Appendix 5

Northampton Borough Council
Treasury Management Strategy 2020/21

Contents

1. Introduction

Background

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

1.2. The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning, to ensure that the Council can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans, or using longer-term cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet Council risk or cost objectives.

1.3. The contribution the treasury management function makes to the authority is critical, as the balance of debt and 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.

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

1.5. CIPFA defines treasury management as:

"The management of the local authority's 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."

Reporting Requirements

Capital Strategy

1.6. CIPFA's revised Prudential and Treasury Management Codes requires local authorities to prepare a capital strategy report to provide the following:

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

1.7. The aim of this capital strategy 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.

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

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

1.10. If any non-treasury investment present a book-value loss during the final accounts and audit process, the strategy and revenue implications will be reported through the same procedure as the capital strategy.

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

Treasury Management Reporting

1.12. 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 (Appendix 1) –** 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 (Appendix 2)** - 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.

Treasury Management Strategy

1.13. This strategy covers two main areas:

Capital;

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

Treasury Management;

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

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

Training

1.15. The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management have access to training in treasury management. The Councils treasury advisory contract includes provision for annual delivery of member training, as necessary. The training needs of treasury management officers are also periodically reviewed.

Treasury Advisors

1.16. The Council uses Link Asset Services (LAS) as its external treasury management advisors. The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon the services of our external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisors.

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

Non-treasury Investment Advice

1.18. The scope of investments within the Council's operations now includes both conventional treasury investments (the placing of residual cash from the Council's functions) and more commercial type investments, such as investment properties. Commercial type investments may require specialist advice, and therefore the Council will undertake appropriate due-diligence on a case-by-case basis.

2. Current Treasury Management position

2.1. The Council's projected treasury portfolio position at 31st March 2020, with forward estimates, is summarised below. Table 1 shows external borrowing against the Capital Financing Requirement (CFR) - which is a measure of the need to borrow for capital expenditure purposes - highlighting any forecast over or under borrowing.

2.2. The figures exclude any borrowing undertaken or planned for third party loans so as to focus on the Council's own cash position:

Table 1: Treasury Portfolio at 31 March 2020						
£m	**2020/21 Estimate**	**2021/22 Estimate**	**2022/23 Estimate**	**2023/24 Estimate**	**2024/25 Estimate**	**2025/26 Estimate**
External borrowing						
Borrowing at 1 April	230	255	254	261	261	261
Expected change in borrowing	25	7	7	-	-	-
Borrowing at 31 March (1)	**255**	**262**	**261**	**261**	**261**	**261**
CFR (exc 3rd Party Loans) at 31 March (2)	**334**	**343**	**348**	**345**	**342**	**339**
Under/(over) borrowing (2-1)	**79**	**81**	**87**	**84**	**81**	**78**
Investments						
Investments (exc 3rd Party Loans) at 1 April	25	10	10	10	10	10
Expected change in investments	(15)	-	-	-	-	-
Investments (exc 3rd Party Loans) at 31 March (3)	**10**	**10**	**10**	**10**	**10**	**10**
Net borrowing (exc 3rd Party Loans) (1-3)	**245**	**252**	**251**	**251**	**251**	**251**

2.3. The Council's prudential and treasury indicators for 2020/21 to 2024/25 are set out at Appendix 5.

3. Interest Rates

3.1. The Council has appointed Link Asset Services (LAS) as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. The following table gives their central view at November 2019.

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

3.2. Economic and interest rate forecasting remains difficult with so many external influences weighing on the UK, not least Brexit. The above forecasts, (and MPC decisions), will be liable to further amendment depending on how economic data and developments in financial markets transpire over the next year. Geopolitical developments, especially in the EU, could also have a major impact.

3.3. A summary of the balance of risks to this forecast is included at Appendix 7.

Investment and borrowing rates

3.4. Investment returns are likely to remain low during 2020/21 but to be on a gently rising trend over the next few years.

3.5. The general situation is for volatility in bond yields – from which borrowing rates are derived - to endure as investor fears and confidence ebb and flow between favouring relatively more "risky" assets i.e. equities, or the "safe haven" of government bonds. The overall longer run trend is for gilt yields and PWLB rates to rise, albeit gently, although there are likely to also be periods of sharp volatility from time to time.

3.6. There will remain a cost of carry (the difference between higher borrowing costs and lower investment returns) to any new long-term borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost.

4. Borrowing Strategy

4.1. The Council is currently maintaining an under-borrowed position against borrowing capacity. 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.

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

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

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

4.3. Borrowing decisions are treated as separate from the capital schemes that derive an overall borrowing requirement and are instead based on the overall cashflows and risk management of the Councils debt portfolio. However, the financial viability of certain capital schemes funded by unsupported borrowing will be heavily influenced by the cost of borrowing associated with them. Where the CFO determines that the Council would benefit most from the certainty of fixing borrowing costs for particular capital schemes, the Council may borrow on that basis.

Policy on Borrowing In Advance of Need

4.4. The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved CFR estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

4.5. Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanisms.

Debt Rescheduling

4.6. Where short-term borrowing rates are considerably cheaper than longer term fixed interest rates, there may be potential opportunities to generate savings by switching from long-term debt to short-term debt. However, these savings are considered in the light of the current treasury position and the size of the cost of debt repayment (premiums incurred).

4.7. The reasons for any rescheduling to take place will include:

- the generation of cash savings and / or discounted cash flow savings;
- helping to fulfil the treasury strategy;
- enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

4.8. Consideration will also be given to identify if there is any residual potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.

4.9. All rescheduling will be subsequent reported through the mid-year or annual reporting mechanisms.

Municipal Bonds Agency

4.10. The Municipal Bond Agency was established with the purpose of offering loans to local authorities at rates lower than those offered by the Public Works Loan Board (PWLB). To date, the Agency has not issued any bonds. In the future, the Council may make use of this new source of borrowing should it prove cost effective to do so.

Temporary Borrowing

4.11. The Council may occasionally undertake short-term temporary borrowing if this is needed to cover its cash flow position.

4.12. The CFO may also authorise the taking of short-term deposits under mutually agreed and documented terms from other local not-for-profit organisations.

5. Annual Investment Strategy (AIS)

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

5.2. The Council's investment policy has regard to the latest versions of the following:

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

5.3. The Council's counterparty and credit risk management policies and its approved instruments for investments are set out in Appendix 8. The Council's investment priorities will be security first, liquidity second and then yield (return) – in that order.

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

5.4.1. Minimum acceptable credit criteria are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short term and long-term ratings.

5.4.2. 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.

5.4.3. Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

5.4.4. This 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 8 under the categories of 'specified' and 'non-specified' investments:

- Specified investments are those with a high level of credit quality and subject to a maturity limit of one year.

- Non-specified investments are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use.

5.4.5. Counterparty lending limits (amounts and maturity) will be set through applying the matrix table in Appendix 8.

5.4.6. Transaction limits are set for each type of investment in Appendix 8.

5.4.7. This authority will set a limit for the amount of its investments which are invested for longer than 365 days.

5.4.8. Investments will only be placed with counterparties from countries with a specified minimum sovereign rating.

5.4.9. The Council has engaged external consultants to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of this authority in the context of the expected level of cash balances and need for liquidity throughout the year.

5.4.10. All investments will be denominated in sterling.

5.5. Consummate to these risk management parameters, the Council will pursue value for money in treasury management and will regularly monitor the yield from investment income against an appropriate time-weighted benchmark for investment performance.

Approach to Investments

5.6. Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months). Greater returns are usually obtainable by investing for longer periods. While most cash balances are required in order to manage the ups and downs of cash flow, where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer term investments will be carefully assessed.

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

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

Loans to Third Parties

5.7. The Council may make grants or loans to third parties for the purpose of capital expenditure, as allowable under paragraph 25 (1) (b) of the Local Authorities (Capital Financing and Accounting) (England) Regulations 2003 (Statutory Instrument No. 3146). This will usually be to support local economic development, and may be funded by external borrowing.

5.8. The Council also has powers to provide financial support to organisations under general powers of competence under the Localism Act 2011.

5.9. Enhancement to the governance and due diligence in respect of the awarding of grants and third party loans has been developed. This covers:

- Checklists and a manual;
- The incorporation of external independent advice as part sign-off process.

5.10. Loans of this nature that remain outstanding have been lent to Northampton Town Rugby Football Club (NTRFC). The Council has also acted as intermediary to advance PWLB loans at cost to the University of Northampton (UoN) which are 100% guaranteed by HM Treasury.

Enterprise Zones

5.11. The Council continues to take forward infrastructure improvements to enable development and to attract investment into the Enterprise Zone, supporting employment growth. Loans have been granted from the Government's Growing Places Fund (GPF) and Local Infrastructure Fund (LIF). The repayment of funding (principal and interest) will be met, for the most part, from business rates uplift in line with the Enterprise Zone financial model.

6. List of appendices to Treasury Management Strategy

Appendix 1: Treasury Management Mid-Year Update 2019/20

Appendix 2: Treasury Management Outturn Report 2018/19

Appendix 3: Treasury Management Scheme of Delegation and Role of Chief Finance Officer (Section 151 Officer)

Appendix 4: Policy for attributing income and expenditure and risks between the General Fund and the HRA

Appendix 5: Prudential and Treasury Indicators 2020/21

Appendix 6: Minimum Revenue Provision (MRP) Policy Statement 2020/21

Appendix 7: Interest Rate Forecast Commentary

Appendix 8: Annual Investment Strategy 2020/21

Appendix 1

Treasury Management Report – Mid-year update 2019/20

BACKGROUND

1.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Treasury Management recommends that members be updated on treasury management activities regularly (annual, mid-year or quarterly reports). This report, therefore, ensures this Council is implementing best practice in accordance with the Code.

2. ECONOMIC CLIMATE

2.1 In brief summary, Q2 2019/20 saw:

- Bank of England held Bank Rate at 0.75%; noting the deterioration in global activity and sentiment, they confirmed that monetary policy decisions related to Brexit could be in either direction depending on whether or not a deal is ultimately reached by 31st October;
- The UK economy contracted by 0.2%; following the 0.5% gain in Q1 which was distorted by stockpiling ahead of Brexit;
- Brexit negotiations remained at an impasse; UK equities continued to underperform given the uncertainty, generally meaning investors are holding safe-haven government bonds/gilts instead.

3. INTEREST RATE FORECAST

3.1 The latest forecast for UK Bank Rate along with PWLB borrowing rates (certainty rate) from the Council's treasury advisors is set out in Table 1 below.

PWLB Rates

3.2 In a surprise move and without consultation or prior warning, from 9th October 2019 the Government has:

- Increased with immediate effect the interest rates offered on new Public Works Loan Board (PWLB) loans by doubling the margin applied from 1% to 2%. The 20bps discount for providing forward capital forecast data – known as the Certainty Rate – still applies (to which this Council is eligible).
- Legislated to increase the statutory limit on how much the PWLB can lend to eligible authorities, from £85bn to £95bn.

3.3 As the cost of borrowing has fallen to record lows, a number of local authorities have substantially increased their use of the PWLB in recent months. Some authorities have maximised their borrowing ability directly to invest in commercial property to produce a financial return to underpin front-line services, a practice that Government has expressed concerns over. It would appear that HM Treasury has carried out what MHCLG and CIPFA had implied

Appendix 1 cont.

should be avoided, namely addressed concerns on borrowing at a few outlying authorities by penalising the whole sector.

3.4 The maximum net amount of PWLB loans that can be outstanding at any time is subject to a statutory limit. At 31st March 2019, the amount outstanding stood at £77.9bn. With PWLB rates falling to record lows, it is estimated that c.£6.2bn of new loans had been raised in the first half of 2019/20. Raising the self-imposed statutory limit from £85bn to £95bn, combined with the rate increase, reduces the likelihood of a statutory limit breach.

3.5 The PWLB's new pricing structure - at 180 basis points above gilts for certainty rate loans - no longer necessarily represents good value for local authorities and opens up the potential for better overall terms and flexibility from market lenders.

3.6 The PWLB rates shown in Table 1 below are inclusive of the new increased margins and certainty rate discount.

Table 1: Interest Rate Forecast (%)

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

3.7 There are many risks to the forecast set out above, principally around the timing and pace of further rate rises. Budget estimates prudently include sensitivity analysis of the impact that a slower than forecast economic recovery would have upon the Council and any impact of changes to interest rates is reported through the Budget Monitoring process.

4. INVESTMENTS

4.1 The Treasury Management Strategy Statement (TMSS) for 2019/20, which includes the Annual Investment Strategy, was approved by Council in February 2019. It sets out the Council's investment priorities as being:

1. Security of Capital;
2. Liquidity; and then
3. Yield

4.2 The Council will aim to achieve the optimum return (yield) on investments commensurate with proper levels of security and liquidity.

Appendix 1 cont.

4.3 At 31st March 2019 investment balances totalled £48.044m, held in Money Market Funds, Call/Notice accounts, Certificates of Deposits, Local Authority loans and the CCLA Property Fund. This figure excludes third party loans and share capital. Due to the nature of various government funding streams and timing of capital expenditure, the average level of funds available for investment purposes during Q1 was £59.020m and for Q2 was £61.492m.

4.4 Table 2 below summarises the maturity profile of the Council's investment portfolio at the end of Q2 2019/20 (excluding third party loans):

Table 2 – Investment maturity profile at end of Q2 2019/20

		Maturity Period					
		0d	**0-3m**	**3-6m**	**5yrs ***	**Total**	
Product	**Access Type**	**£m**	**£m**	**£m**	**£m**	**£m**	***%***
Money Market Funds	Same-Day	15.790				**15.790**	***30.6***
Bank Call Account	Instant Access	0.200				**0.200**	***0.4***
Certificate of Deposits	Fixed Term / Tradeable		8.000	15.000		**23.000**	***44.6***
Local Authority Loans	Fixed Term		5.000			**5.000**	***9.7***
Pooled Property Fund	Redemption Period Applies				7.549	**7.549**	***14.7***
	Total	**15.990**	**13.000**	**15.000**	**7.549**	**51.539**	***100.0***
	%	***31.0***	***25.2***	***29.1***	***14.7***	***100.0***	

4.5 The scheduled date for the UK to leave the EU is now 31st January 2020 and there remains little political clarity as to whether a deal will be agreed by this date - the impending general election in December 2019 may change this - but there remains the possibility that the exit date could be deferred again.

4.6 Set out below are details of the amounts outstanding on loans and share equity investments classed as capital expenditure advanced to third party organisations at the end of Q2:

Table 3 – Third Party Loans

Loan Summary	**Amount (£m)**
University of Northampton (UoN) – **HM Treasury backed**	45.146
Northampton Town Rugby Football Club (NTRFC)	4.290
Unity Leisure	0.060
Total	**49.496**

4.7 Financial markets trade on confidence and certainty, and for some time now, both have been in short supply. Investment rates have increased from historical lows following bank base rate rises, but remain relatively low in short to medium-term durations, with limited pickup in value for longer durations.

Appendix 1 cont.

4.8 Investment balances are forecast to reduce by the financial year end as internal resources from temporary positive cashflow surpluses are applied to fund expenditure demands in lieu of fully funding the borrowing requirement (internal borrowing) on a net basis. This process effectively reduces the cost of carrying additional borrowing at a higher cost than the income that could be generated through short term investment of those balances, as well as reducing investment counterparty credit risk.

4.9 The Council's investments at the mid-year point outperformed the most comparable weighted duration benchmark by 68 basis points, largely due to an average dividend return of c.4.2% on the Council's investment held in the CCLA Property Fund. Any impact upon latest budget projections for the financial year are reported through the Budget Monitoring process.

Table 4: Benchmark Performance – Q2 2019/20

	Benchmark	Benchmark Return	Council Performance
Q1 (Last Qtr)	**3m LIBID**	0.68%	1.35%
Q2 (This Qtr)	**3m LIBID**	0.64%	1.32%
Q1+2 (Mid-Year)	**3m LIBID**	**0.66%**	**1.34%**

4.10 Leaving market conditions aside, the Council's return on investments is influenced by a number of factors, the largest contributors being the duration of investments and the credit quality of the institution or instrument:

- Credit risk is the consideration of the likelihood of default and is controlled through the creditworthiness policy approved by Council.
- The duration of an investment introduces liquidity risk; the risk that funds can't be accessed when required.
- Interest rate risk; the risk that arises from fluctuating market interest rates.

4.11 These factors and associated risks are actively managed by the Finance Treasury team.

5. BORROWING

5.1 The Council can raise cash through borrowing in order to fund expenditure on its capital programme for the benefit of Northampton. The amount of new borrowing needed each year is determined by capital expenditure plans and projections of the Capital Financing Requirement, underlying borrowing requirement, forecast cash-backed reserves and both current and forecast economic conditions.

5.2 Overall borrowing outstanding has decreased during the first half of this year by £4.864m in line with scheduled debt repayments.

Appendix 1 cont.

5.5 Table 5 below sets out the maturity profile of the Council's borrowing portfolio at the end of Q2. £225.521m is held with the PWLB, £16.466m from Market sources (Market loans/ Growing Places funding/ Homes & Communities Agency).

Table 5: Borrowing Maturity Profile – Q2 2019/20

Term Remaining	Borrowing	
	£m	**%**
Under 12 months	1.124	0.5
1-2 years	34.463	14.2
2-5 years	15.851	6.6
5-10 years	39.641	16.4
10-20 years	7.215	3.0
20-30 years	5.314	2.2
30-40 years	4.379	1.8
40 years and above	134.000	55.3
TOTAL	**241.987**	**100.0**

5.6 The Council does not hold any Lender Option, Borrower Option (LOBO) loans.

5.7 The Council is in an internally borrowed cash position and balances will need to be replenished at some point in the future (subject to expenditure demands). This strategy is prudent while investment returns are lower than the cost of servicing debt and also serves to mitigate counterparty risk. The Council therefore plans to maintain this internal borrowing position but will closely monitor those reserves, balances and cashflows supporting this approach.

6. BORROWING RESTRUCTURING

6.1 No borrowing rescheduling has been undertaken this year. Rescheduling opportunities are limited in the current economic climate. For PWLB loans, due to the spread between the carrying rate of existing borrowing and early redemption rates, substantial exit (premium) costs would be incurred. For market borrowing, the lender uses the certainty of the loans cashflow profile to hedge against forecast interest rate movements and so would pass the cost of unwinding these instruments onto the Council as an exit (premium) cost. Officers continue to monitor the position regularly.

Appendix 1 cont.

7. TREASURY AND PRUDENTIAL INDICATORS

7.1 The Council's Treasury and Prudential Indicators (affordability limits) were approved alongside the TMSS. It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. During the financial year to date the Council has operated within the Treasury and Prudential Indicators set out in the Council's TMSS:

Table 6: Treasury and Prudential Indicators

Prudential Indicator	2019/20 Indicator	2019/20 Q2
Authorised limit for external debt (Inc' Third Party Loans)	----- £335.000m -----	
Operational boundary for external debt (Inc' Third Party Loans)	----- £325.000m -----	
Capital Financing Requirement (CFR) (Inc' Third Party Loans and Finance Lease Liabilities)	£349.000m	£351.411m
Ratio of financing costs to net revenue streams: GF	7.82%	7.41%
Ratio of financing costs to net revenue streams: HRA	30.13%	29.81%
Principal sums invested > 365 days (Exc' third party loans)	£14.000m	£7.549m
Maturity structure of borrowing limits:-		
Under 12 months	Max. 50% Min. 0%	0.5%
12 months to 2 years	Max. 50% Min. 0%	14.2%
2 years to 5 years	Max. 50% Min. 0%	6.6%
5 years to 10 years	Max. 50% Min. 0%	16.4%
10 years to 20 years	Max. 50% Min. 0%	3.0%
20 years to 30 years	Max. 60% Min. 0%	2.2%
30 years to 40 years	Max. 80% Min. 0%	1.8%
40 years and above	Max. 100% Min. 0%	55.3%

Appendix 2

Treasury Management Outturn Report 2018/19

1. BACKGROUND

1.1 Treasury Management is governed by the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management (the Code). The Code has been developed to meet the needs of Local Authorities and its recommendations provide a basis to form clear treasury management objectives and to structure and maintain sound treasury management policies and practices.

1.2 The Code was adopted via the Treasury Management Strategy Statement (TMSS), which was approved for the 2018/19 financial year by Council in February 2019. It requires the Council to produce an annual treasury report and a half yearly report.

1.3 This report has been developed in consultation with the Council's external investment manager and treasury adviser, Link Asset Services (LAS) and provides an update to 31st March 2019.

2. THE ECONOMIC ENVIRONMENT

2.1 During the quarter ended 31st March 2019, the significant UK economic headlines were:

- Brexit uncertainty continued to dominate;
- Bank Rate remained unchanged at 0.75% with no changes to the quantitative easing programme;
- There had been a rise in wage inflation and fall in CPI inflation. An increase in household spending power is likely to feed through into overall economic growth in the coming months.

3. SUMMARY PORTFOLIO POSITION

3.1 Net debt, including third party loans, at 31st March 2019 stood at £246.851m, which is lower than originally set out in the Treasury Management Strategy Statement in February 2019 as anticipated borrowing has been deferred. A balance sheet review has been carried out on the draft 2018/19 financial statements, and will be updated once the final audited financial statements for 2018/19 become available, which provides useful detailed analysis of the Councils loans, investments, Capital Financing Requirement and reserves.

3.2 Further analysis on borrowing and investments is set out in the next two sections. A snapshot of the Council's debt and investment position is shown in the table below:

Appendix 2 cont.

	TMSS 2018/19 31 Mar 2019 Forecast (Council Feb 2019)		Actual as at 31 March 2018		Actual as at 31 March 2019		Change from Mar 2018 to Mar 2019
	£m	Rate %	£m	Rate %	£m	Rate %	£m
Borrowing	**285.000**	**3.2**	**257.361**	**3.0**	**246.851**	**3.1**	**(10.510)**
Treasury Investments	**(27.200)**	**0.5**	**(65.400)**	**0.5**	**(48.044)**	**0.9**	**17.356**
3rd Party Loans	**(49.800)**	**2.1**	**(50.643)**	**2.2**	**(49.763)**	**2.1**	**0.880**
Total Net Debt / Borrowing	**208.000**	**-**	**141.318**	**-**	**149.044**	**-**	**7.726**

4. BORROWING

4.1 The Council can raise loan finance in order to primarily fund its Capital spending plans and also for short term cashflow purposes. The actual amount of new borrowing required each year is determined by capital expenditure plans, capital funding available, the actual Capital Financing Requirement (CFR), forecast reserves, cashflow analysis, and current and projected economic conditions.

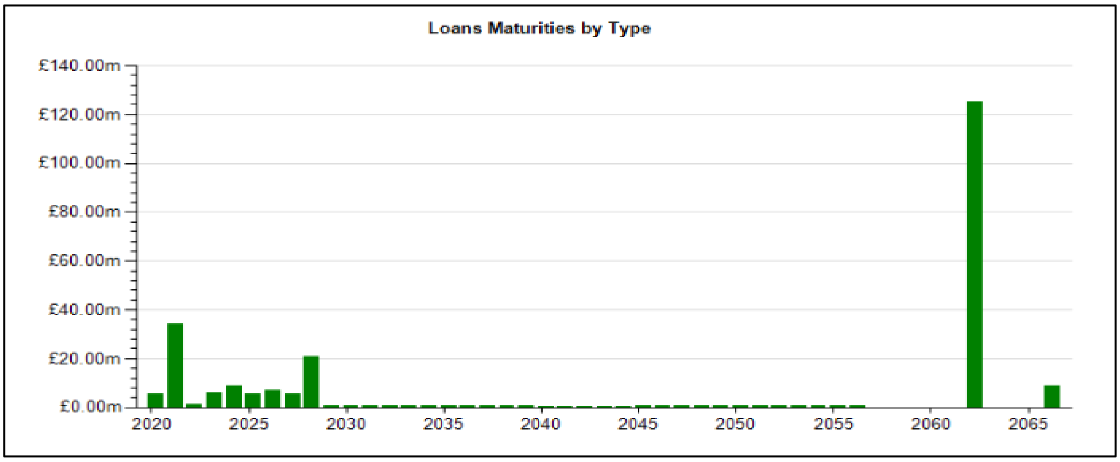
New loans and repayment of loans:

4.2 This section details new long term loans raised (i.e. loans that are for greater than one year) and loans repaid during the year, including those associated with Third Party Loans. No new loans were drawn during the year. A total of £10.510m scheduled principal repayments were made.

Maturity profile of borrowing:

4.3 The graph below show the maturity profile of the Council's loan portfolio (including those associated with Third Party Loans), per loan, at 31st March 2019. The Councils long-term loans have fixed interest rates, which gives balance against short-dated loans and partly protects the Council from exposure to interest rate fluctuation.

Appendix 2 cont.



Loan restructuring:

4.4 When market conditions are favourable, long term loans may be restructured in order to:

- generate cash savings;
- reduce the average interest rate; and / or
- enhance the balance of the portfolio by amending the maturity profile and/or the level of volatility (volatility is determined by the fixed/variable interest rate mix).

4.5 During the year, there were no opportunities for the Council to restructure its borrowing due to the composition of the Council's borrowing portfolio compared to prevailing market conditions and redemption rates. Debt rescheduling in 2019/20 will continue to be kept under review and considered subject to conditions being favourable. If and when opportunities for savings do arise, debt rescheduling will be undertaken to meet business needs.

Funding the Capital Programme

4.6 The Treasury Management Strategy Statement (TMSS) set out the plan for treasury management activities over the year. It identified the expected level of borrowing and investment levels. When the 2018/19 TMSS was set, it was anticipated that the Capital Financing Requirement (CFR) – the Council's liability for financing the agreed Capital Programme – would be £322.973m. This calculated amount is naturally subject to change as a result of any changes to the approved capital programme financing or MRP policy.

4.7 The outturn position was:

- the Council's 2018/19 outturn CFR was £310.421m, which was:
  - £63.570m greater than total outstanding borrowing of £246.851m at 31st March 2019 – this represents internal borrowing, that is the temporary use of the Council's surplus cash to finance the borrowing liability instead of borrowing externally.
  - £23.579m below the statutory Authorised Borrowing Limit of £334.000m set by Council.

5. INVESTMENTS

Appendix 2 cont.

5.1 Investment activity is carried out using the framework of the Council's counterparty policies and criteria, with a clear strategy of risk management. This ensures that the principle of considering security, liquidity and yield (in that order) is consistently applied. The Council therefore aims to achieve the optimum return on investments commensurate with proper levels of security and liquidity. Any variations to agreed policies and practices are reported to Council

5.2 As described in paragraph 4.7, the strategy of internal borrowing also has the effect of limiting the Council's investment exposure to the financial markets, thereby reducing credit risk.

5.3 The level of cash available for investment is made up of reserves, balances and working capital that the Council holds. As at 31st March 2019 investments totalled £97.807m. This includes total third party loans as listed below:

- £45.273m of PWLB loans advanced to University of Northampton (UoN). These loans are fully guaranteed by HM Treasury;
- £4.400m loans to Northampton Town Rugby Football Club (NTRFC). These loans are over collateralised/secured against land assets at Franklins Gardens;
- £0.090m loan to Unity Leisure.
- £48.044m was held in treasury management investments profiled in order to meet the liquidity demands, and long-term investment of units in the pooled CCLA Property Fund.

5.4 The table below compares the return performance on the Council's treasury management investment against relevant benchmarks for each quarter during the 2018/19 financial year.

Benchmark Investment Performance – 2018/19

	Benchmark	Benchmark Return	Council Performance
Q1	**3m LIBID**	0.55%	0.59%
Q2	**3m LIBID**	0.66%	0.68%
Q3	**3m LIBID**	0.73%	0.89%
Q4	**3m LIBID**	0.75%	1.25%
ANNUAL	**3m LIBID**	0.68%	0.84%

5.5 It can be seen from the table above that treasury management investments returned 0.84% for the year, which is 16bps more than the 3 month LIBID benchmark. Returns were boosted significantly from November 2018 as the Council invested £8m into the CCLA Property Fund which achieves a stable return of c. 4.2% annually.

5.6 Leaving market conditions to one side, the Council's return on investment is influenced by a number of factors, the largest contributors being the duration of investments and the credit quality of the institution or instrument. Credit risk is a measure of the likelihood of default and is controlled through the creditworthiness policy approved by Council. The duration of an investment

Appendix 2 cont.

introduces liquidity risk; the risk that funds can't be accessed when required, and interest rate risk; the risk that arises from fluctuating market interest rates. These factors and associated risks are actively managed by the Integrated Treasury team together with the Council's treasury advisers.

6. COMPLIANCE WITH TREASURY LIMITS AND PRUDENTIAL INDICATORS

6.1 With effect from 1st April 2004, the Prudential Code (as amended) became statute as part of the Local Government Act 2003. The key objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of the Council are affordable, prudent and sustainable. To ensure compliance with this the Council is required to set and monitor a number of Prudential Indicators.

6.2 During the financial year to date the Council has operated within the treasury limits and Prudential Indicators, which were:

Appendix 2 cont.

Prudential Indicator	2018/19 Indicator	2018/19 Outturn
Authorised limit for external debt (Inc' Third Party Loans)	----- £334.000m -----	
Operational boundary for external debt (Inc' Third Party Loans)	----- £324.000m -----	
Actual external debt (Inc' Third Party Loans)	----- £246.851m -----	
Capital Financing Requirement (CFR) (Inc' Third Party Loans and Finance Lease Liabilities)	£322.973m	£310.421m
Ratio of financing costs to net revenue streams: GF	6.13%	6.02%
Ratio of financing costs to net revenue streams: HRA	40.71%	36.89%
Principal sums invested > 365 days (Exc' Third Party Loans)	£15.000m	£7.446m
Maturity structure of borrowing limits:-		
Under 12 months	Max. 50% Min. 0%	2.2%
12 months to 2 years	Max. 50% Min. 0%	14.0%
2 years to 5 years	Max. 50% Min. 0%	6.5%
5 years to 10 years	Max. 50% Min. 0%	16.1%
10 years to 20 years	Max. 50% Min. 0%	2.9%
20 years to 30 years	Max. 60% Min. 0%	2.1%
30 years to 40 years	Max. 80% Min. 0%	1.9%
40 years and above	Max. 100% Min. 0%	54.3%

Appendix 3

Treasury Management Scheme of Delegation and role of the Chief Finance Officer (Section 151 Officer)

Treasury Management Scheme of Delegation

Council

The Council is responsible for:
- Adoption of the CIPFA Code of Practice on Treasury Management in the Public Services;
- Approval of the Treasury Management Policy Statement;
- Approval of the annual Treasury Management Strategy and annual Investment Strategy;
- Setting and monitoring of the Council's prudential and treasury indicators;
- Approval of the treasury management mid-year and outturn reports;
- Approval of the debt financing revenue budget as part of the annual budget setting process.

Cabinet

The Cabinet is responsible for:
- Consideration and scrutiny of the all of the above and recommendation to Council;
- Receiving monitoring information on the debt financing budget as part of the revenue budget monitoring process;
- Approving the selection of external service providers and agreeing terms of appointment in accordance with the Council's procurement regulations.

Treasury management role of the Section 151 Officer

The Council's Chief Finance Officer (CFO) is the officer designated for the purposes of Section 151 of the Local Government Act 1972 as the Responsible Officer for treasury management at the Council.

The Council's Financial Regulations delegates responsibility for the execution and administration of treasury management decisions to the CFO, who will act in accordance with the Council's policy statement and TMPs and CIPFA's Standard of Professional Practice on Treasury Management.

The CFO has delegated powers through this policy to take the most appropriate form of borrowing from the approved sources, and to make the most appropriate form of investments in approved instruments.

Prior to entering into any capital financing, lending or investment transaction, it is the responsibility of the responsible officer to be satisfied, by reference to the Council's legal department and external advisors as appropriate, that the proposed transaction does not breach any statute, external regulation or the Council's Financial Regulations.

Appendix 3 cont.

The CFO may delegate his power to borrow and invest to members of his staff.

The CFO is responsible for:

- Ensuring that the schedules to the Treasury Management Practices (TMPs) are fully reviewed and updated annually and monitoring compliance to the Treasury Management in the Public Services: Code of Practice and Guidance Notes;
- Submitting regular treasury management reports to Cabinet and Council;
- Submitting debt financing revenue budgets and budget variations in line with the Council's budgetary policies;
- Receiving and reviewing treasury management information reports;
- Reviewing the performance of the treasury management function and promoting value for money;
- 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 (e.g. treasury management advisors) in line with the approval limits set out in the Council's procurement rules;
- Ensuring that the Council's Treasury Management Policy is adhered to, and if not, bringing the matter to the attention of elected members as soon as possible.
- preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments and treasury management, with a long term timeframe.
- ensuring that the capital strategy is prudent, sustainable, affordable and prudent in the long term and provides value for money.
- ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the authority.
- ensure that the authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing.
- ensuring the proportionality of all investments so that the authority does not undertake a level of investing which exposes the authority to an excessive level of risk compared to its financial resources.
- ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long term liabilities.
- provision to members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees.
- ensuring that members are adequately informed and understand the risk exposures taken on by an authority.
- ensuring that the authority has adequate expertise, either in house or externally provided, to carry out the above.
- creation of Treasury Management Practices which specifically deal with how non treasury investments will be carried out and managed.

Appendix 4

Policy for attributing income and expenditure and risks between the General Fund and the HRA

1.1 The Council is required to have a clearly agreed policy for attributing income and expenditure and risks between the General Fund and the HRA.

1.2 The Council uses a two pool approach to splitting debt between the HRA and General Fund, whereby loans are assigned to either the HRA or the General Fund.

1.3 The Council applies the requirements of the CLG Item 8 Credit and Item 8 Debit (General) Determination from 1 April 2012 in recharging debt financing and debt management costs between the HRA and the General Fund. The interest rates to be applied are determined as follows:

Principal Amount	Interest Rate
HRA Credit Arrangements CFR: concession agreements and finance leases	Average rate on HRA credit arrangements
HRA Loans CFR: long term loans (external)	Average rate on HRA external debt
HRA Loans CFR: short term loans payable (under-funded CFR)	Average rate on GF external debt/or for formally agreed borrowing from GF resources an agreed PWLB equivalent rate.
HRA Loans CFR: short term loans receivable (over-funded CFR)	Average rate on external investments/or for earmarked medium term reserves an actual external investment rate
HRA Cash balances: short term loans payable (cash balances overdrawn)	Average rate on external investments
HRA Cash balances: short term loans receivable (cash balances in hand)	Average rate on external investments/or for earmarked medium term reserves an actual external investment rate

1.4 For the purpose of calculating interest rates:
- HRA cash balances are based on the average of opening and closing HRA cash balances;
- HRA CFR external debt is based on actual external debt;
- Other HRA CFR balances based on the mid-year position.

1.5 Debt management costs are charged to the HRA on an apportioned basis that takes into account the weighting of time spent on managing debt and investments respectively.

Appendix 4 cont.

1.6 Risk associated with external loans sit with either the GF or HRA depending on which of these the loan has been earmarked to. This will include interest rate risk, for example the risk of interest rate rises associated with variable loans.

1.7 Similarly, risk associated with any external investment of earmarked medium term HRA reserves sits with the HRA. This will include the risk of impairment in the event of the failure of an investment counterpart.

1.8 Where risk cannot be earmarked specifically to either the General Fund or HRA, it is apportioned fairly between the two using relevant available data. For example, in the event of impairment of an investment counterpart, any losses will be apportioned between the two funds based on an estimated proportion of cash balances held.

Appendix 5
Prudential and Treasury Indicators

The prudential indicators for 2020/21 to 2024/25 are set out below, each one with a commentary and risk analysis.

Affordability

a) Estimate of financing costs to net revenue stream

Commentary

This indicator has been calculated as the estimated net financing costs for the year divided by the amounts to be met from government grants and local taxpayers for the non-HRA element, and by total HRA income for the HRA element. However, it should be recognised however that ultimately all debts of a local authority fall on the taxpayer. The objective is to enable trends to be identified.

The figures below reflects the cumulative impact of borrowing costs (interest and MRP where applicable) for capital programme schemes agreed each year, set against the backdrop of net revenue streams in future years.

Financing costs to net revenue stream					
	2020/21	2021/22	2022/23	2023/24	2024/25
	Estimate %	Estimate %	Estimate %	Estimate %	Estimate %
General Fund	8.49	9.74	10.11	10.46	10.39
HRA	31.42	31.75	31.32	30.77	30.49

Effectively, each respective fund has a debt servicing cost to income cover ratio of:
- General Fund – ranging from 9.5 to 11.8 times
- HRA – ranging from 3.1 to 3.3 times

Risk Analysis

Debt financing costs relating to past and current capital programmes have been estimated in accordance with proper practices. Actual costs will be dependent on the phasing of capital expenditure and prevailing interest rates, and will be closely managed and monitored on an ongoing basis. Carry forwards in the capital programme, whether planned or unplanned, will delay the impacts of debt financing costs to future years.

Appendix 5 cont.

Prudence

Capital Expenditure

b) Estimates of capital expenditure

Commentary

This indicator requires reasonable estimates of the total of capital expenditure to be incurred during the forthcoming financial year and at least the following two financial years.

The draft capital programme for 2020/21 to 2024/25 for both the GF and HRA is included elsewhere on this agenda and sets out the levels of estimated capital expenditure.

Estimates include continuation schemes from previous years, new bids for the coming year, and block programmes for the coming and future years. The programme is agreed annually and will be adjusted in the context of future bids submitted and available resources when the annual programmes for the future years are agreed. Variations to the existing programme may also be agreed during the year.

Risk Analysis

There is a real risk of cost variations to planned expenditure against the capital programme, arising for a variety of reasons, including tenders coming in over or under budget, changes to specifications, and slowdown or acceleration of project phasing. There is also the possibility of needing to bring urgent and unplanned capital works into the capital programme. The risks are managed by officers on an ongoing basis, by means of active financial and project monitoring. Any significant issues are reported to Cabinet as part of the finance and performance reporting cycle.

The availability of financing from capital receipts, grants and external contributions also carries significant risk. This can be particularly true of capital receipts, where market conditions are a key driver to the flow of funds, causing particular problems in a depressed or fluctuating economic environment. The financing position of the capital programme is closely monitored by officers on an ongoing basis and any significant issues are reported to Cabinet as part of the finance and performance reporting cycle.

Appendix 5 cont.

c) Estimates of capital financing requirement (CFR)

Commentary

External borrowing arises as a consequence of all the financial transactions of the authority and not simply those arising from capital spending. The CFR can be understood as the Council's underlying need to borrow money long term for a capital purpose – that is, after allowing for capital funding from capital receipts, grants, third party contributions and revenue contributions.

The Council is required to make reasonable estimates of the total CFR at the end of the forthcoming financial year and the following two years thereafter. A local authority that has an HRA must identify separately estimates of the HRA and General Fund CFR.

The CFR has been calculated in line with the methodology required by the relevant statutory instrument and the guidance to the Prudential Code. It incorporates the actual and forecast borrowing impacts of the Council's previous, current and future capital programmes.

The table below shows the impact of proposed new capital expenditure funded by borrowing offset by annual repayments of principal (MRP – General Fund only, the HRA is not required to make an annual MRP charge). The table also splits out the impacts of loans to third party organisations funded by borrowing, where these are included in the Council's capital programme.

The changes to CFR are subject to future Council decisions in respect of the capital programme for those years.

Capital Financing Requirement (Closing CFR)					
	2020/21	2021/22	2022/23	2023/24	2024/25
	31 March £m	31 March £m	31 March £m	31 March £m	31 March £m
General Fund	118	120	119	116	113
HRA	216	223	229	229	229
Total	334	343	348	345	342
Loans to third parties (GF)	20	20	19	19	19
Total	**354**	**363**	**367**	**364**	**361**

Appendix 5 cont.

Risk Analysis

The capital financing requirement will vary from the estimates if there are changes to capital programme plans that result in reduced or increased borrowing to support expenditure. This will include adjustments between years as a result of carry forwards in the capital programme, which can impact on the profile of capital expenditure and the profile of the minimum revenue provision.

All borrowing plans must be affordable in revenue terms and to this end additional borrowing to fund capital expenditure will only be approved through the normal capital project approval process and where it has been demonstrated to be prudent affordable and sustainable.

External Debt

d) Authorised limit for external debt

Commentary

For the purposes of this indicator the authorised limit for external debt is defined as the authorised limit for borrowing plus the authorised limit for other long term liabilities.

This requires the setting for the forthcoming financial year and the following four financial years of an authorised limit for total external debt (including temporary borrowing for cash flow purposes), gross of investments, separately identifying borrowing from other long term liabilities.

The authorised limit represents the maximum amount the Council may borrow at any point in time in the year. It has to be set at a level the Council considers is “prudent” and be consistent with plans for capital expenditure and financing. It contains a provision for forward funding of future years capital programmes, which may be utilised if current interest rates reduce significantly but are predicted to rise in the following year.

This limit is based on an estimate of the most likely but not worst case scenario, with additional sufficient headroom over and above this to allow for operational management, for example unusual cash movements. It includes headroom for any planned loans to third party organisations where applicable.

The authorised limit is set at an amount that allows a contingency for any additional unanticipated or short-term borrowing requirements over and above the operational boundary during the period (see (e) below).

Other long-term liabilities relate to finance leases and credit arrangements.

The CFO will have delegated authority to effect movement between the separately agreed figures for borrowing and other long-term liabilities. Any such changes will be reported to Council.

Appendix 5 cont.

Authorised limit for external debt					
	2019-20	2020-21	2021-22	2022-23	2023-24
	Limit £m	Limit £m	Limit £m	Limit £m	Limit £m
Borrowing	404	413	417	414	411
Other long-term liabilities	5	5	5	5	5
Total	**409**	**418**	**423**	**419**	**416**

Risk Analysis

Risk analysis and risk management strategies have been taken into account in setting this indicator, as have plans for capital expenditure, estimates of the capital financing requirement and estimates of the Council's cashflow requirements.

e) Operational boundary for external debt

Commentary

The proposed operational boundary is based on the same estimates as the authorised limit. However it excludes the additional headroom included within the authorised limit to allow for unusual cash movements.

The operational boundary represents a key management tool for in year monitoring by the CFO. Within the operational boundary, figures for borrowing and other long-term liabilities are separately identified.

The borrowing element of the operational boundary has been set with reference to the maximum Capital Financing Requirement (CFR) over the coming three years. It includes headroom for any planned loans to third party organisations.

Other long-term liabilities relate to finance leases and credit arrangements.

The CFO will have delegated authority to effect movement between the separately agreed figures for borrowing and other long-term liabilities. Any such changes will be reported to Council.

Appendix 5 cont.

Operational boundary for external debt					
	2019-20	2020-21	2021-22	2022-23	2023-24
	Limit £m	Limit £m	Limit £m	Limit £m	Limit £m
Borrowing	384	393	397	394	391
Other long-term liabilities	5	5	5	5	5
Total	**389**	**398**	**403**	**399**	**396**

Risk Analysis

Risk – Risk analysis and risk management strategies have been taken into account in setting this indicator, as have plans for capital expenditure, estimates of the capital financing requirement and estimates of the Council's cash flow requirements.

Treasury Indicators

f) Maturity structure of borrowing

This indicator sets both upper and lower limits with respect to the maturity structure of the Council's borrowing.

The indicator represents the amount of projected borrowing that is maturing in each period expressed as a percentage of total projected borrowing at the start of the period.

The proposed limits for the forthcoming year are:

Maturity Structure of Borrowing		
	Lower Limit %	Upper Limit %
Under 12 months	0%	50%
Between 1 and 2 years	0%	50%
Between 2 and 5 years	0%	50%
Between 5 and 10 years	0%	50%
Between 10 and 20 years	0%	50%
Between 20 and 30 years	0%	60%
Between 30 and 40 years	0%	80%
Over 40 years	0%	100%

Appendix 5 cont.

Risk Analysis

The debt maturity profile is actively managed to ensure that debt maturity is prudently spread across future years. This ensures that the Council can properly plan for the maturity of its borrowings, and is not exposed to unmanageable risks.

g) Total principal sums invested for periods longer than 365 days

Under the Local Government Act 2003 and the MHCLG Guidance on Local Authority Investments, all Councils are permitted to invest for periods exceeding 1 year (or 365 days). The Council is required to set a limit to the level of such investments it might wish to make.

This limit can be expressed as a percentage or as an absolute amount (i.e. a monetary figure). The Council has chosen to work to a limit represented as an absolute amount as officers consider this to be the most transparent method and the more straightforward to monitor.

The limits have been set at a level that would allow for monies not anticipated to be spent in year to be invested for longer periods if interest rates are favourable.

The proposed limits – excluding Third Party Loans – for the forthcoming and following four financial years are as follows:

Upper limit on investments for periods longer than 365 days					
	2020-21	2021-22	2022-23	2023-24	2024-25
	Upper Limit £m	Upper Limit £m	Upper Limit £m	Upper Limit £m	Upper Limit £m
Investments > 365 days	15	15	15	15	15

Appendix 6

Minimum Revenue Provision Policy Statement

1.1 The Local Authorities (Capital Finance & Accounting) (Amendments) (England) Regulations 2008, which came into force in February 2008, require local authorities to make ‘prudent provision’ for the repayment of its General Fund debt. This debt repayment is known as the Minimum Revenue Provision (MRP).

1.2 A number of options for prudent provision are set out in the regulations. The underlying principle is that the repayment of debt should be aligned to the useful life of the asset or assets for which the borrowing has been carried out.

1.3 Since 2007-08 the Council has used the transitional measures available to calculate MRP for all capital expenditure prior to 1 April 2008 as if the previous regulations were still in force.

1.4 The authority is required, under the 2008 regulations, to prepare an annual statement of their policy on making MRP for submission to Council. The Council’s policy statement on MRP for 2020/21 is set out below. The policy is considered by the Chief Finance Officer (CFO) to provide for the prudent repayment of debt.

1.4.1 The Council has implemented the 2008 CLG Minimum Revenue Provision (MRP) guidance from 2008-09 onwards, and assessed their MRP from 2008-09 onwards in accordance with the main recommendations contained within the guidance issued by the Secretary of State under section 21(1A) of the Local Government Act 2003.

1.4.2 MRP relating to the historic debt liability incurred for years up to and including 2007-08 will continue to be charged at the rate of 4% on the reducing balance, in accordance with option 1 of the guidance, the “regulatory method”.

1.4.3 The debt liability relating to capital expenditure incurred from 2008-09 onwards will be subject to MRP under option 3, the “asset life method”, and will be charged over a period that is reasonably commensurate with the estimated useful life applicable to the nature of expenditure, using the equal annual instalment method. For example, capital expenditure on a new building, or on the refurbishment or enhancement of a building, will be related to the estimated life of that building.

1.4.4 Estimated life periods will be determined in line with accounting guidance and regulations. 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, the Council will generally adopt these periods. However, the Council reserves the right to determine useful life periods and prudent MRP in exceptional circumstances where the recommendations of the guidance would not be appropriate.

Appendix 6 cont.

1.4.5 As some types of capital expenditure incurred by the Council are not capable of being related to an individual asset, asset lives will be assessed on a basis that most reasonably reflects the anticipated period of benefit that arises from the expenditure. Also, whatever type of expenditure is involved, it will be grouped together in a manner that reflects the nature of the main component of expenditure and will only be divided up in cases where there are two or more major components with substantially different useful economic lives.

1.4.6 The Council will seek to spread MRP charges prudently in relation to asset lives, and with regard to the revenue impact of MRP charges. Where prudent to do so, capital receipts will be used to repay borrowing previously taken out in relation to assets with a short life. MRP on residual debt will be based on the lives of the remaining asset for which borrowing was undertaken.

1.4.7 MRP will be charged from the financial year after the asset comes into use.

1.4.8 In cases where the Council has approved the use of capital receipts to fund the asset, this funding will be assumed when the receipt is contractually certain, even if not actually received. In such cases no MRP charge will be made.

1.4.9 No MRP will be charged in respect of capital expenditure funded by borrowing where the expectation is that a future capital receipt will be applied to the CFR as a voluntary debt repayment for the borrowing - for example capital expenditure on preparing assets for sale. Where this approach is used it will be reviewed on an annual basis, in consideration of updated expectations over the timing and certainty of capital receipts, and to ensure that the latest estimate of proceeds is sufficient to cover the MRP liability.

1.4.10 In respect of Finance leases held on the balance sheet, the MRP will be set at a charge equivalent to the element of the annual lease charge that goes to write down the balance sheet liability, thereby applying Option 3 in a modified form.

1.4.11 The Council will take advantage of any transitional arrangements introduced to minimise or negate the impact of retrospective accounting adjustments as a result of new accounting guidance or proper practice.

1.4.12 In respect of loans to third parties supported by borrowing, where these are treated as capital expenditure, and contractual terms are in place to secure repayment over a period not exceeding the life of the asset, the Council will not charge MRP on the related expenditure; the CFR will be reduced by the third party loan repayments as and when these are received.

1.4.13 In respect of infrastructure improvements and other capital schemes where repayment of the funding (principal and interest) will be met from business rates uplift in line with the Enterprise Zone financial model, and the repayment does not exceed the life of the asset, the Council will not charge MRP on the related expenditure; the CFR will be reduced by the amount of repayment of principal through business rates as and when these are made.

1.4.14 The Minimum Revenue Provision Policy Statement will be continuously reviewed throughout the financial year and particularly with respect to any developments in the Council's Efficiency Plan. Any required amendments or changes will be brought back to Council for approval.

Appendix 7

Interest Rate Forecast Commentary – Link Asset Services (LAS)

The interest rate forecasts applied in this Strategy are predicated on an assumption of an agreement being reached on Brexit between the UK and the EU.

In the event of an orderly non-agreement exit, it is likely that the Bank of England would take action to cut Bank Rate in order to help economic growth deal with the adverse effects of this situation. This is also likely to cause short to medium term gilt yields to fall.

If there was a disorderly Brexit, then any cut in Bank Rate would be likely to last for a longer period and also depress short and medium gilt yields correspondingly.

It is also possible that the government could act to protect economic growth by implementing fiscal stimulus.

Balance of risks to the UK includes:

- The overall balance of risks to economic growth in the UK is probably to the downside due to the weight of all the uncertainties over Brexit, as well as a softening global economic picture.
- The balance of risks to increases in Bank Rate and shorter term PWLB rates are broadly similarly to the downside.
- In the event that a Brexit deal is fully agreed with the EU, including the new terms of trade, and approved by Parliament, the balance of risks to economic growth and to increases in Bank Rate is likely to change to the upside.

One risk that is both an upside and downside risk is that all central banks are now working in very different economic conditions than before the 2008 financial crash as there has been a major increase in consumer and other debt due to the exceptionally low levels of borrowing rates that have prevailed since 2008. This means that the neutral rate of interest in an economy, (i.e. the rate that is neither expansionary nor deflationary), is difficult to determine definitively in this new environment, although central banks have made statements that they expect it to be much lower than before 2008. Central banks could therefore either over or under do increases in central interest rates.

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

- Brexit – if it were to cause significant economic disruption and a major downturn in the rate of growth.
- Bank of England takes action too quickly, or too far, over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- A resurgence of the Eurozone sovereign debt crisis.
- Weak capitalisation of some European banks.
- Germany and other EU minority governments

Appendix 7 cont.

- In October 2019, the IMF issued a report on the World Economic Outlook which flagged up a synchronised slowdown in world growth. However, it also flagged up that there was potential for a rerun of the 2008 financial crisis, but this time centred on the huge debt binge accumulated by corporations during the decade of low interest rates. In October 2019, the deputy Governor of the Bank of England also flagged up the dangers of banks and the shadow banking sector lending to corporates, especially highly leveraged corporates, which had risen back up to near pre-2008 levels.
- Geopolitical risks, for example in North Korea, but also in Europe and the Middle East, which could lead to increasing safe haven flows.

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

- Brexit – if agreement was reached all round that removed all threats of economic and political disruption between the EU and the UK.
- The Bank of England is too slow in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to build up too strongly within the UK economy, which then necessitates a later rapid series of increases in Bank Rate faster than we currently expect.
- UK inflation, whether domestically generated or imported, returning to sustained significantly higher levels causing an increase in the inflation premium inherent to gilt yields.

Appendix 8

Annual Investment Strategy

1. Investment policy

1.1 The MHCLG and CIPFA have extended the meaning of ‘investments’ to include both financial and non-financial investments. This report deals solely with financial investments managed by the treasury management team. Non-financial investments, essentially the purchase of income yielding assets, are covered in the Capital Strategy.

1.2 The Council’s appetite for risk must be clearly identified in its strategy report. The Council affirms that its investment policies are underpinned by a strategy of prudent investment of funds held on behalf of the local community. The objectives of the investment policy are firstly the security of funds (protecting the capital sum from loss) and then liquidity (keeping money readily available for expenditure when needed). Once approved levels of security and liquidity are met, the Council will seek to maximise yield from its investments, consistent with the applying of the agreed parameters. These principles are carried out by strict adherence to the risk management and control strategies set out in the TMP Schedules and the Treasury Management Strategy.

1.3 Responsibility for risk management and control lies within the Council and cannot be delegated to an outside organisation.

2. Creditworthiness policy

2.1 The Council’s counterparty and credit risk management policies and its approved instruments for investments are set out below. These, taken together, form the fundamental parameters of the Council’s Investment Strategy.

2.2 The Council defines high credit quality in terms of investment counterparties as those organisations that:

2.3 Meet the requirements of the creditworthiness service provided by the Council’s external treasury advisors and;

- UK banking or other financial institutions or are;
- UK national or local government bodies or are;
- Triple-A (AAA) rated Money Market funds.

3. Sovereign limits

3.1 The Council will distinguish between UK and Non-UK domiciled entities when determining counterparty and duration limits. These limits are set out in the table at paragraph 7.4 below. Sovereign credit ratings form part of the creditworthiness service provided by the Council’s external treasury advisors and the Council may further restrict the use of certain domicile countries as necessary.

Appendix 8 cont.

4. Investment position and use of Council's resources

4.1 The application of resources, such as capital receipts, reserves etc, to either finance capital expenditure or for other budget decisions to support the revenue budget will have an ongoing impact on investments balances and returns unless resources are supplemented each year from new sources such as asset sales.

4.2 Investment decisions will be made with reference to the core balance, cash flow requirements and the outlook for interest rates.

5. Specified investments

5.1 Under the Local Government Act 2003 the Council is required to have regard to the CLG Guidance on Local Government Investments. This requires that investments are split into two categories:

i. Specified investments – broadly, sterling investments, not exceeding 365 days and with a body or investment scheme of high credit quality.
ii. Non-specified investments – do not satisfy the conditions for specified investments. This may include investment products that would normally be considered as specified investments, but are judged to have a higher level of risk than normal attached to them.

5.2 The detailed conditions attached to each of these categories are set out in the TMP Schedules.

5.3 The majority of the Council's investments in 2020/21 will fall into the category of specified investments.

6 Non-specified investments

6.1 Prior to the start of each financial year, Officers review which categories of non-specified investments they consider could be prudently used in the coming year.

6.2 The recommendation for 2020/21 is that the following non-specified investments may be entered into:

6.3 Long-term investments (those for periods exceeding 365 days), which could prudently be used where interest rates are favourable and funds are not required for short-term cashflow management. Amounts deposited for over 365 days will be determined by liquidity considerations and by whether longer term interest rates are favourable, and all deposits will be in accordance with counterparty limits. Only counterparties in the Council's current approved counterparty list that have duration limits of over 365 days will be used for such investments. Any overall stricter limits in force in the Council's investment counterparty policies at any time will take precedence.

Appendix 8 cont.

6.4 The following items, being non-specified only by virtue of the Council's lack of previous exposure to these instruments, are:

- UK Government Gilts;
- Treasury Bills;
- Bonds issued by a financial institution that is guaranteed by the UK Government and multi-lateral development banks as defined in Statutory Instrument 2004 No. 534;
- Reverse Gilt Repos;
- Commercial paper;
- Gilt funds and other bond funds;
- Enhanced money market funds;

6.5 Before proceeding with any of the above treasury management staff will take advice from the Council's external treasury advisors as appropriate, ensure that they fully understand the product and its risks, and prepare a business case to be signed off by the CFO.

7. Counterparties

7.1 Over-arching policies for the management of counterparty and credit risk are set out in the TMP Schedules. The Council's approach to counterparties for 2020/21 is set out below.

7.2 The CFO will use the recommendations of the creditworthiness service provided by the Council's external treasury advisors to determine suitable counterparties and the maximum period of investment, using the ratings assigned.

7.3 The CFO will determine, in the context of the above, and taking into account appropriate risk management factors:

- Any further criteria to be put in place to determine suitable counterparties;
- The maximum investment amount to be held with each type of counterparty assigned a rating;
- The maximum investment period with each type of counterparty assigned a rating.

Appendix 8 cont.

7.4 The following table sets out the Council's counterparty criteria for 2020/21.

Investments may be placed with counterparties recommended by the Council's external treasury advisors, and which meet the following criteria			
	Counterparty Type	**Limit; per individual counterparty or banking group**	**Limits; Duration**
(1a)	UK Government	Unlimited	5 years
(1b)	UK nationalised or part nationalised banking institutions	£15m	1 years
(1c)	Other UK counterparties	£10m	3 years
(1d)	Other Local Authorities	£10m	3 years
(2a)	Non UK counterparties having a sovereign rating of AAA	£10m	3 years
(2b)	Non UK counterparties having a sovereign rating of AA+	£10m	2 years
(2c)	Non UK counterparties having a sovereign rating of AA	£10m	1 year
(3)	Money Market Funds (CNAV/LNAV) having a credit rating of AAA	£15m	N/A - Liquid deposits
(4)	Pooled Property Funds	£15m	5 years

7.5 Maximum counterparty limits may be temporarily exceeded by small amounts and for very short periods where interest is added by the counterparty to the principal investment amount, for example in the case of some call and deposit accounts. In such instances the interest amounts will be withdrawn back to the Council's main bank account as soon as reasonably practicable.

7.6 Any types of investments that fall within the category of specified investments as set out in the TMP Schedules and any types of non-specified investments approved as part of this document may be made within the bounds of the counterparty policies.

Appendix 8 cont.

7.7 The total value of investments over 365 days at any one time is restricted by the treasury indicator for the upper limit on investments for periods longer than 365 days.

7.8 The Council may enter into forward agreements up to 3 months in advance of the investment commencing. If forward deposits are to be made, the forward period plus the deal period should not exceed the limits above.

7.9 The CFO has discretion during the financial year to lift or increase the restrictions on the counterparty list and/or to adjust the associated lending limits on values and periods should it become necessary to enable the effective management of risk in relation to investments. At all times the Council's minimum level of credit risk will be met.

8 Liquidity of Investments

8.1 Most short-term investments are held for cashflow management purposes and officers will ensure that sufficient levels of short-term investments and cash are available for the discharge of the Council's liabilities.

8.2 Investment periods range from overnight to 365 days as specified investments, or 5 years as non-specified investments. When deciding the length of each investment, regard is had to both cashflow needs and prevailing interest rates. As cash balances available for investment are forecast to be somewhat reduced compared to previous years, the preservation of liquidity will be a critical determinant for treasury officers when determining the value and duration of investments.

8.3 Amounts deposited for over 365 days will also be determined by liquidity considerations and by whether longer term interest rates are favourable, and all deposits will be in accordance with counterparty limits and the treasury indicator for investments over 365 days. Long term investments of over 2 years will only be made in exceptional circumstances and with approval of the CFO.

8.4 For short term and overnight investment, the Council makes full use of triple A rated Money Market Funds (CNAV and LNAV) and bank call and deposit accounts offering competitive rates and, in most instances, instant access to funds.

8.5 The Council may occasionally undertake short-term temporary borrowing if this is needed to cover its cash flow position.

9. Investments defined as capital expenditure

9.1 The acquisition of share capital or loan capital in any corporate body is defined as capital expenditure under Regulation 25(1) (d) of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003. Such investments will have to be funded from capital or revenue resources and will be classified as 'non-specified investments'.

Appendix 8 cont.

9.2 Investments in money market funds which are collective investment schemes and bonds issued by multilateral development banks – both defined in SI 2004 No 534 – will not be treated as capital expenditure.

9.3 A loan or grant or financial assistance by this Council to another body, for capital expenditure by that body, will be treated as capital expenditure by the Council.

10. Lending to third parties

10.1 Officers will ensure that any loans to or investments in third parties comply with legislative requirements. This would normally, but not necessarily, be under one of the following Acts of Parliament:

10.2 The Localism Act 2011 gives local authorities a general power of competence to act in the same manner as any other legal person, except where those powers are specifically limited by statute;

10.3 The Local Government Act 2000 contains wellbeing powers for local government that allow local authorities to do anything, including to give financial assistance to any person, which they believe is likely to promote or improve the economic, social or environmental wellbeing of their area. Certain conditions, including consultation requirements, must be complied with in order to meet the requirements allowing the local authority to use the wellbeing powers.

10.4 Loans of this nature must be approved by Cabinet. The primary aims of the Investment Strategy, in order of priority, are the security of its capital, liquidity of its capital and then to obtain a return on its capital commensurate with levels of security and liquidity. These aims are crucial in determining whether to proceed with a potential loan to a third party.

10.5 Recipients of this type of investment are unlikely to be a financial institution and therefore unlikely to be subject to a credit rating. In order to ensure security of the Council's capital, financial due-diligence must be completed prior to any loan or investment being agreed. The Council will use specialist advisors to complete financial checks to ascertain the creditworthiness of the third party. Additional guarantees may be sought where necessary. This will be via security against assets and/or through guarantees from a parent company.

11. Provisions for credit related losses

11.1 If any of the Council's investments appears at risk of loss due to default (i.e. this is a credit related loss and not one resulting from a fall in price due to movements in interest rates) the Council may make a prudent revenue provision of an appropriate amount.

Appendix 8 cont.

12. Banking services

12.1 It is the Council's intention that, should the event of the credit rating downgrade of the provider of its banking services lead to that bank falling below the Council's minimum investment criteria, the bank may continue to be used for short-term liquidity requirements (kept under daily review).

13. End of year investment report

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