



Nottingham City Council

Treasury Management Strategy 2021/22

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1. Introduction

1.1 Background

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. The debt portfolio is actively managed including considering of new or replacement loans with durations that seek to match the future years forecast for optimal levels of debt. 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 Government commissioned a non-statutory review of the Council in November 2020 with the findings published on the 17th December. The published review highlighted the level of risk and planned further borrowing within the capital programme, the high level of debt held by the Council and the reduction in the balances of reserves held which further reduces budget flexibility.

Following the review, the Council has published the Nottingham City Council Recovery & Improvement Plan 2021 – 2024; as part of this the Capital Strategy and this Treasury Strategy have been reviewed with the aim to support the Council returning to financial and operational stability. The borrowing and debt management strategies are to reduce the Council's future requirement to borrow, known as the Capital Financing Requirement (CFR)

and to reduce the level of debt held by the Council. The CFR is forecast to reduce by around £188m in the period 2020/21 to 2025/26 as covered by these strategies.

1.2 Reporting requirements

1.2.1 Capital Strategy

The CIPFA 2017 Prudential and Treasury Management Codes require all local authorities to prepare a capital strategy report, 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 councillors 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 forms the foundation of the Council's long-term planning and delivery of its capital investment. It sets the parameters for the capital programme, which will be updated each year will help to ensure that capital resources are used efficiently to achieve the best possible outcomes within constrained budgets.

A sustainable capital programme, and the strategy and controls to shape and manage it, is a critical contributor to the overall financial recovery of the City Council. The Recovery and Improvement Plan recommends a review of the capital programme, which will look to stabilise the current programme and put it on a sustainable footing for the longer term. Development of an effective Capital Strategy and a strengthened governance and control framework will support the Council in achieving this. Implementation of the Plan will be a key priority of the Council and the Capital Strategy will be an important document to support the delivery of the plan. The implementation of the Capital Strategy will assist in the Council meeting its Recovery and Improvement Plan objectives.

Key activities include -

- A full review of the capital programme to remove de-prioritised schemes and add in future liabilities.
- Producing a revised Debt Management Strategy aligned with the Capital strategy with an aim of paying down debt over time.
- Creating a revised Capital Strategy incorporating a prioritisation process.
- Delivering a strengthened Governance and Control Framework and ensuring that it put into practice across the Council.

The Recovery and Improvement Plan was approved at Council on 25 January 2021 and can be found at

<https://www.mynottinghamnews.co.uk/wp-content/uploads/2021/01/Improvement-Plan-New-Version-v-6.3.pdf>

The Capital Strategy is reported individually, but alongside the Treasury Management Strategy Statement at Audit Committee, Executive Board and Full Council; 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;
- The service objectives relating to the investments;
- The expected income, costs and resulting contribution;
- The debt related to the activity and the associated interest costs;
- For non-loan type investments, the cost against the current market value;
- The risks associated with each activity.

If any existing 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.

To demonstrate the proportionality between the planned treasury operations and the non-treasury operation, high-level comparators are shown throughout this report.

1.2.2 Treasury Management reporting

The Council (delegated to Executive Board except the approval of a new strategy) is currently required to receive and approve, as a minimum, three main treasury reports each year, which incorporate a variety of policies, estimates and actuals.

- a. Prudential and treasury indicators and treasury strategy** (this report) - The first, and most important report is forward looking and covers:
 - the capital plans, (including prudential indicators);
 - a minimum revenue provision (MRP) 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).
- b. A mid-year treasury management report** – This is primarily a progress report and will update councillors on the capital position, amending prudential indicators as necessary, and whether any policies require revision.
- c. An annual treasury report** – This is a backward looking review document and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

Scrutiny

The above reports are required to be adequately scrutinised before being recommended to the Council. This role is undertaken by the Audit Committee.

1.3 Treasury Management Strategy for 2021/22

The strategy for 2021/22 covers two main areas:

Capital issues

- the capital expenditure plans and the associated prudential indicators;
- the minimum revenue provision (MRP) policy.

Treasury management issues

- the current treasury position;
- treasury indicators which limit the treasury risk and activities of the Council;
- prospects for interest rates;
- the borrowing strategy including debt management;
- policy on borrowing in advance of need;
- debt rescheduling;
- the investment strategy;
- investment policy including creditworthiness; and
- the policy on use of external service providers.

These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, the Ministry of Housing, Communities and Local Government, [MHCLG] MRP Guidance, the CIPFA Treasury Management Code and the MHCLG Investment Guidance.

1.4 Training

The CIPFA Code requires the responsible officer to ensure that councillors with responsibility for treasury management receive adequate training in treasury management. This especially applies to councillors responsible for scrutiny. The Audit Committee received a Treasury Management training session delivered by Link Group on 27 November 2020. Further training will be arranged as required. The training needs of treasury management officers are periodically reviewed.

1.5 Treasury management advisors

The Council uses Link Group, Treasury solutions as its external treasury management advisors. The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon the services of our external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisers.

It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

2 The Capital Prudential Indicators 2020/21 – 2025/26

The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans are reflected in the prudential indicators, which are designed to assist councillors' overview and confirm capital expenditure plans.

2.1 Capital expenditure

This prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle.

Capital Expenditure £m	2019/20 Actual	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
General Fund	120.605	101.500	99.607	71.590	31.969	15.403	15.275
Commercial Activities / Non-financial investments *	7.331	27.839	17.252	-	-	-	-
General Fund Total	127.936	129.339	116.859	71.590	31.969	15.403	15.275
HRA	43.805	46.619	64.982	67.823	42.849	32.149	30.977
TOTAL	171.741	175.958	181.841	139.413	74.818	47.552	46.252

* Commercial activities / non-financial investments relate to areas including capital expenditure on loans to third parties to deliver on Council service objectives.

The above capital expenditure figures reflect the reviewed 2021/22 Capital Strategy, which seeks to use effective prioritisation to deliver an affordable capital program by limiting expenditure and increasing capital receipts to align the capital plans to the financial context of the Council. This review is ongoing.

The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need.

Financing of Capital Expenditure £m	2019/20 Actual	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Capital Receipts	15.874	16.251	12.516	24.086	14.968	7.037	6.474
Capital Grants & Contributions	69.546	48.228	83.663	59.458	20.606	8.839	8.836
Capital Reserves (MRR)	25.902	22.325	37.249	43.350	32.105	29.633	30.942
Revenue Resources	0.467	1.999	6.123	0.275	0.275	0.221	-
Capital expenditure to be financed by borrowing	59.952	87.155	42.290	12.244	6.864	1.822	0.000
TOTAL	171.741	175.958	181.841	139.413	74.818	47.552	46.252

The net financing need for commercial activities / non-financial investments included in the above table against expenditure is shown below:

Commercial activities / capital investments £m	2019/20 Actual	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Capital Expenditure	7.331	27.839	17.252	-	-	-	-
Commercial activity financed by borrowing	7.331	27.839	17.252	-	-	-	-
Overall Capital expenditure to be financed by borrowing	59.952	87.155	42.290	12.244	6.864	1.822	0.000
Percentage of total net financing need %	12%	32%	41%	0%	0%	0%	0%

The table above shows in 2021/22 that 41% of the overall capital expenditure financed by borrowing is forecast to be for commercial/non-financial investments. These mainly relate

to loans to 3rd parties, primarily for housing needs, to achieve priority service objectives of the Council. Commercial activity in the above table has been reviewed to ensure it remains supportable expenditure in line with HM Treasury's revised PWLB lending arrangements.

2.2 The Council's borrowing need (the Capital Financing Requirement)

The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's indebtedness i.e. the underlying borrowing need. Any capital expenditure above, which has not immediately been paid for through a revenue or capital resource, will increase the CFR.

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

The CFR includes any other long-term liabilities (e.g. PFI schemes, finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility by the PFI/lease provider and so the Council is not required to separately borrow for these schemes. The Council has £181.8m of such schemes within the CFR as at 31 March 2021.

The CFR projections are shown below:

	2019/20 Actual	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Capital Financing Requirement (£m)							
CFR – General Fund	1,089.445	1,119.085	1,101.154	1,053.515	1,000.481	941.006	885.114
CFR – HRA	292.530	304.360	314.049	319.050	319.865	315.466	309.200
Total CFR	1,381.975	1,423.445	1,415.203	1,372.565	1,320.346	1,256.472	1,194.314
Movement in CFR		41.470	(8.243)	(42.638)	(52.219)	(63.874)	(62.158)

Movement in CFR represented by (£m)							
Net financing need for the year (above)	59.952	87.155	42.290	12.244	6.864	1.822	0.000
Less MRP/VRP and other financing movements		45.685	50.533	54.882	59.083	65.696	62.158
Movement in CFR		41.470	(8.243)	(42.638)	(52.219)	(63.874)	(62.158)

Note: the MRP / VRP will include PFI / finance lease annual principal payments and a known increase of £4.7m in MRP from 2023/24 as part of a previous decision to change the MRP Policy.

The recent review of the capital programme and the 2021/22 Capital Strategy support the objectives in the Council's recovery & improvement plans including limiting expenditure financed by borrowing and increase capital receipts to reduce the Council's forecast requirement to borrow. This has resulted in a reduction in debt levels and will support achieving long-term financial stability. There is a forecast £188m overall reduction in the Council's requirement to borrow, known as the CFR, from 2020/21 to 2025/26 which is the sum of the 'Movement in CFR' in the table above and reflects decisions made to date towards the debt reduction objectives within the Debt Policy shown in section 3.4.

A key aspect of the regulatory and professional guidance is that elected councillors are aware of the size and scope of any commercial activity in relation to the Council's overall financial position. The capital expenditure figures shown in 2.1 and the details above

demonstrate the scope of this activity and the scale proportionate to the Council's remaining activity.

3 Borrowing

The capital expenditure plans set out in Section 2 provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity and the Council's Capital Strategy. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The Treasury Management Strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

3.1 Current portfolio position

The overall treasury management portfolio as at 31 March 2020 and for the position as at 31 December 2020 are shown below for both borrowing and investments.

Treasury Portfolio				
	actual	actual	current	current
	31.3.20	31.3.20	31.12.20	31.12.20
Treasury investments	£m	%	£m	%
banks	20.000	16%	20.000	16%
local authorities	35.000	27%	65.000	53%
DMADF (H.M.Treasury)	0	0%	0	0%
money market funds	74.000	57%	36.600	30%
Total treasury investments	129.000	100%	121.600	100%
Treasury external borrowing				
local authorities	132.500	12%	30.000	3%
PWLB	892.773	83%	876.039	92%
market loans inc LOBOs	49.000	5%	49.000	5%
other	0.236	0%	0.234	0%
Total external borrowing	1,074.509	100%	955.273	100%
Net treasury investments / (borrowing)	(945.509)		(833.673)	

The Council's forward projections for borrowing are summarised below. The table shows the actual external debt, against the underlying capital borrowing need, (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

It should be noted that the forecast under borrowing position is supported by the Council balance sheet i.e. reserves and working capital balances, as these balances reduce further borrowing will be required and additional costs of financing will be incurred. This should be seen in context of the Council's overall budget position and current level of budget flexibility.

£m	2019/20 Actual	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
External Debt at 1 April	953.2	1,074.5	981.6	992.0	988.2	956.8	929.4
Expected change in Debt	121.3	(92.9)	10.4	(3.8)	(31.4)	(27.4)	(18.9)
Other long-term liabilities inc PFI	201.0	191.4	181.8	170.7	158.7	146.7	133.9
Expected change in OLTL *	(9.6)	(9.6)	(11.1)	(12.0)	(12.0)	(12.8)	(13.6)
Gross debt at 31 March	1,265.9	1,163.4	1,162.7	1,146.9	1,103.5	1,063.2	1,030.7
Capital Financing Requirement (CFR)	1,382.0	1,423.4	1,415.2	1,372.6	1,320.3	1,256.5	1,194.3
Under / (over) borrowing	116.1	260.1	252.5	225.6	216.9	193.2	163.6

* (OLTL) – Other Long Term Liabilities

Within the range of prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2021/22 and the following two financial years.

The Council complied with this prudential indicator in the current year and expects to remain compliant against the future estimates below. This view takes into account current commitments, existing plans, and the proposals in this report and the Capital Strategy for 2021/22.

3.2 Treasury Indicators: limits to borrowing activity

The operational boundary. This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt and the ability to fund under-borrowing by other cash resources.

£m	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Operational boundary	1,423.4	1,415.2	1,372.6	1,320.3	1,256.5	1,194.3

The authorised limit for external debt. This is a key prudential indicator and represents a control on the maximum level of borrowing. This represents a legal limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.

£m	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Authorised limit	1,453.4	1,445.2	1,402.6	1,350.3	1,286.5	1,224.3

Abolition of HRA debt cap. Separately, the Council was also limited to a maximum HRA CFR through the HRA self-financing regime. (*) In October 2018 Prime Minister Theresa May announced a policy change of abolition of the HRA debt cap.

Any new HRA borrowing should be compliant with the Prudential Code i.e. prudent, affordable, sustainable and in proportion with the available resources. The Council's

plans are reflected in the housing sections of the Capital Strategy, which is again limiting future capital expenditure financed by borrowing in line with the objectives in the Council's Recovery & Improvement Plan.

The planned HRA borrowing is shown below against the now abolished debt cap:

HRA Debt Indicator £m	2019/20 Actual	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
HRA debt cap (abolished)	319.8	319.8	319.8	319.8	319.8	319.8	319.8
HRA CFR	292.5	304.4	314.0	319.0	319.9	315.5	309.2
Difference to notional cap	27.3	15.4	5.8	0.8	(0.1)	4.3	10.6

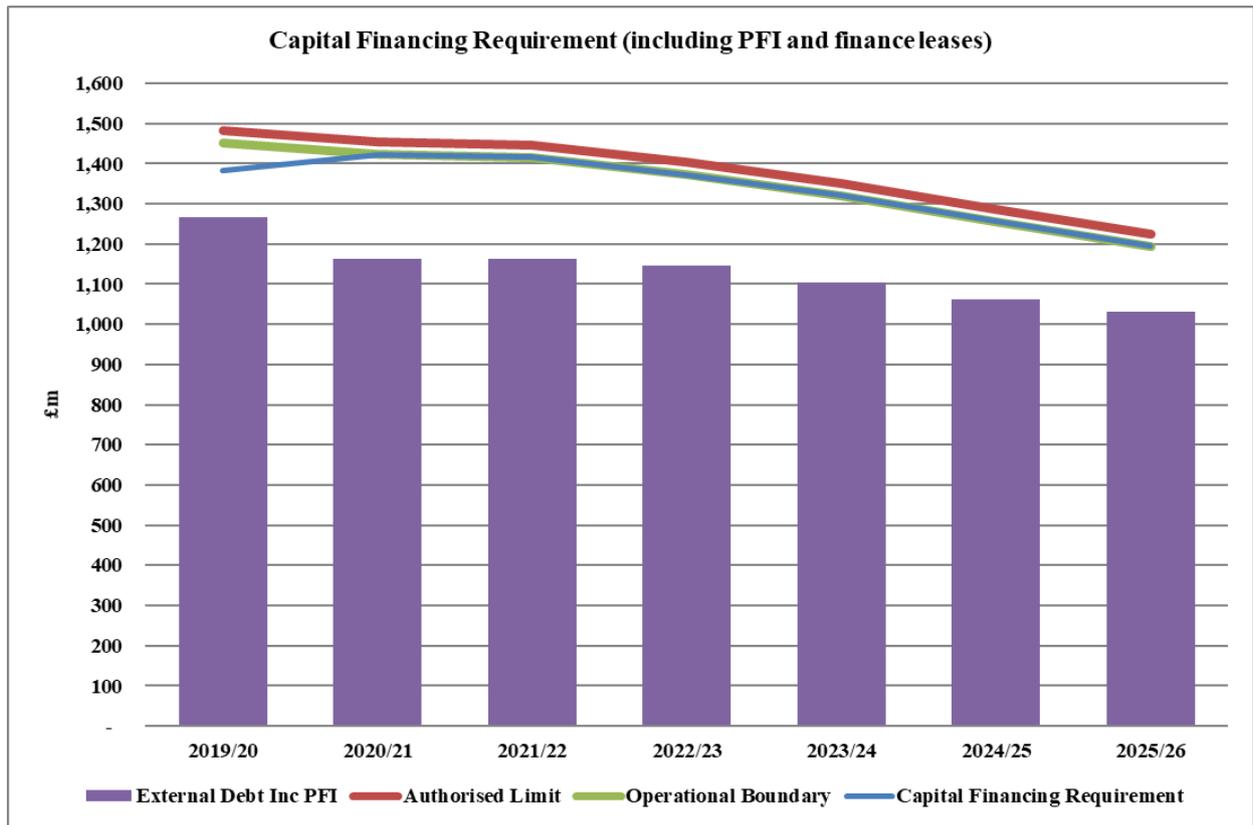
The upper limit on variable interest rate exposure. – This is a local indicator to control the Council's exposure to interest rate risk including LOBO loans with a call option in the next 12 months. The upper limits on variable rate interest rate exposures, expressed as the amount of principal borrowed for the next five financial years. A high level of variable rate debt presents a risk from increases in interest rates. This figure represents the maximum permitted exposure to such debt.

£m	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Variable rate debt	300.0	300.0	300.0	300.0	300.0	300.0

The level of variable rate debt as at 31 December 2020 was £75.1m.

Debt limits against the CFR: - The following table and graph discloses how the indicators on the limits to borrowing compare to actual external debt and the forecast capital financing requirement (CFR). The difference between the CFR and the forecast external debt represents the level of under borrowing expected over the forecast period which is cost efficient, but does increase the Council's exposure to interest rates.

Capital Financing Requirement (including PFI and finance leases)							
	Actual 2019/20 £m	Est 2020/21 £m	Est 2021/22 £m	Est 2022/23 £m	Est 2023/24 £m	Est 2024/25 £m	Est 2025/26 £m
HRA CFR	292.5	304.4	314.0	319.0	319.9	315.5	309.2
General Fund CFR	1,089.4	1,119.1	1,101.2	1,053.5	1,000.5	941.0	885.1
Total CFR	1,382.0	1,423.4	1,415.2	1,372.6	1,320.3	1,256.5	1,194.3
External Borrowing	1,074.5	981.6	992.0	988.2	956.8	929.4	910.4
Other long term liabilities	191.4	181.8	170.7	158.7	146.7	133.9	120.3
Total Debt	1,265.9	1,163.4	1,162.7	1,146.9	1,103.5	1,063.2	1,030.7
Authorised Limit	1,482.7	1,453.4	1,445.2	1,402.6	1,350.3	1,286.5	1,224.3
Operational Boundary	1,452.7	1,423.4	1,415.2	1,372.6	1,320.3	1,256.5	1,194.3



3.3 Prospects for interest rates

The Council has 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, however, following the conclusion of the review of PWLB margins over gilt yields on 25 November 2020, all forecasts are now based on gilt yields plus 80bps. The Interest rate forecast below should be considered alongside the detailed economic background and forecast commentary provided in section 5.4.

Link Group Interest Rate View		8.2.21											
	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	0.90	0.90	0.90	0.90	1.00	1.00	1.10	1.10	1.10	1.20	1.20	1.20	1.20
10 yr PWLB	1.30	1.30	1.30	1.30	1.40	1.40	1.50	1.50	1.50	1.60	1.60	1.60	1.60
25 yr PWLB	1.90	1.90	1.90	1.90	2.00	2.00	2.10	2.10	2.10	2.20	2.20	2.20	2.20
50 yr PWLB	1.70	1.70	1.70	1.70	1.80	1.80	1.90	1.90	1.90	2.00	2.00	2.00	2.00

The above forecasts for 3-12 month average earnings previously had been referenced to the London Inter-bank Offered Rates (LIBOR), however LIBOR is likely to be replaced during 2021, when full financial market agreement is reached. The replacement is likely to be linked to the Sterling Overnight Index Average (SONIA). Updates on this issue will be reported within the next planned treasury management update report to councillors.

Investment and borrowing rates

- Investment returns are likely to remain low during the whole forecast period due to the huge level of damage done to the UK and economies around the world since the outbreak of the coronavirus. In response the Bank of England took emergency action in March to cut Bank Rate to first 0.25%, and then to 0.10%. The Bank Rate has since been left unchanged, although some forecasters had suggested that a cut into negative territory could happen.
- Borrowing interest rates were already been on a generally falling trend up until the coronavirus crisis hit western economies during March 2020. Since then gilts have fallen further to historically low levels and as the Bank of England increased its quantitative easing operations and gilt yields up to 6 years duration were negative during most of the first half of 2020/21.
- On 25 November 2020, the Chancellor announced the conclusion to the review of margins over gilt yields for PWLB rates; the standard and certainty margins were reduced by 1% but a prohibition was introduced to deny access to borrowing from the PWLB for any local authority which had purchase of assets for yield in its three year capital programme. The new margins over gilt yields are as follows: -
 - **PWLB Standard Rate** is gilt plus 100 basis points (G+100bps)
 - **PWLB Certainty Rate** is gilt plus 80 basis points (G+80bps)
 - **PWLB HRA Standard Rate** is gilt plus 100 basis points (G+100bps)
 - **PWLB HRA Certainty Rate** is gilt plus 80bps (G+80bps)
 - **Local Infrastructure Rate** is gilt plus 60bps (G+60bps)

- Borrowing for capital expenditure. As Link's long-term forecast for Bank Rate is 2.00%, and all PWLB rates are under 2.00%, there is now value in borrowing from the PWLB for all types of capital expenditure for all maturity periods, especially as current rates are at historic lows. However, greater value can be obtained in borrowing for shorter maturity periods to reduce total interest costs, although longer-term borrowing could be undertaken for the purpose of cost certainty.
- The cost of carry (the difference between higher borrowing costs and lower investment returns) will be considered alongside the mitigation of interest rate risk on any new long or medium-term borrowing decision that cause a temporary increase in cash balances as this position will, most likely, incur a revenue cost.

3.4 Borrowing strategy including debt management

The Council's policy on borrowing is to limit planned expenditure financed by borrowing and to seek to reduce the level of debt held by the Council in line with the objectives in the published Recovery & Improvement Plan 2021-2024.

The Capital Strategy includes the Voluntary Debt Reduction Policy Statement (Appendix B) including a debt policy in respect of new capital expenditure. The debt policy section is shown below:

- 2020/21 - ***To minimise spend and borrowing subject to pre-existing capital commitments and expenditure already incurred within 2020/21.*** The capital Programme has been reviewed and a number of schemes been removed or rephrased. This review concluded in February 2021 and **c.£14.7m** of General Fund schemes were de-committed and a further **£19.4m** of Public Sector Housing schemes were removed.
- 2021/22 - ***To restrict new borrowing to the level of the annual debt being repaid.*** (i.e. New borrowing no greater than the MRP repaid). The Capital Programme has been reduced to existing commitments.
- 2022/23 - 2024/25 - ***Nil new borrowing throughout the period.*** This applies both to general fund and public sector housing debt – the latter managed on a cumulative basis over the period.

Nothing in this policy shall prevent the Council from exercising normal day to day management of its borrowings through Treasury Management activities and/or the use of internal borrowing.

Objectives: The Council's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required. The flexibility to renegotiate loans should the Council's long-term plans change is a secondary objective.

The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is still an issue that needs to be considered.

Against this background and the risks within the economic forecast, caution will be adopted with the 2021/22 treasury operations. Interest rates are closely monitored in financial markets and a pragmatic approach to changing circumstances will be taken:

- *if it was felt that there was a significant risk of a much sharper RISE in borrowing rates than that currently forecast, perhaps arising from an acceleration in the rate of increase in central rates in the USA and UK, an increase in world economic activity, or a sudden increase in inflation risks, then the portfolio position will be re-appraised. Most likely, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.*

The current central case forecast shows short-term interest rates remaining very low for the whole forecast period and very limited increases in longer-term PWLB interest rates. On this basis, the Council will look to fully utilise the available under-borrowed position and supplement with short-term loans at very low interest rates whilst retaining some flexibility to take fixed rate funding to reduce the overall interest rate exposure if appropriate.

The Council's longer-term requirement for borrowing, known as the CFR will be a key consideration when taking on new or replacement borrowing, the shorter periods are likely to be more appropriate. Where cash flow requirements permit some debt upon maturity will be repaid without replacement to bring the overall level of debt down and reducing the Council's cost of financing.

However, to manage interest rate risk this strategy includes the option to pre-fund future years' borrowing requirements including maturing loans or to reduce the level of internal borrowing providing this does not exceed the authorised limit for borrowing.

Any borrowing will be subject to the Council's borrowing limits, maturity limits and the limits on the exposure to variable interest rates shown in section 3.2 to comply with the Prudential Indicators in section 5, and will be reported to the Executive Board and Audit Committee at the next available opportunity following its action.

Sources: The approved sources of long-term and short-term borrowing are:

- Public Works Loan Board (PWLB) and its successor body
- any institution approved for investments (see below)
- any other bank or building society authorised to operate in the UK
- UK public and private sector pension funds (except Nottinghamshire County Council Pension Fund)
- Insurance and Assurance companies
- capital market bond investors
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues

In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- operating and finance leases

- hire purchase
- Private Finance Initiative
- sale and leaseback

3.5 Policy on borrowing in advance of need

Government investment guidance expects local authorities to have a policy for borrowing in advance of need, in part because of the credit risk of investing the surplus cash. The Council's policy is to borrow to meet its forecast Capital Financing Requirement (CFR), including an allowance (currently £30m) for liquidity risks. The Council will only borrow in advance of need where there is a clear business case for doing so and will only do so for the forecast capital programme, to replace maturing loans, or to meet other expected cash flows.

3.6 Debt rescheduling

The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The Council may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk.

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).

All rescheduling will be reported to the Executive Board and Audit Committee, at the earliest meeting following its action.

3.7 New financial institutions as a source of borrowing and / or types 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)

With support from our treasury management advisors we will keep informed as to the relative merits of each of these alternative funding sources.

4 Annual Treasury Investment Strategy

4.1 Treasury Investment policy – management of risk

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, (a separate report).

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

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: -

1. Minimum acceptable **credit criteria** are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the long-term ratings.
2. **Other information:** ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration the Council will engage with its advisors to maintain a monitor on market pricing such as “**credit default swaps**” and overlay that information on top of the credit ratings.
3. **Other information sources** used will include the financial press, share price and other such information pertaining to the financial sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.
4. This Council has defined the list of **types of investment instruments** that the treasury management team are authorised to use. There are two categories ‘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 or have less than a year left to run to maturity if originally they were originally classified as being non-specified investments solely due to the maturity period exceeding 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 councillors and officers before being authorised for use.

5. **Non-specified investments limit.** The Council has determined that it will limit the maximum total exposure to non-specified investments (see table 2 in section 4.4).
6. **Approved Counterparties and limits**, (amounts and maturity), for each type of counterparty will be set through applying the matrix table 1 in section 4.4.
7. **Investment limits** are set for each type of investment in table 3 in section 4.5.
8. This authority will set a limit for the amount of its investments which are invested for **longer than 365 days**, shown in table 4 in section 4.6.
9. Investments will only be placed with counterparties from countries with a specified minimum **sovereign rating**, (see section 4.4 – specified investments).
10. This authority has engaged **external consultants**, to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of this authority in the context of the expected level of cash balances and need for liquidity throughout the year.
11. All investments will be denominated in **sterling**.
12. 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 31.3.23.

This authority will also pursue **value for money** in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance, (see paragraph 4.7). Regular monitoring of investment performance will be carried out during the year.

Changes in risk management policy from last year.

The above criteria are unchanged from last year except a minor change to 4, to allow non-specified investments that are of high credit quality but originally had a >12 month duration to become specified once their maturity date is < 12 months.

4.2 Investment strategy

Objectives: Both the CIPFA Code and the MHCLG Guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk receiving unsuitably low investment income. For liquidity purposes investment balances are expected to be maintained above £30m but balances available for investment are expected to reduce as the under-borrowing capacity is utilised in the forthcoming year.

Strategy: Investments will be made with reference to the forecast core cash balances, 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 cash balances are required in order to manage the ups and downs of the known cash flow cycle, 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 and considered.

- 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.

4.3 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 the deal the UK agreed 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.

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. Fund 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 surplus of money in 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 some 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.

4.4 Approved Counterparties

The Council may invest its surplus funds with any of the counterparty types in table 1 below, subject to the cash limits (per counterparty) and the time limits shown.

Credit Rating	Banks Unsecured	Banks Secured	Government
UK Govt	n/a	n/a	£ Unlimited 50 years
AAA	£10m 5 years	£10m 20 years	£10m 50 years
AA+	£10m 2 years	£10m 10 years	£10m 25 years
AA	£10m 2 years	£10m 5 years	£10m 15 years
AA-	£10m 2 years	£10m 4 years	£10m 10 years
A+	£10m 2 years	£10m 3 years	£10m 5 years
A	£10m 13 months	£10m 2 years	£10m 5 years
A-	£10m 6 months	£10m 13 months	£10m 5 years
None	n/a	n/a	£10m * 5 years
Money Market Funds (AAA or equivalent)	£10m per fund		
Ultra-Short Dated Bond Funds (AAA or equivalent)	£10m per fund		

* Includes other UK Local Authorities – limit per Authority

This table must be read in conjunction with the notes below:-

Lloyds Bank: The Council's own bank, will be subject to the limits in table 1 for investment balances, but also accommodate necessary short-term cash management balances within its bank accounts for periods of up to 4 days with no maximum sum.

Credit Rating: Investment limits are set by reference to the lowest published long-term credit rating from Fitch, Moody's or Standard & Poor's. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are not made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

Banks Unsecured: Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail.

Banks Secured: Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the highest of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

Government: Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is an insignificant risk of insolvency. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years.

Money Market Funds: A highly rated, highly diversified pooled investment vehicle whose assets mainly comprise of short-term instruments. The Money Market Fund definition and limit includes Cash and Cash-plus funds both are highly regulated and have to operate within minimum credit quality and diversification requirements as set out by rating agencies to maintain an AAA money market fund rating. These are used as an alternative to short term deposits and instant access bank accounts.

Ultra-Short Dated Bond Funds: A pooled fund designed to produce an enhanced return over and above a Money Market Fund. The fund manager may use different counterparties and instruments as well as longer dated investments to offer enhanced returns over the longer term, but are more volatile in the short term. These allow diversification into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but offer withdrawal after a notice period, their performance and continued suitability will be monitored regularly. Funds will only be considered if they have an AAA bond fund credit rating.

Risk Assessment and Credit Ratings:

Credit ratings are obtained and monitored by the Council's treasury advisers, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made,

- any existing investments that can be recalled or sold at no cost will be, and full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as “rating watch negative” or “credit watch negative”) so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

Specified Investments: The MHCLG Guidance defines specified investments as those:

- denominated in pound sterling,
- due to be repaid within 12 months,
- not defined as capital expenditure by legislation, and
- invested with one of:
 - the UK Government,
 - a UK local authority, parish council or community council, or
 - a body or investment scheme of “high credit quality”.

The Council defines “high credit quality” organisations and securities as those having a credit rating of A- or higher that are domiciled in the UK or a foreign country with a sovereign rating of AA+ or higher. For money market funds and other pooled funds “high credit quality” is defined as those having a credit rating of AAA from at least one of the main credit rating agencies.

Non-specified Investments: Any investment not meeting the definition of a specified investment is classed as non-specified. The Council does not intend to make any financial investments (treasury management investments) denominated in foreign currencies, nor any that are defined as capital expenditure by legislation, such as company shares. Non-specified treasury investments will therefore be limited to long-term investments, i.e. those that are due to mature in 12 months or longer. The limits for non-specified investments are shown in **table 2** below.

Table 2: Non-Specified Investment Limit	
	Cash limit
Unsecured Bank Investments > 365 days *	£0m
Secured Bank Investments > 365 days *	£40m
Government Investments > 365 days (inc Local Authorities) *	£100m
Total non-specified investments	£100m

* The table above shows the non-specified investment limits by the investment type. The investment limits in Table 1 & 3 also apply.

4.5 Investment Limits

In order to limit the amount of available reserves put at risk in the case of a single default, the maximum that will be lent unsecured to any one organisation (other than the UK

Government) will be £10 million. A group of banks under the same ownership will be treated as a single organisation for limit purposes. Limits will also be placed on fund managers, investments in brokers' nominee accounts, foreign countries and industry sectors as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

Table 3: Investment Limits	Cash limit
Any single organisation, except the UK Central Government	£10m each
UK Central Government	Unlimited
Any group of organisations under the same ownership	£10m per group
Any group of pooled funds under the same management	£20m per manager
Negotiable instruments held in a broker's nominee account	£50m per broker
Foreign countries	£20m per country
Money Market Funds (AAA or equivalent *)	£80m in total
Ultra-short dated bond funds (AAA or equivalent *)	£20m in total

* Money market fund "fund" ratings are different to individual counterparty ratings, coming under either specific "MMF" or "Bond Fund" rating criteria.

4.6 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 including the flexibility to accelerate borrowing to manage interest rate risk as detailed in section 3.4.

Table 4: Upper limit for principal sums invested for longer than 365 days			
£m	2021/22	2022/23	2023/24
Principal sums invested for longer than 365 days	£100m	£100m	£100m
Current investments as at 31.12.20 in excess of 1 year maturing in each year	£10m	£0m	£0m

4.7 Investment risk benchmarking

These benchmarks are simple guides to maximum risk, so they may be breached from time to time, depending on movements in interest rates and counterparty criteria. The purpose of the benchmark is that officers will monitor the current and trend position and amend the operational strategy to manage risk as conditions change. Benchmarks will be reported against, in the mid-year or Annual Report.

Liquidity – in respect of this area the Council seeks to maintain:

- Bank overdraft - £0m
- Liquid short term deposits of at least £30m available with a week's notice.

Yield - local measures of yield benchmarks are:

- Investments – returns above the 7 day LIBID rate

The Council is appreciative that the provision of LIBOR and associated LIBID rates is expected to cease at the end of 2021. It will work with its advisors in determining suitable replacement investment benchmark(s) ahead of this cessation and will report back to councillors accordingly.

4.8 Other Items

There are a number of additional items that the Council is obliged by CIPFA or MHCLG to include in its Treasury Management Strategy.

4.8.1 Liquidity Management:

The Council uses purpose-built cash flow forecasting software to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis, with receipts under-estimated and payments over-estimated to minimise the risk of the Council being forced to borrow on unfavourable terms to meet its financial commitments.

4.8.2 Policy on Use of Financial Derivatives:

Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in Section 1 of the *Localism Act 2011* removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).

The Council will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Council is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit.

4.8.3 Policy on Apportioning Interest to the HRA:

On 1st April 2012, the Council notionally split each of its existing long-term loans into General Fund and HRA pools. In the future, new long-term loans borrowed will be assigned in their entirety to one pool or the other. Interest payable and other costs/income arising from long-term loans (e.g. premiums and discounts on early redemption) will be charged/ credited to the respective revenue account. Differences between the value of the HRA loans pool and the HRA's underlying need to borrow (adjusted for HRA balance sheet resources available for investment) will result in a notional cash balance which may be positive or negative. This balance will be measured and interest transferred between the General Fund and HRA at the average 3 month UK Government Treasury Bill interest rate to reflect a credit risk free return.

4.8.4 Policy on Council Subsidiary Deposit Facility:

The Council has a number of subsidiary companies within the group organisation, as such the it may provide a safe haven deposit facility for surplus cash balances held by these

companies. These funds are available on request subject to minimum notice period and balances would attract interest at a rate agreed at the time of the request.

4.8.5 Management of treasury risk:

Risk management plays a fundamental role in treasury activities, due to the value and nature of transactions involved. Details of the specific risks identified in respect of treasury management within the Council are adopted to form a Risk Management Action Plan. This Plan is reviewed at regular intervals at meetings of the Treasury Management Panel and an overview is reported to Audit Committee as part of the Treasury Management reporting.

4.8.6 Proposed changes to the CIPFA Treasury Management Code and Prudential Code:

CIPFA have released proposed changes to the current Treasury Management Code and Prudential Code. Both sets of proposed changes are in a consultation period due to close on 12th April 2021, with a planned publication of the revised guidance expected towards the end of 2021/22. There will be a requirement to apply the principles from the publication date with full adoption expected from 2022/23.

The Treasury Management Code key proposals – update to the Treasury management practices (TMP) TMP10 training requirements; TMP 12 Corporate Governance; TMP13 Environmental, Social and Governance and amendments to Maturity Structure of Borrowing indicator.

The Prudential Code key proposals – revision to Borrowing in Advance of Need criteria, including in respect of primarily yield generating investments; inclusion of proportionality in key capital expenditure objectives; process and governance sections to incorporate further changes in respect of commercial activity; three new prudential indicators – External Debt to Net Revenue Stream (NRS), Income from Commercial and Service Investment to NRS, Liability Benchmark; Proposal to abolish Gross Debt to Capital Financing Requirement indicator.

The implications of the revised guidance once published will be reported to councillors at the next opportunity.

5 Appendices

5.1 The Capital Prudential And Treasury Indicators

The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist councillors' overview and confirm capital expenditure plans.

5.1.1 Capital expenditure & the Capital Financing Requirement

See paragraphs 2.1 & 2.2

5.1.2 The Authorised limit for external debt and the operational boundary

The operational boundary. This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt and the ability to fund under-borrowing by other cash resources.

£m	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Operational boundary	1,423.4	1,415.2	1,372.6	1,320.3	1,256.5	1,194.3

The authorised limit for external debt. This is a key prudential indicator and represents a control on the maximum level of borrowing. This represents a legal limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.

£m	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Authorised limit	1,453.4	1,445.2	1,402.6	1,350.3	1,286.5	1,224.3

5.1.3 Affordability prudential indicators

The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances.

These indicators reflect decisions on future capital plans and policies detailed in the Capital & Strategy with the objective to reduce the forecast cost of financing and support the Council returning to financial and operational stability.

a. Ratio of financing costs to net revenue stream

This indicator identifies the trend in the cost of capital, (borrowing and other long term obligation costs net of investment income), against the net revenue stream.

%	2019/20	2020/21	2021/22	2022/23	2023/24
	Actual	Estimate	Estimate	Estimate	Estimate
General Fund	16.66%	17.87%	18.17%	17.36%	17.13%
HRA	13.60%	14.14%	15.29%	15.10%	15.30%

The estimates of financing costs include current commitments and the proposals in this report. The net revenue stream is shown as the total sum to be raised from government grants, business rates, council and other taxes (General Fund) and rent income (HRA). From 1 April 2012, the General fund income figure includes ring-fenced NET (tram) government grant and revenue raised from the Workplace Parking Levy.

b. HRA ratios

The first of two local HRA indicators below shows the ratio debt to revenue showing the sustainability of the debt load over the forecast period.

	2019/20 Actual	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
HRA debt £m	292.530	304.360	314.049	319.050	319.865
HRA debt cap £m (abolished)	319.784	319.784	319.784	319.784	319.784
HRA revenues £m	103.333	104.989	106.694	107.670	108.601
Ratio of debt to revenues %	2.8	2.9	2.9	3.0	2.9

The second indicator shows the HRA debt per dwelling based on the forecast debt level.

	2019/20 Actual	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
HRA debt £m	292.530	304.360	314.049	319.050	319.865
Number of HRA dwellings	25,388	25,280	25,181	25,049	24,906
Debt per dwelling £'s	11,522	12,040	12,472	12,737	12,843

5.1.4 Maturity structure of borrowing

Maturity structure of borrowing. These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.

Maturity structure of fixed interest rate borrowing 2021/22		
	Lower	Upper
Under 12 months	0%	25%
12 months to 2 years	0%	25%
2 years to 5 years	0%	25%
5 years to 10 years	0%	25%
10 years to 25 years	0%	50%
25 years to 40 years	0%	50%
40 years and above	0%	50%

Please note that the maturity date is deemed to be the next call date.

5.1.5 Control of interest rate exposure

Please see paragraphs 3.2.

The upper limit on variable interest rate exposure. – This is a local indicator to control the Council's exposure to interest rate risk including LOBO loans with a call option in the next 12 months. The upper limits on variable rate interest rate exposures, expressed as the amount of principal borrowed for the next three financial years. A high level of variable rate debt presents a risk from increases in interest rates. This figure represents the maximum permitted exposure to such debt.

£m	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Variable rate debt	300.0	300.0	300.0	300.0	300.0	300.0

The level of variable rate debt as at 31 December 2020 was £75.1m.

5.2 Annual Minimum Revenue Provision Statement 2021/22

The Council is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the minimum revenue provision - MRP), although it is also allowed to undertake additional voluntary payments if required (voluntary revenue provision - VRP).

MHCLG regulations have been issued which require the Full Council to approve an MRP Statement in advance of each year.

The following statement only incorporates options recommended in the Guidance as well as locally determined prudent methods.

- For capital expenditure incurred before 2007/08, and for supported capital expenditure incurred on or after that date, the MRP policy will be to charge an amount per Schedule A below. This charge is based on the principle of repaying the outstanding balance as 31 March 2016 over a 50 year period (2066/67) as per profile approved in 2017/18.
- For unsupported capital expenditure incurred after 2007/08, MRP will be determined by charging the expenditure over the expected useful life of the relevant assets in equal instalments *or* as the principal repayment on an annuity, starting in the year after the asset becomes operational. MRP on purchases of freehold land will be charged over 50 years. MRP on expenditure not related to fixed assets but which has been capitalised by regulation or direction will be charged over 20 years. (*Option 3 in the guidance*)
- For assets acquired by finance leases or the Private Finance Initiative, MRP will be determined as being equal to the element of the rent or charge that goes to write down the balance sheet liability.
- Where loans are made to other bodies for their capital expenditure, MRP will be charged to reduce the outstanding debt in line with the principal repayment profile in the 3rd party agreement.
- No MRP will be charged in respect of assets held within the Housing Revenue Account.
- Voluntary MRP may be made at the discretion of the Director of Finance.
- Capital receipts maybe voluntarily set-aside to clear debt and replaced with future prudential borrowing to temporarily reduce the MRP charge. This use of capital receipts will be at the discretion of the Director of Finance.
- MRP Overpayments - A change introduced by the revised MHCLG MRP Guidance was the allowance that any charges made over the statutory minimum revenue provision (MRP), voluntary revenue provision or overpayments, can, if needed, be reclaimed in later years if deemed necessary or prudent. In order for these sums to be reclaimed for use in the budget, this policy must disclose the cumulative overpayment made each year. Up until the 31 March 2021 the total VRP overpayments are expected to be £3.259m.

Capital expenditure incurred during 2021/22 will not be subject to a MRP charge until 2022/23.

Schedule A - MRP profile for outstanding Supported Borrowing

Supported Borrowing is capital expenditure incurred before 2007/08, and for supported capital expenditure incurred on or after that date.

	Year	MRP Payment	Supported Borrowing Balance
4	2020/21	76,894	204,733,455
5	2021/22	76,894	204,656,561
6	2022/23	76,894	204,579,667
7	2023/24	76,893	204,502,774
8	2024/25	4,755,878	199,746,895
9	2025/26	4,755,878	194,991,017
10	2026/27	4,755,878	190,235,138
11	2027/28	4,755,878	185,479,260
12	2028/29	4,755,878	180,723,381
13	2029/30	4,755,878	175,967,503
14	2030/31	4,755,878	171,211,624
15	2031/32	4,755,878	166,455,746
16	2032/33	4,755,878	161,699,867
17	2033/34	4,755,878	156,943,989
18	2034/35	4,755,878	152,188,111
19	2035/36	4,755,878	147,432,232
20	2036/37	4,755,878	142,676,354
21	2037/38	4,755,878	137,920,475
22	2038/39	4,755,878	133,164,597
23	2039/40	4,755,878	128,408,718
24	2040/41	4,755,878	123,652,840
25	2041/42	4,755,878	118,896,961
26	2042/43	4,755,878	114,141,083
27	2043/44	4,755,878	109,385,204
28	2044/45	4,755,878	104,629,326
29	2045/46	4,755,878	99,873,448
30	2046/47	4,755,878	95,117,569
31	2047/48	4,755,878	90,361,691
32	2048/49	4,755,878	85,605,812
33	2049/50	4,755,878	80,849,934
34	2050/51	4,755,878	76,094,055
35	2051/52	4,755,878	71,338,177
36	2052/53	4,755,878	66,582,298
37	2053/54	4,755,878	61,826,420
38	2054/55	4,755,878	57,070,541
39	2055/56	4,755,878	52,314,663
40	2056/57	4,755,878	47,558,785
41	2057/58	4,755,878	42,802,906
42	2058/59	4,755,878	38,047,028
43	2059/60	4,755,878	33,291,149
44	2060/61	4,755,878	28,535,271
45	2061/62	4,755,878	23,779,392
46	2062/63	4,755,878	19,023,514
47	2063/64	4,755,878	14,267,635
48	2064/65	4,755,878	9,511,757
49	2065/66	4,755,878	4,755,878
50	2066/67	4,755,878	-

5.3 Nottingham City Council Treasury Management Policy Statement

The following treasury management policy statement is required to be adopted annually by Full Council as part Treasury Management Strategy.

1 Introduction And Background

1.1 *The Council adopts the key recommendations of CIPFA's Treasury Management in the Public Services: Code of Practice (the Code), as described in Section 5 of the Code.*

1.2 *Accordingly, the Council will create and maintain, as the cornerstones for effective treasury management:-*

- *A treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities*
- *Suitable treasury management practices (TMPs), setting out the manner in which the Council will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.*

1.3 *The Council (i.e. Full Council) will receive reports on its treasury management policies, practices, activities and the annual treasury management strategy in advance of the year in the form prescribed in its TMPs.*

1.4 *The Council delegates responsibility for the implementation and monitoring of its treasury management policies and practices to Executive Board. Executive Board will receive reports as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close, in the form prescribed in its TMPs. The Council delegates responsibility for the execution and administration of treasury management decisions to the Chief Financial Officer, who will act in accordance with the organisation's policy statement and TMPs and CIPFA's Standard of Professional Practice on Treasury Management.*

1.5 *The Council nominates Audit Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.*

2 Policies And Objectives of Treasury Management Activities

2.1 *The Council defines its treasury management activities as:*

"The management of the organisation'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."

2.2 *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 organisation, and any financial instruments entered into to manage these risks.*

2.3 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 measurement techniques, within the context of effective risk management.

2.4 The Council's borrowing will be affordable, sustainable, prudent and proportionate with its financial resources and consideration will be given to the management of interest rate risk and refinancing risk. The source from which the borrowing is taken and the type of borrowing should allow the Council transparency and control over its debt.

2.5 The Council's primary objective in relation to financial investments remains the security of capital. The liquidity or accessibility of the Council's financial investments followed by the yield earned on these investments remain important but are secondary considerations.

5.4 Economic background and forecast commentary

The Bank of England's Monetary Policy Committee (MPC) kept **Bank Rate** and quantitative easing (QE) unchanged on 4th February. However, it revised its economic forecasts to take account of a third national lockdown which started on 5th January, which is obviously going to delay economic recovery and do further damage to the economy. Moreover, it had already decided in November to undertake a further tranche of QE of £150bn, to start in January when the previous programme of £300bn of QE, announced in March to June 2020, finished. As only about £16bn of the latest £150bn tranche had been used towards the end of January, it felt that there was already sufficient provision for QE - which would be made to last to the end of 2021. This implied that the current rate of purchases of £4.4bn per week would be slowed during the year.

Although its short-term forecasts were cut for 2021, the medium-term forecasts were more optimistic than in November, based on an assumption that the current lockdown will be gradually eased after Q1 as vaccines are gradually rolled out and life can then start to go back to some sort of normality. The Bank's main assumptions were:

- The economy would start to **recover strongly** from Q3 2021.
- **£125bn of savings** made by consumers during the pandemic will give a big boost to the pace of economic recovery once lockdown restrictions are eased and consumers can resume high street shopping, going to pubs and restaurants and taking holidays.
- The economy would still recover to reach its **pre-pandemic level** by Q1 2022 despite a long lockdown in Q1 2021.
- **Spare capacity** in the economy would be eliminated in Q1 2022.
- The Bank also expects there to be **excess demand** in the economy by Q4 2022.
- **Unemployment** will peak at around 7.5% during late 2021 and then fall to about 4.2% by the end of 2022. This forecast implies that 0.5m foreign workers will have been lost from the UK workforce by their returning home.
- **CPI inflation** was forecast to rise quite sharply towards the 2% target in Q1 2021 due to some temporary factors, (e.g. the reduction in VAT for certain services comes to an end) and given developments in energy prices. CPI inflation was projected to be close to 2% in 2022 and 2023.
- The Monetary Policy Report acknowledged that there were **downside risks** to their forecasts e.g. from virus mutations, will vaccines be fully effective, how soon can tweaked vaccines be devised and administered to deal with mutations? There are also issues around achieving herd immunity around the world from this virus so that a proliferation of mutations does not occur which prolong the time it takes for the global economy to fully recover.
- The Report also mentioned a potential **upside risk** as an assumption had been made that consumers would only spend £6bn of their savings of £125bn once restrictions were eased. However, there is a risk that consumers could spend a lot more and more quickly.
- The Bank of England also removed **negative interest rates** as a possibility for at least six months as financial institutions are not ready to implement them. As in six months' time the economy should be starting to grow strongly, this effectively means that negative rates occurring are only a slim possibility in the current downturn. However, financial institutions have been requested to prepare for them so that, at a future time, this could be used as a monetary policy tool if deemed appropriate. (**Gilt**

yields and PWLB rates jumped upwards after the removal of negative rates as a key risk in the short-term.)

- Prior to 4th February, the **MPC's forward guidance** outlined that the sequencing of a withdrawal of monetary policy support would be that Bank Rate would be increased first: and only once it had reached a certain level, 'around 1.5%', before a start would be made on winding down the stock of asset purchases made under QE. However, the MPC decided at the February meeting that this policy should be reviewed as to whether a start should be made first on **winding down QE** rather than raising Bank Rate.
- The MPC reiterated its previous guidance that Bank Rate would not rise until inflation was sustainably above 2%. This means that it will tolerate inflation running above 2% from time to time to balance out periods during which inflation was below 2%. This is termed **average inflation targeting**.
- **There are two views in respect of Bank Rate beyond our three-year time horizon:**
 - The MPC will be keen to raise Bank Rate as soon as possible in order for it to be a usable tool when the next economic downturn comes along. This is in line with thinking on Bank Rate over the last 20 years.
 - Conversely, that we need to adjust to the new post-pandemic era that we are now in. In this new era, the shift to average inflation targeting has set a high bar for raising Bank Rate i.e. only when inflation is demonstrably sustainably above 2%. In addition, many governments around the world have been saddled with high levels of debt. When central bank rates are low, and below the average GDP growth rate, the debt to GDP ratio will gradually fall each year without having to use fiscal tools such as raising taxes or austerity programmes, (which would depress economic growth and recovery). This could therefore result in governments revising the setting of mandates to their national central banks to allow a higher rate of inflation linked to other economic targets. This is the Capital Economics view – that Bank Rate will not rise for the next five years and will probably then struggle to get to 1% within 10 years.
- **Public borrowing** was forecast in November 2020 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. It is now likely that total borrowing will

probably reach around £420bn due to further Government support measures introduced as a result of the third national lockdown.

- 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. While the one month second national lockdown that started on 5th November caused a further contraction of 5.7% m/m in November, this was much better than had been feared and showed that the economy is adapting to new ways of working. This left the economy 'only' 8.6% below the pre-crisis level. However, a strong recovery in the second half of 2021 is likely to mean that the economy recovers to its pre-pandemic level during Q1 2022.
- **Brexit.** The final agreement of a trade deal on 24.12.20 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. However, it is evident from problems with trade flows at ports in January and February, that work needs to be done to smooth out the issues and problems that have been created by complex customs paperwork to deal with bottle necks currently being caused.
- **Fiscal policy.** In December, 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 March 2021 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 August 2020 revised down the 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%.

Interest rate forecast

Link Group Interest Rate View		8.2.21											
	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	0.90	0.90	0.90	0.90	1.00	1.00	1.10	1.10	1.10	1.20	1.20	1.20	1.20
10 yr PWLB	1.30	1.30	1.30	1.30	1.40	1.40	1.50	1.50	1.50	1.60	1.60	1.60	1.60
25 yr PWLB	1.90	1.90	1.90	1.90	2.00	2.00	2.10	2.10	2.10	2.20	2.20	2.20	2.20
50 yr PWLB	1.70	1.70	1.70	1.70	1.80	1.80	1.90	1.90	1.90	2.00	2.00	2.00	2.00

The balance of risks to the UK

- The overall balance of risks to economic growth in the UK is now probably more to the upside but is subject to major uncertainty due to the virus - both domestically and its potential effects worldwide.
- There is relatively little domestic risk of increases or decreases in Bank Rate in the near-term, nor significant changes in shorter-term PWLB rates. The Bank of England has effectively ruled out the use of negative interest rates anytime soon but 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).

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

- **Mutations** of the virus render current vaccines ineffective, and tweaked vaccines to combat these mutations are delayed, resulting in further national lockdowns or severe regional restrictions.
- **UK government** takes too much action too quickly to raise taxation or introduce austerity measures that depress demand and the pace of recovery of 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.
- **UK / EU trade arrangements** – if there was a major impact on trade flows due to complications with customs paperwork or lack of co-operation in sorting out significant issues. 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. 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 will be the major guiding hand and driver of EU unity when she steps down.

- **Other minority EU governments.** Italy, Spain, Austria, Sweden, 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.

5.5 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.
- 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 councillors of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees
- ensuring that councillors 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
- creation of Treasury Management Practices which specifically deal with how non treasury investments will be carried out and managed, to include the following : -
 - *Risk management (TMP1 and schedules), including investment and risk management criteria for any material non-treasury investment portfolios;*
 - *Performance measurement and management (TMP2 and schedules), including methodology and criteria for assessing the performance and success of non-treasury investments;*
 - *Decision making, governance and organisation (TMP5 and schedules), including a statement of the governance requirements for decision making*

in relation to non-treasury investments; and arrangements to ensure that appropriate professional due diligence is carried out to support decision making;

- *Reporting and management information (TMP6 and schedules), including where and how often monitoring reports are taken;*
- *Training and qualifications (TMP10 and schedules), including how the relevant knowledge and skills in relation to non-treasury investments will be arranged.*