Report to:	**Cabinet**
Date:	**10 February 2020**
Title:	**Treasury Management and Prudential Indicators 2020/21, Capital Strategy & Investment Strategy**
Report of:	**Chief Finance Officer**
Cabinet member:	**Councillor Zoe Nicholson, Leader of the Council and Cabinet Member for Finance**
Ward(s):	**All**
Purpose of the report:	**To approve the Council's Annual Treasury Management Strategy, Capital Strategy & investment Strategy together with the Treasury and Prudential Indicators for the next financial year.**
Decision type:	**Budget and policy framework**
Recommendation:	**Cabinet is asked to recommend the following proposals to full Council to :** **a. Approve the Treasury Management Strategy and Annual Investment Strategy for 2020/21 as set out in Appendix A;** **b. Approve the Minimum Revenue Provision Policy Statement 2020/21 as set out at paragraph 8;** **c. Approve the Prudential and Treasury Indicators 2020/21 to 2022/23, as set out at paragraph 6;** **d. Approve the Capital Strategy set out in Appendix E.**
Reasons for recommendations:	**It is a requirement of the budget setting process for the Council to review and approve the Prudential and Treasury indicators, Treasury Strategy, Capital Strategy and Investment Strategy.**
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1. Introduction

1.1 The Prudential and Treasury Indicators and Treasury Strategy covers:

- the capital prudentail indicators;
- the Minimum Revenue Provision Policy (how residual capital expenditure is charged to revenue over time);
- the Treasury Management Strategy (how the investments and borrowings are

to be organised) including treasury indicators; and

- an investment strategy (the parameters on how investments are to be managed);
- Capital Strategy.

1.2 The Council adopted CIPFA's Treasury Management code of Practice on 18 May 2010. This code is supported by treasury management practices (TMPs) that set out the manner in which the council seeks to achieve the treasury management strategy and prescribes how it manages and controls those activities.

1.3 CIPFA defines treasury management as:

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

1.4 The report include the Capital Strategy (Appendix E), which provide a longer-term focus on the capital plans, and greater reporting requirements surrounding any commercial activity undertaken under the Localism Act 2011. The aim of the capital strategy is to ensure that all elected members on the full council fully understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite. The Capital Strategy covers the following:

- a high-level long term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services;
- an overview of how the associated risk is managed;
- the implications for future financial sustainability.

1.5 **Policy on the use of external service providers**

The Council uses Arlingclose Limited as its external treasury management advisors, and recognises that responsibility for treasury management decisions remains with the Councilo at all times. It also recognises that there is value in employing external providers of treasury management services in order to have 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. End of year investment report

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

3. Outcome expected and performance management

3.1 Loans, Investments and Prudential Indicators will be monitored regularly during

2020/21 and performance will be reported to members quarterly.

4. Financial appraisal

4.1 These are included in the main body of the report.

5. Legal implications

5.1 This report covers the requirements of the Local Government Act 2003, the CIFPA Prudential Code, the CLG MRP Guidance, the CIPFA Treasury Management Code and the CLG Investment Guidance.

6. Equality analysis

6.1 The equality implications of decisions relating to Treasury Management covered in this report are addressed within other relevant Council reports or as part of programmed equality analysis.

7. Conclusion

7.1 Capital prudential indicators are set to demonstrate plans for borrowing are affordable. The movement in the Capital Financing Requirement (CFR) forecasts for 2019/20, 2020/21, 2021/22 & 2022/23 are set as £87.0m, £113.9m, £125.0m, & £134.2m respectively. This borrowing has been reflected in the Capital Financing Requirement, which sets out the Council's outlining requirement for borrowing, and includes both the use of internal resources and external borrowing. The proposed Minimum Revenue Provision Policy is updated to ensure that prudent provision is made for the repayment of borrowing.

7.2 All Treasury indicators have been set to reflect the treasury strategy and funding requirements of the capital programme.

Appendices

- **A** Treasury Management Strategy Statement, Minimum Revenue Provision and Annual Investment Strategy.
- **B** The Treasury Management Role of the Section 151 Officer.
- **C** Counterparty List.
- **D** Arlingclose Limited on the Economic Background and Forward View.
- **E** Capital Strategy.

Background papers

The background papers used in compiling this report were as follows:

- CIPFA Treasury Management in the Public Services code of Practice (the Code);
- Cross-sectorial Guidance Notes;
- CIPFA Prudential Code;
- Treasury Management Strategy and Treasury Management Practices;
- Council Budget 10 February 2020;
- Finance Matters and Performance Monitoring Reports 2019;
- CIPFA Prudential Property Investment.

To inspect or obtain copies of background papers please refer to the contact officer listed above.

APPENDIX 'A'

Lewes District Council

Treasury Management Strategy Statement, Minimum Revenue Provision and Annual Investment Strategy.

2020/21

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1. INTRODUCTION

The Treasury Management Policy and Strategy is one of the Council's key financial strategy documents and sets out the Council's approach to the management of its treasury management activities.

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

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

The contribution the treasury management function makes to the authority is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.

Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activities, (arising usually from capital expenditure), and are separate from the day to day treasury management activities.

CIPFA defines treasury management as:

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

The Local Government Act 2003 and supporting regulations require the Council to 'have regard to' the CIPFA Prudential Code and the Treasury Management Code of Practice to set Prudential and Treasury Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable.

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

This strategy is updated annually to reflect changes in circumstances that may affect the strategy.

2. TREASURY MANAGEMENT REPORTING

The Council/Members are required to receive and approve, as a minimum, 3 reports annually which incorporate a variety of policies, forecasts and actuals as follows;

a. **Annual treasury strategy** (issued February and includes);
    a. A Minimum Revenue Provision (MRP) policy (this reflects capital expenditure previously financed by borrowing and how the principal element is charged to revenue over time);
    b. The treasury management strategies (how the investments and borrowings are to be organised) including treasury prudential indicators and limits;
    c. An investment strategy (the parameters on how investments are to be managed).
b. **Mid-year update** – (issued November / December and provides an);
    a. update for members with the progress of the treasury management activities undertaken for the period April to September and
    b. opportunity for amending prudential indicators and any policies if necessary.
c. **Annual outturn** – (issued June and contains);
    a. details of actual treasury operations undertaken in the previous financial year.

Each of the above 3 reports are required to be adequately scrutinised by the Lewes District Council Audit and Standards Committee before being recommended to the Cabinet and Council for final approval. This Council delegates responsibility for implementation and monitoring treasury management to Cabinet and responsibility for the execution and administration of treasury management decisions to the Section 151 Officer;

The Council has adopted the Chartered Institute of Public Finance and Accountancy's Code of Practice on Treasury Management (Revised 2018) including the creation and maintenance of a Treasury Management Policy Statement stating the policies, objectives and approach to risk management of the Council's treasury management activities.

3. TREASURY MANAGEMENT POLICY STATEMENT

The policies and objectives of the Council's treasury management activities are as follows:

a. This Council defines its treasury management activities as - *'The management of the authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks'.*

b. This Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the Council, and any financial instruments entered into to manage these risks.

c. This Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance management techniques, within the context of effective risk management.

4. CAPITAL STRATEGY

The CIPFA 2017 Prudential and Treasury Management Codes require all local authorities to prepare a capital strategy report (Appendix E) which will provide the following:

- a high-level long term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
- an overview of how the associated risk is managed
- the implications for future financial sustainability

The aim of this capital strategy is to ensure that all elected members on the full council fully understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite.

This capital strategy is reported separately from the Treasury Management Strategy Statement; non-treasury investments will be reported through the former. This ensures the separation of the core treasury function under security, liquidity and yield principles, and the policy and commercialism investments usually driven by expenditure on an asset. The capital strategy will show:

- The corporate governance arrangements for these types of activities;
- Any service objectives relating to the investments;
- The expected income, costs and resulting contribution;
- The debt related to the activity and the associated interest costs;
- The payback period (MRP policy);
- For non-loan type investments, the cost against the current market value;
- The risks associated with each activity.

Where a physical asset is being bought, details of market research, advisers used, (and their monitoring), ongoing costs and investment requirements and any credit information will be disclosed, including the ability to sell the asset and realise the investment cash.

Where the Council has borrowed to fund any non-treasury investment, there should also be an explanation of why borrowing was required and why the MHCLG Investment Guidance, CIPFA Prudential Property Investment and CIPFA Prudential Code have not been adhered to. If any non-treasury investment sustains a loss during the final accounts and audit process, the strategy and revenue implications will be reported through the same procedure as the capital strategy.

Most of the capital expenditure incurred by authorities requires risks to be managed, particularly in relation to whether the assets acquired will provide the benefits projected for them and whether estimates of acquisition and running costings and income generation will be reliable. These considerations will impact on decisions regarding whether it would be prudent to borrow to fund such expenditure. Reductions in government funding have meant that local authorities have been under growing pressure to incur capital expenditure with the objective of generating revenue income that will compensate for reductions in government funding.

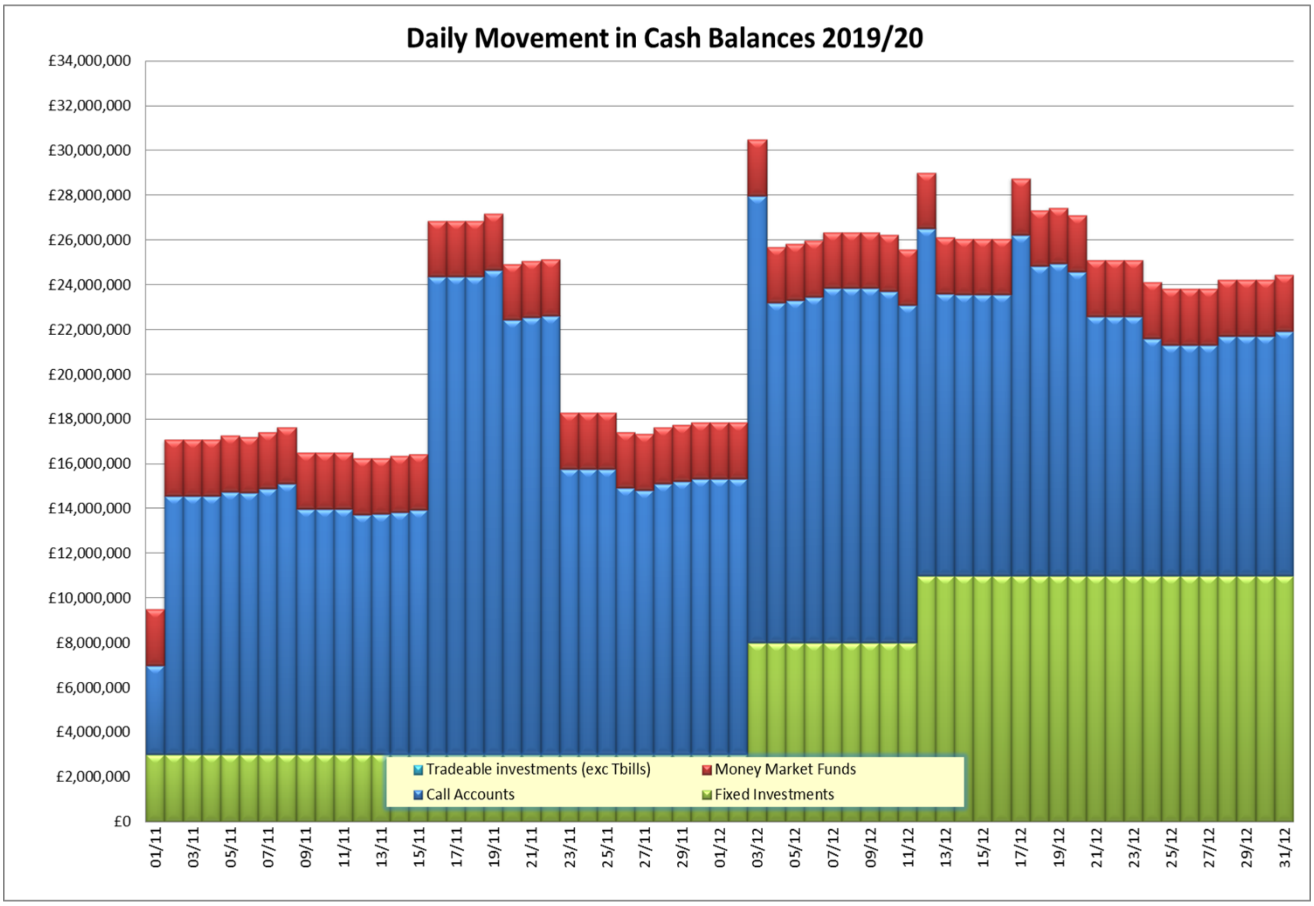
CIPFA concerns relating to the rapid expansion of acquisitions of commercial property and its relationship with CIPFA's statement in its Prudential Code that authorities must not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed. Where authorities exceed the limits of the Prudential Code and the wider Prudential Framework this places a strain on the credibility of the Prudential Framework to secure the prudent management of local authority finances. The view expressed in the Prudential Code effectively reflects the circumstances where there is no specific or projected need to borrow but an opportunity has been identified to make an investment return greater than the authority's cost of borrowing. For local authorities, who have access to borrowing at relatively low rates, there are tempting opportunities to generate income at no net capital or revenue cost.

The Prudential Framework (including statutory guidance and the Prudential Code itself) allows local authorities the flexibility to take their own decisions; provided that the decisions taken are prudent, affordable and sustainable and that they have regard to the statutory guidance. However, local authorities will need to ensure if they acquire commercial property with substantial investment returns that they have a clear rationale for such acquisitions. If after having regard to the statutory guidance and the Prudential Code local authorities decide to depart from such guidance, they can only do so where a robust and reasonable argument can be put that an alternative approach will still meet the authority's various duties under Chapter 1 of the Local Government Act 2003.

5. TREASURY MANAGEMENT STRATEGY STATEMENT FOR 2020/21

5.1 Current Investment & Borrowing Position

The Council (i.e., Non-HRA) has no long-term external borrowing as at 31 March 2020, all HRA long term borrowing are sourced from the Public Works Loan Board (PWLB) at fixed interest rates. The PWLB allows local authorities to repay loans early and either pay a premium or obtain a discount according to a formula based on current interest rates. The chart below summarises the Council's investment position over the period 1 November to 31 December 2019. It shows the total sums invested each day as Fixed Term deposits, Treasury Bills, amounts held in Deposit accounts, Money Market Funds and Tradeable Investments.



5.2 Prospects for Interest Rates

The Council has appointed Arlingclose Limited as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates.

Economic background: The UK's progress negotiating its exit from the European Union, together with its future trading arrangements, will continue to be a major influence on the Authority's treasury management strategy for 2020/21.

UK Consumer Price Inflation (CPI) for September registered 1.7% year on year, unchanged from the previous month. Core inflation, which excludes the more volatile components, rose to 1.7% from 1.5% in August. The most recent labour market data for the three months to August 2019 showed the unemployment rate ticked back up to 3.9% while the employment rate was 75.9%, just below recent record-breaking highs. The headline 3-month average annual growth rate for pay was 3.8% in August as wages continue to rise steadily. In real terms, after adjusting for inflation, pay growth increased 1.9%.

GDP growth rose by 0.3% in the third quarter of 2019 from -0.2% in the previous three months with the annual rate falling further below its trend rate to 1.0% from 1.2%. Services and construction added positively to growth, by 0.6% and 0.4% respectively, while production was flat and agriculture recorded a fall of 0.2%. Looking ahead, the Bank of England's Monetary Policy Report (formerly the Quarterly Inflation Report) forecasts economic growth to pick up during 2020 as Brexit-related uncertainties dissipate and provide a boost to business investment helping GDP reach 1.6% in Q4 2020, 1.8% in Q4 2021 and 2.1% in Q4 2022.

The Bank of England maintained Bank Rate to 0.75% in November following a 7-2 vote by the Monetary Policy Committee. Despite keeping rates on hold, MPC members did confirm that if Brexit uncertainty drags on or global growth fails to recover, they are prepared to cut interest rates as required. Moreover, the downward revisions to some of the growth projections in the Monetary Policy Report suggest the Committee may now be less convinced of the need to increase rates even if there is a Brexit deal.

Growth in Europe remains soft, driven by a weakening German economy which saw GDP fall -0.1% in Q2 and is expected to slip into a technical recession in Q3. Euro zone inflation was 0.8% year on year in September, well below the European Central Bank's target of 'below, but close to 2%' and leading to the central bank holding its main interest rate at 0% while cutting the deposit facility rate to -0.5%. In addition to maintaining interest rates at ultra-low levels, the ECB announced it would recommence its quantitative easing programme from November.

In the US, the Federal Reserve began easing monetary policy again in 2019 as a pre-emptive strike against slowing global and US economic growth on the back on of the ongoing trade war with China. At its last meeting the Fed cut rates to the range of 1.50-1.75% and financial markets expect further loosening of monetary policy in 2020. US GDP growth slowed to 1.9% annualised in Q3 from 2.0% in Q2.

Credit outlook: Credit conditions for larger UK banks have remained relatively benign over the past year. The UK's departure from the European Union was delayed three times in 2019 and while there remains some concern over a global economic slowdown, this has yet to manifest in any credit issues for banks. Meanwhile, the post financial crisis banking reform is now largely complete, with the new ringfenced banks embedded in the market.

Challenger banks hit the news headlines in 2019 with Metro Bank and TSB Bank both suffering adverse publicity and falling customer numbers.

Looking forward, the potential for a “no-deal” Brexit and/or a global recession remain the major risks facing banks and building societies in 2020/21 and a cautious approach to bank deposits remains advisable.

Interest rate forecast: The Authority’s treasury management adviser Arlingclose is forecasting that Bank Rate will remain at 0.75% until the end of 2022. The risks to this forecast are deemed to be significantly weighted to the downside, particularly given the upcoming general election, the need for greater clarity on Brexit and the continuing global economic slowdown. The Bank of England, having previously indicated interest rates may need to rise if a Brexit agreement was reached, stated in its November Monetary Policy Report and its Bank Rate decision (7-2 vote to hold rates) that the MPC now believe this is less likely even in the event of a deal.

Gilt yields have risen but remain at low levels and only some very modest upward movement from current levels are expected based on Arlingclose’s interest rate projections. The central case is for 10-year and 20-year gilt yields to rise to around 1.00% and 1.40% respectively over the time horizon, with broadly balanced risks to both the upside and downside. However, short-term volatility arising from both economic and political events over the period is a near certainty. A more detailed economic and interest rate forecast provided by Arlingclose is attached at Appendix D.

5.3 Investment and borrowing rates

- 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.

- Borrowing interest rates were on a major falling trend during the first half of 2019-20 but then jumped up by 100 bps on 9.10.19. The policy of avoiding new borrowing by running down spare cash balances has served local authorities well over the last few years. However, the unexpected increase of 100 bps in PWLB rates requires a major rethink of local authority treasury management strategy and risk management. The gap between longer term borrowing rates and investment rates has materially widened, and in the long term Bank Rate is not expected to rise above 2.5%.

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

5.4 Borrowing Strategy for 2020/21

Capital Investment can be paid for using cash from one or more of the following sources:

- Cash from existing and/or new capital resources (e.g. capital grants, receipts from asset sales, revenue contributions or earmarked reserves);
- Cash raised by borrowing externally;
- Cash being held for other purposes (e.g. earmarked reserves or working capital) but used in the short term for capital investment. This is known as ‘internal borrowing’ as there will be a future needs to borrow externally once the cash is required for the other purposes.

Under the CIPFA Prudential Code an authority is responsible for deciding its own level of affordable borrowing within set prudential indicator limits (see section 6).

Borrowing does not have to take place immediately to finance its related capital investment and may be deferred or borrowed in advance of need within policy. The Council's primary objective when borrowing is to strike an appropriately low risk balance between securing low interest rates and achieving cost certainty over the period for which funds are required.

When MRP is not required to repay debt, it will accumulate as cash balances which will then be invested. Investment balances will increase by MRP each year until the debt is repaid. The Council's Draft Revenue Budget and Capital Programme 2020/21 to 2022/23 forecasts £88.2m of capital investment over the next three years with £38.8m met from existing or new resources. The amount of new borrowing required over this period is therefore £49.8m as shown in **Table 2** below.

Table 2a	**2019/20 Estimate**	**2020/21 Estimate**	**2021/22 Estimate**	**2022/23 Estimate**
	£m	**£m**	**£m**	**£m**
Capital Expenditure				
Non-HRA	2.4	26.7	6.0	1.7
HRA	7.0	15.5	15.3	15.8
Commercial Activities/ Non-financial investments	5.6	2.4	2.4	2.4
Total	**15.0**	**44.6**	**23.8**	**19.8**
Financed by:				
HRA Resources	7.0	15.5	9.5	7.4
Capital Reserves	1.6	0.8	0.6	0.9
Capital Grants	1.0	1.0	1.0	1.0
Capital Receipts	0.1	0.1	0.1	0.1
Revenue Contributions	0.1	0.1	0.1	0.1
Borrowing Need	**6.8**	**27.8**	**13.1**	**11.1**

As existing and forecast future resources are insufficient to meet the level of spend, the borrowing need of £49.8m will initially be met from internal borrowing. This is to use the Council's own surplus funds until external borrowing is required. Internal borrowing reduces borrowing costs and risk as there is less exposure of external investments. The benefits of internal borrowing need to be monitored and weighed against deferring new external borrowing into future years when long-term borrowing rates could rise.

Table 2b Capital Financing Requirement	**2019/20 Estimate**	**2020/21 Estimate**	**2021/22 Estimate**	**2022/23 Estimate**
	£m	**£m**	**£m**	**£m**
CFR – non housing	6.8	29.5	30.4	31.2
CFR - housing	66.0	68.3	77.0	83.4
Commercial Activities/non-financial investments	14.2	16.0	17.8	19.6
Total CFR	**87.1**	**113.9**	**125.2**	**134.2**
Movement in CFR	**5.1**	**26.8**	**11.4**	**9.0**
Movement in CFR represented by-				
Net financing needed for the year (above)	5.1	27.1	12.9	10.2
Less MRP/VRP and other financing movements	(0.1)	(0.3)	(1.2)	(1.2)
Movement in CFR	**5.1**	**26.8**	**11.4**	**9.0**

The amount that notionally should have been borrowed is known as the **capital financing requirement (CFR)**. The CFR and actual borrowing may be different at a point in time and the difference is either an under or over borrowing amount. The Council is required to repay an element of the CFR each year through a revenue charge. This is known as the minimum revenue provision (MRP) and is currently estimated to be £285.6k for 2020/21. MRP will cause a reduction in the CFR annually.

Table 3 below includes the figures from Table 2 and shows the actual external borrowing against the capital financing requirement, identifying any under or over borrowing.

Table 3	**2019/20 Estimate**	**2020/21 Estimate**	**2021/22 Estimate**	**2022/23 Estimate**
	£m	**£m**	**£m**	**£m**
GF Borrowing at 1 April	-	5.1	32.2	38.9
HRA Borrowing at 1 April	56.7	56.7	56.7	62.5
Borrowing at 31 March	56.7	61.8	88.9	101.4
GF new borrowing	5.1	27.1	6.7	1.9
HRA new borrowing	-	-	5.9	8.4
less loan maturities	-	-	-	-
New borrowing	5.1	27.1	12.6	10.2
Borrowing at 31 March	**61.8**	**88.9**	**101.4**	**111.7**
CFR at 1 April	82.0	97.0	141.3	163.9
Net Capital Expenditure	5.1	27.1	12.6	10.2
MRP	(0.1)	(0.3)	(1.2)	(1.2)
CFR at 31 March	**87.1**	**113.9**	**125.2**	**134.2**
Under borrowing	**25.3**	**25.0**	**23.8**	**22.6**

The Council is currently maintaining an under-borrowing position as it previously took advantage of historic low borrowing rates for HRA borrowing. As at the end of 2019/20, the Council is projected to be under borrowed by £25.3m, £25.0m by 2020/21 and then only moving around the margin until 2022/23.

5.5 Borrowing other than with the PWLB

The Council has previously borrowed mainly from the PWLB, but will continue to investigate other sources of finance, such as local authority loans and bank loans, that may be available at more favourable rates. Any new borrowing taken out will be completed with regard to the limits, indicators, the economic environment, the cost of carrying this debt ahead of need, and interest rate forecasts. The S151 Officer will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances.

Municipal Bond Agency - It is possible that the Municipal Bond Agency will be offering loans to local authorities in the future. The Agency hopes that the borrowing rates will be lower than those offered by the Public Works Loan Board (PWLB). This Authority may make use of this new source of borrowing as and when appropriate.

5.6 Policy on Borrowing in Advance of Need

The Council will not borrow purely in order to profit from investment of extra sums borrowed. Any decision to borrow in advance will be within 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. 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.

5.7 Debt Rescheduling

Officers continue to regularly review opportunities for debt rescheduling, but there has been a considerable widening of the difference between new borrowing and repayment rates, which has made PWLB debt restructuring now much less attractive. Consideration would have to be given to the large premiums (cash payments) which would be incurred by prematurely repaying existing PWLB loans. It is very unlikely that these could be justified on value for money grounds if using replacement PWLB refinancing. However, some interest savings might still be achievable through using other market loans, in rescheduling exercises rather than using PWLB borrowing as the source of replacement financing.

The reasons for any rescheduling to take place will include:

- the generation of cash savings and / or discounted cash flow savings;
- helping to fulfil the treasury strategy;
- enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

5.8 New financial institutions as a source of borrowing

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:

- 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 (no issuance at present but there is potential)

The degree to which any of these options proves cheaper than PWLB Certainty Rate is still evolving at the time of writing but our advisors will keep us informed. Therefore, the strategy is to continue to seek opportunity to reduce the overall level of Council's debt where prudent to do so, thus providing in future years cost reduction in terms of lower debt repayments costs, and potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt. All rescheduling will be agreed by the S151 Officer.

5.9 Continual Review

Treasury officers continue to review the need to borrow taking into consideration the potential increases in borrrowing costs, the need to finance new capital expenditure, refinancing maturing debt, and the cost of carry that might incur a revenue loss between borrowing costs and investment returns.

Against this background and the risks within the economic forecast, caution will be adopted with the 2020/21 treasury operations. The Chief Finance Officer will continue to monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

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

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

6. PRUDENTIAL AND TREASURY INDICATORS 2020/21 to 2023/24

The Council's capital expenditure plans are a key driver of treasury management activities. The output of the capital expenditure plans are reflected in prudential indicators. Local Authorities are required to 'have regard to' the Prudential Code and to set Prudential Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable. The Code sets out the indicators that must be used but does not suggest limits or ratios as these are for the authority to set itself.

The Prudential Indicators for 2020/21 to 2023/24 are set out in **Table 4** below:

Table 4	**2019/20 Estimate**	**2020/21 Estimate**	**2021/22 Estimate**	**2022/23 Estimate**
Capital Expenditure (gross) Council's capital expenditure plans (including HRA)	£15.0m	£44.6m	£23.8m	£19.8m
Capital Financing Requirement Measures the underlying need to borrow for capital purposes (including Leases)	£87.1m	£113.9m	£125.2m	£134.2m
Ratio of financing costs to net revenue stream Identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against net revenue stream	15.2%	15.1%	15.0%	18.5%
Incremental impact of capital investment decisions on council tax Identifies the revenue costs associated with proposed changes to the three year programme compared to the existing approved commitments	£4.77	(£19.64)	(£23.22)	(£0.30)

The Treasury Management Code requires that Local Authorities set a number of indicators for treasury performance in addition to the Prudential Indicators which fall under the Prudential Code. The Treasury Indicators for 2020/21 to 2023/24 are set out in **Table 5** below:

Table 5 - Authorised Limit for External Debt	**2019/20 Estimate**	**2020/21 Estimate**	**2021/22 Estimate**	**2022/23 Estimate**
	£m	**£m**	**£m**	**£m**
Borrowing	70.0	70.3	70.3	80.3
Other long term liabilities	0.4	0.4	0.4	0.4
Commercial activities/non-financial investments	57.3	61.3	61.3	61.3
	127.7	**132.0**	**132.0**	**142.0**
The Authorised Limit - The authorised limit represents a limit beyond which external debt is prohibited and it is the maximum amount of debt that the Council can legally owe. This limit is set by Council and can only be revised by Council approval. It reflects the level of external borrowing which, while not desirable, could be afforded in the short term, but is not sustainable in the longer. The current limit is set at 10% above the Operational Boundary.				
Operational boundary for external debt	**£m**	**£m**	**£m**	**£m**
Borrowing	65.0	65.0	65.3	75.3
Other long term liabilities	0.4	0.4	0.4	0.4
Commercial activities/non-financial investments	52.3	56.3	56.3	56.3
	117.7	**122.0**	**122.0**	**132.0**
The Operational Boundary - This is the expected borrowing position of the Council during the year, taking account of the timing of various funding streams. The operational boundary is based on the Council's estimate of most likely (i.e. prudent but not worst case) scenario for external debt. It links directly to the Council's estimates of capital expenditure, the capital financing requirement and cash flow requirements, and is a key management tool for in-year monitoring. This indicator may be breached temporarily for operational reasons.				
Upper limit for fixed interest rate exposure* Identifies a maximum limit for fixed interest rates for borrowing and investments.	100%	100%	100%	100%
Upper limit for variable interest rate exposure* Identifies a maximum limit for variable interest rates for borrowing and investments.	25%	25%	25%	25%
Maturity Structure of Borrowings* The Council needs to set upper and lower limits with respect to the maturity structure of its borrowing:				

Table 5 - Authorised Limit for External Debt	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
	£m	£m	£m	£m
Upper limit for under 12 months	*75%*	*75%*	*75%*	*75%*
Lower limit for under 12 months	*0%*	*0%*	*0%*	*0%*
Upper limit for 12 months to 2 years	*75%*	*75%*	*75%*	*75%*
Lower limit for over 12 months to 2 years	*0%*	*0%*	*0%*	*0%*
Upper limit for 2 years to 5 years	*75%*	*75%*	*75%*	*75%*
Lower limit for 2 years to 5 years	*0%*	*0%*	*0%*	*0%*
Upper limit for 5 years to 10 years	*75%*	*75%*	*75%*	*75%*
Lower limit for 5 years to 10 years	*0%*	*0%*	*0%*	*0%*
Upper limit for over 10 years	*75%*	*75%*	*75%*	*75%*
Lower limit for over 10 years	*0%*	*0%*	*0%*	*0%*

Note-
**the Treasury Indicators above have been calculated and determined by Officers in compliance with the Treasury Management Code of Practice.*

The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities.

7. ANNUAL INVESTMENT STRATEGY

7.1 Investment Policy

The MHCLG and CIPFA 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, (Appendix E). 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;
- CIPFA Prudential Property Investment.

The Council's investment priorities will be security first, portfolio liquidity second and then yield, (return). 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: -

- 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.
- **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.

- **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.

7.2 Investment Strategy for 2020/21

In-house funds. Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months). Greater returns are usually obtainable by investing for longer periods. While most cash balances are required in order to manage the ups and downs of cash flow, where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer term investments will be carefully assessed.

- If it is thought that Bank Rate is likely to rise significantly within the time horizon being considered, then consideration will be given to keeping most investments as being short term or variable.
- Conversely, if it is thought that Bank Rate is likely to fall within that time period, consideration will be given to locking in higher rates currently obtainable, for longer periods.

7.3 Investment returns expectations.

On the assumption that the UK and EU agree a Brexit deal including the terms of trade by the end of 2020 or soon after, then Bank Rate is forecast to increase only slowly over the next few years to reach 1.00% by quarter 1 2023. Bank Rate forecasts for financial year ends (March) are:

- Q1 2021 0.75%
- Q1 2022 1.00%
- Q1 2023 1.00%

The suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year are as follows:

- 2019/20 0.75%
- 2020/21 0.75%
- 2021/22 1.00%
- 2022/23 1.25%
- 2023/24 1.50%
- 2024/25 1.75%
- Later years 2.25%

The overall balance of risks to economic growth in the UK is probably to the downside due to the weight of all the uncertainties over Brexit, as well as a softening global economic picture.

The balance of risks to increases in Bank Rate and shorter term PWLB rates are broadly similarly to the downside. In the event that a Brexit deal is agreed with the EU and approved by Parliament, the balance of risks to economic growth and to increases in Bank Rate is likely to change to the upside.

7.4 Investment treasury indicator and limit

Total principal funds invested for greater than 365 days. These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.

Upper limit for principal sums invested for longer than 365 days			
	2020/21	2021/22	2022/23
Principal sums invested for longer than 365 days	£2m	£2m	£2m

For its cash flow generated balances, the Council will seek to utilise its current account, call accounts and short-dated deposits (overnight to three months) in order to benefit from the compounding of interest.

7.5 Specified and Non-Specified Investments

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.

- **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.

An investment is a **specified investment** if all of the following apply:

- the investment is denominated in sterling and any payments or repayments in respect of the investment are payable only in sterling;
- the investment is not a long term investment (i.e. up to 365 days);
- the making of the investment is not defined as capital expenditure by virtue of regulation 25(1)(d) of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 [SI 3146 as amended];
- the investment is made with a body or in an investment scheme of high credit quality (i.e. a minimum credit rating as outlined in this strategy) or with one of the following public-sector bodies:
    - The United Kingdom Government;
    - A local authority in England or Wales (as defined under section 23 of the 2003 Act) or a similar body in Scotland or Northern Ireland;

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. 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.

7.6 Creditworthiness Policy

The Treasury Management Strategy needs to set limits on the amount of money and the time period the Council can invest with any given counterparty. In order to do this the Council uses the Credit Rating given to the counterparty by the three main Credit Rating Agencies (Fitch, Moody's and Standard and Poor's). This forms part of the consistent risk based approach that is used across all of the financial strategies.

Treasury Officers regularly review both the investment portfolio and counterparty risk and make use of market data to inform their decision making. The officers are members of various benchmarking groups to ensure the investment portfolio is current and performing as other similar sized Local Authorities.

The Council as part of its due diligence in managing creditworthiness, uses amongst other information, a tool provided by treasury management advisors. This service employs a sophisticated modelling approach utilising credit ratings from the three credit rating agencies and by using a risk weighted scoring system, does not give undue reliance to just one agency's ratings.

This modelling approach combines credit ratings with the following overlays:

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

This weighted scoring system then produces an end product of a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the suggested duration for investments.

The Council (in addition to other due diligence consideration) will use counterparties within the following durational bands provided they have a minimum AA+ soverign rating from three rating agencies:

- Yellow *5 years*
- *Purple* *2 years*
- *Blue* *1 year (semi nationalised UK Bank – NatWest/RBS)*
- *Orange* *1 year*
- *Red* *6 months*
- *Green* *100 days*
- *No Colour* *Not to be used*

Y	***P***	***B***	***O***	***R***	***G***	***N/C***
Up to 5yrs	*Up to 2yrs*	*Up to 1yr*	*Up to 1yrs*	*Up to 6 months*	*Up to 100 days*	*Not to be used*

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

The primary principle governing the Council's investment criteria is the security of its investments, although the return on the investment is also a key consideration. After this main principle, the Council will ensure that:

- It maintains a policy covering both the categories of investment types it will invest in and the criteria for choosing investment counterparties with adequate security, and monitoring their security;

- It has sufficient liquidity in its investments.

All credit ratings are monitored daily. The Council is alerted to changes to ratings of all three agencies through its use of a treasury management advisors service. If a downgrade results in the counterparty or 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 re movements in Credit Default Swap against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list. The counterparties in which the Council will invest its cash surpluses is based on officers assessment of investment security, risk factors, market intelligence, a diverse but manageable portfolio and their participation in the local authority market.

Table 7 below summarises the types of specified investment counterparties available to the Council, and the maximum amount and maturity periods placed on each of these. Further details are contained in Appendix C.

7.7 Criteria for Specified Investments:

Table 7	Country/ Domicile	Instrument	Maximum investments	Max. maturity period
Debt Management and Deposit Facilities (DMADF)	UK	Term Deposits (TD)	unlimited	1 yr
Government Treasury bills	UK	TD	unlimited	1 yr
UK Local Authorities	UK	TD	£5m	1 yr
Lloyds Banking Group • Lloyds Bank • Bank of Scotland	UK	TD (including callable deposits), Certificate of Deposits (CD's)	£5m	1 yr
RBS/NatWest Group • Royal Bank of Scotland • NatWest	UK		£5m	1 yr
HSBC	UK		£5m	1 yr
Barclays	UK		£5m	1 yr
Santander	UK		£5m	6 mths
Goldman Sachs Investment Bank	UK		£5m	6 mths
Standard Chartered Bank	UK		£5m	6 mths
Nationwide Building Society	UK		£5m	6 mths
Coventry Building Society	UK		£5m	6 mths
Individual Money Market Funds (MMF)	UK/Ireland/ EU domiciled	AAA rated Money Market Funds	£10m	Instant access
Counterparties in select countries (non-UK) with a Sovereign Rating of at least AA+				
Australia & New Zealand Banking Group	Australia	TD / CD's	£5m	1 yr

Table 7	Country/ Domicile	Instrument	Maximum investments	Max. maturity period
Commonwealth Bank of Australia	Australia	TD / CD's	£5m	1 yr
National Australia Bank	Australia	TD / CD's	£5m	1 yr
Westpac Banking Corporation	Australia	TD / CD's	£5m	1 yr
Royal Bank of Canada	Canada	TD / CD's	£5m	1 yr
Toronto-Dominion Bank	Canada	TD / CD's	£5m	1 yr
Development Bank of Singapore	Singapore	TD / CD's	£5m	1 yr
Overseas Chinese Banking Corp	Singapore	TD / CD's	£5m	1 yr
United Overseas Bank	Singapore	TD / CD's	£5m	1 yr
Svenska Handelsbanken	Sweden	TD / CD's	£5m	1 yr
Nordea Bank AB	Sweden	TD / CD's	£5m	1 yr
ABN Amro Bank	Netherlands	TD / CD's	£5m	1 yr
Cooperative Rabobank	Netherlands	TD / CD's	£5m	1 yr
ING Bank NV	Netherlands	TD / CD's	£5m	1 yr
DZ Bank AG	Germany	TD / CD's	£5m	1 yr
UBS AG	Switzerland	TD / CD's	£5m	1 yr
Credit Suisse AG	Switzerland	TD / CD's	£5m	1 yr
Danske Bank	Denmark	TD / CD's	£5m	1 yr

7.8 Non-Specified investments are any other types of investment that are not defined as specified. The identification and rationale supporting the selection of these other investments and the maximum limits to be applied are set out in **Table 8** below:

Table 8	Minimum credit criteria	Maximum investments	Period
UK Local Authorities	Government Backed	£2m	2 years

The maximum amount that can be invested will be monitored in relation to the Council surplus monies and the level of reserves. The approved counterparty list will be maintained by referring to an up-to-date credit rating agency reports, and the Council will liaise regularly with brokers for updates. Counterparties may be added to or removed from the list only with the approval of the Chief Finance Officer. A detailed list of specified and non-specified investments that form the counterparty list is shown in Appendix C.

UK Local Authorities - Should a suitable opportunity in the market occur to lend to other Local Authorities of more than a 1 year duration, at a reasonable level of return the deal would be classed as a low risk Non-Specified Investment.

7.9 Non treasury management investments

This Council invests in non-treasury management (policy) investments. These do not form part of the treasury management strategy.

7.10 Risk and Sensitivity Analysis

Treasury management risks are identified in the Council's approved Treasury Management Practices. The main risks to the Council's treasury activities are:

- liquidity risk (inadequate cash resources);
- market or interest rate risk (fluctuations in interest rate levels and thereby in the value of investments);
- inflation risks (exposure to inflation);
- credit and counterparty risk (security of investments);
- refinancing risks (impact of debt maturing in future years); and
- legal and regulatory risk (i.e. non-compliance with statutory and regulatory requirements, risk of fraud).

Treasury Officers, in conjunction with the treasury advisers, will monitor these risks closely and particular focus will be applied to:

- the global economy – indicators and their impact on interest rates will be monitored closely. Investment and borrowing portfolios will be positioned according to changes in the global economic climate;
- Counterparty risk – the Council follows a robust credit worthiness methodology and continues to monitor counterparties and sovereign ratings closely particularly within the Eurozone.

7.11 Lending to third parties

The Council has the power to lend monies to third parties subject to a number of criteria. These are not treasury type investments rather they are policy investments. Any activity will only take place after relevant due diligence has been undertaken. Loans of this nature will be approved by Cabinet. The primary aims of the Investment Strategy are the security of its capital, liquidity of its capital and to obtain a return on its capital commensurate with levels of security and liquidity. These aims are crucial in determining whether to proceed with a potential loan. In order to ensure security of the Council's capital, extensive financial due diligence must be completed prior to any loan or investment being agreed. The Council will use specialist advisors to complete financial checks to ascertain the creditworthiness of the third party. Where deemed necessary, additional guarantees will be sought. This will be via security against assets and/or through guarantees from a parent company.

8. ANNUAL MINIMUM REVENUE PROVISION/POLICY STATEMENT – 2020/21

The statutory requirement for local authorities to charge the Revenue Account each year with a specific sum for debt repayment. A variety of options is provided to councils to determine for the financial year an amount of minimum revenue provision (MRP) that it considers to be prudent. This replaces the previous requirement that the minimum sum should be 4% of the Council's Capital Financing Requirement (CFR).

A Statement on the Council's policy for its annual MRP should be submitted to the Full Council for approval before the start the financial year to which the provision relate. The Council is therefore legally obliged to have regard to CLG MRP guidance in the same way as applies to other statutory guidance such as the CIPFA Prudential Code, the CIPFA Treasury Management Code and the CLG guidance on Investments.

The MRP guidance offers four options under which MRP might be made, with an overriding recommendation that the Council should make prudent provision to redeem its debt liability over a period which is commensurate with that over which the capital expenditure is estimated to provide benefits (i.e. estimated useful life of the asset being financed).

The guidance also requires an annual review of MRP policy being undertaken and it is appropriate that this is done as part of this annual Treasury Management Policy and Strategy.
The International Financial Reporting Standards (IFRS) involves some leases (being reclassified as finance leases instead of operating leases) coming onto the Council's Balance Sheet as long term liabilities. This accounting treatment impacts on the Capital Financing Requirement with an annual MRP provision being required. To ensure that this change has no overall financial impact on Local Authorities, the Government has updated their "Statutory MRP Guidance" which allows MRP to be equivalent to the existing lease rental payments and "capital repayment element" of annual payments.

The policy from 2020/21 and in future years is therefore as follows:-

For capital expenditure incurred before 1 April 2008 or which in the future will be Supported Capital Expenditure, the MRP options are:

Either
- Existing practice - MRP will follow the existing practice outlined in former MHCLG regulations (option 1); or
- Based on CFR – MRP will be based on the CFR (option 2);

These options provide for an approximate 4% reduction in the borrowing need (CFR) each year.

From 1 April 2008 for all unsupported borrowing (including PFI and finance leases) the MRP policy options are:
- Asset life method – MRP will be based on the estimated life of the assets, in accordance with the regulations (this option must be applied for any expenditure capitalised under a Capitalisation Direction) (option 3);
- Depreciation method – MRP will follow standard depreciation accounting procedures (option 4).

These options provide for a reduction in the borrowing need over approximately the asset's life. There is no requirement on the HRA to make a minimum revenue provision but there is a requirement for a charge for depreciation to be made (although there are transitional arrangements in place). Repayments included in annual PFI or finance leases are applied as

MRP. It is important to note that changes in the Local Government Financial Regulations means that in the future operating leases will be treated in a manner consistent with financial leases.

For loans to third parties that are being used to fund expenditure that is classed as capital in nature, the policy will be to set aside the repayments of principal as capital receipts to finance the initial capital advance in lieu of making an MRP.

In view of the variety of different types of capital expenditure incurred by the Council, which is not in all cases capable of being related to an individual asset, asset lives will be assessed on a basis which most reasonably reflects the anticipated period of benefit that arises from the expenditure. Also whatever type of expenditure is involved, it will be grouped together in a manner which reflects the nature of the main component of expenditure.

This approach also allows the Council to defer the introduction of an MRP charge for new capital projects/land purchases until the year after the new asset becomes operational rather than in the year borrowing is required to finance the capital spending. This approach is beneficial for projects that take more than one year to complete and is therefore included as part of the MRP policy.

Half-yearly review of the Council’s MRP Policy will be undertaken and reported to Members as part of the Mid-Year Treasury Management Strategy report.

9. SCHEME OF DELEGATION

9.1 Full Council

In line with best practice, Full Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of polices, estimates and actuals. These reports are:

i. **Treasury Management Policy and Strategy Report**

The report covers:

- the capital plans (including prudential indicators);
- a Minimum Revenue Provision Policy (how residual capital expenditure is charged to revenue over time);
- the Treasury Management Strategy (how the investments and borrowings are to be organised) including treasury indicators; and
- an investment strategy (the parameters on how investments are to be managed).

ii. **A Mid-Year Review Report and a Year End Stewardship Report**

These will update members with the progress of the capital position, amending prudential indicators as necessary, and indicating whether the treasury strategy is meeting the strategy or whether any policies require revision. The reports also provide details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

9.2 Cabinet

- Approval of the Treasury Management quarterly update reports;
- Approval of the Treasury Management outturn report.

9.3 Lewes District Council Audit and Standards Committee

- Scrutiny of performance against the strategy.

9.4 Training

Treasury Management training for committee members will be delivered as required to facilitate more informed decision making and challenge processes. The Council further acknowledges the importance of ensuring that all Members and staff involved in the treasury management function receive adequate training and are fully equipped to undertake the duties and responsibilities allocated to them. In order to assist with this undertaking, a Member training event was provided on 22 January 2020 and similar events will be provided when required. Officers will continue to attend courses/seminars presented by CIPFA and other suitable professional organisations.

10. OTHER TREASURY ISSUES

10.1 Banking Services

Lloyds, which is part Government owned, currently provides banking services for the Council.

10.2 Policy on the use of External Service Providers

The Council uses Arlingclose Limited as its external treasury management advisors. The Council recognises that responsibility for treasury management decisions remains with the Council at all times and will ensure that undue reliance is not placed upon our external service providers. It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

APPENDIX 'B'

The Treasury Management Role of the Section 151 Officer

The S151 (responsible) officer-

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance;
- submitting regular treasury management policy reports;
- submitting budgets and budget variations;
- receiving and reviewing management information reports;
- reviewing the performance of the treasury management function;
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
- ensuring the adequacy of internal audit, and liaising with external audit;
- recommending the appointment of external service providers.

Role extended by the revised CIPFA Treasury Management and Prudential Codes 2017as set out below.

- preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments and treasury management, with a long term timeframe;
- ensuring that the capital strategy is prudent, sustainable, affordable and prudent in the long term and provides value for money;
- ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the authority;
- ensure that the authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing;
- ensuring the proportionality of all investments so that the authority does not undertake a level of investing which exposes the authority to an excessive level of risk compared to its financial resources
- ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long term liabilities
- provision to members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees;
- ensuring that members are adequately informed and understand the risk exposures taken on by an authority;
- ensuring that the authority has adequate expertise, either in house or externally provided, to carry out the above.

APPENDIX 'C' - COUNTERPARTY LIST 2020/21

20202/21 Counterparty/Bank List	Fitch Rating Long Term Status	Long Term	Short Term	Viability	Moody's Ratings Long Term Status	Long Term	Short Term	S&P Ratings Long Term Status	Long Term	Short Term	Suggested Link Duration	*EBC Duration*	CDS Price	Invest. Limit
Australia	SB	AAA			SB	Aaa		SB	AAA		Not Applicable	Not Applicable		
Australia and New Zealand Banking Group Ltd.	NO	AA-	F1+	aa-	SB	Aa3	P-1	SB	AA-	A-1+	O - 12 mths	O - 12 mths	30.70	£5
Commonwealth Bank of Australia	NO	AA-	F1+	aa-	SB	Aa3	P-1	SB	AA-	A-1+	O - 12 mths	O - 12 mths	32.65	£5
Macquarie Bank Ltd.	SB	A	F1	a	SB	A2	P-1	SB	A+	A-1	R - 6 mths	R - 6 mths		£5
National Australia Bank Ltd.	NO	AA-	F1+	aa-	SB	Aa3	P-1	SB	AA-	A-1+	O - 12 mths	O - 12 mths	32.65	£5
Westpac Banking Corp.	NO	AA-	F1+	aa-	SB	Aa3	P-1	SB	AA-	A-1+	O - 12 mths	O - 12 mths	38.54	£5
Belgium	SB	AA-			SB	Aa3		SB	AA		Not Applicable	Not Applicable		
BNP Paribas Fortis	SB	A+	F1	a	SB	A1	P-1	SB	A+	A-1	R - 6 mths	R - 6 mths		£5
KBC Bank N.V.	SB	A+	F1	a	SB	Aa3	P-1	SB	A+	A-1	O - 12 mths	O - 12 mths		£5
Canada	SB	AAA			SB	Aaa		SB	AAA		Not Applicable	Not Applicable		
Bank of Montreal	SB	AA-	F1+	aa-	SB	Aa2	P-1	SB	A+	A-1	O - 12 mths	O - 12 mths		£5
Bank of Nova Scotia	SB	AA-	F1+	aa-	SB	Aa2	P-1	SB	A+	A-1	O - 12 mths	O - 12 mths		£5
Canadian Imperial Bank of Commerce	SB	AA-	F1+	aa-	SB	Aa2	P-1	SB	A+	A-1	O - 12 mths	O - 12 mths		£5
National Bank of Canada	SB	A+	F1	a+	SB	Aa3	P-1	SB	A	A-1	R - 6 mths	R - 6 mths		
Royal Bank of Canada	SB	AA	F1+	aa	SB	Aa2	P-1	SB	AA-	A-1+	O - 12 mths	O - 12 mths		£5
Toronto-Dominion Bank	SB	AA-	F1+	aa-	SB	Aa1	P-1	SB	AA-	A-1+	O - 12 mths	O - 12 mths		£5
Denmark	SB	AAA			SB	Aaa		SB	AAA		Not Applicable	Not Applicable		
Danske A/S	NO	A	F1	a	NO	A2	P-1	SB	A	A-1	R - 6 mths	R - 6 mths	31.50	£5
Finland	PO	AA+			SB	Aa1		SB	AA+		Not Applicable	Not Applicable		
Nordea Bank Abp	NO	AA-	F1+	aa-	SB	Aa3	P-1	SB	AA-	A-1+	O - 12 mths	O - 12 mths		£5
OP Corporate Bank plc		WD	WD		SB	Aa3	P-1	SB	AA-	A-1+	O - 12 mths	O - 12 mths		£5
France	SB	AA			PO	Aa2		SB	AA		Not Applicable	Not Applicable		
BNP Paribas	SB	A+	F1	a+	SB	Aa3	P-1	SB	A+	A-1	O - 12 mths	O - 12 mths	26.28	£5
Credit Agricole Corporate and Investment Bank	SB	A+	F1	WD	SB	Aa3	P-1	SB	A+	A-1	O - 12 mths	O - 12 mths	20.42	£5
Credit Agricole S.A.	SB	A+	F1	a+	SB	Aa3	P-1	SB	A+	A-1	O - 12 mths	O - 12 mths	24.30	£5
Credit Industriel et Commercial	SB	A+	F1	a+	SB	Aa3	P-1	SB	A	A-1	R - 6 mths	R - 6 mths		£5
Societe Generale	SB	A	F1	a	SB	A1	P-1	PO	A	A-1	R - 6 mths	R - 6 mths	28.04	£5
Germany	SB	AAA			SB	Aaa		SB	AAA		Not Applicable	Not Applicable		
Bayerische Landesbank	SB	A-	F1	bbb+	SB	Aa3	P-1		NR	NR	R - 6 mths	R - 6 mths		£5
Commerzbank AG	NO	BBB+	F1	bbb+	SB	A1	P-1	NO	A-	A-2	G - 100 days	G - 100 days	40.09	£5
Deutsche Bank AG	EO	BBB	F2	bbb	NO	A3	P-2	SB	BBB+	A-2	N/C - 0 mths	N/C - 0 mths		
DZ BANK AG Deutsche Zentral-Genossenschaftsbank	SB	AA-	F1+		NO	Aa1	P-1	NO	AA-	A-1+	O - 12 mths	O - 12 mths		£5
Landesbank Baden-Wuerttemberg	SB	A-	F1	bbb+	SB	Aa3	P-1		NR	NR	R - 6 mths	R - 6 mths		£5
Landesbank Berlin AG					SB	Aa2	P-1				O - 12 mths	O - 12 mths		£5
Landesbank Hessen-Thueringen Girozentrale	SB	A+	F1+		SB	Aa3	P-1	SB	A	A-1	O - 12 mths	O - 12 mths	50.14	£5
Landwirtschaftliche Rentenbank	SB	AAA	F1+		SB	Aaa	P-1	SB	AAA	A-1+	P - 24 mths	P - 24 mths		£5
Norddeutsche Landesbank Girozentrale	NW	A-	F1	f	PW	Baa2	P-2		NR	NR	N/C - 0 mths	N/C - 0 mths		
NRW.BANK	SB	AAA	F1+		SB	Aa1	P-1	SB	AA	A-1+	P - 24 mths	P - 24 mths		£5

20202/21 Counterparty/Bank List	Fitch Rating Long Term Status	Long Term	Short Term	Viability	Moody's Ratings Long Term Status	Long Term	Short Term	S&P Ratings Long Term Status	Long Term	Short Term	Suggested Link Duration	*EBC Duration*	CDS Price	Invest. Limit
Netherlands	SB	AAA			SB	Aaa		SB	AAA		Not Applicable	Not Applicable		
ABN AMRO Bank N.V.	NO	A+	F1	a	SB	A1	P-1	SB	A	A-1	R - 6 mths	R - 6 mths		£5
Bank Nederlandse Gemeenten N.V.	SB	AAA	F1+		SB	Aaa	P-1	SB	AAA	A-1+	P - 24 mths	P - 24 mths		£5
Cooperatieve Rabobank U.A.	NO	AA-	F1+	a+	SB	Aa3	P-1	SB	A+	A-1	O - 12 mths	O - 12 mths	19.53	£5
ING Bank N.V.	SB	AA-	F1+	a+	SB	Aa3	P-1	SB	A+	A-1	O - 12 mths	O - 12 mths	19.52	£5
Nederlandse Waterschapsbank N.V.					SB	Aaa	P-1	SB	AAA	A-1+	P - 24 mths	P - 24 mths		£5
Qatar	SB	AA-			SB	Aa3		SB	AA-		Not Applicable	Not Applicable		
Qatar National Bank	SB	A+	F1	bbb+	SB	Aa3	P-1	SB	A	A-1	R - 6 mths	R - 6 mths	72.94	£5
Singapore	SB	AAA			SB	Aaa		SB	AAA		Not Applicable	Not Applicable		
DBS Bank Ltd.	SB	AA-	F1+	aa-	SB	Aa1	P-1	SB	AA-	A-1+	O - 12 mths	O - 12 mths		£5
Oversea-Chinese Banking Corp. Ltd.	SB	AA-	F1+	aa-	SB	Aa1	P-1	SB	AA-	A-1+	O - 12 mths	O - 12 mths		£5
United Overseas Bank Ltd.	SB	AA-	F1+	aa-	SB	Aa1	P-1	SB	AA-	A-1+	O - 12 mths	O - 12 mths		£5
Sweden	SB	AAA			SB	Aaa		SB	AAA		Not Applicable	Not Applicable		
Skandinaviska Enskilda Banken AB	SB	AA-	F1+	aa-	SB	Aa2	P-1	SB	A+	A-1	O - 12 mths	O - 12 mths		£5
Svenska Handelsbanken AB	SB	AA	F1+	aa	SB	Aa2	P-1	SB	AA-	A-1+	O - 12 mths	O - 12 mths		£5
Swedbank AB	NW	AA-	F1+	aa-	NO	Aa2	P-1	NO	AA-	A-1+	O - 12 mths	O - 12 mths		£5
Switzerland	SB	AAA			SB	Aaa		SB	AAA		Not Applicable	Not Applicable		
Credit Suisse AG	PO	A	F1	a-	PO	A1	P-1	SB	A+	A-1	R - 6 mths	R - 6 mths	44.50	£5
UBS AG	SB	AA-	F1+	a+	SB	Aa2	P-1	SB	A+	A-1	O - 12 mths	O - 12 mths	24.47	£5
United Arab Emirates	SB	AA			SB	Aa2		SB	AA		Not Applicable	Not Applicable		
First Abu Dhabi Bank PJSC	SB	AA-	F1+	a-	SB	Aa3	P-1	SB	AA-	A-1+	O - 12 mths	O - 12 mths		£5
United Kingdom	NW	AA			NO	Aa2		NO	AA		Not Applicable	Not Applicable		
Abbey National Treasury Services PLC	NW	A	F1		NO	Aa3	P-1				R - 6 mths	R - 6 mths		£5
Bank of Scotland PLC (RFB)	NW	A+	F1	a	NO	Aa3	P-1	SB	A+	A-1	O - 12 mths	O - 12 mths	35.01	£5
Barclays Bank PLC (NRFB)	NW	A+	F1	a	PO	A2	P-1	SB	A	A-1	R - 6 mths	R - 6 mths	43.32	£5
Barclays Bank UK PLC (RFB)	NW	A+	F1	a	NO	A1	P-1	SB	A	A-1	R - 6 mths	R - 6 mths		£5
Close Brothers Ltd	NW	A	F1	a	NO	Aa3	P-1				R - 6 mths	R - 6 mths		£5
Clydesdale Bank PLC	NW	A-	F2	bbb+	SB	Baa1	P-2	SB	BBB+	A-2	N/C - 0 mths	N/C - 0 mths		
Co-operative Bank PLC (The)	NW	B	B	b	PO	B3	NP				N/C - 0 mths	N/C - 0 mths		
Goldman Sachs International Bank	SB	A	F1		SB	A1	P-1	SB	A+	A-1	R - 6 mths	R - 6 mths	51.72	£5
Handelsbanken Plc	SB	AA	F1+					SB	AA-	A-1+	O - 12 mths	O - 12 mths		£5
HSBC Bank PLC (NRFB)	NW	A+	F1+	a	SB	Aa3	P-1	NO	AA-	A-1+	O - 12 mths	O - 12 mths	30.73	£5
HSBC UK Bank Plc (RFB)	NW	A+	F1+	a				NO	AA-	A-1+	O - 12 mths	O - 12 mths		£5
Lloyds Bank Corporate Markets Plc (NRFB)	NW	A	F1		SB	A1	P-1	SB	A	A-1	R - 6 mths	R - 6 mths		£5
Lloyds Bank Plc (RFB)	NW	A+	F1	a	NO	Aa3	P-1	SB	A+	A-1	O - 12 mths	O - 12 mths	34.49	£5
NatWest Markets Plc (NRFB)	NW	A	F1	WD	PO	Baa2	P-2	SB	A-	A-2	G - 100 days	G - 100 days	56.45	£5
Santander UK PLC	NW	A+	F1	a	NO	Aa3	P-1	SB	A	A-1	R - 6 mths	R - 6 mths		£5
Standard Chartered Bank	SB	A+	F1	a	SB	A1	P-1	SB	A	A-1	R - 6 mths	R - 6 mths	29.88	£5
Sumitomo Mitsui Banking Corporation Europe Ltd	SB	A	F1		SB	A1	P-1	PO	A	A-1	R - 6 mths	R - 6 mths	35.29	£5
Coventry Building Society	NW	A-	F1	a-	NO	A2	P-1				R - 6 mths	R - 6 mths		£5

20202/21 Counterparty/Bank List	Fitch Rating Long Term Status	Long Term	Short Term	Viability	Moody's Ratings Long Term Status	Long Term	Short Term	S&P Ratings Long Term Status	Long Term	Short Term	Suggested Link Duration	*EBC Duration*	CDS Price	Invest. Limit
Leeds Building Society	NW	A-	F1	a-	NO	A3	P-2				G - 100 days	G - 100 days		£5
Nationwide Building Society	NW	A	F1	a	NO	Aa3	P-1	PO	A	A-1	R - 6 mths	R - 6 mths		£5
Nottingham Building Society					NO	Baa1	P-2				N/C - 0 mths	N/C - 0 mths		
Principality Building Society	NW	BBB+	F2	bbb+	SB	Baa2	P-2				N/C - 0 mths	N/C - 0 mths		
Skipton Building Society	NW	A-	F1	a-	SB	Baa1	P-2				G - 100 days	G - 100 days		£5
West Bromwich Building Society					PO	Ba3	NP				N/C - 0 mths	N/C - 0 mths		
Yorkshire Building Society	NW	A-	F1	a-	NO	A3	P-2				G - 100 days	G - 100 days		£5
National Westminster Bank PLC (RFB)	NW	A+	F1	a	PO	A1	P-1	SB	A	A-1	B - 12 mths	B - 12 mths		£5
The Royal Bank of Scotland Plc (RFB)	NW	A+	F1	a	PO	A1	P-1	SB	A	A-1	B - 12 mths	B - 12 mths		£5
United States	SB	AAA				Aaa		SB	AA+		Not Applicable	Not Applicable	8.23	
Bank of America N.A.	SB	AA-	F1+	a+	SB	Aa2	P-1	SB	A+	A-1	O - 12 mths	O - 12 mths		£5
Bank of New York Mellon, The	SB	AA	F1+	aa-	SB	Aa1	P-1	SB	AA-	A-1+	P - 24 mths	P - 24 mths	40.35	£5
Citibank N.A.	SB	A+	F1	a	SB	Aa3	P-1	SB	A+	A-1	O - 12 mths	O - 12 mths	42.58	£5
JPMorgan Chase Bank N.A.	SB	AA	F1+	aa-	SB	Aa1	P-1	SB	A+	A-1	O - 12 mths	O - 12 mths		£5
Wells Fargo Bank, NA	SB	AA-	F1+	a+	SB	Aa1	P-1	SB	A+	A-1	O - 12 mths	O - 12 mths	36.08	£5

Yellow	***Purple***	***Blue***	***Orange***	***Red***	***Green***	***No Colour***
Up to 5yrs	*Up to 2yrs*	*Up to 1yr (semi nationalised UK bank NatWest/RBS)*	*Up to 1yr*	*Up to 6 months*	*Up to 100 days*	*Not to be used*

Watches and Outlooks: *SB- Stable Outlook; NO- Negative Outlook; NW- Negative Watch; PO- Positive Outlook; PW- Positive Watch; EO- Evolving Outlook; EW- Evolving Watch; WD- Rating Withdrawn.*

Non-Specified Investments:			
	Minimum credit Criteria	**Maximum Investments**	**Period**
UK Local Authorities	Government Backed	£2m	2 years

APPENDIX 'D'

Arlingclose Economic & Interest Rate Forecast November 2019

The Arlingclose Economic & Interest Rate Forecast and underlying assumptions are:

- The global economy is entering a period of slower growth in response to political issues, primarily the trade policy stance of the US. The UK economy has displayed a marked slowdown in growth due to both Brexit uncertainty and the downturn in global activity. In response, global and UK interest rate expectations have eased.
- Some positivity on the trade negotiations between China and the US has prompted worst case economic scenarios to be pared back. However, information is limited, and upbeat expectations have been wrong before.
- Brexit has been delayed until 31 January 2020. While the General Election has maintained economic and political uncertainty, the opinion polls suggest the Conservative position in parliament may be strengthened, which reduces the chance of Brexit being further frustrated. A key concern is the limited transitionary period following a January 2020 exit date, which will maintain and create additional uncertainty over the next few years.
- UK economic growth has stalled despite Q3 2019 GDP of 0.3%. Monthly figures indicate growth waned as the quarter progressed and survey data suggest falling household and business confidence. Both main political parties have promised substantial fiscal easing, which should help support growth.
- While the potential for divergent paths for UK monetary policy remain in the event of the General Election result, the weaker external environment severely limits potential upside movement in Bank Rate, while the slowing UK economy will place pressure on the MPC to loosen monetary policy. Indeed, two MPC members voted for an immediate cut in November 2019.
- Inflation is running below target at 1.7%. While the tight labour market risks medium-term domestically-driven inflationary pressure, slower global growth should reduce the prospect of externally driven pressure, although political turmoil could push up oil prices.
- Central bank actions and geopolitical risks will continue to produce significant volatility in financial markets, including bond markets.

Forecast:

- Although we have maintained our Bank Rate forecast at 0.75% for the foreseeable future, there are substantial risks to this forecast, dependant on General Election outcomes and the evolution of the global economy.
- Arlingclose judges that the risks are weighted to the downside.
- Gilt yields have risen but remain low due to the soft UK and global economic outlooks. US monetary policy and UK government spending will be key influences alongside UK monetary policy.
- We expect gilt yields to remain at relatively low levels for the foreseeable future and judge the risks to be broadly balanced.

	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Average
Official Bank Rate														
Upside risk	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	**0.21**
Arlingclose Central Case	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**
Downside risk	-0.50	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	**-0.73**
3-month money market rate														
Upside risk	0.10	0.10	0.25	0.25	0.25	0.25	0.25	0.25	0.30	0.30	0.30	0.30	0.30	**0.25**
Arlingclose Central Case	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**
Downside risk	-0.50	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	**-0.73**
1yr money market rate														
Upside risk	0.10	0.20	0.20	0.20	0.20	0.20	0.20	0.25	0.30	0.30	0.30	0.30	0.30	**0.23**
Arlingclose Central Case	**0.85**	**0.85**	**0.85**	**0.85**	**0.85**	**0.85**	**0.85**	**0.85**	**0.85**	**0.85**	**0.85**	**0.85**	**0.85**	**0.85**
Downside risk	-0.30	-0.50	-0.55	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	**-0.60**
5yr gilt yield														
Upside risk	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	0.45	0.45	0.45	**0.37**
Arlingclose Central Case	**0.50**	**0.50**	**0.50**	**0.55**	**0.60**	**0.60**	**0.60**	**0.60**	**0.60**	**0.60**	**0.60**	**0.60**	**0.60**	**0.57**
Downside risk	-0.35	-0.50	-0.50	-0.55	-0.60	-0.60	-0.60	-0.60	-0.60	-0.60	-0.60	-0.60	-0.60	**-0.56**
10yr gilt yield														
Upside risk	0.30	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	0.40	0.45	0.45	**0.37**
Arlingclose Central Case	**0.75**	**0.75**	**0.80**	**0.80**	**0.85**	**0.85**	**0.90**	**0.90**	**0.95**	**0.95**	**1.00**	**1.00**	**1.00**	**0.88**
Downside risk	-0.40	-0.40	-0.40	-0.40	-0.45	-0.45	-0.45	-0.45	-0.50	-0.50	-0.50	-0.50	-0.50	**-0.45**
20yr gilt yield														
Upside risk	0.30	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	0.40	0.45	0.45	**0.37**
Arlingclose Central Case	**1.20**	**1.20**	**1.25**	**1.25**	**1.25**	**1.30**	**1.30**	**1.30**	**1.35**	**1.35**	**1.35**	**1.40**	**1.40**	**1.30**
Downside risk	-0.40	-0.40	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.50	-0.50	**-0.45**
50yr gilt yield														
Upside risk	0.30	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	0.40	0.45	0.45	**0.37**
Arlingclose Central Case	**1.20**	**1.20**	**1.25**	**1.25**	**1.25**	**1.30**	**1.30**	**1.30**	**1.35**	**1.35**	**1.35**	**1.40**	**1.40**	**1.30**
Downside risk	-0.40	-0.40	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.50	-0.50	**-0.45**

PWLB Certainty Rate (Maturity Loans) = Gilt yield + 1.80%
PWLB Local Infrastructure Rate (Maturity Loans) = Gilt yield + 0.60%

APPENDIX 'E'

Capital Strategy

1) Introduction

1.1 This Capital Strategy is a new report for 2019/20, giving a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services in Lewes District Council (LDC), along with an overview of how associated risk is managed and the implications for future financial sustainability. It has purposely been written in an accessible style to enhance understanding of what can be very technical areas.

2. Capital Expenditure and Financing

2.1 Expenditure

2.1.1 Capital expenditure occurs when the Council spends money on assets such as property or vehicles, which will be used for more than one year. In local government this includes spending on assets owned by other bodies, and loans and grants to other bodies enabling them to buy assets. The Council has some limited discretion on what counts as capital expenditure, for example assets costing below a deminimis level are not capitalised and are charged to revenue in year.

2.1.2 Further details on the Council's capitalisation policy can be found in the 2018/19 Statement of Accounts.

2.1.3 In 2020/21, LDC is planning capital expenditure of £44.6 million (and £43.6 million over the next two years) as summarised in Table 1 below:

Table 1: Prudential Indicator: Estimates of Capital Expenditure

Capital Expenditure	**2019/20 budget**	**2020/21 budget**	**2021/22 budget**	**2022/23 budget**
	£m	**£m**	**£m**	**£m**
General Fund Services	2.4	26.7	6.1	1.7
Council Housing (HRA)	7.0	15.5	15.3	15.8
Commercial Activities/ non-financial investments	5.6	2.4	2.4	2.4
TOTAL	**15.0**	**44.6**	**23.8**	**19.8**

2.1.4 The main General Fund capital projects scheduled for 2020/21 are as follows:

- Commercial Property acquisitions and developments
- North Street Quarter
- Asset Development - Newhaven
- Asset Development – Seaford

2.1.5 The Housing Revenue Account (HRA) is a ring-fenced account which ensures that the Council's housing does not subsidise, or is itself subsidised, by other local services. HRA capital expenditure is therefore recorded separately.

2.2 Governance

2.2.1 The evaluation, prioritisation and acceptance of capital schemes onto the Capital Programme is carried out in accordance with strict criteria that ensures that added schemes reflect Council priorities and can be delivered within available resources (e.g. due priority is given to schemes yielding savings and/or generating income as well as meeting a Council priority).

2.2.2 The draft Capital Programme is then subject to formal Scrutiny prior to setting the budget (followed by Cabinet and full Council approval).

2.3 Financing

2.3.1 All capital expenditure must be financed, either from external sources (Government grants and other contributions), the Council's own resources (revenue, reserves and capital receipts) or debt (borrowing and leasing). The planned financing of the above expenditure is presented in Table 2 below.

Table 2: Capital Financing

	2019/20 budget	2020/21 budget	2021/22 budget	2022/23 budget
	£m	£m	£m	£m
External sources	1.0	1.0	1.0	1.0
Own resources	8.9	16.5	10.3	8.6
Debt	5.1	27.1	12.6	10.2
TOTAL	**15.0**	**44.6**	**23.8**	**19.8**

2.3.2 Debt is only a temporary source of finance, since loans and leases must be repaid, and this is therefore replaced over time by other financing, usually from revenue which is known as "Minimum Revenue Provision" (MRP). Alternatively, proceeds from selling capital assets (known as capital receipts) may be used to replace debt finance. Planned MRP and use of capital receipts are presented in Table 3 below.

Table 3: Repayment of Debt Finance

	2019/20 budget	2020/21 budget	2021/22 budget	2022/23 budget
	£m	£m	£m	£m
Own resources	0.094	0.286	1.195	1.231

2.3.3 The Council's annual MRP statement can be found within Appendix A (Section 8) above.

2.3.4 The Council's cumulative outstanding amount of debt finance is measured by the Capital Financing Requirement (CFR). This increases with new debt-financed capital expenditure and reduces with MRP and capital receipts used to replace debt. The CFR is expected to increase by £26.8 million in 2019/20. Based on the above figures for expenditure and financing, the Council's estimated CFR is presented in Table 4 below.

Table 4: Prudential Indicator: Estimates of Capital Financing Requirement (CFR)

	31.3.2020 budget	31.3.2021 budget	31.3.2022 budget	31.3.2023 budget
	£m	**£m**	**£m**	**£m**
General Fund services	6.8	29.5	30.4	31.2
Council housing (HRA)	66.0	68.3	77.0	82.6
Capital investments	14.2	16.0	17.8	19.6
TOTAL CFR	**87.1**	**113.9**	**125.2**	**134.2**

3. Asset Management

3.1 Asset Management Strategy

3.1.1 The Council recognises the importance of ensuring that capital assets continue to be of long-term use especially in a rapidly changing operational and technological backdrop. Consequently, at the time of preparing this Capital Strategy, a new Asset Management Strategy (AMS) is under development. Led by the Asset Management team and backed by a comprehensive review of Council assets, the AMS will take a longer-term view comprising:

- ‘Good’ information about existing assets;
- The optimal asset base for the efficient delivery of Council objectives;
- The gap between existing assets and optimal assets;
- Strategies for purchasing and constructing new assets, investment in existing assets, transferring of assets to other organisations and the disposal of surplus assets; and
- Plans for individual assets.

3.2 Asset Disposals

3.2.1 When a capital asset is no longer needed, it may be sold so that the proceeds (known as capital receipts) can be spent on new assets or to repay debt. The Council is also permitted to spend capital receipts on service transformation projects until 2021/22. Repayments of capital grants, loans and investments also generate capital receipts. The Council takes a prudent approach of assuming future capital receipts only when there is a high probability of realisation.

4. Treasury Management

4.1 Introduction

4.1.1 Treasury management is concerned with keeping sufficient but not excessive cash available to meet the Council’s spending needs, while managing the risks involved. Surplus cash is invested until required, while a shortage of cash will be met by borrowing, to avoid excessive credit balances or overdrafts in the bank current account. The Council is not cash rich as it utilises all of its available cash before borrowing which in the current climate is more economic.

4.1.2 As at 31 December the Council had borrowing of £109.0 million at an average interest rate of 2.83% and cash balances of £5.0 million held on an interest bearing current account at a rate of 0.65%.

4.2 Borrowing

4.2.1 The Council's main objectives when borrowing are to achieve a low but certain cost of finance while retaining flexibility should plans change in the future. These objectives are often conflicting, and the Council therefore seeks to strike a balance between cheap short-term loans (currently available at around 0.75%) and long-term fixed rate loans where the future cost is known but higher (currently 2.0 to 3.0%).

4.2.2 Projected levels of the Council's total outstanding debt (which comprises borrowing and leases) are shown below in Table 6, compared with the Capital Financing Requirement (Table 4 above).

Table 6: Prudential Indicator: Gross Debt and the Capital Financing Requirement

	31.3.2020 budget	31.3.2021 budget	31.3.2022 budget	31.3.2023 budget
	£m	£m	£m	£m
Debt (incl. leases)	61.8	88.9	101.4	111.7
Capital Financing Requirement	87.1	113.9	125.2	134.2

4.2.3 Statutory guidance is that debt should remain below the Capital Financing Requirement, except in the short-term. As can be seen from Table 6, the Council expects to comply with this in the medium term.

Affordable Borrowing Limit

4.2.4 The Council is legally obliged to set an affordable borrowing limit (also termed the "Authorised Limit" for external debt) each year. In line with statutory guidance, a lower "Operational Boundary" is also set as a warning level should debt approach the limit.

Table 7: Prudential Indicators: Authorised Limit and Operational Boundary for External Debt

	2019/20 limit	2020/21 limit	2021/22 limit	2022/23 limit
	£000's	£000's	£000's	£000's
Authorised limit – total external debt	127.7	132.0	132.0	142.0
Operational boundary – total external debt	117.7	122.0	122.0	132.0

4.2.5 Further details on borrowing are contained in the Treasury Management Strategy.

4.3 Investments

4.3.1 Treasury investments arise from receiving cash before it is paid out again. Investments made for service reasons or for pure financial gain are not generally considered to be part of treasury management.

(Treasury Management) Investment Strategy

4.3.2 The Council's Investment Strategy is to prioritise security and liquidity over yield; focussing on minimising risk rather than maximising returns. Cash that is likely to be spent in the near term is invested securely in selected high-quality banks, to minimise the risk of loss.

4.4 Governance

4.4.1 Treasury management decisions are made on a daily basis and are therefore delegated to the CFO, who must act in line with the Treasury Management Strategy approved by the Council. Annual outturn reports on treasury management are also approved by the Council (following recommendation from Audit and Governance Committee), whereas mid-year updates are reported exclusively to the Audit and Governance Committee. Quarterly performance reports are also submitted to Cabinet.

5. Investments for Service Purposes

5.1 The Council will sometimes make investments for service delivery purposes where there is a strategic case for doing so, for example the new Waste Company. Given its public service objectives, the Council is willing to take more risk than with treasury investments, nevertheless the arrangements feature cost reduction incentives, from which the Council will benefit.

Governance

5.2 Decisions on service investments are made by the Council's Cabinet and require the support of a full business case.

6. Commercial Investments

6.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) defines investment property as property held solely to earn rentals or for capital appreciation or both. Returns from property ownership can be both income driven (through the receipt of rent) and by way of appreciation of the underlying asset value (capital growth). The combination of these is a consideration in assessing the attractiveness of a property for acquisition. In the context of the Capital Strategy, the council is using capital to invest in property to provide a positive surplus/financial return.

6.1.2 The council may fund the purchase of the property by borrowing money, normally from the Debt Management Office as part of HM Treasury. The rental income paid by the tenant should exceed the cost of repaying the borrowed money each year. The annual surplus then supports the council's budget position, and enables the council to continue to provide services for local people. The reasons for buying and owning property investments are primarily

- Financial returns to fund services to residents
- Market and economic opportunity.
- Economic development and regeneration activity in the Borough.

6.1.3 Historically, property has provided strong investment returns in terms of capital growth generation of stable income. Property investment is not without risk as property values can fall as well as rise and changing economic conditions could cause tenants to leave with properties remaining vacant. The strategy makes it clear that the council will continue to invest prudently on a commercial basis and to take advantage of opportunities as they present themselves, supported by our robust governance process.

6.2 Current Investments

6.2.1 In recent years, the Council has invested in commercial property in the borough on a selective basis, usually where there is a fit with corporate priorities and a positive financial return that can be used to contribute towards the protection of local services.

6.3 Commercial Investment Strategy

6.3.1 However, in recognition of the continued shortfall in local government funding and commitments, the Council will (following the February Cabinet approval) have in a Commercial Investment Strategy with a view to achieving a step change increase in commercial investment and trading by the Council.

6.3.2 CIPFA's guidance on borrowing to invest follows the MHCLG's concern at what they perceive to be, the increasing risk taken on by local authorities following a sharp increase in Public Works Loan Board (PWLB) borrowing by councils to invest in commercial property. CIPFA has made clear that Councils should not borrow to invest commercially and their Capital Investment Strategy must make it clear as to where they depart from this principle and why. However, it has been recognised that local investments that are primarily designed for regeneration or service delivery purposes and which have a knock-on positive impact to the revenue budgets are not intended to be covered by this principle.

6.3.3 Councils have to demonstrate that such investments are "proportionate" to their resources. The Council's approach will incorporate the CIPFA guidance when it is published; this will enhance the other risk management features that are being developed; this includes a strict governance framework, the use of real estate investment experts and diversified portfolios. The aim is to offset principle risks such as falling capital values and 'voids'. However, (within a tightly controlled framework) the Council ultimately accepts a higher risk on commercial investments compared to its prudent treasury investment that has primarily focused to date on protecting the principal.

6.3.4 The Council considers investing in housing properties and commercial investments within the borough to be related to its temporary accommodation strategy and local regeneration. It will invest commercially but in relation to the services it provides or to build and strengthen the local economy, with the related benefit of increased business rates.

6.4 Governance

6.4.1 The Governance arrangements are stipulated within the Commercial Investment Strategy that will be approved at the Cabinet February 2020 meeting.

7. Other Liabilities

7.1 Outstanding Commitments

7.1.1 The Council also has the following outstanding commitments:

- The Council has also set aside £x million (as at 31st March 2019) to cover the financial risk associated with Business Rates appeals lodged with the Valuation Office Agency (VOA); and

7.2 Guarantees

7.2.1 A 30-year Business Plan for the Council's HRA has been developed, which is currently generating sufficient rental income each year to run an efficient and effective housing management service, whilst at the same time servicing the outstanding debt. However, if the HRA is unable to repay the outstanding debt at any point in the future, the Council (through its General Fund) is liable to repay any remaining balance. The remaining balance on HRA debt as at 31st March 2019 was £42.6 million).

7.3 Governance

7.3.1 Decisions on incurring new discretionary liabilities are taken by Directors and Heads of Service in consultation with the CFO. For example, in accordance with the Financial Procedure Rules credit arrangements, such as leasing agreements, cannot be entered into without the prior approval of the CFO.

8. Revenue Implications

8.1 Financing Cost

8.1.1 Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue, offset by any investment income receivable. The net annual charge is known as financing costs; this is compared to the net revenue stream i.e. the amount funded from Council Tax, Business Rates and general Government grants.

Table 8: Prudential Indicator: Proportion of Financing Costs to Net Revenue Stream (General Fund)

	2019/20 forecast	2020/21 forecast	2021/22 forecast	2022/23 forecast
	£m	£m	£m	£m
Financing Costs (£m)	2.0	2.6	3.4	2.8
Proportion of Net Revenue Stream	13.2	17.2	22.6	15.1

Table 9: Prudential Indicator: Proportion of Financing Costs to Net Revenue Stream (HRA)

	2019/20 forecast	2020/21 forecast	2021/22 forecast	2022/23 forecast
	£m	£m	£m	£m
Financing Costs (£m)	1.9	1.5	1.3	1.9
Proportion of Net Revenue Stream	13.0	10.3	9.0	13.5

8.1.2 Due to the very long-term nature of capital expenditure and financing, the revenue budget implications of expenditure incurred in the next few years will extend for many [occasionally up to 50] years into the future.

8.2 "Prudence, Affordability and Sustainability"

8.2.1 The CFO is satisfied that the proposed Capital Programme (Section 2) is prudent, affordable and sustainable based on the following:

Prudence

- Prudential indicators 8 and 9 presented above (Paragraph 8.1.1) are within expected and controllable parameters. Thus:
  - *Prudential Indicator 8 (General Fund) - Proportion of Financing Costs to Net Revenue Stream* – the growth in financing costs reflects the Council's ambitions for capital investment in its strategic priorities over the medium-term.
  - *Prudential Indicator 9 (HRA) - Proportion of Financing Costs to Net Revenue Stream* – the indicator profile mirrors the HRA 30-Year Business Plan.
- *Underlying Prudent Assumptions* – a prudent set of assumptions have been used in formulating the Capital Programme. This is illustrated in the approach to capital receipts whereby the proceeds are not assumed within projections until the associated sale is completed and the money received by the Council; and
- *Repairs and Maintenance* – the approach to asset maintenance is professionally guided with assets maintained in a condition commensurate with usage and expected life, addressing those items that could affect ongoing and future maintenance, in the most appropriate and cost effective manner.

Affordability

- The estimated 'revenue consequences' of the Capital Programme (£87.87million over three years) have been included in the 2020/21 Budget and Medium-Term Financial Strategy (MTFS), extending to 2022/23; and
- The MTFS includes a reserves strategy, which includes contingency funds in the event that projections are not as expected (further supported by CFO report to Council under Section 25 of the Local Government Act 2003 on the robustness of estimates and the adequacy of financial reserves and balances).

Sustainability

- Capital schemes that are expected to deliver long-term revenue savings/generate income are given due priority. For example, the Hampden Retail Park.
- As explained in Section 3.1 above, the Asset Management Strategy will represent an enhancement to the Council approach to asset planning through (especially) taking a longer-term view. This includes providing for future operational need, balancing the requirement to achieve optimal performance, whilst taking account of technological change and managing the risk of obsolescence.

9. Knowledge and Skills

9.1 Officers

9.1.1 The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. Most notably:

- *Finance* - the Chief Finance Officer (CFO) and the Deputy Chief Finance Officers (DCFO's) are qualified (ACCA/ CIPFA) accountants with many years of public and private sector experiences. The Council sponsors junior staff to study for relevant professional qualifications including AAT, CIPFA and ACCA. The Council also supports training courses and conferences across all aspects of accounting.
- *Property* – the Head of Property and Facilities Shared Service (PFSS) – a qualified property expert - is responsible for Asset Management within the Council. PFSS comprises the Asset Development, Building and Maintenance, Corporate Landlord and development functions of the Council. Each area has appropriately qualified professionals within their individual specialism. The Head of PFSS plays a key role in the Council's approach to commercial investment and trading (highlighted above in Section 6).

9.1.2 The Council also has a separate Housing team that is responsible for overseeing social housing developments within the borough.

9.2 External Advisors

9.2.1 Where the Council does not have the relevant knowledge and skills required, judicious use is made of external advisers and consultants that are experts/specialists in their field. The Council currently employs Arlingclose Limited as Treasury Management advisers, and the Asset Management team will commission property advisors as appropriate (e.g. development managers, valuers etc.) to support their work where required to ensure that the Council has access to knowledge and skills commensurate with risk.

9.3 Councillors

9.3.1 May 2019 will see the election for some new councillors. Duly elected councillors will therefore all receive training appropriate to their role in the new Council.

9.3.2 Specifically with regard to Treasury Management, the Council acknowledges the importance of ensuring that members have appropriate capacity, skills and information to effectively undertake their role. To this end, newly elected Lewes councillors with Treasury Management responsibilities will receive tailored training sessions from the Council's Treasury Management advisors (Link Asset Services).

10. CFO Statement on the Capital Strategy

10.1 Prudential Code

10.1.1 Paragraph 24 of the recently updated Prudential Code determines that…."the Chief Finance Officer should report explicitly on the affordability and risk associated with the Capital Strategy".

10.1.2 Accordingly, it is the opinion of the CFO that the Capital Strategy as presented is affordable, and associated risk has been identified and is being adequately managed.

10.2 Affordability

10.2.1 The Capital Strategy is affordable and there is a range of evidence to support this assertion, including:

- *Capital Programme* – the Programme as presented above (in Section 2.1) is supported by a robust and resilient MTFS extending through until 2022/23 that contains adequate revenue provision, including sufficient reserves in the event that plans and assumptions do not materialise as expected.
- *Asset Management* – as presented above (in Section 3.1) a new Asset Management Strategy is under development, which is taking a strategic longer-term (i.e. beyond 2022/23) view of the Council's asset base. A fundamental aim of the Strategy is to achieve the optimum balance between future operational need and affordability, which will be reflected in its component parts including strategies for purchasing and constructing new assets, investment in existing assets, transferring of assets to other organisations and the disposal of surplus assets.
- *Commercial Investment* – as presented above (in Section 6.2) the Commercial Investment Strategy is also under development. The primary aim of the Strategy long-term is income generation to replace the shortfall in Government funding. The Strategy is progressing positively towards the delivery stage and its success will be critical to the long-term affordability of the Capital Strategy.

10.3 Risk

10.3.1 The risk associated with the Capital Strategy has been identified and is being adequately managed. Evidence to support this assertion includes:

- *Treasury Management Strategy* – the Council will formally approve a Treasury Management Strategy for 2020/21, at the Council meeting on 10 February 2020, in accordance with CIPFA's "Treasury Management in the Public Services: Code of Practice 2017". That Strategy was developed by the Council's (professionally qualified and experienced) Finance team and informed by specialist advisors Link Asset Services and other relevant and extant professional guidance.
- *Investment Strategy* – the Council will also formally approve an Investment Strategy for 2019/20, at the Council meeting on 20 February 2019, in accordance with MHCLG's "Statutory Guidance on Local Government Investments (3rd Edition) 2017". As with the Treasury Management Strategy, the Investment Strategy was developed by the Finance team and informed by specialist advisors Link Asset Service and other relevant and extant professional guidance.
- *Commercial Activities* – as noted above (in Paragraph 6.2) the Council is committed to significantly expanding the scale of its commercial activities in the medium-term as part of its Commercial Investment Strategy. It is recognised and accepted that increased commercial activity brings with it additional risk. The Strategy is therefore being developed in accordance with contemporary best practice. This includes the engagement of professional advisors on the commercial, financial and legal aspects of the project and the preparation of full supporting business cases prior to the commencement of both in-house and arm's length trading activities, strictly in accordance with HM Treasury's 'five-case model' ("The Green Book: Central Government Guidance on Appraisal and Evaluation").

11. Capital Strategy Updates

11.1 The Capital Strategy is a 'living document' and will be periodically, usually annually, updated to reflect changing local circumstances and other significant developments. However, the development of the Asset Management Strategy and the Commercial Investment Strategy (explained above in Sections 3 and 6) are both major initiatives that could have a material impact on the Strategy as early as 2019/20, once full details are known. In the event that this happens, the Capital Strategy will be updated and re-presented to full Council.