London Borough of Barnet

Treasury Management Strategy Statement

1 April 2022 to 31 March 2023

Minimum Revenue Provision Policy Statement and Annual Investment Strategy

INDEX

		Page
1	INTRODUCTION	
1.1	Background	3
1.2	Reporting requirements	4
1.3	Treasury Management Strategy for 2022/23 to 2025/26	6
1.4	Training	7
1.5	Treasury management consultants	7
1.6	Purpose	7
1.7	Highlights	7
1.8	Recommendation	8
2	THE CAPITAL PRUDENTIAL INDICATORS 2022/23 - 2025/26	9
2.1	Capital expenditure	9
2.2	The Council's borrowing need (the Capital Financing Requirement)	10
2.3	Minimum revenue provision (MRP) policy statement	11
2.4	Commercial Income	13
3	BORROWING	14
3.1	Current portfolio position	14
3.2	Treasury Indicators: limits to borrowing activity	15
3.3	Prospects for interest rates	17
3.4	Policy on borrowing in advance of need	18
3.5	Debt rescheduling	19
3.6	New financial institutions as a source of borrowing	19
3.7	Sources of new borrowing	20
4	ANNUAL INVESTMENT STRATEGY	21
4.1	Investment policy	21
4.2	Creditworthiness policy	22
4.3	Country and sector limits	23
4.4	Investment strategy	23
4.5	Investment risk benchmarking	25
4.6	End of year investment report	25
5	APPENDICES	
5.1	The prudential and treasury indicators 2021/22 - 2024/25	27
5.2	Interest rate forecasts 2021 - 2024	30
5.3	Credit and Counterparty Risk Management	31
5.4	Approved countries for investments	36
5.5	Treasury management scheme of delegation (Including TMP1)	38
5.6	The treasury management role of the Chief Finance Officer (Section 151 Officer)	39

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.
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The Chartered Institute of Public Finance and Accountancy (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."*

The council has not engaged in any investments primarily for yield 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 2021 revised CIPFA Treasury Management Code and Prudential Code – changes which will impact on future reports and the risk management framework

CIPFA published the revised codes on 20th December 2021 and has stated that formal adoption is not required until the 2023/24 financial year. The council has to have regard to these codes of practice when it prepares the Treasury Management Strategy Statement (TMSS) and Annual Investment Strategy (AIS), and related reports during the financial year, which are taken to the relevant Committees and then Full Council for approval*.*

The revised codes will have the following implications:

- a requirement for the council to adopt a new debt liability benchmark treasury indicator to support the financing risk management of the capital financing requirement, with this new benchmark designed to provide decision makers with the assurance that debt levels over time are sustainable and do not place long term pressure on the General Fund;

- clarify what CIPFA expects a local authority to borrow for and what they do not view as appropriate. This will include the requirement to set a proportionate approach to commercial and service capital investment;

- address Ethical, Social and Governance (ESG) issues within the Capital Strategy;

- require implementation of a policy to review commercial property, with a view to divest where appropriate. The council already has an Asset Acqusition Strategy which includes review of property holdings and divestment which can be amended to reflect the new code as necessary;

- create new Investment Practices to manage risks associated with non-treasury investment (similar to the current Treasury Management Practices). The council already has an approach to non-treasury investment through its Asset Acquisition Strategy which can also be amended to reflect the new code as necessary;

- ensure that any long term treasury investment is supported by a business model. The council has an approach to long-term investment using the Green Book methodology which can be adapted for treasury investments;

- a requirement to effectively manage liquidity and longer term cash flow requirements;

- amendment to Treasury Management Practice 1 – Risk Management (TMP1) to address ESG policy within the treasury management risk framework;

- amendment to the knowledge and skills register for individuals involved in the treasury management function - to be proportionate to the size and complexity of the treasury management conducted by each council;

- a new requirement to clarify reporting requirements for service and commercial investment, (especially where supported by borrowing/leverage).

In addition, all investments and investment income must be attributed to one of the following three purposes: -

Treasury management
Arising from the organisation's cash flows or treasury risk management activity, this type of investment represents balances which are only held until the cash is required for use. Treasury investments may also arise from other treasury risk management activity which seeks to prudently manage the risks, costs or income relating to existing or forecast debt or treasury investments.

Service delivery
Investments held primarily and directly for the delivery of public services including housing, regeneration and local infrastructure. Returns on this category of investment which are funded by borrowing are permitted only in cases where the income is "either related to the financial viability of the project in question or otherwise incidental to the primary purpose".

Commercial return
Investments held primarily for financial return with no treasury management or direct service provision purpose. Risks on such investments should be proportionate to a council's financial capacity – i.e., that 'plausible losses' could be absorbed in budgets or reserves without unmanageable detriment to local services. An authority must not borrow to invest primarily for financial return.

As this Treasury Management Strategy Statement and Annual Investment Strategy deals solely with treasury management investments, the categories of service delivery and commercial investments will be dealt with as part of the Capital Strategy report. However, as investments in commercial property have implications for cash balances managed by the treasury team, it will be for each authority to determine whether they feel it is relevant to add a high level summary of the impact that commercial investments have, or may have, if it is planned to liquidate such investments within the three year time horizon of this report, (or a longer time horizon if that is felt appropriate).

Members will be updated on how all these changes will impact our current approach and any changes required will be formally adopted within the 2023/24 TMSS report.

1.2 Reporting requirements

1.2.1 Capital Strategy

The CIPFA 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 for the Treasury Management Strategy and Financial Performance and Contracts Committee for the mid-year and annual reporting as part of the Chief Finance Officer's quarterly reporting.

1.3 Treasury Management Strategy for 2022/23

The strategy for 2022/23 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, Department for Levelling Up, Housing and Communities (DLUHC) MRP Guidance, the CIPFA Treasury Management Code and DLUHC 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 offered for Members in 2022. The training needs of treasury management officers are periodically reviewed. Treasury officers attended at least one training event organised by Link Group in the last 12 months.

1.5 Treasury management consultants

The Council uses Link Group 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 2022/23;
- Annual Investment Strategy for 2022/23;
- Prudential Indicators for, 2022/23 to 2025/26;
- 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 2022 gross capital expenditure is forecast at £754.773m, of which the debt funded element is £395.574m. The major capital projects are Brent Cross (£220.603m of which 93% is grant funded), loans to Open Door Homes (ODH) (£171.m) and various HRA projects (£347.346m).

- The impact of the capital expenditure (and other adjustments) is to increase forecast gross debt (including leases) from £397m at 1 April 2022 to £1,076m 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 the council has taken £100m of new long term debt in the year to 31 December 2021. It is unlikely further new borrowing will be taken out by year end. The 50 yr Public Works' Loans Board (PWLB) certainty rate is 1.5%. (as at Dec 21 see table page 30)

- PWLB borrrowing rates remain low, and cost of debt projections are based on macroeconomic indicators and advice from Link Group. It is not possible to borrow "primarily for yield". There remains opportunity to access alternative sources of funding, including the newly created UK Infrastructure Bank. Short term borrowing on the inter-Local Authority market remains at a low cost of debt around 0.4%for 3-6 months.

- With Government gilt rates remaining around historic lows, where there is certainty of capital plans, it still makes sense to consider long term borrowing to avoid interest uncertainty, where this does not unduly unbalance the debt maturity profile of the council.

- Although the gross non-HRA interest costs is forecast to increase from £5.296m in 2021-22 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 Copthall LLP 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 £10.4m to £11.82m.

- The HRA debt cap of £350 million is projected to be breached in 2023-24 and beyond. This will require either a change in plans or an increase in the debt limit.

- Open Door Homes (ODH) have expressed a 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 £172 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)

2. THE CAPITAL PRUDENTIAL INDICATORS 2022/23 – 2025/26

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.

Capital expenditure £'000	2020/21 Actual	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Non-HRA	269,991	287,779	198,038	160,070	73,313	33,329
HRA	57,153	77,582	112,697	55,910	55,821	45,335
Total	327,144	365,361	310,735	215,980	129,134	78,664

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:

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 - £221m, of which £210m is grant funded, with £11m of debt funding.

Open Door Loans - £171.25m, of which £136m is debt funded.

HRA – various projects totalling £347.346m of which £174m 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 overleaf 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 £'000 Capital Expenditure	2020/21 Actual	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Capital receipts	38,592	20,572	9,631	4,000	-	-
Capital grants	163,525	174,473	214,384	75,756	17,759	12,747
Capital reserves	57,542	31,164	32,239	20,204	14,596	15,356
Revenue	12,764	16,359	14,961	17,361	17,742	18,047
Total Financing	**272,423**	**242,568**	**271,215**	**117,321**	**50,097**	**46,150**
Net capital financing need for the year	**54,721**	**122,793**	**39,520**	**98,659**	**79,037**	**32,514**

The value of capital expenditure above includes planned loans to TBG Open Door Homes, Brent Cross Project and Saracens Copthall LLP. 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 2022 to £1,076m 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 asset's 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 overleaf:

Capital Financing Requirement

£'000	2020/21 Actual	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
CFR – non housing	313209	542,971	535,323	593,776	594,656
CFR – housing	212,807	316,488	363,656	403,862	482,019
Total CFR	**736,666**	**859,459**	**898,979**	**997,638**	**1,076,675**
Movement in CFR	**54,721**	**122,793**	**39,520**	**98,659**	**79,037**
Movement in CFR represented by					
Financing need for the year	64,688	134,640	53,608	115,343	97,205
Less MRP and other financing movements	(9,967)	(11,847)	(14,088)	(16,684)	(18,168)
Movement in CFR	**54,721**	**122,793**	**39,520**	**98,659**	**79,037**

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).

DLUHC 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*:*

It is proposed that the Council approves the amended Minimum Revenue Provision (MRP) policy for 2022/23 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 have been 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 2021 for capital expenditure incurred prior to 2021/22 and the 1st of 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.

2.4 Commercial Income

It is a requirement of the DLUHC issued Investment Guidance in 2018 (see appendix 5.3) that the authority set a limit on the amount of commercial income the authority will generate. The guidance deems commercial income generated from investments (financed by borrowing) as inherently risky and requires limits are put in place to enhance scrutiny of commercial ventures. Commercial income of £4.05m has been identified by officers and this being 1.10% of net annual revenue, council is asked to approve a limit of 1.5% (£5.52m) of net annual revenue for commercial income. Following the review of the PWLB lending terms the council does not intend to take any new borrowing purely for commercial yield so does not foresee this limit being breached in 2022-23 or any future years.

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.

3.1Current portfolio position

The overall treasury management portfolio as at 31 March 2021 and for the position as at 31 December 2021 are shown below for both borrowing and investments.

	Investments and Borrowing 31.3.2021 £'000	**%**	**31.12.2021 £'000**	**%**
Treasury Investments				
Money Market Funds	94,500	61.4%	80,500	35.1%
Local Authorities	-	0.0%	-	0.0%
Banks UK	49,400	32.1%	90,700	39.6%
Banks Overseas **	-	0.0%	42,900	18.7%
Other investments	10,000	6.5%	15,000	6.5%
Total treasury investments	153,900	100.0%	229,100	100.0%
** Refers to Overseas banks that are domiciled within the UK with a UK branch and all deposits are in Sterling				
Borrowing				
PWLB	321,580	83.1%	521,580	88.6%
Bank borrowing - LOBO's	62,500	16.1%	62,500	10.6%
Total long term debt	384,080		584,080	
Short-term local authority debt	-	0.0%	-	0.0%
Interest free loans	3,000	0.8%	4,300	0.7%
Total Treasury Borrowing	387,080	100.0%	588,380	100.0%
Net Treasury Investments / (Borrowing)	(233,180)		(359,280)	
Other long term liabilities	(13,834)		(13,834)	
Net Investments / (borrowing)	**(247,014)**		**(373,114)**	

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	2020/21 Actual	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
External Debt					
Debt at 1 April	387,080	588,380	638,380	693,380	868,380
Actual / Expected change in Debt	201,300	50,000	55,000	175,000	100,000
Other long-term liabilities (OLTL)	13,834	13,349	12,976	12,603	12,230
Expected change in OLTL	-485	-373	-373	-373	-373
Actual gross debt at 31 March	**601,729**	**651,356**	**705,983**	**880,610**	**980,237**
The Capital Financing Requirement	**736,666**	**859,459**	**898,979**	**997,638**	**1,076,675**
Under / (over) borrowing	**134,937**	**208,103**	**192,996**	**117,028**	**96,438**

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 Executive 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.

3.2Treasury 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 Boundary £'000	2020/21 Per Prior TMSS	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
Debt	639,242	845,320	946,332	1,043,086	1,098,467
Other long term liabilities	13,461	13,088	12,715	12,342	11,969
Total	652,703	858,408	959,047	1,055,428	1,110,436

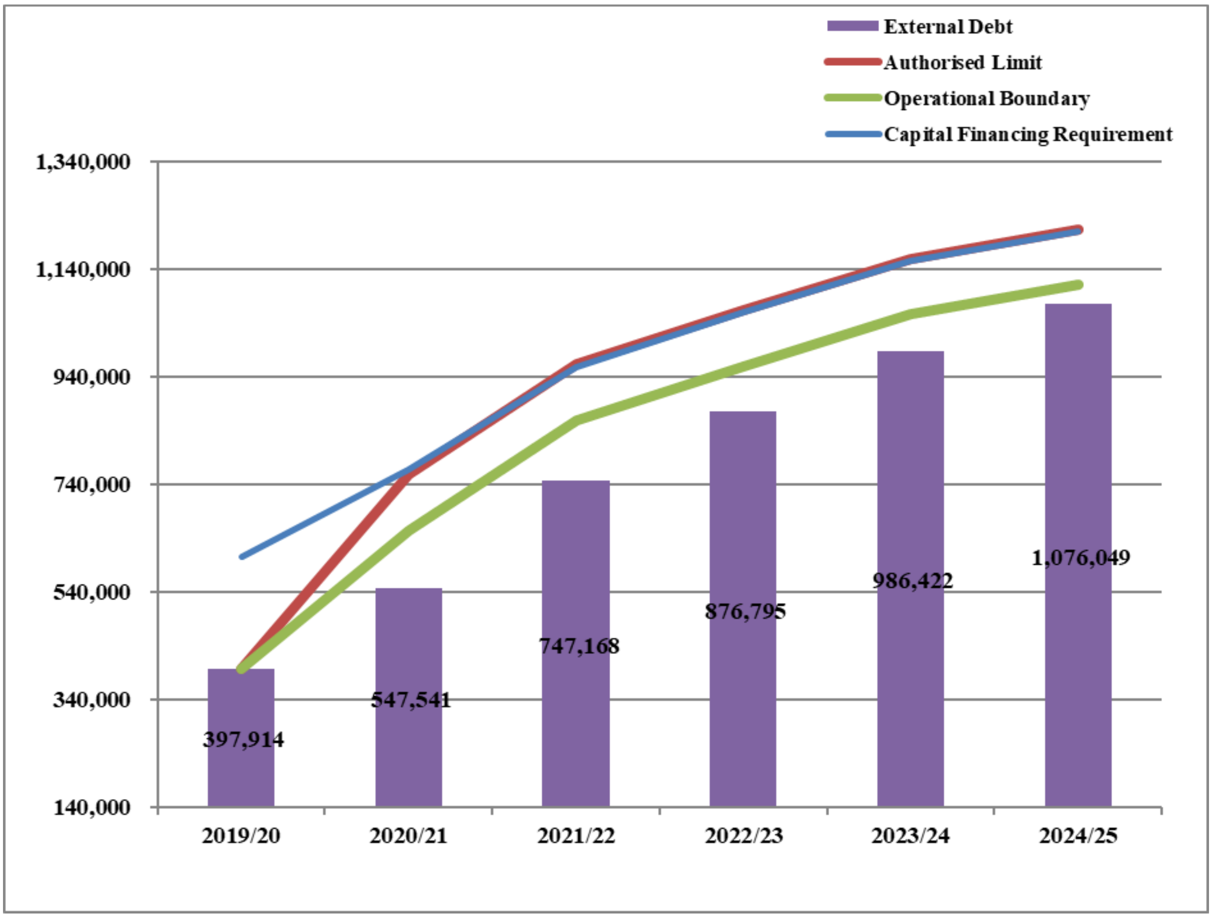
The authorised limit for external debt. This is a key prudential indicator and represents a control on the maximum level of borrowing. This represents a legal limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external 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	2020/21 Per Prior TMSS	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
Debt	739,242	944,574	1,045,586	1,142,340	1,197,721
Other long term liabilities	13,461	13,088	12,715	12,342	11,969
Total	752,703	957,662	1,058,301	1,154,682	1,209,690

The HRA previously had a debt cap of £240m arising from the statutory self-financing limits to 2019. The capping of the HRA was lifted through legislation in 2019, and the 30 year business plan has set an affordable long-term limit of £750m to be borrowed which will not be breached for the life of this TMSS

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



3.3 Prospects for interest rates

Investment and borrowing rates

- **Investment returns** are expected to improve in 2022/23. However, while markets are pricing in a series of Bank Rate hikes, actual economic circumstances may see the Bank of England's Monetary Policy Committee (MPC) fall short of these elevated expectations.

- **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, and still remain at historically low levels. The policy of avoiding new borrowing by running down spare cash balances has served local authorities well over the last few years.

- On 25.11.20, the Chancellor announced the conclusion to the review of margins over gilt yields for PWLB rates which had been increased by 100 bps in October 2019. The standard and certainty margins were reduced by 100 bps 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 current 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.** Link Groups long term (beyond 10 years), forecast for Bank Rate is 2.00%. As some PWLB certainty rates are currently below 2.00%, there remains value in considering long-term borrowing from the PWLB where appropriate. Temporary borrowing rates are likely, however, to remain near Bank Rate and may also prove attractive as part of a balanced debt portfolio. In addition, there are also some cheap alternative sources of long-term borrowing if an authority is seeking to avoid a "cost of carry" but also wishes to mitigate future re-financing risk. 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.

○

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 2022/23 treasury operations. The Executive 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.

3.4 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; 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.

3.5 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 (LOBO) debt of £62.5 million due to mature between 2054 and 2076. The first of these LOBO Loan options occurs in 2024. 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 an adverse 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.

3.6 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).
- UK Infrastructure Bank – UKIB is the new, government-owned policy bank, focused on increasing infrastructure investment across the United Kingdom. They will partner with the private sector and local government to finance a green industrial revolution and drive growth across the country.
- Rescheduling of current borrowing in our debt portfolio is unlikely to occur as there is still a very large difference between premature redemption rates and new borrowing rates.

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

3.7 Approved Sources of New 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	●	●
UK Infrastructure Bank	●	●
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: -

- DLUHC'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, liquidity second and then yield, (return).

The above guidance from the DLUHC and CIPFA place a high priority on the management of risk. The council 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. The council 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 set a limit on the maximum total exposure to non-specified investments at £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. The council 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 the council, 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, the council 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 Executive 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 Group, 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 the Bank of England Base 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 of England Base 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.
The Bank of England Base Rate has recently been increased from 0.10% to 0.25%, against a backdrop of rising inflation in the UK. At the point of publication, the UK CPI rate was 5.4%, its highest level since 1992. It is difficult to say whether the MPC will respond to the inflation level with interest rate rises, although the longer-term expectation is for the rate to rise to 1.20%. It may be best to assume that investment earnings from money market-related instruments will be sub 0.75% for the foreseeable future, with 90-day deposits and longer having recently risen over 0.5%.

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	0.40%
2022/23	0.50%
2023/24	0.75%
2024/25	1.25%
Long term later years	2.00%

- The Bank of England has effectively ruled out the use of negative interest rates in the near term. 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

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 did see number of market operators, which included 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* 0.1% 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 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 SONIA (Sterling Overnight Index Average)

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 and TMP1
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.

%	2020/21 Actual	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
Non-HRA	3.72%	4.95%	5.22%	5.24%
HRA	13.28%	14.21%	16.60%	18.68%

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 2021-22 to £10.64m in 2024-25, this is offset by a larger increase in interest income from £3.2m to £8.8m, mainly income from loans to Open Door, Brent Cross and Saracens Copthall LLP. 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 £10.32m.

b. HRA ratios

HRA Debt to Revenue

	2021/22 Forecast M9	2022/23 Budget	2023/24 Budget	2024/25 Budget	2025/26 Budget
HRA Debt £'000	**359,502**	**403,779**	**465,633**	**508,614**	**537,103**
HRA Revenues £'000	**58,548**	**60,488**	**63,814**	**65,704**	**68,949**
Multiple of Debt to Revenues	**6.1**	**6.7**	**7.3**	**7.7**	**7.8**

HRA Debt per Dwelling

£	2021/22 Forecast	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
HRA Debt £'000	359,502	403,779	465,633	508,614	537,103
Number of HRA Dwellings	9,780	9,780	9,449	9,229	9,045
Debt per Dwelling £	36,759	41,286	49,279	55,110	59,381

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
Interest rate exposures				
	Upper	**Upper**		**Upper**
Limits on fixed interest rates based on net debt	100%	100%		100%
Limits on variable interest rates based on net debt	40%	40%		40%
		Current	**Lower**	**Upper**
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%
Maturity structure of variable interest rate borrowing 2020/21				
		Lower		Upper
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 – 2025.

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 of November 2012.

Link Group Interest Rate View		20.12.21												
	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25
BANK RATE	0.25	0.25	0.50	0.50	0.50	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.25
3 month ave earnings	0.20	0.30	0.50	0.50	0.60	0.70	0.80	0.90	0.90	1.00	1.00	1.00	1.00	1.00
6 month ave earnings	0.40	0.50	0.60	0.60	0.70	0.80	0.90	1.00	1.00	1.10	1.10	1.10	1.10	1.10
12 month ave earnings	0.70	0.70	0.70	0.70	0.80	0.90	1.00	1.10	1.10	1.20	1.20	1.20	1.20	1.20
5 yr PWLB	1.40	1.50	1.50	1.60	1.60	1.70	1.80	1.80	1.80	1.90	1.90	1.90	2.00	2.00
10 yr PWLB	1.60	1.70	1.80	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.10	2.20	2.30
25 yr PWLB	1.80	1.90	2.00	2.10	2.10	2.20	2.20	2.20	2.30	2.30	2.40	2.40	2.50	2.50
50 yr PWLB	1.50	1.70	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.20	2.20	2.30	2.30
Bank Rate														
Link	0.25	0.25	0.50	0.50	0.50	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.25
Capital Economics	0.25	0.25	0.50	0.75	0.75	0.75	0.75	1.00	1.00	-	-	-	-	-
5yr PWLB Rate														
Link	1.40	1.50	1.50	1.60	1.60	1.70	1.80	1.80	1.80	1.90	1.90	1.90	2.00	2.00
Capital Economics	1.40	1.40	1.50	1.50	1.60	1.70	1.70	1.80	1.90	-	-	-	-	-
10yr PWLB Rate														
Link	1.60	1.70	1.80	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.10	2.20	2.30
Capital Economics	1.60	1.60	1.70	1.70	1.80	1.80	1.90	2.00	2.00	-	-	-	-	-
25yr PWLB Rate														
Link	1.80	1.90	2.00	2.10	2.10	2.20	2.20	2.20	2.30	2.30	2.40	2.40	2.50	2.50
Capital Economics	1.80	1.80	1.90	1.90	2.00	2.10	2.10	2.20	2.30	-	-	-	-	-
50yr PWLB Rate														
Link	1.50	1.70	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.20	2.20	2.30	2.30
Capital Economics	1.40	1.50	1.60	1.70	1.80	1.90	2.00	2.20	2.30	-	-	-	-	-

5.3 CREDIT AND COUNTERPARTY RISK MANAGEMENT

The DLUHC 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 Executive 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.

Instrument	**Country/ Domicile**	**Counterparty**	**Maximum Counterparty Limits £m**
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	UK and EC domiciled	CNAV MMF's LVNAV MMF's VNAV MMF's (where there is greater than 12 month history of a consistent £1 Net Asset Value)	£25 million
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.

Instrument	Maximum maturity	Max £M of portfolio and Credit limit	Capital expenditure?	Example
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 Group 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 Group 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

TMP1 Risk Management

The council regards a key objective of its treasury management and other investment activities to be the security of the principal sums it invests. Accordingly, it will ensure that robust due diligence procedures covering all external investment including investment properties.

The responsible officer will design, implement and monitor all arrangements for the identification, management and control of treasury management risk, will report at least annually on the adequacy/suitability thereof, and will report, as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the organisation's objectives in this respect, all in accordance with the procedures set out in TMP6 Reporting Requirements and Management Information Arrangements. In respect of each of the following risks, the arrangements which seek to ensure compliance with these objectives are set out in the schedule to this document.

1.1 Credit and Counterparty Risk Management

Credit and counter-party risk is the risk of failure by a counterparty to meet its contractual obligations to the organisation under an investment, borrowing, capital project or partnership financing, particularly as a result of the counterparty's diminished creditworthiness, and the resulting detrimental effect on the organisation's capital or current (revenue) resources.

This organisation regards a key objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, it will ensure that its counterparty lists and limits reflect a prudent attitude towards organisations with which funds may be deposited, and will limit its investment activities to the instruments, methods and techniques referred to in TMP4 Approved Instruments Methods and Techniques and listed in the schedule to this document. It also recognises the need to have, and will therefore maintain, a formal counterparty policy in respect of those organisations from which it may borrow, or with whom it may enter into other financing arrangements.

(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.