CAPITAL AND TREASURY MANAGEMENT STRATEGY 2021/22

1 INTRODUCTION

1.1 This report sets out the Council's Capital and Treasury Management Strategy for 2021/22 and seeks the views of the Review Committee on the approach proposed in this Strategy, before it is presented for approval by Full Council on 16 February 2021.

1.2 The Prudential Code for Capital Finance in Local Authorities (the Prudential Code) plays a key role in capital finance in local authorities, and it requires the Section 151 Officer to comment specifically on the Capital Strategy adopted by the Council. The full strategy is set out within this report.

1.3 Local authorities determine their own programmes for investment. The Prudential Code was developed by CIPFA as a professional code of practice to support local authorities in taking their decisions. Local authorities are required by regulation to have regard to the Prudential Code when carrying out their duties under Part 1 of the Local Government Act 2003. Part of the Prudential Code requires the Section 151 Officer to report explicitly on the affordability and risk associated with the Capital Strategy.

1.4 In financing capital expenditure, local authorities are governed by legislative frameworks, including the requirement to have regard to the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code) and the CIPFA Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes (Treasury Management Code).

1.5 In order to demonstrate that capital expenditure and investment decisions are taken in line with service objectives and properly take account of stewardship, value for money, prudence, sustainability and affordability, the Prudential Code requires authorities to have in place a Capital Strategy that sets out the long term context in which capital expenditure and investment decisions are made, and gives due consideration to both risk and reward and impact on the achievement of priority outcomes.

1.6 The Capital and Treasury Management Strategy provides an overview of the governance process for approval and monitoring of capital expenditure. It provides a projection of the Council's capital financing requirement and explains how the Council will make prudent revenue provision for the repayment of any debt.

1.7 The Council's approach to treasury management investment activities is set out at Section 8 and includes the criteria for determining how and where funds will be invested to ensure that the principal sums are safeguarded from loss and that sufficient liquidity is maintained to ensure that funds are available when needed. The treasury management investment strategy proposed for 2021/22 is consistent with that applied in previous years. The Council has a good track record with regard to its treasury investment activity, adhering to the statutory requirement to give priority to security and liquidity over yield. Internal Audit's most recent review issued a 'good' assurance opinion on the management of these activities, confirming that internal controls are consistently adhered to.

1.8 The Capital Strategy also sets out the Council's policy approach to commercial investment activities, including processes, due diligence and defining the Council's risk appetite in respect of these. The Council has not undertaken any commercial investment activities at the present time; however, if this was to be considered in future it would be in accordance with the Council's governance framework for decision making, and giving due regard to risk and proportionality. The Council's policies, objectives and approach to risk management of its treasury management activities and the manner in which it seeks to achieve its policies and objectives for treasury management is set out in the Strategy, alongside the knowledge and skills available to the Council and provides confirmation that these are commensurate with the Council's risk appetite.

1.9 The distinct, but inter-related, elements of the Capital Strategy therefore collectively demonstrate that the Council's capital expenditure and investment decisions properly take account of stewardship, value for money, prudence, sustainability and affordability, by setting out the long term context in which capital expenditure and investment decisions are made and by giving due consideration to both risk and reward and impact on the achievement of priority outcomes.

2 REPORTING

2.1 The Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals. These reports are:-

- The Capital and Treasury Management Strategy (this report), which covers:-
  - the capital plans (including prudential indicators);
  - a minimum revenue provision (MRP) policy (how residual capital expenditure is charged to revenue over time);
  - the treasury management strategy (how the investments and borrowings are to be organised) including treasury indicators; and
  - an investment strategy (the parameters on how investments are to be managed).

- The Mid-Year Treasury Management Report which will update Members with the progress of the capital position, amending prudential indicators as necessary, and whether the Treasury Strategy is delivering its objectives or whether any policies require revision. In addition, the Executive will receive quarterly updates of the capital programme position.

- Annual Strategy report. This provides details of actual performance compared to the estimates.

2.2 The above reports are required to be adequately scrutinised before being recommended to the Council. This role is undertaken by the Review Committee.

3 CAPITAL AND TREASURY MANAGEMENT STRATEGY

3.1 The purpose of the Capital and Treasury Management Strategy is to demonstrate that the Council takes capital expenditure and investment decisions in line with service objectives and properly takes account of stewardship, value for money, prudence, sustainability and affordability. It sets out the long term context in which capital expenditure and investment decisions are made and gives due consideration to both risk and reward and impact on the achievement of priority outcomes. The Capital and Treasury Management Strategy comprises a number of distinct, but inter-related, elements as follows:

- **Capital expenditure** (see Section 4); which includes an overview of the governance process for approval and monitoring of capital expenditure, including the Council's policies on capitalisation, and an overview of its capital expenditure and financing plans.

- **Capital financing and borrowing** (see Section 5); provides a projection of the Council's capital financing requirement, how this will be funded and repaid. It therefore sets out the Council's borrowing strategy and explains how it will discharge its duty to make prudent revenue provision for the repayment of debt.

- **Treasury management investments** (see Section 8); explains the Council's approach to treasury management investment activities, including the criteria for determining how and where funds will be invested to ensure that the principal sums are safeguarded from loss and that sufficient liquidity is maintained to ensure that funds are available when needed.

- **Commercial investments** (see Section 10); provides an overview of those of the Council's policy on commercial investment activities that count as capital expenditure, including processes, due diligence and defining the Council's risk appetite in respect of these.

- **Knowledge and skills** (see Section 16); summarises the knowledge and skills available to the Council and provides confirmation that these are commensurate with the Council's risk appetite.

4 CAPITAL EXPENDITURE

Capitalisation Policies

4.1 Expenditure is classified as capital expenditure when it results in the acquisition or construction of an asset (e.g. land, buildings, roads and bridges, vehicles, plant and equipment etc.) that:

- Will be held for use in the delivery of services, for rental to others, or for administrative purposes; and
- Are of continuing benefit to the Council for a period extending beyond one financial year.
- Subsequent expenditure on existing assets is also classified as capital expenditure if these two criteria are met.

4.2 There may be instances where expenditure does not meet this definition but would nevertheless be treated as capital expenditure, including:

- Where the Council has no direct future control or benefit from the resulting assets, but would treat the expenditure as capital if it did control or benefit from the resulting assets; and
- Where statutory regulations require the Council to capitalise expenditure that would not otherwise have expenditure implications according to accounting rules.

Governance

4.3 The Section 151 Officer manages the preparation of a capital programme on an annual basis which is presented to Full Council for approval as part of the Medium Term Financial Strategy report.

4.4 Schemes will usually only be added to, or removed from, the capital programme as part of the annual budget setting process. Any request outside of this process to change the capital programme by adding or removing schemes, or by allocating additional scheme and payment approvals to an approved scheme, must be approved by Full Council in line with the Council's financial regulations.

4.5 The Section 151 Officer will also monitor performance against the Council's approved capital programme on an ongoing basis, as part of the quarterly financial reports, which are presented to the Executive by the Portfolio Holder for Finance. These financial overview reports will provide a comparison of the Council's projected expenditure with the latest approved capital programme.

Capital Expenditure Plans

4.6 The proposal is for capital investment of £3.454m in 2021/22; the detailed programme for which will be presented to Full Council for approval as part of the Medium Term Financial Strategy report.

4.7 When expenditure is classified as capital expenditure for capital financing purposes, this means that the Council is able to finance that expenditure from the following sources:

- Capital grants and contributions - amounts awarded to the Council in return for past or future compliance with certain stipulations.
- Capital receipts – amounts generated from the sale of assets and from the repayment of capital.
- Loans, grants or other financial assistance.
- Revenue contributions – amounts set aside from the revenue budget.
- Borrowing - amounts that the Council does not need to fund immediately from cash resources, but instead charges to the revenue budget over a number of years into the future. The implications of financing capital expenditure from borrowing are explained in Section 7.

5 CAPITAL FINANCING AND BORROWING

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

Capital Expenditure and the Capital Financing Requirement

5.2 This prudential Indicator is a summary of the Council's capital expenditure budget for 2021/22, subject to approval at Council on 16 February, both those agreed previously, and those forming part of this budget cycle. The table below also shows how these plans are being financed and any shortfall that will require borrowing.

£000s	2019/20 Outturn	2020/21 Forecast	2021/22 Forecast	2022/23 Forecast	2023/24 Forecast	2024/25 Forecast	2025/26 Forecast
Opening CFR	**777**	**777**	**777**	**777**	**777**	**777**	**777**
Capital Expenditure	1,124	1,590	3,454	4,811	1,287	890	890
Financed by:							
Capital Receipts Reserve	184	509	1,113	4,116	477	-	-
Capital Grants	630	643	475	475	475	475	475
Other Earmarked Reserves	310	43	1,542	100	-	-	-
Revenue Contribution	-	255	-	-	261	375	390
Section 106 Income	-	25	25	25	25	25	25
New Homes Bonus Income	-	115	300	95	50	15	-
Closing CFR	**777**	**777**	**777**	**777**	**777**	**777**	**777**

5.3 The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR. The CFR is reduced by the application of resources such as capital receipts, grants or charges to revenue.

5.4 The adoption of IFRS16 in 2021/22 will have an impact on the CFR of this authority due to some leases being required to be recognised on the balance sheet. The work to identify these leases has not yet been completed and therefore the relevant values are not yet confirmed; however, there will be no new financial requirement to the authority as any identified underlying borrowing requirement resulting from this new classification will be met through voluntary Minimum Revenue Provision.

Minimum Revenue Provision (MRP) Policy Statement

5.5 As noted above, the Capital Financing Requirement (CFR) provides a measure of the amount of capital expenditure that the Council is yet to fund from cash resources. Instead, the Council is required to set aside monies from the revenue budget each year to repay the borrowing. This practice is referred to as making minimum revenue provision (or MRP) for the repayment of debt. Statutory guidance requires MRP to be provided annually on a prudent basis and interprets 'prudent' to mean that MRP charges on unsupported borrowing should be made over a period commensurate with the period the assets financed from borrowing continue to provide benefit. Where it is practical or appropriate to do so, the Council may make voluntary revenue provision, or apply capital receipts, to reduce debt over a shorter period.

5.6 Any future borrowing by the Council will require an MRP recognition through the revenue account, which will be considered as part of any future business case and the preferred method would be the Asset Life method (by way of either Equal Instalment or Annuity)

6 OTHER INDICATORS

The Use of the Council's Resources and the Investment Position

6.1 The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.). Detailed below are estimates of the year end balances for each resource and anticipated day to day cash flow balances.

YearEnd Resources £000	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Earmarked Reserves & General Fund Balance	12,520	8,000	8,380	7,155	7,349	7,286
Capital Receipts Reserve	1,189	3,146	477	-	-	-
Total Core Funds	13,709	11,147	8,856	7,155	7,349	7,286
Expected Investments	15,209	12,647	10,356	8,655	8,849	8,786

Affordability Prudential Indicators

6.2 The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans.

6.3 The indicators are designed to support and record local decision making in a manner that is publicly accountable but are not designed to be comparative performance indicators to other organisations. There are no recommended limits or values for the indicators.

6.4 These provide an indication of the impact of the capital investment plans on the Council's overall finances. Members are asked to approve the following indicators.

Ratio of Financing Costs to Net Revenue Stream (Revenue Budget)

6.5 The table below shows the impact of borrowing compared to the general fund. It is negative because the Council does not currently borrow and so this represents only the interest received on investments as a comparison to the revenue budget.

%	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
Ratio of Financing Costs to Net Revenue Stream	-0.51%	0.00%	-0.46%	-0.44%	-0.42%

Incremental Impact of Capital Investment Decisions on the Band D Council Tax

6.6 If the capital programme was to be funded through revenue (council tax) this indicator identifies the revenue costs associated with proposed changes to the capital programme.

£000s	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
Capital Expenditure	1,590	3,454	4,811	1,287	890
Incremental impact of capital investment	466	1,864	1,357	(3,524)	(397)
Council tax base	31,927.8	32,051.9	32,372.4	32,696.1	33,023.1
Council tax Band D impact(£)	0.01	0.06	0.04	-0.11	-0.01

7 BORROWING

7.1 The Council does not currently have any borrowing, as it has managed to fund its previous capital expenditure within its available resources. It is possible that borrowing would be considered in future for larger capital schemes; however, this would need to be agreed on a case by case basis.

7.2 Borrowing may be considered for “invest to save” projects providing the cost of servicing the debt is contained within the revenue savings/income the project generates, the project generates a positive net present value and the payback period is shorter than the life of the asset.

Asset Delivery Programme

7.3 On 8 September 2020 Council agreed to proceed with its Asset Delivery Programme and award a contract to GB Partnerships to deliver the proposed schemes for the Council’s key strategic sites set out in the Council’s Asset Strategy. The agreed option will consolidate the Council’s operations at the Freight House site, develop a new Community Centre at the Mill site and redevelop and dispose of the remaining sites which are surplus to Council requirements.

7.4 it is estimated at the Final Business Case (FBC) stage that this option will have a net capital funding requirement of £1.5m (representing a capital cost of £6.0m partially offset by capital receipts of £4.5m). These figures are included in the medium term capital expenditure forecasts shown above; however, the costs will continue to be refined as designs are finalised and will be subject to agreement by Full Council at two further key decision points before substantive works commence.

7.5 For prudence, the FBC assumes a long-term loan of £1.5m is required to fund the residual gap at a cost of £75k per annum, which is assumed within the FBC revenue projections. If the Council chooses instead to fund the gap from its cash reserves, it will realise a further saving on the financing element of the assumed cost. Within the Council's capital programme the net capital funding requirement is currently assumed to be funded from the Council's reserves since the Council has sufficient resources within its Hard/Soft Infrastructure Fund Reserve (which were set aside for this purpose). At this time it is not anticipated that any long term borrowing would therefore be required; however, this assumption may be revisited. Shorter term cash requirements will depend on the delivery profile of the Programme; in particular when capital receipts are realised, and it is possible borrowing could be required to fund cash flow works during the delivery phase. Full Council approval would be sought before any borrowing was undertaken as this would represent a change to the Council's current Capital and Treasury Management Strategy.

7.6 The following issues will be considered prior to undertaking any external borrowing:

– Affordability

– Maturity profile of existing debt

– Interest rate and refinancing risk

– Borrowing source including Internal

7.7 Sources of borrowing. In conjunction with advice from its treasury adviser, the Council will keep under review the following external borrowing sources:

– Public Works Loan Board (PWLB) (or its replacement)

– any institution approved for investments

– any other bank or building society authorised to operate in the UK

– UK public and private sector pension funds (except for Essex Pension Fund)

– Capital market bond investors

– Municipal Bonds Agency - created to enable local authority bond issues

– Capital markets (stock issues, commercial paper and bills)

7.8 Borrowing would add pressure on the revenue budget as MRP and interest would become payable. The capacity to make these payments would need to be identified in advance, to ensure they are affordable.

7.9 Where capital expenditure on an asset is financed wholly or partly by borrowing or credit arrangements, MRP is to be determined by reference to the life of the asset. With the Equal Instalment approach, MRP is determined by reference to the life of the asset and an equal amount charged in each year. The Annuity method involves a more complex calculation. Here, MRP is the principal element for the year of the annuity required to repay over the asset life the amount of capital expenditure financed by borrowing.

8 TREASURY MANAGEMENT

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

8.2 The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning, to ensure that the Council can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses.

8.3 The core investment policy objective for this Council is the prudent investment of its treasury balances. The Council's investment priorities are security of capital and liquidity of its investments so that funds are available for expenditure when needed.

8.4 Both the CIPFA Code and the MHCLG guidance require the Council to invest its funds prudently and to have regard to the security and liquidity of its Treasury Management investments before seeking the highest rate of return, or yield. The generation of investment income to support the Council's spending plans is an important, but secondary objective. Investment in commercial activities or for wider strategic objectives may be subject to different criteria than those applied to funds invested purely for Treasury Management purposes, as set out in Section 10 below.

8.5 The Council regards the successful identification, monitoring and control of risk to 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, and any financial instruments entered into to manage these risks.

8.6 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 value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

Treasury Indicators: Limits to Borrowing Activity

8.7 The Council is only permitted to borrow externally (including via credit arrangements) up to the level implied by its Capital Financing Requirement (CFR).

8.8 To ensure that external borrowing does not exceed the CFR, other than in the short term, limits are established for external debt, as follows:

- **Authorised limit** – this defines the maximum amount of external debt permitted by the Council and represents the statutory limit determined under section 3 (1) of the Local Government Act 2003.

- **Operational boundary** – this is an estimate of the probable level of the Council's external debt and provides the means by which external debt is managed to ensure that the 'authorised limit' is not breached.

8.9 The Authorised and Operational limits are based on the assumption that there will be long term borrowing to fund capital expenditure and that borrowing will be to fund long and short term cash flow requirements. The limits include balance sheet liabilities such as finance leases and creditors, with the exception of IFRS16 changes noted at paragraph 5.4 above.

£000s	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
Operational Limit	777	777	777	777	777
Authorised Limit	977	977	977	977	977

Treasury Management Limits on Activity

8.10 There are debt related treasury activity limits. The purpose of these are to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are too restrictive they will impair the opportunities to reduce costs / improve performance.

8.11 The limit indicators are shown separately for borrowing and investments. Fixed rates for investments or borrowing for a period of less than one year are treated as variable by the Prudential Code.

Interest rate Exposures %	2020/21	2021/22	2022/23
	Upper	**Upper**	**Upper**
Limits on fixed interest rates: **Borrowing** **Investments**	 100% 100%	 100% 100%	 100% 100%
Limits on variable interest rates: **Borrowing** **Investment**	 25% 100%	 25% 100%	 25% 100%

9 ANNUAL INVESTMENT STRATEGY

9.1 The Council has no plans to deviate from its current investment strategy for Treasury Management investments. A full list of those items included in the 2021/22 strategy are:

- Term and Call Deposits with banks and building societies
- Term deposits, call deposits and bonds with other UK Local Authorities
- Certificates of deposit with banks and building societies
- Deposit Facility
- Money Market funds (both Standard and Enhanced)
- Debt Management Agency Deposit Facility (Government Managed)
- Treasury Bills

10 COMMERCIAL INVESTMENTS

10.1 Statutory guidance on local authority investments (issued by the Secretary of State under Section 15(1)(a) of the Local Government Act 2003) classifies local authority investments into the following categories:

- Investments held for treasury management purposes
- Other investments

10.2 Investments held for treasury management purposes are dealt with in the 'Treasury Management' section of this document. This section deals with 'other investments', where the intention is for investments to contribute to the Council's service delivery objectives and/or place making role.

10.3 The Council does not currently hold any investments for non-Treasury Management purposes. It is worth highlighting that any commercial investment activities are subject to approval in accordance with the Council's governance framework for decision making.

10.4 Non-core activities and investments could be undertaken by the Council, subject to the appropriate governance, in order to generate income to support the delivery of a balanced budget or to contribute to the Council's service delivery objectives and/or place making role. Such investments would only be entered into following a full assessment of the risks and having secured expert external advice (where it is relevant to do so).

10.5 To the extent that it is necessary to secure borrowing to fund commercial investment activities, the Council will need to have regard to the statutory guidance on investments. This stipulates that authorities must not borrow more than, or in advance of their needs purely in order to profit from the investment of the extra sums borrowed, before deciding whether or not to proceed. The commentary on the statutory guidance on local government investments indicates that local authorities can still finance the acquisition of financial or non-financial investments from capital receipts generated from the sale of surplus assets, but that they should not repurpose receipts allocated to the acquisition of assets that contribute to service delivery to fund the purchase of investments, solely to avoid the requirements against borrowing in advance of need. Should the Council decide to disregard the statutory guidance, it will need to explain why it has decided to do so and what its policies are for investing the money borrowed.

Loans to Subsidiaries, Local Enterprises and Third Parties

10.6 Loans to subsidiaries, local enterprises and third parties may be considered, as part of a wider strategy for local economic growth, even though they may not all be seen as prudent if adopting a narrow definition of prioritising security and liquidity.

10.7 Such loans will be considered when all of the following criteria are satisfied:

- The loan is given towards expenditure which would, if incurred by the Council, be capital expenditure;
- The purpose for which the loan is given is consistent with the Council's corporate / strategic objectives and priorities;
- Due diligence is carried out that confirms the Council's legal powers to make the loan, and that assesses the risk of loss over the loan term; and
- A formal loan agreement is put in place which stipulates the loan period, repayment terms and loan rate (which will be set at a level that seeks to mitigate any perceived risks of a loss being charged to the General Fund and takes appropriate account of state aid rules) and any other terms that will protect the Council from loss.

Other Commercial Investments

10.8 The Capital Strategy will be updated should any commercial investment opportunities be agreed during 2021/22.

11 CREDIT RATINGS

11.1 This Council applies the creditworthiness service provided by Link Asset Services. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard & Poor's. The credit ratings of counterparties are supplemented with the following overlays:

- credit watches and credit outlooks from credit rating agencies;
- CDS spreads to give early warning of likely changes in credit ratings; and
- sovereign ratings to select counterparties from only the most creditworthy countries.

This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the suggested duration for investments. The Council will therefore use counterparties within the following durational bands:-

Capita Colour Coding	**Maximum Duration**	**Maximum Investment (per institution)**
No colour	Not to be used	0
Green	100 days	£6m
Red	6 months 100 days	£3m £6m
Orange	1 year 6 months 100 days	£1m £3m £6m
Blue	1 year 6 months 100 days	£4m £3m £6m
Purple	2 years 1 year 6 months 100 days	£3m £4m £3m £6m

Organisation	Maximum Duration	Maximum Investment
Debt Management Office (Government Body)	6 months	£14m
Lloyds Bank current account The Council's main banker	On call (can be withdrawn immediately)	£5m
Money Market Funds – AAA long-term credit rating	On call (can be withdrawn immediately)	£5m per fund
Certificates of Deposit and Treasury Bills.	Will follow the Capita Colour Coding limits as per the above table.	Will follow the Capita Colour Coding limits as per the above table.
Local Authorities	1 year	£3m

11.2 The Link Asset Services' creditworthiness service uses a wider array of information other than just primary ratings. Furthermore, by using a risk weighted scoring system, it does not give undue preponderance to just one agency's ratings.

11.3 Typically the minimum credit ratings criteria the Council uses will be a Short Term rating (Fitch or equivalents) of F1 and a Long Term rating of A-. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

11.4 All credit ratings will be monitored weekly. The Council is alerted to changes in ratings of all three agencies through its use of Link Asset Services creditworthiness service. If a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately. In addition to the use of credit ratings the Council will be advised of information in movements in credit default swap spreads against the iTraxx benchmark and other market data on a daily basis via its Passport website, provided exclusively to it by Link Asset Services. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

11.5 Sole reliance will not be placed on the use of this external service. The Council will also use market data and information and shared intelligence from sector bodies/peer authorities to help support its decision making process.

Country Limits

11.6 The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA+ from Fitch Ratings (or equivalent from other agencies if Fitch does not provide).

11.7 The approval to remove the United Kingdom from the stipulation of an AA+ credit rating criteria was granted at Full Council 19 July 2016. LINK has advised that it would be very unlikely for a UK institution to be allowed to default, given the Government's robust financial backing and the consequences this might have on the industry as a whole.

11.8 Countries other than the UK will be subject to a £3m investment limit for duration of up to one year, subject to Section 151 Officer authorisation.

Investment Management

11.9 The Council does not use a fund manager and funds are managed in-house. Investments will accordingly be made with reference to the core balances and cash flow requirements and the outlook for short term interest rates (i.e. rates for investments up to 12 months).

Investment Returns Expectations

Bank Rate is forecast to stay at 0.10% for the forseeable future:

- 2020/ 2021 0.10%
- 2021/ 2022 0.10%
- 2022/ 2023 0.10%
- 2023/ 2024 0.10%

The suggested budgeted investment earnings rates for returns on investments placed for periods up to 100 days during each financial year are as follows:

- 2021/ 2022 0.10%
- 2022/ 2023 0.10%
- 2023/ 2024 0.10%

11.10 There are upside risks to these forecasts (i.e. increases in Bank Rate occur sooner) if economic growth strengthens. The UK's exit from the European Union is not expected to have a direct impact on the Council's investment returns, with any upturn in investment rates being linked more closely to a UK and global economic recovery post COVID-19.

11.11 Given the low interest rate forecasts no investment income has been included in the 2021/22 budget.

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

12 LIQUIDITY RISK MANAGEMENT

12.1 This Council will ensure it has adequate though not excessive cash resources, borrowing arrangements, overdraft or standby facilities to enable it at all times to have sufficient liquidity in its investments, taking into account known and potential cashflow requirements and the level of funds available to it which are necessary for the achievement of its business/service objectives.

12.2 Giving due consideration to the Council's level of balances over the next year, the need for liquidity, its spending commitments and provisioning for contingencies, it is considered unlikely that the Council will have cash balances to invest other than on a temporary basis. For this reason, no cash will be held on term deposit maturities in excess of 1 year.

13 CASH AND CASH FLOW MANAGEMENT

13.1 The objective should be to keep low interest cash balances at an optimum and maximise temporary investments. There is likely to be a difference between forecast activity and actual activity and therefore working capital will need to be subject to regular review and report to Review Committee / Full Council in the light of changing levels of activity.

13.2 The Council will prepare reports which include cash flow forecasts and actuals on a 12 month rolling basis so as to be able to determine:

– whether minimum acceptable levels of cash balances plus short term investments might be (or have been) breached

– the adequacy (or otherwise) of standby/overdraft facilities or contingency arrangements

– the optimum arrangements to be made for investing and managing surplus cash.

14 SCHEME OF DELEGATION

14.1 Under the Code, the Council is required to specify its Scheme of Delegation for Treasury Management and the responsibilities of the Section 151 Officer, and this is shown below:-

(i) Full Council

- receiving and reviewing reports on treasury management policies, practices and activities.
- approval of annual strategy.
- budget consideration and approval.
- receiving the end of year report on treasury management.

(ii) Review Committee Treasury Management Task & Finish Group

- scrutiny of the three main treasury reports, before recommendation to Council or Executive.

(iii) Executive

- approval of/amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices.
- approval of the division of responsibilities.
- receiving and reviewing regular monitoring reports and acting on recommendations.

(iv) Audit Committee

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

(v) Section 151 Officer

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly and monitoring compliance.
- submitting regular treasury management policy reports.
- submitting budgets and budget variations.
- receiving and reviewing management information reports.
- reviewing the performance of the treasury management function.
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function.
- ensuring the adequacy of internal audit and liaising with external audit.
- Recommending the appointment of external service providers.

15 TREASURY MANAGEMENT POLICY STATEMENT AND TREASURY MANAGEMENT PRACTICES

15.1 During 2017, CIPFA consulted on proposed changes to its Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes (the Treasury Management Code) and published a revised version of the CIPFA Code in December 2017. The Treasury Management Code has largely been updated following recent developments in the marketplace and the introduction of the Localism Act 2011, which gave authorities greater flexibility to enter into a wider range of investment activities under the 'general power of competence'.

15.2 The Treasury Management Code has a particular significance under the provisions of the Local Government Act 2003 which requires local authorities

'*to have regard (a) to such guidance as the Secretary of State may issue, and (b) to such other guidance as the Secretary of State may by regulations specify*'.

15.3 The Treasury Management Code contains the following definition of treasury management activities which has been adopted by CIPFA:

The management of the organisation's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.

This definition is intended to apply to all public service organisations in their use of capital and project financings, borrowings and all investments.

15.4 The updated Treasury Management Code clarifies that 'investments' in the above definition covers all of the Council's financial assets, as well as other non-financial assets held primarily for financial returns if applicable. This means that it encompasses investments which are not managed as part of normal treasury management or under treasury management delegations.

15.5 The Treasury Management Code identifies three key principles for treasury management:

- Public service organisations should put in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management and control of their treasury management activities.

- Their policies and practices should make clear that the effective management and control of risk are prime objectives of their treasury management activities and that responsibility for these lies clearly within their organisations. Their appetite for risk should form part of their annual strategy, including any use of financial instruments for the prudent management of those risks and should ensure that priority is given to security and portfolio liquidity when investing treasury management funds.

- They should acknowledge that the pursuit of value for money in treasury management, and the use of suitable performance measures, are valid and important tools for responsible organisations to employ in support of their business and service objectives, and that within the context of effective risk management, their treasury management policies and practices should reflect this.

15.6 In accordance with these principles, the Council had previously adopted a Treasury Management Policy Statement, which set out the policies, objectives and approach to risk management of its treasury management activities, and a series of Treasury Management Practices (TMPs), which set out the manner in which the Council sought to achieve its policies and objectives for treasury management.

15.7 The Council's Treasury Management Policy Statement and its Treasury Management Practices have been updated to reflect the requirements of the updated Treasury Management Code.

16 KNOWLEDGE AND SKILLS

16.1 The Council recognises the importance of ensuring that all officers involved in the treasury management function (including commercial investment activities) are fully equipped to undertake the duties and responsibilities allocated to them. The Section 151 Officer is responsible for recommending and implementing the necessary arrangements and does this by:

- **Ensuring officers are both capable and experienced**. All individuals involved in the delivery of the treasury management function are required to undertake continuing professional development.

- **Providing training and technical guidance**
All individuals involved in the delivery of the treasury management function are provided with access to relevant technical guidance and training necessary to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills to undertake the duties and responsibilities allocated to them.

- **Appointing a treasury management and other professional advisers**
By employing external providers of treasury management services, the Section 151 Officer ensures that the individuals involved in delivery of the Council's treasury management activities have access to specialist skills and resources.

16.2 The Council uses the services of Link Asset Services "Link" (formerly Capita Asset Services) as its external treasury management advisers.

16.3 The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon its external service providers. It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented and subjected to regular review.

16.4 The Section 151 Officer will ensure that elected Members tasked with treasury management responsibilities, including those responsible for scrutiny, have access to training relevant to their needs and those responsibilities. This is fulfilled via annual training sessions with the Council's professional advisers. Those charged with governance recognise their individual responsibility to ensure that they have the necessary skills to complete their role effectively.

17 RISK IMPLICATIONS

17.1 As an authority that does not currently have any debt the Council's highest priority in its treasury management function is the security of its investments in accordance with the priorities set out in the CIPFA Code. Sums are invested with a range of counter parties to minimise the risk of the capital sum being diminished through movements in prices.

17.2 The Council, whilst fundamentally risk adverse, will accept some modest degree of risk in its Treasury Management activities. It will consider first the range of risks and secondly how prudently to manage those different risks. It will ensure that priority is given to security and liquidity when investing funds for Treasury Management purposes before seeking to optimise yield. The use of different investment instruments and diversification of high credit quality counter parties along with country, sector and group limits, as set out in the Strategy, enables the Council to minimise the nature and extent of the different risks.

17.3 The Council does not currently hold any investments for non-Treasury Management purposes. Non-core activities and investments may be considered by the Council in future, subject to the appropriate governance, to support the Council's wider strategic objectives and/or place making role. Such investments would only be entered into following a full assessment of the risks and having secured expert external advice (where it is relevant to do so).

18 RESOURCE IMPLICATIONS

18.1 All interest paid and received is accounted for within the General Fund. The amount of income generated is dependent upon interest rates and level of balances.

19 LEGAL IMPLICATIONS

19.1 This strategy complies with the statutory requirements set out in the Local Government Act 2003 and associated guidance and regulations.

20 RECOMMENDATION

20.1 It is proposed that the Committee **RESOLVES**

(1) That the Capital and Treasury Management Strategy Statement including the investment instruments, indicators, limits and delegations contained within the report, be noted.

(2) That the Capital Expenditure Forecasts be noted.

(3) That the Operational and Authorised Limits for external debt, as laid down in the report, be noted.

(4) That the contents of this report be recommended to Full Council.

Naomi Lucas

Naomi Lucas

Assistant Director, Resources

Background Papers:-

None.

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If you would like this report in large print, Braille or another language please contact 01702 318111.