TREASURY MANAGEMENT STRATEGY STATEMENT 2021/22

1.1 Introduction

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

The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning, to ensure that the Council can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans, or using longer-term cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet the Council's risk or cost objectives.

The contribution the treasury management function makes to the authority 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.

Whilst any alternative investments 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.

CIPFA defines treasury management as:

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

1.2 Reporting requirements

1.2.1 Capital Strategy

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

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.

1.2.2 **Treasury Management Reporting**

The Council is currently required to receive and approve, as a minimum, three main treasury reports each year, which incorporate a variety of policies, estimates and actuals.

a. **Prudential and treasury indicators and treasury strategy** (this report) - The first, and most important report covers:

- the capital plans (including prudential indicators);
- a minimum revenue provision (MRP) policy (how residual capital expenditure is charged to revenue over time);
- the treasury management strategy (how the investments and borrowings are to be organised) including treasury indicators;
- an investment strategy (the parameters on how investments are to be managed).

b. **A Mid Year Treasury Management Report –** This will update members with the progress of the capital position, amending prudential indicators as necessary, and whether the treasury strategy is meeting the strategy or whether any policies require revision. In addition the Executive will receive quarterly update reports.

c. **An Annual Treasury Report** – This year end report provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

Scrutiny – The annual strategy is required to be adequately scrutinised by committee before being recommended to the Council. This role is undertaken by the Executive.

1.3 The suggested Treasury Management Strategy for 2021/22 covers the two main areas:

Capital issues

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

Treasury management issues

- the current treasury position;
- treasury indicators which limit the treasury risk and activities of the Council;
- prospects for interest rates;
- the borrowing strategy;
- policy on borrowing in advance of need;
- debt rescheduling;
- the investment strategy;
- creditworthiness policy; and
- policy on use of external service providers.

These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, MHCLG MRP Guidance, the CIPFA Treasury Management Code and MHCLG Investment Guidance.

1.4 Training

The CIPFA Code requires the Chief Finance Officer to ensure that members with responsibility for treasury management, particularly those with responsibility for scrutiny, receive adequate training in treasury management. Training has been provided to members by Link Asset Services and further training will be arranged as required.

1.5 Treasury Management Consultants

The Council uses Link Asset Services, Treasury Solutions as it external treasury management advisors.

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 the services of our external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisers.

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.

APPENDIX B

MINIMUM REVENUE PROVISION POLICY STATEMENT 2021/22

1. Introduction

1.1 The Council is required to pay off an element of the accumulated General Fund capital spend 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).

MHCLG regulations have been issued which require the 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 a prudent provision. The Council is recommended to approve the following MRP Statement

2. Minimum Revenue Provision Policy

2.1 The Council's MRP policy is based on the Governments Statutory Guidance and following a review no further changes are considered necessary and the policy for 2020/21 is therefore as follows:

(a) For all **Capital expenditure incurred before 1 April 2008** which formed the General Fund Capital Financing Requirement (CFR) that is capital expenditure funded through borrowing will be charged at 4% of the outstanding balance each year.

(b) From 1 April 2008 for all unsupported borrowing (including PFI and finance leases) the MRP policy will be *either:*

- **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) (option 3);
- **Depreciation method** – MRP will follow standard depreciation accounting procedures (option 4);

These options provide for a reduction in the borrowing need over approximately the asset's life.

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

In the case of long term debtors from loans, the amounts paid out are classed as capital expenditure for capital financing purposes. The expenditure is therefore included in the calculation of the Council's Capital Financing Requirement. When the Council receives the repayment of an amount loaned, the income will be classified as a capital receipt. Where the capital receipts will be applied to reduce the Capital Financing Requirement, there will be no revenue provision made for the repayment of the debt liability (i.e. unless the eventual receipt is expected to fall short of the amount expended).

Total General Fund MRP for 2021/22 is estimated at £0.654m (£0.654m internal borrowing, with nothing outstanding for leases).

2.2 **MRP Overpayments -** A change introduced by the revised MHCLG MRP Guidance was the allowance that any charges made over the statutory minimum revenue provision (MRP), voluntary revenue provision or overpayments (VRP), can, if needed, be reclaimed in later years if deemed necessary or prudent. In order for these sums to be reclaimed for use in the budget, this policy must disclose the cumulative overpayment made each year. Up until the 31 March 2021 the total VRP overpayments are **£10.84**m. This relates to VRP charged for the repayment of HRA self-financing debt.

The HRA Business Plan shows that the cost of planned improvement works will exceed the funds available in the major repairs reserve and consequently resources previously set-aside to repay the self-financing debt will be needed to support the capital programme. This will mean that debt repayment will have to be deferred beyond the 30 years originally planned.

APPENDIX C

THE CAPITAL PRUDENTIAL INDICATORS 2021/22 – 2023/24

1. Introduction

1.1 The ‘Prudential Code’ provides Council’s with a regime of self-regulation for borrowing money for capital purposes. A local authority can borrow as much as it wishes as long as it can afford the repayments. The Code outlines four key objectives relating to the capital investment plans and treasury management procedures of local authorities. To demonstrate that these objectives are being fulfilled the Prudential Code sets out the indicators that must be used, and the factors that must be taken into account.

1.2 The Code prescribes how the issue of affordability is measured using a set of prudential indicators. The four key objectives of the Code are to ensure that capital investment plans of local authorities are affordable, prudent and sustainable, and to ensure that treasury management decisions are taken in accordance with good professional practice. The indicators are mandatory but the figures used in the calculations are a matter for each local authority.

1.3 The prudential indicators required by the Code are designed to support and record local decision-making. They are not designed to be comparative performance indicators and the use of them in this way would be likely to be misleading and counter-productive.

1.4 The Council’s capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in prudential indicators, which are designed to assist members’ overview and confirm capital expenditure plans.

2. Capital Expenditure:

2.1 The Council’s capital expenditure plans are a key driver of treasury management activity. The output of the capital expenditure plans are reflected in the prudential indicators, which are designed to assist Members by highlighting the overall impact of capital investment decisions within the context of the Council’s financing requirements.

2.2 This prudential Indicator is a summary of the Council’s capital expenditure plans, both those agreed previously, and those forming part of the this budget cycle. The table below summarises the above capital expenditure plans and how these plans are being financed.

Table 1: Capital Expenditure

Capital Expenditure	2019/20 Actual £'000	2020/21 Estimate £'000	2021/22 Estimate £'000	2022/23 Estimate £'000	2023/24 Estimate £'000
General Fund	2,436	5,504	3,267	1,237	709
HRA	4,210	6,072	11,654	5,170	5,263
Non Financial Investments	764	1,000	3,800	10,171	0
Total	**7,409**	**12,576**	**18,721**	**16,578**	**5,972**

* Non-financial investments relate to areas such as capital expenditure on investment properties, loans to third parties etc.

2.3 Other long term liabilities. The above financing need excludes other long term liabilities, such as leasing arrangements which already include borrowing instruments (this includes the leases the councils contractors have for vehicles and equipment within the Street Scene and Leisure Contracts). Table 2 below includes these costs.

2.4 As part of our aspirations for Selby District the Council has approved a 'Programme for Growth' which includes a number of revenue and capital initiatives aimed at stimulating activity associated with jobs, housing, infrastructure, retail and leisure. While these strategic initiatives have been included in the capital expenditure plans shown in Table 1, any changes may require the Council to reconsider its borrowing requirements, depending on the external resources it is able to lever towards the programme.

2.5 The Housing Delivery Programme is currently in progress which sets out ambitions to extend the programme for both the Council and Selby & District Housing Trust. The forecast capital spend and loans to the Trust are included in Capital estimates shown in Table 1.

2.6 Capital expenditure plans also include a Property Acquisition Fund (£3.5m spread across 2018/19 – 2022/23) which is earmarked to support the Council's Transforming Cities Project .

Table 2: Financing of Capital Expenditure

2.7 Table 2 summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding need (borrowing).

Capital Expenditure	2019/20 Act. £'000	2020/21 Est. £'000	2021/22 Est. £'000	2022/23 Est. £'000	2023/24 Est. £'000
General Fund	2,436	5,504	3,267	1,237	709
HRA	4,210	6,072	11,654	5,170	5,263
Commercial Activities / Non-financial Investments	764	1,000	3,800	10,171	0
Total	**7,409**	**12,576**	**18,721**	**16,578**	**5,972**
Financed By:					
Revenue & Reserves	-4,087	-7,941	-12,475	-6,864	-5,569
Capital Receipts	-1,881	-320	-1,454	-180	0
Grants	-386	-266	-817	-402	-402
Repaid Loans		-71	-246	-256	-266
Net Financing Need	**1,055**	**3,978**	**3,729**	**8,876**	**-265**

Table 3: Financing Need, Commercial / Non-Financial Investments

2.8 A key aspect of the regulatory and professional guidance is that elected Members are aware of the size and scope of any commercial activity in relation to the authority's overall financial position. The net financing need for commercial activities / non-financial investments included in the above table against expenditure is shown below:

Commercial activities / non-financial investments £m	2019/20 Act. £'000	2020/21 Est. £'000	2021/22 Est. £'000	2022/23 Est. £'000	2023/24 Est. £'000
Capital Expenditure	764	0	2,800	9,132	0
Financing costs	0	0	0	0	0
Net financing need for the year	**764**	**0**	**2,800**	**9,132**	**0**
Percentage of total net financing need %	**72%**	**0%**	**53%**	**103%**	**0%**

Commercial / Non-financial investments relate to affordable housing loans and properties to be acquired to support the transforming cities project.

3. The Council's Borrowing Need (the Capital Financing Requirement):

3.1 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. This is summarised in Table 4.

3.2 The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the borrowing need in line with each assets life. The Council is asked to approved the CFR projections below:

3.3 The CFR includes any other long term liabilities (e.g. finance leases) brought onto the balance sheet. Whilst this increases the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility and so the Council is not required to separately borrow for these schemes. These are also shown in Table 3.

Table 4: Capital Financing Requirement

	2019/20 Actual £000	2020/21 F'cast £000	2021/22 F'cast £000	2022/23 F'cast £000	2023/24 F'cast £000
CFR General Fund	4,401	8,118	10,218	18,441	17,522
CFR GF Leases	82	3	3	3	3
Total CFR General Fund	**4,482**	**8,122**	**10,222**	**18,444**	**17,526**
CFR HRA	49,542	48,250	47,883	47,283	47,476
Total CFR	**54,024**	**56,372**	**58,105**	**65,727**	**65,001**
Movement in CFR	-460	2,347	1,733	7,622	-726
Movement in CFR represented by:-					
Net Financing need for the year	1,055	3,979	3,730	8,876	-266
Less MRP & Other Financing movements	-1,515	-1,631	-1,997	-1,254	-460
Movement in CFR	**-460**	**2,347**	**1,733**	**7,622**	**-726**

4. Affordability Prudential Indicators

4.1 The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances. The Council is asked to approve the following indicators:

4.2 The indicator of actual and estimates of the ratio of financing costs to net revenue stream identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream. These are shown in Table 5. The estimates of financing costs include current commitments and the proposals in this report

Table 5: Ratio of Financing Costs to Net Revenue Stream

	2019/20 Actual %	2020/21 Est. %	2021/22 Est. %	2022/23 Est. %	2023/24 Est. %
General Fund	-0.39	-0.10	2.13	4.70	5.03
Housing Revenue Account	24.63	25.95	25.57	19.19	12.59

HRA figures reflect the impact of the HRA settlement. The Council no longer pays into the housing subsidy system and keeps all of its income stream to service the debt, plus makes voluntary revenue contributions (VRP).

1.0 BORROWING STRATEGY 2021/22

1.1 The capital expenditure plans set out in Appendix D provide a summary of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with relevant professional codes, so that sufficient cash is available to meet this service activity. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of approporiate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

Table 1: Current Treasury Portfolio at 31/12/20

		Principal		Ave. rate
		£m	£m	%
Fixed rate funding	PWLB	52.8		
	Market	0	52.8	3.63 *
Variable Rate Funding	PWLB	0		
	Market	0	0	0
Other long term liabilities	Leases	0.1	0.1	4.51
TOTAL DEBT			**59.5**	**3.63 ***
TOTAL INVESTMENTS			**74.8**	**0.57**

* During financial year 2020/21, £6.5m market borrowing has been repaid, which has lowered the average rate for external debt to 3.63%. This historical debt had the highest rate of interest of all the Council's borrowing at 8.79%.

1.2 The Council's treasury portfolio position as at 31 December 2020 is shown in Table 1 and the forecasted position at 31 March 2021, with forward projections summarised in Table 2. The table shows the actual external borrowing (the treasury management operations), against the capital borrowing need (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

Table 2: Forecasted Portfolio Position

	2019/20 Actual £000	2020/21 F'cast £000	2021/22 F'cast £000	2022/23 F'cast £000	2023/24 F'cast £000
External Borrowing					
Borrowing at 1 April	52,833	52,833	52,833	52,833	52,833
Expected Change in Borrowing	0	0	0	0	0
Leases	82	3	3	3	3
Actual Borrowing at 31 March	**52,915**	**52,836**	**52,836**	**52,836**	**52,836**
CFR - the borrowing need	54,024	56,372	58,105	65,727	65,001
Under / (over) borrowing	1,110	3,535	5,269	12,891	12,165
Investments					
Total Investments	57,890	56,087	53,216	39,276	34,813
Investment Change	10,897	-1,803	-2,871	-10,573	-4,463
Net Borrowing	-3,866	285	4,889	26,451	30,188

2. Treasury Limits for 2021/22 to 2023/24

2.1 Selby District Council has, at any point in time, a number of cash flows both positive and negative, and manages its treasury position in terms of its borrowings and investments in accordance with its approved treasury management strategy and practices. In day-to-day cash management, no distinction can be made between revenue and capital cash. External borrowing arises as a consequence of all the financial transactions of the authority and not simply those arising from capital spending.

2.2 CIPFA's Prudential code for Capital Finance in Local Authorities' includes the following key indicator of prudence;
"*In order to ensure that over the medium term net borrowing will only be for a capital purpose, the local authority should ensure that net external borrowing does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and the next two financial years."*

2.3 The Chief Finance Officer reports that the authority (General Fund) had no difficulty meeting this requirement in 2019/20, nor are any difficulties envisaged for the current (2020/21) or future years (2021/22 – 2023/24). This view takes into account current commitments, existing plans and the proposals in the budget.

2.4 It is a statutory duty under Section 3 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. The amount so determined is termed the "Affordable Borrowing Limit". In England and Wales the authorised limit represents the legislative limit specified in the Act.

2.5 The Council must have regard to the Prudential Code when setting the Authorised Limit, which essentially requires it to ensure that total capital investment remains within sustainable limits and, in particular, that the impact upon its future council tax and council rent levels is 'acceptable'. It reflects the level of external borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

2.6 Whilst termed an "Affordable Borrowing Limit", it incorporates the capital plans to be considered for inclusion in corporate financing by both external borrowing and other forms of liability, such as credit arrangements.

2.7 The Authorised Limit for external borrowing is a key prudential indicator and represents a control on the maximum level of borrowing. It is a limit beyond which external borrowing is prohibited, and this limit needs to be set or revised by the full Council on a rolling basis, for the forthcoming financial year and two successive financial years. This information is shown in table 3.

Table 3: Authorised Borrowing Limit

Authorised Limit for External Debt	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000
Borrowing	89,000	89,000	77,000	77,000	77,000
Other Long Term Liabilities	1,000	1,000	1,000	1,000	1,000
Total	**90,000**	**90,000**	**78,000**	**78,000**	**78,000**

2.8 The Operational Boundary is the limit beyond which external borrowing is not normally expected to exceed and within which officers will manage the Council's external debt position. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual borrowing. This information is shown in table 4.

Table 4: Operational Borrowing Limit

Operational Boundary	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000
Borrowing	84,000	84,000	72,000	72,000	72,000
Other Long Term Liabilities	1,000	1,000	1,000	1,000	1,000
Operational Boundary Total	**85,000**	**85,000**	**73,000**	**73,000**	**73,000**

2.9 In respect of its external debt, table 3 details the proposed authorised limits for the Council's total external debt gross of investments for the next three financial years which councillors are recommended to approve. These limits separately identify borrowing from other long-term liabilities such as finance leases. The 2019/20 and 2020/21 figures shown above are for comparative purposes. It is also recommended that members continue to delegate authority to the Chief Finance Officer, within the total limit for any individual year, to effect movement between the separately agreed limits for borrowing and other long term liabilities. Any such changes made will be reported to the Executive at its next meeting following the change.

2.10 The Chief Finance Officer reports that these authorised limits are consistent with the authority's current commitments, existing plans and the proposals in the budget for capital expenditure and financing, and with its approved treasury management policy statement and practices. The Chief Finance Officer confirms that they are based on the estimate of the most likely, prudent but not worst-case scenario, with sufficient headroom over and above this to allow for operational management, for example unusual cash movements. Risk analysis and risk management strategies have been taken into account; as have plans for capital expenditure, estimates of the capital financing requirement and estimates of cash flow requirements for all purposes.

3. Prospects for Interest Rates

3.1 The Council appointed Link Asset Services as a treasury adviser to the Council and part of their service is to assist the Council to formulate a view on interest rates. Table 5 gives the Link central view.

Table 5: Link View interest rate forecast

Link Group Interest Rate View 9.11.20

These Link forecasts have been amended for the reduction in PWLB margins by 1.0% from 26.11.20

	Dec-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	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	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	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	0.20
5 yr PWLB	0.80	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	1.10	1.20	1.20	1.20	1.20	1.20	1.30	1.30	1.30	1.30
25 yr PWLB	1.50	1.50	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	1.30	1.40	1.40	1.40	1.40	1.50	1.50	1.50	1.50	1.60	1.60	1.60	1.60

4 Borrowing Requirement

4.1 The Council is currently forecasting an under-borrowed position in 2021/22. This means that the Council's capital borrowing is lower than the underlying need to borrow. As a result of the capital expenditure plans set out in **Appendix C, Table 1** the Council is expected to be maintain an under-borrowed position from 2020/21 onwards as shown in **Table 6** below. This is a prudent strategy as investment returns are low and counterparty risk is relatively high – this approach will be carefully monitored during

Table 6 – Borrowing Requirement

Under / (Over) Borrowing	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000
General Fund	2,882	6,522	8,622	16,844	15,926
HRA	-1,691	-2,983	-3,350	-3,950	-3,757
Overall Position	1,191	3,539	5,272	12,894	12,168

* The table above excludes leases from the under / over borrowed position, unlike table 2 – Forecasted Portfolio Position.

4.2 Against this background and the risks within the economic forecast, caution will be adopted with the 2021/22 treasury operations. The Chief Finance Officer will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances.

4.3 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.

4.4 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 the anticipated rate to US tapering of asset purchases, or 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 still at acceptable levels.

4.5 Any decisions will be reported to the Executive at the next available opportunity.

4.6 The current capital programme funding forecasts for 2021/22 to 2023/24 shows that there is a borrowing requirement for both the General Fund and HRA. The borrowing needs for future years will be reviewed as the capital programmes are confirmed.

4.7 Maturity structure of borrowing. These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.

Table 7 : Maturity Structure Fixed Rate Borrowing 2021/22

Maturity Structure New Borrowing 2020/21	**Upper Limit**	**Lower Limit**
Under 12 Months	20%	0%
12 Months and within 2 Years	20%	0%
2 Years and within 5 Years	50%	0%
5 Years and within 10 Years	50%	0%
10 Years and within 15 Years	50%	0%
15 Years and over	90%	20%

4.8 The Council has a policy of borrowing from the Public Works Loans Board in the first instance (over periods up to 50 years) or the money markets (over periods up to 50 years) which ever reflects the best possible value for the Council at the time. Individual loans are taken out over varying periods depending on the relative value of interest rates at the time of borrowing need and to avoid wherever possible a distorted repayment profile.

4.9 The Council's current debt portfolio as shown in Table 1 is entirely made up of £52.8m of PWLB debt However, the portfolio will be kept under review for debt rescheduling options, although opportunities for rescheduling have been limited.

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

4.11 The reasons for any rescheduling to take place will include:

- the generation of cash savings at minimum risk;
- help fulfil the strategy outlined above; and
- enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

Consideration will also be given to identify if there is any potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt

4.12 Any rescheduling of debt will be reported to Executive at the meeting following its action.

4.13 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. This is a key message within the new CIPFA Prudential Property Investment Guidance, issued in Autumn 2019. Furthermore the Council has no plans to buy commercial assets primarily for yield – acquisitions planned are to facilitate the Council's wider re-generation plans. Within the context of Commercial activities undertaken by this Council, commercial property and property funds have been cash backed by applying reserve funding. Loans to Selby and District Housing Trust are funded through internal borrowing. 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.

4.14 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.

ANNUAL INVESTMENT STRATEGY STATEMENT 2020/21

1. **Introduction**

1.1 Under the Local Government Act 2003 the Council is required to have regard to Government Guidance in respect of the investment of its cash funds. This Guidance was revised with effect from 1 April 2010. The Guidance leaves local authorities free to make their own investment decisions, subject to the fundamental requirement of an Annual Investment Strategy being approved by the Council before the start of the financial year.

1.2 This Annual Investment Strategy must define the investments the Council has approved for prudent management of its cash balances during the financial year under the headings of **specified investments** and **non-specified investments**.

1.3 The Council's day to day investments are managed as part of the overall investment pool operated by North Yorkshire County Council (NYCC). In order to enable investments to be managed through the investment pool the Council is required to adopt an Annual Investment Strategy and Approved Lending List in line with that of NYCC.

2. Revisions to the Annual Investment Strategy

2.1 In addition to this **Investment Strategy**, which requires approval before the start of the financial year, a revised Strategy will be submitted to Council for consideration and approval under the following circumstances:

(a) significant changes in the risk assessment of a significant proportion of the Council's investments;

(b) any other significant development(s) that might impact on the Council's investments and existing strategy for managing those investments during 2021/22.

3. Investment Policy

3.1 The parameters of the Policy are as follows:

(a) the Council will have regard to the Government's Guidance on Local Government Investments "the guidance", and the 2017 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectorial Guidance Notes, "the code";

(b) the Council's investment policy has two fundamental objectives;

- the security of capital (protecting the capital sum from loss); and then

- the liquidity of its investments (keeping the money readily available for expenditure when needed)

(c) the Council will also aim to seek the highest return (yield) on its investments provided that proper levels of security and liquidity are achieved. The risk appetite of the Council is low in order to give priority to the security of its investments;

(d) the borrowing of monies purely to invest or lend and make a return is unlawful and the Council will not engage in such activity;

(e) investment instruments for use in the financial year listed under **specified** and **non-specified investment** categories (see **paragraph 5.1**);

4. <u>Policy regarding loans to organisations in which the Council has an interest</u>

4.1 (a) the Council's general investment powers under this Annual Treasury Management and Investment Strategy come from the Local Government Act 2003 (Section 12). Under this Act a local authority has the power to invest for any purpose relevant to its functions or for the purpose of the prudent management of its financial affairs

(b) in addition to investment, the Council has the power to provide loans and financial assistance to organisations under the Localisation Act 2011 (and also formally under the general power of wellbeing in the Local Government Act 2000) which introduced a general power of competence for authorities (to be exercised in accordance with their general public law duties)

(c) any such loans by the Council, will therefore be made under these powers. They will not however be classed as investments made by the Council and will not impact on this Investment Strategy. Instead they will be classed as capital expenditure by the Council under the Local Authorities (Capital Finance and Accounting) Regulations 2003, and will be approved, financed and accounted for accordingly

(d) at present the Council has made several loans to the Selby District Housing Trust. The loan position to the Housing Trust is monitored and reviewed regularly.

5. <u>Specified and non-specified Investments</u>

5.1 Based on Government Guidance as updated from 2018.

(a) investment Instruments identified for use in the forthcoming financial year are listed in the Schedules attached to this Strategy under the **specified** and **non-specified** Investment categories;

(b) all **specified** Investments (see **Schedule A**) are defined by the Government as options with "relatively high security and high liquidity" requiring minimal reference in investment strategies. In this context, the Council has defined Specified Investments as being sterling denominated, with maturities up to a maximum of 1 year meeting the minimum high credit quality;

(c) **Non-specified** investments (see **Schedule B**) attract a greater potential of risk. As a result, a maximum local limit of 20% of "core cash" funds available for investment has been set which can be held in aggregate in such investments;

(d) for both specified and non-specified investments, the attached Schedules indicate for each type of investment:-

- the investment category
- minimum credit criteria
- circumstances of use
- why use the investment and associated risks
- maximum % age of total investments
- maximum maturity period

Non-Specified Only

(e) there are other instruments available as Specified and Non-Specified investments which the Council will NOT currently use. Examples of such investments are:-

Specified Investments	- Commercial Paper - Gilt funds and other Bond Funds - Treasury Bills
Non-Specified Investments	- Sovereign Bond issues - Corporate Bonds - Floating Rate notes - Equities - Open Ended Investment Companies - Derivatives

A proposal to use any of these instruments would require detailed assessment and be subject to approval by Members as part of this Strategy.

6. Creditworthiness Policy – Security of Capital and the use of credit ratings

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

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

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

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

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

(b) All credit ratings will be monitored daily. The County Council is alerted to changes to ratings of all three agencies through its use of the Link Asset Services' creditworthiness service

(c) If a downgrade results in the counterparty / investment scheme no longer meeting the County Council's minimum criteria, its further use as a new investment will be withdrawn immediately

(d) In addition to the use of credit ratings the County Council will be advised of information in movements in Credit Default Swap spreads against the iTraxx European Financials benchmark and other market data on a daily basis via its Passport website, provided exclusively to it by Link Asset Services. Extreme market movements may result in downgrade of an institution or removal from the County Council's lending list

(e) The Council will set maximum investment limits for each organisation which also reflect that institution's credit worthiness – the higher the credit quality, the greater the investment limit. These limits also reflect UK Government involvement (i.e. Government ownership or being part of the UK Government guarantee of liquidity). The limits for NYCC's entire investment pool are as follows, this Council's exposure being limited to its proportion of the overall pool

(f) Sole reliance will not be placed on the use of this external service. In addition, the County Council will also use market data and market information, as well as information on any external support for banks to help support its decision making process.

6.2 UK banks – ring fencing

a) The largest UK banks, (those with more than £25bn of retail / Small and Medium-sized Enterprise (SME) deposits), are required, by UK law, to separate core retail banking services from their investment and international banking activities by 1st January 2019. This is known as "ring-fencing". Whilst smaller banks with less than £25bn in deposits are exempt, they can choose to opt up. Several banks are very close to the threshold already and so may come into scope in the future regardless.

b) Ring-fencing is a regulatory initiative created in response to the global financial crisis. It mandates the separation of retail and SME deposits from investment banking, in order to improve the resilience and resolvability of banks by changing their structure. In general, simpler activities offered from within a ring-fenced bank, (RFB), will be focused on lower risk, day-to-day core transactions, whilst more complex and "riskier" activities are required to be housed in a separate entity, a non-ring-fenced bank, (NRFB). This is intended to ensure that an entity's core activities are not adversely affected by the acts or omissions of other members of its group.

c) While the structure of the banks included within this process may have changed, the fundamentals of credit assessment have not. The County Council will continue to assess the new-formed entities in the same way that it does others and those with sufficiently high ratings, (and any other metrics considered), will be considered for investment purposes.

6.3 Country limits

a) Due care will be taken to consider the exposure of the County Council's total investment portfolio to non-specified investments, countries, groups and sectors.

b) **Non-specified investment limit.** The County Council has determined that it will limit the maximum total exposure to non-specified investments as being 20% of the total investment portfolio.

c) **Country limit.** The County Council has determined that it will only use approved counterparties from the UK and from countries with a minimum sovereign credit rating of *AA-* from Fitch. The list of countries that qualify using these credit criteria as at the date of this report are shown in **Schedule 6**. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

7. <u>Investment Strategy</u>

7.1 Recognising the categories of investment available and the rating criteria detailed above:

(a) the Council's investments are managed as part of the overall investment pool operated by NYCC;

(b) on-going discussions are held with the Council's Treasury Management Advisor on whether to consider the appointment of an external fund manager(s) – any decision to appoint an external fund manager will be subject to Member approval;

(c) the Council's cash balances consist of two basic elements. The first element is cash flow derived (debtors/creditors/timing of income compared to expenditure profile). The second, core element, relates to specific funds (reserves, provisions, balances, capital receipts etc.);

(d) having given due consideration to the Council's estimated level of funds and balances over the next three financial years, the need for liquidity and day to day cash flow requirements it is forecast that a maximum of £40m of the County Council's overall balances can be prudently committed to longer term investments (e.g. between 1 and 5 years);

(e) investments will accordingly be made with reference to this core element and the Council's on-going cash flow requirements (which may change over time) and the outlook for short term interest rates (i.e. rates for investments up to 12 months);

(f) the County Council currently has two non-specified investments over 365 days, in addition to this Council's direct investment in two property funds.

(g) bank rate was reduced to 0.25% and then 0.1% in March 2020 and underpins investment returns. Investment returns are expected to stay flat over the next 3 years

The Council will, therefore, avoid locking into long term deals while investment rates are down at historically low levels unless attractive rates are available with counterparties of particularly high creditworthiness which make longer term deals worthwhile and within a 'low risk' parameter. No trigger rates will be set for longer term deposits (two or three years) but this position will be kept under constant review and discussed with the Treasury Management Advisor on a regular basis.

(h) for its cash flow generated balances the Council will seek to utilise 'business reserve accounts' (deposits with certain banks and building societies), 15 and 30 day accounts and short dated deposits (overnight to three months) in order to benefit from the compounding of interest.

8. Investment Report to Members

8.1 Reporting to Members on investment matters will be as follows:

(a) in-year investment reports will be submitted to the Executive as part of the Quarterly Performance reports;

(b) at the end of the financial year a comprehensive report on the Council's investment activity will be submitted to Executive;

9. Treasury Management Training

9.1 The training needs of the Council's staff and those of NYCC involved in investment management are monitored, reviewed and addressed on an on-going basis and are discussed as part of the staff appraisal process. In practice most training needs are addressed through attendance at courses and seminars provided by CIPFA, the LGA and others on a regular on-going basis.

9.2 The CIPFA Code also requires that Members with responsibility for treasury management receive adequate training in treasury management. This especially applies to Members responsible for scrutiny (i.e. the Executive). An in-house training course for Members was previously provided by Link Asset Services – Treasury Solutions. Further training will be arranged as required.

10. Policy on the Use of External Service Providers

10.1 The Council uses Link Asset Services – Treasury Solutions as its external treasury management adviser. Link provide a source of contemporary information, advice and assistance over a wide range of Treasury Management areas but particularly in relation to investments and debt administration.

10.2 Whilst the Council recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources, it fully accepts that responsibility for Treasury Management decisions remains with the authority at all times and will ensure that undue reliance is not placed upon the advice of external service providers.

10.3 Following a quotation exercise Link Asset Services were appointed in September 2015 as a single provider of Treasury Management consultancy services for both the Selby District Council and North Yorkshire County Council. The appointment is for three years, with the option for a further two year extension., which has been exercised. The value and quality of services being provided are monitored and reviewed on an ongoing basis.

11. The scheme of delegation and role of the Section 151 Officer in relation to Treasury Management

11.1 The Government's Investment Guidance (**paragraph 1.1**) requires that a local authority includes details of the Treasury Management schemes of delegation and the role of the Section 151 officer (Chief Finance Officer) in the Annual Treasury Management/Investment Strategy.

11.2 The key elements of delegation in relation to Treasury Management are set out in the following Financial Procedure Rules (FPR):-

(a) This Council has adopted CIPFA's Treasury Management Code of Practice 2017 and will adopt any amendments/additions to that Code.

(b) A Treasury Management Policy Statement shall be adopted by the Council and thereafter its implementation and monitoring shall be delegated to the Chief Finance Officer.

(c) (i) All money in the hands of the Council shall be under the control of the Chief Finance Officer – the officer designated for the purposes of Section 151 of the Local Government Act 1972,and referred to in the Code.

(ii) The Chief Finance Officer shall report to the Executive not less than twice in each financial year on the activities of the treasury management operation and on the exercise of delegated treasury management powers. One such report shall comprise an annual report on treasury management for presentation by 30 September of the succeeding financial year.

(d) At or before the start of the financial year the Chief Finance Officer shall report to the Executive on the strategy for treasury management it is proposed to adopt for the coming financial year with recommendations to Council for approval.

(e) All Executive decisions on borrowing, investment or financing shall be delegated to the Chief Finance Officer who shall be required to act in accordance with CIPFA's Treasury

11.3 In terms of the Treasury Management role of the Section 151 officer (Chief Finance Officer), the key areas of delegated responsibility are as follows

- recommending clauses, treasury management policies and practices for approval, reviewing the same regularly, and monitoring compliance;
- submitting regular treasury management policy reports to Members;
- submitting budgets and budget variations to Members;
- 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;
- 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;

12. Arrangements for Monitoring/Reporting to Members

12.1 Taking into account the matters referred to in this Strategy, the monitoring and reporting arrangements in place relating to Treasury Management activities are now as follows:

(a) an annual report to Executive and Council as part of the Budget process that sets out the Council's Treasury Management Strategy and Policy for the forthcoming financial year;

(b) an annual outturn report to the Executive for Treasury Management setting out full details of activities and performance during the preceding financial year.

(c) a quarterly report on Treasury Matters to Executive as part of the Quarterly Performance and Budget Monitoring report;