Treasury Management Strategy 2021/22

This strategy has been set in line with the forecast for interest rates and the Council's proposed capital expenditure. It supports the Council's primary objectives with regard to its cash investments; to protect the principal sums invested from loss and to ensure adequate liquidity so that funds are available to cover expenditure when needed. The generation of investment income to support the provision of local authority services is an important, but secondary objective.

The risk around the availability of cash became more acute in 2020 as a result of uncertainty surrounding income and expenditure pressures caused by the Covid-19 pandemic. This situation is unlikely to change materially in the 2021/22 financial year. The strategy therefore confirms that investment timing and duration will be driven by cash flow demands so that the Council's operational needs in the current environment continue to be met. A cautious approach to counterparty security risks (that is the risk associated with institutions the Council places investments with) will remain in light of the economic uncertainty and the potential for banking losses. The diversity of the portfolio will be maintained by deposits being placed with a range of banks, other local authorities and money market funds accounts.

The level of returns available from longer-term cash investments (those in excess of one year's duration) are weak in the very low interest rate environment and credit risk is more pronounced. Therefore, the Investment Strategy (included in a separate report) will be the basis of securing higher yielding long-term returns to support the provision of Council services.

TREASURY MANAGEMENT STRATEGY STATEMENT 2021/22

The sections below define aspects of the Council's treasury strategy as required by the CIPFA Code.

1) Context for the 2021/22 Strategy

The current forecast is for the Bank Rate to remain at 0.1% until at least the end of 2023. There is a possibility of further rate cuts.

The Council's investment portfolio as at year end and at 30 November 2020 was as follows:

	31 March 2020 Balance £m	Movement £m	30 November 2020 Balance £m	Rate %
Long-term borrowing	0	0	0	0%
Short-term borrowing	44.12	13.53	57.65	0.35% - 1%
Total borrowing	**44.12**	**13.53**	**57.65**	
Long-term investments	0	0	0	0%
Short-term investments	29.50	(6.50)	23.00	0.03% - 1.05%
Cash and cash equivalents	9.20	8.80	18.00	0.01% - 0.04%
Total investments	**38.70**	**2.30**	**41.00**	

As at 30 November, the Council currently had £41 million of cash investments. However, this will continue to reduce as the Council's agreed capital programme is delivered. Capital expenditure and the availability of the Council's own resources (usable reserves) will dictate the Council's borrowing requirement.

The Council will use its Money Market Fund (MMF) and deposit accounts to maintain sufficient operational liquidity (i.e. to make sure that it has enough cash available to meet its day to day payment requirements). Investment balances that are required in the short-term to meet capital expenditure requirements but not for immediate cash flow will be diversified over a range of UK banks, buildings societies, UK-registered overseas banks and with other local authorities in accordance with the list of approved counterparties. The Council's approach to longer-term investments is detailed in the separate Investment Strategy 2021/22 which addresses non-cash investments.

The Council holds short term borrowing (its debt portfolio) of £57.65 million. These loans will need to be refinanced over the financial year. The Council's borrowing strategy is to continue to refinance the loans each year at a variable rate. This will retain flexibility and secure lower interest rates. The detailed considerations in terms of borrowing and investments are given in the following sections.

2) Borrowing Strategy

The Council currently holds £57.65 million of loans, an increase of £13.53 million on the previous year. The Capital Strategy for 2021/22 sets out the affordable borrowing limit and operational boundary. In addition to this a maximum limit "short-term" borrowing limit of £7 million is sought as an emergency cash flow facility.

(a) Borrowing Objectives

The Council's chief objective when borrowing money will be to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should the Council's long-term plans change is a secondary objective.

(b) Strategy

With short-term interest rates currently much lower than long-term rates, it is more cost effective to borrow short-term loans instead. In contrast, HM Treasury rates vary between 0.96% (one year borrowing) through to 1.4% (ten year borrowing). In the present environment, HM Treasury rates are unlikely to prove competitive compared to the intra-local authority market. Where cost effective to do so the Council may arrange forward starting loans, where the interest rate is fixed in advance, but the cash is received in later years. This has the benefit of cost certainty.

In addition, the Council may borrow on a short-term basis to cover unplanned cash flow shortages.

(c) Borrowing Sources

The approved sources of long-term and short-term borrowing are:

- HM Treasury's lending facility (formerly the PWLB).
- Any institution approved for investments (see 3c below).
- Any other bank or building society authorised to operate in the UK.
- Any other UK public sector body.
- UK public and private sector pension funds.
- Capital market bond investors.
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues.

In addition, the Treasury Management Strategy also allows for assets to be acquired using the following methods:

- Operating and finance leases
- Leasing
- Hire purchase
- Private Finance Initiative
- Sale and leaseback

Short-term and variable rate loans leave the Council open to the risk of short-term interest rate rises and are therefore subject to the interest rate exposure limits in the treasury management indicators below.

3) Treasury Investment Strategy

(a) Investment Objectives

The Council holds invested funds which represent income received in advance of expenditure plus balances and reserves. The CIPFA Code requires the Council to have regard to the security and liquidity of its investments before seeking the optimum rate of return. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

(c) Negative Interest Rates

In the event that the Bank of England sets the Bank Rate at or below zero, security will be measured as receiving the contractually agreed amount at maturity, even though this may be less than the amount originally invested.

(d) Approved Investment Counterparties

The Council may invest its surplus funds with any of the counterparty types in the following table subject to the cash and time limits shown.

Credit Rating	**Banks Unsecured**	**Banks Secured**	**Government**	**Corporates**	**Registered Providers**
UK Govt	n/a	n/a	£ Unlimited 50 years	n/a	n/a
AAA	£3M 5 years	£5M 20 years	£3M 50 years	£3M 20 years	£3M 20 years
AA+	£3M 5 years	£5M 10 years	£3M 25 years	£3M 10 years	£3M 10 years
AA	£3M 4 years	£5M 5 years	£3M 15 years	£3M 5 years	£3M 10 years
AA-	£3M 3 years	£5M 4 years	£3M 10 years	£3M 4 years	£3M 10 years
A+	£3M 2 years	£5M 3 years	£3M 5 years	£3M 3 years	£3M 5 years
A	£3M 13 months	£5M 2 years	£3M 5 years	£3M 2 years	£3M 5 years
A-	£3M 6 months	£5M 13 months	£3M 5 years	£3M 13 months	£3M 5 years
None	n/a	n/a	£3M 25 years	n/a	£3M 5 years
Pooled Funds	£5M per fund				

This table should be read in conjunction with the notes below:-

(e) Credit Rating

Investment limits are made by reference to the lowest published long-term credit rating from a selection of external rating agencies. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, the Council will consider all relevant factors when making investment decisions.

(f) Banks Unsecured

Included within this category are accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail.

(g) Banks Secured

Secured investments are covered bonds, reverse repurchase agreements (a fixed term loan secured on assets) and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. Where there is no investment specific credit rating the highest of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

(h) Government

Investments within this category are comprised of loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is a very low risk of insolvency.

(i) Corporates

Corporate loans, bonds and commercial paper are issued by companies other than banks and registered providers. These investments are not subject to bail-in, but are exposed to the risk of the company becoming insolvent.

(j) Registered Providers

This investment class respects loans and bonds issued by, guaranteed by or secured on the assets of providers of social housing and registered social landlords. These bodies are tightly regulated and retain the likelihood of receiving government support.

(k) Pooled Funds

Such Funds are comprised of shares or units in diversified investment vehicles consisting of any of the above investment types, plus equity shares and property. They provide wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Money Market Funds that offer same-day liquidity and aim for a constant net asset value will be used as an alternative to instant access bank accounts, while pooled funds whose value changes with market prices and/or have a notice period will be used for longer investment periods.

(l) Lloyds Bank

The Council's business bank account provider is Lloyds Bank plc. In the context of the current economic climate where interest rates are very low (with the risk that they may turn negative), it is unlikely to be in the Council's best interests to place short-term investments with other institutions. Therefore, for 2021/22 there is no limit to the amount that can be held with Lloyds.

(m) Risk Assessment and Credit Ratings

Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made,
- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

Where a credit rating is on review for possible downgrade (also known as "rating watch negative" or "credit watch negative") so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

(n) Other Information on the Security of Investments

In addition to credit ratings regard will be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support, reports in the financial press and advice from the treasury management adviser. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the above criteria.

When deteriorating financial market conditions affect the creditworthiness of all organisations, the Council will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. If these restrictions mean that insufficient high credit quality counterparties are available to invest cash balances, then the surplus will be deposited with the UK Government or with other local authorities. This will cause a reduction in the level of investment income earned, but will protect the principal sum invested.

(o) Investment Limits

Limits will be placed on investments as stated in the following table:

Class	Cash limit
Any group of UK based organisations under the same ownership	£5 million per group
Any group of non-UK based organisations under the same ownership	£3 million per group
Any group of pooled funds under the same management	£5 million per manager
Negotiable instruments held in a broker's nominee account	£20 million per broker
Foreign countries	£6 million per country
Registered providers and registered social landlords	£10 million in total
Money Market Funds	£30 million in total
Loans to other organisations (excluding wholly owned subsidiaries)	£5 million in total

(p) Liquidity Management

The Council performs regular cash flow forecast calculations to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the Council being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Council's medium term financial strategy and cash flow forecast. Liquid cash will be spread to optimise access to cash in the event of operational difficulties at any one provider.

(q) Financial Implications

According to current cash flow forecasts, investments are expected to amount to approximately £42 million by 31 March 2021 and £43 million by 31 March 2022. The budget for investment income in 2021/22 is £35,000 at an interest rate of 0.08%. The budget for debt interest paid in 2021/22 is £310,000 based on an average debt portfolio of £57.65 million. If actual levels of investment and borrowing, or actual interest rates, differ from those forecast, performance against budget will be correspondingly different.

(r) Related Matters

The CIPFA Code also requires the Council to approve the following matters each year as part of the treasury strategy:

- <u>Policy on Use of Financial Derivatives</u>
  A derivative is a contract between two parties that specifies conditions (such as dates, the values of the underlying variables and notional amounts) under which payments are to be made between the parties. The Council does not currently use derivatives and has no plans to in the next financial year. The Council will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Council is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives (such as interest rate collars, forward deals and those present in pooled funds) will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy. Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria. The current

value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit.

- Markets in Financial Instrument Directives
  The Council has opted up to professional client status with its providers of financial services allowing it access to a greater range of services but without the greater protection afforded to individuals and small companies. Given the size and nature of the Council's treasury management activities, the Council believes this to be the most appropriate status.

TREASURY MANAGEMENT INDICATORS 2021/22 TO 2023/24

The Council measures and manages its exposure to treasury management risks using indicators.

Principal sums invested for periods longer than a year

The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the total principal sum invested to final maturities beyond the period are stated in the table below.

	2021/22 £000	2022/23 £000	2023/24 £000
Limit on principal invested beyond year end	18,000	18,000	18,000

Maturity Structure of Borrowing

This indicator is required as a measure of exposure to refinancing risk from large concentrations of fixed rate debt requiring replacement at a time of interest rate uncertainty. However, at present the Council would wish to retain maximum flexibility as to the periods in which it borrows over. As a debt portfolio becomes established then the indicator will be reviewed to ensure that it remains suitable. Therefore, the upper and lower limits on the maturity structure of fixed rate borrowing will be:

	Lower	Upper
Under 12 months	0%	100%
12 months and within 24 months	0%	100%
24 months and within 5 years	0%	100%
5 years and within 10 years	0%	100%
10 years and above	0%	100%

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

MINIMUM REVENUE PROVISION 2021/22

Where the Council finances capital expenditure by borrowing, it must put aside resources to repay that borrowing in future years. The amount charged to the revenue budget for the repayment of borrowing is known as the Minimum Revenue Provision (MRP).

The Local Government Act 2003 requires the Council to have regard to the Ministry of Housing, Communities and Local Government's Statutory Guidance on Minimum Revenue Provision (the Guidance) most recently updated in 2018.

The broad aim of MRP is to ensure that borrowing is repaid over a period that is reasonably in line with that over which the capital expenditure provides benefits, in a similar way to the principles of charging depreciation.

The Guidance requires the Council to approve and annual MRP statement each year.

For capital expenditure incurred after 31 March 2021, MRP will be determined by charging the expenditure over the expected useful life of the relevant asset in equal instalments, starting in the year after the asset becomes operational. MRP on purchases of freehold land will be charged over 50 years. MRP on expenditure not related to fixed assets but which has been capitalised by regulation will be charged over 20 years.

Where capital expenditure has been incurred on an asset or assets which are held only for income generation or capital appreciation purposes no MRP will be charged. Such assets are revalued every year and therefore, the Council has an up to date understanding of the value of the assets and whether the realisable value would cover the repayment of any borrowing. If the value of any such asset were to fall below the original purchase price, then the Council would review the reasons for the decrease in value and either dispose of the asset immediately or, if the decrease is considered to be temporary, make an MRP charge based on the revised value until such time as the value has recovered.

Capital expenditure incurred during 2021/22 will not be subject to an MRP charge until 2022/23.