APPENDIX ‘A’

Lewes District Council

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

2021/22

CONTENTS

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 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.

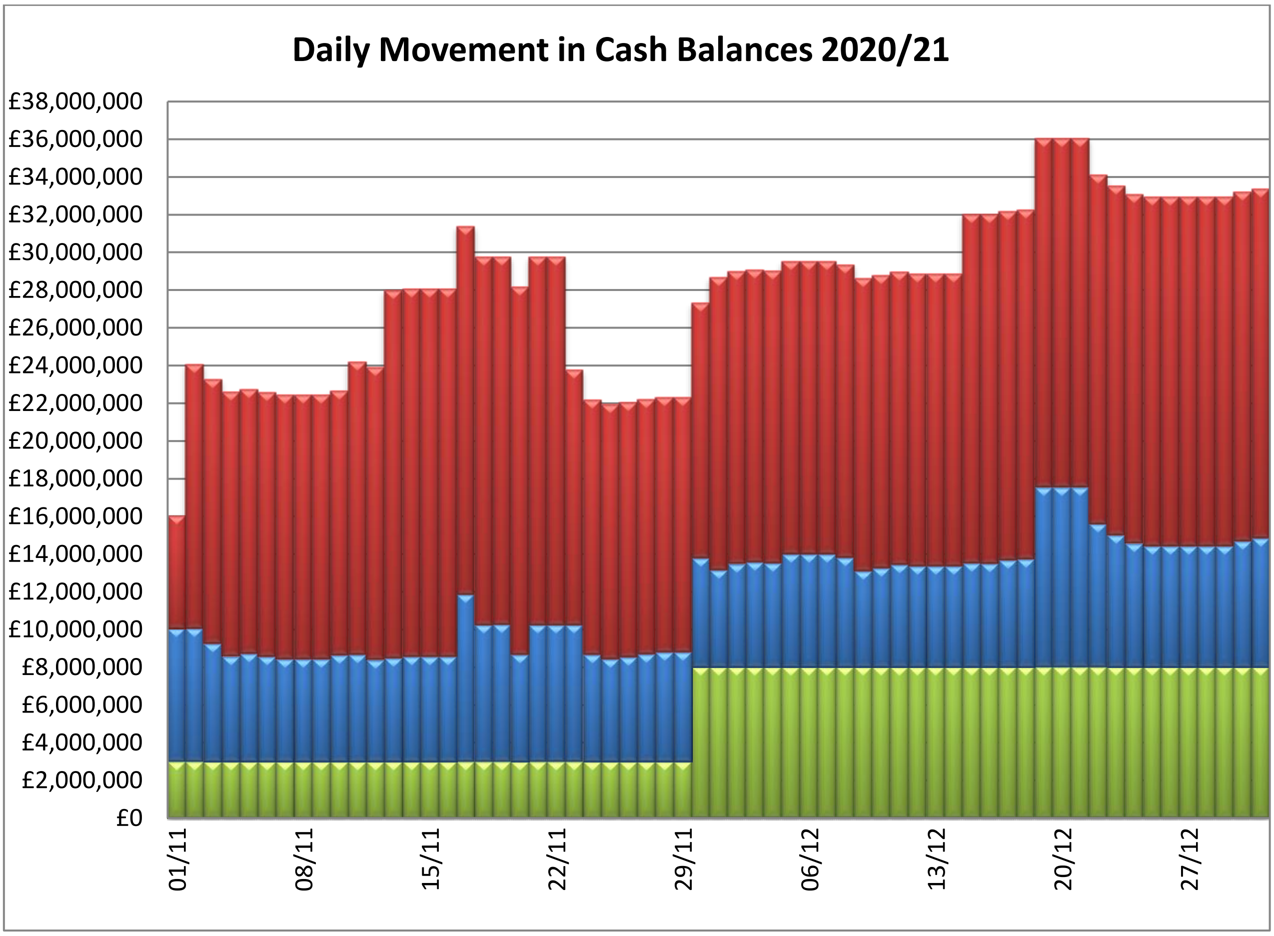
CIPFA concerns relating to the rapid expansion of acquisitions of commercial property and its relationship with CIPFA's statement in its Prudential Code that authorities must not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed. Where 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 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 (without borrowing from the PWLB) 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 2021/22

5.1 Current Investment & Borrowing Position

The General Fund and Housing Revenue Account (HRA) long term borrowing are sourced mainly through the Public Works Loan Board (PWLB) with only one commercial loan. 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 2021. It shows the total sums invested each day as Fixed Term deposits, amounts held in Deposit accounts and Money Market Funds.



Key: Red = Money Market Funds, Blue = Tradeable/Call Accounts, Green = Fixed Investments

5.2 Prospects for Interest Rates

The Council appointed Link Group as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. Link provided the following forecasts on 11.8.20. However, following the conclusion of the review of PWLB margins over gilt yields on 25.11.20, all forecasts below have been reduced by 1%. These are forecasts for certainty rates, gilt yields plus 80bps:

Link Group Interest Rate View 9.11.20													
These Link forecasts have been amended for the reduction in PWLB margins by 1.0% from 26.11.20													
	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
BANK RATE	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
6 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
12 month ave earnings	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20
5 yr PWLB	0.80	0.80	0.80	0.80	0.90	0.90	0.90	0.90	0.90	1.00	1.00	1.00	1.00
10 yr PWLB	1.10	1.10	1.10	1.10	1.20	1.20	1.20	1.20	1.20	1.30	1.30	1.30	1.30
25 yr PWLB	1.50	1.60	1.60	1.60	1.60	1.70	1.70	1.70	1.70	1.80	1.80	1.80	1.80
50 yr PWLB	1.30	1.40	1.40	1.40	1.40	1.50	1.50	1.50	1.50	1.60	1.60	1.60	1.60

The coronavirus outbreak has done huge economic damage to the UK and economies around the world. After the Bank of England took emergency action in March to cut Bank Rate to first 0.25%, and then to 0.10%, it left Bank Rate unchanged at its subsequent meetings to 16th December, although some forecasters had suggested that a cut into negative territory could happen. However, the Governor of the Bank of England has made it clear that he currently thinks that such a move would do more damage than good and that more quantitative easing is the favoured tool if further action becomes necessary. As shown in the forecast table above, no increase in Bank Rate is expected in the near-term as economic recovery is expected to be only gradual and, therefore, prolonged. These forecasts were based on an assumption that a Brexit trade deal would be agreed by 31.12.20: as this has now occurred, these forecasts do not need to be revised.

Gilt yields / PWLB rates

There was much speculation during the second half of 2019 that bond markets were in a bubble which was driving bond prices up and yields down to historically very low levels. The context for that was a heightened expectation that the US could have been heading for a recession in 2020. In addition, there were growing expectations of a downturn in world economic growth, especially due to fears around the impact of the trade war between the US and China, together with inflation generally at low levels in most countries and expected to remain subdued. Combined, these conditions were conducive to very low bond yields. While inflation targeting by the major central banks has been successful over the last 30 years in lowering inflation expectations, the real equilibrium rate for central rates has fallen considerably due to the high level of borrowing by consumers. This means that central banks do not need to raise rates as much now to have a major impact on consumer spending, inflation, etc.

The consequence of this has been the gradual lowering of the overall level of interest rates and bond yields in financial markets over the last 30 years. Over the year prior to the coronavirus crisis, this has seen many bond yields up to 10 years turn negative in the Eurozone. In addition, there has, at times, been an inversion of bond yields in the US whereby 10-year yields have fallen below shorter-term yields. In the past, this has been a precursor of a recession. The other side of this coin is that bond prices are elevated as investors would be expected to be moving out of riskier assets i.e. shares, in anticipation of a downturn in corporate earnings and so selling out of equities.

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

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

Investment and borrowing rates

- **Investment returns** are likely to remain exceptionally low during 2021/22 with little increase in the following two years.
- **Borrowing interest rates** fell to historically very low rates as a result of the COVID crisis and the quantitative easing operations of the Bank of England: indeed, gilt yields up to six years were negative during most of the first half of 2020/21. The policy of avoiding new borrowing by running down spare cash balances has served local authorities well over the last few years. The unexpected increase of 100 bps in PWLB rates on top of the then current margin over gilt yields of 80 bps in October 2019, required an initial major rethink of local authority treasury management strategy and risk management. However, in March 2020, the Government started a consultation process for reviewing the margins over gilt rates for PWLB borrowing for different types of local authority capital expenditure.
- It also introduced the following rates for borrowing for different types of capital expenditure: -
    - **PWLB Standard Rate** is gilt plus 200 basis points (G+200bps)
    - **PWLB Certainty Rate** is gilt plus 180 basis points (G+180bps)
    - **PWLB HRA Standard Rate** is gilt plus 100 basis points (G+100bps)
    - **PWLB HRA Certainty Rate** is gilt plus 80bps (G+80bps)
    - **Local Infrastructure Rate** is gilt plus 60bps (G+60bps)

- As a consequence of these increases in margins, many local authorities decided to refrain from PWLB borrowing unless it was for HRA or local infrastructure financing, until such time as the review of margins was concluded.
- On 25.11.20, the Chancellor announced the conclusion to the review of margins over gilt yields for PWLB rates; the standard and certainty margins were reduced by 1% but a prohibition was introduced to deny access to borrowing from the PWLB for any local authority which had purchase of assets for yield in its three-year capital programme. The new margins over gilt yields are as follows: -.
    - **PWLB Standard Rate** is gilt plus 100 basis points (G+100bps)
    - **PWLB Certainty Rate** is gilt plus 80 basis points (G+80bps)
    - **PWLB HRA Standard Rate** is gilt plus 100 basis points (G+100bps)
    - **PWLB HRA Certainty Rate** is gilt plus 80bps (G+80bps)
    - **Local Infrastructure Rate** is gilt plus 60bps (G+60bps)

- **Borrowing for capital expenditure.** As Link's long-term forecast for Bank Rate is 2.00%, and all PWLB rates are under 2.00%, there is now value in borrowing from the PWLB for all types of capital expenditure for all maturity periods, especially as current rates are at historic lows. The Council will assess its risk appetite in conjunction with budgetary pressures to reduce total interest costs. Although short-term interest rates are cheapest, longer-term borrowing could also be undertaken for the purpose of certainty, where that is desirable.
- While the Council authority will not be able to avoid borrowing to finance new capital expenditure, and to replace maturing debt, there will be a *cost of carry*, (the difference between higher borrowing costs and lower investment returns), to any new borrowing that causes a temporary increase in cash balances.

5.4 Borrowing Strategy for 2021/22

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 need 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 2021/22 to 2023/24 forecasts £95.6m (*HRA of £47.6m and GF of £48.0m*) of capital investment over the next three years with £45.1m met from existing or new resources. The amount of new borrowing required over this period is therefore £50.5m (*HRA of £22.7m and GF of £27.8m*) as shown in **Table 2a** below.

Table 2a	**2020/21 Estimate**	**2021/22 Estimate**	**2022/23 Estimate**	**2023/24 Estimate**
	£m	**£m**	**£m**	**£m**
Capital Expenditure				
GF	4.8	11.1	9.1	8.5
HRA	14.8	23.8	14.5	9.4
Commercial Activities/ Non-financial investments	3.1	15.9	2.0	1.3
Total	**22.7**	**50.9**	**25.6**	**19.1**
Financed by:				
HRA Resources	14.8	9.0	8.3	7.7
Capital Reserves	1.7	1.3	0.2	0.2
Capital Grants	1.8	8.1	3.1	2.1
Capital Receipts	0.1	0.7	1.1	3.3
Revenue Contributions	-	-	-	-
Borrowing Need	**4.2**	**31.7**	**12.9**	**5.9**

As existing and forecast future resources are insufficient to meet the level of spend, the borrowing need of £49.3m will initially be met from both internal and external 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	**2020/21 Estimate**	**2021/22 Estimate**	**2022/23 Estimate**	**2023/24 Estimate**
	£m	**£m**	**£m**	**£m**
CFR – non housing	5.9	28.7	25.4	24.7
CFR - housing	67.3	67.3	82.2	88.3
Commercial Activities/non-financial investments	15.1	23.7	24.4	24.0
Total CFR	**88.4**	**119.7**	**132.0**	**137.1**
Movement in CFR	**-**	**31.4**	**12.2**	**5.1**
Movement in CFR represented by-				
Net financing needed for the year (above)	-	31.3	12.5	5.2
Less: MRP	-	0.1	(0.3)	(0.1)
Movement in CFR	**-**	**31.4**	**12.2**	**5.1**

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 £0.39m for 2021/22. 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	**2020/21 Estimate**	**2021/22 Estimate**	**2022/23 Estimate**	**2023/24 Estimate**
	£m	**£m**	**£m**	**£m**
GF Borrowing at 1 April	-	5.0	35.0	40.0
HRA Borrowing at 1 April	56.7	56.7	56.7	71.7
Borrowing at 1 April	56.7	61.7	91.7	111.7
GF new borrowing	5.0	30.0	5.0	-
HRA new borrowing	-	-	15.0	7.0
less loan maturities	-	-	-	-
Net Borrowing Total	5.0	30.0	20.0	7.0
Borrowing at 31 March	**61.7**	**91.7**	**111.7**	**118.7**

Table 3	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
	£m	**£m**	**£m**	**£m**
CFR at 1 April	84.6	88.4	119.7	132.0
Net Capital Expenditure	4.2	31.7	12.9	5.8
MRP	(0.5)	(0.4)	(0.7)	(0.8)
CFR at 31 March	**88.4**	**119.7**	**132.0**	**137.1**
Under borrowing	**26.7**	**28.0**	**20.3**	**18.4**

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 2020/21, the Council is projected to be under borrowed by £26.7m, £28.0m by 2021/22 and then reducing to £18.4m by 2023/24.

5.5 PWLB Loans

It is important to restate that borrowing is only used to fund the capital programme so the level of borrowing should not exceed the CFR for any meaningful amount of time. As previously stated, the CFR (Capital Financing Requirement) is the amount of capital expenditure the Council has financed by internal or external borrowing. The current assumption is that internal borrowing is prioritised over externalising debt, however, officers will monitor external rates of borrowing and the sustainability of using internal borrowing to determine if it becomes more beneficial to externalise the debt and invest core cash in deposits or investment funds.

The PWLB can lend for up to 50 years and also for the short term to Local Government. The PWLB is the source of loans/funds if no other lender can provide finance. The Government after a period of consultation has announced that the PWLB will not lend to an authority that plans to buy investment assets primarily for yield that is identified in their capital programme. The Chief Finance Officer will be expected by the PWLB to certify that no such purposes are planned. The CIPFA guidance by which Local Authority treasury management is assessed and governed is also likely to be altered to encourage further restriction of borrowing to fund investment purchases.

From a Treasury Management perspective, it is recommended that the PWLB should be retained as a borrowing option and therefore the purchase of investment properties primarily for yield should be excluded from the capital programme. This is recommended not only due to the reduced rates now available through PWLB but due to the backstop accessibility of this source of borrowing. The Council will not pursue a deliberate strategy of using private borrowing or internal borrowing to support investment in an asset that the PWLB would not support and then refinancing or externalising this with PWLB loans. Under the prudential code, local authorities cannot borrow from the PWLB or any other lender for speculative purposes and must not use internal borrowing to temporarily support investments purely for yield.

If the Council wishes to on-lend money to deliver objectives in an innovative way, the government would expect that spending to be reported in the most appropriate category (service spending, housing, economic regeneration, preventative action, or treasury management) based on the eventual use of the money.

5.6 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 - The Municipal Bond 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.

5.7 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.

5.8 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.

Rescheduling of current borrowing in our debt portfolio is unlikely to occur as the 100 bps increase in PWLB rates only applied to new borrowing rates and not to premature debt repayment rates.

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).

5.9 New financial institutions as a source of borrowing

Currently the PWLB Certainty Rate is set at gilts + 80 basis points for both HRA and non-HRA borrowing. However, consideration may still need to be given to sourcing funding from the following sources for the following reasons:

- Local authorities (primarily shorter dated maturities out to 3 years or so – still cheaper than the Certainty Rate).
- Financial institutions (primarily insurance companies and pension funds but also some banks, out of forward dates where the objective is to avoid a “cost of carry” or to achieve refinancing certainty over the next few years).
- Municipal Bonds Agency (possibly still a viable alternative depending on market circumstances prevailing at the time).

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, and our advisors will keep us informed as to the relative merits of each of these alternative funding sources.

5.10 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 2021/22 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	**2020/21 Estimate**	**2021/22 Estimate**	**2022/23 Estimate**	**2023/24 Estimate**
Capital Expenditure (gross) Council's capital expenditure plans (including HRA)	£22.7m	£50.9m	£25.6m	£19.1m
Capital Financing Requirement Measures the underlying need to borrow for capital purposes	£88.4m	£119.7m	£132.0m	£137.1m
Ratio of financing costs to net revenue stream - General Fund Identifies the trend in the cost of capital (borrowing and other long-term obligation costs net of investment income) against net revenue stream	2.22%	5.87%	9.21%	10.23%

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	**2020/21 Estimate**	**2021/22 Estimate**	**2022/23 Estimate**	**2023/24 Estimate**
Authorised Limit for external debt	**£m**	**£m**	**£m**	**£m**
Borrowing	86.1	111.1	123.8	129.8
Other long-term liabilities	0.6	0.6	0.6	0.6
Commercial activities/non-financial investments	22.2	31.6	32.3	31.9
Total	**108.8**	**143.3**	**156.7**	**162.3**
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. *Note – excludes allowances for IFRS 16 – Leasing change from 2021/22.*				
Operational boundary for external debt	**£m**	**£m**	**£m**	**£m**
Borrowing	78.2	101.0	112.6	118.0
Other long-term liabilities	0.5	0.5	0.5	0.5
Commercial activities/non-financial investments	20.1	28.7	29.4	29.0
Total	**98.9**	**130.2**	**142.5**	**147.6**
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.	20%	20%	20%	20%

Table 5	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
Maturity Structure of Borrowings* The Council needs to set upper and lower limits with respect to the maturity structure of its borrowing:				
Upper limit for under 12 months	*25%*	*25%*	*25%*	*25%*
Lower limit for under 12 months	*0%*	*0%*	*0%*	*0%*
Upper limit for 12 months to 2 years	*40%*	*40%*	*40%*	*40%*
Lower limit for over 12 months to 2 years	*0%*	*0%*	*0%*	*0%*
Upper limit for 2 years to 5 years	*50%*	*50%*	*50%*	*50%*
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	*100%*	*100%*	*100%*	*100%*
Lower limit for over 10 years	*25%*	*25%*	*25%*	*25%*

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, then yield, (**return) and the social impact.** 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 to establish the most robust scrutiny process on the suitability of potential investment counterparties.

7.2 Investment Strategy for 2021/22

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 period, consideration will be given to locking in higher rates currently obtainable, for longer periods.

7.3 Investment returns expectations.

Bank Rate is unlikely to rise from 0.10% for a considerable period. It is very difficult to say when it may start rising so it may be best to assume that investment earnings from money market-related instruments will be sub 0.50% for the foreseeable future. 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 (the long-term forecast is for periods over 10 years in the future):

Average earnings in each year	
2020/21	0.10%
2021/22	0.10%
2022/23	0.10%
2023/24	0.10%
2024/25	0.25%
Long term later years	2.00%

- The overall balance of risks to economic growth in the UK is probably now skewed to the upside but is subject to major uncertainty due to the virus and how quickly successful vaccines may become available and widely administered to the population. It may also be affected by what, if any, deal the UK agrees as part of Brexit.

- There is relatively little UK domestic risk of increases or decreases in Bank Rate and significant changes in shorter term PWLB rates. The Bank of England has effectively ruled out the use of negative interest rates in the near term and increases in Bank Rate are likely to be some years away given the underlying economic expectations. However, it is always possible that safe haven flows, due to unexpected domestic developments and those in other major economies, or a return of investor confidence in equities, could impact gilt yields, (and so PWLB rates), in the UK.

7.4 Negative investment rates

While the Bank of England said in August / September 2020 that it is unlikely to introduce a negative Bank Rate, at least in the next 6 -12 months, and in November omitted any mention of negative rates in the minutes of the meeting of the Monetary Policy Committee, some deposit accounts are already offering negative rates for shorter periods. As part of the response to the pandemic and lockdown, the Bank and the Government have provided financial markets and businesses with plentiful access to credit, either directly or through commercial banks. In addition, the Government has provided large sums of grants to local authorities to help deal with the COVID crisis; this has caused some local authorities to have sudden large increases in cash balances searching for an investment home, some of which was only very short term until those sums were able to be passed on.

As for money market funds (MMFs), yields have continued to drift lower. Some managers have already resorted to trimming fee levels to ensure that net yields for investors remain in positive territory where possible and practical. Investor cash flow uncertainty, and the need to maintain liquidity in these unprecedented times, has meant there is a surfeit of money swilling around at the very short end of the market. This has seen a number of market operators, now including the DMADF, offer nil or negative rates for very short-term maturities. This is not universal, and MMFs are still offering a marginally positive return, as are several financial institutions for investments at the very short end of the yield curve.

Inter-local authority lending and borrowing rates have also declined due to the surge in the levels of cash seeking a short-term home at a time when many local authorities are probably having difficulties over accurately forecasting when disbursements of funds received will occur or when further large receipts will be received from the Government.

7.5 Investment treasury indicator and limit

Total principal funds invested for greater than 365 days. These limits are set regarding 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			
	2021/22	**2022/23**	**2023/24**
Principal sums invested for longer than 365 days	£4m	£4m	£4m

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) to benefit from the compounding of interest.

7.6 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 under IFRS 9 Financial Instruments, 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. In November 2018, the Ministry of Housing, Communities and Local Government, [MHCLG], concluded a consultation for a temporary override to allow English local authorities time to adjust their portfolio of all pooled investments by announcing a statutory override to delay implementation of IFRS 9 for five years ending 31 March 2023.

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 (only applies to nationalised or semi nationalised UK Banks)*
- *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 officer's 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	£10m	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
Money Market Funds (MMF)	UK/Ireland/ EU domiciled	AAA rated Money Market Funds	£10m per fund	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
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

Table 7	Country/ Domicile	Instrument	Maximum investments	Max. maturity period
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
Green Energy Bonds	Internal and External Due Diligence	£2m	2-5 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.

Alternative investments - - it is proposed that a new class of “alternative investments” be added to the Councils list of non-specified investment instruments. The motivation for this is increased diversification from the current concentration of credit risk on financial institutions along with the potential for increased returns in the current low interest rate environment which still meeting the MHCLKG requirements regarding security, liquidity and yield. A variety of products are available that are secured against real assets such as green energy, timber, commercial properties, and private real estates. Thorough due diligence will need to be undertaken on any such products before any investment is made. The need for due diligence will likely involve legal advice, the Council treasury management advisors and that of external auditors.

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 several 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 necessary, additional guarantees deemed will be sought. This will be via security against assets and/or through guarantees from a parent company.

7.12 The Climate Change and Sustainability Strategy 2021

The Climate Change and Sustainability Strategy 2021 strategy was produced following the Climate Emergency declaration made at Full Council in July 2019 and sets out the district wide strategy and vision for a net zero carbon district by 2030. The visions and actions contained within the strategy have been developed in response to the urgency of the climate emergency being faced. The strategy will enable the Council to work with the community to co-ordinate its response into meaningful and long-lasting action. With limited financial resources the Council needs to ensure it prioritises the right actions to have a lasting positive impact on the district in relation to carbon reduction, sustainability, and a green economic recovery.

The current Corporate Plan prioritises Sustainability and Community Wealth Building. Community wealth building is a key part of the sustainability strategy and forms part of action area 7 Circular Economy and Community Wealth. The Council is considered 'an anchor institution' and can use its substantial spending power and influence to drive investment into the local economy to enable a green economic recovery and local job creation and retention. Community wealth is a thread that runs throughout the climate change and sustainability strategy particularly in relation to procurement but also training and skills. The action plan and strategy refer directly to the 'Reimagining Lewes District Action Plan' that was subject to a cabinet paper in December 2020.

7.13 The Council's Approach to Ethical Investments

Ethical investing is a term used to describe an investment process which takes environmental, social and governance (ESG) or other ethical considerations into account and is a topic of increasing interest within treasury management. Investment guidance, both statutory and from CIPFA, makes clear however that all investment must adopt the principals of security, liquidity, yield, and that ethical issues must play a subordinate role to those priorities.

Historically, the council has not included ethical criteria when determining its investment criteria. The investment environment can be very fast moving, so there is a need to ensure that any investment criteria are objective, such as credit ratings. It is difficult to gain an objective assessment of the ethical standing of a potential counterparty, particularly to a tight timescale.

Ethical considerations are difficult to evaluate subjectively and would also need to be applied to the counterparty list after taking into account security and liquidity issues. The council's current counterparty list is, due to the high credit quality criteria used by the council, very small, and therefore does not encompass solely those organisations which promote themselves as ethical. However, none of the organisations on the counterparty list have given cause for concern regarding the ethical nature of their business.

Furthermore, the council will not knowingly invest directly in businesses whose activities and practices pose a risk of serious harm to individuals or groups, or whose activities are inconsistent with the council's mission and values. This would include avoiding direct investment in institutions with material links to:

- Human rights abuse (e.g. child labour, political oppression);
- Environmentally harmful activities (e.g. pollutions, destruction of habitat, fossil fuels);
- Socially harmful activities (e.g. tobacco, gambling).

A small, but growing, number of financial institutions are promoting ESG products and Link Asset Services are currently looking at how these can be incorporated into its creditworthiness assessment service. This is still very much an evolving area and should any investment in ESG products be undertaken by the Council, this would require to be within the approved counterparty and creditworthiness criteria, and with regard to the views of our treasury advisors on any proposals.

ESG criteria attached to investments can include a range of different factors depending on the region where their core activities take place and the commercial sector they occupy. The following are criteria that the Fitch Rating Agency takes into consideration:

- **Environmental Category:** Emissions and Air Quality; Energy and Waste Management; Waste and Hazardous Material; Exposure to Environmental Impact;
- **Social Category:** Human Rights; Community Relations; Customer Welfare; Labour Relations; Employee Wellbeing; Exposure to Social Impacts;
- **Governance Category:** Management Structure; Governance Structure; Group Structure; Financial Transparency.

The Council does not invest in equities and therefore does not have influence over the activities of companies that part-ownership might provide. However, as an investor the council can take the following approach:

a. For direct investments, the Council will seek to ensure that counterparties (excluding the UK Government and other UK Local Authorities) have 'Responsible Investment Policies or Environmental, Social and Governance (ESG) policies' in place prior to investing.

b. For indirect investments, the council will seek to ensure that any fund managers used have their own responsible investment policies or have signed up to widely recognised policies such as the United Nations Principles for Responsible Investment.
c. The Council recognises that it has no control or influence over where its counterparties themselves lend money or invest once an investment has been made by the Council.

The investment guidance, both statutory and from CIPFA, makes clear that all investing must adopt SLY principles – security, liquidity, and yield: ethical issues must play a subordinate role to those priorities. Link is looking at ways to incorporate these factors into their creditworthiness assessment service, but with a lack of consistency, as well as coverage, Link continue to review the options and will update the Council as progress is made.

8. ANNUAL MINIMUM REVENUE PROVISION/POLICY STATEMENT 2021/22

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 relates. 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 2021/22 and in future years is therefore as follows: -

For borrowing incurred before 1 April 2008, the MRP policy will be:
- Annuity basis over a maximum of 50 years.

From borrowing incurred after 1 April 2008, the MRP policy will be:

- Asset Life Method (annuity method) – MRP will be based on the estimated life of the assets, in accordance with the proposed regulations. A maximum useful economic life of 50 years for land and 50 years for other assets. This option will also be applied for any expenditure capitalised under a capitalisation directive.

For leases that come onto the Balance Sheet, the MRP policy will be:

- Asset Life Method (annuity method) - The MRP will be calculated according to the flow of benefits from the asset, and where the principal repayments increase over the life of the asset. Any related MRP will be equivalent to the “capital repayment element” of the annual charge payable.

There is the option to charge more than the prudent provision of MRP each year through a Voluntary Revenue Provision (VRP).

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 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. 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 currently provides banking services for the Council.

10.2 Policy on the use of External Service Providers

The Council uses Link Asset Services 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 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, 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 2021/22

	Fitch Rating					Moody's Ratings			S&P Ratings						
2021/22 Counterparty/Bank List	**Long Term Status**	**Long Term**	**Short Term**	**Viability Status**	**Viability**	**Long Term Status**	**Long Term**	**Short Term**	**Long Term Status**	**Long Term**	**Short Term**	**Suggested Duration**	**Suggested Duration (Watch/Outlook Adjusted)**	**CDS Price**	**Invest. Limit**
Australia	NO	AAA				SB	Aaa		NO	AAA		Not Applicable	Not Applicable	13.48	£5m
Australia and New Zealand Banking Group Ltd.	NO	A+	F1		a+	SB	Aa3	P-1	NO	AA-	A-1+	O - 12 mths	O - 12 mths	23.46	£5m
Commonwealth Bank of Australia	NO	A+	F1		a+	SB	Aa3	P-1	NO	AA-	A-1+	O - 12 mths	O - 12 mths	24.68	£5m
Macquarie Bank Ltd.	NO	A	F1		a	SB	A2	P-1	NO	A+	A-1	R - 6 mths	R - 6 mths		£5m
National Australia Bank Ltd.	NO	A+	F1		a+	SB	Aa3	P-1	NO	AA-	A-1+	O - 12 mths	O - 12 mths	24.68	£5m
Westpac Banking Corp.	NO	A+	F1		a+	SB	Aa3	P-1	NO	AA-	A-1+	O - 12 mths	O - 12 mths	25.67	£5m
Belgium	NO	AA-				SB	Aa3		SB	AA		Not Applicable	Not Applicable	8.20	
BNP Paribas Fortis	NO	A+	F1		a	SB	A1	P-1	NO	A+	A-1	R - 6 mths	R - 6 mths		£5m
KBC Bank N.V.	NO	A+	F1		a	SB	Aa3	P-1	SB	A+	A-1	O - 12 mths	O - 12 mths		£5m
Canada	SB	AA+				SB	Aaa		SB	AAA		Not Applicable	Not Applicable	37.87	
Bank of Montreal	NO	AA-	F1+		aa-	SB	Aa2	P-1	SB	A+	A-1	O - 12 mths	O - 12 mths		£5m
Bank of Nova Scotia	NO	AA-	F1+		aa-	SB	Aa2	P-1	SB	A+	A-1	O - 12 mths	O - 12 mths		£5m
Canadian Imperial Bank of Commerce	NO	AA-	F1+		aa-	SB	Aa2	P-1	SB	A+	A-1	O - 12 mths	O - 12 mths		£5m
National Bank of Canada	NO	A+	F1		a+	SB	Aa3	P-1	SB	A	A-1	R - 6 mths	R - 6 mths		£5m
Royal Bank of Canada	NO	AA	F1+		aa	SB	Aa2	P-1	SB	AA-	A-1+	O - 12 mths	O - 12 mths		£5m
Toronto-Dominion Bank	NO	AA-	F1+		aa-	SB	Aa1	P-1	SB	AA-	A-1+	O - 12 mths	O - 12 mths		£5m
Denmark	SB	AAA				SB	Aaa		SB	AAA		Not Applicable	Not Applicable	6.12	
Danske A/S	NO	A	F1		a	NO	A2	P-1	SB	A	A-1	R - 6 mths	R - 6 mths	28.30	£5m
Finland	SB	AA+				SB	Aa1		SB	AA+		Not Applicable	Not Applicable	9.35	
Nordea Bank Abp	NO	AA-	F1+		aa-	SB	Aa3	P-1	NO	AA-	A-1+	O - 12 mths	O - 12 mths		£5m
OP Corporate Bank plc		WD	WD			SB	Aa3	P-1	NO	AA-	A-1+	O - 12 mths	O - 12 mths		£5m
France	NO	AA				SB	Aa2		SB	AA		Not Applicable	Not Applicable	9.50	
BNP Paribas	NO	A+	F1		a+	SB	Aa3	P-1	NO	A+	A-1	O - 12 mths	O - 12 mths	35.06	£5m

2021/22 Counterparty/Bank List	Fitch Rating					Moody's Ratings			S&P Ratings						
	Long Term Status	Long Term	Short Term	Viability Status	Viability	Long Term Status	Long Term	Short Term	Long Term Status	Long Term	Short Term	Suggested Duration	Suggested Duration (Watch/Outlook Adjusted)	CDS Price	Invest. Limit
Credit Agricole Corporate and Investment Bank	NO	A+	F1		WD	SB	Aa3	P-1	NO	A+	A-1	O - 12 mths	O - 12 mths	24.69	£5m
Credit Agricole S.A.	NO	A+	F1		a+	SB	Aa3	P-1	NO	A+	A-1	O - 12 mths	O - 12 mths	28.31	£5m
Credit Industriel et Commercial	NO	A+	F1		a+	SB	Aa3	P-1	NO	A	A-1	R - 6 mths	R - 6 mths		£5m
Societe Generale	SB	A-	F1		a-	SB	A1	P-1	NO	A	A-1	R - 6 mths	R - 6 mths	37.33	£5m
Germany	SB	AAA				SB	Aaa		SB	AAA		Not Applicable	Not Applicable	7.61	
Bayerische Landesbank	NO	A-	F1		bbb	SB	Aa3	P-1		NR	NR	R - 6 mths	R - 6 mths		£5m
Commerzbank AG	NO	BBB	F2		bbb	SB	A1	P-1	NO	BBB+	A-2	G - 100 days	G - 100 days	41.56	£5m
Deutsche Bank AG	NO	BBB	F2		bbb	SB	A3	P-2	NO	BBB+	A-2	N/C - 0 mths	N/C - 0 mths	60.76	£5m
DZ BANK AG Deutsche Zentral-Genossenschaftsbank	NO	AA-	F1+			NO	Aa1	P-1	NO	AA-	A-1+	O - 12 mths	O - 12 mths		£5m
Landesbank Baden-Wuerttemberg	NO	A-	F1		bbb	SB	Aa3	P-1		NR	NR	R - 6 mths	R - 6 mths		£5m
Landesbank Berlin AG						SB	Aa2	P-1				O - 12 mths	O - 12 mths		£5m
Landesbank Hessen-Thueringen Girozentrale	NO	A+	F1+			SB	Aa3	P-1	NO	A	A-1	O - 12 mths	O - 12 mths	54.43	£5m
Landwirtschaftliche Rentenbank	SB	AAA	F1+			SB	Aaa	P-1	SB	AAA	A-1+	P - 24 mths	P - 24 mths		£5m
Norddeutsche Landesbank Girozentrale	NO	A-	F1		bb	SB	A3	P-2		NR	NR	G - 100 days	G - 100 days		£5m
NRW.BANK	SB	AAA	F1+			SB	Aa1	P-1	SB	AA	A-1+	P - 24 mths	P - 24 mths		£5m
Netherlands	SB	AAA				SB	Aaa		SB	AAA		Not Applicable	Not Applicable	7.36	
ABN AMRO Bank N.V.	NO	A	F1		a	SB	A1	P-1	SB	A	A-1	R - 6 mths	R - 6 mths		£5m
Bank Nederlandse Gemeenten N.V.	SB	AAA	F1+			SB	Aaa	P-1	SB	AAA	A-1+	P - 24 mths	P - 24 mths		£5m
Cooperatieve Rabobank U.A.	NO	A+	F1		a+	SB	Aa3	P-1	NO	A+	A-1	O - 12 mths	O - 12 mths	21.24	£5m
ING Bank N.V.	NO	AA-	F1+		a+	SB	Aa3	P-1	SB	A+	A-1	O - 12 mths	O - 12 mths	21.24	£5m
Nederlandse Waterschapsbank N.V.						SB	Aaa	P-1	SB	AAA	A-1+	P - 24 mths	P - 24 mths		£5m
Qatar	SB	AA-				SB	Aa3		SB	AA-		Not Applicable	Not Applicable	38.94	
Qatar National Bank	SB	A+	F1		bbb+	SB	Aa3	P-1	SB	A	A-1	R - 6 mths	R - 6 mths	80.22	£5m
Singapore	SB	AAA				SB	Aaa		SB	AAA		Not Applicable	Not Applicable		

2021/22 Counterparty/Bank List	Fitch Rating					Moody's Ratings			S&P Ratings						
	Long Term Status	Long Term	Short Term	Viability Status	Viability	Long Term Status	Long Term	Short Term	Long Term Status	Long Term	Short Term	Suggested Duration	Suggested Duration (Watch/Outlook Adjusted)	CDS Price	Invest. Limit
DBS Bank Ltd.	NO	AA-	F1+		aa-	SB	Aa1	P-1	SB	AA-	A-1+	O - 12 mths	O - 12 mths		£5m
Oversea-Chinese Banking Corp. Ltd.	NO	AA-	F1+		aa-	SB	Aa1	P-1	SB	AA-	A-1+	O - 12 mths	O - 12 mths		£5m
United Overseas Bank Ltd.	NO	AA-	F1+		aa-	SB	Aa1	P-1	SB	AA-	A-1+	O - 12 mths	O - 12 mths		£5m
Sweden	SB	AAA				SB	Aaa		SB	AAA		Not Applicable	Not Applicable	9.10	
Skandinaviska Enskilda Banken AB	NO	AA-	F1+		aa-	SB	Aa2	P-1	SB	A+	A-1	O - 12 mths	O - 12 mths		£5m
Svenska Handelsbanken AB	NO	AA	F1+		aa	SB	Aa2	P-1	SB	AA-	A-1+	O - 12 mths	O - 12 mths		£5m
Swedbank AB	SB	A+	F1		a+	SB	Aa3	P-1	SB	A+	A-1	O - 12 mths	O - 12 mths		£5m
Switzerland	SB	AAA				SB	Aaa		SB	AAA		Not Applicable	Not Applicable	19.00	
Credit Suisse AG	SB	A	F1		a-	PO	A1	P-1	SB	A+	A-1	R - 6 mths	R - 6 mths	46.92	£5m
UBS AG	NO	AA-	F1+		a+	SB	Aa2	P-1	SB	A+	A-1	O - 12 mths	O - 12 mths	27.10	£5m
United Arab Emirates	SB	AA				SB	Aa2		SB	AA		Not Applicable	Not Applicable	38.87	
First Abu Dhabi Bank PJSC	SB	AA-	F1+		a-	SB	Aa3	P-1	SB	AA-	A-1+	O - 12 mths	O - 12 mths		£5m
United Kingdom	NO	AA-				SB	Aa3		SB	AA		Not Applicable	Not Applicable	13.83	
Abbey National Treasury Services PLC	NO	A+	F1			SB	A1	P-1				R - 6 mths	R - 6 mths		£5m
Al Rayan Bank Plc						SB	A1	P-1				R - 6 mths	R - 6 mths		£5m
Bank of Scotland PLC (RFB)	NO	A+	F1		a	SB	A1	P-1	NO	A+	A-1	R - 6 mths	R - 6 mths	49.66	£5m
Barclays Bank PLC (NRFB)	NO	A+	F1		a	SB	A1	P-1	NO	A	A-1	R - 6 mths	R - 6 mths	56.24	£5m
Barclays Bank UK PLC (RFB)	NO	A+	F1		a	NO	A1	P-1	NO	A	A-1	R - 6 mths	R - 6 mths		£5m
Close Brothers Ltd	NO	A-	F2		a-	NO	Aa3	P-1				R - 6 mths	R - 6 mths		£5m
Clydesdale Bank PLC	NO	A-	F2		bbb+	SB	Baa1	P-2	NO	BBB+	A-2	N/C - 0 mths	N/C - 0 mths		£5m
Co-operative Bank PLC (The)	NW	B-	B	NW	b-	SB	B3	NP				N/C - 0 mths	N/C - 0 mths		£5m
Goldman Sachs International Bank	NO	A+	F1			SB	A1	P-1	SB	A+	A-1	R - 6 mths	R - 6 mths	51.28	£5m
Handelsbanken Plc	NO	AA	F1+						SB	AA-	A-1+	O - 12 mths	O - 12 mths		£5m
HSBC Bank PLC (NRFB)	NO	AA-	F1+		a	SB	A1	P-1	SB	A+	A-1	O - 12 mths	O - 12 mths	33.63	£5m
HSBC UK Bank Plc (RFB)	NO	AA-	F1+		a	NO	Aa3	P-1	SB	A+	A-1	O - 12 mths	O - 12 mths		£5m

2021/22 Counterparty/Bank List	Fitch Rating					Moody's Ratings			S&P Ratings						
	Long Term Status	Long Term	Short Term	Viability Status	Viability	Long Term Status	Long Term	Short Term	Long Term Status	Long Term	Short Term	Suggested Duration	Suggested Duration (Watch/Outlook Adjusted)	CDS Price	Invest. Limit
Lloyds Bank Corporate Markets Plc (NRFB)	NO	A+	F1			SB	A1	P-1	NO	A	A-1	R - 6 mths	R - 6 mths		£5m
Lloyds Bank Plc (RFB)	NO	A+	F1		a	SB	A1	P-1	NO	A+	A-1	R - 6 mths	R - 6 mths	35.97	£5m
NatWest Markets Plc (NRFB)	NO	A+	F1		WD	PO	Baa2	P-2	NO	A-	A-2	G - 100 days	G - 100 days	56.95	£5m
Santander UK PLC	NO	A+	F1		a	SB	A1	P-1	NO	A	A-1	R - 6 mths	R - 6 mths		£5m
Standard Chartered Bank	NO	A+	F1		a	SB	A1	P-1	SB	A	A-1	R - 6 mths	R - 6 mths	33.16	£5m
Sumitomo Mitsui Banking Corporation Europe Ltd	NO	A	F1			SB	A1	P-1	SB	A	A-1	R - 6 mths	R - 6 mths	35.86	£5m
Coventry Building Society	NO	A-	F1		a-	NO	A2	P-1				R - 6 mths	R - 6 mths		£5m
Leeds Building Society	NO	A-	F1		a-	NO	A3	P-2				G - 100 days	G - 100 days		£5m
Nationwide Building Society	NO	A	F1		a	SB	A1	P-1	SB	A	A-1	R - 6 mths	R - 6 mths		£5m
Nottingham Building Society						NO	Baa2	P-2				N/C - 0 mths	N/C - 0 mths		£5m
Principality Building Society	NO	BBB+	F2		bbb+	NO	Baa2	P-2				N/C - 0 mths	N/C - 0 mths		£5m
Skipton Building Society	NO	A-	F1		a-	SB	Baa1	P-2				G - 100 days	G - 100 days		£5m
West Bromwich Building Society						NO	Ba3	NP				N/C - 0 mths	N/C - 0 mths		£5m
Yorkshire Building Society	NO	A-	F1		a-	NO	A3	P-2				G - 100 days	G - 100 days		£5m
National Westminster Bank PLC (RFB)	NO	A+	F1		a	SB	A1	P-1	NO	A	A-1	B - 12 mths	B - 12 mths		£5m
The Royal Bank of Scotland Plc (RFB)	NO	A+	F1		a	SB	A1	P-1	NO	A	A-1	B - 12 mths	B - 12 mths		£5m
United States	NO	AAA					Aaa		SB	AA+		Not Applicable	Not Applicable	7.58	
Bank of America N.A.	SB	AA-	F1+		a+	SB	Aa2	P-1	SB	A+	A-1	O - 12 mths	O - 12 mths		£5m
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	£5m
Citibank N.A.	NO	A+	F1		a	SB	Aa3	P-1	SB	A+	A-1	O - 12 mths	O - 12 mths	48.73	£5m
JPMorgan Chase Bank N.A.	NO	AA	F1+		aa-	SB	Aa1	P-1	SB	A+	A-1	O - 12 mths	O - 12 mths		£5m
Wells Fargo Bank, NA	NO	AA-	F1+		a+	NO	Aa1	P-1	SB	A+	A-1	O - 12 mths	O - 12 mths	54.54	£5m

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
Green Energy Bonds	Internal and External Due Diligence	£2m	2-5 years

APPENDIX ‘D’

Link Treasury Services Limited Economic Background & Interest Rate Forecast

The Link Treasury Services Limited Economic & Interest Rate Forecast and underlying assumptions are:

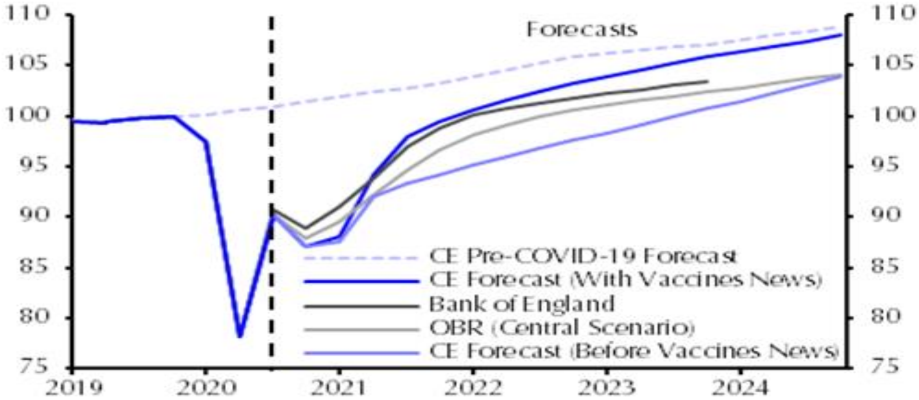
- **UK.** The key quarterly meeting of the Bank of England Monetary Policy Committee kept **Bank Rate** unchanged on 5.11.20. However, it revised its economic forecasts to take account of a second national lockdown from 5.11.20 to 2.12.20 which is obviously going to put back economic recovery and do further damage to the economy. It therefore decided to do a further tranche of **quantitative easing (QE) of £150bn**, to start in January when the current programme of £300bn of QE, announced in March to June, runs out. It did this so that “announcing further asset purchases now should support the economy and help to ensure the unavoidable near-term slowdown in activity was not amplified by a tightening in monetary conditions that could slow the return of inflation to the target”.
- Its forecasts appeared, at that time, to be rather optimistic in terms of three areas:
    - The economy would recover to reach its pre-pandemic level in Q1 2022.
    - The Bank also expected there to be excess demand in the economy by Q4 2022.
    - CPI inflation was therefore projected to be a bit above its 2% target by the start of 2023 and the “inflation risks were judged to be balanced”.
- Significantly, there was no mention of **negative interest rates** in the minutes or Monetary Policy Report, suggesting that the MPC remains some way from being persuaded of the case for such a policy, at least for the next 6 -12 months. However, rather than saying that it “stands ready to adjust monetary policy”, the MPC this time said that it will take “whatever additional action was necessary to achieve its remit”. The latter seems stronger and wider and may indicate the Bank’s willingness to embrace new tools.
- One key addition to **the Bank’s forward guidance in August** was a new phrase in the policy statement, namely that “it does not intend to tighten monetary policy until there is clear evidence that significant progress is being made in eliminating spare capacity and achieving the 2% target sustainably”. That seems designed to say, in effect, that even if inflation rises to 2% in a couple of years’ time, do not expect any action from the MPC to raise Bank Rate – until they can clearly see that level of inflation is going to be persistently above target if it takes no action to raise Bank Rate. Our Bank Rate forecast currently shows no increase, (or decrease), through to quarter 1 2024 but there could well be no increase during the next five years as it will take some years to eliminate spare capacity in the economy, and therefore for inflationary pressures to rise to cause the MPC concern. **Inflation** is expected to briefly peak at just over 2% towards the end of 2021, but this is a temporary short-lived factor and so not a concern.
- However, the minutes did contain several references to **downside risks**. The MPC reiterated that the “recovery would take time, and the risks around the GDP projection were judged to be skewed to the downside”. It also said, “the risk of a more persistent period of elevated unemployment remained material”. Downside risks could well include severe restrictions remaining in place in some form during the rest of December and most of January too. **Upside risks** included the early roll out of effective vaccines.
- **COVID-19 vaccines.** We had been waiting expectantly for news that various COVID-19 vaccines would be cleared as being safe and effective for administering to the general public. The Pfizer announcement on 9th November was very encouraging as its 90% effectiveness was much higher than the 50-60% rate of effectiveness of flu vaccines which might otherwise have been expected. However, this vaccine has demanding cold storage requirements of minus 70c that impairs the speed of application to the general population.

It has therefore been particularly welcome that the Oxford University/AstraZeneca vaccine has now also been approved which is much cheaper and only requires fridge temperatures for storage. The Government has 60m doses on order and is aiming to vaccinate at a rate of 2m people per week starting in January, though this rate is currently restricted by a bottleneck on vaccine production; (a new UK production facility is due to be completed in June).

- These announcements, plus expected further announcements that other vaccines could be approved soon, have enormously boosted confidence that **life could largely return to normal during the second half of 2021**, with activity in the still-depressed sectors like restaurants, travel and hotels returning to their pre-pandemic levels; this would help to bring the unemployment rate down. With the household saving rate having been exceptionally high since the first lockdown in March, there is plenty of pent-up demand and purchasing power stored up for these services. A comprehensive roll-out of vaccines might take into late 2021 to fully complete; but if these vaccines prove to be highly effective, then there is a possibility that restrictions could start to be eased, beginning possibly in Q2 2021 once vulnerable people and front-line workers have been vaccinated. At that point, there would be less reason to fear that hospitals could become overwhelmed any more. Effective vaccines would radically improve the economic outlook once they have been widely administered; it may allow GDP to rise to its pre-virus level a year earlier than otherwise and mean that the unemployment rate peaks at 7% in 2021 instead of 9%.
- **Public borrowing** was forecast in November by the Office for Budget Responsibility (the OBR) to reach £394bn in the current financial year, the highest ever peace time deficit and equivalent to 19% of GDP. In normal times, such an increase in total gilt issuance would lead to a rise in gilt yields, and so PWLB rates. However, the QE done by the Bank of England has depressed gilt yields to historic low levels, (as has similarly occurred with QE and debt issued in the US, the EU and Japan). This means that new UK debt being issued, and this is being done across the whole yield curve in all maturities, is locking in those historic low levels through until maturity.
- In addition, the UK has one of the longest average maturities for its entire debt portfolio, of any country in the world. Overall, this means that the total interest bill paid by the Government is manageable despite the huge increase in the total amount of debt. The OBR was also forecasting that the government will still be running a budget deficit of £102bn (3.9% of GDP) by 2025/26. However, initial impressions are that they have taken a pessimistic view of the impact that vaccines could make in the speed of economic recovery.
- Overall, **the pace of recovery** was not expected to be in the form of a rapid V shape, but a more elongated and prolonged one. The initial recovery was sharp after quarter 1 saw growth at -3.0% followed by -18.8% in quarter 2 and then an upswing of +16.0% in quarter 3; this still left the economy 8.6% smaller than in Q4 2019. It is likely that the one-month national lockdown that started on 5th November, will have caused a further contraction of 8% m/m in November so the economy may have then been 14% below its pre-crisis level.
- **December 2020 / January 2021**. Since then, there has been rapid backtracking on easing restrictions due to the spread of a new mutation of the virus, and severe restrictions were imposed across all four nations. These restrictions were changed on 5.1.21 to national lockdowns of various initial lengths in each of the four nations as the NHS was under extreme pressure. It is now likely that wide swathes of the UK will remain under these new restrictions for some months; this means that the near-term outlook for the economy is grim. However, the distribution of vaccines and the expected consequent removal of COVID-19 restrictions, should allow GDP to rebound rapidly in the second half of 2021 so that the economy could climb back to its pre-pandemic peak as soon as late in 2022.

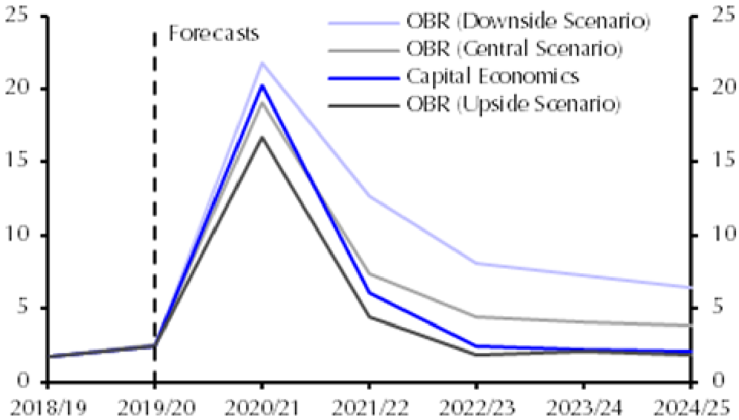
- Provided that both monetary and fiscal policy are kept loose for a few years yet, then it is still possible that in the second half of this decade, the economy may be no smaller than it would have been if COVID-19 never happened. The significant caveat is if another mutation of COVID-19 appears that defeats the current batch of vaccines. However, now that science and technology have caught up with understanding this virus, new vaccines ought to be able to be developed more quickly to counter such a development and vaccine production facilities are being ramped up around the world.

Chart: Level of real GDP (Q4 2019 = 100)



This recovery of growth which eliminates the effects of the pandemic by about the middle of the decade would have major repercussions for public finances as it would be consistent with the government deficit falling to around 2.5% of GDP without any tax increases. This would be in line with the OBR's most optimistic forecast in the graph below, rather than their current central scenario which predicts a 4% deficit due to assuming much slower growth. However, Capital Economics forecasts assumed that there is a reasonable Brexit deal and also that politicians do not raise taxes or embark on major austerity measures and so, (perversely!), depress economic growth and recovery.

Chart: Public Sector Net Borrowing (as a % of GDP)



- There will still be some **painful longer term adjustments** as e.g. office space and travel by planes, trains and buses may not recover to their previous level of use for several years, or possibly ever, even if vaccines are fully successful in overcoming the current virus. There is also likely to be a reversal of globalisation as this crisis has exposed how vulnerable long-distance supply chains are. On the other hand, digital services are one area that has already seen huge growth.
- **Brexit.** While the UK has been gripped by the long running saga of whether or not a deal would be made by 31.12.20, the final agreement on 24.12.20, followed by ratification by

Parliament and all 27 EU countries in the following week, has eliminated a significant downside risk for the UK economy. The initial agreement only covers trade so there is further work to be done on the services sector where temporary equivalence has been granted in both directions between the UK and EU; that now needs to be formalised on a permanent basis. As the forecasts in this report were based on an assumption of a Brexit agreement being reached, there is no need to amend these forecasts.

- **Monetary Policy Committee meeting of 17 December.** All nine Committee members voted to keep interest rates on hold at +0.10% and the Quantitative Easing (QE) target at £895bn. The MPC commented that the successful rollout of vaccines had reduced the downsides risks to the economy that it had highlighted in November. But this was caveated by it saying, "Although all members agreed that this would reduce downside risks, they placed different weights on the degree to which this was also expected to lead to stronger GDP growth in the central case." So, while the vaccine is a positive development, in the eyes of the MPC at least, the economy is far from out of the woods. As a result of these continued concerns, the MPC voted to extend the availability of the Term Funding Scheme, (cheap borrowing), with additional incentives for small and medium size enterprises for six months from 30.4.21 until 31.10.21. (The MPC had assumed that a Brexit deal would be agreed.)

- **Fiscal policy.** In the same week as the MPC meeting, the Chancellor made a series of announcements to provide further support to the economy: -
  - An extension of the COVID-19 loan schemes from the end of January 2021 to the end of March.
  - The furlough scheme was lengthened from the end of March to the end of April.
  - The Budget on 3.3.21 will lay out the "next phase of the plan to tackle the virus and protect jobs". This does not sound like tax rises are imminent, (which could hold back the speed of economic recovery).

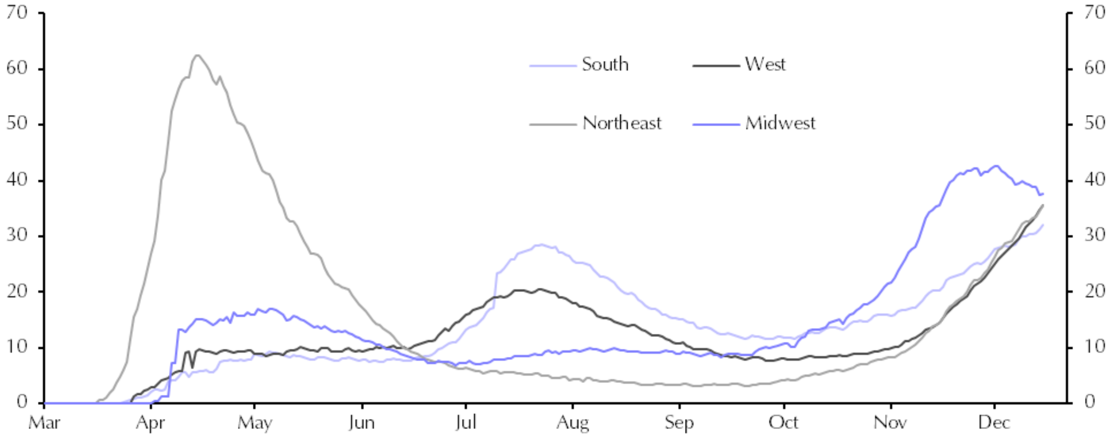
- The **Financial Policy Committee** (FPC) report on 6.8.20 revised down their expected credit losses for the banking sector to "somewhat less than £80bn". It stated that in its assessment, "banks have buffers of capital more than sufficient to absorb the losses that are likely to arise under the MPC's central projection". The FPC stated that for real stress in the sector, the economic output would need to be twice as bad as the MPC's projection, with unemployment rising to above 15%.

- **US.** The result of **the November elections** meant that while the Democrats gained the presidency and a majority in the House of Representatives, it looks as if the Republicans could retain their slim majority in the Senate provided they keep hold of two key seats in Georgia in elections in early January. If those two seats do swing to the Democrats, they will then control both Houses and President Biden will consequently have a free hand to determine policy and to implement his election manifesto.

- **The economy** had been recovering quite strongly from its contraction in 2020 of 10.2% due to the pandemic with GDP only 3.5% below its pre-pandemic level and the unemployment rate dropping below 7%. However, the rise in new cases during quarter 4, to the highest level since mid-August, suggests that the US could be in the early stages of a fourth wave. While the first wave in March and April was concentrated in the Northeast, and the second wave in the South and West, the third wave in the Midwest looks as if it now abating. However, it also looks as if the virus is rising again in the rest of the country.

- The latest upturn poses a threat that the recovery in the economy could stall. This is **the single biggest downside risk** to the shorter term outlook – a more widespread and severe wave of infections over the winter months, which is compounded by the impact of the regular flu season and, as a consequence, threatens to overwhelm health care facilities. Under those circumstances, states might feel it necessary to return to more draconian lockdowns.

COVID-19 hospitalisations per 100,000 population



- The restrictions imposed to control the spread of the virus are once again weighing on the economy with employment growth slowing sharply in November and retail sales dropping back. The economy is set for further weakness in December and into the spring. However, a $900bn fiscal stimulus deal passed by Congress in late December will limit the downside through measures which included a second round of direct payments to households worth $600 per person and a three-month extension of enhanced unemployment insurance (including a $300 weekly top-up payment for all claimants). GDP growth is expected to rebound markedly from the second quarter of 2021 onwards as vaccines are rolled out on a widespread basis and restrictions are loosened.

- **EU.** In early December, the figures for Q3 GDP confirmed that the economy staged a rapid rebound from the first lockdowns. This provides grounds for optimism about growth prospects for next year. In Q2, GDP was 15% below its pre-pandemic level. But in Q3 the economy grew by 12.5% q/q leaving GDP down by "only" 4.4%. That was much better than had been expected earlier in the year. However, growth is likely to stagnate during Q4 and in Q1 of 2021, as a second wave of the virus has affected many countries: it is likely to hit hardest those countries more dependent on tourism. The €750bn fiscal support package eventually agreed by the EU after prolonged disagreement between various countries, is unlikely to provide significant support, and quickly enough, to make an appreciable difference in the countries most affected by the first wave.

- With inflation expected to be unlikely to get much above 1% over the next two years, **the ECB** has been struggling to get inflation up to its 2% target. It is currently unlikely that it will cut its central rate even further into negative territory from -0.5%, although the ECB has stated that it retains this as a possible tool to use. The ECB's December meeting added a further €500bn to the Pandemic Emergency Purchase Programme (PEPP) scheme, (purchase of government and other bonds), and extended the duration of the programme to March 2022 and re-investing maturities for an additional year until December 2023. Three additional tranches of Targeted Longer Term Re-financing Operations (TLTRO), (cheap loans to banks), were approved, indicating that support will last beyond the impact of the pandemic, implying indirect yield curve control for government bonds for some time ahead. The Bank's forecast for a return to pre-virus activity levels was pushed back to the end of 2021, but stronger growth is projected in 2022. The total PEPP scheme of €1,850bn of QE which started in March 2020 is providing protection to the sovereign bond yields of weaker countries like Italy. There is therefore unlikely to be a euro crisis while the ECB is able to maintain this level of support. However, as in the UK and the US, the advent of highly effective vaccines will be a game changer, although growth will struggle before later in quarter 2 of 2021.

- **World growth.** World growth will have been in recession in 2020. Inflation is unlikely to be a problem for some years due to the creation of excess production capacity and depressed demand caused by the coronavirus crisis.
- Until recent years, world growth has been boosted by increasing **globalisation** i.e. countries specialising in producing goods and commodities in which they have an economic advantage and which they then trade with the rest of the world. This has boosted worldwide productivity and growth, and, by lowering costs, has also depressed inflation. However, the rise of China as an economic superpower over the last thirty years, which now accounts for nearly 20% of total world GDP, has unbalanced the world economy. The Chinese government has targeted achieving major world positions in specific key sectors and products, especially high-tech areas and production of rare earth minerals used in high tech products.
- It is achieving this by massive financial support, (i.e. subsidies), to state owned firms, government directions to other firms, technology theft, restrictions on market access by foreign firms and informal targets for the domestic market share of Chinese producers in the selected sectors. This is regarded as being unfair competition that is putting western firms at an unfair disadvantage or even putting some out of business. It is also regarded with suspicion on the political front as China is an authoritarian country that is not averse to using economic and military power for political advantage. The current trade war between the US and China therefore needs to be seen against that backdrop. It is, therefore, likely that we are heading into a period where there will be a **reversal of world globalisation and a decoupling of western countries** from dependence on China to supply products. This is likely to produce a backdrop in the coming years of weak global growth and so weak inflation.

Summary

- Central banks are, therefore, likely to support growth by maintaining loose monetary policy through keeping rates very low for longer. Governments could also help a quicker recovery by providing more fiscal support for their economies at a time when total debt is affordable due to the very low rates of interest. They will also need to avoid significant increases in taxation or austerity measures that depress demand in their economies.
- If there is a huge surge in investor confidence as a result of successful vaccines which leads to a major switch out of government bonds into equities, which, in turn, causes government debt yields to rise, then there will be pressure on central banks to actively manage debt yields by further QE purchases of government debt; this would help to suppress the rise in debt yields and so keep the total interest bill on greatly expanded government debt portfolios within manageable parameters. It is also the main alternative to a programme of austerity.

INTEREST RATE FORECASTS

Brexit. The interest rate forecasts provided by Link in paragraph 3.3 were predicated on an assumption of a reasonable agreement being reached on trade negotiations between the UK and the EU by 31.12.20. There is therefore no need to revise these forecasts now that a trade deal has been agreed. Brexit may reduce the economy's potential growth rate in the long run. However, much of that drag is now likely to be offset by an acceleration of productivity growth triggered by the digital revolution brought about by the COVID crisis.

The balance of risks to the UK

- The overall balance of risks to economic growth in the UK is probably now skewed to the upside, but is still subject to some uncertainty due to the virus and the effect of any mutations, and how quick vaccines are in enabling a relaxation of restrictions.
- There is relatively little UK domestic risk of increases or decreases in Bank Rate and significant changes in shorter term PWLB rates. The Bank of England has effectively ruled out the use of negative interest rates in the near term and increases in Bank Rate are likely to be some years away given the underlying economic expectations. However, it is always possible that safe haven flows, due to unexpected domestic developments and those in other major economies, could impact gilt yields, (and so PWLB rates), in the UK.

Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

- **UK government** takes too much action too quickly to raise taxation or introduce austerity measures that depress demand in the economy.
- **UK - Bank of England** takes action too quickly, or too far, over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- A resurgence of the **Eurozone sovereign debt crisis.** The ECB has taken monetary policy action to support the bonds of EU states, with the positive impact most likely for "weaker" countries. In addition, the EU agreed a €750bn fiscal support package. These actions will help shield weaker economic regions for the next two or three years. However, in the case of Italy, the cost of the virus crisis has added to its already huge debt mountain and its slow economic growth will leave it vulnerable to markets returning to taking the view that its level of debt is unsupportable. There remains a sharp divide between northern EU countries favouring low debt to GDP and annual balanced budgets and southern countries who want to see jointly issued Eurobonds to finance economic recovery. This divide could undermine the unity of the EU in time to come.
- Weak capitalisation of some **European banks**, which could be undermined further depending on extent of credit losses resultant of the pandemic.
- **German minority government & general election in 2021.** In the German general election of September 2017, Angela Merkel's CDU party was left in a vulnerable minority position dependent on the fractious support of the SPD party, as a result of the rise in popularity of the anti-immigration AfD party. The CDU has done badly in subsequent state elections, but the SPD has done particularly badly. Angela Merkel has stepped down from being the CDU party leader, but she will remain as Chancellor until the general election in 2021. This then leaves a major question mark over who the major guiding hand and driver of EU unity will be when she steps down.
- **Other minority EU governments.** Austria, Sweden, Spain, Portugal, Netherlands, Ireland and Belgium also have vulnerable minority governments dependent on coalitions which could prove fragile.

- **Austria, the Czech Republic, Poland and Hungary** now form a strongly anti-immigration bloc within the EU, and they had threatened to derail the 7-year EU budget until a compromise was thrashed out in late 2020. There has also been a rise in anti-immigration sentiment in Germany and France.
- **Geopolitical risks,** for example in China, Iran or North Korea, but also in Europe and other Middle Eastern countries, which could lead to increasing safe haven flows.

Upside risks to current forecasts for UK gilt yields and PWLB rates

- **UK -** a significant rise in inflationary pressures e.g. caused by a stronger than currently expected recovery in the UK economy after effective vaccines are administered quickly to the UK population, leading to a rapid resumption of normal life and return to full economic activity across all sectors of the economy.
- The **Bank of England is too slow** in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to build up too strongly within the UK economy, which then necessitates a rapid series of increases in Bank Rate to stifle inflation.

APPENDIX 'E'

Capital Strategy

1) Introduction

1.1 This Capital Strategy provides 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, and the key objectives are to deliver a capital programme that:

- Ensure the Council's capital assets are used to support the Council's vision;
- Reduce ongoing commitments/schemes;
- Reduce the current and projected level of borrowing;
- Reduce borrowing impacts on the Council's revenue budget;
- Increase capital programme partnership/support opportunities;
- Links with the Council's asset management/disposal plan;
- Is affordable, financially prudent and sustainable;
- Ensure the most cost-effective use of existing assets and new capital investment.

1.2 The Capital Strategy is a 'living document' and will be periodically, usually annually, updated to reflect changing local circumstances and other significant developments. The Strategy outlines the council's approach to capital investment, ensuring that it is in line with the council's corporate priorities. It is good practice that capital strategy and asset management/disposal plans are regularly reviewed and revised to meet the changing priorities and circumstances of the Council.

1.3 The strategy provides an important link between the ambitions set out in the Council's longer-term vision and Council Plan and the important investment in infrastructure that will help turn that vision into a reality. The economic climate and financial challenges due to COVID-19 are thought-provoking. However, the Council is committed to investing now for the longer term and financing that commitment will be made possible by the Council's financial resilience that continue to be developed through various themes and ongoing initiatives, including –

- Recovery and Reset Programme/Best use of Assets review;
- Medium Term Financial Strategy;
- Prudential Code/Treasury Management Strategy, etc.

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 de-minimis level are not capitalised and are charged to revenue in year.

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

2.1.3 In 2021/22, the Council is planning capital expenditure of £50.9 million (and £95.6 million over the next three years) as summarised in Table 1 below:

Table 1: Prudential Indicator: Estimates of Capital Expenditure

Capital Expenditure	**2020/21 budget**	**2021/22 budget**	**2022/23 budget**	**2023/24 budget**
	£m	**£m**	**£m**	**£m**
General Fund	4.8	11.1	9.1	8.5
HRA	14.8	23.8	14.5	9.4
Commercial Activities/ non-financial investments	3.1	15.9	2.0	1.3
TOTAL	**22.7**	**50.9**	**25.6**	**19.1**

2.1.4 The main General Fund capital projects scheduled for 2021/22+ are as follows:

- Avis Way Depot, Newhaven;
- Local Energy Schemes

2.1.5 The main Commercial Activity/ non-financial investments capital projects scheduled for 2021/22+ are as follows:

- Newhaven Assets Development & High Street;
- North Street Quarter, Lewes;
- Loans to Aspiration Homes

2.1.6 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 subject to formal scrutiny prior to setting the budget (and 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 Sources

	2020/21 budget	2021/22 budget	2022/23 budget	2023/24 budget
	£m	£m	£m	£m
External sources	1.8	8.1	3.1	2.1
Own resources	16.7	11.0	9.6	11.1
Debt	4.2	31.7	12.9	5.9
TOTAL	**22.7**	**50.9**	**25.6**	**19.1**

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

	2020/21 budget	2021/22 budget	2022/23 budget	2023/24 budget
	£m	£m	£m	£m
Own resources	0.5	0.4	0.7	0.8

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 £31.4 million in 2021/22. 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 March 2021 budget	31 March 2022 budget	31 March 2023 budget	31. March 2024 budget
	£m	£m	£m	£m
General Fund	5.9	28.7	25.4	24.7
HRA	67.3	67.3	82.2	88.3
Commercial Activities/ non- financial investments	15.1	23.7	24.4	24.0
TOTAL CFR	**88.4**	**119.7**	**132.0**	**137.1**

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 its available cash before borrowing which in the current climate is more economic.

4.1.2 As at 31 December 2020, the Council had borrowing of £56.7 million at an average interest rate of 2.85% and cash balances of £31.2 million including money market funds, local authority and bank deposits deposit's with rates in the range of 0.1% - 0.4%.

4.2 Borrowing

4.2.1 The Council's main objectives when borrowing is 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 around 0.25%) and long-term fixed rate loans where the future cost is known but higher (e.g. 1.05% for 20 year term).

4.2.2 Projected levels of the Council's total outstanding debt (which comprises borrowing and leases) are shown below in **Table 5**, compared with the Capital Financing Requirement (Table 4 above).

Table 5: Prudential Indicator: Gross Debt and the Capital Financing Requirement

	31 March 2021 budget	**31 March 2022 budget**	**31 March 2023 budget**	**31 March 2024 budget**
	£m	**£m**	**£m**	**£m**
Debt (incl. leases)	61.7	91.7	111.7	118.7
Capital Financing Requirement	88.4	119.7	132.0	137.1

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 5**, 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 6: Prudential Indicators: Authorised Limit and Operational Boundary for External Debt

	2020/21 limit	**2021/22 limit**	**2022/23 limit**	**2023/24 limit**
	£m	**£m**	**£m**	**£m**
Authorised limit – total external debt	108.8	143.3	156.7	162.3
Operational boundary – total external debt	98.9	130.2	142.5	147.6

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

4.3 PWLB Loan

4.3.1 The government recognises the valuable contribution that local authorities make to the social and economic infrastructure and supports local investment in part by offering low cost loans to local authorities through the Public Works Loan Board (PWLB).

4.3.2 In compliance with the HM Treasury guidance, the Council need to ensure that the capital programme/investments are compliant with the ongoing access to the PWLB under the lending terms published in November 2020, which include an assurance from the Chief Finance Officer (Section 151 Officer) that **the Council is not borrowing in advance of need and does not intend to buy investment assets primarily for yield**.

4.3.4 The purpose of the PWLB is to offer long-term, affordable loans to support local authority investment in the following areas –

- Service spending, i.e. activities that would normally be captured in the following areas in the MHCLG Capital Outturn Return (COR): culture & related services, environmental & regulatory services, etc.

- Housing, i.e., activities normally captured in the HRA and General Fund housing sections of the COR, or housing delivered through a local authority housing company.
- Regeneration projects would usually have one or more of the following characteristics:
    - the project is addressing an economic or social market failure by providing services, facilities, or other amenities;
    - the Council is making a significant investment in the asset beyond the purchase price:
    - the project involves or generates significant additional activity that would not otherwise happen without the Council's intervention;
    - the project may generate rental income, these rents are recycled within the project or applied to related regeneration projects, rather than being applied to wider services.

- Preventative action with the following characteristics - intervention that prevents a negative outcome, there is no realistic prospect of support from a source other than the Council; has an exit strategy, and does not propose to hold the investment for longer than is necessary; the intervention takes the form of grants, loans, sale and leaseback, equity injections, or other forms of business support that generate a balance sheet asset.
- Treasury management covers refinancing or extending existing debt from any source, and the externalisation of internal borrowing.

4.3.5 Individual projects and schemes may have characteristics of several different categories. In these cases, the Chief Finance Officer would use professional judgment to assess the main objective of the investment and consider which category is the best fit.

4.3.6 If the Council wishes to on-lend money to deliver objectives in an innovative way, the government expects that spending to be reported in the most appropriate category based on the eventual use of the money. The Council must not pursue a deliberate strategy of using private borrowing or internal borrowing to support investment in an asset that the PWLB would not support and then refinancing or externalising this with PWLB loans.

4.3.7 Under the prudential code, the Council cannot borrow from the PWLB or any other lender for speculative purposes, and must not use internal borrowing to temporarily support investments purely for yield, which would usually have one or more of the following characteristics:

- buying land or existing buildings to let out at market rate;
- buying land or buildings which were previously operated on a commercial basis which is then continued by the local authority without any additional investment or modification;
- buying land or existing buildings other than housing which generate income and are intended to be held indefinitely.

4.3.8 The decision over whether a project complies with the terms of the PWLB is for the Chief Finance Officer. This decision will be final unless the Treasury has concerns that issuing the loan is incompatible with HM Treasury's duty to Parliament to ensure that public spending represents good value for money to the Exchequer and aligns with relevant legislation. In practice such an eventuality is highly unlikely and would only occur after extensive discussion with the local authority in question – but a safeguard is necessary to protect the taxpayer.

4.4 Investments

4.4.1 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.

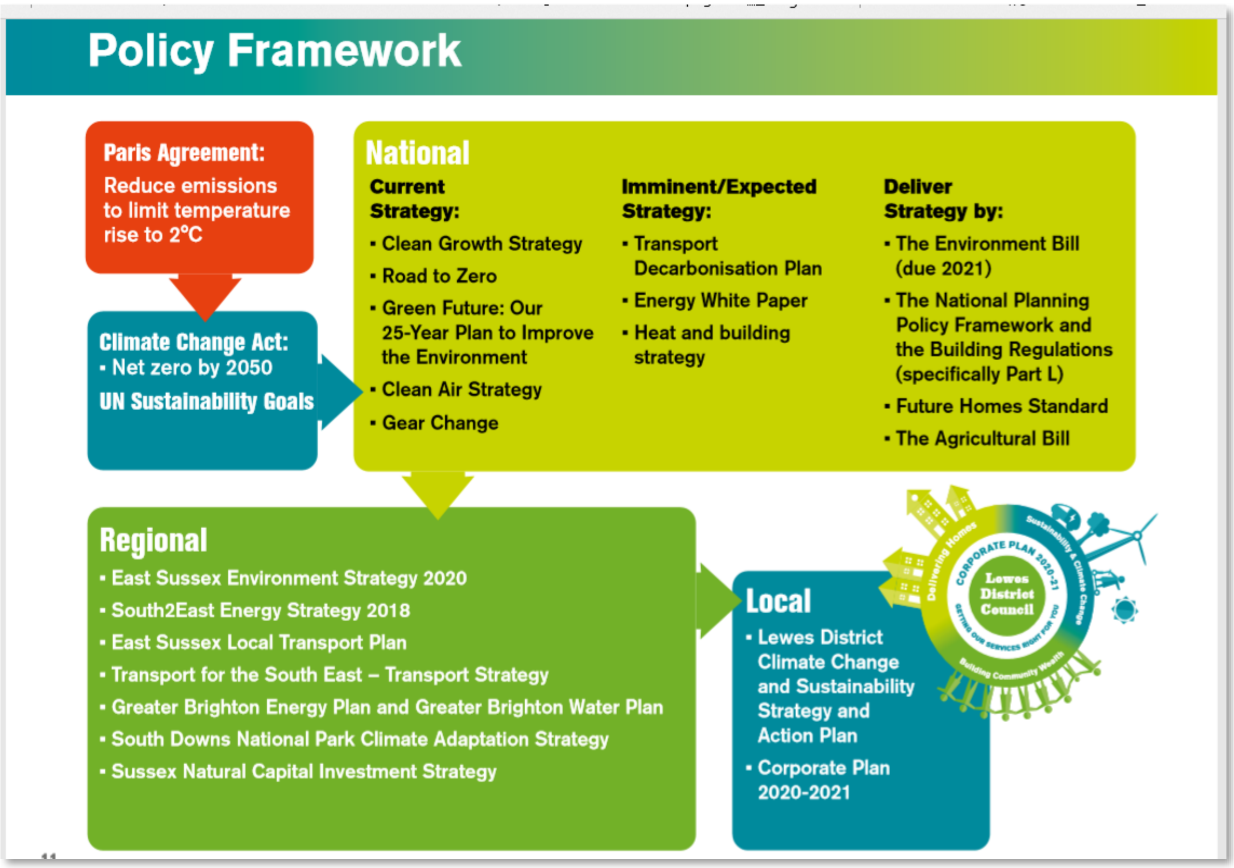
4.4.2 The Council's Investment Strategy is to prioritise security and liquidity over yield and social/ethical impact, focussing on minimising risk rather than maximising returns. Cash that is likely to be spent in the near term is invested securely in selected high-quality banks, to minimise the risk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

4.5 The Climate Change and Sustainability Strategy 2021

4.5.1 The Climate Change and Sustainability Strategy 2021 strategy was produced following the Climate Emergency declaration made at Full Council in July 2019 and sets out the district wide strategy and vision for a net zero carbon district by 2030. The visions and actions contained within the strategy have been developed in response to the urgency of the climate emergency being faced. The strategy will enable the Council to work with the community to co-ordinate its response into meaningful and long-lasting action. With limited financial resources the Council needs to ensure it prioritises the right actions to have a lasting positive impact on the district in relation to carbon reduction, sustainability and a green economic recovery.

4.5.2 The current Corporate Plan prioritises Sustainability and Community Wealth Building. Community wealth building is a key part of the sustainability strategy and forms part of action area 7 Circular Economy and Community Wealth. The Council is considered 'an anchor institution' and can use its substantial spending power and influence to drive investment into the local economy to enable a green economic recovery and local job creation and retention. Community wealth is a thread that runs throughout the climate change and sustainability strategy particularly in relation to procurement but also training and skills. The action plan and strategy refer directly to the 'Reimagining Lewes District Action Plan' that was subject to a cabinet paper in December 2020.

4.5.3 The policy framework below provides insight into major pieces of policy and how they link to our climate change and sustainability strategy.



4.6 The Council's Approach to Ethical Investments

4.6.1 Ethical investing is a term used to describe an investment process which takes environmental, social and governance (ESG) or other ethical considerations into account and is a topic of increasing interest within treasury management. Investment guidance, both statutory and from CIPFA, makes clear however that all investment must adopt the principals of security, liquidity, yield and that ethical issues must play a subordinate role to those priorities.

4.6.2 Furthermore, the council will not knowingly invest directly in businesses whose activities and practices pose a risk of serious harm to individuals or groups, or whose activities are inconsistent with the council's mission and values. This would include avoiding direct investment in institutions with material links to:

- Human rights abuse (e.g. child labour, political oppression);
- Environmentally harmful activities (e.g. pollutions, destruction of habitat, fossil fuels);
- Socially harmful activities (e.g. tobacco, gambling).

4.6.3 The investment guidance, both statutory and from CIPFA, makes clear that all investing must adopt SLY principles – security, liquidity and yield: ethical issues must play a subordinate role to those priorities. Link is looking at ways to incorporate these factors into their creditworthiness assessment service, but with a lack of consistency, as well as coverage, Link continue to review the options and will update the Council as progress is made.

4.7 Governance

4.7.1 Treasury management decisions are made daily 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.

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

6.1.1 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 incomes 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 Local authorities will be prohibited from accessing the PWLB if they plan debt-for-yield commercial investments in any of the three years 2020/21 – 2022/23. Commercial activity must be secondary priority to economic regeneration and housing provision. There will be more monitoring of what it is that local authorities are delivering by way of a capital scheme and Section 151 officers are required to formally validate those policies to HM Treasury/PWLB.

6.1.3 The Council can fund the purchase of investment property through various means **excluding borrowing** money, normally from the Debt Management Office as part of HM Treasury. The rental income paid by the tenant/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 District.

6.1.4 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 District 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 Commercial Investment Strategy will support achieving a step change increase in commercial investment and trading by the Council.

6.3.2 CIPFA's 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 must demonstrate that such investments are "proportionate" to their resources. The Council's approach will incorporate the revised CIPFA guidance when it is published; this will enhance the other risk management features that are being developed, which 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 District 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.

7. Other Liabilities

7.1 Outstanding Commitments

7.1.1 The Council also has the following outstanding commitments:

- The Council has also set aside £0.6 million at 31st March 2020 to cover the financial risk associated with Business Rates appeals lodged with the Valuation Office Agency (VOA).

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 2020 was £56.7 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 7: Prudential Indicator: Proportion of Financing Costs to Net Revenue Stream (General Fund)

	2020/21 forecast	**2021/22 forecast**	**2022/23 forecast**	**2023/24 forecast**
	£m	**£m**	**£m**	**£m**
Financing Costs (£m)	0.3	0.7	1.1	1.2
Proportion of Net Revenue Stream	2.2%	5.9%	9.2%	10.2%

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

	2020/21 forecast	**2021/22 forecast**	**2022/23 forecast**	**2023/24 forecast**
	£m	**£m**	**£m**	**£m**
Financing Costs (£m) [excl. depreciation]	1.8	1.8	2.1	2.2
Proportion of Net Revenue Stream	11.1%	10.8%	11.8%	12.1%

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 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:

<u>*Prudence*</u>

- Prudential indicators 7 and 8 presented above (Paragraph 8.1.1) are within expected and controllable parameters. Thus:
  - *Prudential Indicator 7 (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 8 (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.

<u>*Affordability*</u>

- The estimated 'revenue consequences' of the Capital Programme (£95.6 million over three years) have been included in the 2021/22 Budget and Medium-Term Financial Strategy (MTFS), extending to 2023/24; 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).

<u>*Sustainability*</u>

- Capital schemes that are expected to deliver long-term revenue savings/generate income are given due priority.
- 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. Prioritisation Principles and Obligations to deliver a scheme

9.1 The capital investment process is to ensure that money available for capital expenditure is prioritised in the way that best meets the Council's objectives and must be achieved within the constraints of the capital funding available. The Council need to demonstrate that it uses a clear, understandable method of comparing projects in order to prioritise expenditure and continue to allow schemes to be ranked according to Council's need, while ensuring the best allocation of the Council scarce resources in the most efficient/sustainable way and thus ensuing value for money.

9.2 Therefore, it is important that there is a strict definition of what is included within the scheme. Demand for capital resources to meet investment needs and aspirations will exceed the resources available to the Council and rolling programme items are the first call on available resources to ensure that existing approved service levels can continue to be delivered. New resource development bids will need to be prioritised as follows:

Projects Prioritisation for Capital Programme Inclusion	
Priority 1	Projects which enable compliance with Health & Safety and the Council's legal/statutory duties including projects which address any infrastructure deficits related to statutory compliance.
Priority 2	Projects that generate revenue savings through the delivery of a new business strategy or service transformation proposals or invest to save and cost avoidance.
Priority 3	Projects where a major proportion of the capital funding from external sources will be lost if the project fails to go ahead but subject to consideration of future revenue requirements.
Priority 4	Projects that contribute to the delivery of a smaller property portfolio through increased co-location or space utilisation or adaptation of new ways of working.
Priority 5	Projects that facilitate improvement, economic development, regeneration and housing growth
Priority 6	Projects that address cross-cutting issues, facilitate joint-working with partners or generate new/additional income.

9.3 The Council's financial and service planning process need to ensure decisions about the allocation of capital and revenue resources are taken to achieve a corporate and consistent approach. The funding of capital schemes is via the following hierarchy:

- External grants and contributions;
- Capital receipts from the disposal of fixed assets;
- Leasing finance; (where applicable);
- Revenue contributions;
- External Borrowing.

9.4 The strategy will be to employ 'Whole Life Costing' that will demonstrate the systematic consideration of all relevant costs and revenues associated with the acquisition and ownership of an asset, i.e., encourages decision-making that takes account of the initial capital cost, running cost, maintenance cost, refurbishment requirements and disposal cost.

10. Knowledge and Skills

10.1 Officers

10.1.1 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).

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

10.2 External Advisors

10.2.1 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 Link Asset Services as advisers, and the Asset Management team will commission 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.

10.3 Councillors

10.3.1 May 2023 is the next date for district council elections. Duly elected councillors will receive training appropriate to their role in the new Council.

10.3.2 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).

11. CFO Statement on the Capital Strategy

11.1 Prudential Code

11.1.1 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".

11.1.2 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.

11.2 Affordability

11.2.1 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 2023/24 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 2023/24) 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.

11.3 Risk

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

- *Treasury Management St*rategy – the Council will formally approve the Treasury Management Strategy for 2021/22, at the Lewes District Council – Full Council meeting on 22 February 2021, 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 2021/22, at the Council meeting on 22 February 2021, 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 its 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").