Appendix A

Treasury Management Strategy for 2021/22

The strategy for 2021/22 covers two main areas:

A. Capital issues

- the minimum revenue provision (MRP) policy – see Appendix C.
- the capital expenditure plans and the associated prudential indicators – Capital Expenditure Plans form part of the General Fund Budget report and the prudential indicators are included in Appendix D.

B. Treasury management issues

- the current treasury position
- treasury indicators which limit the treasury risk and activities of the Council (Appendix D)
- prospects for interest rates
- the borrowing strategy
- policy on borrowing in advance of need
- debt rescheduling
- the investment strategy (Appendix B)
- creditworthiness policy (Appendix B, section 3)
- training
- benchmarking
- performance and
- the policy on the 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 Training

1.1 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. Following the May 2019 Council elections, Link Asset Services (Link) delivered training to Members of the Finance and Audit Scrutiny Committee and other interested Members in November 2019. Further training will be provided as and when required.

1.2 Officers involved in treasury management have received training from the Council's treasury consultants, CIPFA and other providers, as well as from a previous post holder. This knowledge will be kept up to date by regular attendance at seminars held by our consultants and other sources, such as CIPFA publications and market intelligence.

2 External service providers

2.1 The Council uses Link Group, Treasury Solutions ('Link') as its external treasury management advisor. The option to extend the contract with Link by two years was exercised, taking the current agreement to January 2022.

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

2.3 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.

2.4 Banking services are provided by HSBC Bank Plc, with the current agreement running until February 2025.

3 Benchmarking

3.1 Link co-ordinates a sub-regional treasury management benchmarking service of which Warwick District Council is an active participant. The Council aims to achieve or exceed the weighted average rate of return of the Link model portfolio, which is published quarterly.

4 Performance

4.1 Performance of the treasury function is reported twice yearly to the Finance and Audit Scrutiny Committee.

4.2 The Treasury Management Team will seek to achieve a return on its money market investments of 0.0625% over the London Interbank Bid Rate (LIBID) of a similar duration (LIBID refers to the average interest rate which major London banks are willing to borrow from each other).

5 Prospects for interest Rates

5.1 Link assists the Council to formulate a view on interest rates. Further information is contained in Appendix F.

5.2 The following table gives Link’s central view as at 18 December 2020, before the new strain of COVID-19 was formally identified, on finance markets worldwide:

5.3 The coronavirus outbreak has done huge economic damage to the UK and economies around the world. After the Bank of England took emergency action in March to cut Bank Rate to first 0.25%, and then to 0.10%, it left Bank Rate unchanged at its subsequent meetings to 5 November 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 forecast table above as economic recovery is expected to be only gradual and, therefore, prolonged.

5.4 **Bond 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.

5.5 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 had 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.

5.6 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, these yields fell 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 2020, 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.

5.7 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 COVID-19 shutdown 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 9 November 2020 when the first results of a successful vaccine trial were announced). Such volatility could occur at any time during the forecast period.

6 Investment and borrowing rates

6.1 **Investment returns** are likely to remain exceptionally low during 2021/22 with little increase expected in the following two years.

6.2 **Borrowing interest rates** fell to historically very low rates as a result of the COVID-19 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. The policy of avoiding new borrowing by running down spare cash balances has served local authorities well over the last few years. The unexpected increase of 100 bps in PWLB rates on top of the then current margin over gilt yields of 80 bps in October 2019, required an initial major rethink of local authority treasury management strategy and risk management. However, in March 2020, the Government started a consultation process for reviewing the margins over gilt rates for PWLB borrowing for different types of local authority capital expenditure. It also introduced the differential rates for borrowing for different types of capital expenditure, with higher rates for non-housing schemes.

6.3 As a consequence of these increases in margins, many local authorities decided to refrain from PWLB borrowing unless it was for HRA or local infrastructure financing, until such time as the review of margins was concluded.

6.4 On 25 November 2020, the Chancellor announced the conclusion to the review of margins over gilt yields for PWLB rates; the standard and certainty margins were reduced by 1% but a prohibition was introduced to deny access to borrowing from the PWLB for any local authority which had **purchase of assets for yield** in its three year capital programme. The new margins over gilt yields are as follows:

- **PWLB Standard Rate** is gilt plus 100 basis points (G+100bps)
- **PWLB Certainty Rate** is gilt plus 80 basis points (G+80bps)
- **PWLB HRA Standard Rate** is gilt plus 100 basis points (G+100bps)
- **PWLB HRA Certainty Rate** is gilt plus 80bps (G+80bps)
- **Local Infrastructure Rate** is gilt plus 60bps (G+60bps)[1]

6.5 **Borrowing for capital expenditure**. As Link's long-term forecast for Bank Rate is 2.00%, and all PWLB rates are under 2.00%, there is now value in borrowing from the PWLB for all types of capital expenditure for all maturity periods, especially as current rates are at historic lows. However, greater value can be obtained in borrowing for shorter maturity periods so the Council will assess its risk appetite in conjunction with budgetary pressures to reduce total interest costs. Longer-term borrowing could also be undertaken for the purpose of certainty, where that is desirable, or for flattening the profile of a heavily unbalanced maturity profile.

6.6 While this authority will not be able to avoid borrowing to finance new capital expenditure and the rundown of reserves, there will be a cost of carry, (the difference between higher borrowing costs and lower investment returns), to any new borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost.

7 Borrowing Strategy

7.1 The capital expenditure plans set out in Section 4 of Appendix D 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 and the Council's capital strategy. 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.

7.2 The Council's current long-term borrowing portfolio consists of £136.157 million HRA and £12 million General Fund PWLB debt. The Council has no short-term borrowing other than finance leases.

7.3 These HRA loans were taken out in 2012 to finance the HRA Self Financing settlement, and the interest paid on this debt is entirely borne by the HRA and is provided for as part of the HRA Business Plan. The first of these loans is scheduled to be repaid on 28 March 2053 with the final loan being repaid on

[1] 3rd Round ran from 11th April to 11th July 2020 so closed until HM Treasury announces a 4th Round

28 March 2062. As part of reviwing the HRA Business Plan in December 2020, the Executive agreed that the Business Plan should allow for this debt to be replaced, so maintaining the overall level of debt and so give additional funds to invest in the housing stock.

7.4 £12 million was borrowed in September 2019, for repayment at maturity on 28 August 2059, with the interest borne by the General Fund, largely covering unfinanced capital expenditure in 2017/18 and 2018/19 (primarily relating to the Leamington and Warwick Leisure Centres).

7.5 The Council has been 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, i.e. borrowing has been deferred. This strategy has been prudent while investment returns are historically low and counterparty risk is more unpredictable than usual.

7.6 The borrowing undertaken in 2019 has reduced the under-borrowed position of the previous two financial years. The position is not sustainable in the longer-term as (i) the Council will eventually need to replenish the cash backing the Reserves and Balances in order to pay for future developments, and (ii) the upside risk of PWLB and other borrowing rates as a result of economic factors make it prudent to consider "externalising" more of the internal borrowing by taking PWLB loans during 2021/22.

7.7 Additionally, there are a number of potential very large housing-related and other capital schemes that would significantly deplete or extinguish investment balances unless considerable external borrowing in 2020/21 or 2021/22 and beyond is undertaken. Please see Appendix D, Tables 4 and 5, for details of proposed capital expenditure and financing, including the borrowing requirement. Approval of these within the borrowing limits does not commit the Council to progressing with these schemes.

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

7.9 If it was forecast that there was a significant risk of:

- a sharp FALL in borrowing rates, then borrowing will be postponed for as long as practical;
- a much sharper RISE in borrowing rates than that currently forecast, perhaps arising from an acceleration 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.

Most likely, fixed rate funding will be drawn whilst interest rates are in line with current projections for the next few years.

7.10 **Approved sources of long and short-term borrowing**

On Balance Sheet	Fixed	Variable
Public Works Loan Board (PWLB)	✓	✓
Municipal Bond Agency (MBA)	✓	✓
Local authorities	✓	✓
Banks	✓	✓
Pension funds	✓	✓
Insurance companies	✓	✓
Market (long-term)	✓	✓
Market (temporary)	✓	✓
Market (LOBOs)	✓	✓
Stock issues	✓	✓
Local temporary	✓	✓
Local bonds	✓	X
Local authority bills	✓	✓
Overdraft	X	✓
Negotiable bonds	✓	✓
Internal (capital receipts & revenue balances)	✓	✓
Commercial paper	✓	X
Medium term notes	✓	X
Finance leases	✓	✓

7.11 The degree which any of these options proves cheaper than PWLB Certainty Rate is still evolving at the time of writing - and was significantly effected by the reduction in non-housing PWLB rates in late November 2020 - but the Council's advisors will keep officers informed. Financial institutions and the Municipal Bond Agency (MBA) are likely to have significantly more complex administration and legal arrangements than PWLB loans, even though those arrangements became more demanding in November.

7.12 The Council will use short-term borrowing (up to 365 days), if necessary, in order to finance temporary cash deficits. However, proactive cash flow management will aim to keep these to a minimum and, wherever possible, the loan would be taken out for periods of less than 7 days in order to minimise the interest payable. The Council has not incurred any short-term borrowing (other than minimal bank overdrafts) in 2020/21 to date and is not expecting to during 2021/22.

7.13 Any decisions will be reported to the appropriate decision making body at the next available opportunity.

8 Policy on borrowing in advance of need

8.1 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.

8.2 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.

9 Current treasury position

9.1 The investments at 21 December 2020 are summarised below:

Type of Investment	21 Dec 20 £'000	30 Sep 20 £'000	31 Mar 20 £'000
Money Markets incl. CD's & Bonds	37,000	38,500	42,500
Money Market Funds	41,552	35,561	18,125
Business Reserve Account	3	3	5,000
Total In House Investments	**78,555**	**74,064**	**65,625**
Corporate Equity Funds (nominal value)	6,000	6,000	6,000
Total Investments	**84,555**	**80,064**	**71,625**

9.2 The market valuations of the two equity funds, as opposed to the nominal value included above, are shown below:

Equity Fund	21 Dec 20 £'000	30 Sep 20 £'000	31 Mar 20 £'000
Royal London UK Equity Fund	3,121	2,705	2,553
Columbia Threadneedle UK Equity Income Fund	3,102	2,803	2,569
Total	**6,223**	**5,508**	**5,122**

9.3 These equity fund valuations at 21 December 2020 include unrealised capital gains and dividends, the latter being amounts that have been credited to the General Fund since inception and are retained within the above values. At the time of writing the funds would need to increase in value by around £600,000 to accommodate the dividends and the unrealised losses.

9.4 The amount of 'extraction of fossil fuel' related investments within the two funds at the end of October 2020 was (a) Royal London – 5.55% and (b) Columbia Threadneedle – 4.86%. The Council does not have any influence over where these pooled equity funds invest.

9.5 Alternative ESG (Environmental, Social and Governance) equity funds are available, which operate with either negative ('avoiding') screening or positive screening. The appropriateness of these ESG funds would be considered in conjunction with the consideration of the planned increase in borrowing need.

9.6 The corresponding borrowing position is summarised below:

External Borowing	21 Dec 20 £'000	30 Sep 20 £'000	31 Mar 20 £'000
Public Works Loan Board	148,157	148,157	148,157
Total	**148,157**	**148,157**	**148,157**

10 Debt rescheduling

10.1 Rescheduling of borrowing in the Council's debt portfolio will remain uneconomic within current interest rates, given the high premia the PWLB would charge.

10.2 The Council's treasury advisors will continue to monitor the debt portfolio and identify any opportunities for debt restructuring but there would need to be a significant increase in interest rates for this occur.

10.3 If rescheduling was done, it would be reported to the Finance and Audit Scrutiny Committee, or equivalent, at the earliest meeting following its action.

Annual Treasury Management Investment Strategy

1 Investment policy – management of risk

1.1 The MHCLG[2] and CIPFA[3] have extended the meaning of 'investments' to include both financial and non-financial investments. This report deals solely with financial investments, (as managed by the treasury management team). Non-financial investments, essentially the purchase of income yielding assets, are covered in the Capital Strategy, (a separate report).

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

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

1.3 The Council's investment priorities, using the established 'SLY' principles in decreasing importance, are:

1. **S**ecurity,
2. **L**iquidity and
3. **Y**ield return.

1.4 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:

1.4.1. 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.

1.4.2. **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.

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

1.4.4. This authority has defined the list of **types of investment instruments** that the treasury management team are authorised to use under the categories of 'specified' and 'non-specified' investments:

[2] Ministry of Housing, Communities & Local Government
[3] Chartered Institute of Public Finance & Accountancy

- **Specified investments** are those with a high level of credit quality and subject to a maturity limit of one year.
- **Non-specified investments** are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use. Once an investment is classed as non-specified, it remains non-specified all the way through to maturity i.e. an 18-month deposit would still be non-specified even if it has only 11 months left until maturity.
- **Commercial investments** are outside the Council's treasury management strategy and may eventually be subject to the development of a new *Investment Regeneration Strategy*. The Public Works Loan Board has introduced new rules in December 2020 allowing local government borrowing which can only be accessed if you have no Investment Assets bought primarily for yield.

1.4.5. **Non-specified investments limit**. The Council has determined that it will limit the maximum total exposure to non-specified investments as being 70% of the total investment portfolio.

1.4.6. **'Commercial' investments limit**. The Council would determine the maximum exposure to 'commercial' investments (including loans to third parties at commercial rates of interest but excluding "Investment Assets bought primarily for yield"), expressed as a percentage of the total investment portfolio, as part of the prospective development and approval of a *Investment Regeneration Strategy*.

1.4.7. **Lending limits**, (amounts and maturity), for each counterparty will be set through applying the matrix table in Appendix B Annex 2.

1.4.8. **Transaction limits** are not set for each type of investment, being subject to the overall lending limit in 1.4.7 above.

1.4.9. This authority will set a limit for the amount of its investments which are invested for **longer than 365 days**. (70% - see paragraph 3.11 below).

1.4.10. Investments will only be placed with counterparties from countries with a specified minimum **sovereign rating**, (Appendix B Annex 2).

1.4.11. This authority has engaged **external consultants**, (Appendix A section 2), 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.

1.4.12. All investments will be denominated in **sterling**.

1.4.13. As a result of the change in **accounting standards** for 2020/21 under IFRS 9, this authority will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund[4]. This override applies to the Council's equity funds

[4] In November 2018, the Ministry of Housing, Communities and Local Government, [MHCLG], concluded a consultation for a temporary override to allow English local authorities time to

and will be a factor in their appropriateness after 2022/23.

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

2. Changes in risk management policy from last year

2.1 The above criteria are unchanged from last year.

3. Creditworthiness policy

3.1 The Council applies the creditworthiness service provided by the Link Group. 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:

- 'watches' and 'outlooks' from credit rating agencies
- Credit Default Swap (CDS) spreads that may give early warning of changes in credit ratings
- sovereign ratings to select counterparties from only the most creditworthy countries.

3.2 All credit ratings will be monitored routinely and will inform every investment decision. The Council is alerted to changes to ratings of all three agencies through its use of the Link creditworthiness service:

- if a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
- In addition to the use of credit ratings the Council will be advised of information in movements in Credit Default Swap spreads against the iTraxx European Financials benchmark and other market data on a daily basis via its *Passport* website, provided exclusively to it by Link. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

3.3 Sole reliance will not be placed on the use of this external service. In addition the 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.

3.4 All investments in property, corporate bond and corporate equity funds will be supported by the advice of Link, the Council's treasury advisors.

3.5 The Council will ensure that it maintains the lists of permitted investments and counterparty limits (Annexes 1 and 2) and will revise and submit the criteria to Council for approval when required. In respect of counterparty limits, the Council's investment balances have increased in recent years mainly due to increasing Housing Revenue Account (HRA) balances that are projected to be

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adjust their portfolio of all pooled investments by announcing a statutory override to delay implementation of IFRS 9 for five years commencing from 1 April 2018 utilised in the medium term.

3.6 In order to provide flexibility and to continue to be able to invest in the highest quality counterparties it is proposed to keep the counterparty limits for certain institutions as follows:

Institution Type	Limit
A rated private banks	£5m
A+ rated private banks	£7m
AA rated private banks	£8m
Government Debt CNAV MMFs[5]	£10m
LVNAV MMFs[6]	£10m

3.7 The Council has both cash flow derived and core balances available for investment. Investment decisions will be made with regard to cash flow requirements, core cash balances and the outlook for short term interest rates.

3.8 The Council will continue to use Money Market Funds (MMFs), call bank accounts and the money markets to invest cash flow driven money until the time when it is required. Core investments will be invested in a combination of corporate equity funds and the financial markets.

3.9 The Council has two corporate equity fund managers, Royal London Asset Management and Columbia Threadneedle, the performance of which are kept under review. Currently the funds are expected to make dividend returns of around 2.7% in 2021/22, although this is subject to many caveats including post-Brexit and the COVID-19 pandemic. These specific equity funds do invest in companies extracting fossil fuels[7] and the recommendation is to divest from these funds by the end of 2025 as part of the Council's Climate Emergency Declaration. Options include closing these funds (reflecting the underlying use of balances and reserves) or re-investing in ESG (Environmental Social & Governance) equity funds. Any new fund manager appointments would be made in conjunction with the treasury advisers and in adherence with the Council's procurement rules. Re-procuring to invest these funds is likely to incur an additional cost, as well as taking officer and member time. The issue of the increase in fund values necessary to remove unrealised losses in included in Appendix A at paragraph 9.3.

3.10 Based on its cash flow forecasts (subject to any 'internal borrowing' pending borrowing for new capital expenditure, including commercial investment), the Council anticipates that its investments in 2021/22 on average will be in the region of £75m, of which £32m will be "core" investments i.e. made up of reserves and balances which are not required in the short term.

3.11 The maximum percentage of its investments that the Council will hold in long-term investments (over 365 days) is 70%. It follows therefore that the

5 Constant Net Asset Value Money Market Funds
6 Low-Volatility Net Asset Value Money Market Funds
7 Oil and gas, less that 5% of the combined portfolio at the end of October 2020

minimum percentage of its overall investments that the Council will hold in short term investments (365 days or less) is 30%. Having regard to the Council's likely cash flows and levels of funds available for investment the amount available for long-term investment will be a maximum of 70% of the core investment portfolio subject to a total of £30 million at any one time in line with the Prudential Indicator covering this issue. These limits will apply jointly to the in house team and any fund managers so that the overall ceilings of 70% and £30 million are not breached.

3.12 The 2021/22 interest rate outlook is for Bank Rate to start the year at 0.10% and Link expect it to remain at that level until the end of 2023/24. Based on current investment policies and interest rate projections, it is currently estimated that the overall portfolio will achieve a 0.50% return for 2021/22, augmented by the dividends from the equity funds.

4. Investments that are not part of treasury management activity

4.1 Where, in addition to treasury management investment activity, the Council invests in other financial assets and property where financial return is a significant but not the primary driver (to avoid the Council being excluded from taking PWLB borrowing), these investments will be proportional to the level of resources available and the Council will ensure the same robust procedures for the consideration of risk and return are applied to these decisions.

4.2 The Council recognises that investment in other financial assets e.g. loans to third parties and property may be taken for non-treasury management purposes, thus requiring careful investment management. Such activity includes loans supporting service outcomes and commercial investments.

4.3 The Council's framework to consider such non treasury management investments would be reflected within the *Capital Strategy* and the potential new *Investment Regeneration Strategy*, referred to in this report. All such investment proposals will be considered on their own merits, and have regard to treasury management principles.

4.4 The Council will ensure the organisation's investments are covered in the capital programme, investment strategy or equivalent, and will set out, where relevant, the organisation's risk appetite and specific policies and arrangements for non-treasury investments. It will be recognised that the risk appetite for these activities may differ from that for treasury management.

Schedule of specified and non-specified investments

Specified Instruments (365 days or less)

- Deposits with banks and building societies
- Deposits with UK Government, Nationalised Industries, Public Corporations, and UK Local Authorities
- UK Government Gilts
- Debt Management Agency Deposit Facility (DMADF)
- Government Debt Constant Net Asset Value Money Market Funds (AAA rated)
- Low Volatility Net Asset Value Money Market Funds (AAA rated)
- Variable Net Asset Value Money Market Funds (AAA rated)
- Certificates of deposits issued by banks and building societies
- Corporate Bonds issued by private sector financial institutions
- Corporate Bonds issued by financial institutions partly or wholly owned by the UK Government
- Corporate Bonds issued by corporates
- Covered Bonds issued by private sector financial institutions
- Covered Bonds issued by financial institutions partly or wholly owned by the UK Government
- Covered Bonds issued by corporates
- Supranational Bonds issued by Supranational Institutions or Multi-Lateral Development Banks
- Floating Rate Notes issued by private sector financial institutions
- Floating Rate Notes issued by financial institutions partly or wholly owned by the UK Government
- Floating Rate Notes issued by corporates
- Eligible Bank Bills
- Sterling Securities guaranteed by HM Government
- Repos

Non Specified Investments

- Deposits with unrated building societies
- Deposits with banks and building societies greater than 365 days
- Deposits with UK Local Authorities greater than 365 days
- Certificates of deposits issued by banks and building societies greater than 365 days
- Corporate Bonds issued by private sector financial institutions greater than 365 days
- Corporate Bonds issued by financial institutions partly or wholly owned by the UK Government greater than 365 days
- Corporate Bonds issued by corporates greater than 365 days

- Covered Bonds issued by private sector financial institutions greater than 365 days
- Covered Bonds issued by financial institutions partly or wholly owned by the UK Government greater than 365 days
- Covered Bonds issued by corporates greater than 365 days
- Corporate Bond Funds
- Regulated Property Funds including Real Estate Investment Trusts
- CCLA Property Fund or other similar property fund
- Diversified asset funds (e.g. CCLA DIF)
- UK Government Gilts with over 365 days to maturity
- Supranational Bonds issued by Supranational Institutions or Multi-Lateral Development with over 365 days to maturity
- Corporate Equity Funds

Counterparty Limits

Investment / counterparty type:	S/term	L/term	Viability / support	# Sovereign country min. credit rating	Max limit per counterparty	Max. maturity period	Use	Notes ref
Specified instruments: *(repayable within 12 months)*	**(FITCH or equivalent)**							
DMADF	n/a			AA-	£12m	365 days	In house & EFM*	
UK Govt. / local authorities / public corporations / nationalised industries	n/a		High		£10m	365 days	In house & EFM*	11
Bank - part nationalised UK	F1	A		AA-	£9m	365 days	In house & EFM*	1 & 2
Bank - private (includes fixed term deposits, CDs and category 1 FRNs & bonds)	F1	A		AA-	£5m	365 days	In house & EFM*	1 & 2
	F1	A+		AA-	£7m	365 days	In house & EFM*	1 & 2
	F1	AA- & above		AA-	£8m	365 days	In house & EFM*	1 & 2
Other private sector financial institutions (includes category 1 FRNs & bonds)	F1	A		AA-	£4m	365 days	In house & EFM*	1 & 2
	F1	A+		AA-	£6m	365 days	In house & EFM*	1 & 2
	F1	AA- & above		AA-	£7m	365 days	In house & EFM*	1 & 2
Corporates (category 3 FRNs & bonds)	F1	A		AA-	£4m	365 days	In house & EFM*	1 & 2
	F1	A+		AA-	£5m	365 days	In house & EFM*	1 & 2
	F1	AA- & above		AA-	£6m	365 days	In house & EFM*	1 & 2
Bank subsidairies of UK banks	Unrated			Explicit Parent Guarantee	£5m	3 months	In house & EFM*	1 & 3
Money Market Fund (CNAV)	AAAm / Aaa-mf/AAAmmf				£10m	liquid	In house & EFM*	
Money Market Fund (LVNAV)	AAAm / Aaa-mf/AAAmmf				£10m	liquid	In house & EFM*	
Money Market Fund (VNAV)	AAAf S1 / Aaa-bf/ AAA/V1				£6m	liquid	In house & EFM*	4
Building societies - category A	F1	A		AA-	£4m	365 days	In house & EFM*	1a.
Building societies - category B	F1			AA-	£2m	365 days	In house & EFM*	1a.
Corporate bonds - category 2		A			£9m	365 days	In house & EFM*	5
Covered bonds - category 2		A			£9m	365 days	In house & EFM*	12
Bonds - supranational / multi-lateral development banks	AAA / Govt Guarantee				£5m	365 days	In house & EFM*	
Floating Rate Notes (FRN) - category 2		A			£9m	365 days	In house & EFM*	6
Eligible bank bills	n/a			Determined by EFM	£5m	365 days	EFM*	
Sterling securities guaranteed by HM Government	n/a			AA-	9m	not defined	EFM*	

Investment / counterparty type:	S/term	L/term	Viability / support	# Sovereign country min. credit rating	Max limit per counterparty	Max. maturity period	Use	Notes ref
Non-specified instruments:	**(FITCH or equivalent)**							
Building societies - assets > £500m	unrated category C				£1m	3 months	In house	1b & 9
Bank - part nationalised UK > 1 year	F1	A		AA-	£9m	2 years	In house + advice & EFM*	1b, 2, & 10
Bank - private (includes fixed term deposits, CDs and category 1 FRNs & bonds)	F1	A		AA-	£5m	2 years	In house + advice & EFM*	1b, 2, & 10
	F1	A+		AA-	£7m	2 years	In house + advice & EFM*	1b, 2, & 10
	F1	AA- & above		AA-	£8m	2 years	In house + advice & EFM*	1b, 2, & 10
Other private sector financial institutions (includes category 1 FRN's & Bonds)	F1	A		AA-	£4m	2 years	In house + advice & EFM*	1b, 2, & 10
	F1	A+		AA-	£6m	2 years	In house + advice & EFM*	1b, 2, & 10
	F1	AA- & above		AA-	£7m	2 years	In house + advice & EFM*	1b, 2, & 10
Corporates (category 3 FRN'S, Bonds)	F1	A		AA-	£4m	2 years	In house + advice & EFM*	1b, 2, & 10
	F1	A+		AA-	£5m	2 years	In house + advice & EFM*	1b, 2, & 10
	F1	AA- & above		AA-	£6m	2 years	In house + advice & EFM*	1b, 2, & 10
Building societies - > 1 year	F1	A		AA-	£1m	2 years	In house + advice & EFM*	1b & 10
Local authorities > 1 year	n/a		High		£9m	5 years	In house + advice	10
Corporate bonds - category 2 > 1 year		A			£9m	2 years	In house & EFM*	5 & 10
Covered bonds - category 2 > 1 year		A			£9m	2 years	In house & EFM*	10 & 12
Corporate Equity Funds - low risk		N/A		See note 13	£4m	10 years	EFM*	13 & 14
Corporate Equity Funds - medium risk		N/A		See note 13	£2m	10 years	EFM*	13 & 14
Corporate Bond Funds		BBB			£5m	10 years	In house + advice & EFM*	10
Pooled property fund eg: REITS				Authorised FS&MA	£5m	10 years	In house + advice	10
CCLA property funds	n/a			see note 8	£5m	10 years	In house + advice	7 & 10
Day to day balances	n/a				n/a	n/a	In house	8

Notes:	
*	EFM = External Fund Manager
#	Minimum sovereign rating does not apply to UK domiciled counterparties
	All maximum maturity periods include any forward deal period
1.	Includes business call reserve accounts, special tranches & any other form of investment with that institution e.g. certificate of deposits, corporate bonds and repos, except where the repo collateral is more highly credit rated than the counterparty in which case the counterparty limit is increased by £3m with a maximum in repos of £3m
1a.	Includes business call reserve accounts, special tranches & any other form of investment with that institution e.g. certificate of deposits, corporate bonds and repos, except where the repo collateral is more highly credit rated than the counterparty in which case the counterparty limit is increased by £2m with a maximum in repos of £2m
1b.	Includes business call reserve accounts, special tranches & any other form of investment with that institution e.g. certificate of deposits, corporate bonds and repos
2.	Counterparty limit is also the group limit where investments are with different but related institutions
3.	Unrated but with explicit guarantee by parent + parent meets minimum ratings of short-term F1, long-term A. Subject to group limit relating to parent bank e.g. £5m if private of £9m if part or wholly nationalised
4.	Subject to overall group limit of £6m
5.	Corporate bonds must be senior unsecured and above. Category types:
	Category 1: Issued by private sector financial institutions
	Category 2: Issued by financial institutions wholly owned or part owned by the UK Government
	Category 3: Issued by corporates
6.	Floating rate notes - categories as per note 5 above
7.	Security of trustee of fund (LAMIT) controlled by LGA, COSLA who appoint the members and officers of LAMIT
8.	Minimum exposure to credit risk as overnight balances only
9.	Group limit of £8m
10.	£15m overall limit for corporate bond / equity / property funds & £20m limit for all counterparties
11.	UK Government includes gilt edged securities and Treasury bills
12.	Covered bonds category types:
	Category 1: Issued by private sector financial institutions
	Category 2: Issued by financial institutions wholly owned or part owned by the UK Government
	Category 3: Issued by corporates
13.	Risk determined as follows:
	Low - UK equity income funds
	Medium - UK capital growth funds
14.	Maximum investment limit subject to 10% capital growth, i.e. maximum is 110% of original investment

Approved Countries for Investments

This list, as at 5 January 2021, is based on those countries which have sovereign ratings of AA- or higher, based on the lowest rating from Fitch, Moody's and S&P. Fallers since last year are in red itallic.

Based on lowest available rating

AAA

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

AA+

- *Canada*
- Finland
- U.S.A.

AA

- Abu Dhabi (UAE)
- France

AA-

- Belgium
- *Hong Kong*
- Qatar
- *U.K.*

Appendix C

Minimum Revenue Provision Policy

1 Background

1.1 The Council is required to pay off an element of the accumulated General Fund capital spend each year (the Capital Financing Requirement - 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).

1.2 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**.

1.3 The *Statutory Guidance on Minimum Revenue Provision*[8] 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. 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 Four Main Options

2.1 Option 1 – Regulatory Method

This option is the old statutory method of 4% of the CFR and which has to be used in order to calculate MRP on all debt still outstanding at 1 April 2008[9]. It can also be used to calculate MRP on debt incurred under the new system but which is supported through the annual SCE (Supported Capital Expenditure) allocation from DCLG.

2.2 Option 2 – Capital Financing Requirement Method

This is a variation of Option 1 and is based on 4% of the CFR with certain changes and is appropriate where the borrowing is not linked to a particular asset.

2.3 Option 3 – Asset Life Method

Under this option, it is intended that MRP should be spread over the useful life of the asset financed by the borrowing or credit arrangement. In future, where borrowing is utilised to finance specific assets it is likely that the period of the loan will match the expected life of the asset and therefore, under this method the annual charge to the Council's accounts is directly related to building up the provision required to pay off the loan when it matures which, under Options 1 and 2, is not possible.

[8] Guidance issued by the Secretary of State under section 21(1A) of the *Local Government Act 2003*. Fourth edition applies to periods commencing 1 April 2019.
[9] The Council had no debt at this date

There are 2 methods of calculating the annual charge under this option

a) equal annual instalments or
b) by the annuity method where annual payments gradually increase during the life of the asset.

2.4 Option 4 – Depreciation Method

This is a variation on option 3 using the method of depreciation attached to the asset e.g. straight line where depreciation is charged in equal instalments over the estimated life and the reducing balance method where depreciation is greater in the early years of an assets life and which is most appropriate for short lived assets e.g. vehicles. In this Council's case assets are depreciated using the straight line method and so option 4 is not materially different from option 3.

3 HRA

3.1 There is no requirement on the HRA to make a MRP but there is a requirement for a charge for depreciation to be made.

3.2 Under the Self Financing regime, the HRA Business Plan has to provide resources for the repayment of the £136.157m borrowed from the PWLB on the 28 March 2012. Repayment of this debt is currently provided for commencing in year 41 (2052/53) and continuing through to year 50 year of the Business Plan.

3.3 The HRA will apply the same principle to new borrowing undertaken for capital investment.

4 Voluntary Revenue Provision (VRP)

4.1 MHCLG issued revised MRP guidance in 2018 concerning Voluntary Revenue Provision. In future any VRP or overpayment of MRP, which has been disclosed in previous years' MRP statement, can be reclaimed and credited back to the General Fund in certain circumstances. An example would be a loan to a third party where during the duration of the loan MRP or VRP has been made but on full repayment of the loan the principal has been applied to pay down the Capital Financing Requirement. In this instance the VRP is no longer required and can be released back to the General Fund. The Council has instances of such loans but has elected to not make MRP or VRP on these as they are of relatively short duration and on repayment the principal repaid will be applied to pay down the Capital Financing Requirement.

5 Warwick District Council Policy

5.1 It is recommended that for any long-term borrowing on the General Fund e.g. leisure centre refurbishments, the following methods of Minimum Revenue Provision be adopted:

- For borrowing specifically linked to a particular asset or capital scheme – Option 3 based on the annuity method.
- For borrowing that cannot be linked to a particular asset or capital scheme – Option 3 based on the annuity method using the weighted average life of assets.

5.2 For any borrowing incurred through finance leases, the annual principal repayments in the lease are regarded as MRP.

5.3 Although not strictly part of MRP requirements, it is also recommended that for internal borrowing (i.e. capital expenditure financed from reserves), where appropriate, Option 3 based on the annuity method be adopted, in most cases, as a means of replenishing those reserves which financed the capital expenditure. In exceptional circumstances another method may be more appropriate.

5.4 For short to medium duration loans to third parties the Council will not make either MRP or VRP but instead apply the capital receipt received through the repayment of the loan to pay down the Capital Financing Requirement.

5.5 The Council may on occasion enter into agreement to undertake a scheme / capital payment whereby monies and resources (grants, capital receipts, S106 receipts, etc.) will be received some time after the scheme / capital payment has been completed. On such occasions whereby the capital expenditure is expected to be fully reimbursed by future capital or revenue income, no MRP will be provided. This position will be kept under review and should the likelihood of receipt of the income change, then MRP may be initiated. Such an example would be the granting of monies to an external organisation and S106 receipts are expected to pay for the capital liability.

Appendix D

Prudential and Treasury Indicators

1. Introduction

1.1. The Prudential Capital Finance system came into effect on 1 April 2004, replacing the previous system of approval allocations from central Government, allowing local authorities to decide how much they can prudently afford to borrow *and* pay back from revenue resources.

1.2. CIPFA developed the Prudential Code for Capital Finance in Local Authorities (the 'Prudential Code') to provide a mechanism to enable councils to ensure, that in line with the new freedom given, their capital investment plans are affordable, prudent and sustainable.

1.3. It is the Council's responsibility to set its prudential indicators, having regard to its own set of circumstances. The Council must demonstrate that its capital investment proposals are:

- affordable
- prudent and
- sustainable.

1.4. All Indicators must be included in the Council's annual Treasury Strategy and Outturn report.

1.5. The Prudential and Treasury Indicators are divided into:

a) Prudential:
   - Affordability (section 2)
   - Prudence (section 3)
   - Capital Expenditure (sections 4 - 5)
   - External Debt (sections 6 - 7)

b) Treasury:
   - Treasury Indicators (section 8).

1.6. This Appendix explains what the Prudential and Treasury Indicators are as well as revising them for the current year, 2020/21, where appropriate and setting them for future years.

2. Affordability - Ratio of financing costs to net revenue stream

2.1. This ratio shows the trend in the cost of capital (borrowing and other long-term obligation costs, net of investment income) against the net revenue stream, i.e. taxation, rents and non-specific grant income.

2.2. The higher the ratio, the higher the proportion of resources tied up just to service met capital costs, and which represent a potential affordability risk.

2.3. It sets an upper limit on the proportion of the Council's net revenue streams both for General Fund and Housing Revenue Account (HRA) that is committed to servicing debt.

2.4. The table below shows the actual for 2019/20 and the ratios proposed for the General Fund, HRA and Overall as required by the Prudential Code. These figures exclude unapproved schemes, other than schemes subject to approval at the same Council meeting as this report.

Table 1

Year	General Fund	Housing Revenue Account	Overall
2019/20	-1.9%	38.4%	21.3%
2020/21	-2.00% to 4.00%	38.00% to 50.00%	23.00% to 33.00%
2021/22	0.00% to 7.00%	38.00% to 50.00%	24.00% to 35.00%
2022/23	0.00% to 8.50%	38.00% to 50.00%	24.00% to 35.00%
2023/24	0.00% to 10.00%	38.00% to 50.00%	24.00% to 35.00%

2.5. The ratio for estimates is a range rather than a single figure (except the 2019/20 actual), to allow for both the uncertain amount of borrowing that will take place for developments by the General Fund and HRA (such as the Housing Company), and the possible movements in long-term interest rates, as a relatively small variation from today's low level in borrowing costs could cause a ratio based on a precise percentage to be breached.

2.6. The significant size of the HRA ratio includes the HRA self-financing debt taken in 2012 and future potential borrowing for increasing the supply of dwellings, some through a Housing Company. If income increases at least much as the debt costs the ratio should not increase once the new rental properties are occupied – there will be a short-term cost during any acquisition and construction.

2.7. The General Fund ratio would increase for further borrowing to finance capital expenditure such as Housing Company loan, leisure centres and long-term loans to third parties.

2.8. The ratios will be monitored during the year and, if necessary, remedial action taken – such as Council increasing the limits - to avoid them being breached.

3. Prudence - Gross Debt and the Capital Financing Requirement

3.1 This indicator requires that gross debt, except in the short term, is to be kept below the Capital Financing Requirement (CFR) for the same period. This demonstrates that borrowing has not been taken in advance of need. It is estimated that gross external debt will be lower than the CFR in future years.

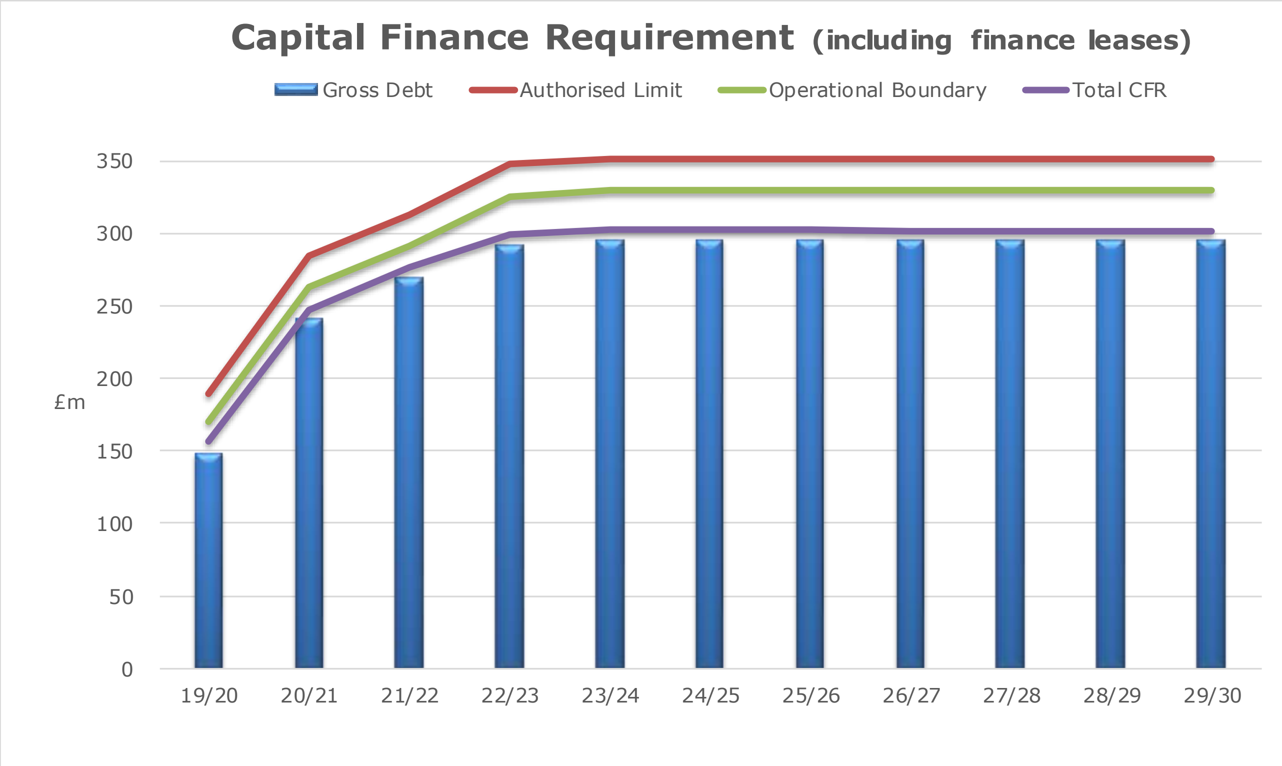
3.2 Table 2 shows the longer term projections, compared with total debt and the Authorised Limit and Operational Boundary from sections 6 and 7 respectively:

Table 2

Capital Financing Requirement (including finance leases)											
£m	**Actual 19/20**	**Est 20/21**	**Est 21/22**	**Est 22/23**	**Est 23/24**	**Est 24/25**	**Est 25/26**	**Est 26/27**	**Est 27/28**	**Est 28/29**	**Est 29/30**
HRA CFR	136.2	159.0	180.5	180.5	180.5	180.5	180.5	180.5	180.5	180.5	180.5
GF CFR	14.8	18.8	22.6	42.2	47.6	47.5	47.5	47.5	47.5	47.5	47.5
'Commercial' activity / non-financial investments	5.5	70.0	73.1	76.1	74.5	74.4	74.2	74.0	74.0	74.0	74.0
Total CFR	**156.4**	**247.8**	**276.3**	**298.9**	**302.6**	**302.4**	**302.2**	**302.1**	**302.1**	**302.1**	**302.1**
External borrowing - HRA	136.2	159.0	180.5	180.5	180.5	180.5	180.5	180.5	180.5	180.5	180.5
External borrowing - GF	12.0	80.9	87.8	110.4	114.1	114.1	114.0	113.8	113.8	113.8	113.8
Other long term liabilities	0.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Gross Debt	**148.2**	**240.8**	**269.3**	**291.9**	**295.7**	**295.7**	**295.5**	**295.4**	**295.4**	**295.4**	**295.4**
Internal borrowing - HRA	-	-	-	-	-	-	-	-	-	-	-
Internal borrowing - GF	8.2	6.9	6.9	6.9	6.9	6.7	6.7	6.7	6.7	6.7	6.7
WDC internal borrowing	**8.2**	**6.9**	**6.9**	**6.9**	**6.9**	**6.7**	**6.7**	**6.7**	**6.7**	**6.7**	**6.7**
Authorised Limit	189.3	284.9	313.4	347.9	351.7	351.7	351.7	351.7	351.7	351.7	351.7
Operational Boundary	170.3	262.9	291.4	325.9	329.7	329.7	329.7	329.7	329.7	329.7	329.7

3.3 These figures are shown in graphical form, demonstrating that the CFR will be higher than gross debt:

Table 3



3.4 The value of gross debt excludes unapproved borrowing for housing developments (General Fund for Housing Company and Joint Venture; HRA for the Housing Improvement Programme, including new build schemes), other than HRA schemes being considered in the same Council meeting. Approval of these limits does not commit the Council to the underlying schemes but the borrowing for these does rely on the Council approving the schemes and the limits in *Table 3*.

4. Capital Expenditure

4.1 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.

4.2 The Council is required to publish its estimated capital expenditure for both the General Fund (GF) and Housing Revenue Account (HRA) for a minimum of the next three financial years, as well as the actual for the previous year and latest estimate for the current year.

4.3 By modelling various capital programme scenarios, including new HRA properties and commercial investment opportunities, this indicator provides the data for the ratio of financing costs to net revenue stream indicator.

4.4 Table 4 shows the Council’s estimated capital expenditure on the General Fund and HRA for the next four years, both those agreed previously, and those forming part of this budget cycle. Members are asked to approve the capital expenditure forecasts:

Table 4

Capital expenditure	**2019/20 Outturn £'000**	**2020/21 Estimate £'000**	**2021/22 Estimate £'000**	**2022/23 Estimate £'000**	**2023/24 Estimate £'000**
General Fund (non HIP)	7,651	16,431	14,432	20,482	1,339
Credit arrangements - finance leases	30	12	-	-	-
Housing Investment Programme:					
General Fund (HIP)		1,348	-	-	-
HRA	20,183	37,277	45,276	15,680	9,109
'Commercial' activities (including development) / non-financial investments*	551	64,600	3,100	3,100	3,000
Total (A)	**28,415**	**119,668**	**62,808**	**39,262**	**13,448**

* - loans to third parties

5. Capital Financing Requirement

5.1 The Capital Financing Requirement (CFR) is a key measure that shows the underlying need for an authority to borrow for capital purposes, i.e. the difference between the Council's capital expenditure and the revenue or capital resources set aside to finance that spend. It is essentially a measure of the Council's indebtedness and so its underlying borrowing need. Any capital expenditure above, which has not immediately been paid for through a revenue or capital resource, will increase the CFR.

5.2 The borrowing may be either external (such as from the PWLB) or internal borrowing (where an authority temporarily utilises cash backing its reserves and balances rather than taking external loans). External borrowing creates a cost to the Council in terms of having to pay interest on and provide for repayment of external loans while internal borrowing creates lost investment interest and an exposure to future interest rate increases when loans must be taken. The CFR provides the starting point for calculating this cost and the results feed into the ratio of financing costs to net revenue stream indicator.

5.3 The CFR does not increase indefinitely, as the Minimum Revenue Provision (MRP) is a statutory annual revenue charge which broadly reduces the indebtedness in line with each asset's life, and so charges the economic consumption of capital assets as they are used.

5.4 The CFR includes any other long-term liabilities (e.g. finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility by the lease provider and so the Council is not required to separately borrow for these schemes. The Council currently has £30,000 of such schemes within the CFR.

5.5 *Table 5* summarises how the capital expenditure plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need (i.e. an increase in the Capital Financing Requirement).

Table 5

Financing of capital expenditure	**2019/20 Outturn £'000**	**2020/21 Estimate £'000**	**2021/22 Estimate £'000**	**2022/23 Estimate £'000**	**2023/24 Estimate £'000**
HRA:					
Capital receipts	3,187	300	300	300	300
Capital grants and contributions	-	2,306	2,740	-	-
Reserves	16,874	11,754	20,520	15,257	8,686
Revenue contributions	122	123	123	123	123
Total HRA	**20,183**	**14,483**	**23,683**	**15,680**	**9,109**
General Fund:					
Capital receipts	454	1,595	160	-	-
Capital grants and contributions	5,491	9,152	5,513	349	-
Reserves	1,540	2,641	4,625	314	257
Revenue contributions	176	213	80	80	80
Total GF	**7,661**	**13,601**	**10,378**	**743**	**337**
Combined:					
Capital receipts	3,641	1,895	460	300	300
Capital grants and contributions	5,491	11,458	8,253	349	-
Reserves	18,414	14,395	25,145	15,571	8,943
Revenue contributions	298	336	203	203	203
Subtotal (B)	**27,844**	**28,084**	**34,061**	**16,423**	**9,446**
Net borrowing need for the year (A – B)	**571**	**91,584**	**28,747**	**22,839**	**4,002**

5.6 The net financing need for 'commercial' activities / non-financial investments included in *Table 5* against expenditure is shown in *Table 6*:

Table 6

'Commercial' activities / non-financial investments £'000	**2019/20 Outturn**	**2020/21 Estimate**	**2021/22 Estimate**	**2022/23 Estimate**	**2023/24 Estimate**
Capital expenditure	551	64,600	3,100	3,100	3,000
Financing costs (incl MRP)	10	2,260	107	122	120
Net financing need for the year	**561**	**66,860**	**3,207**	**3,222**	**3,120**
Percentage of total net financing need %	96%	71%	11%	14%	75%

5.7 These figures are illustrative at this point and are subject to the Council's approval of the underlying capital expenditure.

5.8 The CFR increases where unfinanced capital expenditure takes place and reduces as the Council makes a Minimum Revenue Provision (MRP).

5.9 This Council has four CFRs:

(a) the HRA

(b) the General Fund, which is further subdivided to show

(c) '*commercial* activities / non-financial investments' (which have, to date, been loans to third parties at commercial rates of interest), and

(d) combined total for the whole of the Council (the sum of a to c).

5.10 The estimated CFRs at the end of 2020/21 and each of the next three years are based on the Council's latest capital programme and exclude any unapproved 'commercial investment / non-financial activities' and additional HRA borrowing for schemes that are subject to viability appraisals, and which would be subject to future Council reports and revised Prudential Indicators, where appropriate. The General Fund CFR also includes the impact of the internal borrowing incurred to date, as well as the internal and external borrowing factored into the current 5-year General Fund Capital Programme.

5.11 The Council is asked to approve the CFR projections in *Tables 7* and *8*.

Table 7

Capital Financing Requirement Year	(a) HRA £'000	(b) General Fund £'000	(c) 'Commercial' activities / non financial investments £'000	(d) Total £'000
2019/20	136,157	14,782	5,475	156,414
2020/21	158,952	18,769	70,033	247,754
2021/22	180,546	22,613	73,098	276,257
2022/23	180,546	42,211	76,102	298,859
2023/24	180,546	47,556	74,516	302,618

Table 8

£m	2019/20 Outturn	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
Capital Financing Requirement					
CFR – non housing	14.8	18.8	22.6	42.2	47.6
CFR – housing	136.2	159.0	180.5	180.5	180.5
CFR - Commercial activities/ non-financial investments	5.5	70.0	73.1	76.1	74.5
Total CFR	**156.4**	**247.8**	**276.3**	**298.9**	**302.6**
Movement in CFR	1.4	91.3	28.5	22.6	3.8
Movement in CFR represented by					
Net financing need for the year ("A-B" above)	0.6	91.6	28.7	22.8	4.0
Less MRP/VRP and other financing movements	0.8	-0.3	-0.2	-0.2	-0.2
Movement in CFR	**1.4**	**91.3**	**28.5**	**22.6**	**3.8**

5.12 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 capital expenditure figures shown in *Table 4* and the details above demonstrate the scope of this activity (28% in 2020/21 and 26% in 2021) and, by approving these figures, Members consider the scale proportionate to the Authority's remaining activity.

5.13 The opening HRA CFR at 1 April 2020 was the HRA self-financing debt settlement of £136.157 million.

6. External Debt - Authorised Limit

6.1 The Council is required to set - for the forthcoming year and the following two financial years - an Authorised Limit for its total external debt, gross of investments, separately identifying borrowing from 'other long-term liabilities', the latter being credit arrangements, as defined in statute, and which include the principal element of finance leases (or Private Finance Initiative (PFI) if the Council had these contracts).

6.2 The Authorised Limit represents a control on the maximum level of external debt the Council can incur. The Council has no legal power to borrow in excess of the limits set.

6.3 The recommended Authorised Limit is as shown in *Table 9*:

Table 9

Authorised Limit	2019/20 Outturn £'000	2020/21 Latest £'000	2021/22 Estimate £'000	2022/23 Estimate £'000	2023/24 Estimate £'000
Debt including HRA settlement	189,279	192,234	192,234	204,115	204,115
Other long-term liabilities	30	1,012	1,000	1,000	1,000
HRA HIP	-	22,795	44,389	44,389	44,389
General Fund HIP	-	1,348	1,348	1,348	1,348
Other General Fund capital programme	-	3,030	6,939	26,541	27,300
'Commercial' activities / non-financial investments	-	64,500	67,500	70,500	73,500
Total Authorised Limit	**189,309**	**284,919**	**313,410**	**347,893**	**351,652**

6.4 The Authorised Limit reflects a level of external debt that, although not preferred, could be afforded in the short-term but may not be sustainable in the longer-term. The Indicators for the Operational Boundary and Gross Debt & the CFR will both be set below the Authorised Limit.

6.5 The Authorised Limit takes account of the Housing Improvement Programme (HIP) and the General Fund capital programme. The figures for 'Commercial activities' are for amounts being considered by Council parallel to this report and would need to be excluded if not approved. It excludes additional HRA development and GF investment regeneration that would be expected to generate a net income stream – these are both subject to future Council decisions and could also require the Prudential Indicators to be formally amended.

6.6 The debt figure provides for the potential borrowing liability of vehicles under the combined waste collection / street cleansing / grounds maintenance contract that are due to commence on 1 July 2022, as the Council is able to borrow more cheaply than most contractors. The requirement for this borrowing, which would result in reduced payments to the contractor(s), should be known by mid-2021.

6.7 It should be noted that the figures for each year are cumulative.

7. External Debt - Operational Boundary

7.1 The Council is, additionally, required to set an Operational Boundary for external debt, which is for three years and gross of investments.

7.2 The Operational Boundary - which is less than the Authorised Limit - is effectively the day-to-day working limit for cash flow purposes, the level that external debt is not ordinarily expected to exceed. This indicator includes anticipated additional borrowing to cater for forecast capital activity.

7.3 An occasional breach of the Operational Boundary is not a cause for concern (provide that the Authorised Limit is not breached) but a sustained breach could indicate that there are problems with the Council's cash flow. Therefore, this indicator is monitored throughout the year and remedial action taken if necessary.

7.4 The recommended Operational Boundaries are as shown in Table 10. It should be noted that the figures for each year are cumulative (for instance, the £67.5m shown in 2021/22 for 'commercial' activities is the brought forward amount from 2020/21). They are based on the same assumptions outlined in paragraph 6.5 above.

Table 10

Operational Boundary	**2019/20 Outturn £'000**	**2020/21 Latest £'000**	**2021/22 Estimate £'000**	**2022/23 Estimate £'000**	**2023/24 Estimate £'001**
Debt including HRA settlement	170,279	168,886	168,886	180,767	180,767
Other long-term liabilities	30	1,012	1,000	1,000	1,000
HRA HIP	-	22,795	44,389	44,389	44,389
General Fund HIP	-	1,348	1,348	1,348	1,348
Other General Fund capital programme	-	4,378	8,287	27,889	28,648
'Commercial' activities / non-financial investments	-	64,500	67,500	70,500	73,500
Total Operational Boundary	**170,309**	**262,919**	**291,410**	**325,893**	**329,652**

8. Treasury Indicators

8.1 The following indicators used to be part of the Prudential Code and are now part of the Treasury Management Code of Practice.

8.2 Maturity structure of borrowing:

a) Upper and Lower Limits respectively for the Maturity Structure of Fixed Interest Rate Borrowing:

Table 11

Period	**Upper**	**Lower**
Under 12 months	20%	0%
12 months & within 24 months	20%	0%
24 months & within 5 years	20%	0%
5 years & within 10 years	20%	0%
10 years & above	100%	0%

b) Upper and Lower Limits respectively for the Maturity Structure of Variable Interest Rate Borrowing:

Table 12

Period	Upper	Lower
Under 12 months	100%	0%
12 months & within 24 months	100%	0%
24 months & within 5 years	100%	0%
5 years & within 10 years	100%	0%

c) Upper limits to fixed interest rate and variable interest rate exposures on borrowing:

Table 13

Year	Upper Limit - Fixed Rate	Upper Limit - Variable Rate
2021/22	100%	30%
2022/23	100%	30%
2023/24	100%	30%

8.3 Upper limit on total principal sums invested for periods longer than a year:

- The total maximum sum that can be invested for more than 365 days is 70% of the core investment portfolio, subject to a maximum of £30 million at any one time.

However, where investments which originally were for periods of more than 365 days currently have 365 days or less to maturity at the 1 April each year they shall be classed from that date as short term i.e. less than 365 day investments and will not count against the 70% or £30 million limit.