



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

2021/22

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1. INTRODUCTION

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

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

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

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

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

CIPFA defines treasury management as:

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

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

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

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

2. TREASURY MANAGEMENT REPORTING

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

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

Each of the above 3 reports are required to be adequately scrutinised by the Eastbourne Borough Council Audit and Governance 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 including the creation and maintenance of a Treasury Management Policy Statement stating the policies, objectives and approach to risk management of the Council's treasury management activities.

3. TREASURY MANAGEMENT POLICY STATEMENT

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

- a. This Council defines its treasury management activities as - *'The management of the authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks'*.
- b. This Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the Council, and any financial instruments entered into to manage these risks.
- c. This Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance management techniques, within the context of effective risk management.

4. CAPITAL STRATEGY

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

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

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

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

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

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

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

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

CIPFA concerns relating to the rapid expansion of acquisitions of commercial property and its relationship with CIPFA's statement in its Prudential Code that authorities must not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed. Where authorities exceed the limits of the Prudential Code and the wider Prudential Framework this places a strain on the credibility of the Prudential Framework to secure the prudent management of local authority finances.

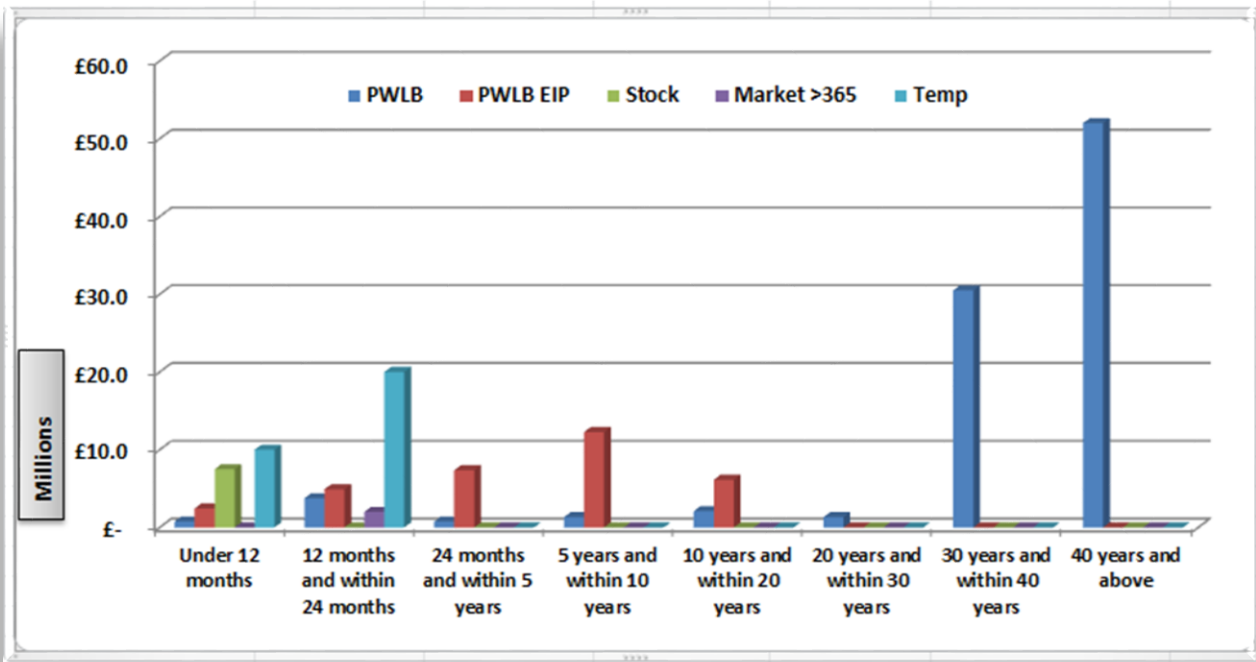
The Prudential Framework (including statutory guidance and the Prudential Code itself) allows local authorities the flexibility to take their own decisions; provided that the decisions taken are prudent, affordable and sustainable and that they have regard to the statutory guidance. However, local authorities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

5. TREASURY MANAGEMENT STRATEGY STATEMENT FOR 2021/22

5.1 Current Borrowing Position

The Council’s long-term external borrowing (excluding finance lease arrangements) is projected to be £160m at 31 March 2021 with the majority sourced from the Public Works Loan Board (PWLB) at fixed interest rates of between 1.6% - 8.8%, with a weighted average rate of 3.05%. 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 Council’s debt maturity profile as at December 2020, showing the outstanding level of loans each year, is shown in **Graph 1** below:



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 bonds 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.

5.3 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 this 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. **Graph 1** (on page 10) shows that most of the Council's debt is long dated and matures from November 2021 to September 2068. The Council's Draft Revenue Budget and Capital Programme 2021/22 to 2023/24 forecasts £112.6m of capital investment over the next three years with £46.2m to be met from existing or new resources. The amount of new borrowing required over this period is therefore £66.4m (HRA of £45.6m and GF of £20.8m) as shown in **Table 2** below.

Capital Expenditure Table 2	2019/20 Actual	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
	£m	£m	£m	£m	£m
General Fund	14.3	11.2	12.5	7.4	5.3
HRA	4.5	12.0	19.8	30.8	22.7
Commercial Activities/non-financial investments	15.0	15.5	6.9	5.0	2.2
Total	33.8	38.7	39.2	43.2	30.2
Financed by:					
Capital receipts	3.6	15.9	7.4	6.0	4.3
Capital grants	2.6	3.9	5.2	1.8	1.8
Capital reserves	4.2	8.3	4.4	5.6	6.3
Revenue	0.0	1.8	3.1	0.3	0.2
Net borrowing needed for the year	23.4	8.8	19.1	29.5	17.6

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

Table 2b	2019/20 Actual	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
Capital Financing Requirement	£m	£m	£m	£m	£m
CFR – General Fund	79.8	68.0	71.6	71.7	71.2
CFR - housing	42.6	46.8	54.6	77.9	92.4
Commercial Activities/non-financial investments	50.4	65.9	72.8	77.8	80.0
Total CFR	172.8	180.7	199.0	227.4	243.6
Movement in CFR	22.9	7.9	18.3	28.4	16.2

Movement in CFR represented by					
Net financing needed for the year (above)	23.4	8.8	19.1	29.5	17.6
Less MRP/VRP and other financing movements	(0.5)	(0.9)	(0.8)	(1.1)	(1.4)
Movement in CFR	22.9	7.9	18.3	28.4	16.2

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 (revised) to be £0.9m for 2020/21. MRP will cause a reduction in the CFR annually.

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

Table 3	2019/20 Actual	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
	£m	£m	£m	£m	£m
External borrowing					
GF Borrowing at 1 April	81.0	104.3	113.3	124.7	131.0
GF Expected change in borrowing	23.3	9.0	11.4	6.3	3.1
Other long-term liabilities (OLTL)	0.1	0.0	0.0	0.0	0.0
Expected change in OLTL	(0.1)	0.0	0.0	0.0	0.0
GF Actual gross borrowing at 31 March	104.3	113.3	124.7	131.0	134.1

HRA Borrowing at 1 April	42.6	42.6	46.7	54.6	77.8
HRA Expected change in borrowing	0.0	4.1	7.9	23.2	14.5
HRA Actual gross borrowing at 31 March	42.6	46.7	54.6	77.8	92.3

Table 3	2019/20 Actual	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
	£m	£m	£m	£m	£m
Total Actual gross borrowing at 31 March	146.9	160.0	179.3	208.8	226.4
Total CFR – the borrowing need	172.8	180.7	199.0	227.4	243.6
Under/ (over) borrowing	25.9	20.7	19.7	18.6	17.2

The Council is currently maintaining an under-borrowed position as it previously took advantage of historic low borrowing rates. As at the end of 2020/21, the Council is projected to be under borrowed by £20.7m, £19.7m, £18.6m, £17.2m between 2021/22 and 2023/24. This means that the capital financial requirement has been financed by existing resources and loan debt.

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

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.

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

The reasons for any rescheduling to take place will include:

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

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

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

- if it was felt that there was a significant risk of a sharp fall in long and short term rates (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.
- if it was felt that there was a significant risk of a much sharper rise in long and short term rates than that currently forecast, perhaps arising from an acceleration in the start date and in the rate of increase in central rates in the USA and UK, an increase in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates are still lower than they will be in the next few years.

6. PRUDENTIAL AND TREASURY INDICATORS 2021/22 to 2024/25

6.1 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.

6.2 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 £m (gross) Council's capital expenditure plans	£38.7m	£39.2m	£43.2m	£30.2m
Capital Financing Requirement £m Measures the underlying need to borrow for capital purposes (including Leases)	£180.7m	£199.0m	£227.4m	£243.6m
Ratio of financing costs to net revenue stream Identifies the trend in the cost of capital (borrowing and other long-term obligation costs net of investment income) against net revenue stream	23.1%	30.5%	35.7%	39.1%

The Capital Expenditure (gross) figures above with respect to the financial year of 2020/21, include the Secretary of State approval of capitalisation direction to fund revenue expenditure not exceeding £6.8m, and with respect to the financial year of 2021/22 a capitalisation direction not exceeding £6m.

6.3 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 2021/22 to 2024/25 are set out in **Table 5** below:

Table 5	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m
Authorised Limit for External Debt £m*	199	219	250	268
The Authorised Limit - The authorised limit represents a limit beyond which external debt is prohibited and it is the maximum amount of debt that the Council can legally owe. This limit is set by Council and can only be revised by Council approval. It reflects the level of external borrowing which, while not desirable, could be afforded in the short term, but is not sustainable in the longer. The current limit is set at 10% above the Operational Boundary.				
Operational boundary for external debt £m*	181	199	227	244
The Operational Boundary - This is the expected borrowing position of the Council during the year, taking account of the timing of various funding streams. The operational boundary is based on the Council's estimate of most likely (i.e. prudent but not worst case) scenario for external debt. It links directly to the Council's estimates of capital expenditure, the capital financing requirement, and cash flow requirements, and is a key management tool for in-year monitoring. This indicator may be breached temporarily for operational reasons.				
Upper limit for fixed interest rate exposure* Identifies a maximum limit for fixed interest rates for borrowing and investments.	100%	100%	100%	100%
Upper limit for variable interest rate exposure* Identifies a maximum limit for variable interest rates for borrowing and investments.	25%	25%	25%	25%
Maturity Structure of Borrowings* The Council needs to set upper and lower limits with respect to the maturity structure of its borrowing:				
Upper limit for under 12 months	75%	75%	75%	75%
Lower limit for under 12 months	0%	0%	0%	0%
Upper limit for 12 months to 2 years	75%	75%	75%	75%
Lower limit for over 12 months to 2 years	0%	0%	0%	0%
Upper limit for 2 years to 5 years	75%	75%	75%	75%
Lower limit for 2 years to 5 years	0%	0%	0%	0%
Upper limit for 5 years to 10 years	75%	75%	75%	75%
Lower limit for 5 years to 10 years	0%	0%	0%	0%
Upper limit for over 10 years	75%	75%	75%	75%
Lower limit for over 10 years	0%	0%	0%	0%

Note-

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

6.4 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.

6.5 Borrowing Limit and the Group Activities (i.e., Investment Company Eastbourne Limited)

In May 2018, the Council's wholly owned the Investment Company Eastbourne Limited (ICE) entered into a deal with a private company in respect of a property in Leicester. ICE is acting as the principal guarantor of a £48m refinancing loan to a private company, with the Council being the ultimate guarantor. ICE is also providing a rental guarantee in respect of shortfalls of rental income, again with the Council being the ultimate guarantor. In return for providing this guarantee, ICE has received an initial guarantee fee and will receive an annual guarantee fee.

The timing and amount of any payments arising from both the loan guarantee and the rental guarantee are uncertain, as they could result from a number of default or income shortfall events. However, a default event would also give rise to circumstances that are reflected as a Contingent Asset at the end of the loan term. Assuming no default event occurs; the property will be jointly marketed and sold, with ICE being entitled to stipulated amounts and proportions of the net sale proceeds.

Therefore, the calculation of the Authorised limits in relation to Group Accounts is set out in the Prudential Code Guidance notes as follows: *"The balance sheet used for the preparation of the indicators required by the Code is the authority's own balance sheet, i.e. the balance sheet from the single entity financial statements. The capital expenditure or borrowing of companies (or other bodies) in which an authority has an interest should not be included within these indicators".* It remains the case that where an authority has interests in companies or other similar related entities, the authority needs to have regard to its financial commitments and obligations to those bodies when deciding whether borrowing is affordable. The operational boundary should be based on the authority's estimate of most likely scenario – prudent, but not worst-case, and the authorised limit itself must be set only in relation to borrowing that would appear on the authority's own balance sheet from the single entity financial statements.

7. ANNUAL INVESTMENT STRATEGY

7.1 Investment Policy

The MHCLG and CIPFA have extended the meaning of 'investments' to include both financial and non-financial investments. This report deals solely with financial investments, (as managed by the treasury management team). Non-financial investments, essentially the purchase of income yielding assets, are covered in the Capital Strategy, (Appendix E). The Council's investment policy has regard to the following: -

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

The Council's investment priorities will be security first, portfolio liquidity second and then yield, (return). The above guidance from the MHCLG and CIPFA place a high priority on the management of risk. This authority has adopted a prudent approach to managing risk and defines its risk appetite by the following means: -

- Minimum acceptable **credit criteria** are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short term and long-term ratings.
- **Other information:** ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration the Council will engage with its advisors to maintain a monitor on market pricing such as “**credit default swaps**” and overlay that information on top of the credit ratings.
- **Other information sources** used will include the financial press, share price and other such information pertaining to the financial sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

7.2 Investment Strategy for 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 time 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 a number of 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 with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.

Table 6

Upper limit for principal sums invested for longer than 365 days			
Description	2021/22	2022/23	2023/24
Principal sums invested for longer than 365 days	£2m	£2m	£2m

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

7.6 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 for 2020/21 under IFRS 9, this authority will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. (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.

7.7 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 Link Asset Services. This service employs a sophisticated modelling approach utilising credit ratings from the three credit rating agencies.

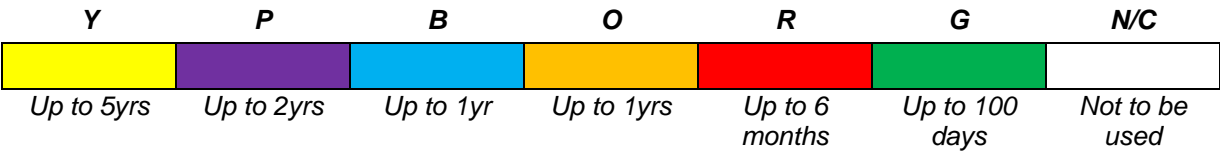
The Link Asset Services credit worthiness service uses a wider array of information than just primary ratings and by using a risk weighted scoring system, does not give undue reliance to just one agency's ratings. This modelling approach combines credit ratings with the following overlays:

- 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+ sovereign 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.



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 the Link Asset Services credit worthiness 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.

7.8 Criteria for Specified Investments:

Table 7	Country/ Domicile	Instrument	Maximum investments	Max. maturity period
Debt Management and Deposit Facilities (DMADF)	UK	Term Deposits (TD)	unlimited	1 yr
Government Treasury bills	UK	TD	unlimited	1 yr
UK Local Authorities	UK	TD	£5m	1 yr
Lloyds Banking Group <ul style="list-style-type: none"> Lloyds Bank Bank of Scotland 	UK	TD (including callable deposits), Certificate of Deposits (CD's)	£5m	1 yr
RBS/NatWest Group <ul style="list-style-type: none"> Royal Bank of Scotland NatWest 	UK		£5m	1 yr
HSBC	UK		£5m	1 yr
Barclays	UK		£5m	1 yr
Santander	UK		£5m	6 mths
Goldman Sachs Investment Bank	UK		£5m	6 mths
Standard Chartered Bank	UK		£5m	6 mths
Nationwide Building Society	UK		£5m	6 mths
Coventry Building Society	UK		£5m	6 mths
Individual Money Market Funds (MMF)	UK/Ireland/ EU domiciled	AAA rated Money Market Funds	£10m 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

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

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

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

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

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

7.10 Non treasury management investments

This Council invests in non-treasury management (policy) investments. These do not form part of the treasury management strategy. However, Members are advised that the following non treasury investments are currently in place as at 31 December 2020:

Investment	Facility £000	Int Rate
CloudConnX	357	1.5%+Base
EHIC – Loan Facility	12,456	4.50%
EHIC – Loan Facility	11,400	3.00%
EHIC - Credit Facility	250	2%+Base
Aspiration Homes Loan Facility	5,468	4.50%
Aspiration Homes – Credit Facility	100	2%+Base
Seachange (Site 6 Sov Harbour) (Excl capitalised interest)	850	3.00%
Seachange (Sov Harbour Innovation Mall) (Excl capitalised interest)	1,400	3.00%

7.11 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.

7.12 Lending to third parties

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

8. 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.

A review of MRP was previously undertaken and a change was made to the method of calculating MRP on debt prior to 2008 from a reducing balance to an annuity method. The change was made to bring the calculation in line with post 2008 debt and resulted in a re-profiling of the MRP charge.

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, with a maximum useful economic life of 50 years. This option will also be applied for any expenditure capitalised under a capitalisation directive.

For finance 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. Repayments included in annual PFI or finance leases are applied as MRP.

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 policies, 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 Eastbourne Borough Council Audit and Governance Committee

- Scrutiny of performance against the strategy.

9.4 Training

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

10. OTHER TREASURY ISSUES

10.1 Banking Services

Lloyds 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 in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented and subjected to regular review.