Annex 1

Treasury Management Strategy Statement 2020/21

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1. INTRODUCTION

1.1 Background

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

The second main function of the treasury management service is funding of capital expenditure plans. These capital plans provide a guide to borrowing need, 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.

The Council originally anticipated taking on long-term borrowing for the first time during 2019/20. An unexpected decision by HM Treasury to increase rates by 100 basis points in October 2019, meant long term PWLB borrowing is now comparatively expensive. In response, the Council took short term borrowing of £14 million at favourable rates from other local authorities in December while monitoring potential alternative sources of lending.

Following the 2020 Budget, HM Treasury issued a consultation on PWLB Borrowing with the intention of reducing borrowing costs for local authorities in respect of capital expenditure to support service provision, housing and regeneration. This consultation will close on 4 June 2020

The contribution that the treasury management function makes to the Council is critical, as the balance of debt and investment operations ensure liquidity and/or ability to meet spending commitments as they fall due, either on day-to-day revenue-funded activity or for larger capital projects. The treasury operations will oversee a balance of the interest costs of debt and the investment income arising from cash deposits which in turn affect 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.

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.

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."*

1.2 Reporting requirements

1.2.1 Capital Investment Strategy

The CIPFA 2017 Prudential and Treasury Management Codes require all local authorities to prepare, a Capital Investment Strategy, which provide the following:

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

The aim of the Capital Investment Strategy is to ensure that all elected Members on the Council fully understand the overall long-term policy objectives and resulting Capital Investment Strategy requirements, governance procedures and risk appetite.

This Capital Investment Strategy for 2020/21 was reported to Executive on 30 January 2020. It is approved separately from the Treasury Management Strategy Statement in order to ensure the separation of the core treasury function that is governed by security, liquidity and yield principles, from the policy and commercialism investments usually driven by expenditure on an asset.

The Capital Investment Strategy covers:

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

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

In circumstances where the Council may decide to borrow to fund commercial investments, the business case and Treasury Management Strategy Statement will provide an explanation of why this borrowing was required and how it relates to the requirements of MHCLG Investment Guidance and the CIPFA Prudential Code. There are no investments of this type currently planned.

If any non-treasury investment is identified to sustain a loss during the final accounts and audit process, the Strategy and revenue budget implications will be reported through the same procedure as the Capital Investment Strategy.

To demonstrate the proportionality between treasury operations and non-treasury operations, high-level comparators are shown in the report.

1.2.2 Treasury Management reporting

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

(i) **Prudential and Treasury Indicators and Treasury Strategy** (this report) - this first, and most important, report is forward-looking and covers:
- capital spending plans, (including prudential indicators);
- the minimum revenue provision (MRP) policy, demonstrating how residual capital expenditure is charged to revenue over time;
- the Treasury Management Strategy, setting out how the investments and borrowings are to be organised), including treasury indicators; and
- the Treasury Investment Strategy, describing the parameters for how investments are to be managed.

(ii) **A Mid-Year Treasury Management Report** – This is primarily a progress report and will update Members on the capital position, amending prudential indicators as necessary, and whether any policies require revision.

(iii) **An Annual Treasury Report** – This is a backward-looking review document and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

1.2.3 Scrutiny

This report will be reviewed on 19 March 2020 before being recommended to the Council. This role is undertaken by the Overview and Scrutiny Committee. It will be reviewed by a Members' Treasury Management Panel on 11 March.

1.2.4 Treasury Management Strategy for 2020/21

The strategy for 2020/21 covers two main areas:

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

(ii) **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 Treasury Investment Strategy;
- creditworthiness policy; and
- the policy on use of external service providers.

This ensures compliance with the Local Government Act 2003, the CIPFA Prudential Code, MHCLG MRP Guidance, the CIPFA Treasury Management Code and MHCLG Investment Guidance.

1.3 Training

The CIPFA Code requires the responsible officer to ensure that Members with responsibility for treasury management receive adequate training in treasury management. This especially applies to Members responsible for scrutiny. A workshop for members was conducted by the Council's Treasury Advisors on 15 October 2019 and further training will be arranged as required.

The training needs of treasury management officers are periodically reviewed. They take on opportunity to attend training courses

1.4 Treasury Management Consultants

The Council uses Link Asset Services, Treasury Solutions as its external treasury management advisors. It 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 recognises that responsibility for treasury management decisions always remains with the organisation and will ensure that undue reliance is not placed upon the services of external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, the Council's treasury advisers.

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.

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.

For its commercial investments, the Council employs the services of specialist advisors on an asset-specific basis.

2. CAPITAL PRUDENTIAL INDICATORS 2019/20 TO 2024/25

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

2.1 Capital expenditure

This prudential indicator is a summary of capital expenditure plans, both those agreed previously, and those forming part of this budget cycle.

The following capital expenditure forecasts were included in the Budget 2020/21 budget report to Executive on 30 January 2020:

Table 1: Capital Programme

APPROVED CAPITAL PROGRAMME	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
	Actual £000	Budget £000	Projected £000	Projected £000	Projected £000	Projected £000	Projected £000
Finance & Organisation	32,732	355	4,890	2,017	2,293	2,019	1,843
People Services	3,816	1,834	17,163	11,475	11,404	1,404	1,404
Place Services	2,687	18,907	24,048	27,364	16,402	1,302	1,302
Corporate[1]	-	25,000	50,000	-	-	-	-
2018/19 Underspend – Approved carry forward	-	1,456	-	-	-	-	-
Sub Total	**39,235**	**47,552**	**96,101**	**40,856**	**30,099**	**4,725**	**4,549**
Other long-term liabilities – IFRS 16 Leases[2]	-	n/a	438	-	-	-	-
Total Expenditure	**39,235**	**47,552**	**96,539**	**40,856**	**30,099**	**4,725**	**4,549**

Summary: Capital Expenditure 2020/21 to 2024/25

APPROVED CAPITAL PROGRAMME	Total
	Projected £000
Finance & Organisation	13,062
People Services	42,850
Place Services	70,418
Corporate	50,000
Sub Total	**176,330**
Other long-term liabilities – IFRS 16 Leases	438
Total Expenditure	**176,768**

Table 2: Commercial Activities/ non-financial Investments

APPROVED CAPITAL PROGRAMME	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
	Actual £000	Budget £000	Projected £000	Projected £000	Projected £000	Projected £000	Projected £000
Commercial activities/non-financial investments	-	-	-	-	-	-	-

[1] The approved Capital Programme 2020/21 to 2024/25 includes investment in a loan to Greensand Holdings Limited during 2019/20

[2] New reporting requirement for 2020/21: IFRS 16 leases - includes the total value of existing leases for road sweepers and pool cars

The Capital Programme for 2019/20 onwards includes £75 million for Corporate investment in corporate priorities that also realise new income-generating opportunities. The allocation of these funds to new capital schemes and investment opportunities is delegated to the Commercial Ventures Executive Sub-Committee. When considering new investment opportunities, the Sub-Committee assesses the extent to which they support delivery of the Corporate Plan and supporting Strategies while adhering to the principles set out in the Capital Investment Strategy, the Commercial Governance Framework and relevant guidance and codes, including the guidance on 'borrowing in advance of need'.

The Council does not currently have any planned Capital Programme expenditure which is solely for investment purposes. Investment plans beyond 2020/21 will be confirmed as the Capital Investment Strategy reported to the Executive on 30 January 2020 is developed further during 2020/21.

Other Long-Term Liabilities. The introduction of IFRS16 may change some of the Prudential Indicators due to additional lease liabilities being recognised on the balance sheet. Due to the adoption of the new standard in 2020/21, the capital financing requirement now includes the cost of operating leases. Once these have been reviewed, revised indicators will be provided to Members at the earliest opportunity.

Capital Financing. The table below summarises the capital expenditure plans and how they are to be financed through use of existing capital or revenue resources. Any shortfall of resources results in a borrowing requirement.

Table 3: Capital Financing

CAPITAL FINANCING	2018/19	2019/20	2020/21	2021/22	2022/23	2023/2024	2024/25
	Actual £000	Budget £000	Projected £000	Projected £000	Projected £000	Projected £000	Projected £000
Capital Grants[1]	3,966	1,679	1,843	1,600	1,187	1,187	1,187
Capital Receipts	20,133	0	8,806	24,489	26,778	-	-
Revenue Contributions	90	213	-	-	-	-	-
New Homes Bonus	-	-	10,000	7,000	-	-	-
Local Enterprise Partnership (LEP) Funding	-	2,570	-	-	-	-	-
Total Financing	**24,189**	**4,462**	**20,649**	**33,089**	**27,965**	**1,187**	**1,187**
Net Borrowing Requirement	15,046	43,090	75,890	7,768	2,134	3,538	3,362
Total Expenditure [Table 1]	**39,235**	**47,552**	**96,539**	**40,856**	**30,099**	**4,725**	**4,549**

NOTE 1: A review of historic allocations of Section 106 funds to the Capital Programme is planned during year-end closedown for 2019/20 to confirm that the funds allocated reconcile to Planning team records. The outcome will be reported in the Statement of Accounts for 2019/20 and the Mid-Year Treasury Management Report 2020/21.

The net financing need for investment in commercial activities (included in Table 2) is shown below:

Table 4: The net financing need for purely commercial activities / non-financial investments included in the above table against expenditure is shown below:

CAPITAL FINANCING	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
	Actual £000	Budget £000	Projected £000	Projected £000	Projected £000	Projected £000	Projected £000
Commercial activities / non-financial investments	-	-	-	-	-	-	-

As explained above, the Capital Programme has a primary objective of supporting new initiatives for the wellbeing of the community, including regeneration activities which may also provide an income stream. The Council does not have any planned capital expenditure which is solely for investment purposes. Any Commercial investment plans beyond 2019/20 will be confirmed as the Capital Investment Strategy is developed further during 2020/21.

2.2 Borrowing Need (the Capital Financing Requirement)

The second prudential indicator is the Capital Financing Requirement (CFR). The CFR is the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of indebtedness and therefore its underlying borrowing requirement. Any of the capital expenditure detailed above, which has not immediately been paid for through a revenue or capital resource, will increase the CFR.

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

The CFR includes any other long-term liabilities (e.g. finance leases). Whilst these increase the CFR, and therefore the borrowing requirement, these types of scheme include a borrowing facility by the PFI, PPP lease provider and so the Council is not required to separately borrow for these schemes. The Council currently has no such schemes within the CFR.

The Council has £438k operating leases to be capitalised under the new IFRS 16 requirement which increases the CFR by £438k in 2020/21 as shown in table 1 above. While the value of leases increases the CFR as a consequence of this change, there will not be a separate requirement to borrow to fund them as the lease liability is part of the annual contract payment that continues to be funded through the revenue budget.

Council is asked to approve the CFR projections below:

Table 5: Cumulative Projected Capital Financing Requirement

CAPITAL FINANCING REQUIREMENT	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
	Actual £000	Budget £000	Estimate £000	Estimate £000	Estimate £000	Estimate £000	Estimate £000
Brought Forward CFR	3,953	18,999	61,922	137,493	144,769	146,155	148,731
Carried forward CFR	18,999	61,922	137,493	144,769	146,155	148,731	151,204
Movement in CFR	**15,046**	**42,293**	**75,570**	**7,276**	**1,386**	**2,576**	**2,473**

Movement in CFR represented by:							
Net financing need for the year [Table 3]	15,046	43,090	75,890	7,768	2,134	3,538	3,362
Less MRP/VRP and other financing movements	-	(167)	(320)	(492)	(748)	(962)	(889)
Movement in CFR	**15,046**	**42,293**	**75,570**	**7,276**	**1,386**	**2,576**	**2,473**

The CFR for investment in commercial activities (included in Table 3) is shown below:

CAPITAL FINANCING REQUIREMENT	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
	Actual £000	Budget £000	Estimate £000	Estimate £000	Estimate £000	Estimate £000	Estimate £000
Commercial Investments	-	-	-	-	-	-	-

As explained above, the Council does not currently have any planned capital expenditure which is solely for investment purposes.

A key aspect of the updated regulatory and professional guidance is that Members are made aware of the size and scope of any commercial activity and its relation to the Council's overall financial position. When approving its Treasury Management Strategy each year the Council is required to confirm whether it considers the scale proportionate to the remaining investment activity.

2.3 Minimum revenue provision (MRP) policy statement

Local Authorities have a duty to *"determine for the current financial year an amount of MRP which it considers prudent".* In principle councils must arrange for debt liabilities to be repaid over a period commensurate with asset lives.

The Council is required to pay off an element of the accumulated General Fund capital spend (the Capital Financing Requirement - CFR) each year through a revenue charge (the minimum revenue provision - MRP), although it is also allowed to undertake additional voluntary payments if required (voluntary revenue provision - VRP).

MHCLG regulations require the Council to approve an MRP Statement in advance of each year. A variety of options are provided to councils, so long as there is a prudent provision.

Council is recommended to approve the following MRP Statement:

- For all unsupported borrowing (including PFI and finance leases, and excluding Capital Loans and Share Capital), the MRP policy will be the **Asset Life method** on an **Annuity Basis**.
- This method results in lower revenue charges in the early years of an asset's life, to reflect how benefits from the use of the asset are expected to accrue.
- This option will also be applied for any expenditure capitalised under a Capitalisation Direction. This Council does not currently have any capitalisation directions.

Repayments included in any annual PFI charges or finance leases would be applied as MRP. This Council does not currently have any PFI schemes.

MRP on Capital Loans and Share Capital. Under local authority capital accounting regulations (http://www.legislation.gov.uk/uksi/2003/3146/contents/made) loans to third parties for capital purposes and share capital are deemed to be capital expenditure of the Authority. The Council has made loans to its companies (Greensands Holdings Limited, RBBC Limited, Horley Business Park Development LLP) and holds share capital in Pathway for Care Limited.

The Capital Financing Requirement (CFR) includes the value of the loans and investments (share capital). Funds repaid by the companies will be classed as capital receipts and will be offset against the CFR, which will reduce accordingly.

As the Council expects these loans and investments to be repaid in full, there is no need to set aside MRP to repay the debt liability in the interim period. The outstanding loan and investment / CFR position will be reviewed on an annual basis and if the likelihood of default increases, prudent provision for any forecast default will be made within the Council's Reserves.

The repayments of principal will be set aside as capital receipts to finance the initial capital advance in lieu of making a MRP.

MRP Overpayments. MHCLG MRP Guidance includes the provision that any MRP charges made over the statutory minimum may be reclaimed in later years if deemed necessary or prudent. In order for these sums to be reclaimed, the MRP policy must disclose the cumulative overpayment made each year. At 31 March 2020 the cumulative voluntary overpayments by this Council were forecast to be £Nil.

3. BORROWING

The capital expenditure plans at Section 2 provide a summary of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to fund service activity and the Capital Investment Strategy. This will involve both the organisation of cash flows and, where capital plans require, the organisation of appropriate borrowing facilities. The Treasury Management Strategy covers the relevant treasury/prudential indicators, current and projected debt positions and the annual Treasury Investment Strategy.

3.1 External Debt

The forward projections for borrowing are summarised below.

The total 2019/20 Capital Financing Requirement (CFR) of £43 million at Table 6 below is based upon the total approved capital programme expenditure in 2019/20 as reported to Executive and Council as part of 2020/21 budget setting. To date the Council has taken out short term loans of £14 million to help finance the 2019/20 capital programme.

The table below shows the prudential indicator for external debt, against the underlying capital borrowing need (the Capital Financing Requirement - CFR), highlighting any over- or under-borrowing. Borrowing is forecast based on the approved capital programme rather than the capital expenditure forecast and will be revised at the year-end in line with the actual expenditure outturn.

Table 6: Cumulative External Debt

CUMULATIVE EXTERNAL DEBT	2018/19 Actual £000	2019/20 Budget £000	2020/21 Estimate £000	2021/22 Estimate £000	2022/23 Estimate £000	2023/24 Estimate £000	2024/25 Estimate £000
Gross Debt at 1 April	**-**	**12,000**	**55,090**	**130,980**	**133,748**	**133,748**	**134,420**
Expected Change in Debt	15,046	43,090	75,452	2,768	-	672	3,362
Other Long-Term Liabilities	-	-	-	-	-	-	-
Expected Change in Other Long-Term Liabilities	-	-	438	-	-	-	-
Sub Total	**15,046**	**43,090**	**75,890**	**2,768**	**-**	**672**	**3,362**
Gross Debt at 31 March	**12,000**	**55,090**	**130,980**	**133,748**	**133,748**	**134,420**	**137,782**
The Capital Financing Requirement [Table 5]	18,999	61,922	137,493	144,769	146,155	148,731	151,204
Under/ (Over) Borrowing	**6,999**	**6,832**	**6,513**	**11,021**	**12,407**	**14,311**	**13,423**

Within the above figures the level of debt relating to commercial investments is:

CAPITAL FINANCING	2018/19 Actual £000	2019/20 Budget £000	2020/21 Projected £000	2021/22 Projected £000	2022/23 Projected £000	2023/24 Projected £000	2024/25 Projected £000
Commercial Investments Gross Debt at 31 March		-	-	-	-	-	-
Percentage of total external debt (%)		-	-	-	-	-	-

Any Commercial investment plans beyond 2019/20 will be confirmed as the Capital Investment Strategy is developed further during 2020/21.

3.2 Treasury Indicators: limits to borrowing activity

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

The recommended Operational Boundary is based on the forecast maximum CFR over the Capital Programme period, 2020/21 to 2024/25 (details at Table 6) plus the forecast value of leases under IFRS16.

Council is asked to approve the following Operational Boundary for 2020/21:

Table 7: Operational Boundary

OPERATIONAL BOUNDARY	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
	Actual £000	Actual £000	Recc. £000	Recc. £000	Recc. £000	Recc. £000	Recc. £000
Debt	70,000	70,000	151,000	151,000	151,000	151,000	151,000
Other Long-Term Liabilities	-	-	500	500	500	500	500
Operational Boundary	**70,000**	**70,000**	**151,500**	**151,500**	**151,500**	**151,500**	**151,500**

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

This is the statutory limit determined under section 3(1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.

The recommended Authorised Limit is set £10M above the Operational Boundary to provide sufficient headroom to allow borrowing for any unforeseen circumstances.

Council is asked to approve the following Authorised Limit for 2020/21:

Table 8: Authorised Limit

AUTHORISED LIMIT	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
	Actual £000	Actual £000	Recc. £000	Recc. £000	Recc. £000	Recc. £000	Recc. £000
Debt	80,000	80,000	161,000	161,000	161,000	161,000	161,000
Other Long-Term Liabilities	-	-	500	500	500	500	500
Authorised Limit	**80,000**	**80,000**	**161,500**	**161,500**	**161,500**	**161,500**	**161,500**

3.3 Prospects for interest rates

The Council has appointed Link Asset Services as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. The following table and commentary set out their latest forecasts.

Link Asset Services Interest Rate View (at 26 February 2020)														
	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	1.00	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

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

It has been little surprise that the Monetary Policy Committee (MPC) has left Bank Rate unchanged at 0.75% so far in 2019 due to the ongoing uncertainty over Brexit and the outcome of the general election. In its meeting on 7 November, the MPC became more dovish due to increased concerns over the outlook for the domestic economy if Brexit uncertainties were to become more entrenched, and for weak global economic growth: if those uncertainties were to materialise, then the MPC were likely to cut Bank Rate. However, if they were both to dissipate, then rates would need to rise at a "gradual pace and to a limited extent". Brexit uncertainty has had a dampening effect on UK GDP growth in 2019, especially around mid-year. There is still some residual risk that the MPC could cut Bank Rate as the UK economy is still likely to only grow weakly in 2020 due to continuing uncertainty over whether there could effectively be a no deal Brexit in December 2020 if agreement on a trade deal is not reached with the EU. Until that major uncertainty is removed, or the period for agreeing a deal is extended, it is unlikely that the MPC would raise Bank Rate.

Coronavirus. *The Coronavirus outbreak is now causing significant disruption to the economy of China and could spill over to affect other countries. However, more recent news of significant outbreaks in Italy and Iran, and new cases being reported in several other countries, have alarmed investors; on 24 and 25 February, bond yields and equity markets fell sharply as investors moved into safe haven investments. The 10-year US bond yield hit a record low, which, in more normal times, would be seen as a predictor of a coming recession. However, this could also be viewed as being a panic reaction to a worst-case scenario which may not occur.*

If the coronavirus outbreak were to become more widespread in Europe and the US, central banks might need to take action to cut interest rates, or ease monetary policy in other ways, to help economies suffering economic disruption. If the situation does deteriorate, then it is likely that we will see low bond yields, lower global growth and investor confidence waning until an end is in sight for the coronavirus crisis i.e. the forecasts for interest rates in the above table will be knocked off course.

Bond yields / PWLB rates*. There has been much speculation during 2019 that the bond market has gone into a bubble, as evidenced by high bond prices and remarkably low yields. However, given the context that there have been heightened expectations that the US was heading for a recession in 2020, and a general background of a downturn in world economic growth, together with inflation generally at low levels in most countries and expected to remain subdued, conditions are ripe for low bond yields. While inflation targeting by the major central banks has been successful over the last thirty years in lowering inflation expectations, the real equilibrium rate for central rates has fallen considerably due to the high level of borrowing by consumers: this means that central banks do not need to raise rates as much now to have a major impact on consumer spending, inflation, etc. This has pulled down the overall level of interest rates and bond yields in financial markets over the last thirty years. We have therefore seen over the last year, many bond yields up to ten years in the Eurozone actually turn negative. In addition, there has, at times, been an inversion of bond yields in the US whereby ten-year yields have fallen below shorter-term yields. In the past, this has been a precursor of a recession. The other side of this coin is that bond prices are elevated, as investors would be expected to be moving out of riskier assets i.e. shares, in anticipation of a downturn in corporate earnings and so selling out of equities. However, stock markets are also currently at high levels as some investors have focused on chasing returns in the context of dismal ultra-low interest rates on cash deposits.*

During the first half of 2019-20 to 30 September, gilt yields plunged and caused a near halving of longer term PWLB rates to completely unprecedented historic low levels. (See paragraph 3.7 for comments on the increase in the PWLB rates margin over gilt yields of 100bps introduced on 9.10.19.) There is though, an expectation that financial markets have gone too far in their fears about the degree of the downturn in US and world growth. If, as expected, the US only suffers a mild downturn in growth, bond markets in the US are likely to sell off and that would be expected to put upward pressure on bond yields, not only in the US, but also in the UK due to a correlation between US treasuries and UK gilts; at various times this correlation has been strong but at other times weak. However, forecasting the timing of this, and how strong the correlation is likely to be, is very difficult to forecast with any degree of confidence. Changes in UK Bank Rate will also impact on gilt yields.

One potential danger that may be lurking in investor minds is that Japan has become mired in a twenty-year bog of failing to get economic growth and inflation up off the floor, despite a combination of massive monetary and fiscal stimulus by both the central bank and government. Investors could be fretting that this condition might become contagious to other western economies.

Another danger is that unconventional monetary policy post 2008, (ultra-low interest rates plus quantitative easing), may end up doing more harm than good through prolonged use. Low interest rates have encouraged a debt-fuelled boom that now makes it harder for central banks to raise interest rates. Negative interest rates could damage the profitability of commercial banks and so impair their ability to lend and / or push them into riskier lending. Banks could also end up holding large amounts of

their government's bonds and so create a potential doom loop. (A doom loop would occur where the credit rating of the debt of a nation was downgraded which would cause bond prices to fall, causing losses on debt portfolios held by banks and insurers, so reducing their capital and forcing them to sell bonds – which, in turn, would cause further falls in their prices etc.). In addition, the financial viability of pension funds could be damaged by low yields on holdings of bonds.

The overall longer run future trend is for gilt yields, and consequently PWLB rates, to rise, albeit gently. From time to time, gilt yields, and therefore PWLB rates, can be subject to exceptional levels of volatility due to geo-political, sovereign debt crisis, emerging market developments and sharp changes in investor sentiment. Such volatility could occur at any time during the forecast period.

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

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

Investment and borrowing rates

- *Investment returns are likely to remain low during 2020/21 with little increase in the following two years. However, if major progress was made with an agreed Brexit, then there is upside potential for earnings.*

- *Borrowing interest rates were on a major falling trend during the first half of 2019-20 but then jumped up by 100 bps on 9.10.19. The policy of avoiding new borrowing by running down spare cash balances has served local authorities well over the last few years. However, the unexpected increase of 100 bps in PWLB rates requires a major rethink of local authority treasury management strategy and risk management. Now that the gap between longer term borrowing rates and investment rates has materially widened, and in the long-term Bank Rate is not expected to rise above 2.5%, it is that this authority will do any longer term borrowing for the next 6 months, but it may borrow longer term in the later stage of 2020/21 due to increasing trend of CFR*

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

3.4 Borrowing strategy

As set out at table 6 above, the Council is currently maintaining and forecasting an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), will not be funded in full with loan debt; instead cash

supporting reserves, balances and cash flow will be used as a temporary funding measure. This 'internal borrowing' strategy is prudent as investment returns are low and counterparty risk is still an issue that needs to be considered.

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

- If it was felt that there was a significant risk of a sharp FALL in long- and short-term rates, (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation) - then long-term borrowing will be postponed.

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

Any borrowing decisions made will be reported to the Executive and Council at the next available opportunity through in-year treasury management reporting.

In response to the unpredicted 100 bps increase in PWLB rate in October 2019, the Council's approach has been to borrow short term from other local authorities as 'local to local' borrowing rates are currently better value than PWLB borrowing rates. The Council will continue to borrow short term for the next 12 months whilst the market is closely monitored for other sources of borrowing at favourable rates.

Following the 2020 Budget, HM Treasury issued a consultation on PWLB Borrowing with the intention of reducing borrowing costs for local authorities in respect of capital expenditure to support service provision, housing and regeneration. This consultation will close on 4 June 2020

3.5 Policy on borrowing in advance of need

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

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

New Financial Institutions as a Source of Borrowing and/or Types of Borrowing. Following the decision by the PWLB on 9 October 2019 to increase their margin over gilt yields by 100 bps to 180 basis points on loans lent to local authorities, consideration will also need to be given to sourcing funding at cheaper rates from the following:

- Local authorities (primarily shorter dated maturities)
- Financial institutions (primarily insurance companies and pension funds but also some banks, out of spot[1] or forward dates[2])
- Municipal Bonds Agency (no issuance at present but there is potential)

Note 1: Spot date: transaction is taking place immediately with an agreed interest rate.
Note 2: Forward date: pre-agreed dates for future settlements.

The degree which any of these options proves cheaper than PWLB Certainty Rate is still evolving at the time of writing but the Council's treasury advisors plan to keep the treasury team informed.

As referred to in 3.4 above, following the 2020 Budget a consultation has recently been undertaken by HM Treasury in respect of PWLB Borrowing with the intention of reducing borrowing costs for local authorities in relation to capital expenditure to support service provision, housing and regeneration. This consultation will close on 4 June 2020. Officers will evaluate the outcome of this consultation in due course and update Members at the earliest opportunity.

Approved Sources of Long- and Short-term Borrowing

- PWLB
- Municipal bond agency
- Local authorities
- Banks
- Pension funds
- Insurance companies
- Internal (capital receipts & revenue balances)
- Finance leases

4. ANNUAL TREASURY INVESTMENT STRATEGY

4.1 Current portfolio position

The treasury management portfolio position at 31 March 2019 and at 31 December 2019 are set out below.

Table 9: Treasury Portfolio

PORTFOLIO POSITION	2018/19		2019/20	
	Actual at 31 March 2019		Actual at 31 December 2019	
	£'000	%	£'000	%
Investments:				
Local Authorities	-	-	-	-
Banks[1]	8,000	17%	5,000	11%
Other Financial Institutions[2]	-	-	20,000	47%
Building Societies	40,000	83%	18,000	42%
Total Investments	**48,000**	**100%**	**43,000**	**100%**
Excludes balances held with Council's bankers for day-to-day banking purposes				

NOTE 1: Lloyds Plc

NOTE 2: Goldman Sachs and Aberdeen Standard Investments Money Market Funds

BORROWING	2018/19		2019/20	
	Actual at 31 March 2019		Actual at 31 December 2019	
	£000	**%**	**£000**	**%**
Short Term Borrowing				
Other Local Authorities	12,000	100%	14,000	100%
PWLB	-	-	-	-
Sub Total	**12,000**	**100%**	**14,000**	**100%**
Long Term Borrowing				
PWLB	-	-	-	-
Total Borrowing	**12,000**	**100%**	**14,000**	**100%**

4.2 Investment policy – management of risk

MHCLG and CIPFA have extended the definition of 'investments' to include both financial and non-financial investments. This Strategy deals solely with financial investments, as managed by the Council's treasury management team.

Non-financial investments, essentially the purchase of income-yielding assets, are covered in the Capital Investment Strategy, a separate report to Executive and Council as part of annual budget-setting.

The treasury investment policy has regard to the following:

- MHCLG's Guidance on Local Government Investments 2018 ('the Guidance')
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017 ('the Code')
- CIPFA Treasury Management Guidance Notes 2018

The Council's investment priorities are always security first, portfolio liquidity second and then yield (return).

The guidance from MHCLG and CIPFA places 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:

Table 10: Treasury Management Risk Assessment

Risk	Council's View of Risk	RAG Indicator	Mitigation actions/controls included within the Treasury Management Strategy
Credit & Counterparty	This is the key risk for the Council. The security of 'capital' investment is critical.	R	The Council uses credit ratings and other market intelligence to access the credit quality of any potential counterparty. To be read in conjunction with Appendix 5.3. 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. The current minimum levels are: **Short-term** (less than one year in duration) Fitch F1 Standard & Poor's A-1 Moody's P-1 **Medium-term** (greater than 1 year up to and including 3 years) Fitch A+ Standard & Poor's A+ Moody's A1 **Longer-term** (greater than one year in duration up to and including 5 years Fitch AA- Standard & Poor's AA- Moody's Aa3 In addition, all non-UK domiciled banks the Council might want to invest in will need to be supported by guarantees from their national central banks and their national government will need to have their own sovereign rating of 'AAA'. The constitution of Money Market Funds means that they spread their investment over a wide range of counterparties and financial instruments which itself reduces the impact of this risk being realised. In addition, these instant access funds will be subject to UK Government guarantees. 2. The Council sets a maximum exposure level, expressed in '£' that can be invested with any one organisation.

Risk	Council's View of Risk	RAG Indicator	Mitigation actions/controls included within the Treasury Management Strategy
			The current limits are shown in Table 11. 3. To limit exposure in respect of Building Societies the maximum exposure level, expressed in '£' that can be invested with individual societies is shown in Table 11. 4. 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. 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. 6. This authority has defined the list of **types of investment instruments** that the treasury management team are authorised to use. There are two lists in Appendix 5.3 under the categories of 'specified' and 'non-specified' investments. • **Specified investments** are sterling investments of not more than one-year maturity or where there is a right to repayment within 12 months. They are considered low risk where the possibility of loss of principal or investment income is small. • **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. 7. **Non-specified investments limit.** The Council has determined that it will limit the maximum total exposure to non-specified investments to 40% of the total investment portfolio, (see paragraph 4.3). 8. **Lending limits**, (amounts and maturity), for each counterparty will be set through

Risk	Council's View of Risk	RAG Indicator	Mitigation actions/controls included within the Treasury Management Strategy
			applying the matrix table in Appendix 5.3 9. **Transaction limits** are set for each type of investment – details at Appendix 5.3. 10. This authority will set a limit for investments which are invested for **longer than 1 year**, (see Table 12). 11. Investments will only be placed with counterparties from countries outside the UK with a specified minimum sovereign rating, 12. This authority 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. 13. All investments will be denominated in **sterling**. 14. As a result of the change in accounting standards for 2018/19 under IFRS 9, the authority will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. In November 2018, the Ministry of Housing, Communities and Local Government, [MHCLG], concluded a consultation for a temporary override to allow English local authorities time to adjust their portfolio of all pooled investments by announcing a statutory override to delay implementation of IFRS 9 for five years commencing from April 2018. Local authorities are required to disclose the net impact of the unrealised fair value movements in a separate unusable reserve throughout the duration of the override in order for the Government to keep the override under review and to maintain a form of transparency. 15. This authority will also pursue **value for money** in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance. Regular monitoring of investment performance will be carried out during the year.
Liquidity	This is a managed risk for the Council. To provide services it needs to ensure that it has money available when required and	A	1. The Council maintains both an operational (1 year) and strategic (up to 5 years) Cash Flow model. 2. Investment durations are then set to accord with when the money will be required

Risk	Council's View of Risk	RAG Indicator	Mitigation actions/controls included within the Treasury Management Strategy
	that the provision of the money should be delivered in the most cost-effective way.		according to the strategic cash flow model. 3. Each transaction takes into account the underlying macro-economic environment at the time the transaction is being considered.
Interest Rate	This is a risk to the Council of investing in transactions that have a 'variable' interest rate that might change over the duration of the transaction.	A	1. All 'cash' deposit transactions are undertaken on a 'Fixed-term' or 'Structured/stepped' deal basis which determines the interest rate and duration at the time the transaction is entered into.
Exchange Rate	This is not a risk for this Council, as all financial investment transactions are undertaken in '£' sterling.	G	Not applicable 1. All investments will be denominated in sterling.
Refinancing	This is an emerging risk for the Council.	A	1. Accurate records of loans will be maintained. Borrowing requirements will be planned well in advance of need to negotiate rates. The maturity profile of loans will be spread to reduce prospect of having to negotiate at a time that is unfavourable to the organisation.
Legal and Regulatory	This is a potential risk for the Council.	A	1. The Council's constitution and associated documentation (i.e. Financial Procedure Rules) clearly set out the governance framework within which Treasury Management activity is undertaken. 2. The Council's Treasury Management Practice notes (TMP's) clearly set out roles and responsibilities and authorisation limits. 3. In terms of the legal status of counterparties to deal with the Council, the Council relies upon advice from its Treasury Advisors and the fact that legal status is part of the elements that go to make up the 'credit rating' issued by the Rating Agencies.
Fraud, error & corruption and contingency management	This is a potential risk for the Council.	A	1. The Council's Treasury Management Practice notes (TMP's) clearly set out roles and responsibility and authorisation limits. 2. All treasury transactions require the involvement of at least two officers in Finance. Each with the power to defer any transaction taking place. 3. Internal audit undertake periodic independent audit on both the effectiveness of the Council's treasury management control arrangements and whether all the transactions that have been undertaken are compliant with

Risk	Council's View of Risk	RAG Indicator	Mitigation actions/controls included within the Treasury Management Strategy
			the Treasury Management Policy, Treasury Management Strategy and the Treasury Management Practice.
Market risk	This is a potential risk for the Council.	A	1. As all 'cash' deposit transactions are undertaken on a 'Fixed-term' or 'Structured/stepped' basis this removes the potential of this risk occurring. 2. All 'Gilt' investments are bought and held to maturity; this again removes the potential for this risk. 3. Purchasing shares in a pooled investments (such as a money market fund) means that any downward movement in the relative share price could open the Council to a potential capital loss, but the likelihood of this occurring is low given that these funds, by their nature, invest in a wide range of financial instruments and financial institutions and earn their commission from increases in the share price.
Property investments	These are properties which are being held for capital appreciation or for a longer-term rental income stream. These are a risk to the Council due to the potential for property prices to fall or for rental voids.	A	1. Each acquisition will require appropriate approval. 2. Property holding will be re-valued regularly and reported annually with gross and net rental streams 3. All investments will be required to demonstrate a return in excess of the opportunity cost of capital which is calculated with reference to the Council's interest payable on equivalent borrowing and the statutory minimum revenue provision (MRP) that sets aside funds for the repayment of the borrowing. 4. The progress made in respect of achieving an appropriately balanced and diversified portfolio over the longer term will be monitored. 5. Note: This is detailed in the separate Capital Investment Strategy report
Loans to third parties, including soft loans	These are investments at market rates of interest. These types of investments may exhibit credit risk.	A	1. Each third-party loan requires appropriate approval and each application is supported by the rationale behind the loan and the likelihood of default.
Changes in accounting policy	This is a potential risk for the Council if the change in policy results in changes to how forecast costs/receipts are subsequently reported	A	1. As a result of the change in accounting standards for 2018/19 under IFRS 9, this Council will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund.

Risk	Council's View of Risk	RAG Indicator	Mitigation actions/controls included within the Treasury Management Strategy
	in the Council's accounts.		2. In November 2018, the Ministry of Housing, Communities and Local Government, [MHCLG], concluded a consultation for a temporary override to allow English local authorities time to adjust their portfolio of all pooled investments by announcing a statutory override to delay implementation of IFRS 9 for five years commencing from 1.4.18. 3. Local authorities are required to disclose the net impact of the unrealised fair value movements in a separate unusable reserve throughout the duration of the override in order for the Government to keep the override under review and to maintain a form of transparency.

The above risk management approach has been reviewed and updated to reflect Link Asset Services' latest guidance for 2020/21.

4.2 Creditworthiness policy

The primary principle governing the Council's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. After this main principle, the Council will ensure that:

- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the specified and non-specified investment sections below; and
- It has sufficient liquidity in its investments. For this purpose, it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested. Details at Appendix 5.3.

The Chief Finance Officer will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to Council for approval as necessary. These criteria are separate to that which determines which types of investment instrument are either specified or non-specified as it provides an overall pool of counterparties considered high quality which the Council may use, rather than defining what types of investment instruments are to be used.

Credit rating information is supplied by Link Asset Services, the Council's treasury advisors, on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. Any rating changes, rating 'Watches' (notification of a likely change), rating 'Outlooks' (notification of the longer-term bias outside the central rating view) are provided to officers almost immediately after they occur, and this information is considered before dealing. For instance, a negative rating Watch applying to

counterparty at the minimum Council criteria will be suspended from use, with all others being reviewed in light of market conditions.

The criteria for achieving a pool of high-quality investment counterparties, (for both specified and non-specified investments) are set out below and at Table 10. The Council uses credit ratings and other market intelligence to access the credit quality of any potential counterparty.

The Council sets limits as to the minimum level of credit rating that it will accept for any individual counterparty. The current minimum levels are:

Table 11: Counter-Party Monetary & Duration Criteria

Counterparty List			Credit Rating & Duration			
			Fitch	**Standard & Poor**	**Moody's**	
UK Banks Part Nationalised UK Banks	Covers UK Retail & Clearing Banks These banks can be included provided they continue to be part nationalised or meet the ratings in UK Banks above.	Short-Term	F1	A-1	P-1	• £10m with any individual counterparty • Less than or equal to 1 yr.
		Medium-Term	A+	A+	A1	• £10m with any individual counterparty Greater than 1 yr. up to & incl. 3 yrs.
		Long-Term	AA-	AA-	Aa3	• £10m with any individual counterparty • Greater than 1 yr. up to & incl. 5 yrs.
Non-UK domiciled Banks	Non-UK Banks must be domiciled in a country which has a minimum sovereign Long-Term rating of 'AAA'	Short-Term	F1	A-1	P-1	• £5m with any individual counterparty • Less than or equal to 1 yr.
		Medium-Term	A+	A+	A1	• £5m with any individual counterparty • Greater than 1 yr. up to & incl. 3 yrs.
The Council's own banker for day to day banking transactional purposes.	If the bank falls below the following criteria, in this case balances will be minimised in both monetary size and time invested.	Short-Term	F1	A-1	P-1	• £10m • Less than or equal to 1 yr.
		Medium - Term	A+	A+	A1	• £10m • Greater than 1 yr. up to & incl. 3 yrs.
		Long-Term	AA-	AA-	Aa3	• £10m • Greater than 1 yr up to & incl. 5 yrs.
Building societies	The Council will use all societies which meet the following criteria	Regulated by the Prudential Regulation Authority ***and*** has a minimum of a £1billion asset base				• £5m with any individual counterparty

Counterparty List			Credit Rating & Duration			
			Fitch	Standard & Poor	Moody's	
						• Up to and incl. 3 years.
Money Market Funds (MMFs)	Constant Net Asset Value (CNAV)	Short-Term	AAA	AAA	Aaa	• £5m with any individual counterparty • Less than or equal to 1 yr.
Money Market Funds (MMFs)	Low-Volatility Net Asset Value (LVNAV)	Short-Term	AAA	AAA	Aaa	• £5m with any individual counterparty • Less than or equal to 1 yr.
Money Market Funds (MMFs)	Variable Net Asset value (VNAV)	Short-Term	AAA	AAA	Aaa	• £5m with any individual counterparty • Less than or equal to 1 yr.
UK Government (including gilts, Treasury Bills and the DMADF)	No credit rating - UK Government guarantee	N/A	N/A	N/A		• Unlimited • To maturity
Local authorities, parish councils etc.	No credit rating - UK government guarantee	N/A	N/A	N/A		• £10m with any individual counterparty • Up to and incl. 5 years
Supranational institutions (e.g. European Investment Bank or World Bank)	The Council will use supranational institutions which meet the following criteria:	Short-Term	F1	A-1	P-1	• £10m with any individual counterparty • Less than or equal to 1 yr.

Use of additional information, other than credit ratings. Additional requirements under the Code require the Council to supplement credit rating information. Whilst the above criteria rely primarily on the application of credit ratings to provide a pool of appropriate counterparties for officers to use, additional operational market information will be applied before making any specific investment decision from the agreed pool of counterparties. This additional market information (for example Credit Default Swaps, negative rating Watches/Outlooks) will be applied to compare the relative security of differing investment counterparties.

Time and monetary limits applying to investments. The Council sets a maximum exposure level, expressed in '£' that can be invested with any one organisation. The current limits are shown in Table 11: Counter-Party Monetary & Duration Criteria.

UK banks – ring-fencing. The largest UK banks, (those with more than £25bn of retail / Small and Medium-sized Enterprise (SME) deposits), are required, by UK law, to separate core retail banking services from their investment and international banking activities by 1st January 2019; known as 'ring-fencing'. Whilst smaller banks

with less than £25bn in deposits are exempt, they can choose to opt up. Several banks are very close to the threshold already and so may come into scope in the future regardless.

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

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

4.3 Other limits

Due care will be taken to consider the exposure of the total investment portfolio to non-specified investments, countries, groups and sectors.

(i) **Non-specified investment limit.** The Council has determined that it will limit the maximum total exposure to non-specified investments (defined in section 5.3 of this annex) as being 40% of the total investment portfolio.

(ii) **Country limit**. The Council has determined that it will only use approved counterparties from the UK and from countries with a minimum sovereign credit rating of AAA from Fitch (or equivalent). The list of countries that qualify using this credit criteria as at the date of this report are shown in Appendix 5.4 This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

(iii) **Other limits**. In addition:

- no more than 10% will be placed with any non-UK country at any time; and
- limits in place above will apply to a group of companies.

4.4 Treasury Investment Strategy

In-house funds. Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months). Greater returns are usually obtainable by investing for longer periods. While most cash balances are required 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.

Investment returns expectations. On the assumption that the UK and EU agree a Brexit deal including the terms of trade by the end of 2020 or soon after, then Bank Rate is forecast to increase only slowly over the next few years to reach 1.25% by quarter 1 2023. Bank Rate forecasts for financial year ends (March) are:

- Q1 2021 0.75%
- Q1 2022 1.00%
- Q1 2023 1.25%

The budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year are as follows:

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

The risks to economic growth in the UK has been affected by the worldwide impact of coronavirus. In response to the economic uncertainty the MPC cut Bank Rate to 0.25% on 11 March 2020 ahead of the Government detailing and expansionary spending policy in the Budget on the same day.

Investment treasury indicator and limit. Total principal funds invested for greater than 1 year. These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment and are based on the availability of funds after each year-end.

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

Table 12: Treasury Limits

Upper limit for principal sums invested for longer than 1 year			
£m	**2020/21**	**2021/22**	**2022/23**
Principal sums invested for longer than 1 year	£20m	£20m	£20m
Current investments as at 31.12.19 in excess of 1 year maturing in each year	-	£13m	-

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

4.5 Investment risk benchmarking

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

4.6 End of year investment report

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

4.7 External fund managers

Although the Council does not employ external fund managers, they will comply with the Annual Treasury Investment Strategy. The agreement(s) between the Council and the fund manager(s) will additionally stipulate guidelines and duration and other limits in order to contain and control risk. The Council does not currently employ external fund managers.

5. APPENDICES

5.1 Capital, Prudential and Treasury Indicators 2020/21 to 2024/25 and MRP Statement

5.2 Economic Background – Link Asset Services

5.3 Treasury Management Practice (TMP1) – Credit and Counterparty Risk Management

5.4 Approved Countries for Investments

5.5 Treasury Management Scheme of Delegation

5.6 Treasury Management Role of the Section 151 Officer

5.1 Capital, Prudential and Treasury Indicators 2020/21 to 2024/25 and MRP Statement

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

5.1.1. Capital expenditure

Table 13: Capital Programme 2019/21 to 2024/25 by Service

APPROVED CAPITAL PROGRAMME	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
	Actual £000	Budget £000	Projected £000	Projected £000	Projected £000	Projected £000	Projected £000
Finance & Organisation	32,732	355	4,890	2,017	2,293	2,019	1,843
People Services	3,816	1,834	17,163	11,475	11,404	1,404	1,404
Place Services	2,687	18,907	24,048	27,364	16,402	1,302	1,302
Corporate	-	25,000	50,000	-	-	-	-
2018/19 Underspend – Approved Carry-Forward	-	1,456	-	-	-	-	-
Sub Total	**39,235**	**47,552**	**96,101**	**40,856**	**30,099**	**4,725**	**4,549**
Other long-term liabilities – IFRS 16 Leases (new)	-	-	438	-	-	-	-
Total Expenditure	**39,235**	**47,552**	**96,539**	**40,856**	**30,099**	**4,725**	**4,549**

The above Capital Programme includes £75 million investment in corporate priorities that are also expected to realise new income-generating opportunities in 2019/20 and 2020/21 respectively under 'Corporate'.

The allocation of these funds to new Capital schemes and investment opportunities is delegated to the Commercial Ventures Executive Sub-Committee. When considering new investment opportunities, the Sub-Committee assesses the extent to which they support delivery of the Corporate Plan and supporting Strategies while adhering to the principles set out in the Capital Investment Strategy, its Commercial Governance Framework and relevant guidance and codes, including the guidance on 'borrowing in advance of need'.

Table 14: Capital Financing Requirement

CAPITAL FINANCING	2018/19	2019/20	2020/21	2021/22	2022/23	2023/2024	2024/25
	Actual £000	Budget £000	Projected £000	Projected £000	Projected £000	Projected £000	Projected £000
Capital Grants	3,966	1,679	1,843	1,600	1,187	1,187	1,187
Capital Receipts	20,133	-	8,806	24,489	26,778	-	-
Revenue Contributions	90	213	-	-	-	-	-
New Homes Bonus	-	-	10,000	7,000	-	-	-
Local Enterprise Partnership (LEP) Funding	-	2,570	-	-	-	-	-
Total Financing	**24,189**	**4,462**	**20,649**	**33,089**	**27,965**	**1,187**	**1,187**
Net Financing Need	15,046	43,090	75,890	7,768	2,134	3,538	3,362
Total Expenditure	**39,235**	**47,552**	**96,539**	**40,856**	**30,099**	**4,725**	**4,549**

The above Programme includes £NIL million investment in purely commercial activities.

APPROVED CAPITAL EXPENDITURE	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
	Actual £000	**Budget £000**	**Projected £000**	**Projected £000**	**Projected £000**	**Projected £000**	**Projected £000**
Commercial Investments	-	-	-	-	-	-	-

Any Commercial investment plans beyond 2019/20 will be confirmed as the Council's Commercial Strategy is developed during 2020/21.

5.1.2. Affordability prudential indicators

The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are also required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances. The Council is asked to approve the following indicator:

Ratio of financing costs to net revenue stream. This indicator identifies the trend in the cost of capital, (borrowing and other long-term obligation costs net of investment income), against the net revenue stream.

This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet borrowing costs.

The financing costs are the interest payable on borrowing, finance lease or other long-term liabilities and the amount defined by statute which needs to be charged to revenue to reflect the repayment of the principal element of borrowing. Any additional payments in excess of the statutory amount or the cost of early repayment or rescheduling of debt would be included within the financing cost. Financing costs are expressed net of investment income.

The net revenue stream is defined as the amount required to be funded from Government Grants and local taxpayers, in effect the budget requirement. Estimates of the ratio of financing costs to net revenue (or budget requirement) are as follows:

Table 15: Financing Cost as Percentage of Net Revenue Stream

FINANCING COSTS AS % OF NET REVENUE STREAM	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
	Actual	Budget	Estimate	Estimate	Estimate	Estimate	Estimate
Net Revenue stream	21,403	16,294	25,438	20,003	20,803	21,636	28,829
Net Financing costs	(851)	(413)	21	550	1,009	1,013	1,013
%	(3.98%)	(2.53%)	0.08%	2.75%	4.85%	4.68%	3.51%

The estimates of financing costs include current commitments and the proposals in the 2019/20 Budget Report.

Maturity structure of borrowing. These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing and are required for upper and lower limits.

Council is asked to approve the following treasury indicators and limits:

Table 16: Maturity Structure of Borrowing

Maturity structure of fixed interest rate borrowing 2020/21		
	Lower	**Upper**
Under 12 months	0%	72%
12 months to 2 years	0%	28%
2 years to 5 years	0%	0%
5 years to 10 years	0%	0%
10 years to 20 years	0%	0%
20 years to 30 years	0%	0%
30 years to 40 years	0%	0%
40 years to 50 years	0%	0%
Maturity structure of variable interest rate borrowing 2020/21[1]		
	Lower	**Upper**
Under 12 months	0%	0%
12 months to 2 years	0%	0%
2 years to 5 years	0%	0%
5 years to 10 years	0%	0%
10 years to 20 years	0%	0%
20 years to 30 years	0%	0%
30 years to 40 years	0%	0%
40 years to 50 years	0%	0%

Note 1: The Council does not currently have any variable rate borrowing.

As the Council does not have any long term borrowing to date, the outstanding loans as at 31 December 2019 are short term, and they mature either in 12 months or in

12 months to 2 years. The above table will become more complex as the Council starts to borrow over the longer term.

5.2 Economic Background – Link Asset Services

UK. Brexit. *2019 was a year of upheaval on the political front as Theresa May resigned as Prime Minister to be replaced by Boris Johnson on a platform of the UK leaving the EU on 31 October 2019, with or without a deal. However, MPs blocked leaving on that date and the EU agreed an extension to 31 January 2020. In late October, MPs approved an outline of a Brexit deal to enable the UK to leave the EU on 31 January. The Conservative Government gained a large overall majority in the* ***general election*** *on 12 December; this ensured that the UK left the EU on 31 January. However, there will still be much uncertainty, as the detail of a comprehensive trade deal will need to be negotiated by the current end of the transition period in December 2020, which the Prime Minister has pledged he will not extend. This could prove to be an unrealistically short timetable for such major negotiations that leaves open three possibilities; a partial agreement on many areas of agreement and then continuing negotiations to deal with the residual areas, the need for the target date to be put back, probably two years, or, a no deal Brexit in December 2020.*

GDP growth took *a big hit from both political and Brexit uncertainty during 2019; Quarter 1 at +0.6% was followed by quarter 2 at -0.1% and quarter 3 at 0.5%. However, the peak of Brexit uncertainty during the final quarter caused growth to fall to only +0.1%, +1.1% y/y. However, the forward-looking surveys in January and February have indicated a significant recovery of the pace of growth now that much uncertainty has gone. Nevertheless, economic growth may only come in at about 1% in 2020, pending the outcome of negotiations on a trade deal. Provided there is a satisfactory resolution of those negotiations, which are in both the EU's and UK's interest, then growth should strengthen further in 2021.*

At its 30 January meeting, the Monetary Policy Committee held Bank Rate unchanged at 0.75%. The vote was again split 7-2, with two votes for a cut to 0.50%. The financial markets had been predicting a 50:50 chance of a rate cut at the time of the meeting. Admittedly, there had been plenty of downbeat UK economic news in December and January which showed that all the political uncertainty leading up to the general election, together with uncertainty over where Brexit would be going after the election, had depressed economic growth in quarter 4. In addition, three members of the MPC had made speeches in January which were distinctly on the dovish side, flagging up their concerns over weak growth and low inflation; as there were two other members of the MPC who voted for a rate cut in November, five would be a majority at the January MPC meeting if those three followed through on their concerns.

However, that downbeat news was backward looking; more recent economic statistics and forward-looking business surveys, have all pointed in the direction of a robust bounce in economic activity and a recovery of confidence after the decisive result of the general election removed political and immediate Brexit uncertainty. In addition, the September spending round increases in expenditure will start kicking in from April 2020, while the Budget in March is widely expected to include a substantial fiscal boost by further increases in expenditure, especially on infrastructure. The Bank of England cut its forecasts for growth from 1.2% to 0.8% for 2020, and from 1.8% to 1.4% for 2021. However, these forecasts could not include any allowance for the predicted fiscal boost in the March Budget. Overall, the MPC clearly decided to focus on the more recent forward-looking news than the earlier downbeat news. The quarterly Monetary Policy Report did, though, flag up that there was still a risk of a Bank Rate cut; "Policy may need to reinforce the

expected recovery in UK GDP growth should the more positive signals from recent indicators of global and domestic activity not be sustained or should indicators of domestic prices remain relatively weak." Obviously, if trade negotiations with the EU failed to make satisfactory progress, this could dampen confidence and growth. On the other hand, there was also a warning in the other direction, that if growth were to pick up strongly, as suggested by recent business surveys, then "some modest tightening" of policy might be needed further ahead. It was therefore notable that the Bank had dropped its phrase that tightening would be "limited and gradual", a long-standing piece of forward guidance; this gives the MPC more room to raise Bank Rate more quickly if growth was to surge and, in turn, lead to a surge in inflation above the 2% target rate.

*As for **inflation** itself, CPI has been hovering around the Bank of England's target of 2% during most of 2019, but fell again in both October and November to a three-year low of 1.5% and then even further to 1.3% in December before rising to 1.8% in January. While the Bank is forecasting it to rise slightly above 2% over the next two years, it is expected to fall back to, or under 2% during that period. It, therefore, does not pose any concern to the MPC at the current time. However, if there was a hard or no deal Brexit, inflation could rise towards 4%, primarily because of imported inflation on the back of a weakening pound.*

*With regard to the **labour market,** growth in numbers employed had been quite resilient through 2019 until the three months to September, where it fell by 58,000. However, there was an encouraging pick up again in the three months to October to growth of 24,000, then a stunning increase of 208,000 in the three months to November, followed by a robust growth of 180,000 in the three months to December. The unemployment rate held steady at a 44-year low of 3.8% on the Independent Labour Organisation measure. Wage inflation has been steadily falling from a high point of 3.9% in July to 3.2%% in December (3-month average regular pay, excluding bonuses). This meant that in real terms, (i.e. wage rates higher than CPI inflation), earnings grew by about 1.4%. As the UK economy is very much services sector driven, an increase in household spending power is likely to feed through into providing some support to the overall rate of economic growth in the coming months. The other message from the fall in wage growth is that employers are beginning to find it easier to hire suitable staff, indicating that supply pressure in the labour market has been easing.*

***Coronavirus.** The Coronavirus outbreak is now causing significant disruption to the economy of China and could spill over to affect other countries. The Chinese economy is now very much bigger than it was at the time of the SARS outbreak in 2003 and far more integrated into world supply chains. However, a temporary dip in Chinese growth might only lead to a catch up of lost production in following quarters with minimal net overall effect over a period of a year. However, no one knows quite how big an impact this virus will have around the world; hopefully, the efforts of the WHO and the Chinese authorities will ensure that the current level of infection does not multiply greatly. However, more recent news of significant outbreaks in Italy and Iran, and new cases being reported in several other countries, have alarmed investors; on 24 and 25 February, bond yields and equity markets fell sharply as investors moved into safe haven investments. The 10-year US bond yield hit a record low, which, in more normal times, would be seen as a predictor of a coming recession. However, this could also be viewed as being a panic reaction to a worst-case scenario which may not occur.*

If the coronavirus outbreak were to become more widespread in Europe and the US, it would raise a question as to whether central banks might need to take action to cut interest rates, or ease monetary policy in other ways, to

help economies suffering significant disruption to economic activity. If the situation does deteriorate, then it is likely that we will see low bond yields, lower global growth and investor confidence waning until an end is in sight for the coronavirus crisis i.e. the forecasts for interest rates in this report will be knocked off course.

In recent weeks, western countries and countries neighbouring China have also started to be affected by shortages of key components from China, e.g. in car manufacture: just one missing component will mean that a car cannot be fully assembled or sold. This will undoubtedly raise doubts about future reliance on sourcing individual components from China, especially where 3D printing and/or artificial intelligence are beginning to tip the scales in favour of on-shoring some production back from China.

USA. *After growth of 2.9% y/y in 2018 fuelled by President Trump's massive easing of fiscal policy, growth has weakened in 2019. After a strong start in quarter 1 at 3.1%, (annualised rate), it fell to 2.0% in quarter 2 and then 2.1% in quarters 3 and 4. This left the rate for 2019 as a whole at 2.3%, a slowdown from 2018 but not the precursor of a recession which financial markets had been fearing earlier in the year.*
The Fed *finished its series of increases in rates to 2.25 – 2.50% in December 2018. In July 2019, it cut rates by 0.25% as a 'midterm adjustment'. It also ended its programme of quantitative tightening in August 2019, (reducing its holdings of treasuries etc.). It then cut rates by 0.25% again in September and by another 0.25% in its October meeting to 1.50 – 1.75%. It left rates unchanged at its December meeting. Rates were again left unchanged at its end of January meeting although it had been thought that as the yield curve on Treasuries had been close to inverting again, (with 10 year yields nearly falling below 2 year yields - this is often viewed as being a potential indicator of impending recession), that the Fed could have cut rates, especially in view of the threat posed by the coronavirus. However, it acknowledged that coronavirus was a threat of economic disruption but was not serious at the current time for the USA. In addition, the phase 1 trade deal with China is supportive of growth. The Fed though, does have an issue that despite reasonably strong growth rates, its inflation rate has stubbornly refused to rise to its preferred core PCE inflation target of 2%. The wider core CPI inflation has been broadly stable at a little over 2% for nearly two years, and steady growth in unit labour costs suggests that will continue over the coming quarters. That points to core PCE inflation remaining stuck firmly below the Fed's 2.0% target. The Fed is therefore unlikely to be raising rates in the near term. It is also committed to reviewing its approach to monetary policy by midyear 2020; this may include a move to a more flexible inflation target. to allow for inflation to temporarily under and over shoot.*

"The NEW NORMAL." *The Fed chairman has given an overview of the current big picture of the economy by summing it up as* ***A NEW NORMAL OF LOW INTEREST RATES, LOW INFLATION AND PROBABLY LOWER GROWTH.*** *This is indeed an affliction that has mired Japan for the last two decades despite strenuous efforts to stimulate growth and inflation by copious amounts of fiscal stimulus and cutting rates to zero. China and the EU are currently facing the same difficulty to trying to get inflation and growth up. Our own MPC may well have growing concerns and one MPC member specifically warned on the potential for a low inflation trap in January.*
It is also worth noting that no less than a quarter of total world sovereign debt is now yielding negative returns.

EUROZONE. Growth *has been slowing from +1.8 % during 2018 to nearly half of that in 2019. Quarterly growth during the year has been +0.4% in quarter 1, then +0.2%, 0.3% and 0.1% in the following quarters for a total overall growth rate of only 1.0% in 2019. Recovery from quarter 4 is expected to be slow and gradual. German GDP growth has been struggling to stay in positive territory in 2019 and grew by only 0.6% in 2019, (1.5% in 2018), with quarter 4 being 0.0%. Germany would be particularly vulnerable to a no deal Brexit depressing exports further and if President Trump imposes tariffs on EU produced cars.*

The European Central Bank (ECB) *ended its programme of quantitative easing purchases of debt in December 2018, which then meant that the central banks in the US, UK and EU had all ended the phase of post financial crisis expansion of liquidity supporting world financial markets by quantitative easing purchases of debt. However, the downturn in EZ growth in the second half of 2018 and in 2019, together with inflation falling well under the upper limit of its target range of 0 to 2%, (but it aims to keep it near to 2%), has prompted the ECB to take new measures to stimulate growth. At its March 2019 meeting, it said that it expected to leave interest rates at their present levels "at least through to the end of 2019", but that was of little help to boosting growth in the near term. Consequently, it announced a* ***third round of TLTROs****; this provides banks with cheap borrowing every three months from September 2019 until March 2021 that means that, although they would have only a two-year maturity, the Bank was making funds available until 2023, two years later than under its previous policy. As with the last round, the new TLTROs will include an incentive to encourage bank lending, and they will be capped at 30% of a bank's eligible loans. However, since then, the downturn in EZ and world growth has gathered momentum; at its meeting on 12 September, it cut its deposit rate further into negative territory, from -0.4% to -0.5%, and announced a* ***resumption of quantitative easing purchases of debt for an unlimited period.*** *At its October meeting it said these purchases would start in November at €20bn per month - a relatively small amount compared to the previous buying programme. It also increased the maturity of the third round of TLTROs from two to three years. However, it is doubtful whether this loosening of monetary policy will have much impact on growth and, unsurprisingly, the ECB stated that governments would need to help stimulate growth by 'growth friendly' fiscal policy. There have been no changes in rates or monetary policy since October. In January, the ECB warned that the economic outlook was 'tilted to the downside' and repeated previous requests for governments to do more to stimulate growth by increasing national spending. The new President of the ECB, Christine Lagarde who took over in December, also stated that a year long review of monetary policy, including the price stability target, would be conducted by the ECB. The 20 February ECB meeting gave a slightly more optimistic outlook but since then, weak data and coronavirus developments have cast doubt on that optimism.*
On the political front, Austria, Spain and Italy have been in the throes of ***forming coalition governments*** *with some unlikely combinations of parties i.e. this raises questions around their likely endurance. The most recent results of German state elections has put further pressure on the frail German CDU/SDP coalition government and on the current leadership of the CDU.*

CHINA. *Economic growth has been weakening over successive years, despite repeated rounds of central bank stimulus; medium term risks are increasing. Major progress still needs to be made to eliminate excess industrial capacity and the stock of unsold property, and to address the level of non-performing loans in the banking and shadow banking systems. In addition, there still needs to be a greater switch from investment in industrial capacity, property construction and infrastructure to consumer goods production. The coronavirus outbreak is likely to cause a*

contraction in overall growth in quarter 1. It is very difficult at this time to be confident about prospects beyond quarter 1.

***JAPAN** - has been struggling to stimulate consistent significant GDP growth and to get inflation up to its target of 2%, despite huge monetary and fiscal stimulus. It is also making little progress on fundamental reform of the economy.*

***WORLD GROWTH.** Until recent years, world growth has been boosted by increasing **globalisation** i.e. countries specialising in producing goods and commodities in which they have an economic advantage and which they then trade with the rest of the world. This has boosted worldwide productivity and growth, and, by lowering costs, has also depressed inflation. However, the rise of China as an economic superpower over the last thirty years, which now accounts for nearly 20% of total world GDP, has unbalanced the world economy. The Chinese government has targeted achieving major world positions in specific key sectors and products, especially high-tech areas and production of rare earth minerals used in high tech products. It is achieving this by massive financial support, (i.e. subsidies), to state owned firms, government directions to other firms, technology theft, restrictions on market access by foreign firms and informal targets for the domestic market share of Chinese producers in the selected sectors. This is regarded as being unfair competition that is putting western firms at an unfair disadvantage or even putting some out of business. It is also regarded with suspicion on the political front as China is an authoritarian country that is not averse to using economic and military power for political advantage. The current trade war between the US and China therefore needs to be seen against that backdrop. It is, therefore, likely that we are heading into a period where there will be a **reversal of world globalisation and a decoupling of western countries** from dependence on China to supply products. This is likely to produce a backdrop in the coming years of weak global growth and so weak inflation. **Central banks are, therefore, likely to come under more pressure to support growth by looser monetary policy measures and this will militate against central banks increasing interest rates**.*

*The trade war between the US and China is a major concern to **financial markets** due to the synchronised general weakening of growth in the major economies of the world, compounded by fears that there could even be a recession looming up in the US, though this is probably overblown. These concerns resulted in **government bond yields** in the developed world falling significantly during 2019. If there were a major worldwide downturn in growth, central banks in most of the major economies will have limited ammunition available, in terms of monetary policy measures, when rates are already very low in most countries, (apart from the US). There are also concerns about how much distortion of financial markets has already occurred with the current levels of quantitative easing purchases of debt by central banks and the use of negative central bank rates in some countries.*

INTEREST RATE FORECASTS

*The interest rate forecasts provided by Link Asset Services in paragraph 3.3 are **predicated on an assumption of an agreement being reached on Brexit between the UK and the EU.** On this basis, while GDP growth is likely to be subdued in 2019 and 2020 due to all the uncertainties around Brexit depressing consumer and business confidence, an agreement on the detailed terms of a trade deal is likely to lead to a boost to the rate of growth in subsequent years. This could, in turn, increase inflationary pressures in the economy and so cause the Bank of England to resume a series of gentle increases in Bank Rate. Just how fast, and how far, those increases will occur and rise to, will be data dependent. The forecasts in this report assume a modest recovery in the rate and timing of stronger growth and in the corresponding response by the Bank in raising rates.*

- *In the event of an **orderly non-agreement exit in December 2020**, it is likely that the Bank of England would take action to cut Bank Rate from 0.75% 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 were 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. Quantitative easing could also be restarted by the Bank of England. It is also possible that the government could act to protect economic growth by implementing fiscal stimulus.*

The balance of risks to the UK

- *The overall balance of risks to economic growth in the UK is probably relatively even due to the weight of all the uncertainties over post-Brexit trade arrangements and the impact of an expansionary government spending policy (as expected in the Budget on 11th March).*
- *The balance of risks to increases or decreases in Bank Rate and shorter term PWLB rates are also broadly even.*

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 currently include:

- ***Post Brexit trade negotiations** – 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.** In 2018, Italy was a major concern due to having a populist coalition government which made a lot of anti-austerity and anti-EU noise. However, in September 2019 there was a major change in the coalition governing Italy which has brought to power a much more EU friendly government; this has eased the pressure on Italian bonds. Only time will tell whether this new coalition based on an unlikely alliance of two very different parties will endure.*
- *Weak capitalisation of some **European banks**, particularly Italian banks.*
- ***German minority government.** In the German general election of September 2017, Angela Merkel's CDU party was left in a vulnerable minority position dependent on the fractious support of the SPD party, as a result of the rise in popularity of the anti-immigration AfD party. The CDU has done badly in recent state elections but the SPD has done particularly badly and this has raised a major question mark over continuing to support the CDU. Angela Merkel has stepped down from being the CDU party leader but she intends to remain as Chancellor until 2021.*
- ***Other minority EU governments.** Austria, Finland, Sweden, Spain, Portugal, Netherlands, Ireland and Belgium also have vulnerable minority governments dependent on coalitions which could prove fragile.*

- ***Austria, the Czech Republic, Poland and Hungary*** *now form a strongly anti-immigration bloc within the EU. There has also been rising anti-immigration sentiment in Germany and France.*
- *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 his time centred on the huge debt binge accumulated by corporations during the decade of low interest rates. This now means that there are corporates who would be unable to cover basic interest costs on* ***some $19trn of corporate debt in major western economies,*** *if world growth was to dip further than just a minor cooling. This debt is mainly held by the shadow banking sector i.e. pension funds, insurers, hedge funds, asset managers etc., who, when there is $15trn of corporate and government debt now yielding negative interest rates, have been searching for higher returns in riskier assets. Much of this debt is only marginally above investment grade so any rating downgrade could force some holders into a fire sale, which would then depress prices further and so set off a spiral down. The IMF's answer is to suggest imposing higher capital charges on lending to corporates and for central banks to regulate the investment operations of the shadow banking sector. 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.*
- ***A pandemic*** *causing major economic disruption around the world.*

5.3 Treasury Management Practice (TMP1) – Credit and Counterparty Risk Management

MHCLG issued Investment Guidance in 2018, and this forms the structure of the Council's policy below. These guidelines do not apply to either trust funds or pension funds which operate under a different regulatory regime.

The key intention of the Guidance is to maintain the current requirement for councils to invest prudently, and that priority is given to security and liquidity before yield. In order to facilitate this objective, the guidance requires this Council to have regard to the CIPFA publication Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes. This Council adopted the code on 9 April 2020 and will apply its principles to all investment activity. In accordance with the Code, the Chief Finance Officer has produced treasury management practices (TMPs). This part, TMP 1(1), covering Investment Counterparty Policy requires approval each year.

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

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

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

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

1. The **UK Government** (such as the Debt Management Account deposit facility, UK treasury bills or a gilt with less than one year to maturity).
2. **Supranational Bonds** of less than one year's duration.
3. A **local authority, parish council or community council, and housing association**
4. **Pooled Investment Vehicles** (such as money market funds) that have been awarded a high credit rating by a credit rating agency. This covers

pooled investment vehicles, such as money market funds, rated AAA by Standard and Poor's, Aaa for Moody's and AAA for Fitch rating agencies

5. A body that is considered of a **High Credit Quality** (such as a bank or rated building society) must be rated by a minimum of two of the listed rating agencies. [Non-rated building societies are categorised as non-specified investments]. This covers bodies with a minimum Short-Term rating of A-1 (Standard and Poor's), P-1 (Moody's) and F1 (Fitch).

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

	Specified Investment Criteria (up to 1-year duration)	**Limits (£, duration)**
a.	**Securities fully backed by the UK Government.** This includes Debt Management Office, UK Treasury Bills or Gilts with less than one year to maturity and held to maturity.[3]	£ unlimited To maturity
b.	**Local authority, parish council or community council**	£10m per counterparty Less than 1 year
c.	**Government (Sterling) Money Market Fund.** These Funds are solely invested in UK government securities or those backed by UK government securities and fully guaranteed by the UK Government	£10m per Fund Less than 1 year
d.	**Money Market Fund.** These Funds should invest in a range of sectors and institutions to spread the risk of counter-party default. Access to funds should be immediate or overnight. Investments will be in organisations that have the following minimum credit ratings with at least two of the three Credit Rating Agencies: Fitch AAA Moody's Aaa Standard & Poor AAA	£5m per Fund Less than 1 year
e.	**Any UK Bank** that is regulated by the Prudential Regulation Authority (PRA) **and** has a minimum Short-Term credit rating of the following rating with all the three Credit Rating Agencies Fitch F1 Moody's P-1 Standard & Poor A-1	£10m with any individual counterparty Less than 1 year
f.	**Any UK Building Society** that is regulated by the Prudential Regulation Authority ***and*** has a minimum of a £1billion asset base.	£5m with any individual counterparty Less than 1 year

[3] Gilts will always be held to maturity

Non-specified investments. Any other type of investment (i.e. not defined as specified above). The identification and rationale supporting the selection of these other investments and the maximum limits to be applied are set out below. Non-specified investments would include any sterling investments with:

Non-Specified Investment Criteria (over 1-year duration – up to 40% of the total investment portfolio)						
Counterparty		**Credit Rating & Duration**				**Limits (£, duration)**
			Fitch	**Standard & Poor's**	**Moody's**	
UK Banks (Covers UK Retail & Clearing Banks)	Any UK Bank, regulated by the Prudential Regulation Authority that has a minimum medium to long-term credit rating from all three of the Credit Rating Agencies; for deposits with a maturity of greater than one year (including forward deals in excess of one year from inception to repayment).	Medium-Term	A+	A+	A1	£10m Up to 3 years for an individual counterparty (or group)
		Long-Term	AA-	AA-	Aa3	£10m Up to 5 years for an individual counterparty (or group)
Non-UK domiciled Banks	Non-UK Banks must be domiciled in a country which has a minimum sovereign rating of 'AAA'	Medium-Term	A+	A+	A1	£5m Up to 3 years for an individual counterparty (or group)
Part Nationalised UK Bank	These banks can be included provided they continue to be part nationalised or meet the ratings in UK Banks above.	Medium-Term	A+	A+	A1	£10m Up to 3 years for an individual counterparty (or group)
		Long-Term	AA-	AA-	Aa3	£10m Up to 5 years for an individual counterparty (or group)
UK Building societies regulated by the Prudential Regulation Authority.	The Council will use all societies which meet the following criteria	Regulated by the Prudential Regulation Authority ***and*** has a minimum of a £1billion asset base				£5m Up to 3 years for an individual counterparty (or group)
UK Government (including gilts, Treasury Bills and the DMADF)	UK Government guarantee					Unlimited to maturity
Local authorities, parish councils etc.	UK government guarantee					£10m Up to 5 years for an individual counterparty

Monitoring Investment Counterparties. The credit rating of counterparties will be monitored regularly. The Council receives credit rating information (changes, rating

watches and rating outlooks) from Link Asset Services as and when ratings change, and counterparties are checked promptly. On occasion ratings may be downgraded when an investment has already been made. The criteria used are such that a minor downgrading should not affect the full receipt of the principal and interest. Any counterparty failing to meet the criteria will be removed from the list immediately by the Chief Finance Officer, and if required new counterparties which meet the criteria will be added to the list.

Use of External Fund Managers. The Council does not currently use external fund managers. If the Council decides to use external fund managers in future it is anticipated that they will use both specified and non-specified investment categories and will be contractually committed to keep to the Council's investment strategy. The performance of each manager will be reviewed at least half-yearly by the Chief Finance Officer and the managers will be contractually required to comply with the annual investment strategy and limits for non-specified investments will be set with consideration to the fund managers' parameters. The Council will confirm the acceptance of the strategy with all managers used.

5.4 Approved Countries for Investments

Source: Link Asset Services. This list is based on those countries which have sovereign ratings of AA- or higher (lowest rating from Fitch, Moody's and S&P) and also, (except for Hong Kong, Norway and Luxembourg) have banks operating in sterling markets which have credit ratings of 'green or above' in the Link Asset Services credit worthiness service.

Based on lowest available rating at 12.2.19

AAA

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

AA+

- Finland
- U.S.A.

AA

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

AA-

- Belgium
- Qatar

5.5 Treasury Management Scheme of Delegation

(i) Executive

- receiving and reviewing reports on treasury management policies, practices and activities;
- approval of annual Treasury Management Strategy.
- approval of/amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices;
- budget consideration and approval;
- approval of the division of responsibilities;
- receiving and reviewing regular monitoring reports and acting on recommendations;

(ii) Overview & Scrutiny Committee

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

(iii) Chief Finance Officer

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

5.6 Treasury Management Role of the Section 151 Officer

The Chief Finance Officer, as Section 151 Officer is responsible for:

- Recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance;
- Submitting regular treasury management policy reports;
- Submitting budgets and budget variations;
- Receiving and reviewing management information reports;
- Reviewing the performance of the treasury management function;
- Ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
- Ensuring the adequacy of internal audit, and liaising with external audit;
- Appointing external service providers.
- Preparation of a Capital Investment Strategy to include capital expenditure, capital financing, non-financial investments and treasury management, with a long-term timeframe
- Ensuring that the Capital Investment 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 council
- Ensure that the council has appropriate legal powers to undertake expenditure on non-financial assets and their financing
- Ensuring the proportionality of all investments so that the council does not undertake a level of investing which exposes the council 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 Council has adequate expertise, either in house or externally provided, to carry out the above
- Creation of Treasury Management Practices which specifically deal with how non-treasury investments will be carried out and managed, to include the following:
    - Risk management (TMP1 and schedules), including investment and risk management criteria for any material non-treasury investment portfolios;
    - Performance measurement and management (TMP2 and schedules), including methodology and criteria for assessing the performance and success of non-treasury investments;

- Decision making, governance and organisation (TMP5 and schedules), including a statement of the governance requirements for decision making in relation to non-treasury investments; and arrangements to ensure that appropriate professional due diligence is carried out to support decision making;
- Reporting and management information (TMP6 and schedules), including where and how often monitoring reports are taken;
- Training and qualifications (TMP10 and schedules), including how the relevant knowledge and skills in relation to non-treasury investments will be arranged.