FINANCIAL PLAN

2021 - 2025

TREASURY MANAGEMENT EXTRACTS

Making a positive difference

Birmingham City Council

APPENDIX N: TREASURY MANAGEMENT STRATEGY

1. Summary

1.1. This appendix sets out the proposed Treasury Management Strategy for 2021/22 given the interest rate outlook and the Council's treasury needs for the year, and in accordance with the Treasury Management Policy at Appendix O.

1.2. A balanced strategy is proposed which continues to maintain a significant short-term and variable rate loan debt in order to benefit from low short-term interest rates, whilst taking some fixed rate borrowing to maintain an appropriate balance between the risks of fixed rate and short-term or variable rate borrowing. The balance between short- and long-term funding will be kept under review by the Chief Finance Officer and will be maintained within the prudential limit for variable rate exposures.

1.3. Separate loans portfolios are maintained for the General Fund and the HRA. Separate treasury strategies are therefore set out below where relevant. [1]

1.4. The impact on the UK from coronavirus, together with its exit from the European Union and future trading arrangements, will remain a major influence on the Council's treasury management strategy for 2021/22.

2. Treasury Management Policy and Objectives

2.1. The Treasury Management Policy (Appendix O) sets the Council's objectives and provides a management and control framework for its Treasury Management activities, in accordance with CIPFA's Code of Practice for Treasury Management in the Public Services.

2.2. For the Council, the achievement of high returns from treasury activities is of secondary importance compared with the need to limit the exposure of public funds to the risk of loss.

2.3. These objectives must be implemented flexibly in the light of changing market circumstances.

3. Council Borrowing Requirement

3.1. The Council's forecast of its required gross loan debt is set out in Table 7.1 in Chapter 7 above and is a combination of its new prudential borrowing for capital, reduced by the amounts set aside to repay debt, and short term cashflows. Most

[1] This Strategy relates to loan debt only. Other debt liabilities relating to PFI and finance leases are not considered in this Strategy and are managed separately. Throughout this Financial Plan, debt and investments are expressed at nominal value, which may be different from the valuation basis used in the statutory accounts.

of the Council's loan debt is in existing long term loans which mature over periods of up to 40 years or more. The balance of new loans which the Council will need to obtain in each of the next four years is set out in Table N.1:

Table N.1 Forecast Borrowing Requirement

	2021/22	2022/23	2023/24	2024/25
	£m	£m	£m	£m
Forecast gross loan debt	3,721.8	3,697.2	3,518.1	3,456.7
Forecast treasury investments	(40.0)	(40.0)	(40.0)	(40.0)
Forecast net loan debt	3,681.8	3,657.2	3,478.1	3,416.7
of which:				
forecast long term loans outstanding	3,003.6	2,928.6	2,908.6	2,833.6
Short term investments working balance	(40.0)	(40.0)	(40.0)	(40.0)
Required new/ replacement loan balance	718.3	768.7	609.5	623.1
	3,681.8	3,657.2	3,478.1	3,416.7

3.2. This strategy sets out how the Council plans to obtain the required new borrowing shown above, by a combination of short term and long term borrowing.

3.3. The Council's forecast debt is due to decrease in forthcoming years meaning that its borrowing needs will correspondingly be reduced from 2021/22 onwards. The fall is partly attributable to scheduled debt repayments. If further capital expenditure funded from borrowing is decided on in the future, this will increase the debt levels.

3.4. The Council has £71.1m of Lender's Option Borrower's Option (LOBO) loans outstanding. In these loans, the lender has the right to increase the interest rate at certain dates during the loan term, and in this event the Council has the right to repay the loan immediately without penalty. £41.1m of the loans have the potential to be exercised during 2021/22. This would increase the Council's borrowing requirement, but it is considered unlikely that it would happen in the current market environment.

3.5. In previous years the Council has repaid some of its LOBO loans early; in May 2019, £30m of LOBO loans held with Commerzbank were repaid. This resulted in a significant saving for the Council and it removed a substantial amount of LOBO loans from its loan portfolio. The Council will consider further loan restructuring opportunities if they become available and where they are considered financially advantageous.

4. Interest Rate and Credit Outlook

4.1. UK Bank Rate is fundamental for the Council's treasury management activity, in terms of expenditure on loan interest where new loans are taken out and on income received from investments. UK Bank Rate is set by the Bank of England's Monetary Policy Committee (MPC) and their interest rate outlook is influenced by domestic and international economic and political developments.

4.2. The global economy experienced a significant slowdown in growth driven by the global coronavirus pandemic. The UK's gross domestic product (GDP) shrank by 9.6 % year-on-year in the third quarter of 2020, following a record contraction of 21.5 % in the previous three-month period. Although UK GDP is expected to rise in 2021, there could be further deterioration in other economic measures such as Consumer Price Inflation (CPI), which fell to 0.3% in November 2020, well below the BoE target of 2%. The UK Unemployment Rate, at 4.9% in October 2020, is expected to peak at 7.75% in 2021.

4.3. The UK economy could also be affected by any trade agreements negotiated after its exit from the European Union and the BoE now forecasts the economy will take until Q1 2022 to reach its pre-pandemic level rather than the end of 2021 as previously forecast. The Bank of England (BoE) has maintained Bank Rate at 0.10% in November 2020, and have retained the option for Bank Rate to go to zero or negative should the economic downturn continue or worsen.

4.4. Arlingclose, the Council's treasury advisor, has forecast the Bank Rate to remain at 0.10% for the foreseeable future with some risks weighted to the downside. Given the level of uncertainty over economic growth and the impact of Brexit trade talks, the Council has taken a prudent view and has assumed a small increase in Bank Rate for the treasury budget by the end of 2021/22.

4.5. Upside risks to UK interest rates in 2021/22 include:

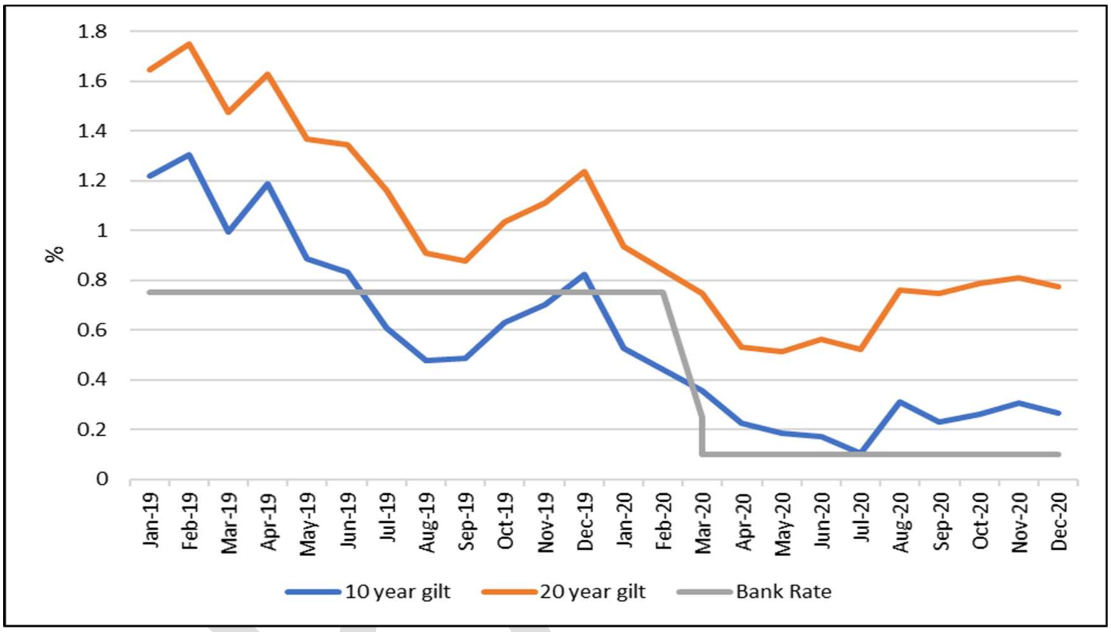
- Higher than expected economic growth as the coronavirus pandemic is halted with the rollout of vaccines
- Higher than expected inflation rates
- A free trade agreement with the EU post-Brexit

Downside risks to UK interest rates include:

- World and UK growth falters as the effects of coronavirus and extended lockdown periods remain significant
- Brexit risks to the UK economy
- Safe haven investment flows into the UK as a result of geopolitical risk

4.6. Longer term interest rates are typically represented by UK Government Gilt yields. The chart at Figure N.2 shows that Gilt yields fell to record low levels after the onset of the global pandemic at the start of 2020 and have risen recently although they remain near historically low levels. Most forecasts for long-term interest rates envisage little change from current levels. However, volatility arising from both economic and political events are likely to continue.

Figure N.2 Bank Rate and Gilt Yields



4.7. The credit outlook for banks became more significant following the introduction of the 2015 Bank Recovery and Resolution Directive (BRRD). Here a failing bank would need to be 'bailed in' by current investors instead of being 'bailed out' by the government, thus increasing the risk of loss for local authorities holding unsecured bank deposits. The Council will continue to monitor bank credit worthiness and seek the advice of its treasury advisor, Arlingclose.

4.8. Credit risk for UK retail banks improved following the adoption of ring-fencing legislation; larger UK banks separated their retail banking activity (ring-fenced) from the rest of their business (non ring-fenced) i.e. investment banking. The aim is to protect retail banking activity from unrelated risks elsewhere in the banking group, as occurred during the global financial crisis. Credit rating agencies have adjusted the ratings of some of the legally separate entities with ringfenced banks generally better rated than their non-ringfenced counterparts.

4.9. As a result of the Covid-19 pandemic and provisions made by banks against coronavirus related loan defaults, bank profitability in 2020 is likely to be lower than in previous years. There is a risk that banks could suffer further losses in

2021 if government and central bank support is removed. This may make them reluctant to lend.

5. Borrowing strategy

5.1. For some years the Council has targeted a short term or variable rate loans balance (less than 12 months) of around £500m to £600m to take advantage of the prevailing low short term borrowing rates. Short term rates turned significantly lower in 2020/21 and low rates are expected to continue into 2021/22; it is proposed to resume the short term loans level of around £500m to £600m, with the balance of the Council's borrowing needs being met through long-term borrowing (i.e. for periods of one year or more).

5.2. Based on this strategy, the following table summarises, for the Council as a whole, the new long-term and short-term borrowing proposed to fund the required new or replacement borrowing each year:

Table N.3 Proposed borrowing strategy

	2021/22	2022/23	2023/24	2024/25
cumulative new borrowing:	£m	£m	£m	£m
total long term loans	130.0	130.0	130.0	130.0
new short term loans	588.3	638.7	479.5	493.1
Required new/ replacement loan balance	718.3	768.7	609.5	623.1

5.3. The strategy results in a forecast for new long-term borrowing of £130m in 2021/22. The balance of new long term borrowing does not increase in the following years as the requirement for new loans starts to decrease. As the requirement for short term loans also decreases below the £500-600m guidance in future years, new long term loans in 2021/22 can be taken out with a shorter maturity.

5.4. Short-term borrowing is available largely from other local authorities. This may be supplemented with borrowing from other sources such as banks, or in different forms. Towards the end of 2019/20, liquidity in the local authority lending market unexpectedly tightened meaning the Council had to pay higher rates to maintain its short term book. These tight conditions were short lived and liquidity resumed from the start of 2020/21. To mitigate such liquidity risk, the Council has opened a Working Capital Facility with its current bankers should it require loans for a short period from an alternative source. Short-term and variable rate exposures remain within the 30% prudential limit set out in Appendix U4.

5.5. In 2020/21, the Council paid a three year advance pensions payment for which it received a discount; this means there are reduced pensions cash outflows in 2021/22 and 2022/23. If the Council is offered a similar discount in 2023/24, it may choose to make an advanced payment which could be funded by further long term loans. The borrowing strategy to fund the advance pensions payment will be to take loans for one to three years. The forecast debt figures at Table N.1 do not include future pensions advanced payments as these are yet to be agreed.

5.6. It should be noted that a possible scenario is that short-term and long-term interest rates may rise (or are expected to rise) more sharply than currently forecast. A higher level of long-term borrowing may be taken if appropriate to protect future years' borrowing costs.

Long term borrowing

5.7. The main source of long term borrowing for local authorities historically has been the Public Works Loans Board (PWLB). In October 2019 the PWLB had increased its rate to local authorities from 0.8% above gilts to 1.8% above gilts. The Treasury stated that this was due to the substantial increase in PWLB borrowing by local authorities as the cost of borrowing had fallen to record lows. Some local authorities had undertaken significant PWLB borrowing to fund commercial investments for yield. The Council has not undertaken any PWLB borrowing to fund commercial investments for yield.

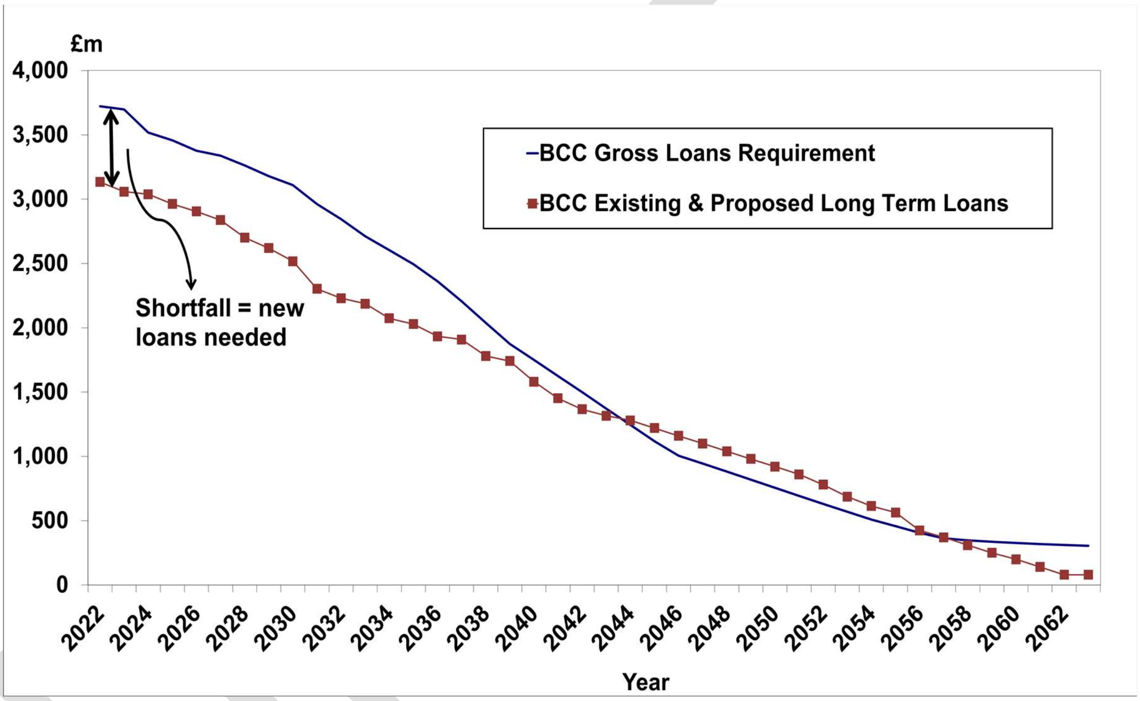
5.8. Following a consultation on PWLB lending terms, the Treasury at the end of November 2020, returned PWLB rates to 0.8% above gilts with the condition that local authorities would not be able to access PWLB loans if their 3 year capital programme included capital expenditure primarily for yield. The Treasury has also stated it will allow local authorities to use PWLB borrowing to refinance debt or externalise internal borrowing even if they have debt for yield projects. However it would not support strategies to temporarily finance debt for yield projects and then refinance through PWLB loans. The Council's current programme has no plans for investing for yield and all investments are linked to Service objectives.

5.9. The consequence of the PWLB rate decrease is that it offers a cheaper and quicker route to borrowing than alternative sources of borrowing, by at least 0.5% based on latest market analysis. The Council would thus aim to use the PWLB for its long-term borrowing needs. In addition it is uncertain how private sector lenders will view lending to councils that were no longer eligible for PWLB loans.

5.10. The Council will continue to monitor market developments and will seek to use and develop other funding solutions if better value may be delivered. This may include other sources of long-term borrowing if the terms are suitable, including listed and private placements, bilateral loans from banks, local authorities or others, Islamic forms of finance and sale and leaseback arrangements. The Council may also restructure existing loans and other long term liabilities e.g. by premature repayment and replacement with new loans.

5.11. The £130m new long-term borrowing forecast for 2021/22 is planned to be taken at a spread of maturities appropriate to the Council's long-term debt liability profile. The Council's loan maturity profile can be compared with the level of loan debt outstanding required by this Financial Plan, as follows:

Figure N.4 BCC Loans Outstanding vs. Gross Loans Requirement



5.12. The Gross Loans Requirement in Figure N.4 represents the level of outstanding loan debt required by this Financial Plan. It takes account of existing loans outstanding plus planned prudential borrowing; this reduces over time as a result of the Minimum Repayment Provision (MRP) for debt. The difference between the Gross Loans Requirement and Existing & Proposed long term loans represents forecast short-term borrowing or investments. The Gross Loans Requirement represents a liability benchmark against which to measure the amount and maturity of required borrowing. In practice, future borrowings would never allow the outstanding loans to reach nil as matured debt is replaced by debt for new capital projects.

5.13. The shortfall shown in the chart is planned to be met by a short-term loans portfolio of around £600m in accordance with current strategy (see paragraph 5.1).

5.14. The Treasury Management Prudential Limits and Indicators consistent with the above strategy are set out in Appendix U, including a summary loan debt maturity profile.

5.15. The Treasury Management Strategy must be flexible to adapt to changing risks and circumstances. The strategy will be kept under review by the Chief Finance Officer in accordance with treasury management delegations.

6. HRA and General Fund treasury strategies

6.1. The HRA inherited a largely long-term fixed rate debt portfolio at the start of the current HRA finance system in 2012. No new long-term borrowing for the HRA is currently planned as HRA increases its exposure to short term loans. The General Fund and HRA exposures to short-term and variable interest rates in accordance with the strategy are as follows:

Table N.5 Forecast Variable Rate Exposure based on the proposed borrowing strategy

(taking account of debt maturities and proposed long term borrowing)	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m
Housing Revenue Account				
Year end net exposure to variable rates	213.2	251.0	281.3	289.6
Closing HRA net loan debt	1,113.4	1,144.0	1,156.4	1,161.7
Variable exposure % of debt	19.2%	21.9%	24.3%	24.9%
General Fund				
Year end net exposure to variable rates	410.0	367.6	233.2	222.4
Closing General Fund net loan debt	2,568.4	2,513.2	2,321.7	2,255.0
Variable exposure % of debt	16.0%	14.6%	10.0%	9.9%
Year end variable interest rate assumption provided for in the budget	0.50%	0.75%	0.75%	1.00%

Note: the variable rate figures above include long-term loans with less than a year to maturity. Potential repayment option calls on LOBO loans are excluded as none are expected in this period.

6.2. The variable rate exposure means that a 1% rise in variable rates at the end of 2021/22 would cost an estimated £4.1m per annum for the General Fund and £2.1m per annum for the HRA. However, the budget provides for a potential increase in variable rates (as shown above), which is considered to be prudent in this context.

6.3. This strategy therefore acknowledges the risk that maintaining a significant variable rate loan debt may result in increased borrowing costs in the longer term, but balances this against the savings arising from cheaper variable interest rates. The Chief Finance Officer will keep the strategy under close review during the year, in the light of the Council's financial position and the outlook for interest rates.

7. Treasury Management Revenue Budget

7.1. Based on this strategy the proposed budget figures are as follows:

Table N.6 Treasury Management Revenue Budget

	2021/22	2022/23	2023/24	2024/25
	£m	£m	£m	£m
Net interest costs	133.618	121.166	126.087	123.796
Revenue charge for loan debt repayment	112.954	116.246	126.603	129.397
Other charges	(3.809)	(9.194)	2.182	2.102
Total	242.763	228.218	254.872	255.294
Met by the HRA	50.596	52.803	50.657	49.578
Met by the General Fund	192.166	175.415	204.215	205.716
Total	242.763	228.218	254.872	255.294

7.2. The budgeted interest cost in each year reflects a prudent view of borrowing costs and the cost of the additional borrowing in this Financial Plan. Actual interest costs will be affected not only by future interest rates, but also by the Council's cash flows, the level of its revenue reserves and provisions, and any debt restructuring.

8. Investment Strategy

8.1. The Council has surplus cash to lend only for short periods, as part of day-to-day cashflow management and to maintain appropriate cash liquidity. A month end investment balance of £40m in deposits, which are close to instant access, is used as guidance in order to maintain adequate liquidity to meet uncertain cashflows. Any such surplus cash is invested in high credit quality institutions and pooled investment funds. Money Market pooled funds are expected to continue to form a major part of the cash investment portfolio, as they are able to reduce credit risks in a way the Council cannot do independently, by accessing top quality institutions and spreading the risk more widely.

8.2. Due to the coronavirus pandemic, councils experienced increased uncertainty over their cashflows during 2020/21. Central government provided significant grants to the Council as it looked to use local authorities to coordinate the support required by the local population in dealing with the financial impact of the pandemic. As a result, the Council held liquid cash balances that far exceeded the guidance of £40m throughout the year. This is likely to continue if the financial impact of coronavirus continues into 2021/22.

8.3. As the economic consequences of the pandemic and the details of the Brexit trade deal become clearer, there is the risk that the Bank of England will set its Bank Rate at or below zero, which would feed through to negative interest rates on low risk, short-term investment options. Since investments cannot pay negative income, negative rates would be applied by reducing the value of investments. In this event, security will be measured as receiving the contractually agreed amount at maturity, even though this may be less than the amount originally invested.

8.4. Long-term investments of one year or more are not currently expected to be appropriate for treasury management purposes, as the Council does not expect to have temporary surplus cash to invest for that length of time.

9. Other Treasury Management Exposures and Activities

9.1. The Council has guaranteed the £73m loan debt issued by NEC (Developments) Plc, which since the sale of the NEC Group has been a wholly owned subsidiary of the Council. The value of this liability, due to mature in 2027, is reflected in the Council's own debt and is managed as part of treasury activity.

9.2. The Council is a constituent member of the West Midlands Combined Authority (WMCA). Participating authorities share an exposure to any unfinanced revenue losses of WMCA, including debt finance costs. The Council and other member authorities support WMCA's capital investment plans, which include substantial prudential borrowing (subject to revenue funding support). This exposure is managed through the authorities' voting rights in WMCA including approval to its annual revenue and capital budget.

10. Advisers

10.1. Arlingclose Limited are appointed to provide treasury management advice to the Council, including the provision of credit rating and other investment information. Advisers are a useful support in view of the size of the Council's transactions and the pressures on staff time.

11. Prudential Indicators for Treasury Management

11.1. The Council is required under the Local Government Act 2003 and the CIPFA Treasury Management Code to set Prudential Indicators for treasury management. These are presented in Appendix U4.

APPENDIX O: TREASURY MANAGEMENT POLICY

1. Overview

1.1. This appendix sets out the Council's proposed Treasury Management Policy. This sets the overall framework and risk management controls which are used in carrying out the Council's borrowing, lending and other treasury activities.

2. Statutory Guidance

2.1. This Treasury Management Policy, the Treasury Strategy at Appendix N, and the Service and Commercial Investment Strategy at Appendix P, comply with the statutory requirement to have regard to the following Codes and Guidance:

- CIPFA's Code of Practice for Treasury Management in the Public Services (revised December 2017)
- CIPFA's Prudential Code for Local Authority Capital Finance (revised December 2017)
- The Government Guidance on Local Authority Investments (revised February 2018)

The Council has adopted the above Codes.

3. The Council's Treasury Management Objectives

3.1. The Council's treasury management objectives and activities are defined as:

"The management of the organisation'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. Effective treasury management will provide support towards the achievement of the Council's 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]

Attitude to Treasury Management Risks

3.3. The Council attaches a high priority to a stable and predictable charge to revenue from treasury management activities, because borrowing costs form a

[2] Paragraphs 3.1, 3.2, 3.6 and the final sentence of 4.5 are required by the CIPFA Treasury Management Code

significant part of the Council’s revenue budget. The Council’s objectives in relation to debt and investment can accordingly be stated more specifically as follows:

“To assist the achievement of the City Council’s service objectives by obtaining funding and managing the City Council’s debt and treasury investments at a net cost which is as low as possible, consistent with a high degree of interest cost stability and a very low risk to sums invested.”

3.4. This does not mean that it is possible to avoid all treasury risks, and a balance has to be struck. The main treasury risks which the Council is exposed to include:

- Interest rate risk - the risk that future borrowing costs rise
- Credit risk - the risk of default in a Council investment
- Liquidity and refinancing risks - the risk that the Council cannot obtain funds when needed

3.5. The Treasury Management team has the capability to actively manage treasury risks within this Policy framework. However, staff resources are limited, and this may constrain the Council’s ability to respond to market opportunities or take advantage of more highly structured financing arrangements. External advice and support may also be required. The following activities may for example be appropriate based on an assessment at the time, to the extent that skills and resources are available:

- the refinancing of existing debt
- borrowing in advance of need, and forward-starting loans
- leasing and hire purchase
- use of innovative or more complex sources of funding such as listed bond issues, private placements, commercial paper, Islamic finance, and sale and leaseback structures
- investing surplus cash in institutions or funds with a high level of creditworthiness, rather than placing all deposits with the Government

3.6. The successful identification, monitoring and control of risk are the prime criteria by which the effectiveness of the Council’s 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.

3.7. The Council’s approach to the management of treasury risks is set out in the rest of this Treasury Management Policy.

4. Managing Treasury Risks[3]

Interest Rate Exposures

4.1. It is important for the Council to manage its interest rate exposure due to the risk that changes in the level of interest rates leads to an unexpected burden on the Council's finances. As the Council has and expects to have significant loan balances, rather than investment balances, a rise in interest rates poses greater risks for the Council. As a result, the Council will monitor the impact of a 1% interest rate rise on the General Fund, to ensure that it can adequately protect itself should this or a similar scenario occur.

4.2. The stability of the Council's interest costs is affected by the level of borrowing exposed to short-term or variable interest rates. Short-term interest rates are typically lower, so there can be a trade-off between achieving the lowest rates in the short-term and in the long-term, and between short-term savings and long-term budget stability. The Council will therefore limit the amount of the short term debt it holds in order to manage its variable interest rate exposure. The Council will monitor the following amounts for its Interest Rate exposure:

Table O.1 Prudential Limits - Interest Rate Exposure

	% of loan debt (net of investments):		
	2021/22	**2022/23**	**2023/24**
General Fund impact of an unbudgeted 1% rise in interest rates	£4.1m	£3.7m	£2.3m
Upper limit on net variable rate exposures	30%	30%	30%

4.3. The current planned variable rate exposure is set out in the Treasury Management Strategy.

Maturity Profile

4.4. The Council will have regard to forecast Net Loan Debt in managing the maturity profile. This takes account of forecast cashflows and the effect of MRP (minimum revenue provision for debt repayment) to produce a liability benchmark against which the Council's actual debt maturity profile is managed. Taking this into account the proposed limits are as follows:

3 Throughout this Financial Plan, debt and investments are expressed at nominal value, which may be different from the amortised cost value required in the statutory accounts.

Table O.2 Prudential Limits - Maturity Structure of Fixed Rate Borrowing

	lower and upper limits:
under 12 months	0% to 30% of gross loan debt
12 to 24 months	0% to 30%
24 months to 5 years	0% to 30%
5 to 10 years	0% to 30%
10 to 20 years	5% to 40%
20 to 40 years	10% to 60%
40 years and above	0% to 40%

Policy for Borrowing in Advance of Need

4.5. 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 Net Loan Debt, including an allowance (currently of £40m) 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 cashflows.

4.6. The Council is a substantial net borrower and only has cash to invest for relatively short periods as a result of positive cashflow or borrowing in advance of expenditure. The Council considers all its treasury risks together, taking account of the investment risks which arise from decisions to borrow in advance. Such decisions need to weigh the financial implications and risks of deferring borrowing until it is needed (by which time fixed interest rates may have risen), against the cost of carry and financial implications of reinvesting the cash proceeds until required. This will be a matter of treasury judgement at the time, within the constraints of this policy, and treasury management delegations.

5. Investment Policy: All Investments

5.1. The revised 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
- Service investments, which are taken mainly to support service outcomes

The Government issued revised investment guidance in February 2018, which strengthens the management and reporting framework relating to commercial and service investments.

5.2. The Council seeks to be a responsible investor but makes few if any investments in listed equities or bonds. Within the relatively narrow scope of its investments, it will seek to avoid investment in companies whose business is primarily the generation or supply of fossil fuels.

6. Investment Policy: Service and Commercial Investments

6.1. Service and commercial investments are taken out for different reasons from treasury management investments. The Council's strategy for such investments, including commercial property investments, is set out in Appendix P.

7. Investment Policy: Treasury Management Investments

7.1. The Council's cashflows and treasury management activity will generally result in temporarily surplus cash to be invested. The following paragraphs set out the Council's policy for these 'treasury management' investments.

7.2. The investment of temporarily surplus cash results in credit risk, i.e. the risk of loss if an investment defaults. In accordance with Government investment guidance, the Council distinguishes between:

- 'Specified Investments' which mature within 12 months and have a 'high credit quality' in the opinion of the authority
- 'Non-specified Investments' which are long-term investments (i.e. maturing in 12 months or more), or which do not have such high credit quality. The Government views these as riskier. Such investments require more care, and are limited to the areas set out in the policy for Non-specified Investments below

7.3. Low investment risk is a key treasury objective, and in accordance with Government and CIPFA guidance the Council will seek a balance between investment risk and return that prioritises security and liquidity over achieving a high return. The Council will consider secured forms of lending such as covered bonds, but these instruments are not generally available for short-term and smaller size deposits. The Council will continue to make deposits only with institutions having high credit quality as set out in the Lending Criteria table below. The main criteria and processes which deliver this are set out in the following paragraphs.

Specified Investments

7.4. The Council will limit risks by applying lending limits and criteria for ‘high credit quality’ as shown in Table O.3; these limits have been set by the Council in consultation with Treasury advisors.

Table O.3 Lending Criteria

‘Specified’ short-term loan investments (all in Sterling)	**Minimum Short-term rating***	**Minimum Long-term rating***	**Maximum investment per counterparty**
Banks (including overseas banks) and Building Societies	F1+ /A1+ /P1	AA- /AA- /Aa3	£25m
	F1+ /A1+ /P1	A- / A- /A3	£20m
	F1 /A1 /P1	A- / A- /A3	£15m
	F2 /A2 /P2	BBB+ /BBB+ /Baa1	£10m
Sterling commercial paper and corporate bonds	F1+ /A1+ /P1	A- / A- /A3	£15m
Sterling Money Market Funds (short-term and Enhanced)	AAA (with rating indicating lowest level of volatility where applicable)		£40m
Local authorities	n/a	n/a	£25m
UK Government and supranational bonds	n/a	n/a	None
UK Nationalised Banks and Government controlled agencies	n/a	n/a	£25m
Secured investments including repo and covered bonds	Lending limits determined as for banks (above) using the rating of the collateral or individual investment		

* Fitch / S&P / and Moody’s rating Agencies respectively. Institutions must be rated by at least two of the Agencies, and the lowest rating will be taken into account.

7.5. Money may be lent to the Council's own banker, in accordance with the above lending limits. However, if the Council’s banker does not meet the above criteria, money may only be lent overnight (or over the weekend), and these balances will be minimised.

7.6. The Council may also provide short-term supply chain finance where the credit risk is based on the Council's own payment on the invoice due date, and in relation to invoices payable by other bodies meeting the above lending criteria.

7.7. Credit ratings are monitored on a real-time basis as provided via the Council's Treasury Management advisers, Arlingclose, and the Council's lending list is updated accordingly, when a rating changes. Other information is taken into account when deciding whether to lend. This may include the ratings of other rating agencies; commentary in the financial press; analysis of country, sector and group exposures; and the portfolio make up of Money Market Funds. The use of particular permitted counterparties may be restricted if this is considered appropriate.

7.8. Credit rating methodologies and credit limit requirements may change as the circumstances demand: in this event the Chief Finance Officer may determine revised and practicable criteria seeking similarly high credit quality, pending the next annual review of this treasury management policy.

Non-specified Investments and Limit

7.9. For treasury management investment purposes, the Council will limit non-specified investments to £400m (there are presently none), and will use only the following categories of non-specified investments:

- Government stocks (or "Gilts") and other supranational bonds, with a maturity of less than five years: up to 100% of non-specified investments
- Covered bonds and repo where the security meets the Council's credit criteria set out above: up to 50% of non-specified investments
- Unsecured corporate bonds, Certificates of Deposit (CD) or Commercial Paper (CP) with a maturity of less than three years, subject to the Lending Criteria in the table above: up to 20% of non-specified investments

7.10. Other categories of non-specified investments will not be used for treasury management purposes.

Investments of Group companies

7.11. The Council participates in a range of joint ventures and companies. The Treasury Management team maintains a group Treasury Policy for group entities with significant investment balances, with the objective that the treasury investments of the companies are invested consistently with the Council's own treasury investment criteria. This is generally achieved by the Council taking deposits at a commercial rate from the companies.

Investment Maturity

7.12. Temporarily surplus cash will be invested having regard to the period of time for which the cash is expected to be surplus. The CIPFA Prudential Code envisages that authorities will not borrow more than three years in advance, so it is unlikely that the Council will plan to have surplus cash for longer than three years. However, where surplus cash for over 12 months is envisaged, it may be appropriate to include some longer term (non-specified) investments within a balanced risk portfolio. The following limits will be applied:

Table O.4 Prudential limits on investing principal sums for over 364 days:

1-2 years	£400m
2-3 years	£100m
3-5 years	£100m

7.13. In making investments in accordance with the criteria set out in this section, the Chief Finance Officer will seek to spread risk (for example, across different types of investment and to avoid concentration on lower credit quality). This may result in lower interest earnings, as safer investments will earn less than riskier ones.

7.14. Where the Council deals with financial firms under the MiFID II regulations[4], it has requested to be opted up to ‘professional’ status. This means that the Council does not receive the level of investment advice and information which firms are required to provide to retail investors. Professional status is essential to an organisation of the Council‘s size, to give it access to appropriate low-risk investments available only to investors classed as professional, and to ensure that it is able to act quickly to invest Council funds safely and to earn a good return.

7.15. The Council does not currently use investment managers (other than through the use of pooled investment vehicles such as Money Market Funds). However, if appointed, their lending of Council funds would not be subject to the above restrictions, provided that their arrangements for assessing credit quality and exposure limits have been agreed by the Chief Finance Officer.

[4] The Markets in Financial Instruments Directive 2 (MiFID II) regulates, amongst other things, the way that financial firms provide advice to various categories of client.

8. Policy for HRA Loans Accounting

8.1. The Council attributes debt and debt revenue consequences to the HRA using the 'two pool' method set out in the CIPFA Treasury Management Code. This method attributes a share of all pre-April 2012 long-term loans to the HRA. Any new long-term loans for HRA purposes from April 2012 are separately identified. The detailed accounting policy arising from the 'two pool' method is maintained by the Chief Finance Officer.

9. The Council Acting as Agent

9.1. The Council acts as intermediary in its role as agent for a number of external bodies. This includes roles as accountable body, trustee, and custodian, and these may require the Council to carry out treasury management operations as agent. The Chief Finance Officer will exercise the Council's treasury responsibilities in accordance with the Council's treasury delegations and relevant legislation, and will apply any specific treasury policies and requirements of the external body. In relation to the short-term cash funds invested as accountable body, the Council expects to apply the investment policy set out above.

10. Reporting and Delegation

10.1. A Treasury Management Strategy report is presented as part of the annual Financial Plan to the Council before the start of each financial year. Monitoring reports are prepared monthly, and presented quarterly to Cabinet, including an Annual Report after the year end.

10.2. The management of borrowings, loans, debts, investments and other assets has been delegated to the Chief Finance Officer acting in accordance with this Treasury Management Policy Statement. This encompasses the investment of trust funds where the Council is sole trustee, and other investments for which the Council is responsible such as accountable body funds. The Chief Finance Officer reports during the year to Cabinet on the decisions taken under delegated treasury management powers.

10.3. In exercising this delegation, the Chief Finance Officer may procure, appoint and dismiss brokers, arranging and dealer banks, investment managers, issuing and paying agents, treasury consultants and other providers in relation to the Council's borrowing, investments, and other treasury instruments and financing arrangements, and in relation to funds and instruments where the Council acts as agent.

10.5. The Chief Finance Officer maintains statements of Treasury Management Practices in accordance with the Code:

TMP1	Treasury risk management
TMP2	Performance measurement
TMP3	Decision-making and analysis
TMP4	Approved instruments, methods and techniques
TMP5	Treasury management organisation, clarity and segregation of responsibilities, and dealing arrangements
TMP6	Reporting requirements and management information arrangements
TMP7	Budgeting, accounting and audit arrangements
TMP8	Cash and cash flow management
TMP9	Money laundering
TMP10	Training and qualifications
TMP11	Use of external service providers
TMP12	Corporate governance

Similarly, Investment Management Practices for service and commercial investments are being prepared in accordance with the newly revised Treasury Management Code.

11. Training

11.1. Planned and regular training for appropriate treasury management staff is essential to ensure that they have the skills and up to date knowledge to manage treasury activities and risks and achieve good value for the Council. Staff training will be planned primarily through the Council's performance and development review process, and in accordance with Treasury Management Practice 10. Training and briefings for Councillors are also held as appropriate.

APPENDIX U: PRUDENTIAL INDICATORS

Appendix U1

WHOLE COUNCIL	21/22 Indicators	22/23 Indicators	23/24 Indicators	24/25 Indicators
	£m	£m	£m	£m
Capital Finance				
Capital Expenditure - Capital Programme	549.6	369.9	236.5	236.5
Capital Expenditure - other long term liabilities	37.9	33.2	33.4	34.3
Capital expenditure	587.4	403.1	269.9	270.8
Capital Financing Requirement (CFR)	4,700.9	4,712.4	4,510.5	4,436.4
Planned Debt				
Peak loan debt in year	3,663.8	3,585.9	3,505.9	3,317.4
+ Other long term liabilities (peak in year)	397.3	373.7	348.4	322.1
= Peak debt in year	4,061.1	3,959.6	3,854.3	3,639.5
does peak debt exceed year 3 CFR?	no	no	no	no
Prudential limit for debt				
Gross loan debt	4,002.7	3,926.3	3,751.6	3,677.9
+ other long term liabilities	397.3	373.7	348.4	322.1
= Total debt	4,400.0	4,300.0	4,100.0	4,000.0

Notes

There is a net increase in forecast capital expenditure due mainly to slippage from previous years.

The Capital Financing Requirement represents the underlying level of borrowing needed to finance historic capital expenditure (after deducting debt repayment charges).This includes all elements of CFR including Transferred Debt.

These figures represent the forecast peak debt (which may not occur at the year end). The Prudential Code calls these indicators the Operational Boundary.

It would be a cause for concern if the City Council's loan debt exceeded the CFR, but this is not the case due to positive cashflows, reserves and balances. The Prudential Code calls this Borrowing and the Capital Financing Requirement.

The Authorised limit for debt is the statutory debt limit. The City Council may not breach the limit it has set, so it includes allowance for uncertain cashflow movements and potential borrowing in advance for future needs.

Appendix U2

HOUSING REVENUE ACCOUNT	21/22 Forecast £m	22/23 Forecast £m	23/24 Forecast £m	24/25 Indicators £m
Capital Finance				
Capital expenditure	141.9	157.5	136.5	136.5
HRA Debt				
Capital Financing Requirement (CFR)	1,073.8	1,089.0	1,092.8	1,092.0
Affordability				
HRA financing costs	96.0	96.6	96.9	96.9
HRA revenues	285.7	292.8	300.7	300.7
HRA financing costs as % of revenues	33.6%	33.0%	32.2%	32.2%
HRA debt : revenues	3.8	3.7	3.6	3.6
Forecast Housing debt per dwelling	£18,098	£18,460	£18,597	£18,583

Notes

Financing costs include interest, and depreciation rather than Minimum Revenue Provision (MRP), in the HRA.

This indicator is not in the Prudential Code but is a key measure of long term sustainability. This measure is forecast to fall below 2.0 by 2026/27, which is two years later than previously forecast.

This indicator is not in the Prudential Code but is a key measure of affordability: the HRA debt per dwelling should not rise significantly over time.

Appendix U3

GENERAL FUND	21/22 Forecast £m	22/23 Forecast £m	23/24 Forecast £m	24/25 Indicators £m
Capital Finance				
Capital expenditure (including other long term liabilities)	445.5	245.6	133.4	134.3
Capital Financing Requirement (CFR)	3,627.1	3,623.4	3,417.6	3,344.4
General Fund debt				
Peak loan debt in year	2,590.0	2,496.9	2,413.1	2,225.4
+ Other long term liabilities (peak in year)	397.3	373.7	348.4	322.1
= Peak General Fund debt in year	2,987.3	2,870.6	2,761.5	2,547.5
General Fund Affordability				
Total General Fund financing costs	247.0	226.3	255.6	256.6
General Fund net revenues	872.4	890.7	909.8	933.6
General Fund financing costs (% of net revenues)	28.3%	25.4%	28.1%	27.5%
General Fund financing costs (% of gross revenues)	22.5%	22.2%	21.8%	21.4%

Note

Other long term liabilities include PFI, finance lease liabilities, and transferred debt liabilities.

Financing costs include interest and MRP (in the General Fund), for loan debt, transferred debt, PFI and finance leases.

This indicator includes the revenue cost of borrowing and other finance, including borrowing for the Enterprise Zone and other self-supported borrowing.

This is a local indicator measuring finance costs against relevant gross income including revenues from sales, fees, charges and rents, which are available to support borrowing costs.

Appendix U4

TREASURY MANAGEMENT	**21/22**	**22/23**	**23/24**	**24/25**
	Forecast	**Forecast**	**Forecast**	**Forecast**
General Fund impact of an unbudgeted 1% rise in interest rates	£3.7m	£2.7m	£1.2m	£1.1m
Variable rate exposures vs upper limit 30%	18%	15%	15%	12%
Maturity structure of borrowing	**Forecast**	**Forecast**	**Forecast**	**Forecast**
(lower limit and upper limit)	**Year End**	**Year End**	**Year End**	**Year End**
under 12 months	16%	14%	11%	11%
12 months to within 24 months	1%	2%	2%	2%
24 months to within 5 years	6%	7%	9%	10%
5 years to within 10 years	17%	15%	16%	15%
10 years to within 20 years	23%	24%	23%	24%
20 years to within 40 years	36%	35%	37%	36%
40 years and above	2%	2%	2%	2%
Investments longer than 364 days				
upper limit on amounts maturing in:				
	Forecast	**Forecast**	**Forecast**	**Forecast**
1-2 years	0	0	0	0
2-3 years	0	0	0	0
3-5 years	0	0	0	0
later	0	0	0	0

Note

Based on year end debt borrowing less investments, with less than one year to maturity.

These indicators assume that LOBO loan options are exercised at the earliest possibility, and are calculated as a % of net loan debt.

The limit on variable rate exposures is a local indicator.