REPORT TO:	Executive Board
DATE:	25 February 2021
REPORTING OFFICER:	Operational Director – Finance
PORTFOLIO:	Resources
TITLE:	Treasury Management Strategy Statement 2021/22
WARDS:	Borough-wide

1.0 PURPOSE OF REPORT

1.1 To consider the Treasury Management Strategy Statement which incorporates the Annual Investment Strategy (AIS) and the Minimum Revenue Provision (MRP) Strategy for 2021/22.

2.0 RECOMMENDATION: That Council be recommended to adopt the policies, strategies, statements, prudential and treasury indicators outlined in the report.

3.0 SUPPORTING INFORMATION

3.1 This Treasury Management Strategy Statement (TMSS) details the expected activities of the treasury function in the forthcoming financial year (2021/22). Its production and submission to Council is a requirement of the CIPFA Prudential Code and the CIPFA Treasury Management Code.

3.2 The Local Government Act 2003 requires the Council to 'have regard to' the Prudential Code and to set Prudential Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable.

3.3 The Act requires the Council to set out its treasury strategy for borrowing and to prepare an Annual Investment Strategy; this sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.

3.4 Government guidance notes state that authorities can combine the Treasury Strategy Statement and Annual Investment Strategy into one report. The Council has adopted this approach and the Annual Investment Strategy is therefore included as section 4.

3.5 The Council is also required to produce a Minimum Revenue Provision (MRP) Policy Statement. There is a formal statement for approval detailed in paragraph 2.3 and the full policy is shown in Appendix A.

4.0 POLICY IMPLICATIONS

4.1 The successful delivery of the Strategy will assist the Council in meeting its budget commitments.

5.0 OTHER IMPLICATIONS

5.1 None.

6.0 IMPLICATIONS FOR THE COUNCIL'S PRIORITIES

6.1 There are no direct implications, however, the revenue budget and capital programme support the delivery and achievement of all the Council's priorities.

7.0 RISK ANALYSIS

7.1 The Authority operates its treasury management activity within the approved code of practice and supporting documents. The aim at all times is to operate in an environment where risk is clearly identified and managed. This strategy sets out clear objectives within these guidelines.

7.2 Regular monitoring is undertaken during the year and reported on a half-yearly basis to the Executive Board.

8.0 EQUALITY AND DIVERSITY ISSUES

8.1 None.

9.0 LIST OF BACKGROUND PAPERS UNDER SECTION 100D OF THE LOCAL GOVERNMENT ACT 1972

Document	Place of Inspection	Contact Officer
Working Papers	Financial Management	Matt Guest
CIPFA TM Code	Halton Stadium	
CIPFA Prudential Code		

HALTON BOROUGH COUNCIL

TREASURY MANAGEMENT STRATEGY STATEMENT

2021/22

Revenues and Financial Management Division
Finance Department
February 2021

TREASURY MANAGEMENT STRATEGY STATEMENT 2021/22

1 INTRODUCTION

1.1 Background

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 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 any debt previously drawn may be restructured to meet Council risk or cost objectives.

CIPFA defines treasury management as:

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

1.2 Reporting requirements

Capital Strategy

The CIPFA 2017 Prudential and Treasury Management Codes requires all local authorities to prepare, 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 Council fully understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite.

Treasury Management Reporting

Council is required to receive and approve the following reports each year, which incorporate a variety of policies, estimates and actuals.

Prudential and treasury indicators and treasury strategy (this report) - which covers:

- The capital plans (including prudential indicators)
- A minimum revenue provision (MRP) policy - how residual capital expenditure is charged to revenue over time
- The treasury management strategy – how the investment and borrowing are organised, including treasury indicators
- An investment strategy – the parameters of how investments are to be managed

A mid-year treasury management report – This will update members with the progress of the capital position, amending prudential indicators as necessary, and whether any policies require revision.

An annual treasury report – This provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

Scrutiny
The above reports are required to be adequately scrutinised before being recommended to the Council. This role is undertaken by the Executive Board.

1.3 Treasury Management Strategy for 2021/22

The strategy for 2021/22 covers 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
- Policy on use of external service providers

These elements cover the requirement 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 responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to Members responsible for scrutiny and therefore training was undertaken by Members in February 2018. The training needs of treasury management officers are periodically reviewed.

1.5 Treasury management consultants

The Council uses Link Asset Services as its 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 our external service providers.

It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

2 THE CAPITAL PRUDENTIAL INDICATORS 2021/22 – 2023/24

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

2.1 Capital Expenditure

This prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle.

Table 1 shows planned capital spend by directorate and summarises how these plans are being financed by capital or revenue resources, any shortfall of resources results in the need to borrow.

Table 1 – Capital Expenditure

	2019/20 Actual £000	2020/21 Estimate £000	2021/22 Estimate £000	2022/23 Estimate £000	2023/24 Estimate £000
Capital Expenditure:					
People	5,033	6,037	3,859	1,140	1,140
Enterprise, Community & Resources	38,307	42,558	20,724	12,860	3,182
	43,340	**48,595**	**24,583**	**14,000**	**4,322**
Financed By:					
Capital receipts	(3,083)	(4,285)	(2,678)	(3,083)	(2,069)
Capital grants	(26,953)	(24,073)	(7,089)	(1,726)	(1,446)
Revenue	(211)	(153)	-	-	-
Net financing need for the year	**13,093**	**20,084**	**14,816**	**9,191**	**807**

The above financing need excludes other long-term liabilities such as PFI and leasing arrangements which already include borrowing instruments.

2.2 The Council's borrowing need – The Capital Financing Requirement

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.

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 the life of each asset, and so charges the economic consumption of capital assets as they are used.

The CFR includes any other long-term liabilities (e.g. PFI schemes, finance leases). Whilst these increase 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.

Table 2 – Capital Financing Requirement

	2019/20 Actual £000	2020/21 Estimate £000	2021/22 Estimate £000	2022/23 Estimate £000	2023/24 Estimate £000
Capital Financing Requirement	**613,236**	**617,602**	**627,965**	**625,178**	**624,420**
Movement in CFR due to:					
Net financing need for the year	13,093	20,084	14,816	9,191	807
PFI / finance leases	-	-	-	-	-
Use of Reserves to reduce MRP liability	(488)	(500)	(8,512)	(525)	(539)
Less Minimum Revenue Provision	(8,239)	(9,221)	(9,091)	(9,424)	(10,013)
Increase / (Decrease) in CFR	**4,366**	**10,363**	**(2,787)**	**(758)**	**(9,745)**

2.3 Minimum revenue provision (MRP) statement

The Council is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge called the Minimum Revenue Provision (MRP).

MHCLG regulations require 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 full statement is detailed in Appendix A.

The Council is recommended to approve the following MRP Statement.

For capital expenditure incurred before 1 April 2008 the MRP policy will be to follow Option 1 (regulatory method), which will be charged on a 2% straight line basis.

For all unsupported borrowing since 1 April 2008, the MRP policy will be Option 3 (Asset Life Method) and is based on the estimated life of the assets. This will usually be charged using the equal instalment method, but the annuity method may also be used.

One exception to the above is expenditure that the Council has incurred on the construction of the Mersey Gateway Bridge. As this debt will be repaid from future toll income the Council will not charge any MRP on this expenditure until the income is received. When received, MRP payments will be matched with income received thus having little impact on the Council's revenue budget.

The MRP relating to PFI schemes, finance leases and Mersey Gateway unitary charge payments will be based on the annual lease payment, and will have no direct impact on the Council's revenue budget.

2.4 Affordability prudential indicators

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.

2.5 Ratio of financing costs to net revenue stream

This indicator identifies the trend in the cost of capital (borrowing net of investment income) against the net revenue stream.

Table 3 – Ratio of financing costs to net revenue stream

Ratio of finance costs to net revenue stream	2019/20 Actual £000	2020/21 Estimate £000	2021/22 Estimate £000	2022/23 Estimate £000	2023/24 Estimate £000
Council's net budget	**114,035**	**115,769**	**112,705**	**116,044**	**119,492**
Finance Costs					
Net interest costs	4,341	4,786	5,211	5,549	5,562
Minimum Revenue Provision	2,116	2,377	2,094	2,100	2,071
	6,457	**7,163**	**7,305**	**7,649**	**7,633**
	5.7%	**6.2%**	**6.5%**	**6.6%**	**6.4%**

The MRP and Interest cost relating to PFI schemes and finance leases have been excluded from the figures above as they have no impact on the revenue budget.

3 BORROWING

The capital expenditure plans set out in Section 2 provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the 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 appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

3.1 Current portfolio position

The overall treasury management portfolio as at 31 March 2020 and the position as at 31 December 2020 are shown in Table 4 for borrowing and investments.

Table 4 – Current Portfolio Position

	31st March 2020		31st December 2020	
	£000	%	£000	%
Treasury Investments				
UK banks and building societies	36,354	34%	55,863	46%
Non-UK banks	10,000	9%	-	0%
Local authorities	55,000	52%	55,000	46%
Money market funds	-	0%	5,000	4%
Property funds	5,000	5%	5,000	4%
Total	**106,354**	**100%**	**120,863**	**100%**
Treasury External Borrowing				
Local authorities	(5,000)	3%	**-**	-
Public Works Loans Board (PWLB)	(162,000)	92%	(162,000)	94%
Other long term borrowoing	(10,000)	6%	(10,000)	6%
Total	**(177,000)**	**100%**	**(172,000)**	**97%**
Net treasury investments / (borrowing)	**(70,646)**		**(51,137)**	

The Council's treasury portfolio position at 31 March 2020, with forward projections are summarised in Table 5. The table shows the actual external debt (the treasury management operations), against the underlying capital borrowing need (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

Table 5 – External debt

External debt	2019/20 Actual £000	2020/21 Estimate £000	2021/22 Estimate £000	2022/23 Estimate £000	2023/24 Estimate £000
Borrowing					
Debt at 1 April	172,000	172,000	172,000	192,000	192,000
Expected change in debt	-		20,000	-	-
Debt at 31 March	**172,000**	**172,000**	**192,000**	**192,000**	**192,000**
Other long-term liabilities					
Debt at 1 April	381,074	374,519	367,675	360,678	353,354
Expected change in debt	(6,555)	(6,844)	(6,997)	(7,324)	(7,942)
Debt at 31 March	**374,519**	**367,675**	**360,678**	**353,354**	**345,412**
Total external debt at 31 March	**546,519**	**539,675**	**552,678**	**545,354**	**537,412**
Capital Financing Requirement	**613,236**	**617,602**	**627,965**	**625,178**	**624,420**
Under / (over) borrowing	**66,717**	**77,927**	**75,287**	**79,824**	**87,008**

Within the prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt does not (except in the short term) exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2021/22 and the following two financial years.

This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.

3.2 Treasury Indicators: limits to borrowing activity

The operational boundary

This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt.

Table 6 – Operational Boundary

Operational boundary	2020/21 Estimate £000	2021/22 Estimate £000	2022/23 Estimate £000	2023/24 Estimate £000
Debt	192,000	192,000	212,000	212,000
Other long term liabilities	374,519	367,675	360,678	353,354
Operational boundary	**566,519**	**559,675**	**572,678**	**565,354**
Total external debt at 31 March	546,519	539,675	552,678	545,354
Estimated headroom	**20,000**	**20,000**	**20,000**	**20,000**

The authorised limit for external debt

A further key prudential indicator represents a control on the maximum level of borrowing. This represents a limit beyond which external debt is prohibited. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.

Table 7 – Authorised Limit

Authorised limit	2020/21 Estimate £000	2021/22 Estimate £000	2022/23 Estimate £000	2023/24 Estimate £000
Capital Financing Requirement	617,602	627,965	625,178	624,420
Contingency	20,000	20,000	20,000	20,000
Total	**637,602**	**647,965**	**645,178**	**644,420**
Total external debt at 31 March	546,519	539,675	552,678	545,354
Estimated headroom	**91,083**	**108,290**	**92,500**	**99,066**

3.3 Prospects for Interest Rates

The Council has appointed Link Asset Services as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. Table 8 and supporting narrative gives their central view:

Table 8 – Interest rate forecast

Quarter average	Bank rate %	PWLB borrowing rates % (including certainty rate adjustment)			
		5 year	10 year	25 year	50 year
Mar-21	0.10	0.8	1.1	1.5	1.3
Jun-21	0.10	0.8	1.1	1.6	1.4
Sep-21	0.10	0.8	1.1	1.6	1.4
Dec-21	0.10	0.8	1.1	1.6	1.4
Mar-22	0.10	0.9	1.2	1.6	1.4
Jun-22	0.10	0.9	1.2	1.7	1.5
Sep-22	0.10	0.9	1.2	1.7	1.5
Dec-22	0.10	0.9	1.2	1.7	1.5
Mar-23	0.10	0.9	1.2	1.7	1.5
Jun-23	0.10	1.0	1.3	1.8	1.6
Sep-23	0.10	1.0	1.3	1.8	1.6
Dec-23	0.10	1.0	1.3	1.8	1.6
Mar-24	0.10	1.0	1.3	1.8	1.6

Interest Rates

The coronavirus outbreak has done huge economic damage to the UK and economies around the world. After the Bank of England took emergency action in March to cut the Bank Rate to first 0.25%, and then to 0.10%, it left the Bank Rate unchanged at its subsequent meetings to 16th December 2020, although some forecasters had suggested that a cut into negative territory could happen. However, the Governor of the Bank of England has made it clear that he currently thinks that such a move would do more damage than good and that more quantitative easing is the favoured tool if further action becomes necessary. As shown in the forecast table above, no increase in Bank Rate is expected in the near-term as economic recovery is expected to be only gradual and, therefore, prolonged.

Gilt yields / PWLB Rates

There was much speculation during the second half of 2019 that bond markets were in a bubble which was driving bond prices up and yields down to historically very low levels. The context for that was a heightened expectation that the US could have been heading for a recession in 2020. In addition, there were growing expectations of a downturn in world economic growth, especially due to fears around the impact of the trade war between the US and China, together with inflation generally at low levels in most countries and expected to remain subdued. Combined, these conditions were conducive to very low bond yields.

While inflation targeting by the major central banks has been successful over the last thirty years in lowering inflation expectations, the real equilibrium rate for central rates has fallen considerably due to the high level of borrowing by consumers. This means that central banks do not need to raise rates as much now to have a major impact on consumer spending, inflation, etc. The consequence of this has been the gradual lowering of the overall level of interest rates and bond yields in financial markets over the last 30 years. Over the year prior to the coronavirus crisis, this has seen many bond yields up to 10 years turn negative in the Eurozone. In addition, there has, at times, been an inversion of bond yields in the US whereby 10 year yields have fallen below shorter term yields. In the past, this has been a precursor of a recession. The other side of this coin is that bond prices are elevated as investors would be expected to be moving out of riskier assets i.e. shares, in anticipation of a downturn in corporate earnings and so selling out of equities.

Gilt yields had therefore already been on a generally falling trend up until the coronavirus crisis hit western economies during March 2020. After gilt yields spiked up during the financial crisis in March, we have seen these yields fall sharply to unprecedented lows as investors panicked during March in selling shares in anticipation of impending recessions in western economies, and moved cash into safe haven assets i.e. government bonds. However, major western central banks took rapid action to deal with excessive stress in financial markets during March, and started massive quantitative easing purchases of government bonds: this also acted to put downward pressure on government bond yields at a time when there has been a huge and quick expansion of government expenditure financed by issuing government bonds. Such unprecedented levels of issuance in “normal” times would have caused bond yields to rise sharply. Gilt yields and PWLB rates have been at remarkably low rates so far during 2020/21.

As the interest forecast table for PWLB certainty rates above shows, there is expected to be little upward movement in PWLB rates over the next two years as it will take economies, including the UK, a prolonged period to recover all the momentum they have lost in the sharp recession caused during the coronavirus shut down period. From time to time, gilt yields, and therefore PWLB rates, can be subject to exceptional levels of volatility due to geo-political, sovereign debt crisis, emerging market developments and sharp changes in investor sentiment, (as shown on 9th November when the first results of a successful COVID-19 vaccine trial were announced). Such volatility could occur at any time during the forecast period.

Investment and borrowing rates

- Investment returns are likely to remain exceptionally low during 2021/22 with little increase in the following two years.
- Borrowing interest rates fell to historically very low rates as a result of the COVID crisis and the quantitative easing operations of the Bank of England: indeed, gilt yields up to 6 years were negative during most of the first half of

2020/21. In November 2020, the increase of 100 bps in PWLB rates was reversed, although a prohibition was introduced to deny access to borrowing from the PWLB for any local authority which had purchase of assets for yield in its three year capital programme. The council can now utilise the PWLB certainty rate which is gilt plus 80 basis points.

- As PWLB rates are at a very low level, longer term borrowing could be undertaken for the purpose of certainty, and the Council may not be able to avoid borrowing to finance new capital expenditure. But there will be a cost of carry, (the difference between higher borrowing costs and lower investment returns) for any new short or medium-term borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost.

3.4 Borrowing Strategy

The Council is currently maintaining an under-borrowed position which means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is relatively high.

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

- If it was felt that there was a significant risk of a sharp fall in long and short term rates (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.

- If it was felt that there was a significant risk of a much sharper rise in long and short term rates than that currently forecast, perhaps arising from an acceleration in the start date and in the rate of increase in central rates in the USA and UK, an increase in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates are still lower than they will be in the next few years.

3.5 Policy on borrowing in advance of need

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

3.6 Debt Rescheduling

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).

The reasons for any rescheduling to take place will include:

- the generation of cash savings and/or discounted cash flow savings;
- helping to fulfil the treasury strategy;
- 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 residual 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 ANNUAL INVESTMENT STRATEGY

4.1 Investment Policy

The Council's investment policy has regard to the following:

- MGCLG's Guidance on Local Government Investments ("the Guidance")
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017 ("the Code")
- CIPFA Treasury Management Guidance Notes 2018

The Council's investment priorities will be security first, liquidity second, then yield.

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

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

2. **Other information**: ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration the Council will engage with its advisors to maintain a monitor on market pricing such as "credit default swaps" and overlay that information on top of the credit ratings.

3. **Other information sources** used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

4. The Council has defined the list of **types of investment instruments** that the treasury management team are authorised to use. These are split into specified and non-specified investments, as detailed below:

   Specified investments
   These are sterling denominated with maturities up to a maximum of 1 year and include the following:

   - Debt Management Agency deposit facility
   - UK Government gilts
   - Bonds issued by an institution guaranteed by the UK Government
   - Term deposits – UK Government
   - Term deposits – other local authorities
   - Term deposits - banks and building societies
   - Certificates of deposit with banks and building societies

- Money market funds (rated AAA)

Non-specified investments
These are investments that do not meet the specified investment criteria. A variety of investment instruments can be used, subject to the credit quality of the institution:
- Term deposits – UK Government (maturities over 1 year)
- Term deposits – Other local authorities (maturities over 1 year)
- Term deposits – Banks and building societies (maturities over 1 year)
- Certificates of deposit with banks and building societies (maturities over 1 year)
- Property funds

5. Non-specified investments limit. The Council has determined that it will limit the maximum total exposure to non-specified investments as being 40% of the total investment portfolio at the time of investing.

6. Lending limits, (amounts and maturity), for each counterparty will be set through applying the creditworthiness policy detailed in 4.2, and the Counterparty Limits detailed in 4.4.

7. The Council will set a limit for the amount of its investments which are invested for longer than 1 year, (see paragraph 4.4).

8. Investments will only be placed with counterparties from countries with a specified minimum sovereign rating, (see paragraph 4.3).

9. The Council has engaged external consultants, (see paragraph 1.5), to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of this authority in the context of the expected level of cash balances and need for liquidity throughout the year.

10. All investments will be denominated in sterling.

11. The Council will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund (IFRS9).

4.2 Creditworthiness Policy

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 and Poor’s. The credit ratings of counterparties are supplemented with the following overlays:

- credit watches and credit outlooks from credit ratings agencies
- CDS spreads to give early warning of likely changes in credit ratings

- Sovereign ratings to select counterparties from only the most creditworthy counties
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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:

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

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 BBB. 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.

All credit ratings will be monitored whenever new lending takes place. The Council is alerted to changes to ratings of all three agencies through its use of Link's creditworthiness service.

- If a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
- In addition the Council will be advised of information in movements in credit default swap spreads against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

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

4.3 Country Limits

Other than the United Kingdom, the Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AAA from Fitch or equivalent.

4.4 Counterparty Limits for 2021/22

The Council has set the following counterparty limits for 2021/22, and will invest in line with the creditworthiness policy detailed in 4.2.

Table 9 – Counterparty limits

	Maximum limit per institution £m
UK Government	40
UK banks/building societies with:	
- Minimum rating of AAA	30
- Minimum rating of AA	25
- Minimum rating of A	20
- Minimum rating of BBB	10
Foreign banks in countries with a soverign rating of AAA and:	
- Minimum rating of AAA	20
- Minimum rating of AA	10
- Minimum rating of A	5
Money market funds	
- Minimum rating of AAA	20
Local authorities	40
Property fund	10
Note: No more than 25% of the total portfolio will be placed with one institution at the time of investing, except where balances are held for cash-flow purposes	

4.5 Investment strategy

Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months). Where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer term investments will be carefully assessed.

- If it is thought that Bank Rate is likely to rise significantly within the time horizon being considered, then consideration will be given to keeping most investments as being short term or variable

- Conversely, if it is thought that Bank Rate is likely to fall within this time period, consideration will be given to locking in higher rates currently obtainable, for longer periods.

Investment return expectations
Base Rate is forecast to remain at 0.1% until at least March 2024. Base Rate forecasts for financial year ends (March) are shown below:

- 2020/21 0.1%
- 2021/22 0.1%
- 2022/23 0.1%

Investment treasury indicator and limit – Total principal funds invested for greater than 1 year
These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.

Table 10 – Maximum principal sums invested over 365 days

Upper limit for principal sums invested for longer than 1 year	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000
Upper limit of principal sums invested for longer than 1 year	40,000	40,000	40,000	40,000
Current investments in excess of 1 years outstanding at year-end'	20,000	5,000	-	-

4.6 Investment rate benchmarking

The Council will use an investment benchmark to assess the investment performance of its investment portfolio of 7 days, 1, 3, 6, 12 month LIBID uncompounded.

4.7 End of year investment report

At the end of the financial year, the Council will report on its investment activities as part of its Annual Treasury Report

Appendix A

Minimum Revenue Provision

Capital expenditure is generally expenditure on assets which have a life expectancy of more than one year e.g. buildings, vehicles, machinery etc. It would be impractical to charge the entirety of such expenditure to revenue in the year in which it was incurred therefore such expenditure is spread over several years in order to try to match the years over which such assets benefit the local community through their useful life. The manner of spreading these costs is through an annual Minimum Revenue Provision, which was previously determined under Regulation, and will in future be determined under Guidance.

Statutory duty

Statutory Instrument 2008 no. 414 s4 lays down that:

- "A local authority shall determine for the current financial year an amount of minimum revenue provision that it considers to be prudent."
- The above is a substitution for the previous requirement to comply with regulation 28 in S.I. 2003 no. 3146 (as amended).
- There is no requirement to charge MRP where the Capital Financing Requirement is nil or negative at the end of the preceding financial year.
- The share of Housing Revenue Account CFR is not subject to an MRP charge.

Government Guidance

Along with the above duty, the Government issued guidance which came into force on 31st March 2008 which requires that a Statement on the Council's policy for its annual MRP should be submitted to the full Council for approval before the start of the financial year to which the provision will relate. This guidance was updated in February 2018.

The Council is legally obliged to "have regard" to the guidance, which is intended to enable a more flexible approach to assessing the amount of annual provision than was required under the previous statutory requirements. The guidance offers four main options under which MRP could be made, with an overriding recommendation that the Council should make prudent provision to redeem its debt liability over a period which is reasonably commensurate with that over which the capital expenditure is estimated to provide benefits. The requirement to 'have regard' to the guidance therefore means that: -

1. although four main options are recommended in the guidance, there is no intention to be prescriptive by making these the only methods of charge under which a local authority may consider its MRP to be prudent.

2. it is the responsibility of each authority to decide upon the most appropriate method of making a prudent provision, after having had regard to the guidance.

Option 1: Regulatory Method

Under the previous MRP regulations, MRP was set at a uniform rate of 4% of the adjusted CFR (i.e. adjusted for “Adjustment A”) on a reducing balance method (which in effect meant that MRP charges would stretch into infinity). From the 2016/17 financial year the Council changed this to a 2% straight line as the new method:

- will aid forecasting as option 1 MRP will remain unchanged each year and enable the Council to link additional MRP costs to specific assets
- will ensure that option 1 MRP is paid off by 2065. If the reducing balance method was used, there would still be a balance of £5.4m by this date

Option 2: Capital Financing Requirement Method

This is a variation on option 1 which is based upon a charge of 4% of the aggregate CFR without any adjustment for Adjustment A, or certain other factors which were brought into account under the previous statutory MRP calculation. The CFR is the measure of an authority’s outstanding debt liability as depicted by their balance sheet.

Option 3: Asset Life Method

This method may be applied to most new capital expenditure, including where desired that which may alternatively continue to be treated under options 1 or 2.

Under this option, it is intended that MRP should be spread over the estimated useful life of either an asset created, or other purpose of the expenditure. There are two useful advantages of this option: -

- longer life assets e.g. freehold land can be charged over a longer period than would arise under options 1 and 2
- no MRP charges need to be made until the financial year after that in which an item of capital expenditure is fully incurred and, in the case of a new asset, comes into service use (this is often referred to as being an ‘MRP holiday’). This is not available under options 1 and 2

There are two methods of calculating charges under option 3: -

a. equal instalment method – equal annual instalments
b. annuity method – annual payments gradually increase during the life of the asset

Option 4: Depreciation Method

Under this option, MRP charges are to be linked to the useful life of each type of asset using the standard accounting rules for depreciation (but with some exceptions) i.e. this is a more complex approach than option 3.

The same conditions apply regarding the date of completion of the new expenditure as apply under option 3.

Date of implementation

The previous statutory MRP requirements ceased to have effect after the 2006/07 financial year. Transitional arrangements included within the guidance no longer apply for the MRP charge for 2009/10 onwards. Therefore, options 1 and 2 should only be used for Supported Capital Expenditure (SCE). Authorities are however reminded that the DCLG document remains as guidance and authorities may consider alternative individual MRP approaches, as long as they are consistent with the statutory duty to make a prudent revenue provision.

Strategy Adopted for 2021/22 and future years

In order to determine its MRP for 2021/22 and taking into consideration the available options the Council has applied the following strategy:

- For all capital expenditure incurred before 2009/10 and for all capital expenditure funded via supported borrowing MRP to be calculated using Option 1 – The Regulatory Method, calculated using a 2% straight-line charge.
- For all capital expenditure incurred from 2009/10 financed by prudential borrowing MRP to be calculated using Option 3 the Asset Life Method, with the MRP Holiday option being utilised for assets yet to come into service use.
- For Mersey Gateway expenditure the options above will not be used. The MRP Holiday option will be utilised until the Council receives toll income to repay outstanding capital expenditure. MRP payments will then be matched with income received.
- For credit arrangements such as on-balance sheet leasing arrangements (finance leases), the MRP charge will be equal to the principal element of the annual rental.
- For on balance sheet PFI contracts MRP charge will be equal to the principal element of the annual rental.
- For the unitary payments for the Mersey Gateway, the MRP charge will equal the principal repayment elements of the payments made.
- For assets that have an outstanding balance in the Capital Adjustment Account at the time of disposal, the Council have the option of using the capital receipts raised from the sale to repay the balance. Although this will not affect the MRP charge in year (this will be a direct charge from Capital Receipts Reserve to the Capital Adjustment Account) this will reduce an MRP charge for future years. Please note:
    - If the sale of the asset does not raise sufficient receipts to repay the outstanding balance the council has the option to use the Capital Receipts Reserve to make the repayment
    - If the Council choose not to use the methods detailed above, the MRP should be repaid over a period that is considered prudent