Appendices

A Treasury Management Strategy

B Annual Investment Strategy

Annex 1 - Types of Investment
Annex 2 - Counterparty Limits
Annex 3 - Approved Countries for Investment

C Minimum Revenue Provision Policy

D Prudential Indicators

E Link Economic Background

MEETING CANCELLED

Appendix A

Treasury Management Strategy for 2020/21

The strategy for 2020/21 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 – included in Appendix D.

B. Treasury management issues

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

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 contracts

2.1 The Council uses Link Asset Services, Treasury Solutions (Link) as its external treasury management advisor. The option to extend the contract with Link by two years has been 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

MEETING CANCELLED

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 As part of their service, Link assists the Council to formulate a view on interest rates. The following table gives Link's central view as at 4 February 2020, before the impact of the Coronavirus (Covid 19) on finance markets worldwide:

MEETING CANCELLED

Link Asset Services Interest Rate View	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Bank Rate View	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.25	1.25	1.25	1.25
3 Month LIBID	0.70	0.70	0.80	0.80	0.90	1.00	1.00	1.10	1.20	1.30	1.30	1.30	1.30
6 Month LIBID	0.80	0.80	0.90	1.00	1.00	1.10	1.20	1.30	1.40	1.50	1.50	1.50	1.50
12 Month LIBID	0.90	0.90	1.00	1.10	1.20	1.30	1.40	1.50	1.60	1.70	1.70	1.70	1.70
5yr PWLB Rate	2.30	2.30	2.40	2.40	2.50	2.60	2.70	2.80	2.90	2.90	3.00	3.00	3.10
10yr PWLB Rate	2.50	2.50	2.60	2.60	2.70	2.80	2.90	3.00	3.10	3.10	3.20	3.20	3.30
25yr PWLB Rate	3.00	3.00	3.10	3.20	3.30	3.40	3.50	3.60	3.70	3.80	3.80	3.90	3.90
50yr PWLB Rate	2.90	2.90	3.00	3.10	3.20	3.30	3.40	3.50	3.60	3.70	3.70	3.80	3.80
Bank Rate													
Link Asset Services	0.75%	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%	1.25%
Capital Economics	0.75%	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	-	-	-	-	-
5yr PWLB Rate													
Link Asset Services	2.30%	2.30%	2.40%	2.40%	2.50%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%
Capital Economics	2.40%	2.50%	2.50%	2.60%	2.60%	2.80%	2.80%	2.90%	-	-	-	-	-
10yr PWLB Rate													
Link Asset Services	2.50%	2.50%	2.60%	2.60%	2.70%	2.80%	2.90%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%
Capital Economics	2.70%	2.70%	2.80%	2.80%	2.90%	3.00%	3.00%	3.10%	-	-	-	-	-
25yr PWLB Rate													
Link Asset Services	3.00%	3.00%	3.10%	3.20%	3.30%	3.40%	3.50%	3.60%	3.70%	3.80%	3.80%	3.90%	3.90%
Capital Economics	3.10%	3.10%	3.20%	3.20%	3.20%	3.30%	3.30%	3.40%	-	-	-	-	-
50yr PWLB Rate													
Link Asset Services	2.90%	2.90%	3.00%	3.10%	3.20%	3.30%	3.40%	3.50%	3.60%	3.70%	3.70%	3.80%	3.80%
Capital Economics	3.10%	3.10%	3.20%	3.20%	3.30%	3.40%	3.40%	3.50%	-	-	-	-	-

5.2 The above forecasts are based on an assumption that there is an agreed deal on Brexit, including agreement on the terms of trade between the UK and EU, at some point in time. The result of the General Election has removed much uncertainty around this major assumption. However, it does not remove uncertainty around whether agreement can be reached with the EU on a trade deal within the short time to December 2020, as the Prime Minister has pledged.

5.3 2019 was a year of weak UK economic growth as political and Brexit uncertainty depressed confidence. It was, therefore, no surprise that the Monetary Policy Committee (MPC) left Bank Rate unchanged at 0.75% during the year. However, during January 2020, financial markets were predicting a 50:50 chance of a cut in Bank Rate at the time of the 30 January MPC meeting. There had been some downbeat UK economic news in December and January which showed that all the political uncertainty leading up to the General Election, together with uncertainty over where Brexit would be going after that Election, had depressed economic growth in quarter 4 of 2019. However, that downbeat news was backward looking; more recent economic statistics and forward-looking business surveys, all pointed in the direction of a robust bounce in economic activity and a recovery of confidence after the decisive result of the general election removed political and Brexit uncertainty. The MPC clearly decided to focus on the more recent forward-looking news, rather than the earlier downbeat news, and so left Bank Rate unchanged. Provided that the forward-looking surveys are borne out in practice in the coming months, and the March Budget delivers with a fiscal boost, then it is expected that Bank Rate will be left unchanged until after the December trade deal deadline. However, the MPC is on alert that if the surveys prove optimistic and/or the Budget disappoints, then they may still take action and cut Bank Rate in order to stimulate growth.

5.4 **Bond yields / PWLB rates**. There has been much speculation during 2019 that the bond market has gone into a bubble, as evidenced by high bond prices

MEETING CANCELLED

and remarkably low yields. However, given the context that there have been heightened expectations that the US was heading for a recession in 2020, and a general background of a downturn in world economic growth, together with inflation generally at low levels in most countries and expected to remain subdued, conditions are ripe for 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. This has pulled down the overall level of interest rates and bond yields in financial markets over the last thirty years. We have therefore seen over the last year, many bond yields up to ten years in the Eurozone actually turn negative. In addition, there has, at times, been an inversion of bond yields in the US whereby ten-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. However, stock markets are also currently at high levels as some investors have focused on chasing returns in the context of dismal ultra-low interest rates on cash deposits.

5.5 During the first half of 2019/20 to 30 September, gilt yields plunged and caused a near halving of longer term PWLB rates to completely unprecedented historic low levels. (See paragraphs 6.2 and 7.7 for comments on the increase in the PWLB rates margin over gilt yields of 100bps introduced on 9 October 2019.) There is though, an expectation that financial markets have gone too far in their fears about the degree of the downturn in US and world growth. If, as expected, the US only suffers a mild downturn in growth, bond markets in the US are likely to sell off and that would be expected to put upward pressure on bond yields, not only in the US, but also in the UK due to a correlation between US treasuries and UK gilts; at various times this correlation has been strong but at other times weak. However, forecasting the timing of this, and how strong the correlation is likely to be, is very difficult to forecast with any degree of confidence. Changes in UK Bank Rate will also impact on gilt yields.

5.6 One potential danger that may be lurking in investor minds is that Japan has become mired in a twenty-year bog of failing to get economic growth and inflation up off the floor, despite a combination of massive monetary and fiscal stimulus by both the central bank and government. Investors could be fretting that this condition might become contagious to other western economies.

5.7 Another danger is that unconventional monetary policy post 2008, (ultra-low interest rates plus quantitative easing), may end up doing more harm than good through prolonged use. Low interest rates have encouraged a debt-fuelled boom that now makes it harder for central banks to raise interest rates. Negative interest rates could damage the profitability of commercial banks and so impair their ability to lend and / or push them into riskier lending. Banks could also end up holding large amounts of their government's bonds and so create a potential 'doom loop'[1]. In addition, the financial viability of pension funds could be damaged by low yields on holdings of bonds.

[1] A doom loop would occur where the credit rating of the debt of a nation was downgraded which would cause bond prices to fall, causing losses on debt portfolios held by banks and insurers, so reducing their capital and forcing them to sell bonds – which, in turn, would cause further falls in their prices etc.

MEETING CANCELLED

5.8 The overall longer run future trend is for gilt yields, and consequently PWLB rates, to rise, albeit gently. 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. Such volatility could occur at any time during the forecast period.

5.9 In addition, PWLB rates are subject to ad hoc decisions by **H.M. Treasury** to change the margin over gilt yields charged in PWLB rates: such changes could be up or down. It is not clear that if gilt yields were to rise back up again by over 100bps within the next year or so, whether H.M. Treasury would remove the extra 100 bps margin implemented on 9 October 2019.

5.10 Economic and interest rate forecasting remains difficult with so many influences weighing on UK gilt yields and PWLB rates. The above forecasts, (and MPC decisions), will be liable to further amendment depending on how economic data and developments in financial markets transpire over the next year. Geopolitical developments, especially in the EU, could also have a major impact. Forecasts for average investment earnings beyond the three-year time horizon will be heavily dependent on economic and political developments.

6 Investment and borrowing rates

6.1 Investment returns are likely to remain low during 2020/21 with little increase in the following two years. However, if major progress was made with an agreed Brexit, then there is upside potential for earnings.

6.2 Borrowing interest rates were on a major falling trend during the first half of 2019/20 but then PWLB borrowing rates jumped up by 100 bps on 9 October 2019. The policy of avoiding new borrowing by running down spare cash balances has served local authorities well over the last few years, with this Council deciding to draw down £12 million in September 2019 as the optimum balance of risk in upward movements versus the higher short-term carrying costs. The unexpected increase of 100 bps in PWLB rates required a major rethink of local authority treasury management strategy and risk management.

6.3 While this authority will not be able to avoid borrowing to finance new capital expenditure, particularly for the HRA or to fund any Investment Regeneration opportunities (to replace the rundown of reserves), there will be a cost of carry, (the difference between higher borrowing costs and potentially lower investment returns[2]), to 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.

7 Borrowing Strategy

7.1 The Council's current long-term borrowing portfolio consists of £136.157 million HRA and £12 million General Fund PWLB debt.

7.2 The 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

[2] It is anticipated that new HRA and commercial investments would only take place if the scheme has a positive net return, including the borrowing costs

MEETING CANCELLED

scheduled to be repaid on 28 March 2053 with the final loan being repaid on 28 March 2062.

7.3 £12 million was borrowed in September 2019, for repayment at maturity on 28 August 2059, with the interest borne by the General Fund.

7.4 The Council is currently maintaining an under-borrowed position, despite the borrowing referred to in paragraph 6.2, 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 is prudent as investment returns are low and counterparty risk is still an issue that needs to be considered.

7.5 The borrowing undertaken in 2019 has reduced the under-borrowed position of the previous two financial years. That strategy is prudent while investment returns are low and counterparty risk is present but the position is not sustainable in the longer-term, as (1) the Council will eventually need to replenish the cash backing the Reserves and Balances in order to pay for future developments, and (2) 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 2020/21. Additionally, there are a number of potential HRA capital schemes that would requires considerable external borrowing in 2020/21 and beyond, as could a new Investment Regeneration Strategy.

7.6 Against this background and the risks within the economic forecast, caution will be adopted with the 2020/21 treasury operations. The Head of 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 borrowing rates, (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then borrowing will be postponed;
- if it was felt that there was a significant risk of 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 lower than they are projected to be in the next few years.

7.7 The major source of long-term borrowing for local authorities has been the PWLB. Following the decision by the PWLB on 9 October 2019 to increase their margin over gilt yields by 100 bps to 180 basis points on loans lent to local authorities, consideration will also need to be given to sourcing funding at cheaper rates from the following, especially as Link expect the underlying PWLB rates (see the table in paragraph 5.1) to rise:

- Local authorities - primarily shorter dated maturities
- Financial institutions - primarily insurance companies and pension funds but also some banks, out of spot or forward dates
- Municipal Bonds Agency (MBA) – the first issuance is expected in April or May 2020.

MEETING CANCELLED

7.8 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	●	-
Local authority bills	●	●
Overdraft		●
Negotiable bonds	●	●
Internal (capital receipts & revenue balances)	●	●
Commercial paper	●	-
Medium term notes	●	-
Finance leases	●	●

7.9 The degree which any of these options proves cheaper than PWLB Certainty Rate is still evolving at the time of writing 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.

7.10 However, the 100bp increase in their rates in October 2019 may have made it effectively the 'lender of the last resort' in some circumstances, especially for short to medium-term loans. The Council will consider other sources of external finance, including the MBA, as they are expected to provide a lower rate of interest than comparable PWLB loans, for periods up to 15 years. However, these loans could introduce a risk in terms of a bond issuers defaulting, which does not exist with the PWLB. Link will provide advice on the most cost effective option.

7.11 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 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 in 2019/20 to date and is not expecting to during 2020/21.

7.12 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

MEETING CANCELLED

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 31 January 2020 are summarised below:

Type of Investment	31 Jan 20 £'000	30 Sep 19 £'000	31 Mar 19 £'000
Money Markets incl. CD's & Bonds	42,000	41,900	35,500
Money Market Funds	40,988	29,786	25,345
Business Reserve Accounts incl. call accounts	6,551	6,551	1,295
Total In House Investments	**89,539**	**78,237**	**62,140**
Corporate Equity Funds (nominal)	6,000	6,000	6,000
Total Investments	**95,539**	**84,237**	**68,140**

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

Equity Fund	31 Jan 20 £'000	30 Sep 19 £'000	31 Mar 19 £'000
Royal London UK Equity Fund	3,478	3,377	3,202
Columbia Threadneedle UK Equity Income Fund	3,299	3,203	3,031
Total	**6,777**	**6,580**	**6,233**

9.3 These equity fund valuations at 31 January 2020 include unrealised capital gains and accrued interest. The amount of 'extraction of fossil fuel' related investments within the two funds is (a) Royal London – 9.5% and (b) Columbia Threadneedle – 4.3%. The Council does not have any influence over where these pooled equity funds invest.

9.4 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 will be considered in conjunction the consideration of the planned increase in borrowing need.

9.5 The borrowing position is shown below:

External Borowing	31 Jan 20 £'000	30 Sep 19 £'000	31 Mar 19 £'000
Public Works Loan Board	148,157	148,157	136,157
Total	**148,157**	**148,157**	**136,157**

10 Debt rescheduling

10.1 Rescheduling of borrowing in the Council's debt portfolio is unlikely to occur as the September 2019 100 bps increase in PWLB rates only applied to new borrowing rates and not to premature debt repayment rates.

MEETING CANCELLED

10.2 The Council’s treasury advisors will 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 will be reported to the Finance and Audit Scrutiny Committee, at the earliest meeting following its action.

MEETING CANCELLED

Annual Treasury Management Investment Strategy

1 Investment policy – management of risk

1.1 The MHCLG[3] and CIPFA[4] 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:

- **Specified investments** are those with a high level of credit quality and subject to a maturity limit of one year.

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

MEETING CANCELLED

- **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 will be subject to the development of a new Investment Regeneration Strategy.

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 will determine the maximum exposure to commercial investments (including loans to third parties at commercial rates of interest), expressed as a percentage of the total investment portfolio, as part of the development and approval of the new 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 2019/20 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[5]. This override applies to the Council's equity funds 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.

MEETING CANCELLED

[5] In November 2018, the Ministry of Housing, Communities and Local Government, [MHCLG], concluded a consultation for a temporary override to allow English local authorities time to adjust their portfolio of all pooled investments by announcing a statutory override to delay implementation of IFRS 9 for five years commencing from 1 April 2018

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 relies on credit ratings published by the three main Credit Rating agencies, Fitch Ratings, Moody's Investor Services and Standard & Poor's which are supplied to it by its treasury advisers. These ratings are used to establish the credit quality of counterparties and investment schemes. These institutions also issue regular ratings watch bulletins and where these are negative and affect one of our counterparties this will be taken into account when deciding whether or not to place future investments with them.

3.2 The Council also utilises elements of the creditworthiness service provided by Link in determining the duration of its investments with certain counterparties. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard & Poor's. The credit ratings of counterparties are supplemented with the following overlays:

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

3.3 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 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 and other market data on a daily basis.

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 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:

MEETING CANCELLED

A rated private banks	£5m
A+ rated private banks	£7m
AA rated private banks	£8m
Government Debt CNAV MMFs[6]	£10m
LVNAV MMFs[7]	£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 returns of around 3.75% in 2020/21, although this is at risk from the economic impact of Covid 19. These funds do invest in companies extracting fossil fuels and the recommendation is to divest from these funds by the end of 2025, and ideally before the end of 2022, as part of the Council's Climate Emergency Declaration. Options include closing these funds or re-investing in ESG (Environmental Social & Governance) equity funds. Any new fund manager appointments would be made in conjunction with Link and would be in adherence with the Council's procurement rules. Re-procuring to invest these reserves is likely to incur an additional cost.

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 2020/21 on average will be in the region of £69m, of which £28m 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 'core' investments that the Council will hold in long-term investments (over 365 days) is 70%. It follows therefore that the 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 2020/21 interest rate outlook is for Bank Rate to start the year at 0.75% and rise to 1.25% by the final quarter of the year. Based on current investment policies and interest rate projections, it is currently estimated that the overall

[6] Constant Net Asset Value Money Market Funds
[7] Low-Volatility Net Asset Value Money Market Funds

MEETING CANCELLED

portfolio will achieve a 0.98% return for 2020/21.

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 primarily for financial return, 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, which are taken for mainly financial reasons.

4.3 The Council's framework to consider such non treasury management investments will be reflected within the Capital Strategy and a new Investment Regeneration Strategy. 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.

MEETING CANCELLED

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

MEETING CANCELLED

- 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

MEETING CANCELLED

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	364 days	In house & EFM*	
UK Govt. / local authorities / public corporations / nationalised industries	n/a		High		£9m	364 days	In house & EFM*	11
Bank - part nationalised UK	F1	A		AA-	£9m	364 days	In house & EFM*	1 & 2
Bank - private (includes fixed term deposits, CDs and category 1 FRNs & bonds)	F1	A		AA-	£5m	364 days	In house & EFM*	1 & 2
	F1	A+		AA-	£7m	364 days	In house & EFM*	1 & 2
	F1	AA- & above		AA-	£8m	364 days	In house & EFM*	1 & 2
Other private sector financial institutions (includes category 1 FRNs & bonds)	F1	A		AA-	£4m	364 days	In house & EFM*	1 & 2
	F1	A+		AA-	£6m	364 days	In house & EFM*	1 & 2
	F1	AA- & above		AA-	£7m	364 days	In house & EFM*	1 & 2
Corporates (category 3 FRNs & bonds)	F1	A		AA-	£4m	364 days	In house & EFM*	1 & 2
	F1	A+		AA-	£5m	364 days	In house & EFM*	1 & 2
	F1	AA- & above		AA-	£6m	364 days	In house & EFM*	1 & 2
Bank subsidiaries 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	364 days	In house & EFM*	1a.
Building societies - category B	F1			AA-	£2m	364 days	In house & EFM*	1a.
Corporate bonds - category 2		A			£9m	364 days	In house & EFM*	5
Covered bonds - category 2		A			£9m	364 days	In house & EFM*	12
Bonds - supranational / multi-lateral development banks	AAA / Govt Guarantee				£5m	364 days	In house & EFM*	
Floating Rate Notes (FRN) - category 2		A			£9m	364 days	In house & EFM*	6
Eligible bank bills	n/a			Determined by EFM	£5m	364 days	EFM*	
Sterling securities guaranteed by HM Government	n/a			AA-	9m	not defined	EFM*	

MEETING CANCELLED

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

MEETING CANCELLED

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

MEETING CANCELLED

Approved Countries for Investments

This list 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.

Based on lowest available rating

AAA

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

AA+

- Finland
- U.S.A.

AA

- Abu Dhabi (UAE)
- France
- Hong Kong
- U.K.

AA-

- Belgium
- Qatar

MEETING CANCELLED

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.

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

a) equal annual instalments or

[8] Guiance 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

MEETING CANCELLED

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 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.

3.2 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

MEETING CANCELLED

appropriate.

5.4 For short 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.

MEETING CANCELLED

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, 2019/20, 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 2018/19 (a single value) and the ratios proposed for the General Fund, HRA and Overall as required by the Prudential Code. These figures exclude unapproved schemes, other than HRA schemes subject to approval at the same March Council meeting as this report.

MEETING CANCELLED

Table 1

Year	General Fund	Housing Revenue Account	Overall
2018/19	-1.21%	41.65%	24.05%
2019/20	-2.00% to 3.00%	38.00% to 42.00%	20.00% to 25.00%
2020/21	-2.00% to 3.00%	38.00% to 50.00%	23.00% to 33.00%
2021/22	-2.00% to 3.50%	38.00% to 58.00%	24.00% to 39.00%
2022/23	-2.00% to 3.50%	38.00% to 58.00%	24.00% to 39.00%

2.5. The ratio for estimates is a range rather than a single figure, to allow for both the uncertain amount of borrowing that will take place for more commercial investments and developments by the General Fund and HRA, and the possible movements in long-term interest rates, as a relatively small variation 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 – currently unapproved - borrowing for increasing the supply of dwellings. 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 leisure centres, long-term loans to third parties and commercial investment.

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:

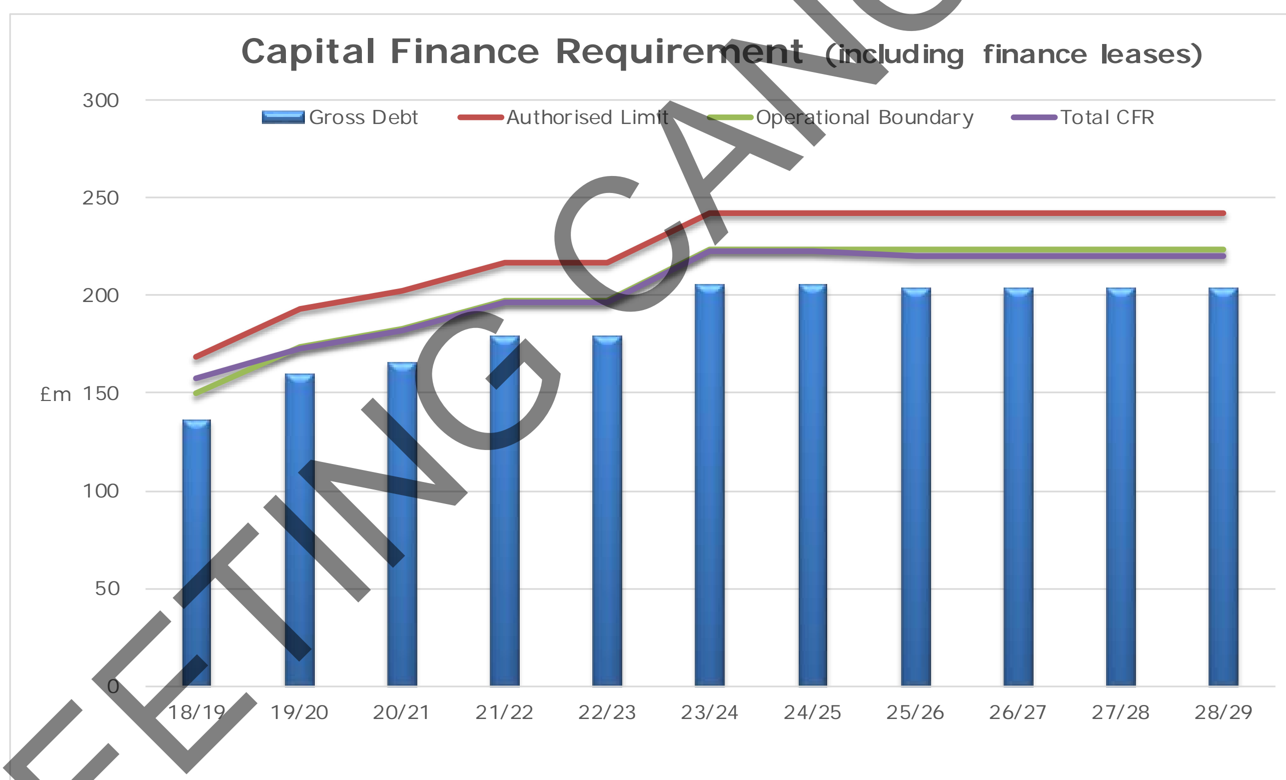
MEETING CANCELLED

Table 2

Capital Financing Requirement (including finance leases)											
£m	**Actual 18/19**	**Est 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**
HRA CFR	136.2	150.5	157.1	170.5	170.5	196.5	196.5	196.5	196.5	196.5	196.5
GF CFR	16.7	16.5	29.2	31.3	31.4	35.8	35.8	35.8	35.8	35.8	35.8
Commercial activity / non-financial investments	5.0	6.0	7.9	6.9	6.9	2.4	2.4	0.4	0.4	0.4	0.4
Total CFR	**157.8**	**172.9**	**194.2**	**208.8**	**208.8**	**234.8**	**234.8**	**232.8**	**232.7**	**232.7**	**232.7**
External borrowing - HRA	136.2	139.7	141.9	155.4	155.4	181.4	181.4	181.4	181.4	181.4	181.4
External borrowing - GF	-	20.0	35.3	35.4	35.4	35.4	35.3	33.3	33.3	33.3	33.3
Other long term liabilities	0.0	0.0	1.1	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2
Gross Debt	**136.2**	**159.8**	**178.3**	**191.9**	**191.9**	**217.9**	**217.9**	**215.9**	**215.9**	**215.9**	**215.9**
Internal borrowing - HRA	-	10.8	15.2	15.2	15.2	15.2	15.2	15.2	15.2	15.2	15.2
Internal borrowing - GF	21.6	2.4	0.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7
WDC internal borrowing	**21.6**	**13.2**	**15.9**	**16.9**	**16.9**	**16.9**	**16.9**	**16.9**	**16.9**	**16.9**	**16.9**
Authorised Limit	168.9	192.8	214.9	229.2	229.0	255.0	255.0	255.0	255.0	255.0	255.0
Operational Boundary	150.0	173.8	195.8	210.0	209.8	235.8	235.8	235.8	235.8	235.8	235.8

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 HRA developments and commercial investment, other than HRA schemes being considered in the same Council meeting.

4. Capital Expenditure

4.1 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.

MEETING CANCELLED

4.2 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.

4.3 Table 4 shows the Council's estimated capital expenditure on the General Fund and HRA for the next four years, including any potential but currently unapproved 'development' from 2020/21:

Table 4

Capital expenditure	2018/19 Actual £'000	2019/20 Estimate £'000	2020/21 Estimate £'000	2021/22 Estimate £'000	2022/23 Estimate £'000	2023/24 Estimate £'000
General Fund	9,805	12,811	8,703	2,821	615	487
HRA (HIP)	11,086	40,250	15,088	6,798	8,803	7,809
HRA development	-	3,540	2,237	13,445	-	25,993
Commercial activities (including development) / non-financial investments*	5,573	651	12,600	100	-	-
Total (A)	**26,464**	**57,252**	**38,628**	**23,164**	**9,418**	**34,289**

* - 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.

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 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).

MEETING CANCELLED

Table 5

Financing of capital expenditure	2018/19 Actual £'000	2019/20 Estimate £'000	2020/21 Estimate £'000	2021/22 Estimate £'000	2022/23 Estimate £'000	2023/24 Estimate £'000
HRA:						
Capital receipts	611	3,577	-	1,500	-	-
Capital grants and contributions	311	-	-	-	-	-
Reserves	10,086	25,724	11,084	6,027	8,680	7,686
Revenue contributions	78	122	123	123	123	123
Total HRA	**11,086**	**29,423**	**11,207**	**7,650**	**8,803**	**7,809**
General Fund:						
Capital receipts	1,202	454	257	-	-	-
Capital grants and contributions	1,011	10,317	2,389	1,192	-	-
Reserves	1,803	1,797	2,837	574	459	407
Revenue contributions	88	156	80	80	80	80
Total GF	**4,104**	**12,724**	**5,563**	**1,846**	**539**	**487**
Combined:						
Capital receipts	1,813	4,031	257	1,500	-	-
Capital grants and contributions	1,322	10,317	2,389	1,192	-	-
Reserves	11,889	27,521	13,921	6,601	9,139	8,093
Revenue contributions	166	278	203	203	203	203
Subtotal (B)	**15,190**	**42,147**	**16,770**	**9,496**	**9,342**	**8,296**
Net borrowing need for the year (A – B)	**11,274**	**15,105**	**21,858**	**13,668**	**76**	**25,993**

5.4 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	2018/19 Actual	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
Capital expenditure	5,573	651	12,600	100	-	-
Financing costs	40	10	879	4	-	-
Net financing need for the year	**5,613**	**661**	**13,479**	**104**	**-**	**-**
Percentage of total net financing need %	49%	4%	58%	1%	0%	0%

5.5 These figures are illustrative at this point and are subject to the Council's approval of a *Investment Regeneration Strategy*, which is expected to be considered during 2020/21.

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

5.7 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).

5.8 The estimated CFRs at the end of 2019/20 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

MEETING CANCELLED

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.

Table 7

Capital Financing Requirement Year	(a) HRA £'000	(b) General Fund £'000	(c) Commercial activities / non financial investments £'000	(d) Total £'000
2018/19 Actual	136,157	16,186	5,484	157,827
2019/20 Latest	150,524	16,460	5,961	172,945
2020/21	157,088	29,211	7,945	194,244
2021/22	170,533	31,290	6,929	208,752
2022/23	170,533	31,385	6,910	208,828

5.9 The opening HRA CFR at 1 April 2019 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 8:

Table 8

Authorised Limit	2019/20 Latest £'000	2020/21 Estimate £'000	2021/22 Estimate £'000	2022/23 Estimate £'000
Debt including HRA settlement	189,188	195,546	196,307	196,107
Other long-term liabilities	29	1,112	1,200	1,200
HRA developments	3,540	5,777	19,221	19,221
Commercial activities / non-financial investments	-	12,500	12,500	12,500
Total Authorised Limit	**192,757**	**214,935**	**229,228**	**229,028**

6.4 The Authorised Limit reflects a level of external debt that, whilst not desired, could be afforded in the short-term but is not 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 HRA Housing Improvement Programme (HIP) and the General Fund capital programme. The figures for 'HRA developments' 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

MEETING CANCELLED

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 will commence on 1 April 2021, 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), will be known by mid-2020.

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 9. It should be noted that the figures for each year are cumulative. They are based on the same assumptions outlined in paragraph 6.5 above.

Table 9

Operational Boundary	2019/20 Latest £'000	2020/21 Estimate £'000	2021/22 Estimate £'000	2022/23 Estimate £'000
Debt including HRA settlement	170,188	176,546	177,307	177,107
Other long-term liabilities	29	1,012	1,000	1,000
HRA developments	3,540	5,777	19,221	19,221
Commercial activities / non-financial investments	-	12,500	12,500	12,500
Replacement of internal borrowing		15,900	16,900	16,900
Total Operational Boundary	**173,757**	**211,735**	**226,928**	**226,728**

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 10

MEETING CANCELLED

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 11

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 12

Year	Upper Limit - Fixed Rate	Upper Limit - Variable Rate
2020/21	100%	30%
2021/22	100%	30%
2022/23	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.

MEETING CANCELLED

Economic Background

Note:

- Since the information below was written by the Council's treasury advisers the world economy has been rocked by the outbreak of the Coronavirus, which will dampen financial performance for 2020 world-wide. A number of national banks have cut their Base Rate as part of managing their economy.

UK

- **General election** December 2019 returned a large Conservative majority on a platform of getting Brexit done. UK left the EU on 31 January 2020.
- There is still considerable uncertainty about whether the UK and EU will be able to agree the details of a **trade deal** by the deadline set by the prime minister of December 2020. This leaves open the potential risks of a no deal or a hard Brexit.
- **GDP growth** has been weak in 2019 and is likely to be around only 1% in 2020.
- **November MPC meeting and Bank of England quarterly Monetary Policy Report** (formerly called the Inflation Report). MPC voted 7-2 to keep rates on hold. Increase in concerns among MPC members around weak UK growth caused by weak global economic growth and the potential for Brexit uncertainties to become entrenched and so delay UK economic recovery.
- **MPC meeting on 30 January 2020** again voted 7-2 to keep rates on hold. Their key view was that there was currently 'no evidence about the extent to which policy uncertainties among companies and households had declined' i.e. they were going to sit on their hands and see how the economy goes in the next few months.
- If economic growth were to weaken considerably, the MPC has relatively little room to make a big impact with **Bank Rate** still only at 0.75%. It would, therefore, probably suggest that it would be up to the Chancellor to provide help to support growth by way of a **fiscal boost** e.g. tax cuts, infrastructure spending etc.
- **CPI inflation** has been hovering around the Bank of England's target of 2% during 2019, but fell again in both October and November to a three-year low of 1.5%. It is likely to remain close to, or under 2% over the next two years and so it does not pose any immediate concern to the MPC. However, if there was a hard or no deal Brexit, inflation could rise towards 4%, primarily because of imported inflation on the back of a weakening pound.
- **Labour market.** Employment growth has been quite resilient through 2019 until the three months to September where it fell by 58,000. However, there was an encouraging pick up again in the three months to October to growth of 24,000, which showed that the labour market was not about to head into a major downturn. The unemployment rate held steady at a 44-year low of 3.8%. Wage inflation has been steadily falling from a high point of 3.9% in July to 3.5% in October (3-month average regular pay, excluding bonuses). This meant that in real terms, (i.e. wage rates higher than CPI inflation), earnings grew by about 2.0%. As the UK economy is very much services sector driven, an increase in household spending power is likely to feed through into providing some support to the overall rate of economic growth in the coming months. The other message from the fall in wage growth is that employers are beginning to find it easier to hire suitable staff, indicating that supply pressure in the labour market is easing.

MEETING CANCELLED

USA

- **Growth** in 2019 has been falling after a strong start in quarter 1 at 3.1%, (annualised rate), to 2.0% in quarter 2 and then 2.1% in quarter 3. The economy looks likely to have maintained a growth rate similar to quarter 3 into quarter 4; fears of a recession in 2020 have largely dissipated.
- The strong growth in **employment numbers** during 2018 has weakened during 2019, indicating that the economy had been cooling, while inflationary pressures were also weakening.
- **CPI inflation** rose from 1.8% to 2.1% in November, a one year high, but this was singularly caused by a rise in gasoline prices.
- **The Fed** finished its series of increases in rates to 2.25 – 2.50% in December 2018. In July 2019, it cut rates by 0.25% as a 'midterm adjustment' but flagged up that this was not intended to be seen as the start of a series of cuts to ward off a downturn in growth. It also ended its programme of quantitative tightening in August, (reducing its holdings of treasuries etc.). It then cut rates by 0.25% again in September and by another 0.25% in its October meeting to 1.50 – 1.75%.
- At its September meeting it also said it was going to **start buying Treasuries again**, although this was not to be seen as a resumption of quantitative easing but rather an exercise to relieve liquidity pressures in the repo market. In the first month, it will buy $60bn, whereas it had been reducing its balance sheet by $50bn per month during 2019.
- The Fed left rates unchanged in **December.** However, the accompanying statement was more optimistic about the future course of the economy so this would indicate that further cuts are unlikely.
- **Trade war with China.** The trade war is depressing US, Chinese and world growth. In the EU, it is also particularly impacting Germany as exports of goods and services are equivalent to 46% of total GDP. It will also impact developing countries dependent on exporting commodities to China. However, progress has been made in December on agreeing a phase one deal between the US and China to roll back some of the tariffs; this gives some hope of resolving this dispute.

EUROZONE

- **Growth** has been slowing from +1.8 % in 2018 to around half of that at the end of 2019; there appears to be little upside potential in the near future.
- **The European Central Bank (ECB)** ended its programme of quantitative easing purchases of debt in December 2018, which then meant that the central banks in the US, UK and EU had all ended the phase of post financial crisis expansion of liquidity supporting world financial markets by quantitative easing purchases of debt.
- However, the downturn in EZ growth in the second half of 2018 and into 2019, together with inflation falling well under the upper limit of its target range of 0 to 2%, (but it aims to keep it near to 2%), has prompted the ECB to take new measures to stimulate growth. At its March meeting it announced a **third round of TLTROs**; this provides banks with cheap borrowing.
- However, since then, the downturn in EZ and world growth has gathered momentum; at its meeting on 12 September it cut its deposit rate further into negative territory, from -0.4% to -0.5%, and announced a **resumption of quantitative easing purchases of debt for an unlimited period.**

MEETING CANCELLED

- At its October meeting it said these purchases would start in November at €20bn per month - a relatively small amount compared to the previous buying programme. It also increased the maturity of the third round of TLTROs from two to three years. However, it is doubtful whether this very limited loosening of monetary policy will have much impact on growth and, unsurprisingly, the ECB stated that governments would need to help stimulate growth by 'growth friendly' fiscal policy.
- There were no policy changes in the December meeting, which was chaired for the first time by the new President of the ECB, Christine Lagarde. However, the outlook continued to be down beat about the economy; this makes it likely there will be further monetary policy stimulus to come in 2020. She also announced a thorough review during 2020 of how the ECB conducts monetary policy, including the price stability target.
- Several EU countries have **coalition governments.** More recently, Austria, Spain and Italy have been in the throes of trying to form coalition governments with some unlikely combinations of parties i.e. this raises questions around their likely endurance. The latest results of German state elections has put further pressure on the frail German CDU/SDP coalition government and on the current leadership of the CDU.

CHINA

- Economic growth has been weakening over successive years, despite repeated rounds of central bank stimulus; medium term risks are increasing. Major progress still needs to be made to eliminate excess industrial capacity and the stock of unsold property, and to address the level of non-performing loans in the banking and shadow banking systems. In addition, there still needs to be a greater switch from investment in industrial capacity, property construction and infrastructure to consumer goods production.

JAPAN

- It has been struggling to stimulate consistent significant GDP growth and to get inflation up to its target of 2%, despite huge monetary and fiscal stimulus. It is also making little progress on fundamental reform of the economy.

WORLD GROWTH – reversal of globalisation

- Until recent years, world growth has been boosted by **increasing globalisation** i.e. countries specialising in producing goods and commodities in which they have an economic advantage and which they then trade with the rest of the world. This has boosted worldwide productivity and growth, and, by lowering costs, has depressed inflation. However, the rise of China as an economic superpower over the last thirty years, which now accounts for nearly 20% of total world GDP, has unbalanced the world economy. The Chinese government has targeted achieving major world positions in specific key sectors and products, especially high tech areas and production of rare earth minerals used in high tech products. It is achieving this by massive financial support, (i.e. subsidies), to state owned firms, government directions to other firms, technology theft, restrictions on market access by foreign firms and informal targets for the domestic market share of Chinese producers in the selected sectors. This is regarded as being unfair competition that is putting western firms at an unfair disadvantage or even putting some out of business. It is also regarded with suspicion on the political front as China is an authoritarian country that is not averse to using economic and military power for political advantage. The current trade war between the US and China therefore needs to be seen against that backdrop. It is, therefore, likely that we are heading into a period where there will be a **reversal of world**

MEETING CANCELLED

globalisation and a decoupling of western countries from dependence on China to supply products. This is likely to produce a backdrop in the coming years of weak global growth and so weak inflation.

- **Central banks are, therefore, likely to come under more pressure to support growth by looser monetary policy measures and this will militate against central banks increasing interest rates in 2020 and beyond**.
- The trade war between the US and China has been during 2019, and still is, a major concern to **financial markets** due to the synchronised general weakening of growth in the major economies of the world, compounded by fears that there could even be a recession looming up in the US, (though such fears have largely dissipated towards the end of 2019).
- These concerns resulted in **Government bond yields falling in 2019** in the developed world. If there were a major worldwide downturn in growth, central banks in most of the major economies will have limited ammunition available, in terms of monetary policy measures, when rates are already very low in most countries, (apart from the US). There are also concerns about how much distortion of financial markets has already occurred with the current levels of quantitative easing purchases of debt by central banks and the use of negative central bank rates in some countries. The latest PMI survey statistics of economic health for the US, UK, EU and China have all been predicting a downturn in growth; this confirms investor sentiment that the outlook for growth during the year ahead is weak.

MEETING CANCELLED

Council meeting, 25 March 2020

Treasury Management Strategy 2020/21

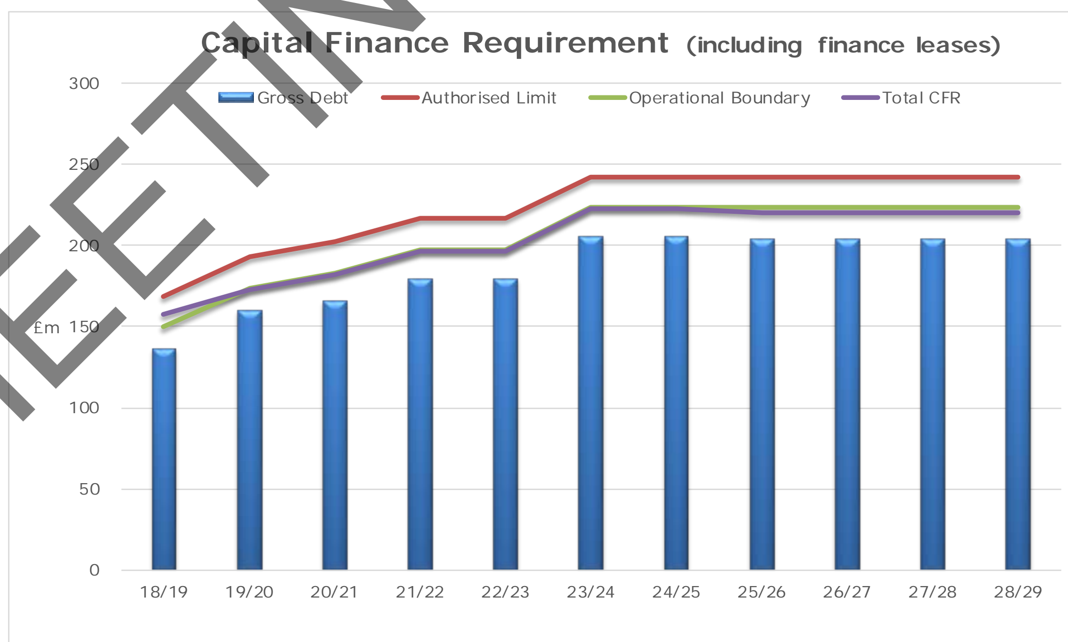
Further to the briefing provide for F&AS on 17 March 2020, the points below are a summary of changes necessary to include the Kenilworth School REFCUS grant of £12.5m (assumed 2020/21) and HRA construction of Leyes Lane (£25.993m in 2023/24)

Key points:

- The changes required are to Appendix D, pp35-39, Tables 2 to 9 inclusive
- **Table 2, p35** – increases in the GF, HRA and overall Capital Financing Requirements

Capital Financing Requirement (including finance leases)											
£m	**Actual 18/19**	**Est 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**
HRA CFR	136.2	150.5	157.1	170.5	170.5	196.5	196.5	196.5	196.5	196.5	196.5
GF CFR	16.7	16.5	29.2	31.3	31.4	35.8	35.8	35.8	35.8	35.8	35.8
Commercial activity / non-financial investments	5.0	6.0	7.9	6.9	6.9	2.4	2.4	0.4	0.4	0.4	0.4
Total CFR	**157.8**	**172.9**	**194.2**	**208.8**	**208.8**	**234.8**	**234.8**	**232.8**	**232.7**	**232.7**	**232.7**
External borrowing - HRA	136.2	139.7	141.9	155.4	155.4	181.4	181.4	181.4	181.4	181.4	181.4
External borrowing - GF	-	20.0	35.3	35.4	35.4	35.4	35.3	33.3	33.3	33.3	33.3
Other long term liabilities	0.0	0.0	1.1	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2
Gross Debt	**136.2**	**159.8**	**178.3**	**191.9**	**191.9**	**217.9**	**217.9**	**215.9**	**215.9**	**215.9**	**215.9**
Internal borrowing - HRA	-	10.8	15.2	15.2	15.2	15.2	15.2	15.2	15.2	15.2	15.2
Internal borrowing - GF	21.6	2.4	0.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7
WDC internal borrowing	**21.6**	**13.2**	**15.9**	**16.9**	**16.9**	**16.9**	**16.9**	**16.9**	**16.9**	**16.9**	**16.9**
Authorised Limit	168.9	192.8	214.9	229.2	229.0	255.0	255.0	255.0	255.0	255.0	255.0
Operational Boundary	150.0	173.8	195.8	210.0	209.8	235.8	235.8	235.8	235.8	235.8	235.8

- **Table 3, p35** – the chart rises in conjunction with Table 2



MEETING CANCELLED

- **Table 4, p36** – increased capital expenditure for these two items

Capital expenditure	2018/19 Actual £'000	2019/20 Estimate £'000	2020/21 Estimate £'000	2021/22 Estimate £'000	2022/23 Estimate £'000	2023/24 Estimate £'000
General Fund	9,805	12,811	8,703	2,821	615	487
HRA (HIP)	11,086	40,250	15,088	6,798	8,803	7,809
HRA development	-	3,540	2,237	13,445	-	25,993
Commercial activities (including development) / non-financial investments*	5,573	651	12,600	100	-	-
Total (A)	**26,464**	**57,252**	**38,628**	**23,164**	**9,418**	**34,289**

- **Table 5, p37** – resultant net borrowing requirement increases for these items

Financing of capital expenditure	2018/19 Actual £'000	2019/20 Estimate £'000	2020/21 Estimate £'000	2021/22 Estimate £'000	2022/23 Estimate £'000	2023/24 Estimate £'000
HRA:						
Capital receipts	611	3,577	-	1,500	-	-
Capital grants and contributions	311	-	-	-	-	-
Reserves	10,086	25,724	11,084	6,027	8,680	7,686
Revenue contributions	78	122	123	123	123	123
Total HRA	**11,086**	**29,423**	**11,207**	**7,650**	**8,803**	**7,809**
General Fund:						
Capital receipts	1,202	454	257	-	-	-
Capital grants and contributions	1,011	10,317	2,389	1,192	-	-
Reserves	1,803	1,797	2,837	574	459	407
Revenue contributions	88	156	80	80	80	80
Total GF	**4,104**	**12,724**	**5,563**	**1,846**	**539**	**487**
Combined:						
Capital receipts	1,813	4,031	257	1,500	-	-
Capital grants and contributions	1,322	10,317	2,389	1,192	-	-
Reserves	11,889	27,521	13,921	6,601	9,139	8,093
Revenue contributions	166	278	203	203	203	203
Subtotal (B)	**15,190**	**42,147**	**16,770**	**9,496**	**9,342**	**8,296**
Net borrowing need for the year (A – B)	**11,274**	**15,105**	**21,858**	**13,668**	**76**	**25,993**

- **Table 6, p37** – the School grant appears as commercial activity with financing costs

Commercial activities / non-financial investments £'000	2018/19 Actual	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
Capital expenditure	5,573	651	12,600	100	-	-
Financing costs	40	10	879	4	-	-
Net financing need for the year	**5,613**	**661**	**13,479**	**104**	**-**	**-**
Percentage of total net financing need %	49%	4%	58%	1%	0%	0%

- **Table 7, 38** – the School REFCUS increases the 2020/21 **CFR**

MEETING CANCELLED

Capital Financing Requirement Year	(a) HRA £'000	(b) General Fund £'000	(c) Commercial activities / non financial investments £'000	(d) Total £'000
2018/19 Actual	136,157	16,186	5,484	157,827
2019/20 Latest	150,524	16,460	5,961	172,945
2020/21	157,088	29,211	7,945	194,244
2021/22	170,533	31,290	6,929	208,752
2022/23	170,533	31,385	6,910	208,828

- **Table 8, p38** – the 2020/21 **Authorised Limit** (important to enable borrowing)

Authorised Limit	2019/20 Latest £'000	2020/21 Estimate £'000	2021/22 Estimate £'000	2022/23 Estimate £'000
Debt including HRA settlement	189,188	195,546	196,307	196,107
Other long-term liabilities	29	1,112	1,200	1,200
HRA developments	3,540	5,777	19,221	19,221
Commercial activities / non-financial investments	-	12,500	12,500	12,500
Total Authorised Limit	**192,757**	**214,935**	**229,228**	**229,028**

- **Table 9, p39** – the 2020/21 **Operational Boundary**

Operational Boundary	2019/20 Latest £'000	2020/21 Estimate £'000	2021/22 Estimate £'000	2022/23 Estimate £'000
Debt including HRA settlement	170,188	176,546	177,307	177,107
Other long-term liabilities	29	1,012	1,000	1,000
HRA developments	3,540	5,777	19,221	19,221
Commercial activities / non-financial investments	-	12,500	12,500	12,500
Replacement of internal borrowing		15,900	16,900	16,900
Total Operational Boundary	**173,757**	**211,735**	**226,928**	**226,728**

Richard Wilson

Principal Accountant (Capital & Treasury)

MEETING CANCELLED

Appendix C (revised)

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*[1] 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[2]. 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

[1] 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.
[2] The Council had no debt at this date

MEETING CANCELLED

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.

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 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.

3.2 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.

MEETING CANCELLED

- 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 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.

MEETING CANCELLED