6. TREASURY MANAGEMENT STRATEGY

Background

6.1 CIPFA (the Chartered Institute of Public Finance & Accountancy) 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."*

6.2 This section of the budget report fulfils the council's legal obligation under the Local Government Act 2003 to have regard to relevant codes of practice and guidance issued by CIPFA (Chartered Institute of Public Finance & Accountancy) and the MHCLG (Ministry for Housing, Communities & Local Government).

6.3 This section therefore fulfils the need for council to approve:
- A treasury management strategy before the start of each financial year (as required by CIPFA's Treasury Management Code).
- Prudential indicators to ensure that the council's capital investment plans are affordable, prudent and sustainable (as required by CIPFA's Prudential Code).
- An investment strategy before the start of each financial year (as required by MHCLG's Investment Code).
- A Minimum Revenue Provision (MRP) policy (as required by MHCLG's MRP guidance).

6.4 The council's investment in commercial property, equity shares, and lending to third parties is considered in the non-financial (commercial) investment strategy in section 5.

6.5 However for the purposes of clarity, the projections, indicators and limits given in this section of the budget report include:
- The general fund and HRA proposed capital programme and its funding as set out in tables 4.5 and 4.6.
- The implications for the council's capital financing requirement and borrowing position arising from the non-financial investments proposed in section 5 of this report.

Treasury management reporting requirements

6.6 The council is required to receive and approve as a minimum, three main reports each year, which incorporate a variety of, polices, estimates and actuals.

- Prudential and treasury indicators and treasury strategy (this report)

- A mid-year treasury management report – This will update members with the progress of the capital position, amending prudential indicators as necessary, and whether any policies require revision.
- An annual treasury report – This provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

Treasury management role of the Section 151 Officer

6.7 The S151 (responsible) 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 information required by internal or external audit is supplied;
- Recommending the appointment of external service providers;
- Ensuring that due diligence has been carried out on all treasury investments and is in accordance with the risk appetite and approved policies of the authority;
- Ensuring that members are adequately informed and understand the risk exposures taken on by an authority;
- Ensuring that the authority has adequate expertise, either in house or externally provided, to carry out the above;
- Training and qualifications of members responsible for treasury management approval and scrutiny as well as officers responsible for the day to day operations of treasury management.

Treasury management practices

6.8 Norwich City Council has adopted the CIPFA Treasury Management Code.

Training

6.9 The CIPFA Code requires the responsible officer to ensure that all members with responsibility for treasury management receive adequate training in this area. The S151 officer is responsible for this function. The training needs of treasury management officers are periodically reviewed.

Treasury management advisers

6.10 The council uses Link Asset Services as its external treasury management advisors.

6.11 Responsibility for treasury management decisions remains with the council at all times. Although the council will from time to time require the services of specialists, consultants and advisers in order to acquire access to specialist skills, undue reliance will not be placed upon the services and advice provided.

Treasury Management Strategy

Current Treasury Portfolio Position

Table 6.1: The Council's current investment and borrowing position

	31/03/2020 Actuals £000	%	31/12/2020 Actuals £000	%
Investments				
Banks	15,300	34.5	28,130	40.7
Building Societies	0	0.0	12,000	17.4
Local Authority	14,000	31.6	15,000	21.7
UK Government	0	0.0	0	0.0
Money Market Funds	15,000	33.9	14,000	20.3
TOTAL	**44,300**	**100.0**	**69,130**	**100.0**
Borrowing				
PWLB	214,107	97.4	214,107	97.4
Banks	5,000	2.3	5,000	2.3
Others	804	0.4	772	0.4
TOTAL	**219,911**	**100.0**	**219,879**	**100.0**

6.12 On the 31st of December 2020, the council held £219.879m of external borrowing and £69.130m of treasury investments.

The Prudential and Treasury Indicators 2021/22 – 2025/26

6.13 The council's capital expenditure plans are a key driver of treasury management activity. A summary of the council's capital budget plans and how these are being financed is shown in table 6.2.

6.14 The Capital Financing Requirement (CFR) calculation is shown in table 6.3. This is the total historic outstanding capital expenditure yet to be financed from revenue or capital resources and a future projection of CFR based on capital expenditure plans. It is a measure of the council's indebtedness, and therefore its underlying borrowing need. The CFR also includes other long term liabilities such as finance leases.

6.15 The CFR incorporates interim figures in relation to the new reporting requirements detailed within IFRS16. The reporting standard requires certain leases currently accounted for through the revenue spend of the Council, to have its liabilities shown on the balance sheet if the lease has more than a year to run or is above a deminimus value. An example for Norwich are the vehicles procured through an operating lease.

6.16 This is a requirement of closing the accounts for 2021/22 and officers continue to undertake the required data gathering exercise, which will clarify the full impact on the CFR for the Council. At the time of writing, final guidance had not been issued by CIPFA. It is therefore important to note that there may be a requirement to refresh the authorised limit and operational boundary once the review is substantially complete later in the 2021/22 financial year.

6.17 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 expected life.

6.18 The repayment of loan debt by the council's wholly owned company NRL will also reduce the CFR where the loan is financed by borrowing.

6.19 Table 6.5 sets out the required affordable borrowing limit, namely:

a. The operational boundary - the limit beyond which external debt is not normally expected to exceed.

b. The authorised limit for gross external debt - a statutory limit determined under section 3 (1) of the Local Government Act 2003. It represents the legal limit on the maximum level of borrowing beyond which external debt is prohibited, and this limit needs to be set or revised by the full Council. It is also the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

c. The estimated capital financing requirement for the HRA as at 1 April 2020 is £205.717m and this has been included in the authorised limit.

d. The HRA debt cap at the time it was removed in October 2018 was £236.989m.

Chart 6.1: Forecast of CFR and borrowing limits

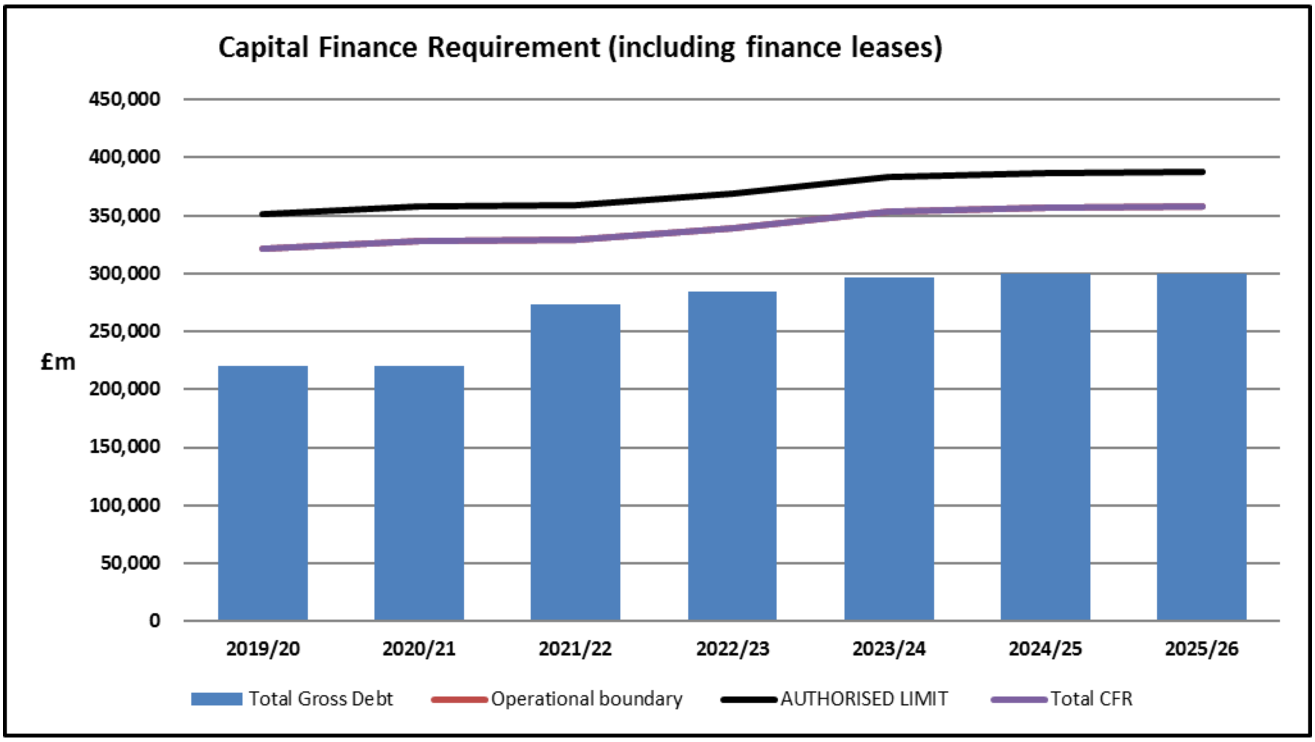

Table 6.2: The council's capital expenditure and financing plans

	2020/21 Estimate £000	2021/22 Estimate £000	2022/23 Estimate £000	2023/24 Estimate £000	2024/25 Estimate £000	2025/26 Estimate £000
Capital expenditure (without capital ambition)						
General Fund	9,057	20,617	13,089	3,419	2,980	3,618
Commercial properties	0	0	0	0	0	0
Total General Fund Expenditure	**9,057**	**20,617**	**13,089**	**3,419**	**2,980**	**3,618**
Housing Revenue Account	**23,630**	**48,839**	**52,021**	**44,866**	**32,027**	**28,765**
TOTAL CAPITAL EXPENDITURE	**32,687**	**69,456**	**65,110**	**48,285**	**35,007**	**32,383**
Financing						
Capital receipts	7,660	14,952	7,440	2,348	2,352	2,357
Revenue contribution	5,086	11,934	9,631	4,508	4,629	4,082
S106	93	408	35	0	0	0
Greater Norwich growth partnership	0	226	290	1	8	0
Community infrastructure levy	0	1,393	1,718	1,853	1,407	2,053
Major repairs reserve	13,368	15,464	15,727	16,130	16,470	16,816
Retained "one for one" RTB receipts	2,566	6,995	8,025	6,331	3,206	2,657
Contributions and grants	3,598	17,410	10,565	1,390	1,390	1,390
Capital spend to save reserve	0	0	0	0	0	0
Total	**32,371**	**68,782**	**53,431**	**32,561**	**29,462**	**29,355**
Borrowing need for the year	**316**	**674**	**11,679**	**15,724**	**5,545**	**3,028**
TOTAL FINANCING	**32,687**	**69,456**	**65,110**	**48,285**	**35,007**	**32,383**

NB: *2020/21 estimates in table 6.2 above include any potential expenditure that might need to be carried-forward into 2021/22).*

Table 6.3: Prudential and treasury Indicators

	2020/21 Estimate £000	2021/22 Estimate £000	2022/23 Estimate £000	2023/24 Estimate £000	2024/25 Estimate £000	2025/26 Estimate £000
Capital financing requirement at end of year						
General Fund	120,100	121,300	119,974	118,311	116,595	114,822
Housing Revenue Account	207,518	207,518	218,936	234,660	240,205	243,233
TOTAL	**327,618**	**328,818**	**338,910**	**352,971**	**356,800**	**358,055**
Annual change in capital financing requirement						
General fund	4,540	1,200	- 1,326	- 1,663	- 1,716	- 1,772
Housing Revenue Account	1,801	-	11,418	15,724	5,545	3,028
TOTAL	**6,341**	**1,200**	**10,092**	**14,061**	**3,829**	**1,256**
Gross Debt						
Borrowing	220,217	273,277	284,836	296,432	299,342	299,726
Operational boundary for external debt						
Operational boundary	327,618	328,818	338,910	352,971	356,800	358,055
Authorised limit for external debt						
Authorised limit	357,618	358,818	368,910	382,971	386,800	388,055
Actual external debt						
Borrowing	219,423	272,597	284,277	296,001	299,046	299,574
Debt maturity profile - all borrowing %						
Less than one year	1%	19%	1%	1%	18%	2%
Between one and two years	23%	1%	1%	18%	3%	17%
Between 2 and 5 years	27%	23%	40%	21%	19%	2%
Between 5 and 10 years	30%	22%	5%	6%	5%	4%
Between 10 and 15 years	6%	4%	3%	1%	1%	1%
Between 15 and 20 years	1%	0%	0%	0%	0%	0%
Over 20 years	12%	30%	51%	54%	55%	73%
Upper limit for fixed interest rates	100%	100%	100%	100%	100%	100%
Upper limit for variable interest rates	20%	20%	20%	20%	20%	20%
Upper limit for investments > 365 days		£30m	£30m	£30m	£30m	£30m
Current treasury investments as at 31/12/2020 in excess of 1 year maturing in each year	-	-	-	-	-	-

Maturity Structure of borrowing Strategy

6.20 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. These limits will also be applied to the 2020/21 outturn report.

Table 6.4: Maturity structure of borrowing

Maturity structure of fixed interest rate borrowing		
	Lower	**Upper**
Under 12 months	0%	30%
12 months to 2 years	0%	50%
2 years to 5 years	0%	50%
5 years to 10 years	0%	50%
10 years to 15 years	0%	60%
15 years to 20 years	0%	60%
20 years and above	0%	80%

Borrowing Strategy

6.21 The capital expenditure plans set out in tables 6.2 above, provide details of the service activity of the council. The treasury management function ensures that the council's cash is organised in accordance with the relevant professional codes, ensuring that sufficient cash is available to meet this service activity. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities.

6.22 The table below summarises the council's forward projections for borrowing based on the assumptions given in tables 6.2 above.

Table 6.5: Estimated forward projections for borrowing

	2020/21 Estimate £000	2021/22 Estimate £000	2022/23 Estimate £000	2023/24 Estimate £000	2024/25 Estimate £000	2025/26 Estimate £000
External Debt						
Debt as at 1 April	219,107	219,423	272,597	284,277	296,001	299,046
Expected change in debt	316	53,174	11,680	11,724	3,045	528
Other long-term liabilities	794	680	559	432	296	152
Actual gross debt as at 31 March	**220,217**	**273,277**	**284,836**	**296,432**	**299,342**	**299,726**
Capital Financing Requirement	327,618	328,818	338,910	352,971	356,800	358,055
Under/(Over) borrowing	**107,401**	**55,541**	**54,074**	**56,539**	**57,458**	**58,329**

N.B. Other long-term liabilities are any liabilities are other credit arrangements that are outstanding for periods in excess of 12 months e.g. finance leases.

6.23 The council is currently maintaining an under-borrowed position. This means that the capital borrowing need (CFR) has not been fully funded with loan debt, as cash supporting the council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is still an issue that needs to be considered.

6.24 The council has been well served by this policy over the last few years. The Section 151 Officer will continue to review and adopt a pragmatic approach to changing circumstances in order to avoid incurring higher borrowing costs in the future when interest rates may rise as set out below:

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

- If it was felt that there was a significant risk of a much sharper RISE in long and short term rates than that currently forecast, perhaps arising from sudden increase in inflation risks or impact of Covid 19 on the UK economy, 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.

Policy on borrowing in advance of need

6.25 CIPFA's Prudential Code paragraph allows borrowing in advance of need when changes in interest rates mean that it benefits the council to borrow before the planned expenditure is incurred. This will be considered carefully and appropriate advice will be sought from the council's treasury management advisers.

6.26 Borrowing in advance of need from a treasury management perspective will be made within the following constraints:

- It will be limited to no more than 75% of the expected increase in borrowing need (CFR) over the three year planning period; and
- The authority would not look to borrow more than 3 years in advance of need (current and next two financial years).

6.27 The council addresses its departure from this Code of Practice for non-financial investments (commercial property acquisitions) in paragraphs 1.29 to 1.31.

6.28 The risks associated with any advanced borrowing from a treasury management perspective will be subject to appraisal and will be reported via the mid-year or annual Treasury Management reports.

Debt rescheduling

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

6.30 Any rescheduling will take account of:

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

6.31 Although unlikely in the current interest rate environment, consideration will also be given to identify if there is any residual potential for making savings by running down investment balances to repay debt prematurely, as short term rates on investments are currently lower than rates paid on existing debt.

UK Municipal Bond Agency (MBA)

6.32 It is possible that the MBA will be offering loans to local authorities in the future at rates expected to be lowered than offered by the PWLB. The Council may make use of this new source of borrowing as and when appropriate.

Minimum Revenue Provision Policy Statement

6.33 The proposed MRP Policy Statement is set out in Appendix 6.

6.34 The Council is required to pay off a proportion of the accumulated unfunded capital expenditure each year (capital financing requirement) through an annual revenue charge (the MRP). This includes MRP for commercial properties and other non-treasury investments financed by borrowing.

6.35 The Council overpaid £6.632m of MRP in previous years. This amount is being gradually released to the general fund revenue budget on a straight line basis over the next 37 years.

6.36 It should be noted that it is not the council's policy to charge minimum revenue provision (MRP) on loans to third parties so long as there is no indication that the loan will not be repaid in full. All third party loans will be reviewed annually with an assessment made of any MRP payments required.

6.37 Currently there is no requirement for the HRA to make MRP provisions.

Investment Strategy

Investment and borrowing rates

6.38 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 gives their central view.

6.39 PWLB forecasts shown below have taken into account the 20 basis point certainty rate reduction.

Table 6.6: Interest rate forecast as at January 2020

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

6.40 Investment returns are likely to remain low during 2021/22 with no forecast increase in the following two years.

6.41 The coronavirus outbreak has done huge economic damage to the UK and economies around the world. After the Bank of England took emergency action in March to cut Bank Rate to first 0.25%, and then to 0.10%, it left Bank Rate unchanged at its subsequent meetings to 16th December, although some forecasters had suggested that a cut into negative territory could happen. However, the Governor of the Bank of England has made it clear that he currently thinks that such a move would do more damage than good and that more quantitative easing is the favoured tool if further action becomes necessary. As shown in the forecast table above, no increase in Bank Rate is expected in the near-term as economic recovery is expected to be only gradual and, therefore, prolonged.

6.42 As the interest forecast table for PWLB certainty rates above shows, there is expected to be little upward movement in PWLB rates over the next two years as it will take economies, including the UK, a prolonged period to recover all the momentum they have lost in the sharp recession caused during the coronavirus shut down period. 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, (as shown on 9th November when the first results of a successful COVID-19 vaccine trial were announced). Such volatility could occur at any time during the forecast period

6.43 The policy of avoiding new borrowing by running down spare cash balances has served local authorities well over the last few years.

6.44 While this authority will not be able to avoid borrowing to finance new capital expenditure and to replace maturing debt, 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.

Treasury investment policy

6.45 The council's treasury management investment policy has regard to MHCLG's Guidance on Local Government Investments ("the Guidance") and CIPFA's Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code") as well as the CIPFA Treasury Management Guidance Notes 2018. The Council's treasury management investment priorities will be Security first, Liquidity second, and then Yield.

6.46 All funds invested by the in-house treasury management team as part of the normal treasury management processes are made with reference to the cash flow requirements of the council and the outlook for short-term interest rates (i.e. rates for investments up to 12 months). Careful consideration will be given before investing sums identified for longer term investments.

Risk Assessment and Creditworthiness Policy

6.47 Management of risk is placed in high priority in accordance with the MHCLG and CIPFA Guidance. In order to minimise the risk to treasury investments, the council applies minimum acceptable credit criteria to generate a list of highly creditworthy counterparties which it maintains. 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.

6.48 Ratings will not be the sole determinant of the quality of an institution; the financial sector will be continuously monitored on both micro and macro basis and in relation to the economic and political environments in which these institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this, the council will engage with its advisors to watch the market pricing such as "credit default swaps" and overlay that information on top of the credit ratings.

6.49 Other information sources used will include the financial press, share price and other such information relating to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties. For local authority or related counterparties, the financial standing and other available information will be considered before placing investments.

6.50 Where applicable consideration will be given to the materiality of expected credit losses for treasury investments before they are used.

6.51 The counterparty list for treasury investments will be revised from time to time and submitted to council for approval as necessary.

6.52 In its selection process, the council will apply its approved minimum criteria to the lowest available rating for any institution. Credit rating information is supplied by Link Asset Services; the Council's treasury consultants. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list.

6.53 Any rating changes, rating watches (notification of a possible change), rating outlooks (notification of a possible longer term change) are provided to officers almost immediately after they occur and this information is considered before dealing. Where a credit rating agency announces that a rating is on review for possible downgrade so that it may fall below the approved rating criteria, then no investments other than existing will be made with that organisation until the outcome of the review is announced.

6.54 The list of types of investment instruments that the treasury management team are authorised to use are categorised as specified and non- specified investments.

- **Specified investments** that the Council will use are high security and high liquidity investments in sterling and with a maturity of no more than a year.

- **Non-specified investments** are high security, high credit quality, in some cases more complex instruments for periods in excess of one year.

6.55 The council will consider the use of new investment instruments after careful consideration by officers and approval by council.

6.56 While all investments will be denominated in sterling, investments will only be placed with counterparties from countries with a specified minimum sovereign rating in table 6.7.

6.57 Lending and transaction limits for each counterparty will be set in the Treasury Management Principles (TMPs) through applying the matrix table 6.6 below.

Table 6.6: specified and non-specified investment approved instruments and limits

Counterparty/Financial instrument	Minimum Credit Criteria or Equivalent	Specified Investments		Non-specified Investments	
		Maximum duration	Counterparty Limit (£m)	Maximum duration	Counterparty Limit (£m)
DMAF - UK Government	n/a	3 months	£30m	n/a	n/a
UK Government gilts	UK Sovereign rating	12 months	£15m	3 years	£5m
UK Government Treasury bills	UK Sovereign rating	6 months	£10m	n/a	n/a
Money Market Funds - CNAV	AAA	Liquid	£10m per fund £25m overall limit	n/a	n/a
Money MARKET Funds - LVNAV	AAA			n/a	n/a
Money Market Funds - VNAV*	AAA			n/a	n/a
UK Local Authority term deposits (LA)**	n/a	12 months	£10m per LA	5 years	£5m per LA
Term Deposits with UK Building Societies	ratings for banks outlined below / Asset worth at least £2.5bn or both	12 months	£5m	n/a	n/a
Banks (Term deposits, CD, Call & Notice accounts)	AAA	12 months	£15m	2 years	£10m
Banks (Term deposits, CD, Call & Notice accounts)	AA+ AA	12 months	£15m	12 months	£5m
Banks (Term deposits, CD, Call & Notice accounts)	AA- A+ A	12 months	£10m	n/a	n/a
Banks (Term deposits, CD, Call & Notice accounts)	A-	6 months	£5m	n/a	n/a
Property Funds	credit loss analysis, financial and legal due diligence	n/a	n/a	n/a	£5m per fund
Loan Capital and other third party loans including parish councils	Subject to financial & legal due diligence	considered on individual basis	n/a	considered on individual basis	n/a

* Specialist advice will be obtained before the use of VNAV money market funds
** Local authorities will reviewed in line with CIPFA suggested indicators

6.58 The identification and rationale supporting the selection of these investments, the maximum limits and monetary limits to be applied are set out in table 6.7 below.

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

Sovereign limits

6.60 Alongside changes in banking regulations which are focused on improving the banking sectors resilience to financial and economic stress, due care will be taken to consider the country, group and sector exposure of the Council's investments.

6.61 The Council will only use approved counterparties from the UK and countries with a sovereign credit rating from the three main rating agencies equal to or above AA-. In addition:

- No more than 20% will be placed with any non-UK country at any time and would always be sterling investments
- Sector limits will be monitored regularly for appropriateness.

6.62 Due to COVID, it is possible that credit rating agencies could downgrade the sovereign rating for the UK from the current level of AA-. However if credit rating agencies downgrade the UK below AA- (the minimum Sovereign rating for 2020/21), the council will immediately seek advice from its treasury adviser and report to cabinet at the earliest possible reporting date.

Table 6.7: Sovereign rating for 2020/21

AAA	Sweden	**AA**
Australia	Switzerland	Abu Dhabi (UAE)
Denmark		France
Germany	**AA+**	**AA-**
Luxembourg	Canada	Belgium
Netherlands	Finland	Hong Kong
Norway	USA	Qatar
Singapore		U.K.

Bank of England iteration UK bank stress tests

6.63 In addition to the use of credit ratings provided by the three main rating agencies the other factors identified in paragraphs 6.45 to 6.46 will be taken into consideration when selecting UK banks.

Money Market Funds (MMFs)

6.64 Money market funds are pooled investment vehicles consisting of instruments similar to those used by the council. They have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager and analyst team. Fees are deducted from the interest paid to the council.

Building societies

6.65 Although the regulation of building societies is no longer any different to that of banks, the council may use building societies which have a minimum asset size of £2bn but will restrict these types of investments to fixed deposits subject to lower cash limit and shorter time limit.

Current account banking

6.66 The council's current accounts are held with Barclays bank UK Plc (Ring Fenced Bank RFB). In the event of the credit rating of Barclays bank UK Plc (RFB) falling to a point lower than the council's minimum credit criteria of A- long term rating, the council will treat its bank as "high credit quality" for the purpose of making investments that can be withdrawn on the next working day.

UK banks – ring fencing

6.67 The council will continue to assess any newly-formed entities against existing criteria and those with sufficiently high ratings will be considered for investment purposes.

Investment risk benchmarking

6.68 These benchmarks are simple guides to maximum risk, so they may be breached from time to time, depending on movements in interest rates and counterparty criteria. The purpose of the benchmark is that officers will monitor the current and trend position and amend the operational strategy to manage risk as conditions change. Any breach of the benchmarks will be reported, with supporting reasons in the mid-year or annual Treasury Management report.

6.69 **Security benchmark** – Counterparty risk will increase as duration of investment increases. The council will continue its policy of investing the majority of its investments with duration of less than 12 months. The council's maximum security risk benchmark for the current portfolio, when compared to the historic default tables is 0.039%.

6.70 **Liquidity** – in respect of this area the council seeks to maintain:

- Bank overdraft – zero balance
- Liquid short term deposits of at least £1m available with a week's notice.
- Weighted average life benchmark is expected to be 0.50 years, with a maximum of 1.00 year. However this benchmark may change if the Council decides to invest longer than 12 months.

6.71 **Yield** - local measures of yield benchmarks are:

- Investments – internal returns above the 7 day (London Interbank Bid Rate) LIBID rate.

Ethical investment

6.72 The council will not knowingly invest directly in businesses whose activities and practices pose a risk of serious harm to individuals or groups, or whose activities are inconsistent with the council's mission and values.

6.73 This applies to direct treasury investment only. The council's normal money market activity would usually be with financial institutions which may have unknown indirect links with companies which the council will be unable to monitor. However, where known links are publicly available the council will not knowingly invest.

Policy on charging interest to the Housing Revenue Account (HRA)

6.74 Following the reform of housing finance, the council can adopt its own policy on sharing interest costs and income between the General Fund (GF) and the Housing Revenue Account (HRA).

6.75 The CIPFA Code recommends that authorities state their policy on this matter each year in their treasury management strategy. The charge is required to be fair to the general fund and to the HRA. This council's policy is to charge the HRA with an element of any under-borrowing or surplus cash at the Council's pooled borrowing/investment rates.

Policy on use of financial derivatives

6.76 The council will not use standalone derivatives except where they can be clearly demonstrated to reduce the overall level of financial risk that the council is exposed to.

APPENDIX 6: Minimum Revenue Provision (MRP) policy statement

For capital expenditure incurred:

(A) From 1st April 2008 for all unsupported borrowing (excluding finance leases) the MRP policy will be to; charge MRP on an annuity basis (using the prevailing rate of interest at the time) so that there is provision for the full repayment of debt over 50 years; Asset life is deemed to begin once the asset becomes operational. MRP will commence from the financial year following the one in which the asset becomes operational.

(B) MRP in respect of unsupported borrowing taken to meet expenditure, which is treated as capital expenditure by virtue of either a capitalisation direction or regulations, will be determined in accordance with the asset life method as recommended by the statutory guidance.

(C) Expenditure in respect of loans made to third parties will not be subject to a minimum revenue provision as the Council will have undertaken sufficient due diligence to expect these loans will be repaid in full to the Council by a capital receipt either during the loan agreement term or at the end of the agreement. Therefore the Council considers that it can take a prudent view that the debt will be repaid in full at the end of the loan agreement (or during if it is an instalment loan), so MRP in addition to the loan debt repayments is not necessary. Each loan will be reviewed on an annual basis to ensure that is no change in the expectation that there will be a full repayment of the loan. If, upon review, this is no longer found to be the case then a minimum revenue provision will be made over a prudent timeframe to cover the potential non-repayment of part or all of the loan balance.

This is subject to the following details:

1) An average asset life for each project will normally be used. There will not be separate MRP schedules for the components of a building (e.g. plant, roof etc.). The asset life will be determined by the Chief Finance Officer based on the standard schedule of asset lives provided by an appropriately qualified asset valuer will generally be used (as stated in the Statement of Accounts accounting policies).

2) MRP will commence in the year following the year in which capital expenditure financed from borrowing is incurred, except for single assets when expenditure is being financed from borrowing the MRP will be deferred until the year after the asset becomes operational.

3) Other methods to provide for debt repayment may occasionally be used in individual cases where this is consistent with the statutory duty to be prudent, as justified by the circumstances of the case. Where this is the case the chief finance officer will first seek approval from Full Council.

4) There is no requirement on the HRA to make a minimum revenue provision but there is a requirement for a charge for depreciation to be made.

Repayments included in annual finance leases are excluded from MRP as they are deemed to be a proxy for MRP.