CABINET MEMBER FOR FINANCE & HOUSING**
CONTACT OFFICER:	**MIKE WOODHEAD, JOINT CHIEF FINANCE OFFICER**
TYPE OF DECISION:	**COUNCIL**
FREEDOM OF INFORMATION/STATUS:	The report is for publication
SUMMARY:	The report sets out the suggested Strategy for 2020/2021 in respect of the following aspects of the Treasury Management function. It is based upon the Treasury officers' views on interest rates, supplemented with leading market forecasts provided by the Council's treasury advisor. The Strategy covers: • Capital plans and prudential indicators; • the minimum revenue provision policy; • the current treasury position; • treasury limits in force which will 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 • policy on use of external service providers

	The primary objective of the Council's treasury management function will continue to be the minimisation of financing costs whilst ensuring the stability of the Authority's long term financial position by borrowing at the lowest rates of interest and by investing surplus cash to earn maximum interest, all at an acceptable level of risk. The overall strategy for 2021/21 will be to finance capital expenditure by running down cash/investment balances and using short term temporary borrowing rather than more expensive longer term loans. The taking out of longer term loans (1 to 10 years) to finance capital spending will only then be considered if required by the Council's underlying cash flow needs. Some long term loans (over 10 years) may be undertaken to replace debt which matures in the year. With the reduction of cash balances the level of short term investments will fall. Given that investment returns are likely to remain low (say) 0.75% for the financial year 2020/21, then savings will be made from running down investments rather than taking out more expensive long term loans. All prospects for rescheduling debt will be considered, in order to generate savings by switching from high costing long term debt to lower costing shorter term debt.
OPTIONS & RECOMMENDED OPTION	It is recommended that Overview and Scrutiny Committee notes the report; It is recommended that Cabinet approves, for onward submission to Council, the: • Prudential Indicators forecast for 3 years • Treasury Management Strategy for 2020/21 • Minimum Revenue Provision Policy for 2019/20 and 2020/21 • Schemes of Delegation and Responsibility attached at Appendices 2 and 6 It is recommended that Council approves the report. Reasons for the Decision: It is a requirement of the CIPFA Code that the Council receives an annual treasury management strategy report.

IMPLICATIONS:	
Corporate Aims/Policy Framework:	

	Do the proposals accord with the Policy Framework? Yes
Statement by the S151 Officer: Financial Implications and Risk Considerations:	Treasury Management is an integral part of the Council's financial framework and it is essential that the correct strategy is adopted in order to ensure that best value is obtained from the Council's resources and that assets are safeguarded.
Statement by Executive Director of Resources & Regulation:	There are no additional resource implications.
Health & Safety implications:	There are no direct Health & Safety implications
Equality/Diversity implications:	No
Considered by Monitoring Officer:	Yes
Wards Affected:	All
Scrutiny Interest:	Overview & Scrutiny Committee

TRACKING/PROCESS **JOINT CHIEF FINANCE OFFICER: MIKE WOODHEAD**

Chief Executive/ Senior Leadership Team	Cabinet Member/Chair	Ward Members	Partners
	Leader / Finance		
Scrutiny Committee	Cabinet	Committee	Council
11th February 2020	26th February 2020		26th February 2020

1.0 BACKGROUND

1.1 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.

1.2 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, essentially the longer term cash flow planning to ensure that the Council can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet Council risk or cost objectives.

1.3 The contribution the treasury management function makes to the authority is critical, as the balance of debt and invetment operations ensure liquidity or the ability to meet spending commitmants as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.

1.4 Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activities, (arising usually from capital expenditure), and are separate from the day to day treasury management activities.

1.5 CIPFA defines treasury management as:
"The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

1.6 Revised reporting was required for the 2019/20 reporting cycle due to revisions of the MHCLG Investment Guidance, the MHCLG Minimum revenue Provision (MRP) Guidance, the CIPFA Prudential Code and the CIPFA Treasury Management Code. The primary reporting changes included the introduction of a capital strategy, to provide a longer-term focus to the capital plans, and greater reporting requirements surrounding any commercial activity undertaken under the Localism Act 2011. The capital strategy for 2020/21 is being reported separately.

1.7 Reporting requirements

1.7.1 Capital Strategy

1.7.1.1 The CIPFA 2017 Prudential and Treasury Management Code require all local authorities to prepare a capital strategy report, which will provide the following:-

- A high-level long term 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

1.7.1.2 The aim of this capital strategy is to ensure that all elected members on the full council understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedues and risk appetite.

1.7.1.3 This capital strategy is reported separately from the Treasury Management Strategy Statement; non-treasury investments will be reported through the former. This ensures the separation of the core treasury function under security, liquidity and yield principles, and the policy and commercialism investments usually driven by expenditure on an asset. The capital strategy will show:

- The corporate governance arrangements for these types of activities;
- Any service objectives relating to the investments;
- The expected income, costs and resulting contribution;
- The debt related to the activity and the associated interest costs;
- The payback period (MRP policy);
- For non-loan type investments, the cost against the current market value;
- The risks associated with each activity

1.7.1.4 Where a physical asset is being bought, details of market research, advisers used (and their monitoring), ongoing costs and investment requirements and any credit information will be disclosed, including the ability to sell the asset and realise the investment cash.

1.7.1.5 Where the Council has borrowd to fund any non-treasury investment, there should also be an explanation of why borrowing was required and why the MHCLG Investment Guidance and CIPFA Prudential Code have not been adhered to.

1.7.1.6 If any non-treasury investment sustains a loss during the final accounts and audit process, the strategy and revenue implications will be reported through the same procedure as the Capital Strategy.

1.7.1.7 To demonstrate the proportionality between the treasury operations and the non-treasury operation, high-level comparators are shown throughout this report.

1.7.2 Treasury Management reporting

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

Prudential and treasury indicators and treasury strategy (this report) – the first, and most important report covers:

- the capital plans (including prudential indicators);
- a minimum revenue provision (MRP) 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 mid year treasury management report – 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.

1.7.2.2 The above reports are required to be adequately scrutinised before being recommended to the Council. This role is undertaken by the Overview and Scrutiny Committee.

1.8 In Year Monitoring Arrangements

1.8.1 Budget monitoring reports are produced on a monthly basis, together with quarterly reporting to Cabinet and the Overview and Scrutiny Committee.

1.8.2 In 2019/20 the average rate of return on investments is 0.67% as at 31st December 2019.

1.9 Treasury Management Strategy for 2020/21

1.9.1 The strategy for 2020/21 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.

1.9.2 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.

1.10 Training

1.10.1 The CIPFA Code requires the responsible officer to ensure that members with responsibilty for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny. Training has been undertaken by members in 2017/18 and further training will be arranged as required. The training needs of treasury management officers are periodically reviewed.

1.11 Treasury Management consultants

1.11.1 The Council uses Link Asset Services, Treasury solutions as its external treasury management advisors.

1.11.2 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 our external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisors.

1.11.3 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.

1.11.4 The scope of investments within the Council's operations now includes both conventional treasury investments, (the placing of residual cash from the Council's functions), and more commercial type investments, such as investment properties. The commercial type investments require specialist advisers, and the Council uses Bilfinger GVA in relation to this activity.

2.0 THE CAPITAL PRUDENTIAL INDICATORS 2020/21 – 2022/23

2.1 The Council's capital expenditure plans are the key driver of treasury management activity. The outputs of the capital expenditure plans are reflected in prudential indicators, which are designed to assist Members overview and confirm capital expenditure plans.

2.2 Capital expenditure

2.2.1 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.

Capital Expenditure	2018/19 Actual £'000	2019/20 Estimate £'000	2020/21 Estimate £'000	2021/22 Estimate £'000	2022/23 Estimate £'000
Non-HRA	24,340	34,810	41,271	29,803	30,158
HRA	11,008	9,386	9,830	10,000	10,000
Commercial activities / non-financial investments *	551	0	0	0	0
Total	**35,348**	**44,196**	**51,101**	**39,803**	**40,158**

*Commercial activities / non-financial investments relate to areas such as capital expenditure on investment properties, loans to third parties etc.

2.2.2 Other long-term liabilities – The above financing need excludes other long-term liabilities, such a PFI and leasing arrangements that already include borrowing instruments.

2.2.3 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	2018/19 Actual £'000	2019/20 Estimate £'000	2020/21 Estimate £'000	2021/22 Estimate £'000	2022/23 Estimate £'000
Capital receipts	1,749	1,662	609	0	0
Capital grants	15,949	15,939	14,978	2,339	2,339
Capital reserves	9,091	13,131	9,830	10,000	10,000
Revenue	2,042	0	0	0	0
Total	**28,831**	**30,732**	**25,417**	**12,339**	**12,339**
Net financing need	**6,517**	**13,464**	**25,684**	**27,464**	**27,819**

2.3 The Council's borrowing need (the Capital Financing Requirement)

2.3.1 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 underlying borrowing need. Any capital expenditure above, which has not immediately been paid for through a revenue or capital resource, will increase the CFR.

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

2.3.3 The CFR includes any other long term liabilities (e.g. finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility and so the Council is not required to separately borrow for these schemes.

Capital Financing Requirement	**2018/19 Actual £'000**	**2019/20 Estimate £'000**	**2020/21 Estimate £'000**	**2021/22 Estimate £'000**	**2022/23 Estimate £'000**
CFR – non HRA	131,244	141,082	166,206	189,345	212,376
CFR – HRA	118,784	118,784	118,784	118,784	118,784
CFR - Commercial activities / non-financial investments	8,313	8,864	8,864	8,864	8,864
Total CFR	**258,341**	**268,729**	**293,855**	**316,994**	**340,025**
Movement in CFR	**12,621**	**10,388**	**25,125**	**23,139**	**23,031**

2.3.4 A key aspect of the regulatory and professional guidance is that elected members are aware of the size and scope of any commercial activity in relation to the authority's overall financial position. The capital expenditure figures shown in 2.2 and the details above demonstrate the scope of this activity and, by approving these figures, consider the scale proportionate to the Authority's remaining activity.

2.3.5 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.

2.4 Minimum revenue provision (MRP) policy statement

2.4.1 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).

2.4.2 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's MRP Statement for the year 2019/20 stated:-

- MRP for supported borrowing will be calculated using 2% over 50 years in equal annual instalments as a variation on the 'Regulatory Method' of calculating MRP.
- The Asset Life method of calculating repayment provision will be used for unsupported borrowing.
- The Interim Executive Director of Resources and Regulation may from time to time and when it is beneficial to the efficient financial administration of the Council, vary the amounts charged as MRP in the year by making additional and voluntary payments of MRP. In these circumstances, the amount paid would not prejudice the existing strategy or be counter to the regulatory intent of that strategy.

2.4.3 The Council has recently commissioned a MRP review from Link Consultancy. As a result of this review it is proposed to change from the current straight line basis of calculating MRP over the life of the asset to an annuity method. CIPFA's 'The Practitioner's Guide to Capital Finance in Local Government' (2008) states; "The annuity method provides a fairer charge than equal instalments as it takes account of the time value of money, whereby paying £100 in 10 years' time is less of a burden than paying £100 now. The schedule of charges produced by the annuity method thus results in a consistent charge over an asset's life, taking into the real value of the amounts when they fall due."

2.4.4 Changing to an annuity basis of calculation would realise savings of approximately £1.1m in each of the next 3 years, whilst leading to an increase in MRP in later years. Full details are contained in the revised MRP strategy (Appendix 7)

2.4.4 The Council is recommended to approve the following MRP Statement for the year 2019/20 and 2020/21:-

- MRP for supported borrowing will be calculated using 2.39% over 50 years under the Annuity method of calculating MRP.
- The Asset Life method of calculating repayment provision will be used for unsupported borrowing.
- The Joint Chief Finance Officer may from time to time and when it is beneficial to the efficient financial administration of the Council, vary the amounts charged as MRP in the year by making additional and voluntary payments of MRP. In these circumstances, the amount paid would not prejudice the existing strategy or be counter to the regulatory intent of that strategy.

2.4.5 MRP Overpayments – A change introduced by the revised MHCLG MRP Guidance was the allowance that any charges made over the statutory minimum revenue provision (MRP), voluntary revenue provision or overpayments, can, if needed, be reclaimed in later years if deemed necessary or prudent. In order for these sums to be reclaimed for use in the budget, this policy must disclose the cumulative overpayment made each year. Up until the 31st March 2020 the total VRP overpayments were £2.789m.

2.4.6 A technical adjustment to the MRP calculation has also been highlighted in the Link Consultancy review. In effect, the Authority has overcharged MRP for the four years following the change in MRP policy, and if the Council were to amend prior year calculations, it would have an MRP excess of £812k which it could use to reduce future year's MRP charges. The revised calculations would also be applied in future years leading to a £203k reduction in MRP each year. Approval is requested to amend these calculations both retrospectively and moving forwards.

3.0 BORROWING

3.1 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 the relevant professional codes, so that sufficient cash is available to meet this service activity. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of approporiate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

3.2 Current portfolio position

3.2.1 To assist Members in agreeing a strategy for 2020/21 the Council's current treasury portfolio position (at nominal value) is detailed below:

		31st March 2019			Forecast 31st March 2020		
		Principal		Avg.	Principal		Avg.
		£0	£0	Rate	£0	£0	Rate
Fixed rate funding							
	PWLB Bury	139,253			134,073		
	PWLB Airport	11,828			11,828		
	Market Bury	44,000	195,081		56,300	202,201	
Variable rate funding							
	PWLB Bury	0			0		
	Market Bury	0	0		0	0	
Temporary Loans / Bonds		7,503	7,503		13,003	13,003	
Total Debt			**202,584**	**3.95%**		**215,203**	**3.95%**
Total Cash Investments			**14,760**	**0.66%**		**9,950**	**0.67%**
Total Investment Properties			**8,313**	**5.63%**		**8,864**	**2.73%**

The Council's forward projections for borrowing are summarised below. The table shows the actual external debt, against the underlying capital borrowing need, (the Capital Financing Requirement – CFR), highlighting any over or under borrowing.

£m	2018/19 Actual	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
External Debt					
Debt at 1 April	194,510	202,584	212,903	228,689	233,044
Expected change in Debt	8,074	10,319	15,786	4,355	4,000
Actual gross debt at 31 March	**202,584**	**212,903**	**228,689**	**233,044**	**237,044**
The Capital Financing Requirement	**250,028**	**259,866**	**284,991**	**308,130**	**331,161**
Under / (over) borrowing	**-47,444**	**-46,963**	**-56,301**	**-75,085**	**-94,117**

3.2.2 The forecast accumulated capital financing requirement at the end of 2019/20 is £259.9m. The forecast borrowing at the end of 2019/20 is £212.9m meaning that the Authority is under borrowed by £47m.

3.2.3 The cash investment portfolio after the Capital Programme has been spent during 2019/20 is estimated to be around £9.95m. In preference to taking out long term borrowing, the Authority is taking temporary loans and running down investments to finance capital expenditure because investment returns are low

at the present time. The estimated rate of interest on investments for 2019/20 is 0.67% against the 3 month LIBID investment benchmark of 0.7%.

3.2.4 The Council is also investing in properties that deliver a sustainable rental yield; under its "Property Investment Strategy"

3.2.5 Within the range of prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well-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 2020/21 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue or speculative purposes.

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

3.3 Treasury Indicators: limits to borrowing activity

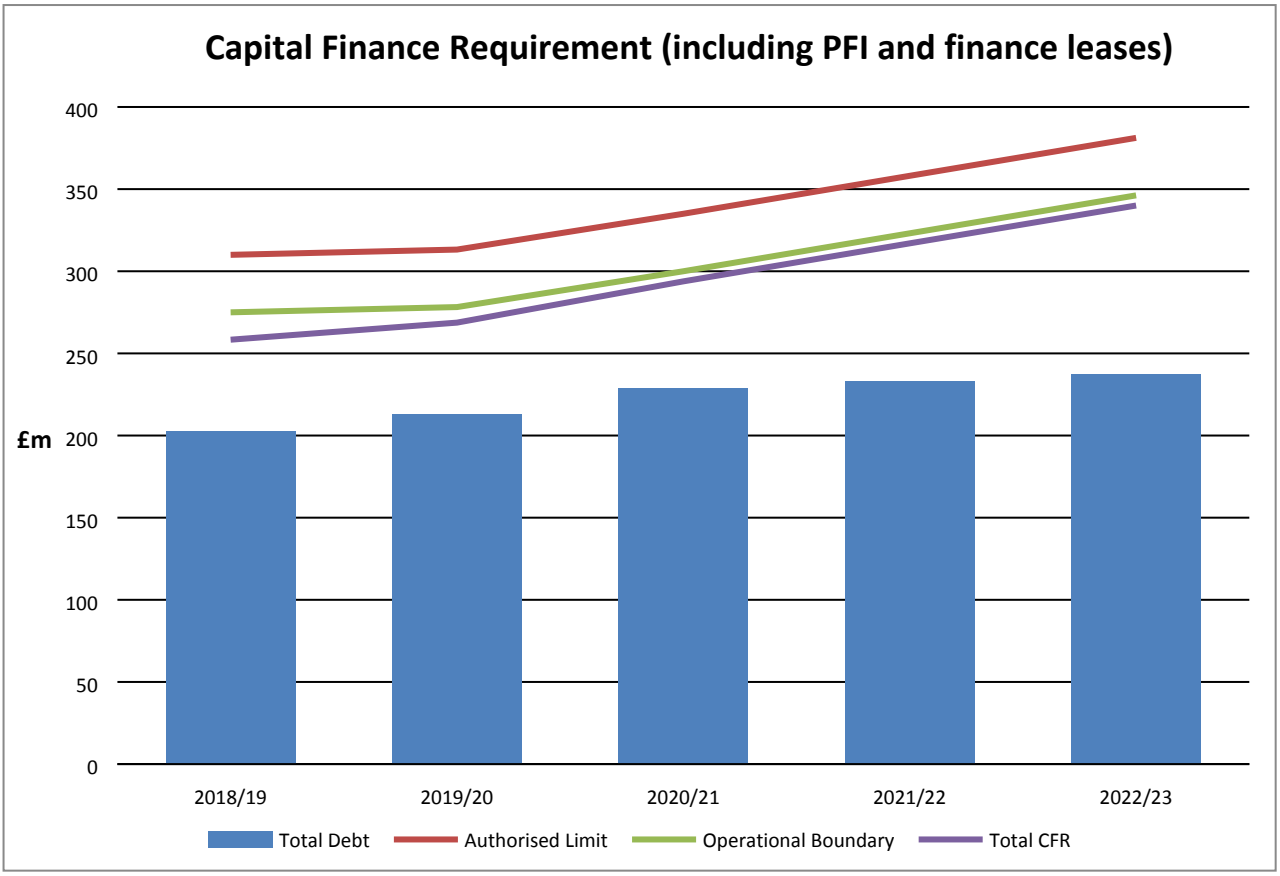
3.3.1 **The operational boundary.** This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt and the ability to fund under-borrowing by other cash resources.

Operational boundary	2019/20 Estimate £'000	2020/21 Estimate £'000	2021/22 Estimate £'000	2022/23 Estimate £'000
Borrowing	263,200	285,000	308,100	331,200
Other long term liabilities	5,000	5,000	5,000	5,000
Commercial activities / non - financial investments	10,000	10,000	10,000	10,000
Total	**278,200**	**300,000**	**323,100**	**346,200**

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

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.

Authorised limit	2019/20 Estimate £'000	2020/21 Estimate £'000	2021/22 Estimate £'000	2022/23 Estimate £'000
Borrowing	298,200	320,000	343,100	366,200
Other long term liabilities	5,000	5,000	5,000	5,000
Commercial activities / non - financial investments	10,000	10,000	10,000	10,000
Total	**313,200**	**335,000**	**358,100**	**381,200**



3.4 Prospects for interest rates

3.4.1 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 gives their central view.

Link Asset Services Interest Rate View	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Bank Rate View	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.25	1.25	1.25	1.25
3 Month LIBID	0.70	0.70	0.70	0.80	0.90	1.00	1.00	1.00	1.10	1.20	1.30	1.30	1.30	1.30
6 Month LIBID	0.80	0.80	0.80	0.90	1.00	1.10	1.10	1.20	1.30	1.40	1.50	1.50	1.50	1.50
12 Month LIBID	1.00	1.00	1.00	1.10	1.20	1.30	1.30	1.40	1.50	1.60	1.70	1.70	1.70	1.70
5yr PWLB Rate	2.30	2.40	2.40	2.50	2.50	2.60	2.70	2.80	2.90	2.90	3.00	3.10	3.20	3.20
10yr PWLB Rate	2.60	2.70	2.70	2.70	2.80	2.90	3.00	3.10	3.20	3.20	3.30	3.30	3.40	3.50
25yr PWLB Rate	3.20	3.30	3.40	3.40	3.50	3.60	3.70	3.70	3.80	3.90	4.00	4.00	4.10	4.10
50yr PWLB Rate	3.10	3.20	3.30	3.30	3.40	3.50	3.60	3.60	3.70	3.80	3.90	3.90	4.00	4.00

3.4.2 The above forecasts have been based on an assumption that there is an agreed deal on Brexit, including agreement on the terms of trade between the UK and EU, at some point in time. The result of the general election has removed much uncertainty around this major assumption. However, it does not remove uncertainty around whether agreement can be reached with the EU on a trade deal within the short time to December 2020, as the prime minister has pledged.

3.4.3 The Monetary Policy Committee (MPC) has left Bank Rate unchanged at 0.75% in 2019 due to the ongoing uncertainty over Brexit and the outcome of the general election. Brexit uncertainty has had a dampening effect on UK GDP growth in 2019, especially around mid-year. There is still some residual risk that the MPC could cut Bank Rate at its 19 December meeting as the UK economy is still likely to only grow weakly in 2020 due to continuing uncertainty over whether there could effectively be a no deal Brexit in December 2020 if agreement on a

trade deal is not reached with the EU. Until that major uncertainty is removed, or the period for agreeing a deal is extended, it is unlikely that the MPC would raise Bank Rate.

3.4.4 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. This has pulled down the overall level of interest rates and bond yields in financial markets over the last thirty years.

3.4.5 The overall longer run future trend is for gilt yields, and consequently PWLB rates, to rise, albeit gently. 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. Such volatility could occur at any time during the forecast period.

3.4.6 In addition, PWLB rates are subject to ad hoc decisions by H.M. Treasury to change the margin over gilt yields charged in PWLB rates: such changes could be up or down. It is not clear that if gilt yields were to rise back up again by over 100bps within the next year or so, whether H M Treasury would remove the extra 100 bps margin implemented on 9.10.19.

3.4.7 Economic and interest rate forecasting remains difficult with so many external influences weighing on the UK. The above forecasts (and MPC decisions) will be liable to further amendment depending on how economic data and developments in financial markets transpire over the next year. Geopolitical developments, especially in the EU, could also have a major impact. Forecasts for average investment earnings beyond the three-year time horizon will be heavily dependent on economic and political developments.

3.5 Investment and borrowing rates

3.5.1 Investment returns are likely to remain low during 2020/21 but to be on a gently rising trend over the next few years. However, if major progress is made with an agreed Brexit, then there is upside potential for earnings

3.5.2 Borrowing interest rates were on a major falling trend during the first half of 2019-20 but then jumped up by 100 bps on 9.10.19. The policy of avoiding new borrowing by running down spare cash balances will continue as the unexpected increase of 100 bps in PWLB rates makes further longer term borrowing more expensive until such time as the extra 100 bps margin is removed.

3.5.3 While this authority will not be able to avoid borrowing to finance new capital expenditure, to replace maturing debt and the rundown of reserves, there will be a cost of carry, (the difference between higher borrowing costs and lower investment returns), to any new short or medium-term borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost.

3.6 Borrowing strategy

3.6.1 The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is still an issue that needs to be considered.

3.6.2 Against this background and the risks within the economic forecast, caution will be adopted with the 2020/21 treasury operations. The Joint Chief Finance Officer will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

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

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

3.6.3 Any decisions will be reported to the appropriate decision making body at the next available opportunity.

3.7 Policy on borrowing in advance of need

3.7.1 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.

3.7.2 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.

3.8 Debt rescheduling

3.8.1 Rescheduling of current borrowing in our debt portfolio is unlikely to occur as the 100bps increase in PWLB rates only applied to new borrowing rates and not to premature debt repaymenmt rates.

3.8.2 If rescheduling was done, it will be reported to the Council, at the earliest meeting following its action.

3.9 New financial institutions as source of borrowing

3.9.1 Following the decision by the PWLB on 9 October 2019 to increase their margin over gilt yields by 100 bps to 180 basis points on loans lent to local authorities, consideration will also need to be given to sourcing funding at cheaper rates from the following:

- Local authorities (primarily shorter dated maturities)
- Financial institutions (primarily insurance companies and pension funds but also some banks, out of spot or forward dates)
- Municipal Bonds Agency (no issuance at present but there is potential)

3.9.2 The degree which any of these options proves cheaper than PWLB Certainty Rate is still evolving at the time of writing but our advisors will keep us informed.

3.10 Approved Sources of Long and Short term Borrowing

On Balance Sheet	Fixed	Variable
PWLB	●	●
Municipal bond agency	●	●
Local authorities	●	●
Banks	●	●
Pension funds	●	●
Insurance companies	●	●
Market (long-term)	●	●
Market (temporary)	●	●
Market (LOBOs)	●	●
Stock issues	●	●
Local temporary	●	●
Local Bonds	●	
Local authority bills	●	●
Overdraft		●
Negotiable Bonds	●	●
Internal (capital receipts & revenue balances)	●	●
Commercial Paper	●	
Medium Term Notes	●	
Finance leases	●	●

4.0 ANNUAL INVESTMENT STRATEGY

4.1 Investment policy – management of risk

4.1.1 The MHCLG and CIPFA have extended the meaning of "investments" to include both financial and non-financial investments. This report deals solely with financial investments, (as managed by the treasury management team). Non-financial investments, essentially the purchase of income yielding assets, ar covered in the Capital Strategy, (a separate report).

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).

4.1.2 The above guidance from the MHCLG and CIPFA place a high priority on the management of risk. This authority has adopted a prudent approach to managing risk and defines its risk appetite by the following means:-

- Minimum acceptable **credit citeria** are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the Short Term and Long Term ratings.
- **Other information**: 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 it's 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.
- This authority has defined the list of **types of investment instruments** that the treasury management team are authorised to use. There are two lists in appendix 2 under the categories of "specified" and "non-specified" investments.
    - **Specified investments** are those with a high level of credit quality and subject to a maturity limit of one year.
    - **Non-specified investments** are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use.
- This authority will set a limit for the amount of its invetments whih are invested for **longer than 365 days** (see paragraph 4.4.5)
- Investments will only be placed with counterparties from countries with a specified minimum **sovereign rating** (see Appendix 3)
- This authority has engaged **external consultants** (see paragraph 1.11), to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of this authority in the context of the expected level of cash balances and need for liquidity throughout the year.
- All investments will be denominated in **sterling**.

- As a result of the change in accounting standards for 2018/19 under IFRS 9, this authority will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. (In November 2018, the Ministry of Housing, Communities and Local Government, [MHCLG], concluded a consultation for a temporary override to allow English local authorities time to adjust their portfolio of all pooled investments by announcing a statutory override to delay implementation of IFRS 9 for five years commencing from 1.4.18.)

4.1.3 However, this authority will also pursue **value for** money in treasury management and will monitor the yield from investment income against appropriate benchmarks for investments performance (see paragraph 4.4). Regular monitoring of investment performance will be carried out during the year.

4.1.6 The above criteria are unchanged from 2019/20.

4.2 Creditworthiness policy

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

- credit watches and credit outlooks from credit rating agencies;
- CDS spreads to give early warning of likely changes in credit ratings;
- sovereign ratings to select counterparties from only the most creditworthy countries.

4.2.2 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 coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the suggested duration for investments. The Council will therefore use counterparties within the following durational bands:

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

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

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

4.2.4 Typically the minimum credit ratings criteria the Council use will be a Short Term rating (Fitch or equivalents) of F1 and a Long Term rating of A-. There may be

occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances, consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

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

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

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

	Colour (and long term rating where applicable)	Time Limit
Banks *	**yellow**	**5 yrs**
Banks	**purple**	**2 yrs**
Banks	**orange**	**1 yr**
Banks – part nationalised	**blue**	**1 yr**
Banks	**red**	**6 mths**
Banks	**green**	**100 days**
Banks	**No colour**	**Do not use**
DMADF	**UK sovereign rating**	**6 months**
Local authorities	**n/a**	**5 yrs**
Housing associations	**Colour bands**	**As per colour band**
	Fund rating	**Time Limit**
Money Market Funds CNAV	**AAA**	**liquid**
Money Market Funds LVNAV	**AAA**	**liquid**
Money Market Funds VNAV	**AAA**	**liquid**
Ultra-Short Dated Bond Funds with a credit score of 1.25	**Dark pink / AAA**	**liquid**
Ultra-Short Dated Bond Funds with a credit score of 1.50	**Light pink / AAA**	**liquid**

4.2.6 The largest UK banks, (those with more than £25bn of retail / Small and Medium-sized Enterprise (SME) deposits), are required, by UK law, to separate core retail banking services from their investment and international banking activities by 1st January 2019. This is known as "ring-fencing". Whilst smaller banks with less than £25bn in deposits are exempt, they can choose to opt up. Several banks are very close to the threshold already and so may come into scope in the future regardless.

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

4.2.8 While the structure of the banks included within this process may have changed, the fundamentals of credit assessment have not. The Council will continue to assess the new-formed entities in the same way that it does others and those with sufficiently high ratings, (and any other metrics considered), will be considered for investment purposes.

4.3 Country limits

4.3.1 The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA- from Fitch Ratings (or equivalent from other agencies if Fitch does not provide). The list of countries that qualify using this credit criteria as at the date of this report are shown in Appendix 3, although the Council's current approach is to use UK High Street Banks and other public bodies. The list of counterparties will be added to, or deducted from, by officers should ratings change in accordance with this policy.

4.4 Investment Strategy

4.4.1 **In-house funds.** 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). Greater returns are usually obtainable by investing for longer periods. While most cash balances are required in order to manage the ups and downs of cash flow, where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer term investments will be carefully assessed.

- If it is thought that Bank Rate is likely to rise significantly within the time horizon being considered, then consideration will be given to keeping most investments as being short term or variable.

- Conversely, if it is thought that Bank Rate is likely to fall within that time period, consideration will be given to locking in higher rates currently obtainable, for longer periods.

4.4.2 **Investment returns expectations.** On the assumption that the UK and EU agree a Brexit deal including the terms of trade by the end of 2020 or soon after, then Bank Rate is forecast to increase only slowly over the next few years to reach 1.00% by quarter 1 2023. Bank Rate forecasts for financial year ends (March) are:

- Q1 2021 0.75%
- Q1 2022 1.00%
- Q1 2023 1.00%

4.4.3 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:

2019/20	0.75%
2020/21	0.75%
2021/22	1.00%
2022/23	1.25%
2023/24	1.50%
2024/25	1.75%
Later years	2.25%

4.4.3 The overall balance of risks to economic growth in the UK is probably to the downside due to the weight of all the uncertainties over Brexit, as well as a softening global economic picture,

4.4.4 The balance of risks to increases in Bank Rate and shorter term PWLB rates, are broadly similar to the downside.

4.4.5 In the event that a Brexit deal is agreed with the EU and approved by Parliament, the balance of risks to economic growth and to increases in Bank Rate is likely to change to the upside.

4.4.5 **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.

Maximum principal sums invested > 364 & 365 days			
£m	**2019/20**	**2020/21**	**2021/22**
Principal sums invested > 364 & 365 days	£10m	£10m	£10m

(This takes account of the proposed change in the CIPFA Treasury Code from a 364 day limit to 365 days.)

4.4.6 For its cash flow generated balances, the Council will seek to utilise its business reserve, instant access and notice accounts, money market funds and short-dated deposits (overnight to 100 days) in order to benefit from the compounding of interest.

4.5 End of year investment report

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

5.0 EQUALITY & DIVERSITY

5.1 An initial assessment has been undertaken and it is concluded that there will be no negative impact from this report.

Councillor Eamonn O'Brien
Cabinet Member for Finance and Housing

For further information on the contents of this report, please contact:

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APPENDIX 1: Interest Rate Forecasts 2020 – 2023

PWLB rates and forecast shown below have taken into account the 20 basis point certainty rate reduction effective as of the 1st November 2012

Link Asset Services Interest Rate View	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Bank Rate View	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.25	1.25	1.25	1.25
3 Month LIBID	0.70	0.70	0.80	0.90	1.00	1.00	1.00	1.10	1.20	1.30	1.30	1.30	1.30
6 Month LIBID	0.80	0.80	0.90	1.00	1.10	1.10	1.20	1.30	1.40	1.50	1.50	1.50	1.50
12 Month LIBID	1.00	1.00	1.10	1.20	1.30	1.30	1.40	1.50	1.60	1.70	1.70	1.70	1.70
5yr PWLB Rate	2.40	2.40	2.50	2.50	2.60	2.70	2.80	2.90	2.90	3.00	3.10	3.20	3.20
10yr PWLB Rate	2.70	2.70	2.70	2.80	2.90	3.00	3.10	3.20	3.20	3.30	3.30	3.40	3.50
25yr PWLB Rate	3.30	3.40	3.40	3.50	3.60	3.70	3.70	3.80	3.90	4.00	4.00	4.10	4.10
50yr PWLB Rate	3.20	3.30	3.30	3.40	3.50	3.60	3.60	3.70	3.80	3.90	3.90	4.00	4.00
Bank Rate													
Link Asset Services	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%	1.25%
Capital Economics	0.75%	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	-	-	-	-	-
5yr PWLB Rate													
Link Asset Services	2.40%	2.40%	2.50%	2.50%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%	3.20%	3.20%
Capital Economics	2.40%	2.50%	2.50%	2.60%	2.60%	2.80%	2.80%	2.90%	-	-	-	-	-
10yr PWLB Rate													
Link Asset Services	2.70%	2.70%	2.70%	2.80%	2.90%	3.00%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%	3.50%
Capital Economics	2.70%	2.70%	2.80%	2.80%	2.90%	3.00%	3.00%	3.10%	-	-	-	-	-
25yr PWLB Rate													
Link Asset Services	3.30%	3.40%	3.40%	3.50%	3.60%	3.70%	3.70%	3.80%	3.90%	4.00%	4.00%	4.10%	4.10%
Capital Economics	3.10%	3.10%	3.20%	3.20%	3.20%	3.30%	3.30%	3.40%	-	-	-	-	-
50yr PWLB Rate													
Link Asset Services	3.20%	3.30%	3.30%	3.40%	3.50%	3.60%	3.60%	3.70%	3.80%	3.90%	3.90%	4.00%	4.00%
Capital Economics	3.10%	3.10%	3.20%	3.20%	3.30%	3.40%	3.40%	3.50%	-	-	-	-	-

APPENDIX 2: Treasury Management Practice (TMP1) – Credit and Counterparty Risk Management

SPECIFIED INVESTMENTS: All such investments will be sterling denominated, with **maturities up to 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. A maximum of 100% will be held in aggregate in non-specified investment

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

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

	Minimum credit criteria / colour band	**Max % of total investments / £ limit per institution**	**Max. maturity period**
DMADF – UK Government	yellow	100%	6 months (max. is set by the DMO*)
UK Government gilts	yellow		5 years
UK Government Treasury bills	yellow		364 days (max. is set by the DMO*)
Bonds issued by multilateral development banks	yellow		5 years
Money Market Funds CNAV	AAA	100%	Liquid
Money Market Funds LNVAV	AAA		Liquid
Money Market Funds VNAV	AAA		Liquid
Ultra-Short Dated Bond Funds with a credit score of 1.25	AAA	100%	Liquid
Ultra-Short Dated Bond Funds with a credit score of 1.5	AAA	100%	Liquid
Local authorities	yellow	100%	5 years
Term deposits with housing associations	Blue Orange Red Green No Colour		12 months 12 months 6 months 100 days Not for use
Term deposits with banks and building societies	Blue Orange Red Green No Colour		12 months 12 months 6 months 100 days Not for use
CDs or corporate bonds with banks and building societies	Blue Orange Red Green No Colour		12 months 12 months 6 months 100 days Not for use
Gilt funds	UK sovereign rating		

APPENDIX 3: Approved countries for investments

This list is based on those countries which have sovereign ratings of AA- or higher and also, (except - at the time of writing - for Hong Kong, Norway and Luxembourg), have banks operating in sterling markets which have credit ratings of green or above in the Capita Asset Services credit worthiness service.

AAA

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

AA+

- Finland
- U.S.A.

AA

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

AA-

- Belgium
- Qatar

(note the Council only invests in the highest rated UK institutions)

APPENDIX 4: DELEGATION AND RESPONSIBILITY

The following personnel are involved on a regular basis in Treasury Management: -

Joint Chief Finance Officer (Mike Woodhead)	Overall supervision of Treasury Management function and cash flow. Regular reviews of Treasury Management Strategy and monitor performance.
Head of Management Accountancy (Jane Bunn)	Manage and undertake day to day Treasury Management Activities in accordance with Treasury Strategy and Policy Statement.
Senior Accountant (Joanne McIntyre)	Deputise for Head of Management Accountancy in her duties as required.
Senior Accountant (Angela Sozansky)	Deputise for Senior Accountant in her duties as required.
Senior Accountancy Assistant (Stephen Blake)	Deputise for Senior Accountant in her duties as required.

Please note that the Council's signatories for treasury management transactions are :-

Mike Woodhead	Joint Chief Finance Officer
Jane Bunn	Head of Management Accountancy

APPENDIX 5: Treasury management scheme of delegation

(i) Full 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.

APPENDIX 6: The treasury management role of the section 151 officer

The S151 (responsible) officer

- 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.

The above list of specific responsibilities of the S151 officer in the 2017 Treasury Management Code has not changed. However, implicit in the changes in both codes, is a major extension of the functions of this role, especially in respect of non-financial investments, (which CIPFA has defined as being part of treasury management).

- preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments 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 non-financial investments and is in accordance with the risk appetite of the authority
- ensure that the authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing
- ensuring the proportionality of all investments so that the authority does not undertake a level of investing which exposes the authority to an excessive level of risk compared to its financial resources
- ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long term liabilities
- provision to members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees
- ensuring that members are adequately informed and understand the risk exposures taken on by an authority
- ensuring that the authority has adequate expertise, either in house or externally provided, to carry out the above
- creation of Treasury Management Practices which specifically deal with how non treasury investments will be carried out and managed, to include the following *(TM Code p54): -*
    - *Risk management (TMP1 and schedules), including investment and risk management criteria for any material non-treasury investment portfolios;*
    - *Performance measurement and management (TMP2 and schedules), including methodology and criteria for assessing the performance and success of non-treasury investments;*
    - *Decision making, governance and organisation (TMP5 and schedules), including a statement of the governance requirements for decision making in relation to non-treasury investments; and arrangements to ensure that appropriate professional due diligence is carried out to support decision making;*

- *Reporting and management information (TMP6 and schedules), including where and how often monitoring reports are taken;*

- *Training and qualifications (TMP10 and schedules), including how the relevant knowledge and skills in relation to non-treasury investments will be arranged.*

APPENDIX 7

BURY COUNCIL

Minimum Revenue Provision Policy

2019/20 and 2020/21

1.0 BACKGROUND

1.1 Local authorities have a statutory requirement to set aside each year a "prudent" amount of their revenues as a provision for the repayment of debt, called the Minimum Revenue Provision (MRP). The provision relates to capital expenditure incurred in previous years and financed by borrowing. Statutory Guidance covering Minimum Revenue Provision (published February 2012 by the Department for Communities and Local Government) sets out various options and boundaries for calculating prudent provision.

1.2 Whilst "prudent provision" is not specifically defined, the guidance suggests that debt ought to be repaid over a period that is either commensurate with that over which the capital expenditure to which it relates provides benefits, or in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of the grant.

1.3 The guidance requires authorities to publish an annual MRP policy statement outlining how prudent provision is to be made. To be valid, the policy statement must be approved by a full Council Meeting.

1.4 The guidance sets out various options for calculating prudent MRP but does not rule out alternative approaches that are not specifically mentioned. One of the options presented in the guidance is the 'Regulatory Method' which equates to setting aside 4% of the opening balance outstanding relating to supported borrowing, less an adjustment (Adjustment A) that ensures consistency with previous capital regulatory regimes no longer in force. This option is available for all capital expenditure incurred prior to 1 April 2008.

2.0 CURRENT APPROACH

2.1 General Fund debt which was previously supported through the local government finance regime (previously supported borrowing) is worth around £118m (as at 31 March 2019). This 'debt' figure is notional and forms part of the Council's Capital Financing Requirement (CFR).

2.2 The council's MRP current policy for 2019/20 is as follows:-

- MRP for supported borrowing will be calculated using 2% over 50 years in equal annual instalments as a variation on the 'Regulatory Method' of calculating MRP.
- The Asset Life method of calculating repayment provision will be used for unsupported borrowing.
- The Joint Chief Financial Officer may from time to time and when it is beneficial to the efficient financial administration of the Council, vary the amounts charged as MRP in the year by making additional and voluntary payments of MRP. In these circumstances, the amount paid would not prejudice the existing strategy or be counter to the regulatory intent of that strategy.

2.3 This policy was put into place in 2015/16, and replaced the previous policy for supported borrowing which was the Regulatory Method (4% of opening CFR less Adjustment A).

2.4 This current straight line method means that the debt is fully extinguished within 50 years.

3.0 PROPOSED APPROACH

3.1 The MRP guidance suggests the charge can be applied either on a straight line basis over the life of the asset, which is the current policy, or by using the annuity method.

3.2 CIPFA's "The Practitioners Guide to Capital Finance in Local Government (2008) states:-
"The annuity method provides a fairer charge than equal instalments as it takes account of the time value of money, whereby paying £100 in 10 years' time is less of a burden than paying £100 now. The schedule of charges produced by the annuity method thus results in a consistent charge over an asset's life, taking into the real value of the amounts when they fall due."

3.3 The alternative option would be to switch from 2% straight line to an annuity basis. This would be considered as prudent as the repayment period would remain the same at 50 years

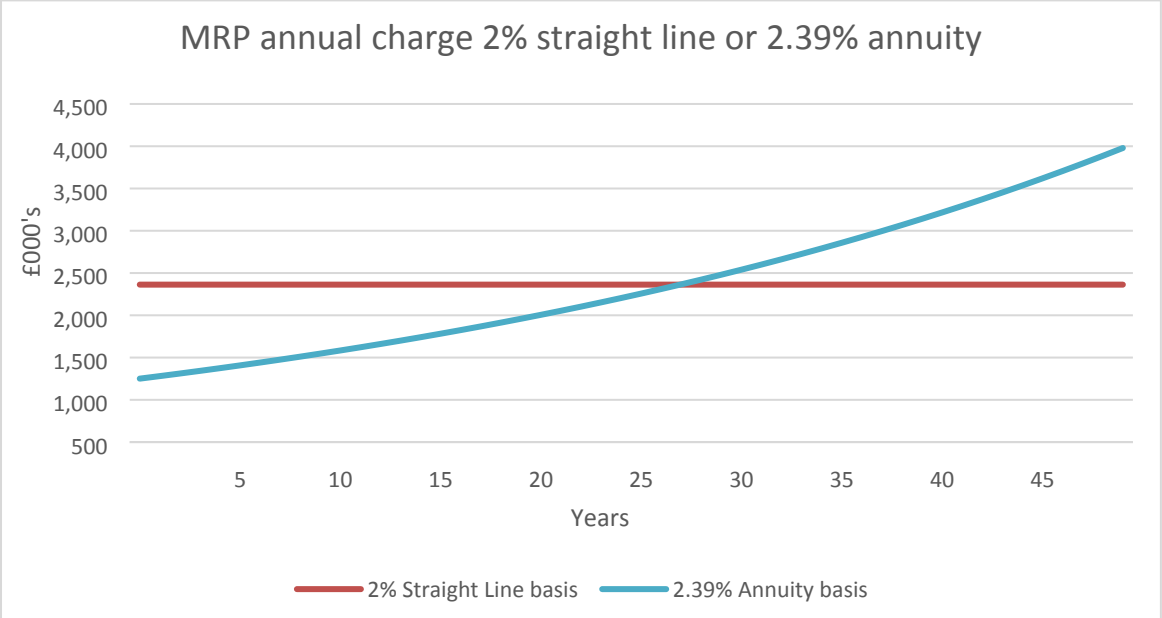
3.4 There are a number of options for both the annuity rate and the number of years to write down the charge. To demonstrate this approach a 50 year PWLB annuity rate as at 1 April 2019 of 2.39% has been used. This would realise savings of £1.1m in each of the next 3 years as summarised in the table below:-

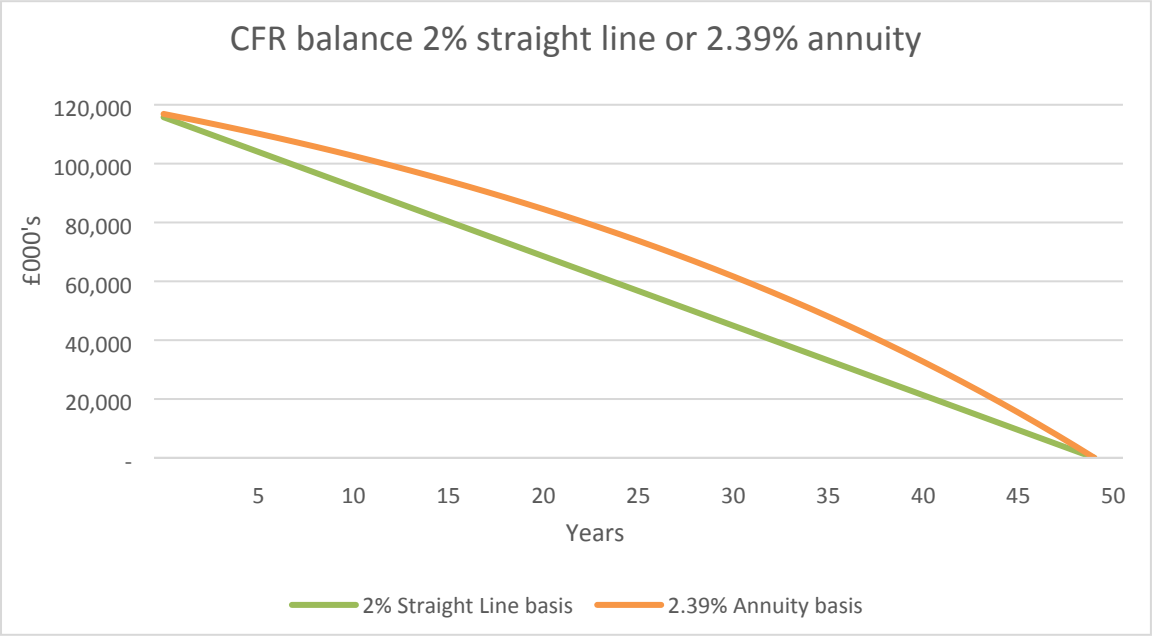
Financial Year	Current MRP @ 2% Straight line £000's	Proposed MRP @ 2.39% annuity £000's	Annual Saving / (Cost) £000's
2019/20	2,363	1,251	(1,112)
2020/21	2,363	1,281	(1,082)
2021/22	2,363	1,311	(1,051)
Years 4-10	16,539	10,099	(6,440)
Years 11-28	42,529	35,112	(7,417)
Years 29-50	51,980	69,082	17,103
TOTAL	118,136	118,136	0

3.5 Savings and Costs for the whole of the 50 year period from 2019/20 to 2068/69 are shown at Annex 1.

3.6 The Council will need to recognise and be comfortable with the fact that using the annuity method would increase MRP in later years and therefore may impact upon its ability to afford further capital expenditure financed by borrowing in the future.

3.7 The graphs below illustrate the MRP annual charges under the current and alternative options and also the CFR balance under each option.





4 Proposed Amendment to the Council's MRP Policy Statement

To enable Bury Council to adopt the 'equal instalments' approach to providing for MRP on previously supported General Fund borrowing, it is necessary to revise the Council's MRP policy statement to:-

- MRP for supported borrowing will be calculated using 2.39% over 50 years under the Annuity method of calculating MRP.
- The Asset Life method of calculating repayment provision will be used for unsupported borrowing.
- The Joint Chief Finance Officer may from time to time and when it is beneficial to the efficient financial administration of the Council, vary the amounts charged as MRP in the year by making additional and voluntary payments of

MRP. In these circumstances, the amount paid would not prejudice the existing strategy or be counter to the regulatory intent of that strategy.

5 Conclusion

Moving from an equal instalments approach to an annuity method continues the debt being fully repaid after 50 years. In present value terms, the annuity method is also more cost effective than the straight line method being just under £9m lower in present value terms. In nominal terms, the revenue cost of the equal instalments method is higher than the regulatory method between 2047/48 and 2068/69 but it does provide significant medium term revenue budget savings which will provide valuable support for the forthcoming medium term financial plan.

6 Recommendation

It is recommended that full Council is asked to amend the 2019/20 MRP Policy Statement to enable the Council to provide for MRP on previously supported General Fund borrowing at 2.39% on an annuity basis over a 50 year period commencing 1 April 2019.

Councillor Eamonn O'Brien
Cabinet Member for Finance and Housing

Mike Woodhead
Joint Chief Finance Officer

Proposed Change to Minimum Revenue Provision
Annual Savings and Costs

Annex 1

	2% Straight Line basis			2.39% Annuity basis				
Year	Opening CFR £000's	MRP £000's	Closing CFR £000's	Opening CFR £000's	MRP £000's	Closing CFR £000's	Saving / (Cost) in MRP £000's	NPV of saving / cost £000's
2019/2020	118,136	2,363	115,773	118,136	1,251	116,885	(1,112)	(1,112)
2020/2021	115,773	2,363	113,410	116,885	1,281	115,604	(1,082)	(1,045)
2021/2022	113,410	2,363	111,047	115,604	1,311	114,293	(1,051)	(982)
2022/2023	111,047	2,363	108,685	114,293	1,343	112,950	(1,020)	(920)
2023/2024	108,685	2,363	106,322	112,950	1,375	111,576	(988)	(861)
2024/2025	106,322	2,363	103,959	111,576	1,408	110,168	(955)	(804)
2025/2026	103,959	2,363	101,597	110,168	1,441	108,727	(922)	(750)
2026/2027	101,597	2,363	99,234	108,727	1,476	107,252	(887)	(697)
2027/2028	99,234	2,363	96,871	107,252	1,511	105,741	(852)	(647)
2028/2029	96,871	2,363	94,508	105,741	1,547	104,194	(816)	(599)
2029/2030	94,508	2,363	92,146	104,194	1,584	102,610	(779)	(552)
2030/2031	92,146	2,363	89,783	102,610	1,622	100,988	(741)	(507)
2031/2032	89,783	2,363	87,420	100,988	1,661	99,327	(702)	(465)
2032/2033	87,420	2,363	85,058	99,327	1,700	97,627	(662)	(424)
2033/2034	85,058	2,363	82,695	97,627	1,741	95,886	(622)	(384)
2034/2035	82,695	2,363	80,332	95,886	1,782	94,104	(580)	(346)
2035/2036	80,332	2,363	77,970	94,104	1,825	92,279	(538)	(310)
2036/2037	77,970	2,363	75,607	92,279	1,869	90,410	(494)	(275)
2037/2038	75,607	2,363	73,244	90,410	1,913	88,497	(449)	(242)
2038/2039	73,244	2,363	70,881	88,497	1,959	86,538	(404)	(210)
2039/2040	70,881	2,363	68,519	86,538	2,006	84,532	(357)	(179)
2040/2041	68,519	2,363	66,156	84,532	2,054	82,478	(309)	(150)
2041/2042	66,156	2,363	63,793	82,478	2,103	80,375	(260)	(122)
2042/2043	63,793	2,363	61,431	80,375	2,153	78,222	(210)	(95)
2043/2044	61,431	2,363	59,068	78,222	2,205	76,017	(158)	(69)
2044/2045	59,068	2,363	56,705	76,017	2,257	73,760	(105)	(45)
2045/2046	56,705	2,363	54,342	73,760	2,311	71,448	(51)	(21)
2046/2047	54,342	2,363	51,980	71,448	2,367	69,082	4	2

2047/2048	51,980	2,363	49,617	69,082	2,423	66,659	60	23
2048/2049	49,617	2,363	47,254	66,659	2,481	64,178	118	44
2049/2050	47,254	2,363	44,892	64,178	2,540	61,637	178	63
2050/2051	44,892	2,363	42,529	61,637	2,601	59,036	238	82
2051/2052	42,529	2,363	40,166	59,036	2,663	56,373	300	100
2052/2053	40,166	2,363	37,803	56,373	2,727	53,646	364	117
2053/2054	37,803	2,363	35,441	53,646	2,792	50,854	429	133
2054/2055	35,441	2,363	33,078	50,854	2,859	47,995	496	149
2055/2056	33,078	2,363	30,715	47,995	2,927	45,068	564	164
2056/2057	30,715	2,363	28,353	45,068	2,997	42,071	634	178
2057/2058	28,353	2,363	25,990	42,071	3,069	39,003	706	191
2058/2059	25,990	2,363	23,627	39,003	3,142	35,861	779	204
2059/2060	23,627	2,363	21,264	35,861	3,217	32,643	854	216
2060/2061	21,264	2,363	18,902	32,643	3,294	29,349	931	227
2061/2062	18,902	2,363	16,539	29,349	3,373	25,977	1,010	238
2062/2063	16,539	2,363	14,176	25,977	3,453	22,523	1,091	248
2063/2064	14,176	2,363	11,814	22,523	3,536	18,988	1,173	258
2064/2065	11,814	2,363	9,451	18,988	3,620	15,367	1,258	267
2065/2066	9,451	2,363	7,088	15,367	3,707	11,660	1,344	276
2066/2067	7,088	2,363	4,725	11,660	3,795	7,865	1,433	284
2067/2068	4,725	2,363	2,363	7,865	3,886	3,979	1,523	292
2068/2069	2,363	2,363	(0)	3,979	3,979	(0)	1,616	300
TOTAL		**118,136**			**118,136**		**0**	(8,757)