

**To:** Cabinet  
**Date:** 10 February 2021  
**Report of:** Head of Financial Services  
**Title of Report:** Treasury Management Strategy 2021/22

<b>Summary and recommendations</b>	
<b>Purpose of report:</b>	To present the Council's Treasury Management Strategy for 2021/22 together with the Prudential Indicators for 2021/22 to 2024/25
<b>Key decision:</b>	Yes
<b>Executive Board Member:</b>	Councillor Ed Turner, (Deputy Leader) Finance and Corporate Assets
<b>Corporate Priority:</b>	All
<b>Policy Framework:</b>	Council Strategy 2020-2024
<b>Recommendations:</b> That Cabinet resolves to:	
<b>Recommend that Council approves:</b>	
<ol style="list-style-type: none"> <li>1. The Treasury Management Strategy 2021/22 as set out in paragraphs 19 to 62 and the Prudential Indicators for 2021/22 – 2024/25 as set out in Appendix 2;</li> <li>2. The Borrowing Strategy at paragraphs 27 to 38;</li> <li>3. The Minimum Revenue Provision (MRP) Statement at paragraphs 39 to 41 which sets out the Council's policy on charging borrowing to the revenue account; and</li> <li>4. The Investment Strategy for 2021/22 and investment criteria as set out in paragraphs 42 to 62 and Appendix 1.</li> </ol>	

<b>Appendices</b>	
Appendix 1	Credit and Counterparty Risk Management
Appendix 2	Prudential Indicators 2021/22 – 2024/25

## Summary

1. The Council's Treasury Management Strategy has been written in accordance with the revised CIPFA Prudential Code and the revised CIPFA Treasury Management Code of Practice.
2. The report presents the Council's prudential indicators for 2021/22 – 2024/2025. Notable indicators include capital expenditure and borrowing limits as these are areas of significant activity.
3. The average value of investments during the calendar year to 31<sup>st</sup> December 2020 was £105.9m. The actual daily value fluctuated between £86.9m and £123.4m. This is an decrease on the previous calendar year, when average balances were £114.3m and daily values ranged from £95.6m to £131.6m.
4. All external debt as at 31 March 2020 (£198.5m) relates to the Housing Revenue Account self-financing debt taken out in 2012 which is held at fixed rates with varying fixed periods to maturity.
5. The Council's General Fund Capital Programme over the next four years is funded from a combination of government grants, capital receipts, revenue, Community Infrastructure Levy and prudential borrowing. However, due to the scale of investment over the period to 2024/25, including the loans to the Council's Housing Company (£152.8 million), the level of prudential borrowing will increase to over £642.1 million in 2024/25 from the projected £287.5 million at the end of 2020/21. Borrowing from internal resources will be maximised, however much of the borrowing will need to be from external resources with anticipated external borrowing increasing from £198.5 million to £548.5 million in 2024/25. The Housing Revenue Account Capital Programme is largely funded from council house rents over time but includes £219.5 million borrowing from 2021/22 to 2024/25.
6. The CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice were revised in late 2017 and have been fully adopted from 2019/20 onwards. The codes include a requirement to produce a Capital Strategy (which the Council already did previously) and included additional requirements for this and also for non-Treasury Investments. In order to maintain the clarity between Treasury and non-Treasury Management Activity, all non Treasury Investment capital activity is covered by the Capital Strategy.
7. All Prudential Indicators continue to be covered together in the Treasury Strategy. This will allow the indicators to be seen as a whole and in the context of Treasury Management activity to which they are closely related. There are, however, some cross-overs to areas covered by the Capital Strategy.
8. The Prudential Indicators have been revised in line with the revised Codes of Practice. Additional disclosures are included to cover the Government's focus on "commercial activities". This focus has occurred due to some Councils (which have been featured in the press) incurring substantial expenditure buying investment properties to support their revenue budgets.

9. The limit for non-specified investments is proposed to remain at 30% of the previous year's total investment portfolio or £30 million, whichever is the greater, which allows capacity for occasional non-specified investments other than pooled investment funds such as investments with local authorities for longer than 364 days.

### Loans to the Council's Companies

10. Over the four year life of the Council's Medium Term Financial Strategy to 2024/25 it is assumed that the Council will give loans to the Council's Housing Company to the value of around £152.8 million. Whereas these are not Treasury investments, there is however a positive impact on the Council's net investment income due to a markup being charged on the loans which is increasing from 2.2% to 3.2% as of 1<sup>st</sup> April 2021. As at the end of December 2020 the Council had loans outstanding to Oxford West End Developments (OxWED) of £10.76 million and to the Housing Company of £29.05 million with accrued interest to 31st March 2020 of around £2.68 million and ongoing interest of around £1.74 million per annum.

### Interest and Economic Outlook

11. 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 have provided the following forecasts which includes the 1% reduction in the PWLB margin that was announced late in 2020 alongside the results of the PWLB consultation . These are forecasts for certainty rates, gilt yields plus 80bps:

Link Group Interest Rate View													
These Link forecasts have been amended for the reduction in PWLB margins by 1.0% from 25.11.20													
	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
BANK RATE	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
6 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
12 month ave earnings	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20
5 yr PWLB	0.80	0.80	0.80	0.80	0.90	0.90	0.90	0.90	0.90	1.00	1.00	1.00	1.00
10 yr PWLB	1.10	1.10	1.10	1.10	1.20	1.20	1.20	1.20	1.20	1.30	1.30	1.30	1.30
25 yr PWLB	1.50	1.60	1.60	1.60	1.60	1.70	1.70	1.70	1.70	1.80	1.80	1.80	1.80
50 yr PWLB	1.30	1.40	1.40	1.40	1.40	1.50	1.50	1.50	1.50	1.60	1.60	1.60	1.60

12. The coronavirus outbreak has done huge economic damage to the UK and economies around the world. After the Bank of England took emergency action in March to cut Bank Rate to first 0.25%, and then to 0.10%, it has left the Bank base rate unchanged since, although some forecasters have suggested that a further base rate cut, taking base rates into negative rates, could happen in the future. The Governor of the Bank of England has made it clear that he currently thinks that such a move would do more damage than good and that more quantitative easing is the favoured tool if further action becomes necessary. As shown in the forecast table above, no change in the Bank Rate is expected in the

near-term as economic recovery is expected to be only gradual and, therefore, prolonged. These forecasts incorporate the assumption that a Brexit trade deal would be agreed by 31.12.20.

### **Gilt yields / PWLB rates**

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

### **Investment and borrowing rates**

14. Investment returns are likely to remain exceptionally low during 2021/22 with little increase in the following two years.

15. Borrowing interest rates fell to historically very low rates as a result of the COVID crisis and the quantitative easing operations of the Bank of England; gilt yields up to 6 years were negative during most of the first half of 20/21. The unexpected increase of 100 bps in PWLB rates on top of the then current margin over gilt yields of 80 bps in October 2019, required an initial major rethink of local authority treasury management strategy and risk management. However, in March 2020, the Government started a consultation process for reviewing the margins over gilt rates for PWLB borrowing for different types of local authority capital expenditure.

16. On 25th 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% (100 basis points) 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 applying to the Council is the PWLB Certainty Rate which is gilts plus 80 basis points.

17. The long-term forecast for the Bank Rate is 2.00% but not for many years. Lower rates can currently be obtained in borrowing for shorter maturity periods, however this is coupled with increased interest rate risk on refinancing. Longer-term borrowing provides more certainty and where there are long term assets being financed, this long term certainty will be balanced against the overall maturity profile.

18. The Council, given its capital programme, will not be able to avoid borrowing to finance new capital expenditure and to replace maturing debt. This must be timed

to reduce the cost of carry (the difference between higher borrowing costs and lower investment returns).

## Treasury Management Strategy Statement

### Background

19. 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 counterparties or instruments commensurate with the Council's risk appetite, providing adequate liquidity initially before considering investment return.
20. The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning, to ensure that the Council can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans, or using longer-term cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet Council risk or cost objectives.
21. 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. Additionally reserves and balances are forecast to reduce by around £12 million over the medium term which will lead to reduced balances available for investment or to use for internal borrowing.
22. 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.
23. 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."*
24. Revised reporting is required for the 2019/20 reporting cycle onwards due to revisions of the MHCLG Investment Guidance, the MHCLG Minimum Revenue Provision (MRP) Guidance, the CIPFA Prudential Code and the CIPFA Treasury

Management Code. The reporting changes include the introduction of the requirement to approve a capital strategy (which the Council produced in a slightly different form previously), to provide a longer-term focus to the capital plans, and greater reporting requirements surrounding any commercial activity undertaken under the Localism Act 2011. The capital strategy is being reported separately and includes the additional requirements introduced with these changes.

### **Treasury Management Advisors**

25. Treasury advice and market information is provided by Link Asset Services. A procurement exercise was undertaken during 2018 and the contract was awarded to Link Asset Services in September 2018 for 3 years with an option to extend for a further 2 years. The information provided by Link Asset Services that is used for making investment decisions is outlined further on in this report and in associated appendices.
26. 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.

### **Borrowing and Debt**

27. Under the Prudential Code, individual authorities are responsible for deciding their level of borrowing. The system is designed to allow authorities with an affordable borrowing requirement, to borrow in order to pay for capital investment.
28. The arrangements also facilitate 'invest to save' schemes where they are affordable, prudent and sustainable.
29. The parameters for determining the level of prudential borrowing are:
- A balanced revenue budget that includes the revenue consequences of any capital financing i.e. interest, debt repayment and running costs of any new project; and
  - That the impact of the Authorised Borrowing Limit on Council Tax or council rents is reasonable.
30. The draft Capital Programme for 2021/22 to 2024/25, which appears elsewhere on the Agenda; includes the following expenditure which is currently planned to be financed by borrowing:
- £152.8 million loans to the Housing Company, primarily to finance the purchase of New Affordable Housing at Barton and housing developments;
  - £3.2 million for Community Centres
  - £11.0 million on vehicles to be leased to Oxford Direct Services
  - £11.8 million on Depot Rationalisation
  - £20 million on regeneration
  - £6.3 million on corporate and other property refurbishment
  - £219.5 million to finance HRA capital expenditure.

31. The S151 officer has delegated authority to determine the need for external borrowing taking into account prevailing interest rates and associated risks. Borrowing may be undertaken to fund the approved Capital Programme or to fund future debt maturities and a combination of long-term and short-term fixed and variable rate borrowing may be considered which may include borrowing in advance of future years' requirements. In using the delegated authority, the S151 Officer will take into account the following factors:
- The on-going revenue liabilities created, and the implications for the future plans and budgets;
  - The economic and market factors that might influence the manner and timing of any decision to borrow;
  - The pros and cons of alternative forms of funding including internal borrowing;
  - The impact of borrowing in advance on cash balances and the consequent increase in counterparty risk.
32. Council officers, in conjunction with the Council's treasury advisors, Link Asset Services, monitor prevailing interest rates and market forecasts, thereby allowing the Council to respond to any changes that may impact on the timing and manner of borrowing decisions, to ensure these are optimised.
33. The Council currently has £198.5m of external debt held at fixed rates with varying maturity terms up to 2057. This debt relates to the Council's housing stock within its HRA. The first repayment, of £20 million, is due at the end of 2020/21. Debt to the same value is expected to be taken out in order to replace the debt repaid. The first repayment of the remaining existing debt, in the sum of £20 million, will now take place in 2025-26.
34. The Council's Capital Financing Requirement (CFR) is an indication of the Council's underlying need to borrow to fund its capital investments; this borrowing can be undertaken internally using available resources or externally by borrowing from a reputable institution or the Public Works Loans Board (PWLB). The estimated level of CFR for each year can be found in the Prudential Indicators in Appendix 2.
35. In October 2018, a policy change of the abolition of the HRA debt cap was announced. The Chancellor announced in the Budget that the date the debt cap was to be removed was 29<sup>th</sup> October 2018. The Council can now undertake further borrowing to finance HRA capital expenditure, provided it is both affordable and prudent to do so, in line with the CIPFA Prudential Borrowing Code. The Council is using these new borrowing powers to increase housing supply by buying properties from the Housing Company, OCHL.

### **Borrowing Strategy 2021/22**

36. The Council currently has £55 million internal borrowing as at 1<sup>st</sup> April 2020. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt since cash supporting the Council's reserves, balances and cash flow has been used as a temporary funding source.

This strategy is prudent as investment returns are low and counterparty risk is still an issue that needs to be considered.

37. The Head of Financial Services will continue to monitor interest rates and take a pragmatic approach to changing circumstances. Due to the risks within the economic forecast, and the increased fluctuations in cashflow being experienced, caution will be adopted with the 2021/22 treasury operations, although the decrease in PWLB rates has made the PWLB more competitive again than other sources of borrowing. Additionally the Council will consider carefully when to take out borrowing, balancing the need for cash to fund capital expenditure and the cost of borrowing.:
- If it is considered that there is a likelihood of a significant fall in long and short term rates (e.g. due to a marked increase of risks in respect of recession or deflation), then long term borrowing will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.
  - Alternatively, if it is felt that there is a significant risk of a sharp increase in long and short term rates than currently forecast, then external borrowing is likely to be taken earlier.

### **Borrowing in Advance of Need**

38. The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds. Prior to borrowing in advance the risks and benefits of undertaking the borrowing will be considered. Actual borrowing will be subsequently reported through either the mid-year performance report or annual report as appropriate. Due to the amount of Prudential Borrowing in the Capital Programme, the potential benefits earlier borrowing will be closely monitored.

### **Minimum Revenue Provision (MRP) Statement 2021/22**

39. Prudential borrowing increases the Council's Capital Financing Requirement (CFR) or underlying need to borrow. Whether the Council actually borrows externally to finance capital expenditure is a treasury management decision which is not directly linked to the capital financing decision. In practice, the Council is likely to use a combination of internal and external borrowing in the medium term to fund the Capital Programme. The amount of external borrowing undertaken will depend on the borrowing requirement compared to the projected level of cash balances. The Council is required to make a prudent charge to its revenue account for borrowing, whether that borrowing is financed internally or externally. This charge is known as the Minimum Revenue Provision (MRP) and reflects the repayment cost of principal borrowed.
40. Regulations require the Council to approve an MRP policy on an annual basis and to calculate in each financial year an amount of MRP that it considers to be prudent. In doing this, the Council has to pay regard to governmental statutory guidance on MRP. MRP is not charged until the year after the expenditure has been incurred.



41. It is recommended that this MRP methodologies continue to be adopted for 2021/22:

- a) For borrowing incurred before 1 April 2008 the practice of making a 4% annual charge on the reducing balance, outlined in the former Department for Communities and Local Government (DCLG) regulations, will apply.
- b) For borrowing that relates to the assets transferred from the Housing Revenue Account (HRA) to the General Fund (GF), MRP will be based on the estimated useful life of the assets, taking into account the number of years the assets have been in existence, and previous funding allocated to them.
- c) There will be no annual MRP charge made for the following items where they are deemed to be capital under s25(b)/s25(d) of The Local Authorities Capital Finance and Accounting (England) Regulations 2003 and where it is anticipated the investment will be repaid in full:
  - i. The Council's investments in a Directly Managed Property Fund;
  - ii. Loans to other organisations, such as a company in which the Council has an interest;
  - iii. Treasury management investments undertaken in accordance with section 12 of the Local Government Act 2003;
  - iv. Borrowing related to capital expenditure incurred on assets which are to be leased to one of the Council's companies; and
  - v. Other borrowing related to expenditure where it is anticipated the investment will be repaid in full.

The repayment to the Council for these will be a capital receipt of which the Council will set aside the amount for which borrowing was used in order to repay that borrowing. Each item where there is no annual MRP charge will be reviewed on at least an annual basis and if there is a likelihood of capital loss, a prudent MRP provision will then be made.

- d) For all borrowing incurred after 1 April 2008 relating to expenditure other than that which is covered in c) above, the MRP will be charged using the Asset Life Method. The default methodology under this option is that MRP will be based on the estimated life of the asset and will be charged to the revenue account in equal instalments over the life of the asset. Where the Head of Financial Services, in their capacity of section 151 officer, is comfortable that the asset or the income arising from that asset is appreciating over time, MRP will be based on an annuity charge over the estimated life of the asset. Applying the annuity method results in an annual charge to revenue which takes account of the time value of money. The charges made through the annuity method thus results in a consistent charge over an asset's life, taking into account the real value of the annual charges when they fall due.
- e) For finance leases the council will charge MRP to its General Fund each year dependant on the life of the underlying asset.

## Annual Investment Strategy 2021/22

### Management of Risk

42. 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 which is presented in a separate report.

43. 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).

44. The 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: -

- a) Minimum acceptable **credit criteria** are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short term and long-term ratings.
- b) **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.
- c) **Other information sources** used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.
- d) This authority has defined the list of **types of investment instruments** that the treasury management team are authorised to use. There are two lists in appendix 1 under the categories of ‘specified’ and ‘non-specified’ investments.
  - **Specified investments** are those with a high level of credit quality and subject to a maturity limit of one year.
  - **Non-specified investments** are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use.

45. As a result of the change in accounting standards for 2018/19 under IFRS 9, the Council 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 concluded a consultation for a temporary override to allow English local authorities time to adjust their portfolio of all pooled investments by announcing a statutory override to delay implementation of IFRS 9 for five years commencing from 1<sup>st</sup> April 2018. Even were this over-ride removed now, this would not give cause for concern since the value of investments is significantly higher than the original cost, although it is worth noting this may not always be the case.

### **Interest rates**

46. Average cash balances for the year to 31<sup>st</sup> December 2020 were £105.93m, having fluctuated between £86.97m and £123.42m.

47. In March 2020, base rate decreased to 0.10% and has remained at that level for 2020. The Council's target average interest rate return is 0.6% above base rate, although this target is unlikely to be achieved due to interest rate margins having reduced along with the base rate. Despite this, the Council's property funds are forecast to return around 3.5% on the initial investment value and the new multi-asset funds, which have been invested in to prudently increase interest rate returns, are forecast to return around 3% on the investment value. Overall investment returns are likely to remain low during 2020/21 and for the foreseeable future.

### **Investment Durations**

48. Most existing investment deal terms are for 6 months or 364 days. Investments are made in accordance with the Council's Treasury Management Strategy such that returns are balanced against security of investment and liquidity of cash to ensure funding of day to day cash flows and yield. Consequently, procedures are in place to determine the maximum periods that funds may be invested for, as well as the nature of those investments. The Council works to achieve the optimum rate of return on its investments commensurate with proper levels of security and liquidity.

### **Creditworthiness**

49. Investment instruments identified for use are listed in Appendix 1 under the Specified and Non-specified investment categories. Counterparty limits are set in accordance with the Council's Treasury Management Practices (TMPs).

50. The Council utilises the creditworthiness services provided by Link Asset Services. The model combines the credit ratings, credit watches and credit outlooks provided by the credit rating agencies - Fitch, Moody's and Standard and Poor's in a weighted scoring system which is then combined with an overlay of Credit Default Swap (CDS) spreads and sovereign ratings. The end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the duration of investments.

51. The Council is alerted to changes to ratings by Link Asset Services' creditworthiness service and takes the following action in respect of updates:
- If a downgrade results in the counterparty/investment scheme no longer meeting the Council's minimum criteria, it is withdrawn immediately from further use.
  - If a counterparty's credit rating is placed on negative watch or negative outlook, officers carry out a review to determine whether the institution is still worthy of inclusion on the counterparty list. If there is any doubt, the counterparty is temporarily suspended pending the credit rating agency's full review.
52. As part of the creditworthiness methodology a minimum sovereign rating equal to the UK sovereign rating from Fitch (or equivalent from other agencies if Fitch does not provide one) has been determined.
53. In addition to the recommendations from Link Asset Services, the S151 Officer and Treasury Management Team have agreed to limit the amounts invested with any one country (excluding the UK) or sector as follows:
- No more than 20% of the previous year's average investment balance (to 31<sup>st</sup> December) with any one counterparty or group or £15 million, whichever is the greater
  - Maximum of 10% of total investments to be with institutions in other countries that meet the required criteria.
54. To ensure that the Strategy is not breached and to also be aware of any new opportunities, the Council's counterparty list is reviewed on a daily basis taking into account market information and changes to the methodology used. The list is maintained by the Treasury Management Team, and reported to the S151 Officer on a regular basis.
55. The Investment Strategy provides delegated authority for the S151 Officer to determine the most appropriate form of investment dependant on prevailing interest rates and counterparty risk at the time.

### **Specified and Non-Specified investments**

56. In approving the Investment Strategy, Members are approving the types of investments the Council can undertake. Investments are classified as either Specified or Non-specified and are shown in more detail in Appendix 1.
57. The Strategy defines a Specified Investment as one that is in sterling, no more than one year in duration or, if in excess of one year can be repaid earlier on request and with counterparties that meet the Council's credit rating criteria. Additionally, once the duration of a Non-specified Investment falls below 365 days, it also falls into the Specified category.
58. Non-specified investments are any other type of investment including pooled investment funds. Whilst generally these investments will earn a higher rate of return they are inherently more risky in nature and therefore limited to either a maximum of 30% (currently £31.8 million) of the previous full year's average

monthly investment balance to 31<sup>st</sup> December, or £30 million, whichever is the greater. The Council currently has £10 million of property investments; £7 million with Lothbury property fund and £3 million with CCLA Investment Management Ltd property fund. A further investment of £10 million is currently in progress, split equally between Fidelity and Artemis multi asset funds.

59. Investments may be arranged in advance and there has been a significant rise in “forward deals” in recent times. Trades arranged up to four weeks in advance of the start date are still classified as Specified Investments provided the duration of the investment from the start date to the maturity is no longer than 364 days. Trade dates are factored into the duration of the investment if arranged more than four weeks in advance because there is an increased risk due to funds being contractually committed.

### **Ethical Investment Policy**

60. The Council adopted an ethical investment policy in 2015/16. No changes are proposed to the policy which is set out below:

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

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

61. The Council has been able to take advantage of some green deposit notice accounts offered by Barclays Bank who are working in association with Sustainalytics, a leading global provider of environmental, social and corporate governance research and ratings, to achieve a positive environmental impact. Their green framework covers the following environmental areas:

- Energy efficiency projects and renewable energy
- Sustainable food agriculture and forestry
- Waste management
- Greenhouse gas emission reduction
- Sustainable water

The balance of these investments as at 31<sup>st</sup> December 2020 was £7.5 million.

### **Prudential Indicators**

62. The Council is required to set out a number of indicators, relating to the affordability and prudence of its Treasury Strategy. These indicators are detailed in Appendix 2 for the period 2020/21 – 2024/25, and will be monitored and reported on an annual basis.

## Other implications

63. Environmental Impact – following the inclusion of the Ethical Investment Policy, this ensures that through our investments we will not knowingly, directly invest in businesses that undertake harmful environmental activities.

## Financial implications

64. All financial issues are addressed in the body and appendices of the report. The Council's assumptions for net investment interest for the General Fund for 2021/22 to 2024/25 are as follows:

	2021/22	2022/23	2023/24	2024/25
	£000's	£000's	£000's	£000's
Interest Payable	7,441	9,377	11,126	12,506
Interest from companies on borrowing	-3,266	-4,931	-6,271	-7,013
Transfer from HRA	-8,097	-9,046	-10,089	-11,198
Treasury management investment interest	-805	-804	-819	-835
<b>Net investment interest</b>	<b>-4,727</b>	<b>-5,404</b>	<b>-6,053</b>	<b>-6,540</b>

65. This includes the cost of borrowing, interest from companies and interest from external investments.

## Legal issues

66. This report fulfils four key requirements:

- The reporting of the Prudential Indicators setting out the Council's expected capital activities (as required by the CIPFA Prudential Code for Capital Finance in Local Authorities).
- Agreeing the Council's Minimum Revenue Provision (MRP) Policy, which sets out how the Council will pay for capital assets through revenue each year (as required by guidance under the Local Government and Public Involvement in Health Act 2007).
- Agreeing the Treasury Management Strategy, which links day to day Treasury Management to the Capital Programme and the Treasury Management Prudential Indicators. The key indicator is the Authorised Limit, the maximum amount of debt the Council could afford in the short term, but which would not be sustainable in the longer term. This is the Affordable Borrowing limit required by S3 of the Local Government Act 2003.
- Agreeing the Investment Strategy, this sets out the Council's criteria for choosing investment counterparties and limiting exposure to the risk of loss.

67. The Local Government Act 2003 and supporting regulations require the Council to have regard to the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice to set prudential and treasury indicators to ensure that the Council's capital investment plans are affordable, prudent and sustainable.

68. The Council's Constitution requires the Strategy to be reported to the City Executive Board and Full Council outlining the expected treasury activity for the forthcoming four years on an annual basis.

### Level of risk

69. Risks are managed as set out in this report and appendices.

70. The value of property funds is reliant on the value of the property held by the funds and of multi-asset funds on the value of the assets held by those funds. Property and investment asset values can go down as well as up. The Funds that the Council uses are monitored to ensure that they hold an asset portfolio which will mitigate the risk of specific sectors suffering a loss. The regular returns from Property Funds are from property rentals so as long as the properties remain tenanted there will be a return. The risk of holding property is also affected by the uncertainty over the exit from the EU and changes in the market such as retail. The regular returns from Multi-asset Funds are from income returns which are reliant on the earnings of the underlying assets.

71. As at 31<sup>st</sup> December 2020, the Lothbury property fund is still returning around 3% revenue on the original investment and the CCLA property fund is returning around 5%. Despite the challenges of the current economic environment, the capital values of the funds, as at 31<sup>st</sup> December 2020, are still higher than the original investment value by approximately 20% for Lothbury and 28% for CCLA.

72. Increases and decreases in the value of funds now have to be charged to the revenue account, although there is a statutory mitigation from Government that allows these impacts to be reversed out for the next few years.

### Equalities impact

73. The Council has adopted an ethical investment policy to help reduce the environmental, health and wellbeing impacts that could potentially arise from investments. There are no other equalities impacts relating to this report.

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**Background Papers:** None

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