

Notice of a public meeting of

Audit and Governance Committee

To:	Councillors Pavlovic (Chair), Fisher (Vice-Chair), Daubeney, Lomas, Mason, Wann and Webb
Date:	Thursday, 28 January 2021
Time:	5.30 pm
Venue:	Remote Meeting

AGENDA

1. **Declarations of Interest**

At this point in the meeting, Members are asked to declare:

- any personal interests not included on the Register of Interests
- any prejudicial interests or
- any disclosable pecuniary interests

which they might have in respect of business on this agenda.

2. **Minutes** (Pages 1 - 12)

To approve the minutes of the meetings held on 20 November 2020 and 30 November 2020.

3. Public Participation

At this point in the meeting members of the public who have registered to speak can do so. Members of the public may speak on agenda items or on matters within the remit of the committee.

Please note that our registration deadlines have changed to 2 working days before the meeting, in order to facilitate the management of public participation at remote meetings. The deadline for registering at this meeting is at **5.00pm on Tuesday, 26 January 2021.**

To register to speak, please visit www.york.gov.uk/AttendCouncilMeetings to fill in an online registration form. If you have any questions about the registration form or the meeting please contact Democratic Services. Contact details can be found at the foot of the agenda.

Webcasting of Remote Public Meetings

Please note that, subject to available resources, this remote public meeting will be webcast including any registered public speakers who have given their permission. The remote public meeting can be viewed live and on demand at www.york.gov.uk/webcasts.

During coronavirus, we've made some changes to how we're running council meetings. See our coronavirus updates (www.york.gov.uk/COVIDDemocracy) for more information on meetings and decisions.

4. Amendments to the Constitution by the Monitoring Officer since 23 March 2020 (Pages 13 - 14)

This report outlines amendments made by the Monitoring Officer to the Council's Constitution following Government Regulations issued in response to the Covid-19 pandemic.

5. Scrutiny of Treasury Management Mid year Review and Prudential Indicators 2020/21 (Pages 15 - 32)

This report invites Members to note and scrutinise the Treasury Management Mid-year Review and Prudential Indicators.

6. Scrutiny of the Treasury Management Strategy Statement and Prudential Indicators for 2021/22 to 2025/26 (Pages 33 - 66)

This report invites Members to note the treasury management strategy statement and prudential indicators for 2021/22 to 2025/26 before these are presented to Executive on 11 February.

7. Urgent Business

Any other business which the Chair considers urgent under the Local Government Act 1972.

Democratic Services contact:

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For more information about any of the following please contact the Democracy Officer responsible for servicing this meeting:

- Registering to speak
- Business of the meeting
- Any special arrangements
- Copies of reports

Contact details are set out above.

This information can be provided in your own language.

我們也用您們的語言提供這個信息 (Cantonese)

এই তথ্য আপনার নিজের ভাষায় দেয়া যেতে পারে। (Bengali)

Ta informacja może być dostarczona w twoim własnym języku. (Polish)

Bu bilgiyi kendi dilinizde almanız mümkündür. (Turkish)

یہ معلومات آپ کی اپنی زبان (بولی) میں بھی مہیا کی جاسکتی ہیں۔ (Urdu)

 **(01904) 551550**

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City of York Council

Committee Minutes

Meeting	Audit and Governance Committee
Date	20 November 2020
Present	Councillors Pavlovic (Chair), Fisher (Vice-Chair), Daubeney, Mason, Wann, Webb and Lomas

Chair's Remarks – Committee Membership

The Chair, in noting that Cllr D Taylor had stood down from the committee, expressed thanks for the work he had done, and welcomed Cllr Daubeney as a new member of the committee.

The Chair then announced that, as Cllr Fisher was experiencing problems with his sight, Cllr Wann would act as Vice Chair at the meeting should the need arise.

17. Declarations of Interest

Members were asked to declare any personal interests not included on the Register of Interests, any prejudicial interests or any disclosable pecuniary interests which they may have in respect of business on the agenda. No interests were declared.

18. Minutes

In response to questions from the Chair regarding matters recorded in Minutes 13, 14 and 15, officers confirmed that:

- The Risk Register would be included on the agenda for the next meeting, on 30 November;
- Mitigation measures in respect of KCR1 (Financial Pressures) had been reviewed and would be re-visited in the KCR Monitor 2 report, as would KCR4;
- Mazars could comment on the impact of the Redmond review during their presentation this evening.

Resolved: That the minutes of the meeting held on 28 September 2020 be approved as a correct record, to be signed by the Chair at a later date.

19. Public Participation

It was reported that there had been two registrations to speak at the meeting under the Council's Public Participation Scheme.

Andy Mendus spoke on a number of matters, raising issues in relation to his comments at the last meeting, lack of improvement in the costs of staff absence, lack of audit reports, scrutiny of the decisions of Staffing Matters & Urgency Committee, and adding items to the work plan.

Gwen Swinburn also spoke on a number of matters, raising issues around the lack of independent members on the committee, the lack of internal audit reports, governance and transparency, and the severance payment to the former Chief Executive.

20. Annual Financial Report - Statement of Accounts 2019/20

Members considered a report which presented a final set of accounts for 2019/20, to reflect changes made since the committee received the draft pre-audit accounts on 15 July 2020.

The changes made were all highlighted in the revised accounts attached as Annex A to the report. They were also included in Appendix A to the Audit Completion Report at Item 6 on the agenda (published in the Agenda Supplement). No substantive changes had been made to any of the core statements and none had any impact on the outturn position of the council. Members were not being asked to sign off the Final Statement of Accounts at this meeting because the auditors still had areas of work outstanding, as summarised in paragraph 8.

In response to questions from Members, and matters raised under Public Participation, officers confirmed that:

- Absence management would be included in the Annual Governance Statement, and circulated to Members by email before being finalised;
- For future reports, changes made to the draft accounts could be provided in a separate annex;
- The update referred to in paragraph 14 would be included in the revised audit completion report;

- Although the final accounts would not be signed off by 30 November, there were no resulting implications as the changes did not affect the bottom line or outturn position.

Resolved: (i) That the matters summarised in the report with regard to the Audit Completion Report at Item 6 on the agenda be noted.

Reason: To ensure the proper consideration of the opinion and conclusions of the external auditor in respect of the annual audit of accounts and review of the council's arrangements for ensuring value for money.

(ii) That the current status of the amended Statement of Accounts for 2019/20, at Annex A to the report, be noted.

Reason: To ensure compliance with the International Auditing Standards and other relevant legislative requirements.

(iii) That the final authorisation of the Statement of Accounts be delegated to the Chief Finance Officer and the Chair of the Audit & Governance Committee, upon the formal conclusion of the audit of the accounts, unless a further meeting is required.

Reason: To ensure compliance with the International Auditing Standards and other relevant legislative requirements.

21. Audit and Counter Fraud Monitoring Report

Members considered a report which provided an update on the delivery of the internal audit work plan for 2020/21 and on counter-fraud activity undertaken during the year so far, following the resumption of work suspended in March due to Covid-19.

To date, work had commenced on 19 of the audits in the plan approved by the committee on 15 July 2020, as summarised in Annex 1 to the report. Audit reports finalised since the last update were shown in Annex 2. Further details of follow-up

work on agreed actions would be included in future monitoring reports.

Counter fraud work undertaken in accordance with the approved plan was summarised in Annex 3. In the 6 months to 30 September, the team had achieved £185k in savings for the council, against a yearly target of £200k. Successful outcomes had been recorded for 46% of investigations completed. The team had also taken on unplanned work and new procedures due to Covid19, supporting the council by helping to minimise the risk of fraud relating to the payment of grants to local businesses.

Officers responded to Members' questions, confirming that:

- Successful investigation outcomes were in line with those of other local authorities and above the 30% target;
- In respect of business grants, lessons had been learned from the first tranche of grants paid out and the team was in a good position to help prevent fraud occurring at the outset;
- In cases of 'limited assurance' audit findings, the normal process was to agree an action plan with the manager or team; this would be followed up and the results shared with the committee;
- Due to an oversight, the detailed audit reports had not been included in Annex 2; this would be rectified.*

**[Note: the detailed reports have since been published online with the agenda for this meeting, in Agenda Supplement 2].*

Resolved: That the progress made in delivering the 2020/21 internal audit work programme, and the current counter-fraud activity, be noted.

Reason: To confirm that Members have considered the implications of audit and fraud findings.

22. Mazars Audit Completion Report

Members considered the Audit Completion Report from the council's external auditors Mazars (Annex A to the covering report), presenting their findings to date from the audit for the year ended 31 March 2020.

Officers from Mazars were in attendance at the meeting to present the report and respond to any questions. They also commented on the Redmond review considered at the last meeting under Urgent Business (Minute 15a refers). The report of that review contained recommendations aimed at improving confidence in local authority (LA) finances, including detailed proposals for an Office of Local Audit and Regulation. It also explored options for improving the transparency of LA finance reports and examined the sustainability of local audit arrangements. It was not yet clear when government would enact the recommendations.

Mazars officers responded to questions from Members in relation to specific audit areas, as summarised below:

- The further information needed to support a larger than usual increase in the valuation of Heritage assets was now available; it was hoped to conclude this matter soon.
- Ongoing work in relation to severance pay to the former Chief Executive would take into account public complaints if relevant and was unlikely to conclude before February 2021.
- The Covid-19 pandemic was relevant to the valuation of property assets in the 2019/20 accounts because its impact was unknown and could result in significant fluctuations.

The Chair thanked Mazars for their work in the current difficult circumstances and indicated that an additional meeting would be arranged in March 2021 to consider their completed audits in more detail.

Resolved: That the matters set out in the Audit Completion Report presented by the external auditor be noted.

Reason: To ensure the proper consideration of the opinion and conclusions of the external auditor in respect of the annual audit of accounts and review of the council's arrangements for ensuring value for money.

23. Work Plan

Members considered a draft plan of reports expected to be presented to the committee up to April 2022.

Officers explained the new format of the plan, which was colour-coded by theme; the themes being governance, risk, external audit and finance.

With regard to matters raised under Public Participation, it was explained that the plan was a working document and could be added to as required. The question of appointing an independent member to the committee was part of the review of the Constitution and, in view of the recommendations of the Redmond review, would require the recruitment of an appropriately qualified person.

Resolved: That the plan be approved, subject to the following amendments:

- Key Corporate Risks Monitor 2 – to be moved from January 2021 to February 2021;
- Scrutiny of the Treasury Management Strategy Statement and Prudential Indicators – to be moved from February 2021 to January 2021;
- An additional meeting to be arranged in March 2021 to consider the Mazars Audit Progress report.

Reason: So that the committee has a planned programme of work in place.

Cllr M Pavlovic, Chair

[The meeting started at 5:30pm and finished at 7:05pm].

Meeting	Audit and Governance Committee
Date	30 November 2020
Present	Councillors Pavlovic (Chair), Fisher (Vice-Chair), Daubeney, Lomas, Mason, Wann and Webb
In Attendance	Councillor Crawshaw

24. Declarations of Interest

Members were asked to declare any personal interests not included on the Register of Interests, any prejudicial interests or any disclosable pecuniary interests which they may have in respect of business on the agenda. No interests were declared.

25. Public Participation

It was reported that there had been two registrations to speak at the meeting under the Council's Public Participation Scheme.

John Young spoke on matters within the committee's remit, querying the lack of response to his submission of a Freedom of Information (FOI) request 3 months ago on disbursements of Section 106 funds.

Gwen Swinburn spoke on Agenda Items 4 (Information Governance & Complaints) and 6 (Corporate Complaints and Feedback Procedures), raising concerns about the fairness of the council's complaints and social media policies and lack of information on the FOI disclosure log.

26. Risk Management of the York Central Project

Members considered a report which presented an overview of risk management arrangements for the council as part of the York Central Partnership (YCP), together with the most recent up to date versions of the risk registers used to track and manage risk.

The report had been brought in accordance with a request by the Customer & Corporate Services Scrutiny Management Committee (CCSMC) (Calling-in) on 13 August 2020 that this

committee examine the Key Corporate Risks (KCRs) for capital projects, and a subsequent request by the chair of this committee to receive a report on the KCRs associated with the York Central project. The Chair of CCSMC was in attendance at the meeting for this item.

Members questioned officers at length on the report and its annexes, which comprised the risk registers of the Delivery Co-ordination Board (DCB) (Annex 1) and Infrastructure Delivery Board (IDB) (Annex 2), and the interim risk register developed by the council to capture risks not covered in Annexes 1 and 2 (Annex 3). Concerns focused chiefly around: the cumulative impact of risks that might result in additional costs to the council as the project moved forward; the stopping-up of Leeman Road; the implications of award of the £77m MHCLG infrastructure funding to major landowners instead of to CYC; and the council's control over the £35m Enterprise Zone (EZ) funding. In responding to questions, officers stated that:

- The high level overall strategic risk had not changed; however, it was not possible to foresee at a single point in time every risk that might arise over the life of the project.
- Reports taken to Executive at each decision stage included full details of the risks relating to those decisions.
- The risks identified as 'various' in Annex 3 related to risks detailed in Annex 2.
- The council retained planning and highway control, including over the road to be paid for from the £77m MHCLG grant.
- All funding was essentially taxpayers' money that must be accounted for through the governance arrangements of the parties involved.

Resolved: (i) That the content of the report and the information provided at the meeting be noted.

(ii) That the issues raised at this meeting be addressed in the quarterly report to the Customer & Corporate Services Scrutiny Management Committee in January 2021.

(iii) That future reports to the Audit & Governance Committee on the KCRs associated with the York Central project include the risks detailed in the IDB risk register.

(iv) That, should officers become aware of any proposed change to the project involving a significant risk, the matter be considered if possible at the next available meeting of the Audit & Governance Committee before being taken to Executive.

Reason: To ensure that the committee maintains an appropriate oversight of the risks associated with the York Central project.

27. Information Governance and Complaints

Members considered a report which provided updates in respect of information governance performance, Information Commissioner's Officer (ICO) decision notices, publication of the disclosure log and Local Government & Social Care Ombudsman (LGSCO) complaints received since the last report to committee, in February 2020.

Information on performance was shown in graph form at Annex 1 to the report. This reflected some extensions to timescales resulting from the impact of Covid-19 on service areas. Summaries of the three decision notices published by the ICO since the last update were attached at Annex 2. The two complaints upheld and partly upheld due to responses not meeting required timescales had been made at a time when resources were diverted to Covid-19. Annex 3 detailed the 19 cases determined by the LGSCO since 17 February, of which 4 had been upheld.

In response to Members' questions on this and the following report, officers confirmed that:

- A recent increase in Environmental Information Regulations (EIR) requests, probably due to the submission of some large development plans, would continue to be monitored.
- The missing data from Q3 of 2019/20 on FOI requests responded to in time (p.37) would be circulated to Members.
- Failure to respond in time was sometimes due to the complex nature of FOI and EIR requests; there were plans to address this by piloting an 'end to end' system in some service areas and by updating customers in a more timely way if a full response was unlikely to be given in time.

- Senior managers across departments were aware of the issues with complaints and of the pilot, which aimed to involve the complaints team at an earlier stage and was already getting positive responses; it was hoped to include early data in the next update report.

Resolved: That the content of the report be noted.

28. Annual Complaints Report

Members considered a report which presented highlights from the Annual Complaints report from March 2019 to April 2020, shown in full at Annex 1.

The Annual report covered complaints about adults' and children's social care services, other council services dealt with under the council's corporate complaints procedures, Ombudsman cases, and other feedback on services, including compliments received.

There had been an increase in social care complaints compared to the previous year, mostly in relation to delays. On the positive side, increases could reflect improved access to complaints procedures, and feedback provided opportunities to improve. Examples of improvement were highlighted in paragraphs 3.6, 5 and 6.5 of the covering report. Between April 2019 and March 2020, the LGSCO had dealt with 68 cases about the council, 61 of which were concluded, and were satisfied in 100% of cases that the council had successfully implemented their recommendations. The complaints team were currently reviewing their working practices and the corporate complaints policy and procedures.

Resolved: That the details contained in the report be noted.

29. Corporate Complaints and Feedback Proposals

Members considered a report which presented proposals for a revised and refreshed Corporate Complaints and Feedback policy and procedures, as part of the council's review of the governance of complaints and feedback handling.

Officers gave a slide presentation at the meeting to explain the reasons for the review, the main changes proposed in moving from a hierarchical and rigid three-stage process to one more

responsive to complainants' needs, and the benefits this would bring to both customers and the council. The proposed policy and procedures were attached at Annex 1 to the report, with a summary of the changes at Annex 2 and the LGSCO's guidance on complaint handling at Annex 3.

Members commented on the importance, when classifying complaints as 'unreasonable' (Section 13) to distinguish between persistent complaints raising serious issues and those that were merely vexatious, and the need for consistency in the system so that trends could be compared over time. In response to questions, and matters raised under Public Participation, officers confirmed that:

- They would be working with the web content team to make the relevant documents accessible online; printed copies could be made available on request.
- The proposals included processes for dealing with informal feedback, including compliments.
- Customers were never 'blocked' by the council, but were dealt with in accordance with LGSCO advice, including allocation of a single contact point if applicable; the process was subject to regular review and the customer was kept informed.

Resolved: (i) That Option 2 be approved, and the proposed policy and procedures set out in Annex 1 to the report be adopted.

Reason: To ensure that the council's complaints and feedback policy is fit for purpose and accords with the LGSCO's guidance on effective complaint handling.

(ii) That Members' comments on the policy be shared with the Customer & Corporate Services Scrutiny Management Committee.

(iii) That feedback on the operation of the policy be brought to the committee on a regular basis.

Reason: To enable the Audit & Governance Committee to monitor the progress and effectiveness of the policy.

Cllr M Pavlovic, Chair

[The meeting started at 5.37 pm and finished at 9.44 pm].



Audit & Governance Committee**28 January 2021**

Report of the Monitoring Officer

Amendments to the Constitution by the Monitoring Officer since 23 March 2020**Summary**

In response to the COVID-19 pandemic, the Government has issued Regulations which have implications on the functions of the Council. As such the Monitoring Officer has had cause to effect necessary amendments to the Council's Constitution which are outlined in this report.

Background

In response to the national COVID-19 pandemic, the Government has issued legislation and Regulations and associated guidance which have resulted in additional responsibilities and service delivery functions being placed on the Council. As a result this has required amendments to the Council's Constitution by including the legislation detailed below within Section 3 of Council's Constitution. Where necessary, relevant Officer Schemes of Delegation have been amended.

Additions to the Constitution Section 3:

- The Health Protection (Coronavirus, Restrictions) (All Tiers) (England) Regulations 2020 enacted on 2nd December 2020.
- The Health Protection (Coronavirus, Restrictions) (No3) and (All Tiers) (England) (Amendment) Regulations 2021 enacted on 6th January 2021.

Implications**Financial**

Not applicable to this report.

Human Resources (HR)

The Council is required to respond to national public health guidance and associated legislative measures at this time.

Equalities

Not applicable to this report but decisions made under the legislative changes to the Constitution as detailed within this report may be the subject of consideration of equalities implications on a case by case basis.

Legal

As detailed within the report.

Crime and Disorder, Information Technology and Property

The Council will utilise recognised ICT platforms for the delivery of remote meetings and live stream meetings via the existing YouTube channel.

Recommendations

To note the Monitoring Officer's amendments to the Council's Constitution.

Author & Chief Officer responsible for the report:

Janie Berry

Director of Governance &
Monitoring Officer

01904 555385

Report
Approved

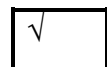


Date 20/01/2021


Specialist Implications Officer(s): none

Wards Affected:

All



For further information please contact the author of the report

 CITY OF YORK COUNCIL		
Audit & Governance Committee		28 January 2021
Report of the Chief Finance Officer		

Scrutiny of Treasury Management Mid year Review and Prudential Indicators 2020/21

Summary

1. Audit & Governance Committee are responsible for ensuring effective scrutiny of the treasury management strategy and policies, as stated in the Treasury Management Strategy 2020/21 approved by full Council on 27 February 2020. The Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance (“the Code”) stipulates that:
 - There needs to be, at a minimum, a mid year review of treasury management strategy and performance. This is intended to highlight any areas of concern that have arisen since the original strategy was approved
 - Those charged with governance are also personally responsible for ensuring they have the necessary skills and training.

2. Attached at annex one is the Treasury Management Mid Year Review and Prudential Indicators 2020/21 report as presented to November 2020 Executive. This information provides Members with an update of treasury management activity for the first six months of 2020/21.

Recommendations

3. (a) Audit & Governance Committee note and scrutinise the Treasury Management Mid year Review and Prudential Indicators 2020/21 at Annex 1A

Reason: That those responsible for scrutiny and governance arrangements are updated on a regular basis to ensure that those implementing policies and executing transactions have properly fulfilled their responsibilities with regard to delegation and reporting.

Analysis

4. The coronavirus outbreak has clearly had a huge impact on the UK economy and 2020/21 has been an exceptionally challenging year for treasury management due to uncertainty in the financial markets caused by COVID-19 and the Brexit negotiations.
5. In terms of day to day treasury management activity, the impact of additional Government funding at short notice, new responsibilities for paying various grants to businesses on behalf of Government along with the additional expenditure and reduction in income receipts across all services has meant that cashflow has been unpredictable.
6. Short term interest rates for investment opportunities continue to be low and the counterparty list, where the council's surplus funds can be invested, is limited. The average rate of return achieved to date in 2020/21 is lower than in 2019/20 but is higher than the benchmark of LIBID rates and the current Bank Rate of 0.10%. Given the fact that any increases in Bank Rate are likely to be gradual and unlikely to return to the levels seen in previous decades, investment returns are expected to remain low.
7. As previously identified, cash balances have decreased as profiled and therefore the Council has begun to take on long term debt to finance the Councils capital programme.
8. The Councils long term borrowing started the year at just over £256m. On 5th May 2020 a £5m PWLB loan was repaid taking long term borrowing to £251m. Two new £5m loans were taken on 28th May 2020 and 29th September 2020 taking long term borrowing to £261m as at 30th September 2020.
9. As part of the 1 year Spending Review published on the 20th November 2020 Government announced that they will reform the Public Works Loans Board (PWLB) lending terms to end the use of PWLB for investment property bought primarily for yield. Alongside this the rates were reduced to gilts +100bps for standard rate and gilts +80bps for the certainty rate, reversing the increase that was brought in towards the end of 2019. In future, before borrowing the Council will need to demonstrate that our capital plans do not include any borrowing to buy assets purely for yield. As the Council has not made any investments purely for yield, and has no plans to do so, this has no impact but does ensure that we can continue to access this source of funding to support the capital programme.

Consultation

10. Not applicable

Options

11. It is a statutory requirement under Local Government Act 2003 for the council to operate in accordance with the CIPFA prudential Code and the CIPFA Treasury Management in the Public Services Code of Practice “the Code”. No alternative options are available.

Council Plan

12. Treasury management is an integral part of the council’s finances providing for cash flow management and financing of capital schemes. It aims to ensure that the council maximises its return on investments, (whilst the priority is for security of capital and liquidity of funds) and minimises the cost of its debts. This allows more resources to be freed up to invest in the Council’s priority areas as set out in the council plan. It therefore underpins all of the council’s aims.

Implications

13. The implications are
- Financial – the security of the Councils capital funds is a priority, maximising returns on investments is still key along with minimising the finance costs of debt.
 - Human Resources - there are no human resource implications to this report.
 - Equalities - there are no equality implications to this report.
 - Legal - there are no legal implications to this report.
 - Crime and Disorder - there are no crime and disorder implications to this report.
 - Information Technology - there are no information technology implications to this report.
 - Property –there are no property implications to this report.
 - Other – there are no other implications to this report.

Risk Management

14. The treasury management function is a high-risk area because of the volume and level of large money transactions. As a result of this the Local Government Act 2003 (as amended), the CIPFA Prudential Code and the CIPFA Treasury Management in the Public Services Code of Practice (the code) are all adhered to as required.

Contact Details			
Author:		Chief Officer responsible for the report:	
Debbie Mitchell Chief Finance Officer		Debbie Mitchell Chief Finance Officer	
Emma Audrain Principal Technical Accountant			
		Report approved	x 19.1.21
Specialist Implications Officer(s) None			
Wards Affected:		All	√

For further information please contact the author of this report
Background Working Papers
None

Annexes

1. Treasury Management Mid Year Review and Prudential Indicators 2020/21
2. Annex A to above report – Prudential Indicators 2020/21



Executive**26 November 2020**

Report of the Chief Finance Officer

Portfolio of the Executive Member for Finance and Performance

**Treasury Management Mid-Year Review and Prudential Indicators
2020/21****Summary**

1. The Council is required through legislation to provide members with a mid-year update on treasury management activities. This report provides an update on activity for the period 1 April 2020 to 30 September 2020.

Recommendations

2. Members are required, in accordance with the Local Government Act 2003 (revised), to:
 - Note the Treasury Management activities to date in 2020/21
 - Note the Prudential Indicators set out at Annex A and note the compliance with all indicators.

Reason: to ensure the continued performance of the Council's Treasury Management function.

Background

3. The Treasury Management function is responsible for the effective management of the Council's investments, cash flows, banking, and money market transactions. It also considers the effective control of the risks associated with those activities and ensures optimum performance within those risk parameters.
4. This mid-year report has been prepared in compliance with the Chartered Institute of Public Finance and Accountancy's (CIPFA) CIPFA's Code of Practice on Treasury Management, and covers the following:
 - An economic update for the first part of the 2020/21 financial year;
 - A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
 - The prudential indicators;

- A review of the Council's investment portfolio;
- A review of the Council's borrowing strategy;
- A review of compliance with the Treasury and Prudential Limits.

Interest Rate Forecast

5. Table 1 is Link Asset Services Interest Rate forecast for both the bank rate and long term Public Works Loans Board borrowing rates (note all figures are percentages):

	Dec 20	Mar 21	Jun 21	Sep 21	Dec 21	Mar 22	Jun 22	Sep 22	Dec 22	Mar 23
Bank Rate	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
5 Yr PWLB rate	1.90	2.00	2.00	2.00	2.00	2.00	2.10	2.10	2.10	2.10
10 Yr PWLB rate	2.10	2.10	2.10	2.10	2.20	2.20	2.20	2.30	2.30	2.30
25 Yr PWLB rate	2.50	2.50	2.50	2.60	2.60	2.60	2.70	2.70	2.70	2.70
50 Yr PWLB rate	2.30	2.30	2.30	2.40	2.40	2.40	2.50	2.50	2.50	2.50

Table 1: Link Asset Services Interest Rate Forecast (%)

6. 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.
7. 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. The way in which second waves of the virus are now impacting many countries including Britain, highlights the dangers. Initially it was expected that, rather than a national lockdown as in March, any spikes in virus infections were more likely to be dealt with by localised measures and that this would limit the amount of economic damage caused. However, subsequently a second lockdown was announced on 31st October. In addition, Brexit uncertainties ahead of the year-end deadline are likely to be a drag on recovery. However, the Chancellor has made a number of announcements recently regarding further packages of support for businesses. There was also further help for the self-employed, freelancers and the hospitality industry.

8. 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.
9. 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.

Annual Investment Strategy Update

10. Council approved the Treasury Management Strategy Statement for 2020/21 on 27 February 2020. There are no policy changes and the details in this report do not amend the Statement.
11. The Council's Annual Investment Strategy, which is incorporated in the Strategy, outlines the Council's investment priorities as follows:
 - security of capital
 - liquidity
 - yield
 - FTSE4Good index
12. The Council continues to aim to achieve the optimum return (yield) on investments commensurate with the proper levels of security and liquidity and the Council's risk appetite.

Investment Portfolio

13. The average level of cash balances available for investment purposes in the first 6 months of 2020/21 was £20.272m (£61.336m for the same 6 month

period in 19/20). The level of cash balances available is largely dependent on the timing of the Council's cash flow as a result of precept payments, receipt of grants, receipt of developers contributions, borrowing for capital purposes, payments to its suppliers of goods and services and spend progress on the Capital Programme. These funds are therefore only available on a temporary basis depending on cash flow movement.

14. The average level of cash balances has decreased compared to a year ago due to a number of factors. These include a number of delayed capital schemes now-progressing.
15. As previously identified, cash balances have decreased as profiled and therefore the Council has begun to take on long term debt to finance the Councils capital programme.
16. Investment return (calculated as the amount of interest earned against the average cash balance for the period) during the first six months of 2020/21 is shown in table 2:

	2019/20 (full year)	2020/21 (part year to date)
Average CYC Rate of Return	0.74	0.25
Benchmarks		
Average 7 Day LIBID	0.53	-0.06
Average 1 Month LIBID	0.56	-0.02

Table 2: CYCs investment rate of return performance vs. benchmarks

17. The average rate of return achieved to date in 2020/21 has decreased compared to the average seen in 2019/20, due to the change in bank rate.
18. It remains a very difficult investment market in terms of earning the level of interest rates commonly seen in previous decades as rates continue to be very low and in line with the current 0.1% Bank Rate. Given that no increases in Bank Rate are anticipated in the next few years and are unlikely to return to the levels seen in previous decades, investment returns are likely to remain low.
19. Figure 1 shows the interest rates available on the market based on LIBID rates between 7 days and 1 year and also the rate of return that the Council has achieved for the first six months of 2020/21. It shows that favourable /

competitive interest rates have been obtained for investments whilst ensuring the required liquidity and security of funds for the Council.

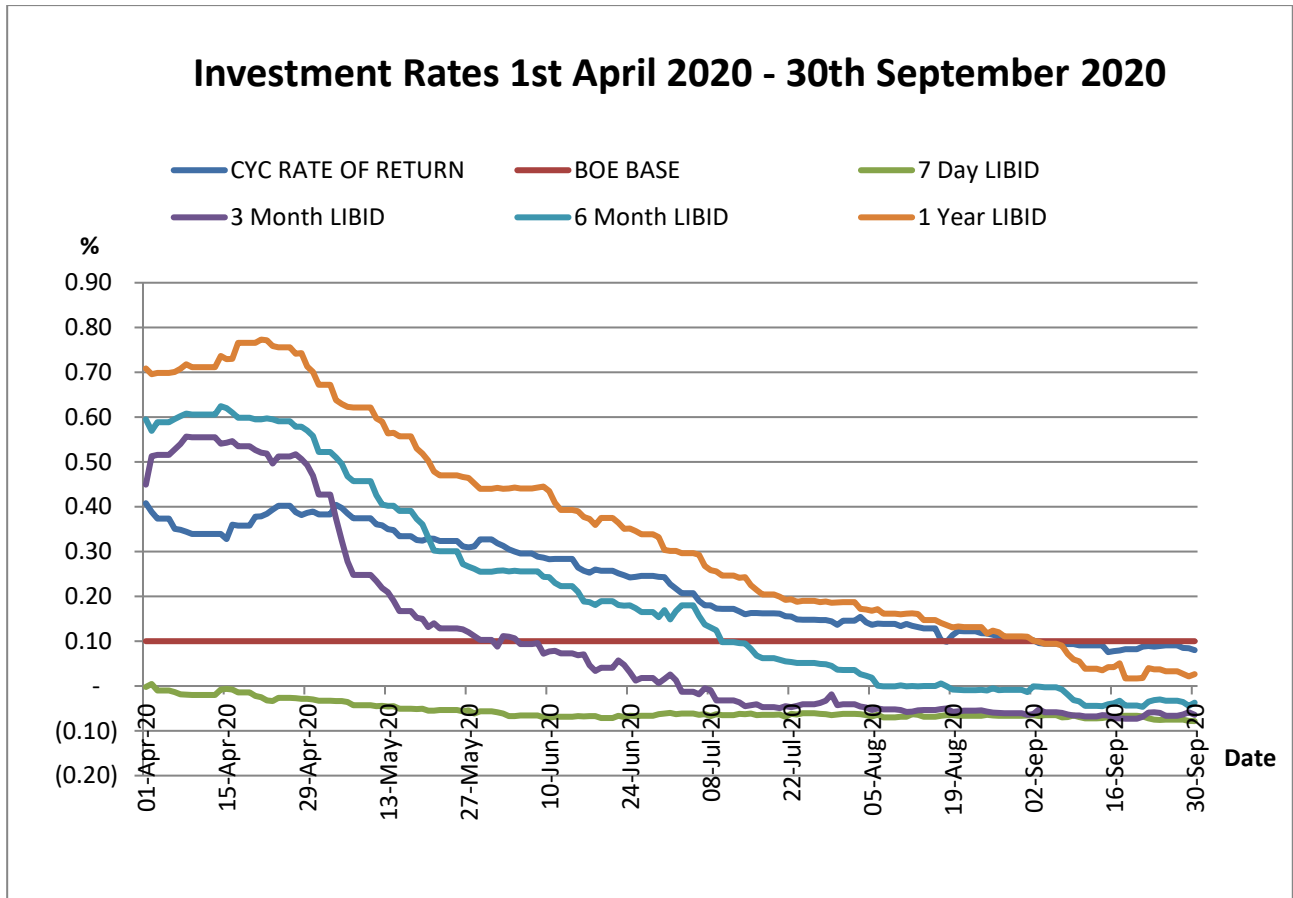


Figure 1 CYC Investments vs Money Market Rates up to 30th September 2020

- 20. Figure 2 shows the investments portfolio split by cash in bank, deposits in short term call accounts, fixed term investments and money market funds (MMFs).
- 21. All of the money market funds have an AAA credit rating and cash in the bank account is AA-.

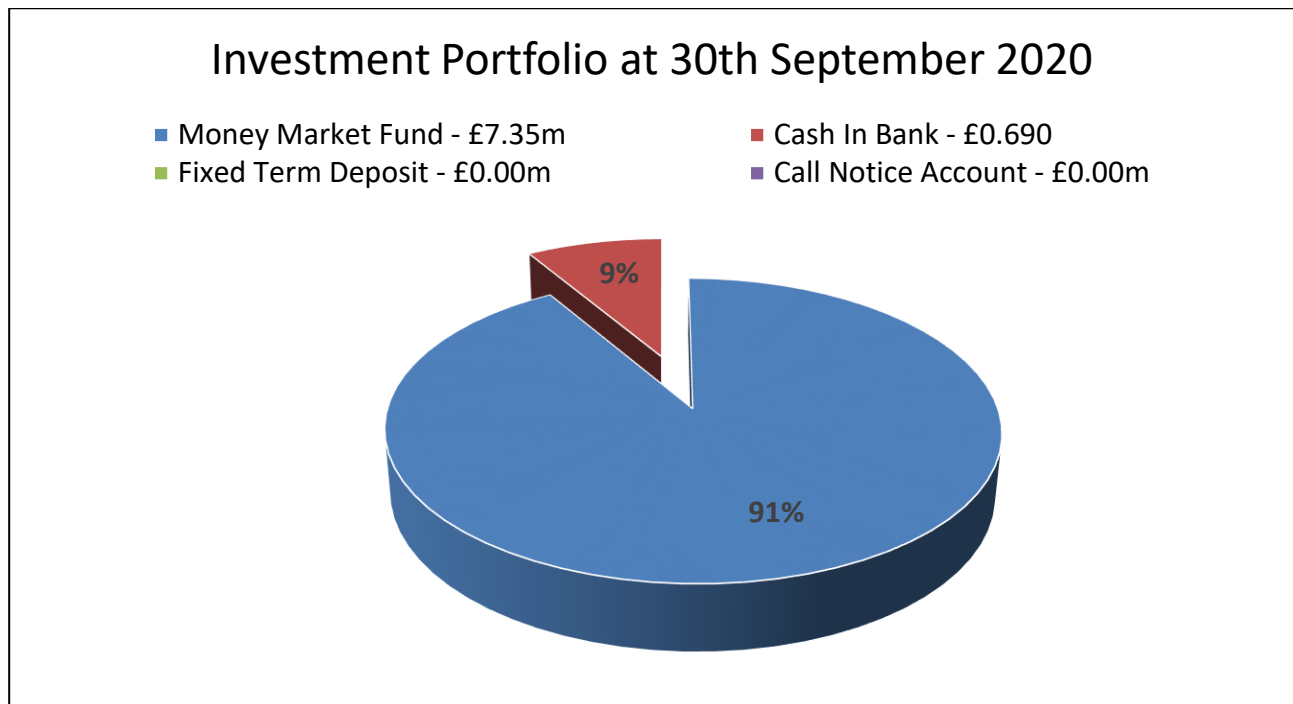


Figure 2 Investment Portfolio by type at 30th September 2020

Borrowing Portfolio

22. The Council undertakes long term borrowing in accordance with the investment requirements of the capital programme and all borrowing is therefore secured for the purpose of its asset base.
23. The level of borrowing taken by the Council is determined by the Capital Financing Requirement (the Councils underlying need to borrow for capital expenditure purposes). Borrowing needs to be affordable, sustainable and prudent.
24. Under regulation, the Council can borrow in advance of need and Markets are therefore constantly monitored and analysed to ensure that advantage is taken of favourable rates and the increased borrowing requirement is not as dependant on interest rates in any one year.
25. On the reverse side, the Council's level of borrowing can also be below the Capital Financing Requirement. This would mean that instead of increasing the Council's level of borrowing, surplus funds held for investment purposes would be utilised. In the current interest rate environment, where investment rates on holding investments are significantly below borrowing rates, consideration is given to the value of taking borrowing or whether it is better for the council to keep investment balances lower.

26. The finance team continues to closely monitor the opportunities that arise and receive daily updates from Link Asset Services in respect of borrowing timings and amounts. Two new loans have been taken during this period.
27. The Councils long-term borrowing started the year at a level of £256.465m. On 5th May 2020 a £5m PWLB loan was repaid taking the Councils long-term borrowing figure to £251.465m. A further £5m PWLB loan repayment will be made on 9th November. On 28th May 2020 a new £5m PWLB loan was taken and on 29th September a new £5m PWLB loan was taken. This takes the Councils long-term borrowing figure to £261.465m. The Housing Revenue Account settlement debt amount is 56% of the borrowing portfolio (£146.359m) and the General Fund debt is 42% (£115.106m).
28. Figure 3 illustrates the 2020/21 maturity profile of the Council's debt portfolio at 30th September 2020. The maturity profile shows that there is no large concentration of loan maturity in any one year, thereby spreading the interest rate risk dependency.

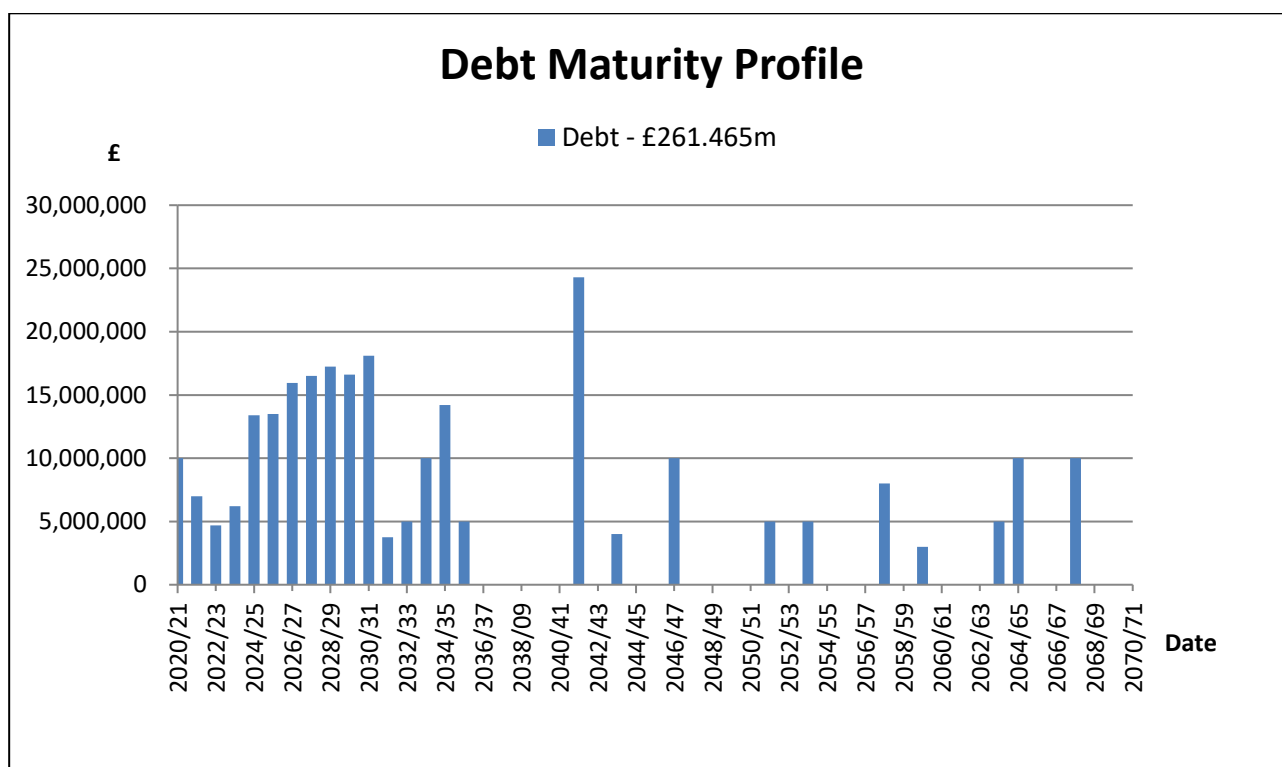


Figure 3 – Debt Maturity Profile at 30th September 2020

29. Table 3 shows PWLB Certainty borrowing rates available for selected loan durations.

	PWLB Certainty borrowing rates by duration of loan				
	1 Year	5 Year	10 Year	25 Year	50 Year
Yr High	1.94	2.00	2.23	2.80	2.65

Yr Low	1.70	1.68	1.94	2.40	2.13
Yr Avg	1.80	1.81	2.07	2.54	2.32

Table 3 – PWLB Borrowing Rates (%) – to 30th September 2020

Compliance with Prudential Indicators

30. The Prudential Indicators for 2020/21 included in the Treasury Management Strategy Statement are based on the requirements of the Council's capital programme and approved at Budget Council on 27 February 2020.
31. It is a statutory duty for the Council to determine and keep under review the "Affordable Borrowing Limits" included in the Prudential Indicators. The monitoring of the Prudential Indicators is attached at Annex A. During the financial year 2020/21 to date the Council has operated within the treasury limits and Prudential Indicators set out.

Consultation and Options

32. The report shows the six month position of the treasury management portfolio in 2020/21. The treasury management budget was set in light of the council's expenditure plans and the wider economic market conditions, based on advice from Link Asset Services. It is a statutory requirement to provide the information detailed in the report.

Council Plan

33. The treasury management function aims to achieve the optimum return on investments commensurate with the proper levels of security, and to minimise the interest payable by the Council on its debt structure. It thereby contributes to all Council Plan priorities.

Financial implications

34. The financial implications are in the body of the report.

Legal Implications

35. Treasury Management activities have to conform to the Local Government Act 2003, the Local Authorities (Capital; Finance and Accounting) (England) Regulations 2003 (SI 2003/3146), which specifies that the Council is required

to have regard to the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice and also the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 (SI 2008/414), which clarifies the requirements of the Minimum Revenue Provision guidance.

Other Implications

36. There are no crime and disorder, information technology, property, equalities, human resources or other implications because of this report.

Risk Management

37. The Treasury Management function is a high-risk area because of the level of large money transactions that take place. As a result, there are procedures set out for day to day treasury management operations that aim to reduce the risk associated with high volume high value transactions. These are detailed in the Treasury Management Strategy Statement at the start of each financial year.

Contact Details

Authors:	Chief Officer Responsible for the report:		
Debbie Mitchell Chief Finance Officer 01904 554161	Debbie Mitchell Chief Finance Officer		
	Report Approved	x	Date 12.11.2020
Wards Affected: All			
For further information please contact the author of the report			

Specialist Implications:
Legal – Not Applicable
Property – Not Applicable
Information Technology – Not Applicable

Annexes

Annex A – Prudential Indicators 2020/21

Glossary of Abbreviations used in the report:

LIBID	London Interbank Bid Rate
PWLB	Public Works Loans Board

Prudential Indicators 2020/21 Mid-Year

	Prudential Indicator		2020/21	2021/22	2022/23	2023/24	2024/25	
1	Capital expenditure To allow the authority to plan for capital financing as a result of the capital programme and enable the monitoring of capital budgets.	GF	£102.5m	£99.4m	£126.3m	£84.7m	£15.7m	
		HRA	£42.2m	£63.4m	£39.2m	£34.6m	£8.3m	
		PFI	£0.0m	£0.0m	£0.0m	£0.0m	£0.0m	
		<u>Total</u>	<u>£144.7m</u>	<u>£162.8m</u>	<u>£165.5m</u>	<u>£119.3m</u>	<u>£24.0m</u>	
2	CFR Indicates the Council's underlying need to borrow money for capital purposes. The majority of the capital programme is funded through government support, government grant or the use of capital receipts. The use of borrowing increases the CFR.	GF	£280.2m	£313.9m	£327.3m	£338.7m	£333.7m	
		HRA	£146.4m	£146.4m	£146.4m	£146.4m	£146.4m	
		Other LT	£45.2m	£48.3m	£47.1m	£46.0m	£44.9m	
		<u>Total</u>	<u>£471.8m</u>	<u>£508.6m</u>	<u>£520.8m</u>	<u>£531.1m</u>	<u>£525.0m</u>	
3	Ratio of financing costs to net revenue stream An estimate of the cost of borrowing in relation to the net cost of Council services to be met from government grant and council taxpayers. In the case of the HRA the net revenue stream is the income from rents. <i>Note that in future years some of the forecast debt will be directly funded by business rates income and a number of other self financing schemes, where income is generated to meet the cost of investment in the scheme.</i>	GF	12.05%	16.12%	17.79%	19.19%	20.64%	
		HRA	11.63%	11.32%	11.01%	10.70%	10.43%	
		<u>Total</u>	<u>11.96%</u>	<u>15.11%</u>	<u>16.33%</u>	<u>17.31%</u>	<u>18.34%</u>	
4	External debt To ensure that borrowing levels are prudent over the medium term the Council's external borrowing, net of	Gross Debt	£365.7m	£408.8m	£434.9m	£460.6m	£470.5m	
		Invest	£8.0m	£10.0m	£10.0m	£10.0m	£10.0m	
		<u>Net Debt</u>	<u>£357.6m</u>	<u>£398.8m</u>	<u>£424.9m</u>	<u>£450.6m</u>	<u>£460.5m</u>	

	Prudential Indicator		2020/21	2021/22	2022/23	2023/24	2024/25	
	investments, must only be for a capital purpose and so not exceed the CFR.							
5 a	<p>Authorised limit for external debt</p> <p>The authorised limit is a level set above the operational boundary in acceptance that the operational boundary may well be breached because of cash flows. It represents an absolute maximum level of debt that could be sustained for only a short period of time. The council sets an operational boundary for its total external debt, gross of investments, separately identifying borrowing from other long-term liabilities.</p>	Borrowing / Other long term liabilities	<p>£509.6m</p> <p>£30.0m</p> <hr/> <p>£539.6m</p> <p>(£539.6m set at 20/21 Strategy)</p>	<p>£518.6m</p> <p>£30.0m</p> <hr/> <p>£548.6m</p> <p>(Based on current CFR projection)</p>	<p>£530.8m</p> <p>£30.0m</p> <hr/> <p>£560.8m</p> <p>(Based on current CFR projection)</p>	<p>£541.1m</p> <p>£30.0m</p> <hr/> <p>£571.1m</p> <p>(Based on current CFR projection)</p>	<p>£535.0m</p> <p>£30.0m</p> <hr/> <p>£565.0m</p> <p>(Based on current CFR projection)</p>	
5 b	<p>Operational boundary for external debt</p> <p>The operational boundary is a measure of the most likely, prudent, level of debt. It takes account of risk management and analysis to arrive at the maximum level of debt projected as part of this prudent assessment. It is a means by which the authority manages its external debt to ensure that it remains within the self-imposed authority limit. It is a direct link between the Council's plans for capital expenditure; our estimates of the capital financing requirement; and estimated operational cash flow for the year.</p>	Borrowing / Short Term Liquidity Requirement	<p>£499.6m</p> <p>£10.0m</p> <hr/> <p>£509.6m</p> <p>(£509.6m set at 20/21 Strategy)</p>	<p>£508.6m</p> <p>£10.0m</p> <hr/> <p>£518.6m</p> <p>(Based on current CFR projection)</p>	<p>£520.8m</p> <p>£10.0m</p> <hr/> <p>£530.8m</p> <p>(Based on current CFR projection)</p>	<p>£531.1m</p> <p>£10.0m</p> <hr/> <p>£541.1m</p> <p>(Based on current CFR projection)</p>	<p>£525.0m</p> <p>£10.0m</p> <hr/> <p>£535.0m</p> <p>(Based on current CFR projection)</p>	

6	Maturity structure of fixed rate borrowing To minimise the impact of debt maturity on the cash flow of the Council. Over exposure to debt maturity in any one year could mean that the Council has insufficient liquidity to meet its repayment liabilities, and as a result could be exposed to risk of interest rate fluctuations in the future where loans are maturing. The Council therefore sets limits whereby long-term loans mature in different periods thus spreading the risk.	Maturity profile of debt against approved limits	Maturity Profile	Debt (£)	Debt (%)	Approved Minimum Limit	Approved Maximum Limit		
				Less than 1 yr	£12.0m	5%	0%	30%	In line with the TMSS Lobo loans are shown as due at their next call date as this is the date the lender could require payment.
				1 to 2 yrs	£5.0m	2%	0%	30%	
				2 to 5 yrs	£27.3m	10%	0%	40%	
				5 to 10 yrs	£55.4m	21%	0%	40%	
				10 yrs and above	£161.8m	62%	30%	90%	
				Total	£261.5m	100%	-	-	
7	Upper limit for total principal sums invested for over 364 days The Council sets an upper limit for each forward financial year period for the level of investments that mature in over 364 days. These limits reduce the liquidity and interest rate risk associated with investing for more than one year. The limits are set as a percentage of the average balances of the investment portfolio.		£15m	£15m	£15m	£15m	£15m		

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Audit and Governance Committee**28 January 2021**

Report of the Chief Finance Officer

Scrutiny of the Treasury Management Strategy Statement and Prudential Indicators for 2021/22 to 2025/26**Summary**

1. This report is a statutory requirement setting the strategy for treasury management and specific treasury management indicators for the financial year 2021/22. The strategy is set against a context of projected interest rates and the Council's capital expenditure programme and leaves investment criteria and limits largely unchanged.
2. The Council has significant investments and borrowing which bring with them financial risk including the loss of invested funds and the revenue impact of changes in interest rates. It therefore requires an overall strategy as well as practices and procedures to identify, monitor and control the risks.

Background

3. The Treasury Management Strategy Statement and Prudential Indicators 2021/22 to 2025/26 are attached at annex A and cover the:
 - Integrated treasury management strategy statement including the annual investment strategy and the minimum revenue provision policy statement;
 - Prudential indicators
 - Revised treasury management policy statement
 - Specified and non-specified investments schedule
 - Treasury management scheme of delegation and role of the section 151 officer
4. There are no significant changes to the strategy.

Consultation

5. Treasury management strategy and activity is influenced by the capital investment and revenue spending decisions made by the Council. Both the revenue and capital budgets have been through a process of consultation,

details of which are outlined in the budget reports to be considered by Executive on 11th February 2021.

Options

6. It is a statutory requirement for the council to operate in accordance with the CIPFA Prudential Code.

Council Plan

7. The treasury management strategy statement and prudential indicators are aimed at ensuring the council maximises its return on investments and minimises the cost of its debts whilst operating in a financial environment that safeguards the council's funds. This will allow more resources to be freed up to invest in the council's priorities, values and imperatives as set out in the Council Plan.

Implications

Financial

8. The revenue implications of the treasury strategy are set out in the revenue budget report to be considered by Executive on 11th February 2021.

Legal Implications

9. Treasury Management activities have to conform to the Local Government Act 2003 and statutory guidance issued under that Act, the Local Authorities (Capital; Finance and Accounting) (England) Regulations 2003 (SI 2003/3146), which specifies that the Council is required to have regard to the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice and also the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 (SI 2008/414), which clarifies the requirements of the Minimum Revenue Provision guidance.

Other Implications

10. There are no HR, Equalities, crime and disorder, information technology or other implications as a result of this report

Risk Management

11. The treasury management function is a high-risk area because of the volume and level of large money transactions. As a result of this the Local

Government Act 2003 (as amended), supporting regulations, the CIPFA Prudential Code and the CIPFA Treasury Management in the Public Services Code of Practice (the code) are all adhered to as required.

Recommendation

12. Audit and Governance Committee are asked to:

- a. note the treasury management strategy statement and prudential indicators for 2021/22 to 2025/26 at annex A.

Reason: So that those responsible for scrutiny and governance arrangements are properly updated and able to fulfil their responsibilities in scrutinising the strategy and policy.

Contact Details	
Author	Chief Officer responsible for the report
Debbie Mitchell Chief Finance Officer	Debbie Mitchell Chief Finance Officer
Emma Audrain Principal Technical Accountant	
	Report approved 19.1.21
Wards affected	All

Annexes

Annex A – Treasury Management Strategy Statement and Prudential Indicators for 2021/22 to 2025/26

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Executive**11 February 2021**

Report of the Chief Finance Officer

Treasury Management Strategy Statement and Prudential Indicators for 2021/22 to 2025/26**Report Summary**

1. The purpose of this report is to seek the recommendation of Executive to Full Council for the approval of the treasury management strategy and prudential indicators for the 2021/22 financial year.

Recommendations

2. Executive are asked to recommend that Council approve:
 - The proposed treasury management strategy for 2021/22 including the annual investment strategy and the minimum revenue provision policy statement;
 - The prudential indicators for 2021/22 to 2025/26 in the main body of the report;
 - The specified and non-specified investments schedule (annex B)
 - The scheme of delegation and the role of the section 151 officer (annex D)

Reason: To enable the continued effective operation of the treasury management function and ensure that all council borrowing is prudent, affordable and sustainable.

Background

3. The council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. The first function 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.
4. The second main function of the treasury management service is funding of the council's capital programme. The capital programme provides a guide to the borrowing need of the council, essentially the longer term cash flow

planning, to ensure that the council can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses. On occasion any debt previously drawn may be restructured to meet council risk or cost objectives.

5. The contribution the treasury management function makes to the council is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.
6. Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activities, (arising usually from capital expenditure), and are separate from the day to day treasury management activities.
7. CIPFA (Chartered Institute of Public Finance and Accountancy) defines treasury management as:

“The management of the local authority’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.”

Reporting requirements – Capital Strategy

8. The CIPFA revised 2017 Prudential and Treasury Management Codes require all local authorities to prepare an additional report, a capital strategy report, which will provide the following:
 - a high-level long term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
 - an overview of how the associated risk is managed
 - the implications for future financial sustainability
9. The aim of this capital strategy is to ensure that all elected members on the full council fully understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite.

10. This capital strategy is reported separately from the Treasury Management Strategy Statement; non-treasury investments will be reported through the former. This ensures the separation of the core treasury function under security, liquidity and yield principles, and the policy and commercialism investments usually driven by expenditure on an asset. The capital strategy will show:
- The corporate governance arrangements for these types of activities;
 - Any service objectives relating to the investments;
 - The debt related to the activity and the associated interest costs;
 - The payback period (MRP policy);
 - The risks associated with each activity.
11. Where a physical asset is being bought, details of market research, advisers used, ongoing costs and investment requirements will be disclosed, including the ability to sell the asset and realise the investment cash.
12. Where the Council has borrowed to fund any non-treasury investment, there should also be an explanation of why borrowing was required and why the MHCLG Investment Guidance and CIPFA Prudential Code have not been adhered to.
13. If any non-treasury investment sustains a loss during the final accounts and audit process, the strategy and revenue implications will be reported through the same procedure as the capital strategy.

Reporting requirements – Treasury Management

14. The council is currently required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals. The three reports are:
- **Treasury management strategy statement and prudential indicators report** (this report) – which covers the capital plans including prudential indicators, the minimum revenue provision policy, the treasury management strategy and the annual investment strategy;
 - **Mid year treasury management report** – updates members as to whether the treasury activities are meeting the strategy, whether any policies require revision, amending prudential indicators if necessary;
 - **Annual treasury report** – updates on treasury activity/ operations for the year and compares actual prudential indicators with estimates in the strategy.
15. These reports are required to be scrutinised before being recommended to the council. This scrutiny role is undertaken by Audit & Governance Committee.

16. The CIPFA code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny. The training needs of treasury management officers is also periodically reviewed.

Treasury management strategy for 2021/22

17. The treasury management strategy for 2021/22 covers two main areas:

Capital issues

- the capital programme and prudential indicators;
- minimum revenue provision (MRP) policy.

Treasury management issues

- prudential indicators which will limit the treasury management risk and activities of the Council;
- the current treasury position;
- prospects for interest rates;
- the borrowing strategy;
- policy on borrowing in advance of need;
- debt rescheduling;
- creditworthiness policy;
- investment strategy;
- policy on use of external service providers;
- scheme of delegation and the role of the S151 officer

18. These elements cover the statutory and regulatory requirements of the Local Government Act 2003, the CIPFA Prudential Code, the Ministry of Housing, Communities and Local Government (MHCLG) Minimum Revenue Provision (MRP) Guidance, the CIPFA Treasury Management Code and the MHCLG Investment Guidance.

Treasury management consultants

19. The council uses the Link Group, Treasury solutions as its external treasury management advisors.

20. 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 our external service providers. All

decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisers.

21. 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.

The capital prudential indicators 2021/22 – 2025/26

22. The council's capital expenditure plans are the key driver of treasury management activity and are the subject of a separate report on this agenda. The output of the capital programme is reflected in the capital prudential indicators, which are designed to assist member's overview of the council's capital programme to ensure that the capital expenditure plans are affordable, sustainable and prudent.
23. The capital prudential indicators along with the treasury management prudential indicators are included throughout the report:

- PI 1: Capital expenditure
- PI 2: Capital financing requirement
- PI 3: Ratio of financing cost to net revenue stream
- PI 4: External debt
- PI 5a: Authorised limit for external debt
- PI 5b: Operational boundary for external debt
- PI 6: Maturity structure of debt
- PI 7: Surplus funds invested >364 days

24. **Prudential indicator 1 - capital expenditure.** This prudential Indicator is a summary of the council's capital expenditure plans forming part of this budget cycle. 2020/21 is included as a comparator. Detailed information on the individual schemes is provided in the capital monitor 3 and capital strategy report.

Capital Expenditure	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m
General fund (Non HRA)	76.9	138.0	136.2	85.1	16.1	18.9
Housing revenue account	43.0	64.5	39.2	35.0	9.6	9.5
Total	119.9	202.5	175.4	120.1	25.7	28.4

Table 1: Capital expenditure

25. Table 1 details the capital expenditure of the council, based on the capital programme strategy report, excluding other long term liabilities, such as PFI

and leasing arrangements which already include borrowing instruments. There are no new PFI schemes forecast to be entered into in 2021/22.

26. Further details on this capital expenditure, and how it is funded, are included within the Capital Programme report elsewhere on this agenda.
27. **Prudential indicator 2 - the capital financing requirement (CFR) (council's borrowing need)**; the second prudential indicator is the council's capital financing requirement (CFR). 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.
28. The CFR does not increase indefinitely, because the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the indebtedness in line with each assets life, and so charges the economic consumption of capital assets as they are used.
29. The CFR includes any other long term liabilities (e.g. PFI schemes, finance leases). Whilst these increase the CFR, and therefore the council's overall borrowing requirement, these types of scheme include a borrowing facility and so the council is not required to separately borrow for these schemes. As set out in paragraph 47 table 5 the projected level of debt is significantly below the CFR over the 5 year period.
30. Table 2 below, shows the capital financing requirement, excluding other long term liabilities:

Capital Financing Requirement	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m
Non Housing	264.6	326.0	338.7	349.6	343.9	340.4
Housing	146.4	146.4	146.4	146.4	146.4	146.4
Other Long Term Borrowing*	45.2	44.0	47.1	46.0	44.9	43.7
Total CFR	456.2	516.4	532.2	542.0	535.2	530.5

*Other Long Term is for PFI/PPP & Leases

Table 2: Capital financing requirement (CFR)

Minimum revenue provision (MRP) policy statement

31. The council is required to pay off an element of the accumulated general fund capital expenditure each year (the CFR) through a revenue charge (the minimum revenue provision - MRP), although it is also allowed to

undertake additional voluntary payments if required (voluntary revenue provision - VRP).

32. MHCLG regulations require full council to approve an MRP statement in advance of each year. A variety of options are provided to councils, so long as there is prudent provision. Full Council is recommended to approved the following MRP statement:

33. For capital expenditure incurred before 1 April 2008 the MRP policy will be:

- **Asset life method (local approach)** - MRP will be based on the average life of the overall asset base of 33 years. This will be calculated as 3% on a fixed, straight line basis.

34. This provides for a 3% reduction in the borrowing need (CFR) each year.

35. From 1 April 2008 for all borrowing (including PFI and finance leases) the MRP policy will be:

- **Asset life method** – MRP will be based on the estimated life of the assets, in accordance with the regulations (this option must be applied for any expenditure capitalised under a Capitalisation Direction);

36. This option provides for a reduction in the borrowing need over approximately the asset's life. The asset life is an absolute maximum and wherever possible debt is repaid over a shorter period. Estimated asset life periods will be determined under delegated powers. With all debts, the longer the repayment period the higher the amount of interest incurred over the period of the loan and accordingly it is deemed prudent to reduce the period over which the repayments are made.

37. There is no requirement on the HRA to make a minimum revenue provision but there is a requirement for a charge for depreciation to be made (although there are transitional arrangements in place).

38. Repayments included in annual PFI or finance leases are also applied as MRP.

Affordability prudential indicators

39. The prudential indicators mentioned so far in the report cover the overall capital programme and the control of borrowing through the capital financing requirement (CFR), but within this framework prudential indicators are required to assess the affordability of capital investment plans. These provide an indication of the impact of the capital programme investment plans on the council's overall finances.

40. Prudential indicator 3 - ratio of financing costs to net revenue stream.

This indicator identifies the trend in the cost of capital (borrowing net of investment income) and compares it to the council's net revenue stream.

Financing Costs	2020/21 Estimate %	2021/22 Estimate %	2022/23 Estimate %	2023/24 Estimate %	2024/25 Estimate %	2025/26 Estimate %
Non-HRA	11.09	13.43	16.36	17.15	18.18	18.52
HRA	12.39	12.33	12.33	12.33	12.33	12.33
Total Ratio	11.34	13.22	15.59	16.22	17.05	17.33

Table 3: Ratio of financing costs to net revenue stream

41. The estimates of financing costs include current commitments and the proposals in the capital budget report considered elsewhere on this agenda.

42. The capital prudential indicators set out above ensure that the council's capital expenditure plans are affordable, sustainable and prudent. The treasury management function ensures that cash is available to meet the council's requirements in accordance with the Local Government Act 2003 and relevant professional codes

43. The treasury management function involves both the forecasting of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the prudential / treasury indicators, the current and projected debt positions and the annual investment strategy.

Current portfolio position

44. The council's treasury portfolio position at 31st December 2020 is detailed below in table 4:

Institution Type	Principal	Average Rate
<u>Public Works Loan Board</u> PWLB (58) – Money borrowed from the Debt Management Office (Treasury Agency)	£254.1m	3.49%
<u>Market Loans</u> LOBO Loans (1) – Lender Option Borrower Option	£5.0m	3.88%
<u>West Yorkshire Combined Authority</u>	£2.4m	0.00%

WYCA (4) – Zero interest loans the purpose of which are to help to fund York Central infrastructure projects		
Total Gross Borrowing (GF & HRA)	£261.5m	3.50%
Total Investments	£0.1m	0.01%

Table 4: Current position at 31st December 2020

45. The council had £261.5m of fixed interest rate debt, of which £146.4m was HRA and £115.1m general fund. The cash balance available for investment was £0.1m. As the capital programme has progressed the level of cash available for investment is gradually decreasing as expected as the Council is using previously held balances to fund the programme.
46. Within the prudential indicators, there are a number of key indicators to ensure that the council operates its activities within well-defined limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. One of these is that the council needs to ensure that its total gross debt does not, except in the short term, exceed the total of the capital financing requirement (CFR) in the preceding year plus the estimates of any additional CFR for 2021/22 and the following two financial years. This allows the flexibility to borrow in advance of need but ensures that borrowing is not undertaken for revenue purposes.
47. **Prudential indicator 4 – external debt** Table 5 shows that the estimated gross debt position of the council does not exceed the underlying capital borrowing need. The Chief Finance Officer (s151 officer) confirms that the council complies with this prudential indicator and does not envisage difficulties for the future.

	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m
Gross projected debt*	349.7	420.5	450.6	475.5	485.4	497.2
Total CFR	456.2	516.4	532.2	542.0	535.2	530.5
Under/(over) borrowed	Under	Under	Under	Under	Under	Under

*Gross projected debt includes Other Long Term liabilities such as PFI/PPP & Leases

Table 5: External debt < capital financing requirement

48. Table 5 shows a gap between actual and estimated borrowing and the CFR (driven by the use of internal funds to finance capital expenditure). The decision as to whether to continue to do this will take into account current assumptions on borrowing rates and levels of internal reserves and

balances held by the council. The figures above show a decrease in the gap between CFR and external debt as borrowing is taken to support capital expenditure, however this will be determined by the s151 officer and the figure above is a current broad assumption. Actual borrowing will be determined by the circumstances that prevail at the time on borrowing rates and levels of cash balances.

Prudential indicators: limits on authority to borrow

49. **Prudential indicator 5A – authorised borrowing limit** - It is a statutory duty under Section 3 (1) of the Local Government Act 2003 and supporting regulations, for the council to determine and keep under review how much it can afford to borrow. This amount is termed the “authorised borrowing limit”, and represents a control on the maximum level of debt. This is a limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full council. It reflects the level of external debt, which, while not desired, could be afforded in a short term period of 12 months, but is not sustainable in the longer term.

Authorised Limit	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m
Gross projected debt	349.7	420.5	450.6	475.5	485.4	497.2
Total CFR	456.2	516.4	532.2	542.0	535.2	530.5
Operational Boundary	509.6 (£509.6m set at 20/21 Strategy)	526.4	542.2	552.0	545.2	540.5
Other long term liabilities	30.0	30.0	30.0	30.0	30.0	30.00
Total	539.6 (£539.6m Set at 20/21 Strategy)	556.4	572.2	582.0	575.2	570.5

Table 6: Authorised borrowing limit

50. **Prudential indicator 5B – operational boundary.** In addition to the “authorised borrowing limit”, the operational boundary is the maximum level of debt allowed for on an ongoing operational purpose. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt.

Authorised Limit	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m
Gross projected debt	349.7	420.5	450.6	475.5	485.4	497.2
Total CFR	456.2	516.4	532.2	542.0	535.2	530.5
Short term liquidity	10.0	10.0	10.0	10.0	10.0	10.0
Total	463.2	526.4	542.2	552.0	545.2	540.5
	(£463.2m set at 19/20 Strategy)					

Table 7: Operational boundary

Prospects for interest rates

51. Current interest rates and the future direction of both long term and short term interest rates have a major influence on the overall treasury management strategy and affects both investment and borrowing decisions. To facilitate treasury management officers in making informed investment and borrowing decisions, the council has appointed the Link Group as its treasury adviser. Part of their service is to assist the council in formulating a view on interest rates. Table 9 below gives Link's central view:

	Bank rate %	PWLB borrowing rates % (including certainty rate adjustment)		
		5 year	25 year	50 year
Mar 2021	0.10	0.80	1.50	1.30
Dec 2021	0.10	0.80	1.60	1.40
Mar 2022	0.10	0.90	1.60	1.40
Dec 2022	0.10	0.90	1.70	1.50
Mar 2023	0.10	0.90	1.70	1.50
Dec 2023	0.10	1.00	1.80	1.60
Mar 2024	0.10	1.00	1.80	1.60

Table 9 – Link's interest rate forecast

52. The coronavirus outbreak has done huge economic damage to the UK and economies around the world. After the Bank of England took emergency action in March to cut Bank Rate to first 0.25%, and then to 0.10%, it left Bank Rate unchanged at its subsequent meetings to 5th November, although some forecasters had suggested that a cut into negative territory could happen. However, the Governor of the Bank of England has made it clear that he currently thinks that such a move would do more damage than good and that more quantitative easing is the favoured tool if further action becomes necessary. As shown in the forecast table above, no increase in Bank Rate is

expected in the forecast table above as economic recovery is expected to be only gradual and, therefore, prolonged.

Investment and borrowing rates

53. Investment returns are likely to remain exceptionally low during 2021/22 with very little increase in the following two years. Borrowing interest rates fell to historically very low rates as a result of the COVID crisis and the quantitative easing operations of the Bank of England. Gilt yields up to 6 years were negative during most of the first half of 20/21. The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years.
54. In March 2020, the Government started a consultation process for reviewing the margins over gilt rates for PWLB borrowing for different types of local authority capital expenditure. It also introduced different rates for borrowing for different types of capital expenditure.
55. On 25.11.20, the Chancellor announced the conclusion to the review of margins over gilt yields for PWLB rates; the standard and certainty margins were reduced by 1% but a prohibition was introduced to deny access to borrowing from the PWLB for any local authority which had purchase of assets for yield in its three year capital programme.
56. As Link's long-term forecast for Bank Rate is 2.00%, and all PWLB rates are under 2.00%, there is now value in borrowing from the PWLB for all types of capital expenditure for all maturity periods, especially as current rates are at historic lows. However, greater value can be obtained in borrowing for shorter maturity periods so the Council will assess its risk appetite in conjunction with budgetary pressures to reduce total interest costs. Longer-term borrowing could also be undertaken for the purpose of certainty, where that is desirable, or for flattening the profile of a heavily unbalanced maturity profile.
57. While the Council will not be able to avoid borrowing to finance new capital expenditure, to replace maturing debt and the rundown of reserves, there will be a cost of carry, (the difference between higher borrowing costs and lower investment returns), to any new borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost

Borrowing strategy

58. The borrowing strategy takes into account the borrowing requirement, the current economic and market environments and is also influenced by the interest rate forecast. The council is currently maintaining an under-borrowed

position. This means that the capital borrowing need (the capital financing requirement), has not been fully funded with loan debt as cash supporting the council's reserves, balances and cash flow has been used as a temporary measure. This strategy remains prudent as investment returns are low and counterparty risk is still an issue that needs to be considered. Consideration will also be given to the maturity profile of the debt portfolio so the council is not exposed to the concentration of debt being in any one year.

59. Against this background and the risks within the economic forecast, caution will be adopted with the treasury operations. The section 151 officer will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:
- if it was felt that there was a significant risk of a sharp fall in long and short term rates, e.g. due to a marked increase of risks around relapse into recession or of risks of deflation, then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.
 - if it was felt that there was a significant risk of a much sharper rise in long and short term rates than that currently forecast, perhaps arising from a greater than expected increase in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.
60. The HRA strategy for borrowing will be the same as the borrowing strategy described above for the whole council. The HRA Business Plan will guide and influence the overall HRA borrowing strategy.
61. All decisions will be reported to the appropriate decision making body (Executive and Audit & Governance Committee) at the next available opportunity.

Prudential Indicator 6 – Maturity of borrowing

62. Officers will monitor the balance between variable and fixed interest rates for borrowing and investments to ensure the council is not exposed to adverse fluctuations in fixed or variable interest rate movements. This is likely to reflect higher fixed interest rate borrowing if the borrowing need is high or fixed interest rates are likely to increase, a higher variable rate exposure if fixed interest rates are expected to fall. Conversely if shorter term interest rates are likely to fall, investments may be fixed earlier, or kept shorter if short term investment rates are expected to rise.
63. The balance between variable rate debt and variable rate investments will be monitored as part of the overall treasury function in the context of the overall financial instruments structure and any under or over borrowing positions. The council does not currently have any variable rate debt.

64. The upper and lower limits for the maturity structure of fixed rate borrowing are set out below (with actual split for the current financial year included for comparison). This gross limit is set to reduce the council's exposure to large fixed rate sums falling due for refinancing in a confined number of years.

Maturity structure of borrowing				
	Lower	Upper	2020/21 Debt (%)	2020/21 Debt (£)
Under 12 months	0%	30%	3%	£9.0m
12 months to 2 years	0%	30%	2%	£6.0m
2 years to 5 years	0%	40%	10%	£25.3m
5 years to 10 years	0%	40%	20%	£54.4m
10 years and above	30%	90%	64%	£166.8m
Total Borrowing			100%	£261.5m

Table 10: Maturity structure of borrowing at 31st December 2020

Policy on borrowing in advance of need

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

66. Borrowing in advance will be made within the constraints of the CIPFA Prudential Code that:

- It will be limited to no more than 50% of the expected increase in borrowing need (CFR) over the three year planning period; and
- The authority would not look to borrow more than 36 months in advance of need

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

Debt rescheduling

68. Debt rescheduling of current Public Works Loan Board (PWLB) borrowing in our debt portfolio is unlikely to occur as the premature repayment rates provided by the PWLB are much lower than the new borrowing rates provided by the PWLB. The PWLB premature repayment rates are approximately 10-15bps lower than gilt yields. The current low interest rate environment would mean the cost of prematurely repaying any PWLB loans would come with higher premium costs to exit any loans. It is unlikely that any debt rescheduling opportunities will occur in the year ahead but the

debt portfolio will continue to be monitored for any opportunities that may prevail.

69. If rescheduling was done, it will be reported to the Executive / Audit & Governance Committee at the earliest meeting following its action.

Municipal Bond Agency

70. The establishment of the UK Municipal Bonds Agency was led by the Local Government Association (LGA) following the 2010 Autumn Statement which resulted in higher PWLB rates, greatly increasing the cost of new borrowing and refinancing. The purpose of the Agency is to deliver cheaper capital finance to local authorities. It will do so via periodic bond issues and by facilitating greater inter-authority lending. The Agency is wholly owned by 56 local authorities and the LGA. The council is a shareholder in the Agency with a total investment of £40k and will make use of this new source of borrowing as and when appropriate.

Annual investment strategy

Investment policy – management of risk

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

72. The Council’s investment policy has regard to the following:

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

73. The Council’s investment priorities will be security first, portfolio liquidity second and then yield (return), and finally Ethical, Social & Governance using the FTSE4GOOD index, or any suitable alternative responsible investment index to be decided by the s151 officer, to ensure that Ethical, Social and Governance issues are considered as a fourth criteria.

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

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

- ii. Other information: ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration the Council will engage with its advisors to maintain a monitor on market pricing such as “credit default swaps” and overlay that information on top of the credit ratings.
- iii. Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.
- iv. This authority has defined the list of types of investment instruments that the treasury management team are authorised to use. There are two lists in annex B under the categories of ‘specified’ and ‘non-specified’ investments.
 - Specified investments are those with a high level of credit quality and subject to a maturity limit of one year.
 - Non-specified investments are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use.
- v. Lending limits, (amounts and maturity), for each counterparty will be set through applying the matrix tables in annex B.
- vi. Transaction limits are set for each type of investment.
- vii. Investments will only be placed with counterparties from countries with a specified minimum sovereign rating, (see annex C).
- viii. This authority has engaged external consultants, (see paragraphs 19 to 21), to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of this authority in the context of the expected level of cash balances and need for liquidity throughout the year.
- ix. All investments will be denominated in sterling.
- x. As a result of the change in accounting standards for 2020/21 under IFRS 9, this authority will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. (In November 2018, the Ministry of Housing, Communities and Local Government, (MHCLG), concluded a consultation for a temporary override to allow English local authorities time to adjust their portfolio of all pooled investments by announcing a

statutory override to delay implementation of IFRS 9 for five years ending 31.3.23.)

75. However, this authority will also pursue value for money in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance, (see paragraph 86). Regular monitoring of investment performance will be carried out during the year.

Creditworthiness policy

76. This council applies the creditworthiness service provided by the Link Group. This service employs a sophisticated modeling approach with credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard and 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
- sovereign ratings to select counterparties from only the most creditworthy countries

77. This approach combines credit ratings, credit watches, credit outlooks in a weighted scoring system which is then combined with an overlay of CDS (credit default swap) spreads for which the end product is a series of colour code bands, which indicate the relative creditworthiness of counterparties. These colour codes are also used by the council to determine the duration for investments. The council will therefore use counterparties within the following durational bands:

- Yellow* 5 years
- Purple 2 years
- Blue 1 year (only applies to nationalised or part nationalised UK Banks)
- Orange 1 year
- Red 6 months
- Green 100 days
- No colour not to be used

**The yellow category is for UK Government debt or its equivalent (government backed securities) AAA rated funds*

78. The Link creditworthiness model uses a wider array of information than just primary ratings and by using a risk weighted scoring system, does not give undue weighting to just one agency's ratings.

79. Typically the minimum credit ratings criteria the council use will be a short term rating (Fitch or equivalents) of F1 and Long Term rating 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.
80. All credit ratings are monitored on a daily basis. The council is alerted to changes to ratings of all three agencies through its use of the Link Group 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 against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the councils lending list.
81. Although sole reliance is not placed on the use of this external service, as the council uses market data and market information, information on government support for banks and the credit ratings of that supporting government, the suitability of each counterparty is based heavily on advice from Link.
82. Whilst the council has determined that it will not limit investments to UK banks, due care will be taken to consider the country, group and sector exposure of the Council's investments. The Council has determined that it will only use approved counterparties from countries with a minimum sovereign rating of AA- (excluding the UK) from Fitch (or equivalent). The list of countries that qualify using this credit criteria as at the date of this report are shown in annex C. This list will be added to or deducted from by officers should ratings change in accordance with this policy.

Investment strategy

83. Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months). Greater returns are usually obtainable by investing for longer periods. While most cash balances are required in order to manage ups and downs of cash flow, where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer term investments will be carefully assessed.
84. Bank Rate is unlikely to rise from 0.10% for a considerable period. It is very difficult to say when it may start rising so it may be best to assume that investment earnings from money market related investments will be sub 0.50% for the foreseeable future.

85. For its cash flow generated balances, the council will seek to use a combination of business reserve accounts (call accounts), short notice accounts, short dated fixed term deposits and money market funds. In addition, the council will look for investment opportunities in longer dated term deals with specific counterparties that offer enhanced rates for local authority investment. All investment will be undertaken in accordance with the creditworthiness policy set out above.
86. The council will use an investment benchmark to assess the performance of its investment portfolio of 7 day LIBID rate. These benchmarks are simple guides to maximum risk, so they may be breached from time to time depending on movements in interest rates and counter party criteria. The purpose of the benchmark is that officers will monitor the current and trend position and amend the operational strategy to manage risk as conditions change.
87. **Prudential indicator 7** - total principal investment funds invested for greater than 364 days. This limits is set with regards to the council's liquidity requirements and are based on the availability of funds after each year-end. A maximum principal sum to be invested for greater than 364 days is £15m.

	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m
Maximum limit per year for Investments > 364 days	15.0	15.0	15.0	15.0	15.0	15.0

Table 11: Investments over 364 days

88. At the end of the financial year, the council will report on its investment activity as part of its annual treasury report. It should be noted that the Investment policy, creditworthiness policy and investment strategy are applicable to the council's overall surplus funds and are also applicable to the HRA.

Consultation and options

89. The treasury management function of any business is a highly technical area, where decisions are often taken at very short notice in reaction to the financial markets. Therefore, to enable effective treasury management, all operational decisions are delegated by the council to the Chief Finance Officer, who operates within the framework set out in this strategy and through the treasury management policies and practices. In order to inform sound treasury management operations the council works with its treasury management advisers, the Link Group. Link offers the council a

comprehensive information and advisory service that facilitates the council in maximising its investment returns and minimise the costs of its debts.

90. Treasury management strategy and activity is influenced by the capital investment and revenue spending decisions made by the council. Both the revenue and capital budgets have been through a corporate process of consultation and consideration by the elected politicians. The revenue budget and capital budget proposals are included within this agenda.
91. At a strategic level, there are a number of treasury management options available that depend on the council's stance on interest rate movements. The report sets out the council's stance and recommends the setting of key trigger points for borrowing and investing over the forthcoming financial year.

Council Plan

92. The treasury management strategy statement and prudential indicators are aimed at ensuring the council maximises its return on investments and minimises the cost of its debts whilst operating in a financial environment that safeguards the councils funds. This will allow more resources to be freed up to invest in the council's priorities, values and imperatives, as set out in the Council Plan.

Implications

Financial

93. The financial implications of the treasury strategy are set out in the Financial Strategy and Capital Strategy reports also on this agenda.

Human Resources (HR)

94. There are no HR implications as a result of this report

Equalities

95. There are no equalities implications as a result of this report

Legal Implications

96. Treasury management activities have to conform to the Local Government Act 2003, the Local Authorities (Capital; Finance and Accounting) (England) Regulations 2003 (SI 2003/3146), which specifies that the council is required to have regard to the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice and also the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 (SI 2008/414), which clarifies the requirements of the Minimum Revenue Provision guidance.

Other implications

97. There are no crime and disorder, information technology or property implications as a result of this report

Risk management

98. The treasury management function is a high-risk area because of the volume and level of large money transactions. As a result of this the Local Government Act 2003 (as amended), supporting regulations, the CIPFA Prudential Code and the CIPFA Treasury Management in the Public Services Code of Practice (the code) are all adhered to as required.

Report authors:	Chief officer responsible for the report:		
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Wards Affected: Not Applicable			

For further information please contact the author(s) of the report

Background papers

none

Annexes

Annex A – Interest rate forecast

Annex B – Specified and non-specified investments categories schedule

Annex C – Approved countries for investments

Annex D – Scheme of delegation and the role of the section 151 officer

Interest Rate Forecasts 2020 – 2024.

The PWLB rates below are based on the new margins over gilts announced on 26th November 2020. PWLB forecasts shown below have taken into account the 20 basis point certainty rate reduction effective as of the 1st November 2012. There are no changes to these forecasts as at 5.1.21.

Link Group Interest Rate View		9.11.20				(The Capital Economics forecasts were done 11.11.20)							
These Link forecasts have been amended for the reduction in PWLB margins by 1.0% from 26.11.20													
	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
BANK RATE	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
6 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
12 month ave earnings	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20
5 yr PWLB	0.80	0.80	0.80	0.80	0.90	0.90	0.90	0.90	0.90	1.00	1.00	1.00	1.00
10 yr PWLB	1.10	1.10	1.10	1.10	1.20	1.20	1.20	1.20	1.20	1.30	1.30	1.30	1.30
25 yr PWLB	1.50	1.60	1.60	1.60	1.60	1.70	1.70	1.70	1.70	1.80	1.80	1.80	1.80
50 yr PWLB	1.30	1.40	1.40	1.40	1.40	1.50	1.50	1.50	1.50	1.60	1.60	1.60	1.60
Bank Rate													
Link	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Capital Economics	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	-	-	-	-	-
5yr PWLB Rate													
Link	0.80	0.80	0.80	0.80	0.90	0.90	0.90	0.90	0.90	1.00	1.00	1.00	1.00
Capital Economics	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	-	-	-	-	-
10yr PWLB Rate													
Link	1.10	1.10	1.10	1.10	1.20	1.20	1.20	1.20	1.20	1.30	1.30	1.30	1.30
Capital Economics	1.30	1.30	1.30	1.30	1.30	1.30	1.30	1.30	-	-	-	-	-
25yr PWLB Rate													
Link	1.50	1.60	1.60	1.60	1.60	1.70	1.70	1.70	1.70	1.80	1.80	1.80	1.80
Capital Economics	1.80	1.80	1.80	1.80	1.80	1.80	1.80	1.80	-	-	-	-	-
50yr PWLB Rate													
Link	1.30	1.40	1.40	1.40	1.40	1.50	1.50	1.50	1.50	1.60	1.60	1.60	1.60
Capital Economics	1.70	1.70	1.70	1.70	1.70	1.70	1.70	1.70	-	-	-	-	-

Specified and non-specified investments categories**Annex B**

A variety of investment instruments will be used, subject to the credit quality of the institution, to place the council's surplus funds. The criteria, time limits and monetary limits applying to institutions or investment vehicles are listed in the tables below.

Investments are split into two categories of specified investments and non-specified Investments. Specified investments are relatively high security and high liquidity investments, which must be sterling denominated and with a maturity of no more than a year. Non-specified investments are those investments with a maturity period of greater than one year or are still regarded as prudent but may require more detailed scrutiny and assessment procedures.

Accounting treatment of investments. The accounting treatment may differ from the underlying cash transactions arising from investment decisions made by this council. To ensure that the council is protected from any adverse revenue impact, which may arise from these differences, treasury officers will review the accounting implications of new transactions before they are undertaken.

Specified investments:

Counterparty type	Minimum 'high' credit criteria/colour band	Maximum investment limit per counterparty institution	Maximum maturity period
DMADF – UK Government	UK sovereign rating	£15m	6 months
UK Government Treasury Bills	UK sovereign rating	£15m	1 year
UK Government Gilts	UK sovereign rating	£15m	1 year
Term deposits - local authorities	UK sovereign rating	£15m	1 year
Part-nationalised UK Banks	Blue	£15m	1 year
Term Deposits - UK Banks and Building Societies	Orange Red Green	£15m £15m £8m	1 year 6 months 100 days
Term Deposits - Non-UK Banks (with a sovereign rating of AA-)	Orange	£15m	1 year
Certificates of Deposits issued by Banks and Building Societies	Orange/Blue	£15m	1 year
Collective investment schemes structured as open ended investment companies (OEICs) as below:-			

1. Money Market Funds CNAV*	AAA	£15m	Liquid
2. Money Market Funds LVNAV*	AAA	£15m	Liquid
3. Money Market Funds VNAV*	AAA	£15m	Liquid
4. Ultra-Short Dated Bond Funds	AAA	£15m	Liquid
5. Bond Funds	AAA	£15m	Liquid

*CNAV – constant net asset value

*LVNAV – low volatility net asset value

*VNAV – variable net asset value

NON-SPECIFIED INVESTMENTS:

A maximum of 100% can be held in aggregate in non-specified investment

1. Maturities of ANY period

Counterparty type	Minimum credit criteria	Maximum investment limit per counterparty institution	Maximum Maturity Period
Fixed term deposits with variable rate and variable maturities: - Structured deposits	Orange Blue Red Green	£15m £15m £15m £8m	1 Year 1 year 6 months 100 days
Certificates of Deposits issued by Banks and Building Societies	Red Green	£15m £8m	6 months 100 days
Floating Rate Notes	Long-term AAA	£15m	1 year
Property Funds: <i>the use of these investments may constitute capital expenditure</i>	AAA-rated	£15m	5 years

2. Maturities in excess of 1 year

Term Deposits– local authorities	UK Sovereign Rating	£15m	> 1 year
Term deposits – Banks and Building Societies	Yellow Purple	£15m £15m	5 years 2 years
Certificates of Deposits issued by Banks and Building Societies not covered by UK Government guarantee	Yellow Purple	£15m £15m	5 years 2 years

UK Government Gilts	UK sovereign rating	£15m	> 1 year
Collective investment schemes structured as open ended investment companies (OEICs) as below:-			
1. Bond Funds	Long-term AAA	£15m	> 1 year
2. Gilt funds	Long-term AAA	£15m	> 1 year

Approved countries for investments**Annex C**

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

This list is as at 05/01/21

Based on lowest available rating**AAA**

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

AA+

- Canada
- Finland
- U.S.A.

AA

- Abu Dhabi (UAE)
- France

AA-

- Belgium
- Hong Kong
- Qatar
- U.K

Treasury management scheme of delegation**Annex D****(i) Executive / Full Council**

- receiving and reviewing reports on treasury management policies, practices and activities
- approval of annual strategy and annual outturn

(ii) Executive

- approval of/amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices
- budget consideration and approval
- approval of the division of responsibilities

(iii) Audit & Governance Committee

- receiving and reviewing reports on treasury management policies, practices and activities
- reviewing the annual strategy, annual outturn and mid year review.

(iv) Chief Finance Officer (section 151 officer)

- reviewing the treasury management policy and procedures and making recommendations to the responsible body.
- all operational decisions are delegated by the council to the Chief Finance Officer, who operates within the framework set out in this strategy and through the treasury management policies and practices
- Approving the selection of external service providers and agreeing terms of contract in accordance with the delegations in financial regulations.

The treasury management role of the section 151 officer

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance
- all operational decisions delegated by the council to the Chief Finance Officer (s151 officer), who operates within the framework set out in this strategy and through the treasury management policies and practices
- 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.

- preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments and treasury management, with a long term timeframe
- ensuring that the capital strategy is prudent, sustainable, affordable and prudent in the long term and provides value for money
- ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the authority
- ensure that the authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing
- ensuring the proportionality of all investments so that the authority does not undertake a level of investing which exposes the authority to an excessive level of risk compared to its financial resources
- ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long term liabilities
- provision to members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees
- ensuring that members are adequately informed and understand the risk exposures taken on by an authority
- ensuring that the authority has adequate expertise, either in house or externally provided, to carry out the above
- creation of Treasury Management Practices which specifically deal with how non treasury investments will be carried out and managed, to include the following: -
 - *Risk management, including investment and risk management criteria for any material non-treasury investment portfolios;*
 - *Performance measurement and management, including methodology and criteria for assessing the performance and success of non-treasury investments;*
 - *Decision making, governance and organisation, including a statement of the governance requirements for decision making in relation to non-treasury investments; and arrangements to ensure that appropriate professional due diligence is carried out to support decision making;*
 - *Reporting and management information, including where and how often monitoring reports are taken;*
 - *Training and qualifications, including how the relevant knowledge and skills in relation to non-treasury investments will be arranged.*

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