FINANCIAL PLAN
2020 - 2024

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 2020/21 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]

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 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:

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[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.

Table N.1 Forecast Borrowing Requirement

	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m
Forecast gross loan debt	3,831.8	3,913.4	3,750.5	3,653.0
Forecast treasury investments	(40.0)	(40.0)	(40.0)	(40.0)
Forecast net loan debt	3,791.8	3,873.4	3,710.5	3,613.0
of which:				
existing long term loans outstanding	2,856.2	2,831.0	2,781.0	2,761.0
Short term investments working balance	(40.0)	(40.0)	(40.0)	(40.0)
Required new/ replacement loan balance	975.8	1,082.5	969.4	892.0
	3,791.8	3,873.4	3,710.5	3,613.0

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 forecast debt includes the Council's agreed advance payment of £369.2m in April 2020, to cover its employer's pension contributions to the West Midlands Pension Fund for the next three years. An early payment discount of £25.8m was agreed resulting in significant net savings for the Council. This increases the Council's borrowing need in 2020/21 and reduces it correspondingly in the following two years.

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 2020/21. 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 2019/20, the Council repaid £30m of its LOBO loans early, funded through a combination of short term and long term borrowing. This resulted in a significant saving for the Council and 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 has experienced a slowdown in growth, driven by an increase in trade protectionism. This has prompted the Federal Reserve in the US to cut interest rates in the past year. There has been some degree of optimism recently as global financial markets reached record highs and as the US and China agreed phase one of their trade negotiations; however, the outlook for the global economy still remains uncertain.

4.3. UK economic growth is expected to remain slow as influenced by weak global growth and the domestic impact of Brexit. Consumer Price Inflation (CPI) fell to 1.3% in December 2019, below the Bank of England target of 2%. Some commentators have considered this a temporary contraction and have predicted a recovery, with the near-term political certainty generated by the parliamentary majority gained by the Conservative government in the December 2019 General Election.

4.4. Arlingclose, the Council's treasury advisor, has forecast the Bank Rate to remain at 0.75% 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 2020/21.

4.5. Upside risks to UK interest rates in 2020/21 include:

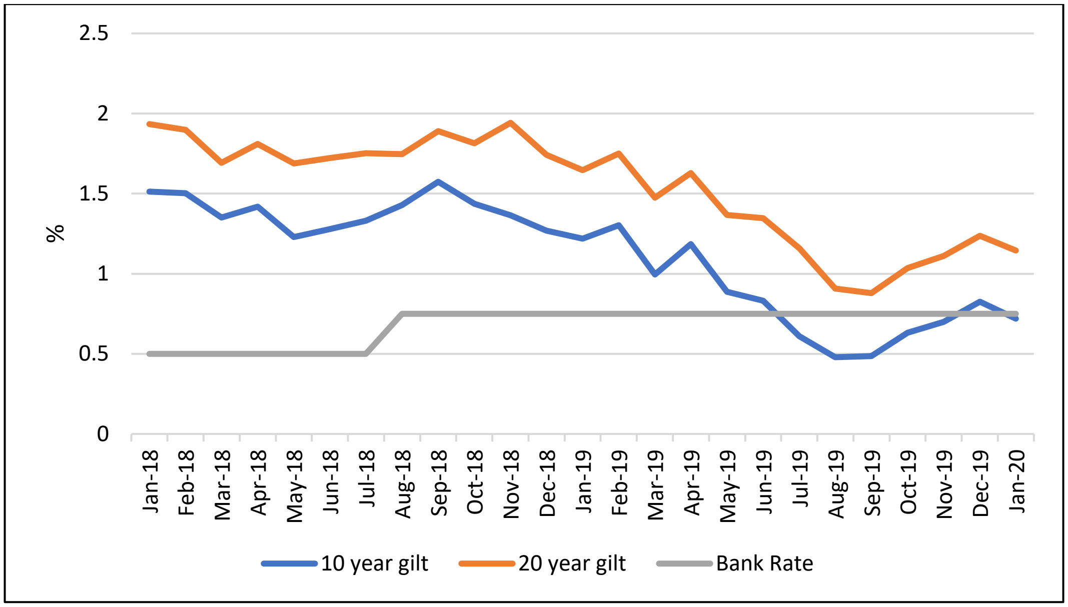
- Higher than expected economic growth
- Higher than expected inflation rates
- Indications of a closer than expected relationship with the EU post-Brexit

Downside risks to UK interest rates include:

- World and UK growth falters
- A no deal Brexit
- 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 O.2 shows that Gilt yields 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. In December 2019, the Bank of England released its annual bank stress test results; this showed all seven banking groups under review passed the test, and no banks were asked to raise additional capital. The test results indicate major UK banks are able to withstand shocks to the financial sector, including a no-deal Brexit scenario.

5. Borrowing strategy

5.1. For some years the Council has targeted a short term or variable rate loans balance of around £500m to £600m to take advantage of very low short term borrowing rates. During the first half of 2019/20 there was a substantial fall in long term rates and £120m of new long term borrowing was taken from the

PWLB before the increase in its margins (see paragraph 5.7). This combined with short term cashflow movements helped to reduce the Council's short term loans outstanding to around £250m.

5.2. Low short term rates are expected to continue in 2020/21, and it is proposed to resume the short term loans target of £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).

5.3. 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

	2020/21	2021/22	2022/23	2023/24
cumulative new borrowing:	£m	£m	£m	£m
total long term loans	415.0	502.0	534.0	487.0
new short term loans	560.8	580.5	435.4	405.0
Required new/ replacement loan balance	975.8	1,082.5	969.4	892.0

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. Short-term and variable rate exposures remain within the 30% prudential limit set out in Appendix U4.

5.5. The strategy results in a forecast for new long-term borrowing of £415m in 2020/21. The balance of new long term borrowing required increases to £502m in 2021/22; the increase is relatively small due largely to the three year advance pensions payment in 2020/21 noted in paragraph 3.3 above. In effect, the larger pensions cash outflow in 2020/21 has replaced the previously expected pensions cashflows in the following two years. The borrowing strategy to fund the advance pensions payment will be to take loans for one to three years, to fund the pensions cash payment net increase of £245m in 2020/21.

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). However, in October 2019 the PWLB 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 borrowing from the PWLB by local authorities in recent months, combined with the significant reduction in the underlying gilt yields which are used to calculate PWLB rates. The consequence of the PWLB increase is that borrowing from market sources is likely to be significantly cheaper than the PWLB, possibly by around 0.75%.

5.8. A market funding strategy for the Council's annual long term borrowing requirement is likely to focus on private placements of bonds with capital market investors. A private placement is likely to be arranged by a bank, or by the Council with the support of a financial adviser. Lenders may agree for the bonds to be drawn over a period of time ("deferred start") rather than all up front, which may be beneficial in managing credit risk and interest rate risk for the Council.

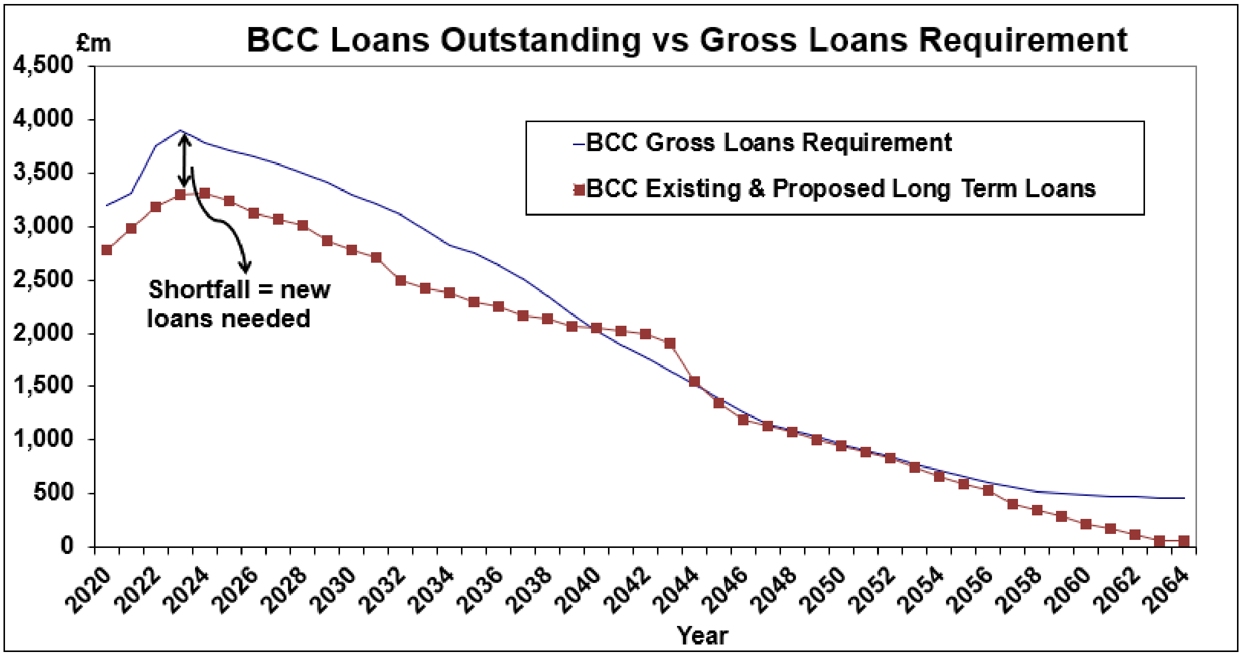
5.9. A listed bond issue is also an option, but these require a credit rating and are generally in the order of £250m or more (although the Council forecasts £415m for long term borrowing, about £245m of this is expected to come from local authorities for maturities of 1-3 years to cover the advance pensions payment – see paragraph 3.3).

5.10. At a smaller scale, long term market borrowing can be arranged bilaterally with single lenders, either direct or through brokers. This is likely to be the least efficient way to borrow from the market, but may represent good value opportunistically or when the size of a private placement is not needed.

5.11. The Council actively reviews 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 eg by prematurely repayment and replacement with new loans.

5.12. The £415m new long-term borrowing forecast for 2020/21 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



5.13. The Gross Loans Requirement in Figure O.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 for debt (MRP). 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

5.14. The shortfall shown in the chart is planned to be met by a short-term loans portfolio of around £500m in accordance with current strategy (see paragraph 5.1).

5.15. 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.

5.16. 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. For the Medium Term Financial Plan period, its debt reduces broadly in line with the current HRA Business Plan. No new long-term borrowing for the HRA is therefore currently planned. 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)	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m
Housing Revenue Account				
Year end net exposure to variable rates	168.3	179.6	202.0	223.7
Closing HRA net loan debt	1,097.1	1,090.6	1,105.7	1,109.5
Variable exposure % of debt	15.3%	16.5%	18.3%	20.2%
General Fund				
Year end net exposure to variable rates	377.5	410.7	420.4	403.3
Closing General Fund net loan debt	2,694.7	2,782.8	2,604.7	2,503.5
Variable exposure % of debt	14.0%	14.8%	16.1%	16.1%
Year end variable interest rate assumption provided for in the budget	1.50%	2.00%	2.50%	2.75%

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 2020/21 would cost an estimated £3.8m per annum for the General Fund and £1.7m 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 increasing 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

	2020/21	2021/22	2022/23	2023/24
	£m	£m	£m	£m
Net interest costs	133.766	138.623	142.818	143.216
Revenue charge for loan debt repayment	136.484	141.008	133.171	143.535
Other charges	(0.238)	(6.026)	(11.932)	(1.044)
Total	270.013	273.605	264.057	285.707
Met by the HRA	63.145	62.230	62.416	61.866
Met by the General Fund	206.868	211.375	201.641	223.841
Total	270.013	273.605	264.057	285.707

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 targeted 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. 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 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 have been 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 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 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):		
	2020/21	**2021/22**	**2022/23**
General Fund impact of an unbudgeted 1% rise in interest rates	£3.8m	£4.1m	£4.2m
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:

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 change from time to time, and 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 P: SERVICE & COMMERCIAL INVESTMENT STRATEGY

Compliance with the main requirements of the Government's Statutory Guidance on Local Authority Investments is shown by cross reference in square brackets to the relevant paragraph of the Guidance.

1. Scope and Purpose of Strategy

1.1. The word "Investments" in this strategy covers financial investments, including loans and shares, which have been made to support service and commercial objectives. Examples include loans to InReach and Warwickshire County Cricket Club, and the Council's investment in Birmingham Airport. Non-financial investments such as commercial property are included where the main objective is financial return [4]. Investments taken for treasury management reasons are considered in the Treasury Management Strategy and Policy elsewhere in this Financial Plan.

1.2. This strategy sets out the Council's approach to such investments, including risk management, appraisal, monitoring, governance and procedures. In doing this it addresses the requirements of the recently expanded Government Guidance on local authority investments.

1.3. Investment values provided in this appendix are the book values in the Council's accounts, unless otherwise stated.

2. Objectives of the Strategy

2.1. To use investments where appropriate to support the Council's priorities, within prudent financial limits.

2.2. To ensure that investment decisions and portfolio management are joined up with the Council's overall business and financial planning.

2.3. To deliver value for money (e.g. commercial terms or if less than commercial, social benefits to justify this).

2.4. To manage risks in accordance with the Council's risk appetite and financial circumstances (including due diligence when making investment decisions).

3. The Existing Financial and Property Investment Portfolios

3.1. The Council's service and commercial investments are extremely diverse, given their very different service motives and applications. The estimated book value of financial investments at 31 December 2019 is £135.0m.

3.2. The commercial property portfolio is currently being reorganised in accordance with the Council's Property Investment Strategy. Its gross income in 2020/21 is budgeted at £24.6m.

3.3. Table P.3 at the end of this appendix shows the main contribution of the Council's service and commercial investments to Council objectives. [22]

4. Investment Policy and Strategy 2020+

4.1. Joint working, partnerships and joint delivery arrangements are key to the provision of Council and wider public services. Financial and property investments are likely to be an ongoing result of the Council's partnership working.

4.2. In the context of the current Council Plan and priorities, investments may feature in arrangements for:

- Supporting specific policy priorities in the Council Plan or policy frameworks, e.g. housing
- Supporting partnership working, including with the voluntary sector
- Supporting the commercialism agenda and the Council's savings proposals, by providing financial return.

4.3. The Council recognises that all investments carry the risk of financial loss. The risk of losses may seem distant or not be apparent at the time an investment is considered, but an estimate of the risk of loss needs to be accounted for from the outset. Financial gains and losses from investments will be the responsibility of the service to which the investment relates.

4.4. The Council will be particularly cautious where investments are funded wholly or partly from borrowing. Debt "gearing" creates additional costs of interest and repayment. It creates a fixed liability and a fixed repayment obligation, whilst the investment's value and income are at risk. The scope for the Council to borrow to fund investments is also limited by the relatively high level of Council debt and low headroom for additional borrowing. The Council will not borrow to invest purely for financial gain, as recommended by Government Guidance [46]. This principle does not prevent the Council from borrowing for the prudent management of its financial affairs or protection of its existing financial and property investment portfolios in its financial best interests.

4.5. The Council's risk appetite in relation to new financial investments will therefore be low, given the high level of financial risks the Council is already exposed to, including the need to balance the revenue budget and manage the level of Council debt. Any new investments will therefore be expected to:

- Show a compelling contribution to the Council's core objectives and planned service strategies, and must be prioritised within the Council's available resources
- Evidence a low financial risk with a commensurate financial return, or if returns are below commercial levels, provide clear non-financial benefits to the Council which demonstrate strong value for money, and comply with State Aid requirements.
- Be prioritised within the investment limits set out below, to ensure that investment activity remains proportionate to the Council's finances overall
- Strike a prudent balance between security, liquidity and yield (whilst recognising that the delivery of strong service benefits may sometimes justify a higher financial risk) [29]

New commercial property investments will be managed under the policies and criteria set out in the July 2019 Property Investment Strategy. Investment is expected to be restricted to the reinvestment of sales proceeds rather than growing the portfolio.

4.6. The Council is mindful of Government and CIPFA advice that commercial investments including property must be proportionate to the resources of the authority [34]. The Council should avoid becoming over-reliant on risky investment income to support core service obligations, especially given its low investment risk appetite set out in 4.5 above. Budgeted gross income from service and commercial investments (including commercial property) represents 4.2% of the net revenue budget by 2020/21 [44]. This investment income exposure represents a manageable financial risk, and will be monitored as part of the Council's normal revenue monitoring as well as through the investment indicators (section 7 below).

4.7. Any shortfall in budgeted net income from service and commercial investments will be managed through the Council's regular budget monitoring and mitigation processes, and through the investment governance arrangements described in Section 7 below [44].

4.8. The arrangements for realising investments and managing liquidity risk will depend on the purpose and nature of the investment in each case. Where investments have been made to support service purposes and have been funded from cash resources, there is not a funding pressure to have an investment exit route in place. Where investments are funded by borrowing, the Council's MRP Policy (Appendix T) sets out the arrangements to repay debt without resorting to a sale of the investments [42-43].

5. Financial Investment Plans and Limits for 2020+

5.1. The main area of additional investment proposed in this Financial Plan, as in last year's, is to expand the Council's investment in InReach, its wholly-owned Housing company. The Council has provided loans and equity of £15.4m to develop the Embankment private rented housing. This development is now complete, fully let, and performing well. Further loans to InReach are in the Council's budgets to develop rented housing at the Brasshouse and Key Hill. The Council's total proposed investment outstanding in InReach including both current arrangements and new proposals amounts to £68.7m. InReach will increase the supply of both private rented and affordable housing in Birmingham, which is a key priority for the Council, as well as generating a net income for the Council. In the longer term, further opportunities for InReach activity will be kept under review.

5.2. The main financial risk when investing in loans and equity is that the loan repayments are not made, and that the shares lose value or dividends are less than expected. In order to limit the financial impact of investment risks, an overall limit for the Council's service and commercial investments (excluding the commercial property portfolio) is proposed as follows:

Table P.1 Service and Commercial Investment Strategy

Financial Investments	est value at 31.12.19 £m	planned changes £m	total value £m	limit £m
Loans to subsidiaries	33.6	48.3	81.9	
Loans to businesses	43.5	-12.4	31.1	
Other loans	16.5	0.0	16.5	
Shares in subsidiaries	11.5	5.0	16.5	
Shares in businesses	29.6	0.0	29.6	
other shares	0.3	0.0	0.3	
Total	**135.0**	**40.9**	**175.9**	**326.0**

The figures above are the estimated book value in the Council's accounts

5.3. The planned changes reflect the proposals described above, over the medium term to 2023/24. The limit has been set with a view to allowing scope for some limited further investment of £50m during this period, together with potential for further investment of £100m in InReach to support the potential purchase of part of the Commonwealth Games Village. This would be subject to resource prioritisation and business case approval. Cabinet may approve a reallocation of individual limits within the total limit above. The limit applies to the Council's own investments and not to investments which it holds as accountable body or on behalf of others [34, 36].

5.4. Investments may also carry liquidity risk, which is the risk that funds may be tied up in investments and not available if needed for other purposes. The Council's due diligence procedures for investments review liquidity risk, including how exit routes have been considered and the appropriate maximum period for investments to be committed [42].

6. Property Investment Portfolio Plans and Limits for 2020+

6.1. The Council's Strategy for the Property Investment Portfolio was approved by Cabinet in July 2019. This seeks to remove lower value and inefficient property holdings from the portfolio and reinvest into fewer, high quality commercial property assets, with a view to a better risk balanced portfolio and an increase in gross income by 20% in cash terms by the end of 2023/24. In particular,

- An active disposals programme is in progress to fund reinvestment
- Investment will be primarily in Birmingham and the wider Midlands region
- An external investment adviser is being commissioned to advise and recommend on opportunities in the market to acquire new assets (which may include property loans as well as direct property holdings)
- The first strategic investment has been completed, which was the acquisition of the headlease on a Council owned site increasing the income stream by £0.3m.

6.2. The strategy envisages that reinvestment into new properties may be funded temporarily from borrowing, pending capital receipts from the portfolio's asset sales, providing that the individual sales are agreed by the time of borrowing. The borrowing is limited to £50m and will be repaid by the end of 2023/24. The Government Investment Guidance recommends authorities not to borrow to invest purely for profit. The purpose of the temporary borrowing is not for additional long term investment, but supports the 'prudent management' of the portfolio by avoiding the risk of being out of the market and losing income for a sustained period while a large number of small properties are progressively sold over the next few years.

6.3. The main financial risks of property investment are that rental income or property values may fall as a result of changing economic and market conditions, or due to the condition of the individual properties. New purchases may also show an initial loss due to transaction costs and stamp duty. The risk of loss compared with any borrowing taken to purchase investments investments is shown by the indicator below for the % of investments financed from borrowing [38-40]. The property risks in this strategy will be managed by the Property Investment Board in accordance with the parameters and procedures set out in the Property Investment Strategy approved by Cabinet, and within the temporary investment increase of £50m set out above.

6.4. Liquidity risk in property investments will be managed by the Commercial Property Board and through the limit of £50m on new investments (6.3 above) [43].

7. Investment Indicators

7.1. The Council will use the investment indicators set out below to strengthen its investment risk management framework, as recommended by the Government Guidance [23]:

Table P.2 Service and Commercial Investment Indicators

Service and commercial investment indicators	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m
Financial investments:				
planned value	146.6	144.8	161.8	175.9
investment limit	226.0	280.0	326.0	326.0
(including £100m allowance for potential investment in InReach)				
borrowing to fund investments	71.8	82.4	99.5	113.6
% investments financed by borrowing	49.0%	56.9%	61.5%	64.6%
secured investments	90.2	100.8	117.8	132.0
% investments secured	61.5%	69.6%	72.8%	75.0%
Commercial properties:				
New investment limit (cumulative)	50.0	50.0	50.0	50.0
budgeted gross investment income:				
Investment income (financial and property)	36.1	42.1	47.0	50.6
Council net revenue budget	852.9	872.4	890.7	909.8
Investment income as % of net budget	4.2%	4.8%	5.3%	5.6%

8. Governance

8.1. The Capital Board will review new investment proposals and programmes prior to approval, and will monitor existing investments and risks. The Development and Commercial Finance Team and the Treasury Management team will exercise Council-wide oversight and co-ordination of service and commercial investments.

8.2. Financial and property investment decision making will follow the Council’s Business Case governance requirements, with particular attention to expert due diligence, robust financial appraisal and taking external advice in consultation with the Chief Finance Officer. Procedures and checklists for investment appraisal and management are set out in the Council's financial procedures (My Finance on the Intranet) [41,50]. Market understanding and analysis will be the responsibility of the relevant service supported by their Finance Business Partner and Treasury Management Team, but it is recognised that for complex investments, external advice is likely to be needed, especially where financial return is significant [41]. New investments must reflect the Council's core priorities, and must be agreed by the Chief Finance Officer via the Treasury Management team before presentation of any executive decision report.

8.3. Individual investment monitoring is the responsibility of the service holding the income budget, as part of normal budget monitoring, with overall co-ordination and oversight from Finance staff.

8.4. Investment Management Practices are required by the CIPFA Treasury Management Code to support strong and sound financial management in this specialist area. These will be maintained for each type of investment by the service budget-holder responsible, with support from Development and Commercial Finance, and will include appropriate income collection and credit control arrangements [41]. Investment Management Practices will be reviewed annually.

8.5. Advisers will be used where necessary to achieve sufficient skills and understanding, in particular, the Council's treasury management adviser (Arlingclose) can provide support in relation to financial investments, and the Council also retains a property adviser to support the Property Investment Portfolio. These appointments are monitored and assessed by treasury and property officers [41]. The Council's business loans and investments portfolio is managed by Finance Birmingham, the Council's wholly owned fund management company. Officer and Member training will be available through the Council's treasury advisers, alongside treasury management training opportunities. Information relevant to investment decisions will form part of executive decision reports to members [48]. Cabinet Committee – Group Company Governance and relevant officers also receive training on companies. Due diligence requirements for investments will ensure that officers are aware of the core principles of the prudential framework and local authority regulatory requirements [49].

8.6. These arrangements will support the capacity, skills and culture of the Council in making and managing investments for service and commercial purposes [48-49].

Table P.3 Contribution of Investments to Council Outcomes

Financial Investments	main contribution	other contribution
Loans		
InReach Ltd - housing developments	housing	profit
InReach Ltd - CWG housing purchase	housing	profit
InReach Ltd - HRA housing purchase	housing	profit
Birmingham Propco (NEC Hotels)	economy	profit
Performances Birmingham Ltd	economy	arts
Birmingham Science Park (Aston) Ltd	economy	profit
iCentrum	economy	
Business loans portfolio	economy	
Warwickshire County Cricket Club	economy	
WM Collective Investment Fund	economy	
BLLP	education	
Kick Start loans	housing	
Other commercial loans	various	
Loans to non-BCC schools	education	
Birmingham Childrens Trust	children	
Other small loans	various	
loans to employees	management	
Wholesale Markets	economy	profit
Shares		
Birmingham Airport Holdings	economy	profit
InReach Ltd	housing	
Birmingham Propco (NEC Hotels)	economy	profit
Business share portfolio	economy	
Financial vehicle shareholdings	financial mgt	economy
Other small share holdings	various	

APPENDIX U: PRUDENTIAL INDICATORS

Appendix U1

	WHOLE COUNCIL	20/21 Indicators £m	21/22 Indicators £m	22/23 Indicators £m	23/24 Indicators £m
	Capital Finance				
1	Capital Expenditure - Capital Programme	710.1	481.9	327.0	223.1
2	Capital Expenditure - other long term liabilities	38.2	37.8	33.1	33.3
3	Capital expenditure	748.3	519.7	360.1	256.4
4	Capital Financing Requirement (CFR)	4,839.3	4,941.7	5,135.1	4,834.4
	Planned Debt				
5	Peak loan debt in year	3,849.9	3,932.9	3,852.3	3,719.5
6	+ Other long term liabilities (peak in year)	415.5	396.7	373.4	348.2
7	= Peak debt in year	4,265.4	4,329.6	4,225.7	4,067.7
8	does peak debt exceed year 3 CFR?	no	no	no	no
	Prudential limit for debt				
9	Gross loan debt	4,084.5	4,203.3	4,026.6	3,951.8
10	+ other long term liabilities	415.5	396.7	373.4	348.2
11	= Total debt	4,500.0	4,600.0	4,400.0	4,300.0

Notes

4 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.

5-7 These figures represent the forecast peak debt (which may not occur at the year end). The Prudential Code calls these indicators the Operational Boundary.

8 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.

11 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	20/21 Forecast £m	21/22 Indicators £m	22/23 Indicators £m	23/24 Indicators £m
	Capital Finance				
1	Capital expenditure	125.8	129.4	145.1	129.5
	HRA Debt				
2	Capital Financing Requirement (CFR)	1,097.1	1,090.6	1,105.7	1,109.5
	Affordability				
3	HRA financing costs	97.2	98.7	100.5	101.4
4	HRA revenues	279.9	286.2	293.3	301.2
5	HRA financing costs as % of revenues	34.7%	34.5%	34.3%	33.7%
6	HRA debt : revenues	3.9	3.8	3.8	3.7
7	Forecast Housing debt per dwelling	£18,423	£18,446	£18,785	£18,914

Notes

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

6 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.

7 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	20/21 Forecast £m	21/22 Indicators £m	22/23 Indicators £m	23/24 Indicators £m
	Capital Finance				
1	Capital expenditure (including other long term liabilities)	622.5	390.4	215.0	126.8
2	Capital Financing Requirement (CFR)	3,742.2	3,851.1	4,029.3	3,724.9
	General Fund debt				
3	Peak loan debt in year	2,752.8	2,842.3	2,746.6	2,610.0
4	+ Other long term liabilities (peak in year)	415.5	396.8	373.5	348.2
5	= Peak General Fund debt in year	3,168.3	3,239.1	3,120.1	2,958.2
	General Fund Affordability				
6	Total General Fund financing costs	255.6	260.0	250.2	272.1
7	General Fund net revenues	852.9	872.4	890.7	909.8
8	General Fund financing costs (% of net revenues)	30.0%	29.8%	28.1%	29.9%
9	General Fund financing costs (% of gross revenues)	23.0%	22.6%	21.2%	22.5%

Note

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

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

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

9 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	Limit	20/21 Forecast	21/22 Forecast	22/23 Forecast	23/24 Forecast
	Interest rate exposures					
1	General Fund impact of an unbudgeted 1% rise in interest rates		£3.8m	£4.1m	£4.2m	£4m
2	upper limit on variable rate exposures	30%	19%	22%	23%	21%
	Maturity structure of borrowing	**Limit**	**Forecast**	**Forecast**	**Forecast**	**Forecast**
	(lower limit and upper limit)		**Year End**	**Year End**	**Year End**	**Year End**
3	under 12 months	0% to 30%	16%	17%	16%	17%
4	12 months to within 24 months	0% to 30%	1%	1%	6%	1%
5	24 months to within 5 years	0% to 30%	4%	10%	6%	7%
6	5 years to within 10 years	0% to 30%	16%	15%	12%	12%
7	10 years to within 20 years	5% to 40%	21%	20%	26%	30%
8	20 years to within 40 years	10% to 60%	37%	34%	30%	31%
9	40 years and above	0% to 40%	4%	2%	2%	2%

Investments longer than 364 days

upper limit on amounts maturing in:

		Limit	Forecast	Forecast	Forecast	Forecast
10	1-2 years	400	0	0	0	0
11	2-3 years	100	0	0	0	0
12	3-5 years	100	0	0	0	0
13	later	0	0	0	0	0

Note

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

2-9 These indicators assume that LOBO loan options are exercised at the earliest possibility, and are calculated as a % of net loan

2 The limit on variable rate exposures is a local indicator.

Appendix U5

SERVICE AND COMMERCIAL INVESTMENT INDICATORS	2020/21	2021/22	2022/23	2023/24
	£m	£m	£m	£m
Financial investments:				
planned value	146.6	144.8	161.8	175.9
investment limit	226.0	280.0	326.0	326.0
(including £100m allowance for potential investment in InReach)				
borrowing to fund investments	71.8	82.4	99.5	113.6
% investments financed by borrowing	49.0%	56.9%	61.5%	64.6%
secured investments	90.2	100.8	117.8	132.0
% investments secured	61.5%	69.6%	72.8%	75.0%
Commercial properties:				
New investment limit (cumulative)	50.0	50.0	50.0	50.0
budgeted gross investment income:				
Investment income (financial and property)	36.1	42.1	47.0	50.6
Council net revenue budget	852.9	872.4	890.7	909.8
Investment income as % of net budget	4.2%	4.8%	5.3%	5.6%