South Cambridgeshire District Council

REPORT TO:	Cabinet	3 February 2021
LEAD CABINET MEMBER:	Councillor John Williams, Lead Cabinet Member for Finance	
LEAD OFFICER:	Peter Maddock, Head of Finance	

Treasury Management Strategy

Executive Summary

1. To undertake the annual review of the Treasury Management Strategy and to consider a refreshed version of the Strategy for adoption by the Council.

Key Decision

2. This is not a key decision

Recommendation

3. **That Cabinet is requested to consider the report and, if satisfied, to recommend to Council the updated Treasury Management Strategy attached at <u>Appendix A</u> to the report which sets the policy framework for the Council's treasury management activity, including (i) the Treasury Management Policy Statement, (ii) Minimum Revenue Provision Policy and (ii) Treasury Indicators.**

Reason for Recommendation

4. To establish and approve an updated Treasury Management Strategy that complies with the Chartered Institute of Public Finance & Accountancy (CIPFA) revised Prudential Code for Capital Finance in Local Authorities. To review the changes to the rules around local authority borrowing from the Public Works Loans Board (PWLB) introduced effective from 26 November 2020.

Details

Treasury Management Strategy

5. Treasury management at the Council is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2017 Edition (the CIPFA Code) which requires the Authority to approve a treasury management strategy before the start of each financial year. This report fulfils the Authority's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.

6. In addition to the annual report to Council on the treasury management strategy in advance of the financial year, a mid-year review of treasury management performance and an annual review after the close of the financial year are submitted to the Audit and Corporate Governance Committee for consideration.

7. By adopting the key recommendations of the CIPFA Code, the Council maintains as the cornerstones for effective treasury management:

- A treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities.

- A treasury management strategy, with supporting suitable treasury management practices, setting out the manner in which the Council will seek to achieve the policies and objectives in the treasury management policy statement, and prescribing how it will manage and control those activities.

8. The Treasury Management Strategy was fully reviewed and refreshed as part of the 2020/2021 budget setting process having regard to established guidance and best practice and an updated version, reproduced at **Appendix A** was approved by Council for adoption at its meeting on 20 February 2020.

Treasury Management Policy Statement

9. The adopted Treasury Management Strategy incorporates a Treasury Management Policy Statement. This is reproduced below and, with the update in red text below, it is considered that it will remain appropriate and applicable during 2021/2022:

This statement relates to the management of the Council's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities and the pursuit of optimum performance consistent with those risks.

The Council has arrangements in place to meet the statutory requirements relating to the Prudential Code for Capital Finance in Local Authorities.

The Council requires that the successful identification, monitoring and control of risk will be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation.

The Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is, therefore, committed to the principles of achieving best value in treasury management and to employing suitable performance measurement techniques within the context of effective risk management.

The Council's borrowing will be affordable, sustainable and prudent and consideration will be given to the management of interest rate risk and refinancing risk. The source from which borrowing is taken and the type of borrowing should allow the Council transparency and control over its debt.

The Council's primary objective in relation to its investments is to ensure that long term capital is not put at risk but that within acceptable risk parameters the portfolio is managed to ensure that interest is maximised. Liquidity is managed through the use of money market funds with additional access to the liquid PWLB and Local Authority borrowing market.

The Council will have regard to Environmental, Social & Governance (ESG) considerations when monitoring performance and making investment decisions. As part of this the Council, as a responsible investor, will work with all Counterparties and Treasury Advisors to promote active ESG policies.

Treasury Management Arrangements

10. The Head of Finance, as the Council's designated Section 151 Officer, is responsible for implementing and monitoring the Treasury Management Strategy and for establishing effective treasury management practices. The Council has access to specialist advice where appropriate and, in this regard, Link Asset Services have been appointed to provide treasury management advice on developments and best practice in this area and to provide information on the creditworthiness of potential counterparties, deposit and borrowing interest rates and the economy generally.

Treasury Management Strategy: Annual Review

11. The economic landscape has changed immensely in the last 12 months and, in line with good practice, the Treasury Management Strategy has been subject to annual review. This has included a light touch review of the strategy by Chris Brain Associates, specialist treasury management consultants, to provide reassurance to the Council that it remains fit for purpose in these uncertain times.

12. The review confirms that the existing strategy follows the accepted and expected format for such documents. The review, together with other known changes that have occurred or are in progress, have identified some necessary updates to the Treasury Management Strategy as follows:

- the inclusion of Environmental, Social & Governance (ESG) considerations. These issues can have a material impact on the value of financial assets and on the long-term performance of investments and, therefore, should be considered to better manage risk and generate sustainable, long term returns. Well managed companies with strong governance are more likely to be successful long-term investments.

- the annual review and update of Treasury Management Indicators that are identified at Section 12 of the adopted Strategy.

- the review of the Minimum Revenue Provision (MRP), at Annex E to the Treasury Management Strategy, following external advice and, in particular, the proposal for the level of MRP to be applied on investment properties to be set to reflect the annual valuation of these properties.

- the need to consider the implications of the changes to the rules affecting local authorities borrowing from the PWLB introduced by HM Treasury from 26 November 2020. The main purpose of the changes is to restrict the ability of local authorities to borrow for pure investment in commercial property. The full response to the consultation is outlined in a HM Treasury document, issued on 25 November 2020, entitled "Public Works Loan Board: future lending terms – Response to the consultation". The changes are outlined below and could have implications on the Council's wider borrowing requirements.

13. An updated version of the Treasury Management Strategy is attached at **Appendix A** with the proposed changes to the current version of the Strategy, approved on 20 February 2020, identified in red and crossed through text.

PWLB Consultation – Government Response

14. HM Treasury commenced, in March 2020, a consultation on potential changes to the rules around local authorities borrowing from the PWLB.
15. The aim of the consultation was to develop a proportionate and equitable way to prevent local authorities from using PWLB loans to buy commercial assets primarily

for yield, without impeding their ability to pursue service delivery, housing, and regeneration under the prudential regime. The changes are outlined below and have been reflected, as appropriate, in the Treasury Management Strategy and also in the Capital and Investment Strategies.

16. Following the consultation, the Government announced (on 25 November 2020) revised lending terms for PWLB borrowing and initial guidance to support Local Authorities to determine if a proposed project is an appropriate use of PWLB loans. These new terms applied to all loans arranged from 9.00am on 26 November 2020.

17. The main features of the new lending terms are as follows:

    (a) As a condition of accessing the PWLB, Local Authorities will be asked to submit a high-level description of their capital spending and financing plans for the following three years, including their expected use of the PWLB. In order to minimise the administrative burden this process is closely modelled on the existing application process that most large Local Authorities follow to access the Certainty Rate (a discounted rate offered by the PWLB).

    (b) As part of this, the PWLB will ask the finance director of the Local Authority (or equivalent) to confirm that there is no intention to buy investment assets primarily for yield at any point in the next three years. This assessment is based on the finance director's professional interpretation of guidance issued alongside these lending terms.

    (c) It is not possible to reliably link particular loans to specific spending, so this restriction applies on a 'whole plan' basis – meaning that the PWLB will not lend to a Local Authority that plans to buy investment assets primarily for yield anywhere in their capital plans, regardless of whether the transaction would notionally be financed from a source other than the PWLB.

    (d) When applying for a new loan, the Local Authority will be required to confirm that the plans they have submitted remain current and that the assurance that they do not intend to buy investment assets primarily for yield remains valid.

    (e) The government is committed to the prudential system and has no intention of routinely reviewing the purpose of individual loans. If HM Treasury has concerns that a loan may be used in a way that is incompatible with HM Treasury's own duties to ensure that public spending represents good value for money to the taxpayer, the department will contact the Local Authority to gain a fuller understanding of the situation. Should it transpire that a Local Authority has deliberately misused the PWLB, HM Treasury has the option to suspend access to the PWLB, and in the most extreme cases, to require that loans be repaid. In practice such an eventuality is highly unlikely and would only occur after extensive discussions.

18. The Government has specifically identified the categories of "service delivery", "housing", "regeneration", and "treasury management" and considers that these are suitable for encapsulating most capital spending by local authorities. The Government considers also that there is a "preventative" category of activity that involves direct investments in companies or other assets to prevent social or economic decline (distinct from the regeneration category). The Government has defined this activity in the published guidance as action with all of the following characteristics:

(a) The intervention prevents a negative outcome, such as by buying and conserving assets of community value that would otherwise fall into disrepair, or providing support to maintain economic activity that would otherwise cease.

(b) There is no realistic prospect of support from a source other than the local authority.

(c) The local authority has an exit strategy and does not propose to hold the investment for longer than is necessary to achieve the objectives that justified the intervention.

(d) The intervention takes the form of grants, loans, sale and leaseback, equity injections, or other forms of support that generate a balance sheet asset.

19. The Government has chosen to issue guidance rather than strict definitions because of the challenges of developing strict definitions that reliably give the intended categorisation when applied to something as diverse as local government. It does, however, anticipate that cases of preventative action will be relatively rare.

20. If a Local Authority intends to buy commercial assets primarily for yield (even by using reserves) then they will be prevented from taking any PWLB borrowing. It is not, therefore, permitted to reprofile the capital programme so that borrowing is only used on allowed projects, with internal borrowing used for commercial activities. This does not, however, prevent the Council from borrowing for projects that are primarily for other purposes, which also happen to generate a financial yield (e.g. land assembly for development or regeneration purposes).

21. Regeneration projects are permissible and are described in the guidance as having characteristics that fall into one of four areas:

(a) The project is addressing an economic or social market failure by providing services, facilities, or other amenities of value to local people and that would not otherwise be provided by the private sector.

(b) The Local Authority is making a significant investment in the asset beyond the purchase price: developing the assets to improve them and/or change their use, or otherwise making a significant financial investment.

(c) The project involves or generates significant additional activity that would not otherwise happen without the local authority's intervention, creating jobs and/or social or economic value.

(d) While some parts of the project may generate rental income, these rents are recycled within the project or applied to related regeneration projects, rather than being applied to wider services.

22. Investment on 'out of area' acquisitions will, however, be difficult to justify on the grounds of the five accepted borrowing categories.

23. The Housing category would appear to justify the continuation of Housing Revenue Account (HRA) schemes and General Fund housing activity, or housing delivered through Council owned companies and thus does not appear to restrict the borrowing for the purpose of social or affordable housing.

24. Individual projects and schemes may have characteristics of several different categories of spending. In these cases, the Section 151 officer or equivalent of the authority will need to use their professional judgment to assess the main objective of the investment and consider which category is the best fit.

25. The Government intends to monitor the implementation of these reforms to ensure that the new lending arrangements are working as intended. MHCLG is reviewing the effectiveness of the local government borrowing and investment framework, and is developing options to intervene directly where concerns exist that the intent of the prudential regime is not complied with.

26. Local authorities should, therefore, expect External Auditors to review internal decision-making processes around borrowing and investment, including the assessment of whether plans are compliant with the lending terms of the PWLB. Local authorities should ensure, therefore, that processes are robust.

27. The unexpected increase in PWLB interest rates, by one percentage point from 8 October 2019, was reversed on 26 November 2020 to coincide with the introduction of new borrowing restrictions. This was in line with the Government announcement at the start of the consultation process to cut the interest rate on new PWLB loans, subject to market conditions, once a workable system could be designed and implemented to ensure that support would not be diverted into debt for-yield activity

Options

28. The option of not adopting the revised Treasury Management Strategy is not considered to be appropriate. The CIPFA Code of Practice (2017) requires the Council to approve the Strategy before the start of each financial year. Local politicians and officers operate within local governance frameworks of checks and balances to ensure that decision-making is lawful, informed by objective advice, transparent and consultative.

29. Good governance means that proper arrangements are in place to ensure that an authority's intended treasury management objectives are achieved and establishing a policy framework for the development, management and monitoring of all treasury management activity.

Implications

30. In the writing of this report, taking into account the financial, legal, staffing, risk management, equality and diversity, climate change, community safety and any other key issues, the following implications have been considered:

Policy

31. The Treasury Management Strategy and associated Treasury Management Practices set out the parameters by which the Council's treasury management function is operated on a day-to-day basis.

32. A separate Capital Strategy sets out the policy framework for the development, management and monitoring of capital investment. Investments held for service purposes or for commercial profit are also subject to a separate Investment Strategy. These Strategies are also scheduled to be considered by Cabinet on 3 February 2021 for onward approval by Council on 23 February 2021.

Legal

33. The statutory framework for the prudential system under which local government operates is set out in the Local Government Act 2003 and Capital Financing and Accounting Statutory Instruments. The framework incorporates four statutory codes:

- The Prudential Code prepared by the Chartered Institute of Public Finance & Accountancy (CIPFA).
- The Treasury Management Code prepared by CIPFA.
- The Statutory Guidance on Local Authority Investments prepared by MHCLG.
- The Statutory Guidance on Minimum Revenue Provision prepared by MHCLG.

34. CIPFA have published a revised Prudential Code (2017 edition) with accompanying Guidance Notes for Practitioners (2018 edition) and the Treasury Management Code (2017 edition).

35. The MHCLG have also published a revised Investment Guidance and Minimum Revenue Provision Guidance (both commenced on 1st April 2018). The most notable change is the requirement to expand the Investment Strategy to non-financial assets such as investments in property.

Financial

36. There are no additional resource requirements as a result of the refreshed Treasury Management Strategy. The prudential and treasury indicators have been amended to take account of known financial activities.

Risk

37. Compliance with the Treasury Management Strategy and associated Treasury Management Practices seeks to mitigate the risks inherent with the treasury management function. The consideration of Security, Liquidity and Yield, in that order, is critical when assessing potential treasury investments.

Environmental

38. There are no environmental implications arising directly from the report. The environmental impacts of each capital scheme are considered as part of the implementation stage of a specific project.

Equality Analysis

39. In preparing this report, due consideration has been given to the Council's statutory Equality Duty to eliminate unlawful discrimination, advance equality of opportunity and foster good relations, as set out in Section 149(1) of the Equality Act 2010.

40. It is considered that the report has no relevance to the Council's statutory equality duty to eliminate unlawful discrimination, advance equality of opportunity and foster good relation. An equality analysis is not needed. Individual capital bids may, however, have specific equality impacts that need to be considered and evaluated.

Background Papers

Where the Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012 require documents to be open to inspection by members of the public, they must be available for inspection:

(a) at all reasonable hours at the offices of South Cambridgeshire District Council;

(b) on the Council's website; and

(c) in the case of documents to be available for inspection pursuant to regulation 15, on payment of a reasonable fee required by the Council by the person seeking to inspect the documents at the offices of South Cambridgeshire District Council.

The following documents are relevant to this report:

- Investment Strategy – Report to Council: 28 November 2019
- General Fund Medium Term Financial Strategy – Report to Cabinet: 4 December 2019
- General Fund Budget Report – Report to Cabinet: 5 February 2020
- General Fund Budget – Report to Council: 20 February 2020
- Treasury Management Annual Report 2019/2020 – Report to Audit and Corporate Governance Committee: 29 September 2020
- Mid-Year 2020/2021 Treasury Management Report – Report to Audit and Corporate Governance Committee: 24 November 2020
- HM Treasury Document entitled "Public Works Loan Board: future lending terms – Response to the consultation" issued on 25 November 2020.

Appendices

A Treasury Management Strategy

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APPENDIX A

TREASURY MANAGEMENT STRATEGY

FEBRUARY ~~2020~~ 2021

Councillor John Williams
Lead Member for Finance

Peter Maddock
Head of Finance

1. INTRODUCTION

1.1 The Council has adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2017 Edition (the CIPFA Code) which requires the Authority to approve a Treasury Management Strategy before the start of each financial year.

1.2 This Strategy fulfils the Authority's legal obligation under the Local Government Act 2003 to have regard to the CIPFA code and the Ministry of Housing, Communities and Local Government (MHCLG) Guidance.

1.3 The Treasury Management Strategy sets the framework for the Council's treasury management activity and includes:

- Treasury Management Policy Statement;
- Minimum Revenue Provision Policy Statement;
- Treasury Management Indicators for ~~2020/2021~~ 2021/2022.

1.4 The Council has borrowed and invested substantial sums of money and, therefore, has potential exposures to financial risks, including the loss of invested funds and the effect of changing interest rates. The successful identification, monitoring and control of risk is, therefore, central to the Council's Treasury Management Strategy.

1.5 The Strategy requires the Council to receive and approve, as a minimum, the following treasury management reports each year, namely:

- The annual review of the Treasury Management Strategy incorporating prudential and treasury indicators;

- A mid-year treasury management report to update members on the progress of the capital position, the performance against approved prudential indicators as necessary and to advise if any policies require revision;

- An annual report of the treasury management activities, including the outturn position that compares actual performance to the estimates in the Strategy.

1.6 *Investments held for service purposes or for commercial profit are considered in a different report called the Investment Strategy which will also be considered by Cabinet on* ~~5~~ 3 February ~~2020~~ 2021 for onward approval by Council on ~~20~~ 23 February ~~2020~~ 2021.

2. POLICY OBJECTIVES

2.1 To set a balanced General Fund Revenue Budget in accordance with Section 33 of the Local Government Act 1992.

2.2 Having regard to affordability considerations manage the Council's long term debt. Variable rate and fixed rate borrowing and debt rescheduling will be considered as appropriate and as variations in interest rates occur.

2.3 To invest Council capital and revenue balances until they are used/spent in order that the Council gains investment income to help finance its annual revenue expenditure.

2.4 To keep within the Council's approved Treasury Management Policy and Practices.

2.5 The Council's primary objective in relation to its investments is to ensure that long term capital is not put at risk but that within acceptable risk parameters the portfolio is managed to ensure that interest is maximised. Liquidity is managed through the use of money market funds with additional access to the liquid PWLB and Local Authority borrowing market.

3. TREASURY MANAGEMENT POLICY STATEMENT

3.1 The Council's Treasury Management Policy Statement is as follows:

This statement relates to the management of the Council's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities and the pursuit of optimum performance consistent with those risks.

The Council has arrangements in place to meet the statutory requirements relating to the Prudential Code for Capital Finance in Local Authorities.

The Council requires that the successful identification, monitoring and control of risk will be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation.

The Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is, therefore, committed to the principles of achieving best value in treasury management and to employing suitable performance measurement techniques within the context of effective risk management.

The Council's borrowing will be affordable, sustainable and prudent and consideration will be given to the management of interest rate risk and refinancing risk. The source from which borrowing is taken and the type of borrowing should allow the Council transparency and control over its debt.

The Council's primary objective in relation to its investments is to ensure that long term capital is not put at risk but that within acceptable risk parameters the portfolio is managed to ensure that interest is maximised. Liquidity is managed through the use of money market funds with additional access to the liquid PWLB and Local Authority borrowing market.

The Council will have regard to Environmental, Social & Governance (ESG) considerations when monitoring performance and making investment decisions. As part of this the Council, as a responsible investor, will work with all Counterparties and Treasury Advisors to promote active ESG policies.

4. GOVERNANCE ARRANGEMENTS

4.1 The Audit and Corporate Governance Committee is responsible for monitoring treasury management activity and the Committee receives reports from the Section 151 Officer on treasury management policies and performance. The scrutiny and approval of the mid-term and annual treasury management reports is delegated to the Audit and Corporate Governance Committee.

4.2 Treasury management reports are required to be adequately scrutinised before being recommended to Council. The Treasury Management Strategy is scrutinised by the Overview and Scrutiny Committee alongside the Council's budget papers each financial year.

4.3 Members of these Committees are responsible for ensuring that they have the necessary skills and training to properly discharge their responsibilities in relation to the Council's treasury management function.

5. ROLE OF S151 OFFICER

5.1 The Head of Finance, as the designated Section 151 Officer, has delegated responsibility to implement and monitor the Treasury Management Policy Statement and Treasury Management Strategy approved by the Council.

5.2 All monies in the hands of the Council are controlled by the Head of Finance.

5.3 Decisions on borrowing, investment or financing are taken by the Head of Finance.

5.4 The Head of Finance is responsible for reporting to the Council on treasury management issues as set out in Section 1.5 above.

5.5 To ensure that members and officers with treasury management responsibilities have access to training relevant to their needs and responsibilities.

5.6 The Council has appointed a Treasury Management Advisor, Link Asset Services, to enable independent specialist advice to be obtained on all aspects of the treasury management function. This includes forecasts of the potential influence of interest rates on treasury management issues for the Council. A detailed economic and interest rate forecast provided by Link Asset Services is attached at **Annex A**.

6. CAPITAL FINANCING REQUIREMENT

6.1 The Council undertakes capital expenditure on long-term assets. These activities may either be:

- Financed immediately through the use of capital or revenue resources (capital receipts, capital grants, developer contributions, revenue contributions, use of earmarked reserves etc.), which has no resultant impact on the Council's borrowing need, or;

- If insufficient financing is available for the investment, or a decision is taken not to apply other resources, the funding of capital expenditure will give rise to a borrowing need.

6.2 The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. The Authority's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing. The proposed capital expenditure and how it will be financed is shown at **Annex B**.

6.3 As at 5 January 2021, the Council held £224 million of borrowing and £121 million of investments. The Council is committed to further short term borrowing of £25 million by year end. This portfolio is set out in further detail at **Annex B** with forecast changes in these sums are shown in the balance analysis in **Annex C.**

6.4 CIPFA's prudential code for Capital Finance in Local Authorities recommends that the Authority's total debt should be lower than its highest forecast CRF over the next three years. **Annex C** shows that the Authority expects to comply with the recommendation during ~~2020/2021~~ 2021/2022.

7. LIABILITY BENCHMARK

7.1 To compare the Council's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing at **Annex D**. This assumes the same forecasts as **Annex C**, but that cash and investment balances are kept to a minimum level of £10 million at each year end to maintain sufficient liquidity but minimise credit risk.

8. BORROWING STRATEGY

8.1 The Council is permitted to borrow under the Prudential Framework, introduced with effect from 1 April 2004.

8.2 The Authority is forecast to hold £205.123 million of long-term loans with no scheduled repayments during the year. This represents the only debt currently held by the Council, relating to 41 loans from the PWLB for self-financing the Housing Revenue Account (HRA) taken out in 2012 and totalling £205.123 million.

8.3 Based on the Capital Programme approved at Council on ~~28 November 2019~~ 7 December 2020 it is anticipated that there will be some external borrowing for capital financing purposes during ~~2020/2021~~ 2021/2022. There may also from time to time be an operational cash flow need that requires short term borrowing to be taken. The Authority could borrow in addition to this to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing of £10 million.

8.4 The Council will not borrow more than or in advance of its needs purely to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates 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.

8.5 In the event that external borrowing is undertaken the Council will be eligible to access funds at the PWLB Certainty Rate (that provides a 0.20% discount on loans).

8.6 **Objectives:** The Authority's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest rates and achieving cost certainty over the period for which funds are required. The flexibility to renegotiate loans should the Authority's long-term plans change is a secondary objective.

8.7 **Strategy:** Given the significant cuts to public expenditure and in particular to local government funding, the Authority's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources or to borrow short-term loans instead.

By doing so, the Authority is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of internal borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. The Council's treasury adviser will assist the Authority with this 'cost of carry' and breakeven analysis. This may determine whether the Authority borrows additional sums at long-term fixed rates in ~~2020/2021~~ 2021/2022 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

Alternatively, the Authority may arrange forward starting loans during ~~2020/2021~~ 2021/2022, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period. In addition, the Authority may borrow short-term loans to cover unexpected cash flow shortages.

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

- Public Works Loan Board (PWLB) and any successor body.
- Any institution approved for investments (see below).
- Any other bank or building society authorised to operate in the UK;
- Any other UK public sector body;
- UK public and private sector pension funds;
- Municipal Bond Agency;
- Capital Market Bond Investors;
- Local Capital Finance Company and other special purpose companies created to enable local authority bond issues.

In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- Leasing;
- Hire purchase;
- Sale and leaseback.

The Council has previously raised the majority of its long-term borrowing from the PWLB, but it continues to investigate other sources of finance, such as local authority loans and bank loans that may be available at more favourable rates.

8.9 **Municipal Bond Agency:** UK Municipal Bonds Agency was established in 2014 by the Local Government Association as an alternative to the PWLB. It plans to issue bonds on the capital markets and lend the proceeds to local authorities. This will be a more complicated source of finance than the PWLB for three reasons:

- Borrowing authorities may be required to provide bond investors to guarantee the risk that other local authority borrowers default on their loans.
- There will be a lead time of several months between committing to borrow and knowing the interest rate payable.
- Up to 5% of the loan proceeds will be withheld from the Authority and used to bolster the Agency's capital strength.

Any decision to borrow from the Agency will, therefore, be the subject of a separate report to Full Council.

8.10 **Short-term and Variable Rate loans:** These loans leave the Council exposed to the risk of short-term interest rate rises and are, therefore, subject to the interest rate exposure limits in the treasury management indicators below.

8.11 **Debt Rescheduling:** The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The Council may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk.

8.12 **PWLB:** Due regard will be given to the prevailing rules in relation to local authority borrowing from the PWLB and, in particular, the impact of borrowing for the acquisition of commercial assets on the Council's wider borrowing requirements. Due regard will be given to the guidance published by HM Treasury on 25 November 2020 entitled, "Public Works Loan Board: future lending terms – Response to the consultation". The new borrowing rules restrict the ability of local authorities to borrow from PWLB for pure investment in commercial property.

As a condition of accessing the PWLB, Local Authorities must submit a high-level description of their capital spending and financing plans for the following three years, including their expected use of the PWLB. As part of this, the Head of Finance will need to confirm that there is no intention to buy investment assets primarily for yield at any point in the next three years. This assessment is based on their professional interpretation of guidance issued. When applying for a new loan, the Local Authority must confirm that the plans they have submitted remain current and provide assurance that they do not intend to buy investment assets primarily for yield.

If the Council intends to buy commercial assets primarily for yield (even by using reserves) then they will be prevented from taking any PWLB borrowing and will need to consider alternative sources of funding. It is not, therefore, permitted to reprofile the capital programme so that borrowing is only used on allowed projects, with internal borrowing used for commercial activities.

9. MINIMUM REVENUE PROVISION

9.1 Minimum Revenue Provision (MRP) is the revenue charge that the Council is required to make for the repayment of debt, as measured by the underlying need to borrow, rather than actual debt. The underlying debt is needed to finance capital expenditure which has not been fully financed by revenue or capital resources. As capital expenditure is generally expenditure on assets which have a life expectancy of over one year it is prudent to charge an amount for the repayment of debt over the life of the asset or some similar proxy figure.

9.2 The Local Authorities (Capital Finance and Accounting) regulations require local authorities to calculate for the financial year an amount of MRP which is considered to be 'prudent'.

9.3 There is no requirement to charge MRP where the Capital Financing Requirement (CFR) is nil or negative at the end of the preceding financial year.

9.4 The Housing Revenue Account share of the CFR is not subject to an MRP charge.

9.5 There is no requirement to make an MRP charge on an asset until the financial year after that asset becomes operational.

9.6 The Government has issued revised guidance (in January 2018) on the calculation of MRP. The Council is required to have regard to the guidance based on the underlying principle that the provision should be linked to the life of the assets for which the borrowing is required. However, the guidance is clear that differing approaches can be considered if the resulting provision is prudent.

9.7 In general, the Council will make an MRP based on the equal instalment method, amortising expenditure equally over the estimated useful life of the asset for which the borrowing is required. However, no provision will be made in respect of expenditure on specific projects where the Chief Financial Officer determines that receipts will be generated by the project to repay the debt.

9.8 Where a loan is made to a wholly owned subsidiary of the council, the loan is deemed to be secured on the assets of the company. Evidence of the ability to repay the loan will be based on the company's business plan and asset valuation, and no MRP will be made. The Council will review the loan and business plan annually, where there is evidence that suggests the full amount of the loan will not be repaid it will be necessary to reassess the charge to recover the impaired amounts from revenue.

9.9 Exceptionally, where capital expenditure is part of a loan agreement to other than a wholly owned subsidiary, the Council may register a fixed and floating charge over the counterparty assets to secure the Council's interest in the investment, or alternately an equity share interest in an asset with value.

9.10 The Council ~~has been pursuing~~ continues to pursue a programme of investment in commercial property using powers under S12 of the Local Government Act 2003. This is deemed capital expenditure and will be financed from cash balances and/or external borrowing as appropriate at the time. MRP will ordinarily be provided for using the useful life determinant with regard to maximum lives permitted in the revised MHCLG MRP guidance of 50 years for freehold land and 40 years for all other assets. MRP will be made on the purchase of these properties in the year following the year of purchase and will be set having regard to its annual valuation. The application of MRP will be adjusted to reflect the annual valuation of these properties and will be determined on a property by property basis.

9.11 The Council's MRP Policy is summarised at **Annex E.**

10. INVESTMENT STRATEGY

10.1 The Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the investment balance has ranged between £116.5 million and £87.3 million. These levels should be maintained in the forthcoming year, although it is expected that more will be invested in Ermine Street Housing and less in Banks and Building Societies.

10.2 **Objectives:** The CIPFA Code requires the Authority to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

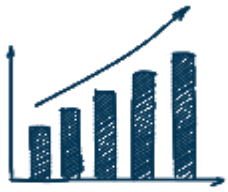
The portfolio will target as a whole to achieve a return above the Bank of England Consumer Price Inflation (CPI) target in order to maintain the spending power of the sum invested. Where balances are expected to be invested for more than one year, the Council will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested.

The Council will have regard to Environmental, Social & Governance (ESG) factors in decision making, particularly when considering long term strategy funds as these issues can have a material impact on the value of financial assets and on the long-term performance of investments and, therefore, should be considered to better manage risk and generate sustainable, long term returns. Well managed companies with strong governance are more likely to be successful long-term investments.

The Council will endeavour to be an active owner and steward of its investments, both internally and externally managed, by engaging with Fund Managers in relation to their ESG policies.

10.3 **Negative Interest Rates:** If the UK enters into a recession in 2021/2022, there is a chance that the Bank of England could set its Bank Rate at or below zero, which is likely to feed through to negative interest rates on all low risk, short-term investment options. This situation already exists in many other European countries. In this event, security will be measured as receiving the contractually agreed amount at maturity, even though this may be less than the amount originally invested.

10.4 **Strategy:** To achieve the objective above the Council has set a target based on CPI inflation (November CPI is 0.3%). The target of 2% will ensure spending power of the sum invested is maintained. To achieve this target the Council will continue to lend to Ermine Street Housing, and spread other investments across approved counterparties as set out in **Annex G**. The Council will use Money Market Funds and Ultra Short Dated Bond Funds with limits of £10 million per entity to manage liquidity in low volatility price risk funds. The remaining funds will be assessed against the evolving cash flow outlook and invested in the approved counterparties.



INVESTMENT STRATEGY

10.5 **Business Model:** Under the IFRS 9 standard, the accounting for certain investments depends on the Authority's "business model" for managing them. The Council aims to achieve value from its internally managed treasury investments by a business model of collecting the contractual cash flows and, therefore, where other criteria are also met, these investments will continue to be accounted for at amortised cost.

10.6 **Approved Counterparties:** The Authority may invest its surplus funds with any of the counterparty types in **Annex F**, subject to the cash limits (per counterparty) and the time limits shown. A more detailed breakdown of this can be seen in **Annex G**.

10.7 **Credit Rating:** Investment limits are set decisions and made by reference to the lowest published long-term credit rating from a selection of external rating agencies. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

10.8 **Banks Unsecured:** Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail.

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

10.10 **Government:** Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years.

10.11 **Corporates:** Loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in, but are exposed to the risk of the company going insolvent. Loans to unrated companies will only be made following an external credit or to the value of £1 million per company as part of a diversified pool in order to spread the risk widely.

10.12 **Registered Social Landlords (RSL's):** Loans and bonds issued by, guaranteed by or secured on the assets of registered providers of social housing and RSL's, formerly known as housing associations. These bodies are tightly regulated by the Regulator of Social Housing (in England), the Scottish Housing Regulator, the Welsh Government and the Department for Communities (in Northern Ireland). As providers of public services, the likelihood of receiving government support if needed exists.

10.13 **Pooled Funds:** Shares or units in diversified investment vehicles consisting of any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Short Term Money Market Funds that offer same-day liquidity and that offer very low or no volatility will be used as an alternative to instant access bank accounts, while pooled funds whose value changes with market prices and/or have a notice period will be used for longer investment periods.

10.14 **Bond, equity and property funds:** Offers enhanced returns over the longer term, but are more volatile in the short term. These allow the Authority to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's investment objectives will be monitored regularly.

10.15 **Real estate investment trusts:** Shares in companies that invest mainly in real estate and pay the majority of their rental income to investors in a similar manner to pooled property funds. As with property funds, REITs offer enhanced returns over the longer term, but are more volatile especially as the share price reflects changing demand for the shares as well as changes in the value of the underlying properties.

10.16 **Operational Bank Accounts:** The Authority may incur operational exposures, for example though current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments, but are still subject to the risk of a bank bail-in, and balances will, therefore, be kept below £1 million per bank. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Authority maintaining operational continuity.

10.17 **Risk Assessment and Credit Ratings:** Credit ratings are obtained and monitored by the Authority's treasury advisor, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

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

Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "rating watch negative" or "credit watch negative") so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced.

This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

10.18 **Other Information on the Security of Investments:** The Authority understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisation's in which it invests, including credit default swap prices, financial statements, information on potential government support and reports in the quality financial press and advice from the Council's treasury management adviser. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may otherwise meet the above criteria.

When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2011, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Authority will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Authority's cash balances, then the surplus will be deposited with the UK Government, via the Debt Management Office or invested in government treasury bills for example, or with other local authorities. This will cause a reduction in the level of investment income earned, but will protect the principal sum invested.

10.19 **Investment Limits:** The revenue reserves available to cover investment losses are forecast to be ~~£14 million on 31 March 2020~~ £18 million on 31 March 2021. In order that available reserves will not be put at risk for unsecured investments in the case of a single default, the maximum that will be lent to any one organisation (other than the UK Government) will be £10 million per entity on unsecured investments.

A group of banks under the same ownership will be treated as a single organisation for limit purposes. Limits will also be placed on fund managers, investments in brokers' nominee accounts, foreign countries and industry sectors as outlined in **Annex H.** Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

10.20 **Liquidity Management:** The Authority uses purpose-built cash flow forecasting spreadsheets to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis, with receipts underestimated and payments over-estimated to minimise the risk of the Authority being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Authority's medium term financial plan and cash flow forecast.

11. PRUDENTIAL INDICATORS

11.1 The Local Government Act 2003 requires the Authority to have regard to the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code) when determining how much money it can afford to borrow. The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice.

11.2 To demonstrate that the Authority has fulfilled these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year and these are identified in the separate Capital Strategy.

11.3 The following indicators are identified in the Capital Strategy:

(1) **Estimates of Capital Expenditure:** This indicator provides the level of gross capital expenditure that is estimated to be incurred. The estimated expenditure includes schemes where funding has already been approved.

(2) **Estimates of Capital Financing Requirement (CFR):** This indicator provides a limit for which net external borrowing will not be exceeded, except on a short-term basis.

(3) **Gross Debt and the CFR:** Statutory guidance is that debt should remain below the CFR, except in the short term.

(4) **Authorised Limit and the Operational Boundary for External Debt:** This determines the maximum total amount the Council will be able to borrow. The Operational Boundary indicator represents the prudent level of borrowing and will be reviewed annually.

(5) **Proportion of Financing Costs to Net Revenue Stream:** This indicator provides the ratio of financing costs to the Council's estimated net revenue expenditure (i.e. the expenditure financed by the revenue support grant, business rate redistribution, council tax and collection fund surplus share).

12. TREASURY MANAGEMENT INDICATORS

12.1 The Authority measures and manages its exposures to treasury management risks using the following indicators.

A. Interest Rate Exposures: This indicator is set to control the Authority's exposure to interest rate risk. The Authority minimises it risk to interest rate changes by undertaking all borrowing in fixed rate products such as PWLB or short term Local Authority loans.

B. Maturity Structure of Borrowing: This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of borrowing will be:

Refinancing Rate Risk Indicator	Upper Limit	Lower Limit
Under 12 months	30%	0%
12 months and within 24 months	30%	0%
24 months and within 5 years	30%	0%
5 years and within 10 years	30%	0%
10 years and within 20 years	40%	0%
20 years and within 30 years	60%	0%
30 years and above	100%	20%

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

C: Principal Sums Invested for Periods Longer than a year: The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long term principal sum invested to final maturities beyond the end of the period will be:

Price Risk Indicator	2021/2022	2022/2023	2023/2024
Limit on principal invested before year end	£10 million	£5 million	£3 million

D: Security: The Authority generally but not exclusively follows the guidance provided by its Advisers on the selection of Counterparties and duration of investments. The Advisers provide a Weighted Average Credit Risk score at the end of each month for the investment portfolio as part of its benchmarking service.

The lower the score calculated indicates a lower credit risk has been taken by the Council for its internal investments. The Council aims to perform at a level less than or equal to the target:

Link Credit Risk Indicator	Target
Portfolios weighted average risk number	< 5.0

E: Liquidity: The Authority has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three month period, without additional borrowing.

Liquidity Risk Indicator	Target
Total cash available within 3 months	£7 million

F: Yield: The Authority, in order to maintain the spending power of the money it invests, has adopted a voluntary yield target for the portfolio of the Bank of England Consumer Price Inflation (CPI) target. This will be also be measured against year on year CPI Inflation as part of the Annual Review.

Inflation Risk Indicator	Target
Minimum Yield on Portfolio	2%

13. OTHER ITEMS

13.1 The CIPFA code requires the Authority to include the following in its treasury management strategy.

13.2 **Policy on Use of Financial Derivatives:** Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in Section 1 of the Localism Act 2011 removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).

The Authority does not use Financial Derivatives and does not expect to use these in ~~2020/2021~~ 2021/2022. The Authority will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Authority is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting transaction, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit.

In line with the CIPFA Code, the Authority will seek external advice and will consider that advice before entering into financial derivatives to ensure that it fully understands the implications.

13.3 **Markets in Financial Instruments Directive**: The Authority has opted up to professional client status with its providers of financial services, including advisers, banks, brokers and fund managers, allowing it access to a greater range of services but without the greater regulatory protections afforded to individuals and small companies. Given the size and range of the Authority's treasury management activities, the Chief Financial Officer believes this to be the most appropriate status.

14. OTHER OPTIONS CONSIDERED

The CIPFA Code does not prescribe any particular treasury management strategy for local authorities to adopt. The Chief Financial Officer having consulted the Lead Cabinet Member for Finance, believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

Alternative	Impact on Income and Expenditure	Impact on Risk Management
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses will be greater
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses will be smaller
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs will be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long term costs will be less certain
Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs will be less certain

15. GLOSSARY OF TERMS

A glossary of terms and abbreviations used in Treasury Management is available at **Annex I**.

Annex A

Treasury Management Adviser:
Economic & Interest Rate Forecast as at January 2021

ECONOMIC BACKGROUND

- As expected, the Bank of England's Monetary Policy Committee kept Bank Rate unchanged on 6th August. It also kept unchanged the level of quantitative easing at £745bn. Its forecasts were optimistic in terms of three areas:

    - The fall in **GDP** in the first half of 2020 was revised from 28% to 23% (subsequently revised to -21.8%). This is still one of the largest falls in output of any developed nation. However, it is only to be expected as the UK economy is heavily skewed towards consumer-facing services – an area which was particularly vulnerable to being damaged by lockdown.
    - The peak in the **unemployment rate** was revised down from 9% in Q2 to 7½% by Q4 2020.
    - It forecast that there would be excess demand in the economy by Q3 2022 causing CPI **inflation** to rise above the 2% target in Q3 2022, (based on market interest rate expectations for a further loosening in policy). Nevertheless, even if the Bank were to leave policy unchanged, inflation was still projected to be above 2% in 2023.

- It also squashed any idea of using **negative interest rates**, at least in the next six months or so. It suggested that while negative rates can work in some circumstances, it would be "less effective as a tool to stimulate the economy" at this time when banks are worried about future loan losses. It also has "other instruments available", including QE and the use of forward guidance.

- The MPC expected the £300bn of **quantitative easing** purchases announced between its March and June meetings to continue until the "turn of the year". This implies that the pace of purchases will slow further to about £4bn a week, down from £14bn a week at the height of the crisis and £7bn more recently.

- In conclusion, this would indicate that the Bank could now just sit on its hands as the economy was recovering better than expected. However, the MPC acknowledged that the "medium-term projections were a less informative guide than usual" and the minutes had multiple references to **downside risks,** which were judged to persist both in the short and medium term. One has only to look at the way in which second waves of the virus are now impacting many countries including Britain, to see the dangers. However, rather than a national lockdown, as in March, any spikes in virus infections are now likely to be dealt with by localised measures and this should limit the amount of economic damage caused. In addition, Brexit uncertainties ahead of the year-end deadline are likely to be a drag on recovery. The wind down of the initial generous furlough scheme through to the end of October is another development that could cause the Bank to review the need for more support for the economy later in the year. Admittedly, the Chancellor announced in late September a second six month package from 1st November of government support for jobs whereby it will pay up to 22% of the costs of retaining an employee working a minimum of one third of their normal hours. There was further help for the self-employed, freelancers and the hospitality industry. However, this is a much less generous scheme than the furlough package and will inevitably mean there will be further job losses from the 11% of the workforce still on furlough in mid September.

- Overall, **the pace of recovery** is not expected to be in the form of a rapid V shape, but a more elongated and prolonged one after a sharp recovery in June through to August which left the economy 11.7% smaller than in February. The last three months of 2020 are now likely to show no growth as consumers will probably remain cautious in spending and uncertainty over the outcome of the UK/EU trade negotiations concluding at the end of the year will also be a headwind. If the Bank felt it did need to provide further support to recovery, then it is likely that the tool of choice would be more QE.

- There will be some **painful longer term adjustments** as e.g. office space and travel by planes, trains and buses may not recover to their previous level of use for several years, or possibly ever. There is also likely to be a reversal of globalisation as this crisis has shown up how vulnerable long-distance supply chains are. On the other hand, digital services is one area that has already seen huge growth.

- One key addition to **the Bank's forward guidance** was a new phrase in the policy statement, namely that "it does not intend to tighten monetary policy until there is clear evidence that significant progress is being made in eliminating spare capacity and achieving the 2% target sustainably". That seems designed to say, in effect, that even if inflation rises to 2% in a couple of years' time, do not expect any action from the MPC to raise Bank Rate – until they can clearly see that level of inflation is going to be persistently above target if it takes no action to raise Bank Rate.

- The **Financial Policy Committee** (FPC) report on 6th August revised down their expected credit losses for the banking sector to "somewhat less than £80bn". It stated that in its assessment "banks have buffers of capital more than sufficient to absorb the losses that are likely to arise under the MPC's central projection". The FPC stated that for real stress in the sector, the economic output would need to be twice as bad as the MPC's projection, with unemployment rising to above 15%.

- **US.** The incoming sets of data during the first week of August were almost universally stronger than expected. With the number of new daily coronavirus infections beginning to abate, recovery from its contraction this year of 10.2% should continue over the coming months and employment growth should also pick up again. However, growth will be dampened by continuing outbreaks of the virus in some states leading to fresh localised restrictions. At its end of August meeting, the Fed tweaked **its inflation target** from 2% to maintaining an average of 2% over an unspecified time period i.e. following periods when inflation has been running persistently below 2%, appropriate monetary policy will likely aim to achieve inflation moderately above 2% for some time. This change is aimed to provide more stimulus for economic growth and higher levels of employment and to avoid the danger of getting caught in a deflationary "trap" like Japan. It is to be noted that inflation has actually been under-shooting the 2% target significantly for most of the last decade so financial markets took note that higher levels of inflation are likely to be in the pipeline; long term bond yields duly rose after the meeting. The Fed also called on Congress to end its political disagreement over providing more support for the unemployed as there is a limit to what monetary policy can do compared to more directed central government fiscal policy. The FOMC's updated economic and rate projections in mid-September showed that officials expect to leave the fed funds rate at near-zero until at least end-2023 and probably for another year or two beyond that. There is now some expectation that where the Fed has led in changing its inflation target, other major central banks will follow. The increase in tension over the last year between the US and China is likely to lead to a lack of momentum in progressing the initial positive moves to agree a phase one trade deal.

- **EU.** The economy was recovering well towards the end of Q2 after a sharp drop in GDP, (e.g. France 18.9%, Italy 17.6%). However, the second wave of the virus affecting some countries could cause a significant slowdown in the pace of recovery, especially in countries more dependent on tourism. The fiscal support package, eventually agreed by the EU after prolonged disagreement between various countries, is unlikely to provide significant support and quickly enough to make an appreciable difference in weaker countries. The ECB has been struggling to get inflation up to its 2% target and it is therefore expected that it will have to provide more monetary policy support through more quantitative easing purchases of bonds in the absence of sufficient fiscal support.

- **China.** After a concerted effort to get on top of the virus outbreak in Q1, economic recovery was strong in Q2 and has enabled it to recover all of the contraction in Q1. However, this was achieved by major central government funding of yet more infrastructure spending. After years of growth having been focused on this same area, any further spending in this area is likely to lead to increasingly weaker economic returns. This could, therefore, lead to a further misallocation of resources which will weigh on growth in future years.

- **Japan.** There are some concerns that a second wave of the virus is gaining momentum and could dampen economic recovery from its contraction of 8.5% in GDP. It has been struggling to get out of a deflation trap for many years and 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. The resignation of Prime Minister Abe is not expected to result in any significant change in economic policy.

- **World growth.** Latin America and India are currently hotspots for virus infections. World growth will be in recession this year. Inflation is unlikely to be a problem for some years due to the creation of excess production capacity and depressed demand caused by the Coronavirus crisis.

INTEREST RATE FORECASTS 2020 - 2023

The Council's treasury advisor, Link Group, provided the following forecasts on 11th August 2020 (PWLB rates are certainty rates, gilt yields plus 180bps):

Link Group Interest Rate View 11.8.20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Bank Rate View	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3 month average earnings	0.05	0.05	0.05	0.05	0.05	-	-	-	-	-
6 month average earnings	0.10	0.10	0.10	0.10	0.10	-	-	-	-	-
12 month average earnings	0.15	0.15	0.15	0.15	0.15	-	-	-	-	-
5yr PWLB Rate	1.90	2.00	2.00	2.00	2.00	2.00	2.10	2.10	2.10	2.10
10yr PWLB Rate	2.10	2.10	2.10	2.10	2.20	2.20	2.20	2.30	2.30	2.30
25yr PWLB Rate	2.50	2.50	2.50	2.60	2.60	2.60	2.70	2.70	2.70	2.70
50yr PWLB Rate	2.30	2.30	2.30	2.40	2.40	2.40	2.50	2.50	2.50	2.50

Additional notes by Link on this forecast table:

- Please note that Link have made a slight change to our interest rate forecasts table above for forecasts for 3, 6 and 12 months. Traditionally, Link have used LIBID forecasts, with the rate calculated using market convention of 1/8th (0.125%) taken off the LIBOR figure. Given that all LIBOR rates up to 6 months are currently running below 0.1%, using that convention would give negative figures as forecasts for those periods. However, the liquidity premium that is still in evidence at the short end of the curve, means that the rates actually being achieved by local authority investors are still modestly in positive territory. While there are differences between counterparty offer rates, our analysis would suggest that an average rate of around 0.05% is achievable for 3 months, 0.1% for 6 months and 0.15% for 12 months.

- During 2021, Link will be continuing to look at market developments in this area and will monitor these with a view to communicating with clients when full financial market agreement is reached on how to replace LIBOR. This is likely to be an iteration of the overnight SONIA rate and the use of compounded rates and Overnight Index Swap (OIS) rates for forecasting purposes.

- If clients require forecasts for 3 months to 12 months beyond the end of 2021, a temporary fix would be to assume no change in our current forecasts. Link will maintain continuity by providing clients with LIBID investment benchmark rates on the current basis.

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 meeting on 6th August (and the subsequent September meeting), 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 within the forecast horizon ending on 31st March 2023 as economic recovery is expected to be only gradual and, therefore, prolonged.

GILT YIELDS / PWLB RATES. There was much speculation during the second half of 2019 that bond markets were in a bubble which was driving bond prices up and yields down to historically very low levels. The context for that was heightened expectations that the US could have been heading for a recession in 2020. In addition, there were growing expectations of a downturn in world economic growth, especially due to fears around the impact of the trade war between the US and China, together with inflation generally at low levels in most countries and expected to remain subdued. Combined, these conditions were conducive to very low bond yields. While inflation targeting by the major central banks has been successful over the last 30 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. The consequence of this has been the gradual lowering of the overall level of interest rates and bond yields in financial markets over the last 30 years. Over the year prior to the Coronavirus crisis, this has seen many bond yields up to 10 years turn negative in the Eurozone. In addition, there has, at times, been an inversion of bond yields in the US whereby 10 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.

Gilt yields had therefore already been on a generally falling trend up until the Coronavirus crisis hit western economies during March. After gilt yields spiked up during the initial phases of the health crisis in March, we have seen these yields fall sharply to unprecedented lows as major western central banks took rapid action to deal with excessive stress in financial markets, and started massive quantitative easing purchases of government bonds: this also acted to put downward pressure on government bond yields at a time when there has been a huge and quick expansion of government expenditure financed by issuing government bonds. Such unprecedented levels of issuance in “normal” times would have caused bond yields to rise sharply. At the close of the day on 30th September, all gilt yields from 1 to 6 years were in negative territory, while even 25-year yields were at only 0.76% and 50 year at 0.60%.

From the local authority borrowing perspective, HM Treasury imposed **two changes of margins over gilt yields for PWLB rates** in 2019-20 without any prior warning. The first took place on 9th October 2019, adding an additional 1% margin over gilts to all PWLB period rates. That increase was then at least partially reversed for some forms of borrowing on 11th March 2020, but not for mainstream General Fund capital schemes, at the same time as the Government announced in the Budget a programme of increased infrastructure expenditure. It also announced that there would be a consultation with local authorities on possibly further amending these margins; this was to end on 4th June, but that date was subsequently put back to 31st July. It is clear HM Treasury will no longer allow local authorities to borrow money from the PWLB to purchase commercial property if the aim is solely to generate an income stream (assets for yield).

Following the changes on 11th March 2020 in margins over gilt yields, the current situation is as follows: -

- **PWLB Standard Rate** is gilt plus 200 basis points (G+200bps)
- **PWLB Certainty Rate** is gilt plus 180 basis points (G+180bps)
- **PWLB HRA Standard Rate** is gilt plus 100 basis points (G+100bps)
- **PWLB HRA Certainty Rate** is gilt plus 80bps (G+80bps)
- **Local Infrastructure Rate** is gilt plus 60bps (G+60bps)

It is possible that the non-HRA Certainty Rate will be subject to revision downwards after the conclusion of the PWLB consultation; however, the timing of such a change is currently an unknown, although it would be likely to be within the current financial year.

As the interest forecast table for PWLB certainty rates, (gilts plus 180bps), above shows, there is likely 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. Inflation is also likely to be very low during this period and could even turn negative in some major western economies during 2020/21.

The balance of risks to the UK

- The overall balance of risks to economic growth in the UK is probably relatively even, but is subject to major uncertainty due to the virus.
- There is relatively little UK domestic risk of increases or decreases in Bank Rate and significant changes in shorter term PWLB rates. The Bank of England has effectively ruled out the use of negative interest rates in the near term and increases in Bank Rate are likely to be some years away given the underlying economic expectations. However, it is always possible that safe haven flows, due to unexpected domestic developments and those in other major economies, could impact gilt yields, (and so PWLB rates), in the UK.

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

- **UK** - second nationwide wave of virus infections requiring a national lockdown
- **UK / EU trade negotiations** – if it were to cause significant economic disruption and a fresh major downturn in the rate of growth.
- **UK - 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.** The ECB has taken monetary policy action to support the bonds of EU states, with the positive impact most likely for "weaker" countries. In addition, the EU recently agreed a €750bn fiscal support package. These actions will help shield weaker economic regions for the next year or so. However, in the case of Italy, the cost of the virus crisis has added to its already huge debt mountain and its slow economic growth will leave it vulnerable to markets returning to taking the view that its level of debt is unsupportable. There remains a sharp divide between northern EU countries favouring low debt to GDP and annual balanced budgets and southern countries who want to see jointly issued Eurobonds to finance economic recovery. This divide could undermine the unity of the EU.
- Weak capitalisation of some **European banks**, which could be undermined further depending on extent of credit losses resultant of the pandemic.
- **German minority government & general election in 2021.** 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 subsequent state elections but the SPD has done particularly badly. Angela Merkel has stepped down from being the CDU party leader but she intends to remain as Chancellor until the general election in 2021. This then leaves a major question mark over who will be the major guiding hand and driver of EU unity when she steps down.

- **Other minority EU governments.** Austria, 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 a rise in anti-immigration sentiment in Germany and France.
- **Geopolitical risks,** for example in China, Iran or North Korea, but also in Europe and other Middle Eastern countries, which could lead to increasing safe haven flows.
- **US – the Presidential election in 2020:** this could have repercussions for the US economy and SINO-US trade relations.

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

- **UK -** stronger than currently expected recovery in UK economy.
- **Post-Brexit** – if an agreement was reached that removed the majority of threats of economic disruption between the EU and the UK.
- The **Bank of England is too slow** in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to build up too strongly within the UK economy, which then necessitates a later rapid series of increases in Bank Rate faster than we currently expect.

Annex B

Capital Programme & Financing: 7 December 2020

£'000	2019/20 Actual	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
Capital expenditure:					
General Fund	28,166	34,797	70,479	55,859	65,716
HRA	22,647	20,748	29,939	22,615	17,785
Third Party Loans - ESH	12,991	13,824	3,288	-	-
Third Party Loans - Other	1,145	-	-	-	-
Total Capital Expenditure	**64,949**	**69,369**	**103,706**	**78,474**	**83,501**
Resourced By:					
Capital Receipts	(5,222)	(4,251)	(8,465)	(7,582)	(5,190)
Other Contributions	(20,191)	(26,294)	(28,453)	(19,392)	(25,811)
Total Available Resource for Capital Financing	**(25,413)**	**(30,545)**	**(36,918)**	**(26,974)**	**(31,501)**
Unfinanced Capital Expenditure	**39,536**	**38,824**	**66,788**	**51,500**	**52,000**

Actual Portfolio: 5 January 2021

	Actual Portfolio £m
External borrowing:	
Public Works Loan Board	205.1
Local Authorities	19
LOBO loans from banks	Nil
Total external borrowing	**224.1**
Other long-term liabilities:	
Finance Leases	Nil
Total other long-term liabilities	**Nil**
Total gross external debt	**224.1**
Treasury investments:	
Banks & building societies (unsecured)	32.3
Ermine Street Housing	80.8
Government (incl. local authorities)	Nil
Money Market Funds	Nil
Registered Social Landlords	5
Cambridge Leisure and Ice Centre	2.4
Total treasury investments	**120.5**
Net debt	**103.6**

Note: all values are on a principal/nominal basis

Annex C

Medium Term Forecasts: 7 December 2020

	31.3.2020 Actual £m	31.3.2021 Estimate £m	31.3.2022 Forecast £m	31.3.2023 Forecast £m	31.3.2024 Forecast £m
General Fund CFR	309.0	346.9	412.3	461.8	511.5
Less: Other debt liabilities					
Loans CFR	309.0	346.9	412.3	461.8	511.5
Less: External Borrowing	215.1	236.1	303.9	352.4	404.9
Internal (over) borrowing	93.9	110.8	108.4	109.4	106.6
Usable Reserves	68.2	65.0	61.7	58.6	55.4
Working Capital	35.8	26.8	27.0	27.2	27.4
Investments	10.0	10.0	7.0	7.0	7.0

Projections are based on the latest Capital Programme to be submitted to Full Council on 23 February 2021

Annex D

Liability Benchmark

	31.3.2019 Actual £m	31.3.2020 Estimate £m	31.3.2021 Forecast £m	31.3.2022 Forecast £m	31.3.2023 Forecast £m
Loans CFR	309.0	346.9	412.3	461.8	511.5
Less: Usable reserves	68.2	65.0	61.7	58.6	55.4
Less: Working Capital	35.8	26.8	27.0	27.2	27.4
Plus: Minimum investments	10	10	7	7	7
Liability Benchmark	195.0	265.1	316.6	383.0	435.7

Annex E

Minimum Revenue Provision Policy

1.1 Local Authorities are required to charge to their revenue account each year a Minimum Revenue Provision (MRP) in relation to capital spend that has yet to be financed, i.e. borrowing. The Capital Financing Requirement (CFR) reflects the underlying need to borrow to finance capital expenditure.

1.2 The MRP should be prudent and, although it is for each authority to determine the amount, the published guidance by the Government is that "local authorities should align the period over which they charge MRP to one that is commensurate with the period over which their capital expenditure provides benefits".

1.3 The MRP policy is set out below:

(1) There is no requirement to charge MRP where the CFR is nil or negative at the end of the preceding financial year.

(2) The Housing Revenue Account share of the CFR is not subject to an MRP charge.

(3) There is no requirement to make an MRP charge on an asset until the financial year after that asset becomes operational.

(4) For capital expenditure expected to be financed by borrowing between 1 April 2020 and 31 March 2025, the MRP will be based on a straight-line basis, using equal annual instalments over the average estimated life of the assets for which borrowing is required. However, no provision will be made in respect of expenditure on specific projects where the Chief Financial Officer determines that receipts will be generated by the project to repay the debt.

(5) Investment in commercial property is deemed capital expenditure and will be financed from cash balances and/or external borrowing as appropriate at the time. There is a requirement for these investments to clearly demonstrate security, liquidity and yield and these factors will influence the applicability of MRP. MRP will ordinarily be provided for using the useful life determinant with regard to maximum lives permitted in the revised MHCLG MRP guidance of 50 years for freehold land and 40 years for all other assets. MRP will be made on the purchase of these properties in the year following the year of purchase and will be set having regard to its annual valuation. The application of MRP will be adjusted to reflect the annual valuation of Investment properties and will be determined on a property by property basis; an increase in the valuation of a property that results in revaluation gains in the Council's Capital Adjustment Account will result in a corresponding reduction in MRP whilst, conversely, falling valuations may result in voluntary increases in MRP to ensure that the authority is retaining increasing equity in the property.

(6) Investments in Council Wholly Owned Companies, in the form of borrowing or equity, will be assessed on an investment by investment basis. The general assumption is that the loan is deemed to be secured on the assets of the company such that the net value of the assets held by the company will be sufficient to repay any borrowings invested. Advances to the company will be met by loan repayments, treated as a deferred capital receipt, so over time there is no impact on the CPR and, therefore, no MRP needs to be charged. The Council will review the loan and business plan annually and, where there is evidence that suggests the full amount of the loan will not be repaid, it will be necessary to reassess the charge to recover the impaired amounts from revenue. MRP in relation to equity will be provided for over 20 years in line with CIPFA guidance.

(7) Exceptionally, where capital expenditure is part of a loan agreement to other than a wholly owned subsidiary, the Council may register a fixed and floating charge over the counterparty assets to secure the Council's interest in the investment, or alternately an equity share interest in an asset with value.

Annex F

Approved Investment Counterparties and Limits

Counterparty	Minimum Short Term Rating	Minimum Long Term Rating	Maximum Duration	Suggested Duration
UK Government	N/A	N/A	Unlimited	N/A
UK Clearing Banks	Moody's P-2 Or equivalent	Moody's A3 Or equivalent	5 years	Provided by Link
Other Banks	Moody's P-2 Or equivalent	Moody's A3 Or equivalent	5 years	Provided by Link
UK Building Societies	Moody's P-2 Or equivalent	Moody's A3 Or equivalent	5 years	Provided by Link
Registered Social Landlords	Moody's P-2 Or equivalent	Moody's A3 Or equivalent	5 years	Provided by Link
Local Authorities	N/A	N/A	5 years	N/A
MMF's and USDBF's	AAA	N/A	MMF's: T+0 USDBF's: T+3	Liquidity Funds

Annex G

Approved Investment Counterparties: Detailed List

The full listing of approved counterparties is shown below, showing the category under which the counterparty has been approved, the appropriate deposit limit and current duration limits. These counterparties have also been shown under Specified and Non-Specified Investments (in line with MHCLG Guidance).

Name	Council's Current Deposit Period	Category	Limit (£)
Specified Investments:			
All UK Local Authorities	N/A	Local Authority	10m
All UK Police Authorities	N/A	Police Authority	10m
All UK Fire Authorities	N/A	Fire Authority	10m
Debt Management Account Deposit Facility	N/A	DMADF	Unlimited
Barclays Bank Plc	Using Link Asset Services Credit Criteria	UK Bank	10m
HSBC Bank Plc	Using Link Asset Services Credit Criteria	UK Bank	10m
Lloyds Bank Plc	Using Link Asset Services Credit Criteria	UK Bank	10m
Santander UK Plc	Using Link Asset Services Credit Criteria	UK Bank	10m
Other UK Retail & Clearing Banks	Using Link Asset Services Credit Criteria	UK Banks	10m
Subsidiaries of UK Banks (provided the subsidiaries are UK-incorporated deposit takers under the Financial Services and Markets Act 2000 and provided loans are for a maximum period of three months)	Using Link Asset Services Credit Criteria	UK Banks	3m

Places for People Homes Ltd	Using Link Asset Services Credit Criteria	Registered Housing Association	5m
Close Brothers Ltd	Using Link Asset Services Credit Criteria	UK Retail Bank	5m

Name	Council's Current Deposit Period	Category	Limit (£)
Ultra-Short Dated Bond Funds: Aberdeen Standard Life Other providers where approved by Head of Finance	Liquid Rolling Balance	Financial Instrument	10m (per fund)

Name	Council's Current Deposit Period	Category	Limit (£)
Money Market Funds: HSBC GLF MMF Aberdeen Standard Life Deutsche GLS Barclays Call Account Other MMF's where approved by Head of Finance	Liquid Rolling Balance	Financial Instrument	10m (per fund)

Name	Council's Current Deposit Period	Society Asset Value (£'m) As at December 18	Limit (£)
Other Specified Investments - UK Building Societies: -			
Nationwide Building Society	Using Link Asset Services Credit Criteria	236,035 (Apr 19)	Assets greater than £10,000m **Limit - £10m** Assets between £10,000m and £5,000m **Limit - £5m** Assets between £5,000m and £1,500m Limit **- £3m**
Yorkshire Building Society		50,417	
Coventry Building Society		45,446	
Skipton Building Society		21,638	
Leeds Building Society		19,643	
Principality Building Society		9,502	
West Bromwich Building Society		5,552 (Mar 2019)	

Name	Council's Current Deposit Period	Category	Limit (£)
Non-Specified Investments: -			
All UK Local Authorities – longer term limit	Over 1 year and up to 5 years	Local Authority	10m per single counterparty
CCLA Local Authorities' Property Fund	Minimum of 5 years	Pooled UK Property Fund	Up to 10m
South Cambs Ltd - Housing Co.	Up to 5 years	Loan	107m
UK Municipal Bonds Agency	N/A	Share Capital	0.050m
Cambridge Leisure and Ice Centre	25 Years	Loan	2.4m

Annex H

Limits on Investment Per Sector

	Cash limit
Any single organisation, except the UK Central Government	£10million each
UK Central Government	Unlimited
Any group of organisations under the same ownership	£10million per group
Foreign countries	£5million per country
Registered providers and registered social landlords	£5million each
Unsecured investments with building societies	£10million each
Loans to unrated corporates	£5million in total
Money market funds	£30million in total
Real estate investment trusts	£5million in total

Annex I

Treasury Management: Glossary of Terms and Abbreviations

Term	Definition
Authorised Limit for External Borrowing	Represents a control on the maximum level of borrowing
Capital Expenditure	Expenditure capitalised in accordance with regulations i.e. material expenditure either by Government Directive or on capital assets, such as land and buildings, owned by the Council (as opposed to revenue expenditure which is on day to day items including employees' pay, premises costs and supplies and services)
Capital Financing Requirement	A measure of the Council's underlying borrowing need i.e. it represents the total historical outstanding capital expenditure which has not been paid for from either revenue or capital resources
Certificates of Deposit (CDs)	Low risk certificates issued by banks which offer a higher rate of return
CIPFA	Chartered Institute of Public Finance and Accountancy
Corporate Bonds	Financial instruments issued by corporations
Counterparties	Financial Institutions with which funds may be placed
Credit Risk	Risk of borrower defaulting on any type of debt by failing to make payments which it is obligated to do
MHCLG	Ministry for Housing, Communities & Local Government (formerly the Department for Communities & Local Government, DCLG)
Enhanced Cash Funds	Higher yielding funds typically for investments exceeding 3 months
Eurocurrency	Currency deposited by national governments or corporations in banks outside of their home market
External Gross Debt	Long-term liabilities including Private Finance Initiatives and Finance Leases
Government CNAV	Highly liquid sovereign stock based on a Constant Net Asset Value (CNAV)
HRA	Housing Revenue Account - a 'ring-fenced' account for local authority housing account where a council acts as landlord
HRA Self-Financing	A new funding regime for the HRA introduced in place of the previous annual subsidy system
London Interbank Offered Rate (LIBOR)	A benchmark rate that some of the leading banks charge each other for short-term loans

Term	Definition
London Interbank Bid Rate (LIBID)	The average interest rate which major London banks borrow Eurocurrency deposits from other banks
Liquidity	A measure of how readily available a deposit is
MPC	Monetary Policy Committee - The Bank of England Committee responsible for setting the UK's bank base rate
Low Volatility Net Asset Value (LVNAV)	Highly liquid sovereign stock based on a Constant Net Asset Value (CNAV)
Non-Ring-Fenced Bank (NRFB)	Government & Bank of England rules will apply to all UK Banks which have to split their business into 'core' retail and investment units known as Ring and Non-Ring Fenced Banks for the 1st January 2019 deadline
Non-Specified Investments	These are investments that do not meet the conditions laid down for Specified Investments and potentially carry additional risk, e.g. lending for periods beyond 1 year
Operational Boundary	Limit which external borrowing is not normally expected to exceed
PWLB	Public Works Loans Board - an Executive Government Agency of HM Treasury from which local authorities & other prescribed bodies may borrow at favourable interest rates
Ring Fenced Bank (RFB)	Government & Bank of England rules will apply to all UK Banks which have to split their business into 'core' retail and investment units known as Ring and Non-Ring Fenced Banks for the 1st January 2019 deadline
Security	A measure of the creditworthiness of a counter-party
Specified Investments	Those investments identified as offering high security and liquidity. They are also sterling denominated, with maturities up to a maximum of 1 year, meeting the minimum 'high' credit rating criteria where applicable
Supranational Bonds	Multi-lateral Development Bank Bond
UK Government Gilts	Longer-term Government securities with maturities over 6 months and up to 30 years
Variable Net Asset Value (VNAV)	MMFs values based on daily market fluctuations to 2 decimal places known as mark-to-market prices
UK Government Treasury Bills	Short-term securities with a maximum maturity of 6 months issued by HM Treasury
Weighted Average Life (WAL)	Weighted average length of time of unpaid principal
Weighted Average Maturity (WAM)	Weighted average amount of time to maturity
Yield	Interest, or rate of return, on an investment