APPENDIX 1

TREASURY MANAGEMENT STRATEGY STATEMENT 2021/22

1.0 The purpose of this Treasury Management Strategy Statement is to set out for approval:

- The Borrowing Strategy 2021/22 (APPENDIX A)
- The Debt Rescheduling Strategy 2021/22 (APPENDIX B)
- The Annual Treasury Management Investment Strategy 2021/22 (APPENDIX C)
- The Apportionment of Interest Strategy 2021/22 (APPENDIX D)
- The Treasury Management and Prudential Indicators 2021/22 to 2023/24 (APPENDIX E)
- The Annual Minimum Revenue Provision (APPENDIX F)

1.1 The Council is responsible for its treasury decisions and activity. No treasury management activity is without risk. The successful identification, monitoring and control of risk are important and integral elements of treasury management activities. The main risks to the Council's treasury activities are:

- Credit and Counterparty Risk (security of investments)
- Liquidity Risk (inadequate cash resources)
- Market or Interest Rate Risk (fluctuations in interest rate levels)
- Inflation Risk (exposure to inflation)
- Refinancing Risk (impact of refinancing on suitable terms)
- Legal and Regulatory Risk (failure to act in accordance with powers or regulatory requirements)

2.0 Organisational Roles and Responsibilities

2.1 In accordance with CIPFA guidance, the roles and responsibilities of the Council's Treasury Management function are divided between several responsible officers and are summarised below:

Section 151 Officer – overall responsibility for the treasury management function to include:

- Ensuring the organisation of the treasury management function is adequate to meet current requirements:
  - Investment, borrowing and debt rescheduling decisions.
  - Monitoring adherence to approved Treasury Management Strategy Statement.
  - Regular reporting to Members on treasury management activity.
- The authorisation of Inter-Local Authority investment decisions.

Finance Team Manager (Deputy Section 151 Officer) – ensuring that day to day treasury activities comply with the approved Treasury Management Strategy Statement and approving Inter-Local Authority investment decisions in the absence or on behalf of the Head of Finance.

Finance Business Partner – identification of investment opportunities and borrowing requirements and acts as the Council's interface with brokers and counterparties. Routine investments decisions are made by the Finance Business Partner, with the exception of Inter-Local Authority transactions.

2.2 The needs of the Council's treasury management staff for training in investment management, are assessed through the 'BEE Valued' staff appraisal process and additionally when the responsibilities of individual members of staff change.

2.3 Training courses, seminars and conferences provided by the Council's treasury advisor or CIPFA, are regularly attended to refresh and enhance the knowledge of treasury management staff including economic updates.

3.0 The Role of the Council's Treasury Advisor

3.1 The Council currently employs Arlingclose Ltd as treasury advisor to provide the following services: strategic treasury management advice, advice relating to Housing and Capital finance, leasing advice, economic advice and interest rate forecasting, debt restructuring and portfolio review (structure and volatility), counterparty credit ratings and other creditworthiness indicators and training, particularly investment training, for Members and officers.

3.2 Arlingclose Ltd is authorised and regulated by the Financial Conduct Authority (FCA). It provides the Council with timely, clear and regular information about the financial sector to enable the Council to take pro-active decisions, which in turn, helps to minimise risk.

3.3 Officers on a regular basis monitor the quality of this service, focusing on the supply of relevant, accurate and timely information across the services provided.

4.0 Reporting and Monitoring of Treasury Management Activity

4.1 The Treasury Management Stewardship Report for 2020/21 will be presented to the Audit and Governance Committee for scrutiny and then Cabinet as soon as possible after the end of the current financial year. As in previous years, the Treasury Management Strategy Statement will be supplemented by in-year reporting of treasury management activity and monitoring of prudential indicators, to the Audit and Governance Committee during 2021/22.

4.2 This report, together with all other reports to Council, Cabinet and the Audit and Governance Committee are a public record and can be viewed on the Council's website. This demonstrates compliance with MHCLG Guidance on local government investments, which recommends that the initial strategy, and any revised strategy, should, when approved be made available to the public free of charge, in print or online.

5.0 External Factors

5.1 The information below provided by the Council's Treasury Advisors, Arlingclose Ltd and is intended to provide context of the current UK economic climate.

Economic background: The impact on the UK from coronavirus, together with its exit from the European Union and future trading arrangements with the bloc, will remain a major influence on the Authority's treasury management strategy for 2021/22.

The Bank of England (BoE) maintained Bank Rate at 0.10% in November 2020 and also extended its Quantitative Easing programme by £150 billion to £895 billion. The Monetary Policy Committee voted unanimously for both, but no mention was made of the potential future use of negative interest rates. Within the latest forecasts, the Bank expects the UK economy to shrink -2% in Q4 2020 before growing by 7.25% in 2021, lower than the previous forecast of 9%. The BoE also forecasts the economy will now take until Q1 2022 to reach its pre-pandemic level rather than the end of 2021 as previously forecast.

UK Consumer Price Inflation (CPI) for September 2020 registered 0.5% year on year, up from 0.2% in the previous month. Core inflation, which excludes the more volatile components, rose to 1.3% from 0.9%. The most recent labour market data for the three months to August 2020 showed the unemployment rate rose to 4.5% while the employment rate fell to 75.6%. Both measures are expected to deteriorate further due to the ongoing impact of coronavirus on the jobs market, particularly when the various government job retention schemes start to be unwound in 2021, with the BoE forecasting unemployment will peak at 7.75% in Q2 2021. In August, the headline 3-month average annual growth rate for wages were 0% for total pay and 0.8% for regular pay. In real terms, after adjusting for inflation, total pay growth fell by -0.8% while regular pay was up 0.1%.

GDP growth fell by -19.8% in the second quarter of 2020, a much sharper contraction from -2.0% in the previous three months, with the annual rate falling -21.5% from -1.6%. All sectors fell quarter-on-quarter, with dramatic declines in construction (-35.7%), services (-19.2%) and production (-16.3%), and a more modest fall in agriculture (-5.9%). Monthly GDP estimates have shown the economy is recovering but remains well below its pre-pandemic peak. Looking ahead, the BoE's November Monetary Policy Report forecasts economic growth will rise in 2021 with GDP reaching 11% in Q4 2021, 3.1% in Q4 2022 and 1.6% in Q4 2023.

GDP growth in the euro zone rebounded by 12.7% in Q3 2020 after contracting by -3.7% and -11.8% in the first and second quarters, respectively. Headline inflation, however, remains extremely weak, registering -0.3% year-on-year in October, the third successive month of deflation. Core inflation registered 0.2% y/y, well below the European Central Bank's (ECB) target of 'below, but close to 2%'. The ECB is expected to continue holding its main interest rate of 0% and deposit facility rate of -0.5% for some time with further monetary stimulus expected later in 2020.

The US economy contracted at an annualised rate of 31.7% in Q2 2020 and then rebounded by 33.1% in Q3. The Federal Reserve maintained the Fed Funds rate at between 0% and 0.25% and announced a change to its inflation targeting regime to a more flexible form of average targeting. The Fed also provided strong indications that interest rates are unlikely to change from current levels over the next three years.

Former vice-president Joe Biden won the 2020 US presidential election. Mr Biden is making tackling coronavirus his immediate priority and will also be reversing several executive orders signed by his predecessor and take the US back into the Paris climate accord and the World Health Organization.

Credit outlook: After spiking in late March as coronavirus became a global pandemic, credit default swap (CDS) prices for the larger UK banks have steadily fallen back to almost pre-pandemic levels. Although uncertainly around COVID-19 related loan defaults lead to banks provisioning billions for potential losses in the first half of 2020, drastically reducing profits, reported impairments for Q3 were much reduced in some institutions. However, general bank profitability in 2020 is likely to be significantly lower than in previous years.

The credit ratings for many UK institutions were downgraded on the back of downgrades to the sovereign rating. Credit conditions more generally though in banks and building societies have tended to be relatively benign, despite the impact of the pandemic.

Looking forward, the potential for bank losses to be greater than expected when government and central bank support starts to be removed remains a risk, as does the UK not achieving a Brexit deal, suggesting a cautious approach to bank deposits in 2021/22 remains advisable.

Interest rate forecast: The Authority's treasury management adviser Arlingclose is forecasting that BoE Bank Rate will remain at 0.1% until at least the end of 2023. The risks to this forecast are judged to be to the downside as the BoE and UK government continue to react to the coronavirus pandemic and the Brexit transition period ends. The BoE extended its asset purchase programme to £895 billion in November while keeping Bank Rate on hold. However, further interest rate cuts to zero, or possibly negative, cannot yet be ruled out but this is not part of the Arlingclose central forecast.

Gilt yields are expected to remain very low in the medium-term while short-term yields are likely remain below or at zero until such time as the BoE expressly rules out the chance of negative interest rates or growth/inflation prospects improve. The central case is for 10-year and 20-year to rise to around 0.5% and 0.75% respectively over the time horizon. The risks around the gilt yield forecasts are judged to be broadly balanced between upside and downside risks, but there will almost certainly be short-term volatility due to economic and political uncertainty and events.

6.0 <u>Outlook for UK Interest Rates:</u>

6.1 The Council's treasury advisor's current central case forecast for the UK Bank Rate is set out below.

Bank Rate %	**Dec 2020**	**March 2021**	**June 2021**	**Sept 2021**	**Dec 2021**	**March 2022**	**June 2022**	**Sept 2022**
Upside Risk	0.00	0.00	0.00	0.15	0.15	0.15	0.15	0.30
Arlingclose Central Case	**0.10**	**0.10**	**0.10**	**0.10**	**0.10**	**0.10**	**0.10**	**0.10**
Downside Risk	-0.10	-0.20	-0.20	-0.50	-0.50	-0.50	-0.50	-0.50

6.1.1 Underlying Assumptions

- The medium-term global economic outlook remains weak. Second waves of COVID cases have prompted more restrictive measures and further lockdowns in Europe and the UK. This ebb and flow of restrictions on normal activity will continue for the foreseeable future, at least until an effective vaccine is produced and importantly, distributed.
- The global central bank and government responses have been significant and are in many cases on-going, maintaining more stable financial, economic and social conditions than otherwise.
- Although these measures supported a sizeable economic recovery in Quarter 3, the imposition of a second national lockdown in England during November will set growth back and likely lead to a fall in GDP in Quarter 4.
- Signs of a slowing economic recovery were already evident in UK monthly GDP and PMI data, even before the latest restrictions. Despite some extension to fiscal support measures, unemployment is expected to rise when these eventually come

to an end in mid-2021.

- This situation will result in central banks maintaining low interest rates for the medium term. In the UK, Brexit is a further complication. Bank Rate is therefore likely to remain at low levels for a very long time, with a distinct possibility of being cut to zero. Money markets continue to price in a chance of negative Bank Rate.
- Longer-term yields will also remain depressed, anchored by low central bank policy rates, expectations for potentially even lower rates and insipid inflation expectations. There is a chance yields may follow a slightly different path in the medium term, depending on investor perceptions of growth and inflation, the development of a vaccine or if the UK leaves the EU without a deal.

6.1.2 Forecast

- Arlingclose expects Bank Rate to remain at the current 0.10% level.
- Additional monetary loosening through increased financial asset purchases was delivered as we expected. Our central case for Bank Rate is no change, but further cuts to zero, or perhaps even into negative territory, cannot be completely ruled out.
- Gilt yields will remain low in the medium term. Shorter term gilt yields are currently negative and will remain around zero or below until either the Bank expressly rules out negative Bank Rate or growth/inflation prospects improve.
- Downside risks remain in the near term, as the government continues to react to the escalation in infection rates and the Brexit transition period comes to an end.

7.0 Implications for Treasury Activity

7.1 The economic outlook, the financial health of sovereign states, major banks and investment counterparties, still provide major challenges and risk for treasury activity, particularly investment activity, during the financial year.

7.2 The principles in the proposed suite of treasury policies remain relevant and broadly unchanged from previous years. The treasury policies are designed to ensure that borrowing will be prudent, minimize borrowing costs and maintain the stability of the debt maturity portfolio. Debt rescheduling should achieve interest savings, carry minimal risk and maintain the stability of the debt maturity portfolio. Investments will be prioritised and based upon the principles of security of the invested capital, sufficient liquidity to permit investments and optimum yield which is commensurate with security and liquidity (SLY). A prudent approach has been taken to investment activity with propriety given to security and liquidity over yield. This approach has provided the council with a robust and reliable cashflow supporting its budget, projects and services. With the current pandemic, it is vital that these policies continue to be adopted to maintain the security of our assets, liquidity and financial stability.

7.3 With internal borrowing playing a vital role in funding the council's capital programme, reduced scope for investment is expected in the coming years. The application of SLY in future investments is as important as ever in protecting public funds.

8.0 Markets in Financial Instruments Directive (MiFID)

8.1 As reported in the Treasury Management Strategy 2020/21, MiFID regulations gave the council the option to retain Retail status or to 'opt-up' to Professional status when dealing with advisers, brokers, banks and fund managers. The council 'opted-up' to Professional status and given the size and range of the council's treasury management activities, the Head of Finance (S151 Officer) believes this to be the most appropriate status.

8.2 To enable the council to maintain 'Professional' status, it is required under the MiFID regulations to maintain an investment level of at least £10m.

8.3 It is the intention of the council to maintain balances at this level for investment, to allow it to continue to access the full range of investment options that it currently has access to and this position will be monitored on an ongoing basis. Should the council drop below the £10m investment limit, it would no longer be able to access investments including but not limited to shares, bonds, debentures, units in collective investment schemes and money market funds.

8.4 The balance sheet forecasts on paragraph 10.1 indicates that only £1m would be available for investment in 2021/22 and will therefore require short term borrowing to maintain 'Professional Status' based on a £10m minimum investment. Forecasts shows the borrowing will also be required in future years to maintain the status. The council's cash flow is monitored daily for significant movements in expenditure and income. This provides a forecast of daily cash balances which determines any scope for investment as well as the need for short term borrowing. Any short term borrowing requirement for this purpose will require authorisation by the Head of Finance.

9.0 FUTURE SIGNIFICANT EVENTS

9.1 The Council continues to own two leisure centres, Hood Park Leisure Centre in Ashby and Hermitage Leisure Centre in Whitwick, Coalville, following the outsourcing of the provision of these centres in May 2019. Under the new contract with Everyone Active, the Hermitage site will close and a new replacement facility in Coalville (funded by the Council) open in September 2022.

9.2 The self-financing of the HRA was presented to Cabinet on 13 March 2012 in the 'Housing Revenue Account (HRA) Business Plan' and included the council taking on £76.785m of debt to buy itself out of the former national Housing Revenue Account Subsidy system. Since that date, HRA surpluses have been set aside in a Loan Redemption Reserve for the purposes of repayment of the first two maturity loans when they mature. This reserve will be used to repay £13m of loans when they mature in March 2022.

9.3 In 2018/19, Council approved a more flexible approach to using surpluses, which means they can be used to invest in capital improvements, new housing stock, service improvements or the repayment of debt. In 2021/22 budget nearly all the surpluses are due to be used to fund the HRA capital programme. The existing two annuity loans will continue to be repaid as required until they are paid off in 2027 and 2032.

9.4 The Council has submitted a Future High Streets Fund (FHSF) bid and has been through the first stage of the bidding process with central government. A business case has been submitted and if successful, funding of just over £18m could be secured to develop parts of Coalville town centre. We expect to hear before the end of 2020 whether the application has been successful or not. Any FHSF grant must be spent by 2023/2024. The council will match this project with both capital and revenue budgets funded by borrowing which needs to be considered and monitored for cashflow purposes.

9.5 The COVID-19 vaccines have now commenced rolled out to the most at risk groups in the UK. Although it seems like the virus will be around with us for quite some time and will continue to cause disruption to our lives and damage to the economy. Any further financial strain caused by the pandemic to businesses and residents in the coming months may affect their ability to pay business rates and council tax. Should this arise, this could result to deferred payments; with total default in payments as a worst outcome. These are the main income streams of the council and could have a significant impact on the council's cashflow.

10.0 THE COUNCIL'S CURRENT BALANCE SHEET AND TREASURY POSITION

10.1 The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR). Usable reserves and working capital are the underlying resources available for investment. The CFR, balances and reserves are the core drivers of

Treasury Management Activity. The estimates, based on the current Revenue Budget and Capital Programmes, are set out below:

	31.03.20 Act £m	31.03.21 Forecast £m	31.03.22 Forecast £m	31.03.23 Forecast £m	31.03.24 Forecast £m	31.03.25 Forecast £m	31.03.26 Forecast £m
General Fund CFR	17.4	25.7	40.4	43.9	44.2	43.8	42.6
HRA CFR	71.8	70.6	56.4	55.2	54.0	52.7	51.4
Total CFR	**89.1**	**96.3**	**96.8**	**99.1**	**98.2**	**96.5**	**94.0**
Less: External Borrowing	80.1	79.0	64.8	62.6	59.8	58.6	57.3
Internal Borrowing	**9.0**	**17.4**	**32.0**	**36.5**	**38.4**	**37.9**	**36.8**
Less: Usable Reserves	45.2	39.7	22.5	18.3	16.9	15.3	9.4
Less: Working Capital Estimate	(13.6)	(12.1)	(10.6)	(9.1)	(9.1)	(9.1)	(9.1)
Investments or (New Borrowing)	49.7	34.4	1.1	-9.2	-12.4	-13.6	-18.3

10.2 The Council has an increasing General Fund CFR due to the use of borrowing to fund the Capital Programme, which includes the Leisure Services Project which was agreed at Council 21 November 2017 and subsequently outsourced to Everyone Active in May 2019.

10.3 The Leisure Project expenditure commenced in July 2019 and is programmed to complete in September 2022. This expenditure will be funded by internal borrowing. The effect of this is that there is less cash available for investment by 31 March 2022 and a borrowing requirement arising in March 2023. The council will continue to assess this forecast position and explore borrowing options closer to this date should the need remain.

10.4 The Council's level of physical debt and investments is linked to the components of the Balance Sheet. Market conditions, interest rate expectations and credit risk considerations will influence the Council's strategy in determining the borrowing and investment activity against the underlying Balance Sheet position. The Council's short term strategy is to maintain borrowing and investments below their underlying levels (internal borrowing).

The following table shows the Investment and debt portfolio position:

	Portfolio as at 31 March 2020 £m	Portfolio as at 31 Dec 2020 £m
External Borrowing:		
PWLB	71.7	71.1
Local Authorities	1.0	1.0
Banking Sector	3.9	3.9
LOBO Loans	3.5	3.5
Total External Borrowing	*80.1*	*79.5*
Other Long Term Liabilities	0.1	0.1
TOTAL GROSS EXTERNAL DEBT	**80.2**	**80.6**
Investments:		
Short Term - Managed in- house	42.0	49.2
Long Term - Managed in- house	0.00	0.00

Fund Managers– Managed Externally	0.0	0.0
Pooled Funds-Managed Externally	8.7	16.5
Total Investments	*50.7*	*65.7*
NET DEBT	**29.5**	**14.9**

There is a £11.1m temporary increase in investments due to the timing difference between the receipt of grants and expenditure.

10.5 CIPFA's 'Prudential Code for Capital Finance in Local Authorities' recommends that the Council's total debt should be lower than its highest forecast CFR over the next three years. The Council expects to comply with this recommendation during 2021/22.

11.0 THE COUNCIL'S APPROACH TO BEING COMMERCIAL

11.1 A separate strategy has been produced to provide the strategic framework under which the Service and Commercial Investments are undertaken. This document is presented to members alongside the Treasury Management Strategy Statement.

11.2 The Investment Strategy included in this document (Treasury Management Strategy Statement) at Appendix C, provides the strategic framework in which its Treasury Management investment activity is undertaken.

11.3 The council has a Journey to Self Sufficiency (J2SS) Programme in place. The programme was due to commence in 2020/21, however the work on the programme was halted in reaction to the demands on the COVID-19 pandemic. As part of the draft budget, it is planned for the original 5 years savings plan to be 'rebased with 2021/22 as year 1.

11.4 The Corporate Leadership Team have also reviewed the programme to reflect the current operating environment, resource constraints and deliverability of commercial savings built into the programme. Recently, we have received strengthened messages from Central Government around Council's acting commercially, the most recent of which have included confirmed changes to lending conditions from the Public Works and Loans Board in respect of 'debt for yield' purposes. Combined with the change in commercial landscape as a result of COVID-19, it has been concluded that the organisation will need to focus more closely on its use of resources to deliver services in order to deliver savings and an ongoing sustainable financial position. This will necessitate a redesign of the J2SS programme.

11.5 To support the redesign and launch of the programme in the new financial year, Cabinet has already agreed for £100k to be set aside from the self-sufficiency reserve for the purposes of engaging external expertise to assist in the delivery of savings from 2021 to 2023. Work to engage support is already underway and it is planned for an agreed mobilisation plan will be available by the end of the financial year, with the new plan mobilised and inflight by April 2021.

APPENDIX A

BORROWING STRATEGY 2021/22

At the 31 March 2021, the Council will hold loans totalling £78.9m (£70.5m HRA and £8.4m General Fund). This is a decrease of £1.1m on the previous year £80m (£71.6m HRA and £8.4m General Fund) and is part of the Council's strategy for funding previous years' Capital Programmes and for the self-financing of the HRA, which was presented to Cabinet on 13 March 2012 in the "Housing Revenue Account (HRA) Business Plan".

The balance sheet forecast in paragraph 10.1 shows that the council will need to secure some short term borrowing in 2021/22and the following years to maintain its MIFID status which requires an investment balance of £10m at any one time. This strategy sets out the methodology and approach that will be taken into consideration at that time.

The Council's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to re-negotiate loans, should the Council's long term plans change, is a secondary objective.

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

By doing so, the Council is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of internal/short-term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. Arlingclose will assist the Council with this 'cost of carry' and breakeven analysis. Its output may determine whether the Council borrows additional sums at long-term fixed rates in 2022/23 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

Alternatively, the Council may arrange forward starting loans during 2022/23, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.

In addition, the Council may borrow short-term loans (normally short term between one and three months) to cover unexpected cash flow shortages.

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

- Internal Borrowing
- Public Works Loan Board (PWLB) and any successor body
- any institution approved for investments
- any other bank or building society authorised to operate in the UK
- any other UK public sector body
- UK public and private sector pension funds (except the Local Government Pension Scheme administered by Leicestershire County Council)
- Capital market bond investors
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local council bond issues

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

- Leasing
- hire purchase
- Private Finance Initiative
- sale and leaseback

The Council has previously raised the majority of its long-term borrowing from the PWLB. As at 26th November 2020 the government reduced PWLB rates by 1% in all Standard Rate and Certainty Rates making it competitive against other sources of borrowing. Following PWLB consultation in 2020, local authorities will be asked to confirm there is no intention to buy investments assets primarily for yield in the current or next two financial years.

The Council will also look to borrow any long-term loans from other sources including banks, pensions and local authorities, and will investigate the possibility of issuing bonds and similar instruments, in order to lower interest costs and reduce over-reliance on one source of funding in line with the CIPFA Code.

UK Municipal Bonds Agency plc was established in 2014 by the Local Government Association as an alternative to the PWLB. It plans to issue bonds on the capital markets and lend the proceeds to local authorities. This will be a more complicated source of finance than the PWLB for two reasons: borrowing authorities will be required to provide bond investors with a guarantee to refund their investment in the event that the agency is unable to for any reason; and there will be a lead time of several months between committing to borrow and knowing the interest rate payable. Any decision to borrow from the Agency will therefore be the subject of a separate report to full Council.

The Council holds one LOBO (Lender's Option Borrower's Option) loan of £3.5m where the lender has the option to propose an increase in the interest rate at set dates, following which the Council has the option to either accept the new rate or to repay the loan at no additional cost. This LOBO has options during 2021/22 and although the Council understands that the lenders are unlikely to exercise their options in the current low interest rate environment, there remains an element of refinancing risk. The Council will take the opportunity to repay LOBO loans at no cost if it has the opportunity to do so.

The total amount borrowed will not exceed the 2021/22 authorised borrowing limit of £151m, which is line with the prudential indicators.

Borrowing activity will be reported in the annual Treasury Management Stewardship Report and supplemented with in-year Treasury Activity Reports to the Audit and Governance Committee.

APPENDIX B

DEBT RESCHEDULING STRATEGY 2021/22

The Council will continue to maintain a flexible policy for debt rescheduling.

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

The rationale for rescheduling will be one or more of the following:

- Savings in interest costs with minimal risk.
- Balancing the volatility profile (i.e. the ratio of fixed to variable rate debt) of the debt portfolio.
- Amending the profile of maturing debt to reduce any inherent refinancing risks.

Any rescheduling activity will be undertaken within the Council's Treasury Management Policy and Strategy. The Council will agree in advance with its treasury advisor, the strategy and framework within which debt will be repaid/rescheduled, should opportunities arise. Thereafter, the Council's debt portfolio will be monitored against equivalent interest rates and available refinancing options on a regular basis. As opportunities arise, they will be identified by the Council's treasury advisor and discussed with the Council's officers.

All rescheduling activity will comply with accounting and regulatory requirements and will be reported in the annual Treasury Management Stewardship Report and supplemented with in-year Treasury Activity Reports to the Audit and Governance Committee.

APPENDIX C

ANNUAL TREASURY MANAGEMENT INVESTMENT STRATEGY 2021/22

The Council invests its money for three broad purposes:

1. Because it has surplus cash as a result of its day-to-day activities, for example when income is received in advance of expenditure (known as treasury management investments)
2. To support local public services by lending to or buying shares in other organisations (service investments), and
3. To earn investment income (known as commercial investments where this is the main purpose)

This strategy focuses on the first of these three purposes.

A separate report 'Investment Strategy – Service and Commercial' presented to Cabinet alongside the Treasury Management Strategy Statement, focuses on the second and third of the three purposes above.

The Council holds invested funds which represent income received in advance of expenditure plus balances and reserves held as reflected in the balance sheet forecast in paragraph 10.1.

From 2021/22 onwards, investment levels are likely to decrease due to the use of reserves and internal borrowing to fund the capital programme, repayment of debt in 2021/22, 2022/23 and 2023/24 and movements in reserves in the revenue budget. However, we intend to maintain investment balances above £10m to comply with MiFID requirements highlighted in section 4 of this report.

Investment Policy

The CIPFA Code requires the council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return or yield. The council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the council will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested.

The Council's investment priorities are:

- security of the invested capital;
- liquidity of the invested capital;
- An optimum yield which is commensurate with security and liquidity.

As per Arlingclose forecast, further Bank of England interest rate cuts to zero or perhaps even to negative territory cannot be ruled out in 2021/22. This is likely to feed through on all low risk, short-term investment options. In this event, security will be measured as receiving the contractually agreed amount at maturity, even though this may be less than the amount originally invested.

Investment Strategy

Given the increasing risk and very low returns from short-term unsecured bank investments, the Council aims to continue to invest in more secure asset classes during 2021/22. This is especially the case for the estimated £3m that is available for longer-term investment. The council's surplus cash is currently invested in; short-term unsecured bank or building society deposits, money market funds and short term investments with other Local Authorities.

The Council's investments are made with reference to the Council's cash flow, the outlook for the UK Bank Rate, money market rates, the economic outlook and advice from the Council's treasury adviser.

The COVID-19 pandemic has increased the risk that the Bank of England will set its Bank rate at or below zero, which is likely to feed through the negative interest rates on all low risk, short-term investment options. Since investments cannot pay negative income, negative rates will be applied by reducing the value of investments. In this event, security will be measured as receiving the contractually agreed amount at maturity, even though this may be less than the amount originally invested.

The Council compiles its cash flow forecast on a pessimistic basis, with receipts under-estimated and payments over-estimated to minimise the risk of the Council having to borrow on unfavourable terms. Limits on investments are set with reference to the Council's Medium Term Financial Plan and cash flow forecast. This also determines the maximum period for which funds may prudently be committed.

The Section 151 Officer, under delegated powers, will undertake the most appropriate form of investments in keeping with the investment objectives, income and risk management requirements and Prudential Indicators.

Under the new IFRS 9 standard, the accounting for certain investments depends on the council's 'business model' for managing them. The council aims to achieve value from its internally managed treasury investments by a business model of collecting the contractual cash flows and so these investments will continue to be accounted for at amortised cost.

The MHCLG Guidance and the CIPFA Code do not prescribe any particular treasury management strategy for local authorities to adopt. The Head of Finance, having consulted the Corporate Portfolio holder, believes that the above strategy represents an appropriate balance between risk management and cost effectiveness.

All Investment activity will be reported in the annual Treasury Management Stewardship Report and supplemented with in-year Treasury Activity Reports to the Audit and Governance Committee.

Approved Counterparties

The Council may invest its surplus funds with any of the counterparty types in the table below, subject to the cash and time limits shown:

Credit Rating	Banks Unsecured	Banks Secured	Government	Corporates	Registered Providers
UK Govt	n/a	n/a	£ Unlimited 50 Years	n/a	n/a
AAA	£2m 5 years	£5m 20 years	£5m 50 years	£2m 20 years	£3m 20 years
AA+	£2m 5 years	£5m 10 years	£5m 25 years	£2m 10 years	£3m 10 years
AA	£2m 4 years	£5m 5 years	£5m 15 years	£2m 5 years	£3m 10 years
AA-	£2m 3 years	£5m 4 years	£5m 10 years	£2m 4 years	£3m 10 years
A+	£2m 2 years	£5m 3 years	£5m 5 years	£2m 3 years	£3m 5 years
A	£2m 13 months	£5m 2 years	£5m 5 years	£2m 2 years	£3m 5 years
A-	£2m 6 months	£5m 13 months	£5m 5 years	£2m 13 months	£3m 5 years
None	£1m 6 months	n/a	£5m 25 years	£1m 5 years	£1m 5 years
Lloyds Fixed Deposits	£3m 13months				
Lloyds Banking Group (excluding operational bank account)*	£5m 13months				
Pooled Funds and real estate investment trusts	£6m per fund				

*This was added to make it clear that the operational bank account limit as set out below is separate from the limit set on invested funds within the same banking group.

The above table must be read in conjunction with the notes below:

Operational bank account Lloyds Bank: The Council's own bank, will be subject to the limits in the above table for investment balances, but also accommodate necessary short-term cash management balances within its bank account for periods no longer than 7 days. These balances are not classed as investments, but are still subject to the risk of a bank bail- in, and operational balances will therefore be kept at no more than £5m.

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

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

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

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

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

Registered Providers: Loans or bonds issued by, guaranteed by or secured on the assets of the Registered Providers of Social Housing and registered social landlords, formerly known as Housing Associations. These bodies are tightly regulated by the Regulator of Social Housing. As providers of public services, they retain the likelihood of receiving Government support if needed.

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

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

Real Estate Investment Trusts: Shares in companies that invest mainly in real estate and pay the majority of their rental incomes to investors in a similar manner to pooled property funds. As with property funds, REIT's offer enhanced returns over the longer term, but are more volatile especially as the share price reflects changing demand for the shares as well as changes in the value of the underlying properties. Investments in REIT shares cannot be withdrawn but can be sold on the stock market to another investor.

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

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

Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "rating watch negative" or "credit watch negative") so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

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

When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2020, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the council will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Council's cash balances, then the surplus will be deposited with the UK Government, via the Debt Management Office or invested in government treasury bills for example, or with other local authorities. This will cause investment returns to fall, but will protect the principal sum invested.

To minimise the risk of investment losses in the case of a default, the maximum that will be lent to any one organisation (other than the UK Government) will be £6 million. A group of banks under the same ownership or a group of funds under the same management will be treated as a single organisation for limit purposes. Limits will also be placed on investments in brokers' nominee accounts, foreign countries and industry sectors as below:

	Cash limit
Any single organisation, except the UK Central Government	£5m each
UK Central Government	Unlimited
Any group of organisations under the same ownership	£5m per group
Any group of pooled funds under the same management	£10m per manager
Negotiable instruments held in a broker's nominee account	£10m per broker
Foreign countries	£5m per country
Registered Providers and registered social landlords	£5m in total
Unsecured Investments with Building Societies	£5m in total
Loans to unrated corporates	£5m in total
Money Market Funds	£20m in total (max £6m per fund)
Real Estate Investment Trusts	£10m in total

Supplementary due diligence: the following additional steps have been implemented

- Investments with counterparties with a credit rating below A- are to be discussed and agreed with the Portfolio Holder for Finance before the transaction has taken place.
- Checks on Local Authority investments are to be undertaken by the S151 / Deputy S151 officer prior to lending. The checks undertaken will be in the form of information in the public domain. This could include any CIPFA (or other) resilience score, balance sheet review of the local authority and any media releases available.

Policy on use of Financial Derivatives

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

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

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

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

APPENDIX D

APPORTIONMENT OF INTEREST STRATEGY 2020/21

The Localism Act 2011 required Local Authorities to allocate existing and future borrowing costs between the Housing Revenue Account and the General Fund.

Accordingly, on 1 April 2012, the council notionally split its existing debt into General Fund and Housing Revenue Account as detailed in the 'Borrowing Strategy'. Any future borrowing will be assigned in its entirety to the appropriate revenue account.

Interest payable and any other costs arising from long-term loans (for example, premiums and discounts on early redemption) will be charged to the appropriate revenue account.

Interest received on investment income is budgeted to be apportioned between General Fund and the Housing Revenue Account based on an estimated cash flow position and balance sheet forecast. For 2021/22, the budgeted investment income is £9,260 and is apportioned as follows: £5,876 General Fund and £3,384 Housing Revenue Account. Any over or under achievement of investment income is apportioned on this basis, at the end of the financial year. With the expectation of continued low interest rates for 2021/22, the average interest rate of 0.064% between August and November 2020 was used as an estimate.

APPENDIX E

PRUDENTIAL INDICATORS

1 Background

The Local Government Act 2003 requires the Council to have regard to the Chartered Institute of Public Finance and Accountancy's (CIPFA's) Prudential Code for Capital Finance in Local Authorities (the Prudential Code) when determining how much money it can afford to borrow. The objectives of the Prudential Code are to ensure within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that the Council has fulfilled these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year.

CAPITAL INDICATORS

2. Estimates of Capital Expenditure

The Council's planned capital expenditure and financing is summarised in the table below. Further detail is provided in the Capital Programme report being taken to Cabinet on 08 December 2020.

Capital Expenditure	2020/21 Approved £m	2020/21 Revised £m	2021/22 Est £m	2022/23 Est £m	2023/24 Est £m
Non-HRA	12.920	10.329	19.964	5.875	2.938
HRA	12.857	10.993	11.838	13.587	11.811
Total	25.777	21.322	31.802	19.462	14.749

Capital expenditure will be financed or funded as follows:

Capital Financing	2020/21 Approved £m	2020/21 Revised £m	2021/22 Est £m	2022/23 Est £m	2023/24 Est £m
Capital receipts	1.071	0.404	2.424	0.400	0.400
Government Grants	0.925	0.682	0.865	0.862	0.861
Major Repairs Reserve	3.870	3.673	8.704	10.727	8.953
Reserves	0.040	0.503	1.629		
Other Contribution-S106			0.271	0.000	
Right to Buy Receipts	6.736	6.126	2.268	2.267	2.266
Grants - Other					
Revenue contributions	1.042	0.856			
Total Financing	13.684	12.244	16.161	14.257	12.481
Unsupported borrowing	12.093	9.078	15.641	5.205	2.268
Total Funding	12.093	9.078	15.641	5.205	2.268
Total Financing and Funding	25.777	21.322	31.802	19.462	14.749

3. Capital Financing Requirement

The Capital Financing Requirement (CFR) measures the Council's underlying need to borrow for a capital purpose.

Capital Financing Requirement	2019/20 Actual £m	2020/21 Est £m	2021/22 Est £m	2022/23 Est £m	2023/24 Est £m	2024/25 Est £m
Non-HRA	17.4	25.7	40.4	43.9	44.2	43.8
HRA	71.8	70.6	56.4	55.2	54.0	52.7
Total CFR	**89.1**	**96.3**	**96.8**	**99.1**	**98.2**	**96.5**

The General Fund CFR is forecast to rise over the medium term. This is in line with the Capital programme schemes that are financed by debt. The detail of these schemes can be found in the capital report presented to Cabinet at the same meeting as this strategy.

4. Gross Debt and the Capital Financing Requirement

This is a key indicator of prudence. In order to ensure that over the medium term debt will only be for a capital purpose, the Council should ensure that the debt does not (except in the short term) exceed the total of the capital financing requirement in the preceding year plus the estimates of any additional increases to the capital financing requirement for the current and next two financial years.

Debt – as at 31 March	2020 Act £m	2021 Est £m	2022 Est £m	2023 Est £m	2024 Est £m
Borrowing	80.117	78.963	64.783	62.576	59.843
Transferred Debt	0.090	0.082	0.075	0.068	0.061
Total Debt	**80.207**	**79.045**	**64.858**	**62.644**	**59.904**

Total debt is expected to remain below the CFR during the forecast period.

5. Authorised Limit and Operational Boundary for External Debt

The **Operational Boundary** is based on the Council's estimate of most likely (i.e. prudent but not worst case) scenario for external debt. It links directly to the Council's estimates of capital expenditure, the capital financing requirement and cash flow requirements and is a key management tool for in-year monitoring. Other long-term liabilities may comprise of finance leases, Private Finance Initiative and other liabilities that are not borrowing but form part of the Council's debt.

The Section 151 Officer has delegated authority, within the total limit for any individual year, to effect movement between the separately agreed limits for borrowing and other long-term liabilities. Decisions will be based on the outcome of financial option appraisals and best value considerations. Any movement between these separate limits will be reported to the next meeting of the Council.

Operational Boundary for External Debt	2020/21 Approved £m	2020/21 Revised £m	2021/22 Est £m	2022/23 Est £m	2023/24 Est £m
Borrowing	138.380	141.094	148.807	142.895	140,796
Other Long-term Liabilities	0.500	0.500	0,500	0,500	0,500
Total	**138.88**	**141.594**	**149.307**	**143.395**	**141.296**

The **Authorised Limit** sets the maximum level of external debt on a gross basis (i.e. excluding investments) for the Council. It is measured on a daily basis against all external debt items on the Balance Sheet (i.e. long and short term borrowing, overdrawn bank balances and long term liabilities). This Prudential Indicator separately identifies borrowing from other long term liabilities such as finance leases. It is consistent with the Council's existing commitments, its proposals for capital expenditure and financing and its approved treasury management policy statement and practices.

The Authorised Limit is the affordable borrowing limit determined in compliance under Section 3(1) of the Local Government Act 2003 (referred to in the legislation as the Affordable Limit). It is the maximum amount of debt that the Council can legally owe. The Authorised Limit provides headroom over and above the operational boundary to allow for unusual cash movements

Authorised Limit for External Debt	2020/21 Approved £m	2020/21 Revised £m	2021/22 Est £m	2022/23 Est £m	2023/24 Est £m
Borrowing	140.380	143.094	150.807	144.895	142.796
Other Long-term Liabilities	0.700	0.700	0.700	0.700	0.700
Total	**141.08**	**143.794**	**151.507**	**145.595**	**143.496**

The Council has an integrated treasury management strategy and manages its treasury position in accordance with its approved strategy and practice. Overall borrowing will therefore arise as a consequence of all the financial transactions of the Council and not just those arising from capital spending reflected in the CFR.

6. Ratio of Financing Costs to Net Revenue Stream

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

Ratio of Financing Costs to Net Revenue Stream	2019/20 Actual %	2020/21 Approved %	2020/21 Revised %	2021/22 Est %	2022/23 Est %	2023/24 Est %
Non-HRA	5.64	6.45	6.96	9.92	15.06	16.37
HRA	12.52	12.24	12.24	11.68	9.94	9.49
Total (Average)	**9.58**	**9.48**	**11.42**	**13.05**	**12.40**	**12.17**

The Council has an increasing ratio of Non-HRA financing costs due to forecast increases of interest on loans and MRP contributions and reducing revenue income streams. The HRA financing costs will fall in 2021/22 following repayment of £13m of loans, which reduces interest costs by £339k.

7. Incremental Impact of Capital Investment Decisions

This is an indicator of affordability that shows the impact of capital investment decisions on Council Tax and Housing Rent levels. The incremental impact is the difference between the total revenue budget requirement of the current approved capital programme and the revenue budget requirement arising from the capital programme proposed.

Incremental Impact of Capital Investment Decisions	2020/21 Approved £	2020/21 Revised £	2021/22 Estimate £	2022/23 Estimate £	2023/24 Estimate £
Increase in Band D Council Tax	6.44	6.39	10.30	11.43	11.61
Increase/(Decrease) in Average Weekly Housing Rents *	4.31	0	(2.11)	3.34	1.55

Whilst this is a notional indicator as Band D Council Tax has not been increased, it represents the impact of the increased costs from capital decisions on the Band D Council Tax. The increasing impact is in line with the Estimates of Capital Expenditure as shown in Table 2.

Similarly, the proportion of rents spent on the HRA capital programme is increasing as we have planning to spend a greater amount on purchasing or building new council properties than in previous years.

TREASURY MANAGEMENT INDICATORS

8. Upper Limits for Fixed and Variable Interest Rate Exposure

These indicators allow the Council to manage the extent to which it is exposed to changes in interest rates. The Council calculates these limits on net principal outstanding sums (i.e. fixed rate debt net of fixed rate investments).

The upper limit for variable rate exposure has been set to ensure that the Council is not exposed to interest rate rises which could adversely impact on the revenue budget. The limit allows for the use of variable rate debt to offset exposure to changes in short-term rates on investments.

	Existing (Benchmark) level 31/03/20 %	2020/21 Approved %	2020/21 Revised %	2021/22 Estimate %	2022/23 Estimate %	2023/24 Estimate %
Upper Limit - Fixed Interest Rate Exposure	100	100	100	100	100	100
Upper Limit - Variable Interest Rate Exposure	50	50	50	50	50	50

The limits above provide the necessary flexibility within which decisions will be made for drawing down new loans on a fixed or variable rate basis; the decisions will ultimately be determined by expectations of anticipated interest rate movements as set out in the Council's treasury management strategy.

Fixed rate investments and borrowings are those where the rate of interest is fixed for at least 12 months, measured from the start of the transaction year or the transaction date if later. All other instruments are classed as variable rate.

9. Maturity Structure of Fixed Rate borrowing

This indicator highlights the existence of any large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates and is designed to protect against excessive exposures to interest rate changes in any one period, in particular in the course of the next ten years.

It is calculated as the amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate. The maturity of borrowing is determined by reference to the earliest date on which the lender can require payment.

Maturity structure of fixed rate borrowing	Lower Limit for 2021/22 %	Upper Limit for 2021/22 %
under 12 months	0	0
12 months and within 24 months	0	60
24 months and within 5 years	0	50
5 years and within 10 years	0	40
10 years and within 20 years	0	40
20 years and within 30 years	0	40
30 years and within 40 years	0	70

10. Upper Limit for total principal sums invested over 364 days

The purpose of this limit is to contain exposure to the possibility of loss that may arise as a result of the Council having to seek early repayment of the sums invested.

	2020/21 Approved £m	2020/21 Revised £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m
Upper Limit	12	12	12	5	5

The reduction of the Upper Limit from 2022/23 onwards is in line with the capital expenditure expected on the leisure project and to ensure liquidity is maintained.

APPENDIX F

ANNUAL MINIMUM REVENUE PROVISION STATEMENT

Background

Where the Council finances capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP). Although there has been no statutory minimum since 2008, the Local Government Act 2003 requires the Council to have regard to the Ministry for Housing, Communities and Local Government's Guidance on Minimum Revenue Provision (the Guidance), which has been updated and re-issued in February 2018. The effective date of the latest guidance applies for accounting periods starting on or after 1 April 2019.

The MHCLG Guidance requires the Council to approve an Annual MRP Statement each year. The broad aim of the MHCLG guidance is to ensure that debt is repaid over a period that is reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant.

MRP is not required to be charged to the Housing Revenue Account and where a local council's overall CFR is £nil or a negative amount there is no requirement to charge MRP.

Following the payment made to exit the Housing Revenue Account subsidy system for the new self-financing arrangements from April 2012, MRP will be determined as being equal to the principal amount repaid on the loans borrowed to finance that payment. The structure of the debt that was incurred to fund the self-financing was based on the principal being repaid over the life of the HRA business plan, which also takes into account the 'old' HRA debt. For 2021/22, as in previous years, the MRP for HRA is determined by the amounts of principal repaid on the loans that were taken out on an annuity basis.

The Section 151 Officer has undertaken a review of its MRP in 2018/19, to assess the council's current policy against the MHCLG Guidance and appropriateness for the needs of the organisation. In previous years, the council's policy in respect of MRP is to charge an amount equal to 4% of the non-housing CFR at the end of the preceding financial year, based on Option 2.

Going forward, the Section 151 Officer has revised this policy for 2019/20 onwards to asset life method, based on Option 3, whereby MRP is determined by reference to the useful life of the asset. It is considered more prudent to take the asset life method approach in line with MHCLG guidance.

MRP Options:

Four options for prudent MRP are set out in the MHCLG Guidance. Details of each are set out below:

<u>Option 1 – Regulatory Method.</u>
For Capital expenditure incurred before 1st April 2008, MRP under this option, is the amount determined in accordance with the 2003 regulations. In effect, this is 4% of the total Capital Financing Requirement (CFR) excluding HRA borrowing and Adjustment A. Adjustment A is an accounting adjustment to ensure consistency with previous capital regulations. Once calculated this figure is fixed. For this Council, Adjustment A is fixed at £606,250.49.

Option 2 – CFR Method.
MRP under this option is the same as option 1 but ignores Adjustment A. In effect, this is 4% of the CFR less HRA borrowing.

Option 3 – Asset Life Method.
Where capital expenditure on an asset is financed either wholly or in part by borrowing or credit arrangements, MRP is determined by the life of the asset. For example, if the asset life is 5 years, then the MRP for that asset will be based on 20% of the capital expenditure (unsupported borrowing), per year for 5 years.

Option 4 - Depreciation Method.
Under this option, MRP would be based on the provision required under depreciation accounting. It would also take into account any residual value at the end of the life of the asset. For example, if the asset life was 5 years and the residual value was anticipated to be 10% of the asset value, then the MRP for that asset would be based on 20% of the capital expenditure (unsupported borrowing) less 10% residual value per year for 5 years.

Under Regulation 28 of the Local Authorities *(Capital Finance and Accounting) (England) Regulations 2003,* the council is also given flexibility in how they calculate MRP, providing the calculation is prudent.

MRP Policy for 2021/22:

- The council will apply Option 1 in respect of supported capital expenditure.
- The council will apply a prudent provision based on 'option 2' for unsupported borrowing incurred up to and including 31 March 2020.
- The council will apply an asset life method based on Option 3, in respect of new unsupported capital expenditure incurred from 1 April 2019 onwards.

Based on the council's latest estimate of its Capital Financing Requirement on 31 March 2020, the 2021/22 budget for General Fund MRP will be £1,001,506. The HRA will repay £13,000,000 of debt in 2021/22 through the two majority loans.