Part I – Release to Press

Stevenage BOROUGH COUNCIL

Agenda item: ##

Meeting Audit/ Executive/ Council

Portfolio Area Resources

Date 09 February/ 10 February/ 24 February 2021

ANNUAL TREASURY MANAGEMENT STRATEGY INCLUDING PRUDENTIAL CODE INDICATORS 2021/22

NON KEY DECISION

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1 PURPOSE

1.1 To recommend to Council the approval of the Treasury Management[1] Strategy 2021/22, including its Annual Investment Strategy and the prudential indicators following considerations from Audit and Executive committees.

2 RECOMMENDATIONS

2.1 That subject to any comments from Audit Committee and Executive, the Treasury Management Strategy is recommended to Council for approval.

2.2 That Members approve the prudential indicators for 2021/22.

2.3 That Members approve the minimum revenue provision policy.

2.4 That Members approve an increase to counterparty limits for short term investments (invested for up to one year) from £8Million to £10Million when cash balances are higher than £30Million.

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[1] CIPFA definition of treasury management and investments as " the management of the Local Authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities and the pursuit of optimum performance consistent with those risks".

3 BACKGROUND

3.1 The Council is required to receive and approve (as a minimum) three main treasury reports each year. The annual treasury management strategy including the Prudential Indicators (this report) is forward looking, it is the first and most important of the three and includes:

- Treasury Management Strategy
- Investment Strategy
- Capital Plans and prudential indicators
- Minimum Revenue Provision (MRP) policy

3.1.1 The second is the mid-year treasury management report – this is primarily a progress report and will update members on the capital position, amending prudential indicators as necessary, and whether any policies require revision.

3.1.2 The third is the 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.

3.1.3 Before being recommended to Council the reports are required to be adequately scrutinised, and this is undertaken by the Audit Committee and Executive.

3.2 Treasury Management Strategy for 2021/22

3.2.1 The strategy for 2021/22 covers two main areas:

Capital issues

i) the capital programme and the associated prudential indicators;

ii) the minimum revenue provision (MRP) policy.

Treasury management issues

i) the current treasury position;

ii) treasury indicators which limit the treasury risk and activities of the Council;

iii) prospects for interest rates;

iv) the borrowing strategy;

v) policy on borrowing in advance of need;

vi) the investment strategy;

vii) creditworthiness policy; and

viii) the policy on use of external service providers.

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

3.2.2 The Council's Capital Strategy is reported separately from the Treasury Management Strategy. Non-treasury investments are reported through the former, ensuring 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.

3.2.3 CIPFA defines treasury management as:

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

3.2.4 The contribution of Treasury Management to the Council 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. 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.

3.2.5 The returns achievable on the Council's investments are currently modest based on the low Bank of England base rate and the risk appetite of the TM Strategy, which is compliant with the advice from the Council's treasury advisors, Link Asset Management. The Monetary Policy Committee (MPC) has not changed the Bank of England base rate (Bank Rate) since it was cut to 0.10% on 19 March 2020 in response to the Coronavirus pandemic. In 2020/21 investment returns of 0.67% are forecast with a target of 0.35% for 2021/22.

3.2.6 Despite an exit deal being agreed between the UK and the EU just before the end of the transition period on 31 December 2020, there is still ongoing uncertainty regarding all the impacts of Brexit, including how it may affect the strength of the UK currency. In addition to impacting the investment return forecast in paragraph 3.2.5, it may also result in higher borrowing costs in future PWLB (Public Works Loan Board) rates, as these are linked to gilts. The HRA and General Fund capital strategies both have significant borrowing requirements over the next few years and officers continue to monitor movements in the borrowing rates.

4 REASONS FOR RECOMMENDED COURSE OF ACTION AND OTHER OPTIONS

4.1 LEGISLATIVE AND OTHER CHANGES IMPACTING ON THE TREASURY MANAGEMENT STRATEGY

4.1.1 There have been no revisions since the CIPFA Prudential Code and CIPFA Treasury Management Code came into force from 1st April 2018, however new investment guidance was issued by the Ministry of Housing, Communities and Local Government (MHCLG) on 26 November as a response to the consultation on the future lending terms of the PWLB.

4.1.2 Each Local Authority is asked to submit a high-level description of their capital spending and financing plans for the following three years, including their expected use of the PWLB. As part of this, the PWLB will ask the CFO to confirm that there is no intention to buy investment assets primarily for yield at any point in the next three years. This assessment is based on the CFO's professional interpretation of guidance issued alongside the PWLB lending terms. Local Authorities cannot have any scheme in the Capital Strategy where the investment is primarily for financial gain, regardless of whether the transaction would notionally be financed from a source other than the PWLB. If they have such a scheme then the Council will not be eligible to borrow from the PWLB meaning they will no longer be able to access borrowing at favourable rates.

4.2 Comments from the Audit Committee and Executive

4.2.1 The report has been updated following considerations from the Audit Committee meeting of 9 February and presentation at the Executive meeting of 10 February. The Council's cashflow has also been update in line with the latest General Fund Budget and Capital Strategy reports.

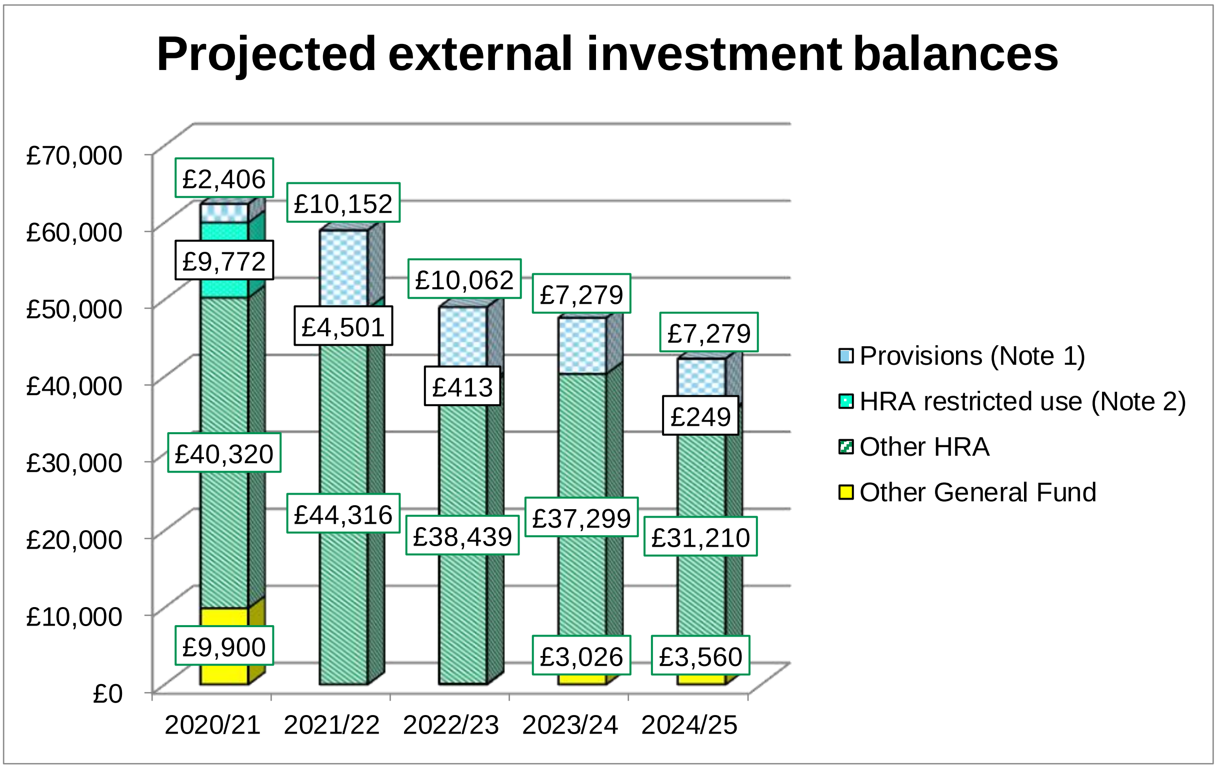
4.3 Performance of Current Treasury Strategy

4.3.1 For the financial year 2020/21 to 31 December 2020 returns on investments have averaged 0.71% and total interest earned was £330,511 contributing to General Fund and Housing Revenue Account revenue income.

4.3.2 Cash balances as at 31 December 2020 were £63.24Million and are forecast to be £62.4Million as at 31 March 2021. The Council's balances are made up of cash reserves e.g. HRA and General Fund balances, restricted use receipts e.g. right to buy one for one receipts and balances held for provisions such as business rate appeals. The cash balances figure available for investment of £62.4Million is less than the total forecast Reserves and Balances figure of £78.3Million because the HRA and the General Fund have used balances totalling £15.9Million in lieu of external borrowing due to low interest rates leading to a poor return on investments (see also para 4.6.8).

4.3.3 In considering the Council's level of cash balances, Members should note that the General Fund MTFS and Capital Strategy have a planned use of resources over a minimum of 5 years and the HRA Business Plan (HRA BP) a planned use of resources over a 30 year period, which means, while not committed in the current year; they are required in future years. This means that the Council's cash for investment purposes of £62.4Million as at 31

March 2021 is going to be used for revenue and capital plans approved by Members. This impact on cash available to invest is shown in the chart below.

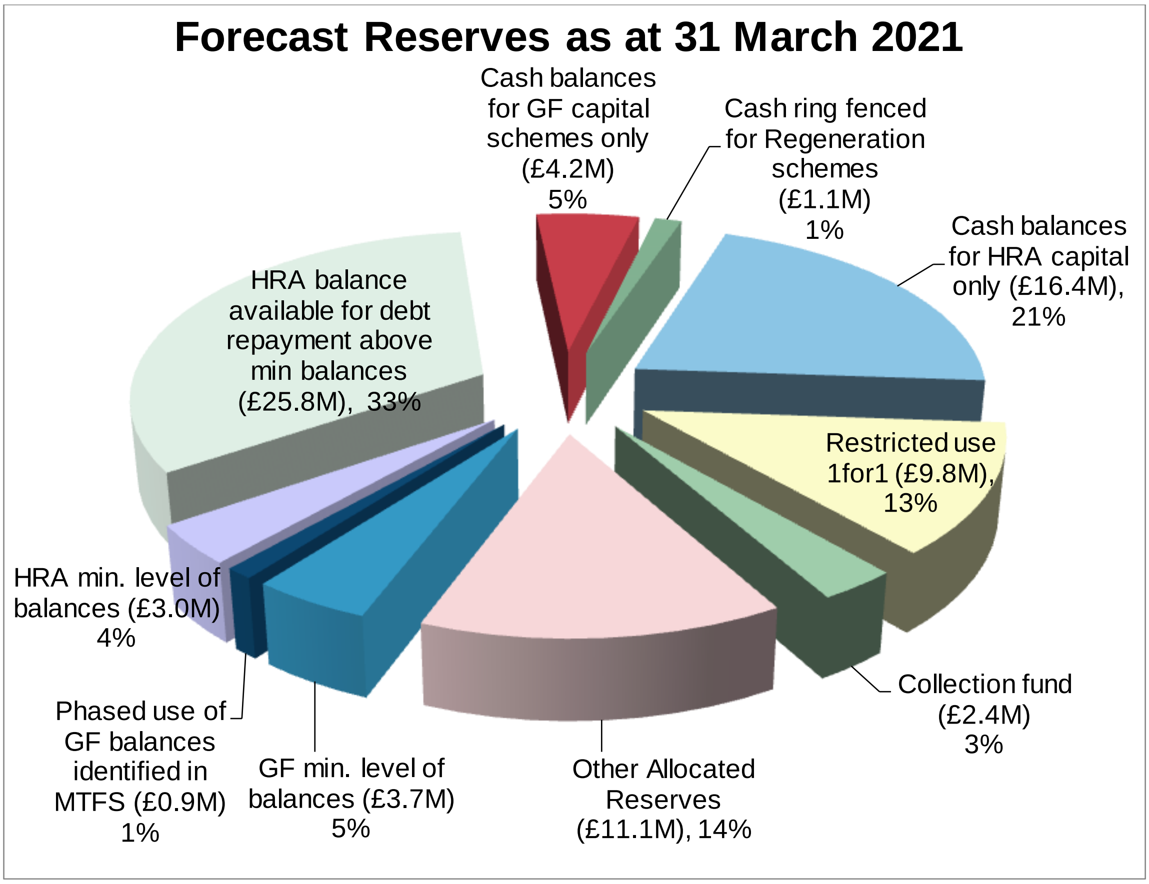


Note 1: Council Tax & NNDR (Business Rates) held for bad debts and appeals

Note 2: Right to buy (RTB) new build receipts

4.3.4 The balances projected to be held as at 31 March 2021 include balances invested that cannot be used to run services. These include balances related to restricted RTB receipts which in 2020/21 total £9.8Million. There are also balances held for future events such as business rate appeals yet to be realised and again these balances cannot be used to fund services.

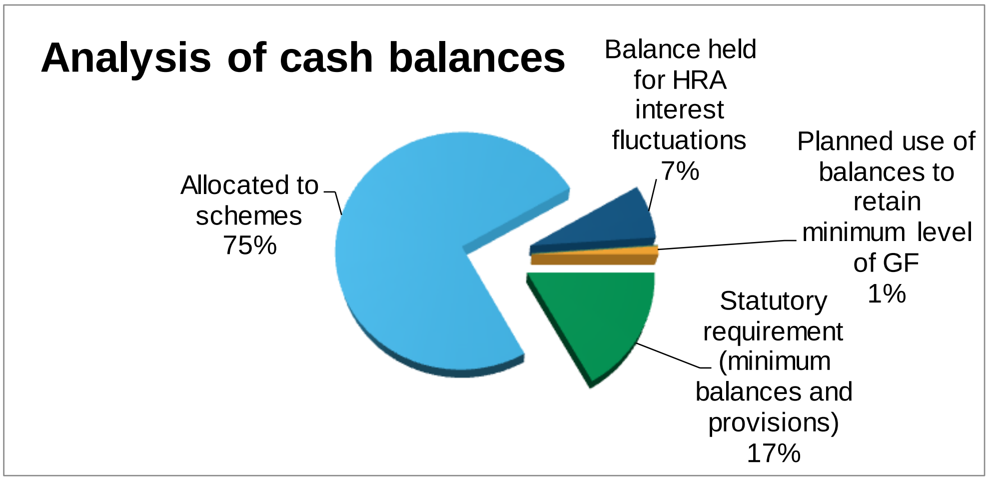
4.3.5 The majority of balances are held for the repayment of HRA debt (29.0%) and to fund the Council's capital programme (34.2%, which includes 11.0% restricted RTB receipts for new builds). Despite these sums held for the capital programme, external borrowing is still required as detailed in the 2021/22 capital strategy report. The forecast balances are summarised in the following chart.



Note 1: balances include internal borrowing of £15.9Million

Note 2: The £11.1Million includes £8.4m relating to Section 31 Business rates relief

4.3.6 These cash balances can be further analysed between allocated, held for statutory requirements and held for third parties. This identifies that all cash balances have been allocated, so unless allocated reserves are no longer needed in the future, there are currently no cash resources available for new projects. In addition the capital strategy identifies the need for external borrowing and a number of capital schemes have not been approved due to the lack of funding resources.



Note 1: Statutory requirement includes the £8.4m relating to Section 31 Business rates relief to be repaid in 2021/22

4.3.7 The Council's current investment portfolio consists of "conventional" cash investments: deposits with banks and building societies, Money Market Funds and loans to other Local Authorities. Currently no investments have been made with any of the other approved instruments within the Specified and Non-specified Investment Criteria (see Appendix D), partly due to the "above base rate" investment returns which are being offered for standard cash deposits, and those being achieved by the Treasury Management team.

4.3.8 There have been no breaches of treasury counter party limits during 2020/21 to-date, with the investment activity during the year conforming to the approved strategy. Any breach would be notified to the Chief Finance Officer. The Council has had no liquidity difficulties and no funds have been placed with the Debt Management Office (DMO) during 2020/21, demonstrating that counterparty limits and availability for placing funds approved in the TM Strategy are working as at the time of writing this report.

4.4 Review of the Treasury Management Strategy and Proposed changes

4.4.1 The Government has provided grant funding to local authorities to help deal with the COVID crisis; some such as the income guarantee scheme are for council's to retain to cover income foregone. Other grants such as Business Rates Relief are to be paid out to support local businesses, this has caused some local authorities to have sudden large increases in cash balances (which required investment) for a very short period of time until those sums are passed on to businesses. In order to remain flexible it is proposed to increase counterparty limits for short term investments (invested for up to one year) from £8Million to £10Million when cash balances are higher than £30Million, as proposed in recommendation 2.4, set out further in paragraph 4.9.5 and increase the number of Money Market Fund accounts.

4.5 Prudential Indicators

4.5.1 It is a requirement of the Local Government Act 2003 that Councils must 'have regard to the Prudential Code and set prudential indicators to ensure capital investment plans are affordable, prudent and sustainable'.

4.5.2 This Strategy's Prudential Indicators are included in Appendix C and are based on the Final Capital Strategy report to the Executive on 10 February 2020 to be approved at Council on 24 February 2020.

4.5.3 **The Operational boundary** is the limit beyond which external debt is not normally expected to exceed and is most cases will be similar to the Council's Capital Financing Requirement (CFR). The proposed limit for 2021/22 is £324.371Million. Officers recommend that the operational borrowing limit is revised to reflect:

- To accommodate uncertainty regarding the timing of significant land sales.
- To reflect the identified borrowing requirement in the capital strategy.
- To reflect the capital programme financing requirement includes capital receipts and the uncertainty of when these receipts may materialise.

- To reflect the valuation of the finance lease for the residential phase of the Queensway development in the town centre.
- The Housing Wholly Owned Company (WOC) Model (report on the agenda for February Council) is for development schemes totalling £7.765 Million, which has been included in the Final Capital Strategy funded by borrowing, the WOC report requests a maximum investment of up to £15Million which is included in the borrowing limits.

Operational Boundary	**2020/21**	**2021/22**	**2022/23**	**2023/24**	**2024/25**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
General Fund	47,343	58,294	64,126	65,484	64,730
HRA	239,474	266,076	281,716	293,696	293,696
TOTAL	286,817	324,371	345,843	359,180	358,426
Previous Operational Boundary	302,392	331,700	351,004	360,895	

4.5.4 The **Authorised limit** for external debt represents a control on the maximum level of borrowing. This represents the legal limit to which the Council's external debt cannot exceed. The proposed limit for 2021/22 is £332.371Million.

4.5.5 The Council is asked to approve the following authorised limit.

Authorised Limit for external debt	**2020/21**	**2021/22**	**2022/23**	**2023/24**	**2024/25**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
General Fund Finance lease (accounted for as borrowing)	15,000	15,000	15,000	15,000	15,000
General Fund additional borrowing facility available to the Housing WOC Wholly Owned Company		7,235	7,235	7,235	7,235
General Fund Borrowing for capital expenditure	34,343	38,060	43,892	45,249	44,495
Total Borrowing - General Fund	**49,343**	**60,294**	**66,126**	**67,484**	**66,730**
Borrowing - HRA	245,474	272,076	287,716	299,696	299,696
TOTAL	**294,817**	**332,371**	**353,843**	**367,180**	**366,426**
Previous Authorised Limit	**310,392**	**339,700**	**359,004**	**368,895**	

4.6 The Council's Borrowing Position

4.6.1 The Council had external debt of £209.098Million as at 31 December 2020 and is broken down as follows:

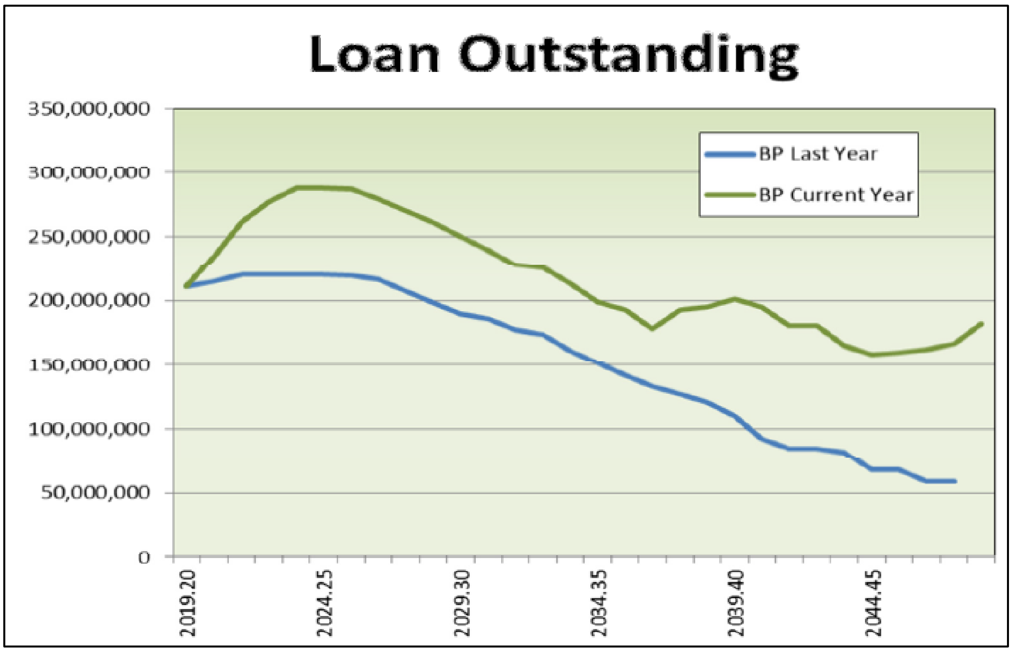
Purpose of Loan	PWLB Loan £'000
General Fund Regeneration Assets	**2,414**
HRA	
Decent Homes	11,773
Self Financing	194,911
Total HRA Loans	**206,684**
Total Debt at 31st December 2021	**209,098**

4.6.2 The HRA borrowing of £1.810million in 2018/19 was not taken externally neither was £3.047Million of the £7.057Million borrowing included in the 2019/20 HRA Business Plan and to finance the 2019/20 capital programme. To date none of the £23.803Million forecast for 2020/21 in the most recent HRA BP has been borrowed externally. External borrowing has not been taken, partly due to slippage in the HRA Capital Programme and partly because internal reserves and balances have been used instead. The timing of taking external borrowing is dependent on the level of cash balances held and forecast borrowing rates.

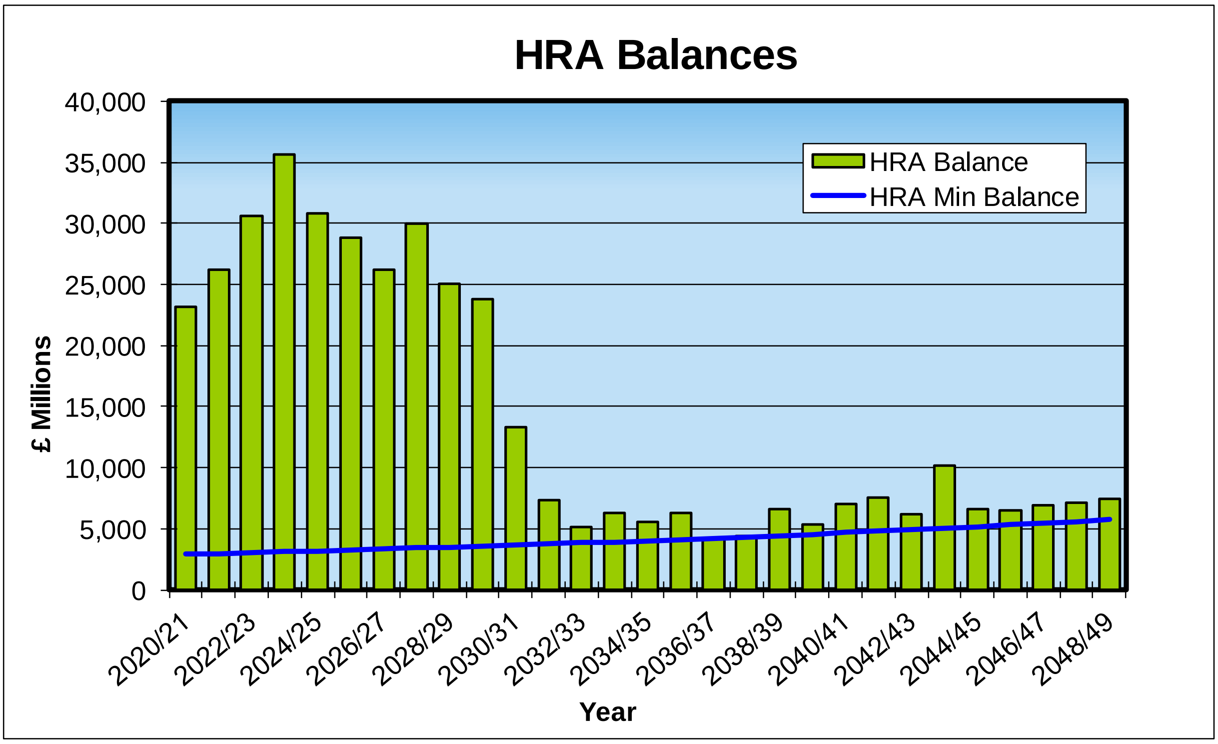
4.6.3 The following table shows the new borrowing included in the HRA BP, along with the total interest payable by the HRA over the next 5 years if all the borrowing in the current HRA capital programme is taken out externally.

HRA Borrowing and Interest		
Financial Year	**New Borrowing**	**Interest Payable**
	£'000	**£'000**
2020/21	£23,803	£7,253
2021/22	£26,602	£7,724
2022/23	£15,640	£8,051
2023/24	£11,980	£8,328
2024/25	£NIL	£8,328

4.6.4 The following graph shows the loan outstanding over the life of the HRA BP. This shows that taking additional debt early in the life of the plan will lead to higher levels of loans over the 30 years. However, this will enable significantly needed investment in the existing stock and the ability to build and purchase new housing within the next 10 years. The maximum debt in the plan is now £288Million (£220Million previous HRA BP) and the debt at year 30 is £182Million (£59Million previous HRA BP).

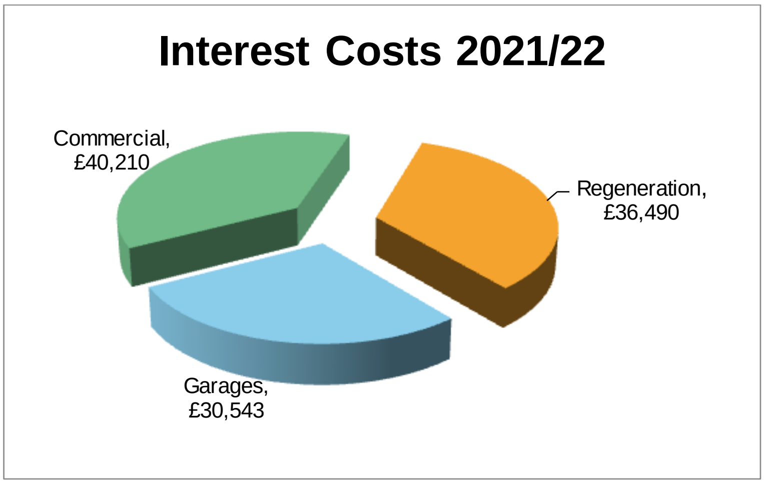


4.6.5 The 30 year business plan for the HRA budgets for debt repayments based on current and new borrowing (detailed above), taking into account assumptions on rent income, associated expenditure and estimates on interest rates. The HRA is balanced across the 30 years, with significant reserves in place to repay the self-financing debt. The graph below shows the estimated HRA balances on an annual basis, how this is above or in line with the level of minimum balances required to ensure the HRA can fund its expenditure and repay the self-financing debt.



4.6.6 In 2020/21 there has been a General Fund loan repayment of £131,579 in August 2020, and a further £131,579 is due to be repaid in February 2021. In addition approved prudential borrowing for the Garage strategy is due to be taken, the timing of which is dependent on when the expenditure is incurred. There is no planned borrowing for the Housing WOC in 2020/21. The primary aim of the Housing WOC is for housing rather than yield so borrowing from the PWLB is still permitted as set out in paragraph 4.3.2. To optimise the cash benefits to the General Fund revenue account it may be beneficial to fund the investment from other capital receipts rather than borrowing. To that extent funding will be a treasury management decisions and Members are asked to note that the final financing arrangements for the Housing WOC investment will be considered by the S151 officer.

4.6.7 The majority of the interest payable on General Fund borrowing is funded by the assets associated with the expenditure. This includes the Town Square and Town Plaza Regeneration assets and the Commercial Property Essex House. The Housing WOC will pay interest on borrowing taken in relation to any loans made to the Housing WOC, as does Queensway Properties (Stevenage) LLP. The 2021/22 projected interest costs on borrowing is estimated to be £107,243 (2020/21 £96,105).

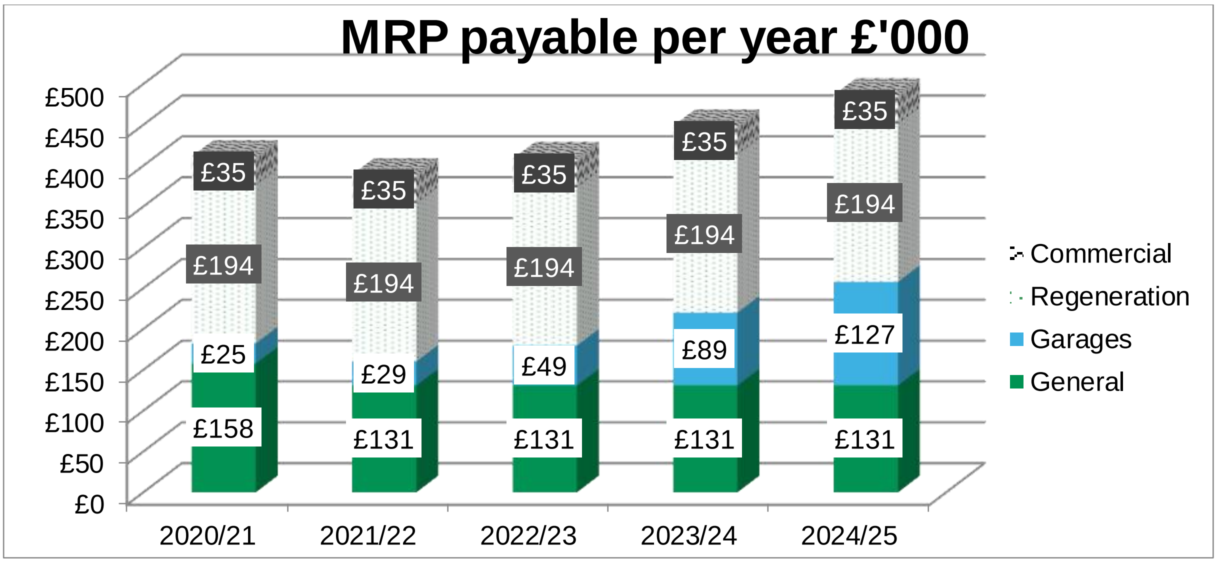


4.6.8 Cash and investment balances have been used in preference to external borrowing as the costs of internal debt (investment interest foregone at 0.71%) is lower than external borrowing (1.72% based on 25 year loan). It is the view of the Chief Financial Officer that this approach will continue to be considered while interest rates remain low.

4.7 Minimum Revenue Provision

4.7.1 Where General Fund capital expenditure has been funded from borrowing, whether this be actual external borrowing or internal borrowing the Council is required to set aside a Minimum Revenue Provision (MRP). This amount is calculated based on the approved MRP policy (appendix B) based on the life of the asset.

4.7.2 Borrowing decisions and subsequent MRP payments impact on the affordability of capital schemes. Current projections of MRP payments based on the updated policy are detailed in the following chart. This excludes the technical requirement to charge MRP on loans to other companies in the accounts, as these borrowing costs are recharged.



4.8 Future borrowing requirements

4.8.1 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 by taking loans out with PWLB. Instead the Council's reserves, balances and cash flow have been used (as set out in paragraphs 4.3.2 and 4.6.8). This strategy is prudent as investment returns are low and counterparty risk is still an issue that needs to be considered.

4.8.2 Against this background and the risks within the economic forecast, caution will be adopted with the 2021/22 treasury operations. The Assistant Director (Finance and Estates) will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances.

4.8.3 It is the Council's intention not to borrow in advance of need. However, should this happen as part of the optimising treasury management position of the Council and minimising borrowing risks, the transaction will be accounted for in accordance with proper practices.

4.8.4 Although some forecasters had suggested that a cut of the Bank of England Base Rate (currently 0.10%) into negative territory could happen, indications are that the Monetary Policy Committee (MPC) is unlikely to do so as such a move could do more damage than good, and that further quantitative easing is more likely if further action becomes necessary. The Council's treasury advisors forecast that no increase in Bank Rate is expected. Base rate and borrowing rate forecasts are shown in the table below. However there is volatility and uncertainty, over Brexit in particular, and rates are monitored regularly.

Link Group - December 2020	End Q1 2021	End Q2 2021	End Q3 2021	End Q4 2021	End Q1 2022	End Q2 2022
Bank Rate	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%
5yr PWLB Rate	0.80%	0.80%	0.80%	0.80%	0.90%	0.90%
10yr PWLB Rate	1.10%	1.10%	1.10%	1.20%	1.20%	1.20%
25yr PWLB Rate	1.50%	1.60%	1.60%	1.60%	1.60%	1.70%
50yr PWLB Rate	1.30%	1.40%	1.40%	1.40%	1.40%	1.50%

Source: Link Asset Services 04 January 2021

4.8.5 The Treasury's Certainty Rate for borrowing remains available and enables the Council to take PWLB loans at 20 basis points (0.2%) below the standard PWLB rate. The rates shown in the table above include that adjustment. Following the 100 basis points increase to PWLB rates in October 2019, the response to the consultation on the future lending terms of the PWLB (as detailed out in paragraph 4.1) has resulted in the PWLB margin returning to gilts +80 basis points. There are also other potential sources of borrowing for Local Authorities, such as the Municipal Bond Agency.

4.8.6 The HRA BP existing loans have an average interest rate of 3.32% based on £206.684Million of borrowing. As set out in the table in paragraph 4.6.3, the current business plan includes allowance for new loans totalling £23,802,670 in 2020/21 and £26,602,339 in 2021/22. The decision when to take the new borrowing will be reviewed, weighing up the cost of carry and the prevailing borrowing rate. The interest payable in 2020/21 and 2021/22 is estimated to be £7,252,845 and £7,724,348 respectively.

4.8.7 The HRA BP continues to include borrowing based on affordability as identified in the BP action plan. This has resulted in lower levels of revenue contributions to capital than before the lifting of the HRA Debt Cap.

4.9 Investments

4.9.1 The Council complies fully with CIPFA Treasury Management Code 2017. The Council also complies with guidance on self-financing and the investment guidance issued by MHCLG.

4.9.2 In managing the TM function other areas kept under review include:

- Training opportunities available to Members and officers (the most recent training for Members took place on 5th September 2019)
- That those charged with governance are also personally responsible for ensuring they have the necessary skills and training
- A full mid-year review of the TMS will be reported in 2021/22

4.9.3 The 2020/21 Strategy uses the credit worthiness service provided by Link Asset Services (formerly known as Capita Treasury Solutions) the Council's treasury advisors. This service uses a sophisticated modelling approach which utilises credit ratings from the three main credit rating agencies and is compliant with CIPFA code of practice.

4.9.4 While Link Asset Services may advise the Council, the responsibility for treasury management decisions remains with the Council at all times and officers do not place undue reliance on the external service advice.

4.9.5 The TM limits for 2021/22 (Appendix D) have been reviewed. In order to remain flexible for volatile cash balances, particularly due to the Covid-related grants set out in paragraph 4.4.1, it is recommended that the limit for each counterparty be increased (recommendation 2.4), for investments of up to one year including Money Market Funds, from £8Million to £10Million, while cash balances are higher than £30Million. If cash balances are less than £30Million it is recommended that the limit remains at £5Million per counterparty.

4.9.6 The latest list of "Approved Countries for Investment" is detailed in Appendix E. This lists the countries that the Council may invest with providing they meet the minimum credit rating of AA- . The Council retains the discretion not to invest in countries that meet the minimum rating but where there are concerns over human rights issues.

4.10 Non Treasury Investments

4.10.1 The CIPFA Prudential and Treasury Codes recommend that authorities' capital strategies should include a policy and risk management framework for all investments. The Codes identify three types of local authority investment:

- Treasury management investments, which are taken to manage cashflows and as part of the Council's debt and financing activity
- Commercial investments (including investment properties), which are taken mainly to earn a positive net financial return (previously purchased commercial investments only as Council's are no longer permitted to access PWLB rates if they invest in commercial investments primarily for gain.
- Service investments, which are taken mainly to support service outcomes

4.10.2 The Government issued revised investment guidance on 2 February 2018, which strengthens the management and reporting framework relating to commercial and service investments and further guidance on 26 November 2020 as a response to the consultation on the future lending terms of the PWLB. The 2021/22 Capital Strategy includes more details on the Councils non treasury investments.

4.11 Other Treasury issues

4.11.1 **UK Sovereign rating and investment criteria:** The UK sovereign rating could come under pressure from the impact of COVID and / or following the trade agreement agreed between the UK and the EU on 31st December 2020. In October 2020, Moody's downgraded the rating to Aa3 (AA-equivalent), the same as Fitch, while Standard & Poor's has it rated at AA. The Council's investment criteria only use countries with a rating of AA- or above. The UK rating will be exempt from the sovereign rating investment criteria so in this event if it were to result in the UK being downgraded below

AA- it would not impact on the Council's ability to invest with UK institutions. Other investment criteria will be considered in this event to ensure security of funds for the Council.

4.11.2 **Queensway Properties (Stevenage) LLP:** In December 2018 the Council entered into a 37 year agreement with Aviva to facilitate the regeneration of Queensway in the town centre. A separate legal entity, Queensway Properties (Stevenage) LLP, was incorporated to manage the rental streams and costs associated with the scheme. The Council's treasury management team offered its services to the LLP to manage and invest its surplus cash flows through a service level agreement, however to date no investment activities have been undertaken on their behalf.

4.11.3 **Queensway Properties (Stevenage) LLP 2nd phase:** the first phase of the head lease was recognised on the Council's balance sheet and the operational borrowing limit was increased to reflect the valuation. When the second phase of residential properties becomes available to let the Council's lease payments will increase to reflect this. As such the balance sheet valuation of the finance lease will increase and the operational and authorised borrowing limits for the General Fund have been increased accordingly. This has been reflected in the TM indicators.

4.11.4 **Housing WOC:** as set out in paragraphs 4.5.3 and 4.6.6, the Housing Wholly Owned Company (WOC) report seeks approval for up to £15Million of investment from the Council, which would be in the form of a mix of equity funding and loans. The proof of concept included in the Housing WOC Model is for development schemes totalling £7.765 Million, and the Council's funding of this investment has been included in the Final Capital Strategy as all funded by borrowing. £7.235 Million, the balance of the £15Million potential investment in the Housing WOC is included in the borrowing limits. However as set out in paragraph 4.6.6, it may be beneficial to fund the Council's investment from other capital receipts rather than borrowing.

4.11.5 **IFRS16 – Leasing:** As reported previously, some currently off balance sheet leased assets may need to be brought onto the balance sheet under IFRS 16, however this has been deferred and is no longer a requirement for closing of the accounts for 2020/21.

5 IMPLICATIONS

5.1 Financial Implications

5.1.1 This report is of a financial nature and outlines the Prudential Code indicators and the principles under which the treasury management functions are managed. Any consequential financial impacts of the Strategy will be incorporated into the Capital Strategy updates and subsequent quarterly budget monitoring reports.

5.1.2 During the financial year to date officers have operated within the treasury and prudential indicators set out in the Council's Treasury Management Strategy Statement and in compliance with the Council's Treasury Management Practices.

5.2 Legal Implications

5.2.1 Approval of the Prudential Code Indicators and the Treasury Management Strategy Indicators are intended to ensure that the Council complies with relevant legislation and best practice.

5.3 Risk Implications

5.3.1 The current policy of minimising external borrowing only remains financially viable while cash balances are high and the differentials between investment income and borrowing rates remain. Should these conditions change the Council may need to take borrowing at higher rates which would increase revenue costs.

5.3.2 There remains uncertainty on exiting the EU and the potential impact on UK economy and borrowing rates. Officers monitor interest rate forecasts to inform he timing of borrowing decisions.

5.3.3 The Council's Treasury Management Strategy is based on limits for counterparties to reduce risk of investing with only a small number of institutions.

5.3.4 The thresholds and time limits set for investments in the Strategy are based on the relative ratings of investment vehicles and counter parties. These are designed to take into account the relative risk of investments and also to preclude certain grades of investments and counterparties to prevent loss of income to the Council.

5.4 Equalities and Diversity Implications

5.4.1 This report is technical in nature and there are no implications associated with equalities and diversity within this report. In addition the council retains the discretion not to invest in countries that meet the minimum rating but where there are concerns over human rights issues.

5.4.2 The Treasury Management Policy does not have the potential to discriminate against people on grounds of age; disability; gender; ethnicity; sexual orientation; religion/belief; or by way of financial exclusion. As such a detailed Equality Impact Assessment has not been undertaken.

5.5 Climate Change

5.5.1 The council's investment portfolio is sterling investments and not directly in companies. However the TM team will review the use of Money Market funds in 2020/21 to ensure, where possible, money market funds that invest in environmentally sustainable companies are used. In this way the TM team will align with the Councils ambition to attempt to be carbon neutral by 2030.

Background documents

BD1 Annual Treasury management Review of 2019/20

BD2 2020/21 Mid-Year Treasury Management Review

BD3 Final Capital Strategy 2020/21 – 2024/25 (Executive 10 February 2021 and Council 24 February 2021)

Appendices

A Treasury Management Strategy

B Minimum Revenue Provision Policy

C Prudential Indicators

D Specified and Non-Specified Investment Criteria

E Approved Countries for investment