

# **Appendix K1**

## **London Borough of Barnet**

### **Treasury Management Strategy Statement**

**1 April 2021 to 31 March 2022**

Minimum Revenue Provision Policy Statement  
and Annual Investment Strategy

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# 1.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, 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.

The contribution the treasury management function makes to the authority is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments 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.

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 investments and has no non-treasury investments. However, the Council has entered into lending activity to support its priorities and the borrowing required to support this lending activity is included within this statement as is the income generated. Further details are given in section 1.7.

## 1.2 Reporting requirements

### 1.2.1 Capital Strategy

The CIPFA 2017 Prudential and Treasury Management Codes 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

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

### 1.2.2 Treasury Management reporting

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

- a. **Prudential and treasury indicators and treasury strategy** (this report) - The first, and most important report is forward looking and 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).
- b. **A mid-year treasury management report** – This is primarily a progress report and will update members on the capital position, amending prudential indicators as necessary, and whether any policies require revision.
- c. **An annual treasury report** – This is a backward looking review document and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

#### Scrutiny

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

### 1.3 Treasury Management Strategy for 2021/22

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.

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 Training**

The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny. Members of the Policy and Resources Committee undertook training on 23 October 2018. Further training will be arranged for Members in 2021. The training needs of treasury management officers are periodically reviewed. Treasury officers attended at least one training event organised by Link Asset Services in the last 12 months.

## **1.5 Treasury management consultants**

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

The Council recognises that responsibility for treasury management decisions remains with the organisation. All decisions will be undertaken with regards to all available information, including, 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 agreed and documented, and subjected to regular review.

## **1.6 Purpose**

The purpose of this Treasury Management Strategy Statement is to seek approval for:

- Treasury Management Strategy for 2021/22;
- Annual Investment Strategy for 2021/22;
- Prudential Indicators for, 2021/22 to 2024/25;
- MRP statement (see Appendix para 5.1.1).

## **1.7 Highlights of TMSS**

In this section the key issues discussed in the TMSS are highlighted:

- Forecasts and indicators within the TMSS have been extended from three to four years to be consistent with capital planning.
- In the four years from 1 April 2021 gross capital expenditure is forecast at £1240.3m, of which the debt funded element is £605m. The major capital projects are Brent Cross (£325 m of which 90% is grant funded), loans to Open Door Homes (£204m) and various HRA projects (£324m).
- The impact of the capital expenditure (and other adjustments) is to increase forecast gross debt (including leases) from £397m at 1 April 2020 to £1076m at 31 March 2025.
- The authorised borrowing limit for 2021-22 is set at £962m based on forecast CFR. Projected debt 31 March 2022 is £747m
- During the current year no new debt or loans has been taken out to 31 December 2020. It is likely new borrowing will be taken out by year end. The current 50 yr PWLB rate is 1.5%.

- Following a consultation the government has decreased the margin on PWLB lending by 100 bps to 0.8% above the equivalent government gilt yield. It is no longer possible to borrow PWLB “purely for yield”. Opportunities to borrow below PWLB elsewhere are no longer feasible given this rate decrease. Short-term local authority borrowing remains available at less than 0.5% for 3-6 months. The projection of the cost of additional debt is based on a gradual increase of PWLB borrowing from 1.5% to 1.6% over the next four years.
- With Government gilt rates remaining around historic lows, where there is certainly of capital plans, it still makes sense to consider long term borrowing to avoid interest uncertainty.
- Although the gross non-HRA interest costs is forecast to increase from £5.4m in 2020-21 to £11.76m in 2024-25, this is offset by a larger increase in interest income from £3.2m to £10m, mainly income from loans to Open Door, Brent Cross and Saracens. In the same period the MRP charge is expected to increase by £6.1m (plus 68%). For HRA, debt interest costs are projected to increase from £7.6m to £11.32m.
- The HRA debt cap of £350 million is projected to be breached in 2022-23 and beyond. This will require either a change in plans or an increase in the debt limit.
- Open Door Homes (ODH) concerning their desire for flexibility in the drawdown and repayment of debt. Any penalties due to the early retirement of PWLB debt will be a liability from ODH. ODH’s borrowing requirement of £220 million (including current years) is a high proportion of the overall projected increase in debt and the Council will seek to lock in long term borrowing, where possible, consistent with offering ODH penalty free flexible borrowing.
- Any 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. Any advance funding will not exceed more than 12 months capital expenditure plans.
- There are no changes in the investment policy or available opportunities. It remains the intention to carry minimal cash balances consistent with maintaining liquidity except where a decision is made to borrow in advance of capital expenditure.

## **1.8 Recommendation with TMSS**

Within the TMSS there are the following recommendations.

- 2.1 - Capital expenditure plans.
- 2.2 - Capital Financing Requirements (CFR)
- 2.3 - MRP policy statement
- 3.2 - Authorised debt limit
- 4.4 - Maximum sums invested more than 12 months (£25 million)
- 5.3 - Investment policy.

## 2 THE CAPITAL PRUDENTIAL INDICATORS 2021/22 – 2024/25

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:

Capital expenditure £'000	2019/20 Actual	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
Non-HRA	219,994	318,538	348,413	135,647	76,614	36,617
HRA	54,734	62,289	98,662	64,952	52,142	46,494
<b>Total</b>	<b>274,728</b>	<b>380,827</b>	<b>447,074</b>	<b>200,598</b>	<b>128,756</b>	<b>83,111</b>

Details of the various capital projects are contained within the capital strategy. The most significant capital spends in the current and next four years (aggregate £1,240m) are:

Brent Cross - £325m, of which £307m is grant funded, with £18m of debt funding.

Open Door Loans - £205m , of which £190m is debt funded.

HRA – various projects totalling £325m of which £186m is debt funded.

Other long-term liabilities - 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	2019/20 Actual	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
Capital receipts	38,592	16,623	9,631	4,000	-	-
Capital grants	127,952	170,524	214,384	75,756	17,759	12,747
Capital reserves	37,808	31,164	32,239	20,204	14,596	15,356
Revenue	12,764	9,009	12,033	14,153	14,703	15,153
<b>Total Financing</b>	<b>217,116</b>	<b>227,320</b>	<b>268,287</b>	<b>114,113</b>	<b>47,058</b>	<b>43,256</b>
<b>Net capital financing need for the year</b>	<b>57,612</b>	<b>153,507</b>	<b>178,787</b>	<b>86,485</b>	<b>81,698</b>	<b>39,855</b>

The value of capital expenditure above includes planned loans to TBG Open Door Homes, Brent Cross Project and Saracens Rugby Club. As detailed in section 3.1, the impact of the capital programme (and other adjustments) is to increase gross debt from £398m at 1 April 2020 to £1076m at 31 March 2025.

## 2.2 The Council's borrowing need (the 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.

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

The CFR includes any other long-term liabilities (e.g. PFI schemes, finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility by the PFI, PPP lease provider and so the Council is not required to separately borrow for these schemes. The Council currently has £15.5 million of such schemes within the CFR.

The Council is asked to approve the CFR projections below:

£'000	2019/20 Actual	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
<b>Capital Financing Requirement</b>						
CFR – non housing	392,264	528,628	673,268	729,159	787,994	811,864
CFR – housing	212,807	238,959	285,140	329,888	367,434	398,572
<b>Total CFR</b>	<b>605,071</b>	<b>767,587</b>	<b>958,408</b>	<b>1,059,047</b>	<b>1,155,428</b>	<b>1,210,436</b>
<b>Movement in CFR</b>	<b>57,612</b>	<b>153,507</b>	<b>178,788</b>	<b>86,486</b>	<b>81,698</b>	<b>39,855</b>
<b>Movement in CFR represented by</b>						
Financing need for the year	70,376	162,516	190,820	100,638	96,401	55,008
Less MRP and other financing movements	-12,764	-9,009	-12,033	-14,153	-14,703	-15,153
<b>Movement in CFR</b>	<b>57,612</b>	<b>153,507</b>	<b>178,788</b>	<b>86,486</b>	<b>81,698</b>	<b>39,855</b>

## 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:

1.1. It is proposed that the Council approves the amended Minimum Revenue Provision (MRP) policy for 2020/21 as follows:

The MRP charge for capital expenditure incurred before 1 April 2008 (prior to the introduction of the Prudential Code), or which has subsequently been financed by supported borrowing (i.e. where the Council may be in receipt of Government resources to meet financing costs), will be based on an annuity basis. The opening balance on which the MRP is calculated has been adjusted as per the 2003 regulations

For any capital expenditure carried out after 1 April 2008 being financed by unsupported borrowing the Authority will be adopting the asset life method (option 3). This is where MRP will be based on the capital expenditure divided by a determined asset life or profile of benefits to give annual instalments. The annual instalment may be calculated by the equal instalment method, annuity method or other methods as justified by the circumstances of the case at the discretion of the s151 Officer. With effect from 1 April 2020 all repayments will be calculated on an annuity basis.

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 Authority. However, the Authority reserves the right to determine useful life periods and prudent MRP in exceptional circumstances where the recommendations of the Guidance would not be appropriate.

The Authority will be proactive about what assets are financed via the unsupported route. Under the Asset Life Method, short life assets will incur a higher MRP than longer life assets. Therefore, it would be more beneficial to finance short life assets, e.g. vehicles and IT equipment, from capital receipts or from direct revenue financing of the Capital Programme rather than unsupported borrowing, hence minimising the MRP.

The interest rate to be used in the annuity calculations will be the PWLB annuity rate for a loan with a term equivalent to the estimated life of the asset as at 1st April 2020 for capital expenditure incurred prior to 2020/21 and the 1st April of the financial year in which the charge commences for subsequent capital expenditure

The Authority will treat the asset life as commencing in the year in which the asset first becomes operationally available. Noting that in accordance with the regulations the authority may postpone the beginning of the associated MRP until the financial year following the one in which the asset becomes operational, there will be an annual adjustment for Assets Under Construction

The amount of MRP chargeable relating to finance leases and PFI contracts will be calculated using the annuity method over the asset life/underlying benefit arising from the activity/assets to which the PFI contract relates or will be equal to the principal repayment over the contract period.

Voluntary repayment of debt - the Authority may make additional voluntary debt repayment provision from revenue or capital resources. If it does so, this will be disclosed in the Authority's Statement of Accounts. The Section 151 officer can then choose to offset previous years disclosed overpayments against the current year's prudent provision providing the amount charged is not less than zero.

Loans to Open Door – The Council has established a company to which it will be providing loans on a commercial basis. The cash advances will be used by the company to fund capital expenditure and should therefore be treated as capital expenditure and a loan to a third party. The Capital Financing Requirement (CFR) will increase by the amount of loans advanced and under the terms of contractual loan agreements are due to be returned in full by 2040, with interest paid. Once funds are returned to the Authority, the returned funds are classed as a capital receipt and are

offset against the CFR, which will reduce accordingly. In previous years it was not considered necessary to apply MRP on these loans as the funds will be returned in full. The policy was changed in 2019/20 to apply MRP to the loans as this was considered to meet the requirements of statutory guidance in light of the potential variability in the timing of loan repayments. Loan repayments will be available to offset future MRP charges.

Loans to third parties - where loans are made to other bodies for their capital expenditure, then the capital receipts generated by the annual repayments on those loans will be put aside to repay debt instead of charging MRP. However, if there is a risk during the term of the loan that collateral held as security is not sufficient to meet its obligations or there is a likelihood of default, a prudent MRP will commence as a charge to the Authority's revenue account.

Other methods to provide for MRP may occasionally be used in individual cases where this is consistent with the statutory duty to be prudent, as justified by the circumstances of the case, at the discretion of the Section 151 officer.

On an annual basis the Section 151 officer shall review the level of MRP to be charged, to determine if this is at a level which is considered prudent based on the Authority's individual circumstances at that time, taking into account medium / long term financial plans, current budgetary pressures, current and future capital expenditure plans, funding needs and any longer term transformational plans. Dependant on this review the Section 151 officer shall be able to adjust the MRP charge. The amount of MRP charged shall not be less than zero in any financial year.

### 3 BORROWING

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 and for the position as at 31 December 2020 are shown below for both borrowing and investments.

	Investments and Borrowing			
	31.3.2020		31.12.2020	
	£'000	%	£'000	%
<b>Treasury Investments</b>				
Money Market Funds	60,285	56.2%	37,300	41.1%
Local Authorities	15,000	14.0%	10,000	11.0%
Banks UK	21,000	19.6%	35,000	38.5%
Banks Overseas	7,500	7.0%	5,000	5.5%
Other investments	3,505	3.3%	3,505	3.9%
Total treasury investments	107,290	100.0%	90,805	100.0%
<b>Borrowing</b>				
PWLB	321,580	83.1%	321,580	83.0%
Bank borrowing - LOBO's	62,500	16.1%	62,500	16.1%
Total long term debt	384,080		384,080	
Short-term local authority debt	0	0.0%	0	0.0%
Interest free loans	3,000		3,400	0.9%
Total Treasury Borrowing	387,080	99.2%	387,480	100.0%
Net Treasury Investments / (Borrowing)	-279,790		-296,675	
Other long term liabilities	-13,834		-13,834	
<b>Net Investments / (borrowing)</b>	<b>-293,624</b>		<b>-310,509</b>	

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. Loan to Open Door or Brent Cross are not included within investments above.

£'000	2019/20 Actual	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
<b>External Debt</b>						
Debt at 1 April	352,080	387,080	537,080	737,080	867,080	977,080
Actual / Expected change in Debt	35,000	150,000	200,000	130,000	110,000	90,000
Other long-term liabilities (OLTL)	14,319	13,834	13,461	13,088	12,715	12,342
Expected change in OLTL	-485	-373	-373	-373	-373	-373
Actual gross debt at 31 March	<b>400,914</b>	<b>550,541</b>	<b>750,168</b>	<b>879,795</b>	<b>989,422</b>	<b>1,079,049</b>
The Capital Financing Requirement	<b>605,071</b>	<b>767,587</b>	<b>958,408</b>	<b>1,059,047</b>	<b>1,155,428</b>	<b>1,210,436</b>
Under / (over) borrowing	<b>204,157</b>	<b>217,046</b>	<b>208,240</b>	<b>179,252</b>	<b>166,006</b>	<b>131,387</b>

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 actual or projected CFR. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue or speculative purposes. Currently, gross debt is well below CFR and forecast to remain that way.

The Director of Resources 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.

### 3.2 Treasury Indicators: limits to borrowing activity

**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. The limits below are based on projected CFR with a reduction of £100 million to reflect retained reserves.

Operational boundary £'000	2019/20 Actual	2020/21 Prior Year TMSS	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
Debt	384,080	639,242	845,320	946,332	1,043,086	1,098,467
Other long term liabilities	13,834	13,461	13,088	12,715	12,342	11,969
Total	397,914	652,703	858,408	959,047	1,055,428	1,110,436

**The authorised limit for external debt.** This is a key prudential indicator and represents a control on the maximum level of borrowing. This represents a legal limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full 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.

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 £'000	2019/20 Actual	2020/21 Prior Year TMSS	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
Debt	384,080	739,242	944,574	1,045,586	1,142,340	1,197,721
Other long term liabilities	13,834	20,601	18,088	17,715	17,342	16,969
Total	397,914	759,843	962,662	1,063,301	1,159,682	1,214,690

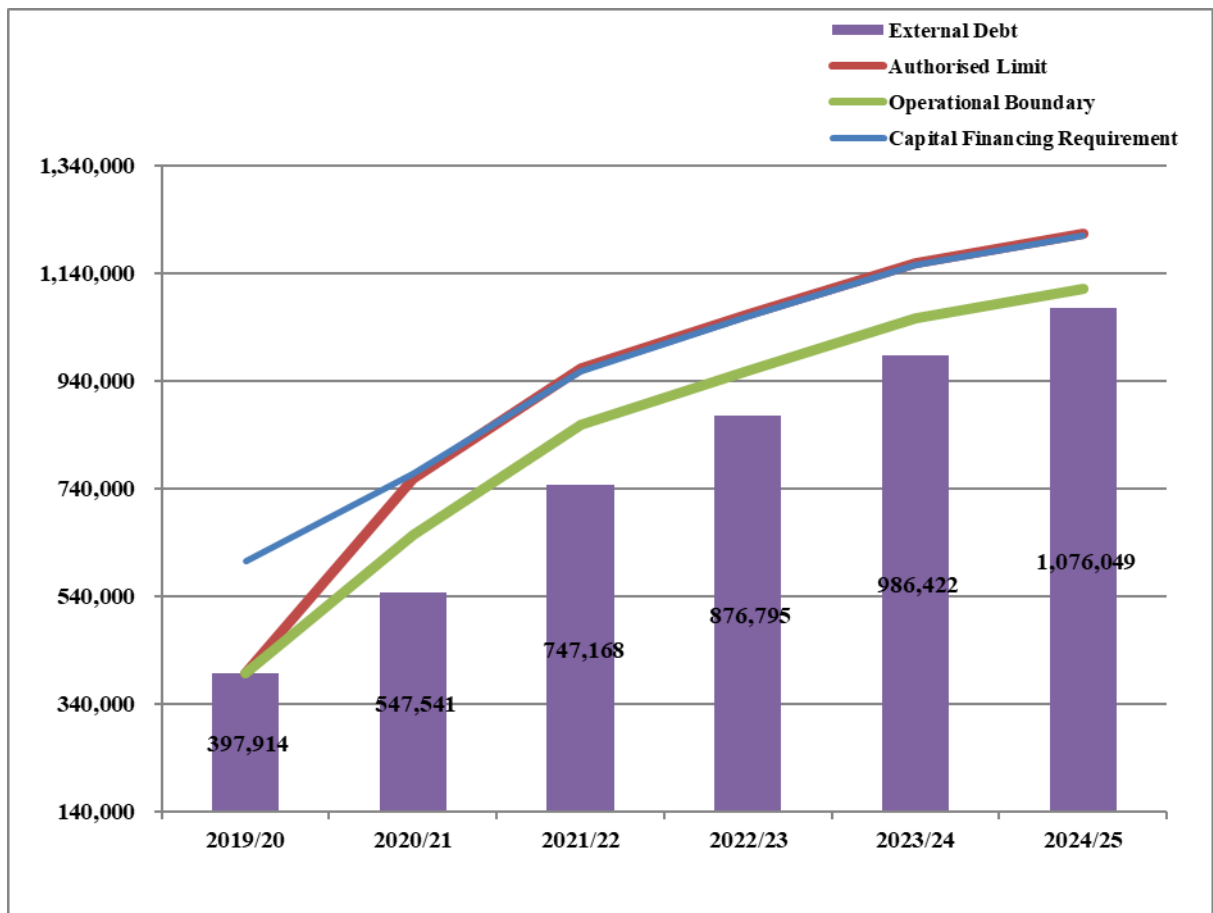
Until recently (October 2018), the Council was limited to a maximum HRA CFR through the HRA self-financing regime. This limit was £240.043 million. HRA has replaced this limit in their business plan with a voluntary limit of £350 million.

HRA Debt Limit £'000	2019/20 Actual	2020/21 Prior Year TMSS	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
HRA debt cap	240,043	350,000	350,000	350,000	350,000	350,000
HRA CFR	212,807	243,982	285,140	329,888	367,434	398,572
HRA headroom	27,236	106,018	64,860	20,112	-17,434	-48,572

The HRA limit is projected to be exceeded in 2023-24 and beyond. Either spending plans will need to be reviewed or the cap increased.

The graph below illustrates the capital and borrowing position over the TMSS period.

London Borough of Barnet



### 3.3 Prospects for interest rates

#### Investment and borrowing rates

##### 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. *(Please note that Link has concerns over this approach, as the fundamental principle of local authority borrowing is that borrowing is a treasury management activity and individual sums that are borrowed are not linked to specific capital projects.)* It also introduced the following rates for borrowing for different types of capital expenditure: -
  - **PWLB Standard Rate** is gilt plus 200 basis points (G+200bps)
  - **PWLB Certainty Rate** is gilt plus 180 basis points (G+180bps)
  - **PWLB HRA Standard Rate** is gilt plus 100 basis points (G+100bps)
  - **PWLB HRA Certainty Rate** is gilt plus 80bps (G+80bps)
  - **Local Infrastructure Rate** is gilt plus 60bps (G+60bps)
- As a consequence of these increases in margins, many local authorities decided to refrain from PWLB borrowing unless it was for HRA or local infrastructure financing, until such time as the review of margins was concluded.
- On 25.11.20, the Chancellor announced the conclusion to the review of margins over gilt yields for PWLB rates; the standard and certainty margins were reduced by 1% but a prohibition was introduced to deny access to borrowing from the PWLB for any local authority which had purchase of assets for yield in its three year capital programme. The new margins over gilt yields are as follows: -
  - **PWLB Standard Rate** is gilt plus 100 basis points (G+100bps)
  - **PWLB Certainty Rate** is gilt plus 80 basis points (G+80bps)
  - **PWLB HRA Standard Rate** is gilt plus 100 basis points (G+100bps)
  - **PWLB HRA Certainty Rate** is gilt plus 80bps (G+80bps)
  - **Local Infrastructure Rate** is gilt plus 60bps (G+60bps)
- **Borrowing for capital expenditure.** As Link's long-term forecast for Bank Rate is 2.00%, and all PWLB rates are under 2.00%, there is now value in borrowing from the PWLB for all types of capital expenditure for all maturity periods, especially as current rates are at historic lows. However, greater value can be obtained in borrowing for shorter maturity periods so the Council will assess its risk appetite in conjunction with budgetary pressures to reduce total interest costs.
- 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 borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost.

### **3.4 Borrowing strategy**

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.

A key determinant of the timing of borrowing is certainty over the scale and timing of the capital programme. Without this certainty, there is a reluctance to enter long-term borrowing.

Against this background and the risks within the economic forecast, caution will be adopted with the 2021/22 treasury operations. The Director of Resources 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 borrowing rates, (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then borrowing will be postponed or use make of short-term debt.
- if it was felt that there was a significant risk of a much sharper RISE in borrowing rates than that currently forecast, perhaps arising from an acceleration 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.

Any decisions will be reported to the Policy and Resources Committee at the next available opportunity.

### **3.5 Policy on borrowing in advance of need**

The Council will not borrow more than or in advance of its needs purely 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. The above policy permits forward funding of capital expenditure provided that current debt is below CFR (and within approved limits) i.e. reserves and working capital are mitigating borrowing requirements. Any advance funding will not exceed more than 12 months capital expenditure plans.

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.

### **3.6 Debt rescheduling**

Rescheduling of current PWLB borrowing is unlikely to occur as the 100 bps decrease in PWLB rates only applied to new borrowing rates and not to premature debt repayment rates.

The Council has Lender Option Borrower Option debt of £62.5 million due to mature between 2054 and 2076. These loans carry the right of the lenders to change the interest rates and of the Council to repay without cost. The current intention is that should a change in interest rate be proposed, that the Council will exercise the option to repay.

If rescheduling is undertaken, it will be reported to the Policy and Resources Committee at the earliest meeting following its action.

### **3.7 New financial institutions as a source of borrowing and / or types of borrowing**

Currently the PWLB Certainty Rate is set at gilts + 80 basis points for both HRA and non-HRA borrowing. However, consideration may still need to be given to sourcing funding from the following sources for the following reasons:

- Local authorities (primarily shorter dated maturities out to 3 years or so – still cheaper than the Certainty Rate).
- Financial institutions (primarily insurance companies and pension funds but also some banks, out of forward dates where the objective is to avoid a “cost of carry” or to achieve refinancing certainty over the next few years).
- Municipal Bonds Agency (possibly still a viable alternative depending on market circumstances prevailing at the time).

Our advisors will keep us informed as to the relative merits of each of these alternative funding sources.

### 3.8 Approved Sources of Long and Short-term Borrowing

The table below lists the potential sources of borrowing that the Council will consider.

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

## 4 ANNUAL INVESTMENT STRATEGY

### 4.1 Investment policy – management of risk

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).

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: -

1. Minimum acceptable **credit criteria** are applied 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.
2. **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 its advisors to maintain a monitor on market pricing such as "**credit default swaps**" and overlay that information on top of the credit ratings. In practice, this means having regards to the maximum counterparty durations suggest by Link.
3. **Other information sources** used will include the financial press, share price and other such information pertaining to the financial sector to establish the most robust scrutiny process on the suitability of potential investment counterparties.
4. 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 5.4 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 more than one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use. Once an investment is classed as non-specified, it remains non-specified all the way through to maturity i.e. an 18-month deposit would still be non-specified even if it has only 11 months left until maturity.
5. **Non-specified investments limit.** The Council has determined that it will limit the maximum total exposure to non-specified investments will be £100 million.

6. Lending limits (amounts and maturity) for each counterparty and the limit for its investments which are invested for longer than 365 days are set out in appendix 5. Investments will only be placed with counterparties from countries with a specified minimum sovereign rating, (see appendix paragraph 4.3).
7. This authority has engaged external consultants, (see paragraph 1.5), 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.
8. All investments will be denominated in sterling.

However, this authority will also pursue value for money in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance, (see paragraph 4.5). Regular monitoring of investment performance will be carried out during the year.

The above criteria are unchanged from last year.

## **4.2 Creditworthiness policy**

The primary principle governing the Council's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. After this main principle, 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 of appendix 5.3 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 Resources 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 that which determines which types of investment instrument are either specified or non-specified as it provides 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.

Credit rating information is supplied by Link Asset Services, our treasury advisors, 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 the longer-term bias outside the central rating view) are considered before dealing. For instance, a negative rating Watch applying to counterparty at the minimum Council criteria will be suspended from use, with all others being reviewed considering market conditions.

**Time and monetary limits applying to investments.** The time and monetary limits for institutions on the Council's counterparty list and the proposed criteria for specified and non-specified investments are shown in Appendix 5.3.

## **UK banks – ring fencing**

The largest UK banks, (those with more than £25bn of retail / Small and Medium-sized Enterprise (SME) deposits), were 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.

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, 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.

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**

Due care will be taken to consider the country and group exposure of the Council’s investments.

The Council has determined that it will only use approved counterparties from the United Kingdom or countries with a minimum sovereign credit rating of AA from Fitch (or equivalent). This minimum rating does not apply to the United Kingdom. The list of countries that qualify using this credit criteria as at the date of this report are shown in Appendix 5.4. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

In addition:

- no more than £40 million will be placed with any non-UK country at any time;
- limits in place above will apply to a group of companies;

#### 4.4 Investment strategy

**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 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 period, consideration will be given to locking in higher rates currently obtainable, for longer periods.

#### 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	
2020/21	0.10%
2021/22	0.10%
2022/23	0.10%
2023/24	0.10%
2024/25	0.25%
Long term later years	2.00%

- The overall balance of risks to economic growth in the UK is probably now skewed to the upside but is subject to major uncertainty due to Covid-19 and how quickly successful vaccines may become available and widely administered to the population. It may also be affected by any potential economic impact from the deal the UK agreed as part of Brexit.
- 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, or a return of investor confidence in equities, could impact gilt yields, (and so PWLB rates), in the UK.

#### Negative investment rates

While the Bank of England said in August / September 2020 that it is unlikely to introduce a negative Bank Rate, at least in the next 6 -12 months, and in November omitted any mention of negative rates in the minutes of the meeting of the Monetary Policy Committee, some deposit accounts are already offering negative rates for shorter periods. As part of the response to the pandemic and lockdown, the Bank and

the Government have provided financial markets and businesses with plentiful access to credit, either directly or through commercial banks. In addition, the Government has provided large sums of grants to local authorities to help deal with the COVID crisis; this has caused some local authorities to have sudden large increases in cash balances searching for an investment home, some of which was only very short term until those sums were able to be passed on.

As for money market funds (MMFs), yields have continued to drift lower. Some managers have already resorted to trimming fee levels to ensure that net yields for investors remain in positive territory where possible and practical. Investor cash flow uncertainty, and the need to maintain liquidity in these unprecedented times, has meant there is a surfeit of money swilling around at the very short end of the market. This has seen a number of market operators, now including the DMADF, offer nil or negative rates for very short-term maturities. This is not universal, and MMFs are still offering a marginally positive return, as are a number of financial institutions for investments at the very short end of the yield curve.

Treasury officers will monitor the situation and will manage the risks of negative rates by maintaining several investment accounts that will yield *at least* 0% and provide same day liquidity. If MMF yields fall below zero these accounts will be used to keep cash balances secure and easily accessible to manage cash-flow needs.

Inter-local authority lending and borrowing rates have also declined due to the surge in the levels of cash seeking a short-term home at a time when many local authorities are probably having difficulties over accurately forecasting when disbursements of funds received will occur or when further large receipts will be received from the Government.

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

The Council is asked to approve the treasury indicator and limit:

Maximum principal sums invested > 364 & 365 days				
£m	2021/22	2022/23	2023/24	2024/25
Principal sums invested > 364 & 365 days	£25 million	£25 million	£25 million	£25 million

For its cash flow generated balances, the Council will seek to utilise money market funds and short-dated deposits, (overnight to 100 days), to benefit from the compounding of interest.

#### 4.5 Investment performance / risk benchmarking

The Council will use an investment benchmark to assess the investment performance of its investment portfolio of 7-day LIBID.

#### 4.6 End of year investment report

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

## **5 APPENDICES**

1. Prudential and treasury indicators
2. Interest rate forecasts
3. Treasury management practice 1 – credit and counterparty risk management
4. Approved countries for investments
5. Treasury management scheme of delegation
6. The treasury management role of the section 151 officer

## 5.1 THE PRUDENTIAL AND TREASURY INDICATORS 2021/22 – 2024/25

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.

### 5.1.1 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:

#### a. 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	2024/25 Estimate
Non-HRA	5.24%	3.62%	4.95%	5.22%	5.24%	5.07%
HRA	13.27%	13.17%	14.21%	16.60%	18.68%	18.75%

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

Although the gross non-HRA interest costs is forecast to increase from £5.4m in 2020-21 to £11.76m in 2024-25, this is offset by a larger increase in interest income from £3.2m to £10m, mainly income from loans to Open Door, Brent Cross and Saracens. In the same period the MRP charge is expected to increase by £6.1m (plus 68%). For HRA, debt interest costs are projected to increase from £7.6m to £11.32m.

#### b. HRA ratios

£	2019/20 Actual	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
HRA debt £'000	212,807	238,959	285,140	329,888	367,434	398,572
HRA debt cap	350,000	350,000	350,000	350,000	350,000	350,000
HRA revenues £'000	55,999	57,480	57,009	57,177	58,058	60,379
Multiple of debt to revenues	3.8	4.2	5.0	5.8	6.3	6.6

£	2019/20 Actual	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
HRA debt £'000	212,807	238,959	285,140	329,888	367,434	398,572
Number of HRA dwellings	9,780	9,449	9,229	9,045	8,781	8,531
Debt per dwelling £	21,759	25,289	30,896	36,472	41,844	46,720

HRA debt is projected to almost double to £398m, with the HRA debt cap being exceeded in 2023-24 and the following year.

### 5.1.2 Maturity structure of borrowing

There are three debt related treasury activity limits. The purpose of these are to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set to be too restrictive they will impair 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
<b>Interest rate exposures</b>			
	<b>Upper</b>	<b>Upper</b>	<b>Upper</b>
<b>Limits on fixed interest rates based on net debt</b>	100%	100%	100%
<b>Limits on variable interest rates based on net debt</b>	40%	40%	40%
	<b>Current</b>	<b>Lower</b>	<b>Upper</b>
Under 12 months	0%	0%	50%
12 months to 2 years	0%	0%	50%
2 years to 5 years	1%	0%	75%
5 years to 10 years	6%	0%	75%
10 years to 20 years	34%	0%	75%
20 years to 30 years	17%	0%	75%
30 years to 60 years	42%	0%	100%
<b>Maturity structure of variable interest rate borrowing 2020/21</b>			
	<b>Lower</b>	<b>Upper</b>	
Under 12 months	0%	50%	
12 months to 2 years	0%	50%	
2 years to 5 years	0%	75%	
5 years to 10 years	0%	75%	
10 years to 25 years	0%	75%	
25 years to 60 years	0%	100%	

The above table is based on those loans with borrower options (LOBO's) being treated as repayable at the next date the lender can alter the interest rate (and the Council can opt to

repay). If these loans were shown as maturing at the contractual maturity date, the proportion maturing within 12 months would be 5% and the proportion over 30 years would be 40%. Currently the prevailing and forecast rate of interest on new debt is lower than the existing LOBO loans making any interest calls unlikely. LOBO loans are considered to be variable due to the ability of the lender to propose a change in the interest rate.

## 5.2 APPENDIX: Interest Rate Forecasts 2021 – 2024.

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

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

### 5.3 CREDIT AND COUNTERPARTY RISK MANAGEMENT

The MHCLG issued Investment Guidance in 2018, and this forms the structure of the Council's policy below.

The key intention of the Guidance is to maintain the current requirement for councils to invest prudently, and that priority is given to security and liquidity before yield. To facilitate this objective, the guidance requires this Council to have regard to the CIPFA publication Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes. This Council adopted the Code on 23 March 2003 and will apply its principles to all investment activity. In accordance with the Code, the Director of Resources has produced its treasury management practices (TMPs). This part, TMP 1(1), covering investment counterparty policy requires approval each year.

**Annual investment strategy** - The key requirements of both the Code and the investment guidance are to set an annual investment strategy, as part of its annual treasury strategy for the following year, covering the identification and approval of following:

- The strategy guidelines for choosing and placing investments, particularly non-specified investments.
- The principles to be used to determine the maximum periods for which funds can be committed.
- Specified investments that the Council will use. These are high security (i.e. high credit rating, although this is defined by the Council, and no guidelines are given), and high liquidity investments in sterling and with a maturity of no more than a year.
- Non-specified investments, clarifying the greater risk implications, identifying the general types of investment that may be used and a limit to the overall amount of various categories that can be held at any time.

The investment policy proposed for the Council is:

**Strategy guidelines** – The main strategy guidelines are contained in the body of the treasury strategy statement.

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

1. The UK Government (such as the Debt Management Account deposit facility, UK treasury bills or a gilt with less than one year to maturity).
2. Supranational bonds of less than one year's duration.
3. A local authority, parish council or community council.
4. Pooled investment vehicles (such as money market funds) that have been awarded a high credit rating by a credit rating agency. For category 4 this covers pooled investment vehicles, such as money market funds (including Constant and Low Volatility Net Asset Value Funds), rated AAA by Standard and Poor's, Moody's and / or Fitch rating agencies.
5. A body that is considered of a high credit quality (such as a bank or building society), which is defined as having a minimum Short-Term rating of F2 (or the equivalent) as rated by Standard and Poor's, Moody's and / or Fitch rating agencies.

Within these bodies, and in accordance with the Code, the Council has set additional criteria to set the time and amount of monies which will be invested in these bodies. These criteria

are a maximum of 365 days (to be classified as specified) and a counterparty limit of £25 million.

The table below provides further details on the counterparties and limits for specified investments.

<b>Instrument</b>	<b>Country/ Domicile</b>	<b>Counterparty</b>	<b>Maximum Counterparty Limits £m</b>
Term Deposits	UK	DMADF, DMO	No limit
Term Deposits/Call Accounts	UK	Other UK Local Authorities	£25 million
Term Deposits/Call Accounts	UK*	Counterparties rated at least A- Long Term)	£25 million
Term Deposits/Call Accounts	Non-UK*	Counterparties rated at least A- Long Term in select countries with a Sovereign Rating of at least AA.	£25 million
CDs and other negotiable instruments		with banks and building societies which meet the specified investment criteria (on advice from TM Adviser)	£25 million
Deposits	UK	Registered Providers (Former RSLs)	£5m per RP
Gilts	UK	DMO	No limit
T-Bills	UK	DMO	No limit
Bonds issued by multilateral development banks		(For example, European Investment Bank/Council of Europe, Inter American Development Bank)	
AAA-rated Money Market Funds		CNAV MMF's LVNAV MMF's	£25 million
	UK and EC domiciled	VNAV MMF's (where there is greater than 12 month history of a consistent £1 Net Asset Value)	
Other MMF's and CIS	UK & EC domiciled.	Collective Investment Schemes (pooled funds) which meet the definition of collective investment schemes in SI 2004 No 534 or SI 2007 No 573 and subsequent amendments	£25 million.

**For Non-UK banks,** a maximum exposure of £40 million per country (including any non-specified exposures) will apply to limit the risk of over-exposure to any one country.

**Non-specified investments** –are any other type of investment (i.e. not defined as specified above) although the counterparties can also have investments that meet the definition of specified. The identification of these other investments and the maximum limits to be applied are set out below.

The Council will have a maximum of £100 million invested in non-specified investments.

#### Loans to Local Organisations

The Council will allow loans (as a form of investment) to be made to organisations operating in the borough that bring community benefits. The Council will undertake due diligence checks to confirm the borrower's creditworthiness before any sums are advanced and will obtain appropriate level of security or third party guarantees for loans advanced. The Council would expect a return commensurate with the type, risk and duration of the loan. A limit of £25 million per counterparty (and £50 million in aggregate) for this type of investment is proposed with a duration commensurate with the life of the asset and Council's cash flow requirements. All loans need to be in line with the Council's Scheme of Delegation and Key Decision thresholds levels.

#### **Loans to TBG Open Door Limited**

The Council is advancing loans to its only owned affiliate TBG Open Door Limited to fund the purchase and build of affordable homes. A provision is included below for lending up to a maximum of £300 million.

The table below details the instruments, maximum maturity and monetary limits for non-specified investments.

<b>Instrument</b>	<b>Maximum maturity</b>	<b>Max £M of portfolio and Credit limit</b>	<b>Capital expenditure?</b>	<b>Example</b>
Term deposits with banks, building societies which meet the specified investment criteria	10 years	£10m per counterparty	No	
Term deposits with local authorities	10 years	£25m per authority	No	
CDs and other negotiable instruments with banks and building societies which meet the specified investment criteria	10 years	£10m per counterparty	No	
Gilts	10 years	£20 million Credit limit not applicable gilts issued by UK Government	No	
Bonds issued by multilateral development banks	10 years	£20 million Minimum credit rating AA+	No	EIB Bonds, Council of Europe Bonds etc.
Sterling denominated bonds by non-UK sovereign governments	5 years	£20 million Minimum credit rating AA+	No	

Other Non-Specified investments are permitted subject to the undertaking of a credit assessment by the Council's treasury advisor (or in the case of loans to local organisations, by a suitably qualified external advisor appointed by the Council) on a case-by-case basis. These are detailed below:

Instrument	Maximum maturity	Max £M of portfolio and Credit limit	Capital expenditure?	Example
Collective Investment Schemes which meet the definition of collective investment schemes in SI 2004 No 534, regulation 2 & 5 and subsequent amendments.	N/A – these funds do not have a defined maturity date	£25 million	No	Aviva investors Sterling Liquidity Plus Fund; Federated Sterling Cash Plus Fund
Deposits with registered providers	5 years	£5m per registered provider/£20 million overall	No	Barnet Homes Open Door not within TMS
Corporate and debt instruments issued by corporate bodies purchased from 01/04/12 onwards	5 years	20%	No	
Collective Investment Schemes (pooled funds) which do not meet the definition of collective investment schemes in SI 2004 No 534 or SI 2007 No 573 and subsequent amendments	N/A – these funds do not have a defined maturity date	£10 million	Yes	Way Charteris Gold Portfolio Fund; Aviva Lime Fund
Bank or building societies not meeting specified criteria	3 months	£10m per counterparty	No	Bank or building societies not meeting specified criteria
Loans to organisations delivering community benefits.	Over the life of the asset.	£25 million per counterparty.	Yes	Loans to sporting clubs based in the borough.
Loans to TBG Open Door Limited	As set out in the loan agreement	£300 million	Yes	

In the tables above, the minimum credit rating will be the lowest equivalent long-term rating assigned by Fitch, Moody's and Standard and Poor's. Where the credit rating is the minimum acceptable, the Council will consider rating sentiment and market sentiment e.g. the pricing of credit default swaps.

**The monitoring of investment counterparties** - The credit rating of counterparties will be monitored regularly. The Council receives credit rating information (changes, rating watches and rating outlooks) from Link Asset Services as and when ratings change, and counterparties are checked promptly. On occasion ratings may be downgraded when an investment has already been made. The criteria used are such that a minor downgrading should not affect the full receipt of the principal and interest.

Any counterparty failing to meet the criteria will be removed from the list immediately by the Chief Financial Officer and if required new counterparties which meet the criteria will be added to the list. The Council will not always follow the maximum maturity guidance issued by Link. However, any deposit made with a longer maturity than the Link guidance will be approved with the Chief Financial Officer.

#### **5.4 APPROVED COUNTRIES FOR INVESTMENTS**

This list is based on those countries which have sovereign ratings of AA- or higher, (we show the lowest rating from Fitch, Moody's and S&P) 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 Link Asset Services credit worthiness service.

##### ***Based on lowest available rating***

###### **AAA**

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

###### **AA+**

- Finland
- U.S.A.
- Canada
- 

###### **AA**

- Hong Kong
- France

###### **AA-**

- U.K.

## **5.5 TREASURY MANAGEMENT SCHEME OF DELEGATION**

### **(i) Council**

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

### **(ii) Policy and Resources Committee**

- 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;
- approving the selection of external service providers and agreeing terms of appointment.

### **(iii) The Financial Performance and Contracts Committee**

- receiving and reviewing regular monitoring reports and acting on recommendations.

### **(iv) Audit Committee**

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

## **5.6 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.;
- 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; and
- ensuring that due diligence has been carried out on all investments and is in accordance with the risk appetite of the authority.