TRAFFORD COUNCIL

Report to:	**Accounts and Audit Committee 3 February 2021** **Executive and Council 17 February 2021**
Report for:	**Decision**
Report of:	**The Executive Member for Finance and Governance and the Corporate Director of Finance and Systems**

Report Title

TREASURY MANAGEMENT STRATEGY 2021/22 – 2023/24

Summary

This report outlines the:-

- strategy to be implemented during this period for investments and borrowing,
- outlook for interest rates,
- management of associated risks,
- policy to be adopted on Minimum Revenue Provision (MRP) and
- Prudential Indicators.

Recommendations

That Accounts & Audit Committee be requested to note and recommend the report to Executive.
That Executive notes the report and recommends that Council approves;

- the Treasury Management Strategy 2021/22 – 2023/24 including the:
- policy on debt strategy as set out in section 3;
- investment strategy as set out in section 5;
- Prudential Indicators and limits including the Authorised Limit (as required by section 3(1) of the Local Government Act 2003), Operational Boundary, Minimum Revenue Provision Statement and Investment criteria as detailed in Appendix 3.

Contact person for access to background papers and further information:

Name: Graham Perkins
Extension: 4017

Background papers: None

Relationship to Corporate Priorities	Value for Money
Relationship to GM Policy or Strategy Framework	Not applicable
Financial	The treasury management strategy will aim to minimise risk to the Council whilst maximising investment interest. The Council's debt position will be administered effectively and any new loans taken will be in-line with that provided for within the Medium Term Financial Plan and Prudential Indicators.
Legal Implications:	Actions being taken are in accordance with legislation, Ministry of Housing, Communities & Local Government (MHCLG) guidance, Chartered Institute of Public Finance & Accountancy (CIPFA) Prudential Code and Treasury Management Code of Practice.
Equality/Diversity Implications	All treasury management transactions undertaken by the Council are carried out with institutions with no known direct links to any illegal regimes or which promote the use of forced labour.
Sustainability Implications	The Council, when undertaking any treasury management investment fully supports the ethos of socially responsible investments and will avoid direct investment in institutions with material links to environmentally harmful activities. Opportunities to invest monies in products which both supports sustainable assets and complies with the Council's investment strategy will continue to be explored as and when they become available.
Carbon Reduction	Not directly applicable – See above
Staffing/E-Government/Asset Management Implications	Not applicable
Risk Management Implications	The monitoring and control of risk underpins all treasury management activities and these factors have been incorporated into the systems and procedures for this function which are independently tested on a regular basis. Failure to properly manage and monitor the Council's loans and investments could lead to service failure and a loss of reputation. No Treasury activity is without risk and the Council's in-house treasury management team continually monitor risks to ensure that security of capital sums is maintained at all times and adverse fluctuations in interest rates are avoided.
Health & Wellbeing Implications	Not applicable
Health and Safety Implications	Not applicable

Executive Summary

This report has been prepared in accordance with the Council's Financial Procedure Rules number 8 and outlines the forecasted treasury management activities for the forthcoming three years. Additional reports are produced during the course of the year notifying Members of the preceding financial year actual activities together with a current mid-year update.

Economic position (Appendix 2)

The coronavirus pandemic dominated the headlines in 2020 and aside from the tragic loss of lives caused by this virus, it also had a negative impact on the world economy with a significant downturn in growth being incurred. An agreement on Brexit trade negotiations was reached in December 2020 and both of these events look certain to dominate the headlines again during 2021. A return to positive growth across the world economy in 2021 is expected however this is currently forecasted to be a slow and gradual recovery.

Debt (Section 3)

Borrowing interest rates are forecasted not to move significantly from their current levels. The outcome of the Public Works Loan Board (PWLB) consultation was announced in November 2020 with the main points from this being:

- the removal of the additional 1% applied to borrowing rates in October 2019 and
- no longer able to borrow for a scheme purely to generate a financial benefit.

Any new external borrowing the Council undertakes will be taken to assist in financing the capital borrowing requirement as outlined in the 2021/24 Capital Programme report with all associated costs being contained within the Medium Term Financial Plan.

Debt restructuring exercises will only be undertaken in order to produce revenue savings or reduce overall treasury risk.

Investments (See Section 5 and Appendix 3)

The Council's investment criteria remains unchanged from that previously adopted of SLY, **S**ecurity of capital first, then **L**iquidity of its cash flows and finally **Y**ields.

Council is required to agree the lending criteria and this is set out for Member approval at Appendix 3.

Prudential Indicators and limits (Section 7 and Appendix 3)

Council is required to approve a set of Prudential Indicators and limits ensuring its capital expenditure plans and borrowing remain robust, prudent, affordable and sustainable. These are detailed at Appendix 3 for Member approval.

Medium Term Financial Plan (See Appendix 7)

The current forecasted financial requirements of the Council's treasury management functions during this reporting period are shown for Members reference at Appendix 7.

Background

1.1 The Council is required to operate a balanced budget with cash raised during the year being used to pay for expenditure incurred. A primary part of the treasury management operation is to ensure that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet service activity with any temporary surplus monies being invested in low risk institutions.

1.2 Another function of this service is to ensure that the Council's capital borrowing requirement, the longer-term cash flow planning, is provided for which may involve arranging long or short-term loans or using longer-term cash flow surpluses. In addition to this and when it is financially prudent to do so, any debt previously obtained may be restructured.

1.3 Treasury management as defined by the Chartered Institute of Public Finance Accountancy (CIPFA) is:

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

1.4 The scope of investments within the Council's operations now includes both conventional treasury investments, (the placing of residual cash from the Council's functions as covered by this report), and more commercial type investments, such as regeneration properties. In order to assist with this activity the Council uses a specialist external advisor.

1.5 Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these activities are classed as non-treasury activities, (arising from capital expenditure) and are separate from the day to day treasury management activities. Details of these transactions are shown in Appendix 8 for reference.

1.6 The contribution the treasury management function makes to the Council's overall financial position is significant as for example failure to ensure sufficient funding is available when payments are due to be made would generate a negative impact on the Council's reputation. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of all monies invested is achieved in order to avoid any potential loss of principal which in turn would result in a loss to the General Fund Balance.

1.7 Members are required to receive and approve, as a minimum, 3 reports annually which incorporate a variety of policies, forecasts and actuals as follows;

- **Annual treasury strategy** (issued February - is the most important report and includes);
  - A Minimum Revenue Provision (MRP) policy (this reflects capital expenditure previously financed by borrowing and how the principal element is charged to revenue over time),
  - The treasury management strategies (how the investments and borrowings are to be organised) including treasury prudential indicators and limits and
  - An investment strategy (the parameters on how investments are to be managed).
- **Mid-year update** – (issued November / December – this provides an);
  - update for members with the progress of the treasury management activities undertaken for the period April to September and

- ➢ opportunity for amending prudential indicators and any policies if necessary.
- **Annual outturn** – (issued June);
  ➢ this provides details of actual treasury operations undertaken in the previous financial year.

1.8 Each of the above 3 reports are scrutinised by the Council's Accounts & Audit Committee before being forwarded onto either Executive or Council for final approval.

1.9 The In-house treasury management team will ensure that all treasury management transactions undertaken comply with the statutory requirements as stipulated within the Local Government Act 2003, the CIPFA Prudential Code, Ministry for Housing Communities and Local Government (MHCLG), MRP Guidance, the CIPFA Treasury Management Code and MHCLG Investment Guidance. A brief outline of these frameworks is provided at Appendix 1.

1.10 This report which has been prepared in accordance with the required statutory regulations and guidance, includes;

- Economic & Interest Rate forecast (section 2)
- Debt Strategy (section 3)
- Minimum Revenue Provision (section 4)
- Investment Strategy (section 5)
- Investment Risk Benchmarking (section 6)
- Prudential Indicators (section 7)
- Related Treasury Issues (section 8)
- Medium Term Financial Plan (section 9)
- Recommendations (section 10)
- Appendices.

1.11 The Council uses Link Group (LG) as its external treasury management advisors who provide a range of services on treasury matters from the supply of credit ratings to technical support. The Council recognises that there is value in employing external providers for this service and this is subject to regular reviews.

1.12 Whilst the external advisors provide support to the in-house team, the Council will consider all available information when forming an opinion on matters concerning treasury management and acknowledges the final decision remains with it at all times.

1.13 The Council acknowledges the importance of ensuring that all Members and staff involved in the treasury management function receive adequate training and are also fully equipped to undertake the duties and responsibilities allocated to them. This is further highlighted in the CIPFA Code which requires the responsible officer, Director of Finance and Systems, ensures that Members with responsibility for treasury management, receive adequate training in treasury management.

1.14 For reference a Member training event was provided on 21st January 2021 by the Council's in-house team and its external advisors LG. Officers will continue to attend relevant courses / seminars / webinars as presented by CIPFA, LG and other suitable professional organisations with additional training for Members being provided when required.

2. Economic & Interest Rate forecast

2.1 During 2020 the coronavirus pandemic had a devastating impact on both the health and welfare of the world's population together with the global economy. As a result of this, swift and decisive action on a scale never seen before saw Central

Banks and Governments being forced into implementing national lockdowns, cutting central lending interest rates to historic low levels and pumping vasts sums of monies into their respective national economies. In addition to this the ongoing trade war between China and USA and Brexit talks continued to take place in the background with a trade agreement being achieved between the European Union and the UK in December 2020.

2.2 Appendix 2 outlines further details of the major economic events which occurred during 2020 and also includes market forecasters' predictions for 2021 for reference.

2.3 LG produces interest rate projections periodically throughout the year and the latest forecasts (November 20) are shown below for reference;

Average rates	2020-21 Forecast %	2021-22 Forecast %	2022-23 Forecast %	2023-24 Forecast %
Bank Rate	0.10	0.10	0.10	0.10
Investment Rates				
3 month	0.10	0.10	0.10	0.10
1 Year	0.20	0.20	0.20	0.20
PWLB Loan Rates				
5 Year	1.60	0.80	0.90	1.00
25 Year	2.20	1.60	1.70	1.80
50 Year	2.00	1.40	1.50	1.60

2.4 Forecasters are currently suggesting that it is unlikely there will be any increase in Bank Rate and money market interest rates for some considerable time as demonstrated in the above table. This situation is in response to the damage the coronavirus pandemic has had on the economies around the world and whilst a recovery from the current position is expected this will now be gradual and prolonged. After the Monetary Policy Committee (MPC) took emergency action in March 2020 to cut the Bank Rate twice from 0.75% to 0.25% and then to 0.10%, it has at each subsequent meeting since then left this rate unchanged increasing the level of Quantitative Easing undertaken from £445bn in March 2020 to £895bn in November 2020. Whilst some forecasters still suggest that a cut into negative interest rate territory could happen, the Governor of the Bank of England has previously stated that this is not intended. Despite this, money markets are seeing a few large institutions, including the Government's Debt Management Account Deposit Facility willing to take money in the short periods (up to 6 months) at nil or negative interest rates.

2.5 The Council will continue to adopt a cautious approach to its treasury management activities whilst utilising the information available from both LG and other external sources which may become available during this time.

3. Debt Strategy

3.1 The Council's capital expenditure plans are set out in the Capital Programme report and this provides details of the service activity. The treasury management function ensures in accordance with the relevant professional codes, that sufficient cash is available to meet this service activity. This will involve both the organisation of the cash flow and where capital plans require, the organisation of appropriate borrowing facilities.

3.2 The underlying need to borrow comes from the Capital Financing Requirement (CFR) which essentially is a measure of the Council's indebtedness. Any capital expenditure not immediately paid for through a revenue or capital resource, will increase the CFR.

3.3 The Council needs to ensure that its debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates going out to 2023/24. Whilst this allows some flexibility for limited early borrowing for future years, it also ensures that borrowing is not undertaken for revenue or speculative purposes. The Corporate Director of Finance and Systems can confirm that the Council has not exceeded the CFR in the current year and does not envisage difficulties for the future.

3.4 The CFR is not allowed to rise indefinitely and statutory controls are in place to ensure that capital assets are broadly charged to revenue over the life of the asset with an annual revenue charge, the Minimum Revenue Provision (MRP) which reduces the CFR each year.

3.5 Included within the CFR are any other long-term liabilities such as Private Finance Initiative (PFI) schemes and finance leases. Whilst these increase the overall balance of the CFR, the Council's borrowing requirement is not increased as this type of liability includes a borrowing facility by the PFI or lease provider. The Council currently has £4.5m (31 March 2021) liability of such schemes within the CFR which is set to fall to £3.4m by 31 March 2024 as highlighted in the table below;

Other long-term liabilities	**2020/21 Estimate £000**	**2021/22 Estimate £000**	**2022/23 Estimate £000**	**2023/24 Estimate £000**
Total at 1 April	4,759	4,453	4,126	3,776
Expected repayment	(306)	(327)	(350)	(374)
Total at 31 March	4,453	4,126	3,776	3,402

3.6 With effect from April 2021, the International Financial Reporting Standard 16 will require that all Council leases are also included with the CFR. Whilst the compliance of this new accounting requirement will impact on the Council's overall long term liabilities, it is deemed at this stage to be immaterial.

3.7 The total of the Council's loans outstanding as at 31 December 2020 totalled £395.8m and a breakdown of this debt is provided for reference at Appendix 6.

3.8 The Council holds, as mentioned above £67.5m of Market loans and of these £15.0m are held as variable rates of interest in the form of Lender's Option Borrower's Option (LOBO) loans. With regards to this type of loan, the lender has the option to propose an increase in the interest rate at set dates and should this situation occur then the Council can either accept the new rate or repay the loan at no additional cost. In accordance with the Director of Finance and Systems delegated authority, should an opportunity present itself to repay a LOBO loan then this option will be fully examined to determine whether any financial benefit could be obtained including taking a replacement loan from another lender.

3.9 In line with similar practices adopted by the majority of local authorities, this Council is currently maintaining an under-borrowed position (CFR balance being higher than the level of external debt). This position has arisen from previous and current years annual CFR (borrowing need), not being fully funded with new loans as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are set to remain at historically low levels for the foreseeable future, as highlighted at paragraph 2.3, and counterparty risk still is an issue. For reference as at 31 March 2020 the Council's under borrowed position was £40m.

3.10 This policy of avoiding new borrowing by running down spare cash balances has served the Council well over the last few years due to debt interest rates being consistently higher than investment returns, a situation which is forecasted to continue for the foreseeable future. This situation will continue to be carefully monitored to avoid incurring higher borrowing costs in the future when the Council may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt.

3.11 There is currently no budgetary provision included within the Council's MTFP to cover new associated borrowing costs therefore any new projects requiring borrowing will need to be self-financing.

3.12 The Director of Finance and Systems will continue to monitor interest rates and adopt a sensible approach to changing circumstances within the 2021/22 treasury operations before taking on any new debt to finance a proportion of the Council's capital projects or commercial regeneration programme.

3.13 Based on current commitments the table below reflects the level of external debt the Council is expected to have for the period 2020/21 to 2023/24 which is used to part fund its capital programme;

	2020/21 Estimate £000	**2021/22 Estimate £000**	**2022/23 Estimate £000**	**2023/24 Estimate £000**
Commercial Regeneration programme				
Total at 1 April	217,900	254,816	377,253	446,612
Planned repayments	(103,833)	(137)	(141)	(145)
Potential New debt	140,749	122,574	69,500	53,333
Total at 31 March	254,816	377,253	446,612	500,000
General capital programme				
Total at 1 April	159,359	164,367	166,289	167,175
Planned repayments	(4,662)	(3,078)	(4,114)	(4,185)
Potential New debt	9,670	11,980	6,000	50
Total at 31 March	164,367	173,269	175,155	170,820

3.14 All interest incurred on the Council's external debt is charged directly to treasury management apart from where it has previously been agreed by Executive for interest incurred on major development schemes i.e. Brown Street Hale to be capitalised.

3.15 When however any form of borrowing, be this Long or Short term, is required, consideration is given to obtaining funds at the most advantegous rates possible at that time, from the following in order to finance the Council's capital expenditure:

- Other local authorities,
- The Government via the PWLB,
- Dedicated publicly funded companies e.g. Salix,
- Municipal Bond Agency, or

- Financial institutions within the money market (insurance companies, pension funds and banks).

3.16 In March 2020, the Government issued a consultation document which outlined several potential reforms which it intended to introduce on how the PWLB operated. This included implementing measures intended to prevent the trend, in a minority of local authorities of taking on debt to buy assets primarily for generating an income stream. On 25th November 2020 the Government announced the outcome of the consultation and as a result lowered the interest rate of PWLB lending by 1% bringing it back to the levels they were at before October 2019. Also included within these reforms was a prohibition to deny access to borrowing from the PWLB for any local authority which had within its three year capital programme, a facility to purchase assets purely for generating an income stream.

3.17 The uptake of new long term debt will be processed in accordance with the Council's approved scheme of delegation and reported to Members at the earliest opportunity. Action of this sort will be undertaken in accordance with a number of factors such as affordability, proposed life of the asset, current interest rate projections and advice obtained from the Council's external advisors.

3.18 Rescheduling any of the Council's current PWLB loans is unlikely to occur as a result of the high early repayment penalty (premium) which will be incurred. This situation will be monitored during the course of the year and in the event any debt rescheduling is done, it will be reported to the Members at the earliest meeting following its action.

3.19 Whilst the Council retains the flexibility to borrow funds in advance of requirement as a result of potential changes to market conditions i.e. a sharp rise in interest rates, it will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will ensure that funds are taken within the forward approved CFR estimates and that value for money can be demonstrated.

3.20 Any borrowing taken by the Director of Finance and Systems in advance of need will be done in accordance with delegated powers and within the constraints stated below;

- no more than 50% of the expected increase in borrowing need (CFR) over the three year planning period is to be obtained in this manner and
- the Council would not look to borrow more than 12 months in advance of need.

3.21 The Council's debt maturity profile is provided at Appendix 4 for reference which also shows, in accordance with the Code of Practice, the potential first date the lending banks could amend the rate of interest for their respective market LOBO loans.

3.22 *The Council is required to approve;*

- *the above debt strategy and*
- *as part of the Prudential Indicators and Limits requirement, the limits for external debt in accordance with the Local Government Act 2003, having regard to CIPFA's prudential code before the commencement of each financial year. These limits are detailed at Appendix 3.*

4. Minimum Revenue Provision Strategy

4.1 The Council is required in accordance with MHCLG regulations to approve an MRP Statement in advance of each financial year. This Statement details how the Council will set aside annual amounts for the repayment of debt (by reducing the

CFR), through a revenue MRP charge and any additional Voluntary Revenue Payments (VRP).

4.2 *The Council is requested to approve the MRP Statement as detailed at Appendix 3.*

5. Investment Strategy

5.1 In accordance with both MHCLG and CIPFA guidelines, the term 'investments' now reflects both financial and non-financial investments. This report deals solely with financial investments, (as managed by the in-house treasury management team). Non-financial investments, essentially the Council's Asset Regeneration Investment Strategy, are covered in the Capital Strategy, (a separate report).

5.2 When the Council's in-house treasury management team places an investment, not only does it do so with regard to current legislation and guidance as highlighted below but also with regards to the outlook for short-term interest rates.

- MHCLG's Guidance on Local Government Investments ("the Guidance")
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017 ("the Code")
- CIPFA Treasury Management Guidance Notes 2018

5.3 On each occasion when investments are made the primary principle will continue to be the same as that adopted in previous years of **SLY**, **S**ecurity of funds first, **L**iquidity second followed by **Y**ield.

5.4 Whilst the active use of Ethical investments is a topic of increasing interest to both members and officers, investment guidance, both statutory and from CIPFA, clearly states that all investing must follow the SLY principles with all ethical issues taking a subordinate role. The Council's in-house treasury management team will continue to both follow this principle and monitor the market in order to be able to take advantage of any new investment product which supports this aspect providing it complies with the current investment credit criteria.

5.5 The Council will aim to achieve the maximum return (yield) on its investments appropriate with proper levels of security and liquidity in line with the Council's risk appetite. In the current economic climate of low investment interest rates the Council is restricted in generating a significant return from its investments without exposing it to additional risk factors. It is easy to forget recent history of counterparties defaulting and ignore market warnings when searching for that extra return to ease revenue budget pressures. The Council will not undertake any investment transaction without thoroughly understanding the product and associated risks in full or in any institution which is paying considerably over and above market levels.

5.6 Funds making up the Council's investments derive from monies received in advance of spend requirement and from the balances and reserves which it holds. Whilst greater returns are usually obtainable by investing for longer periods, most cash balances are required to manage the ups and downs of the Council's day to day cash flows. Cash not required for immediate use may be invested for longer periods of time, however before doing so careful assessment to the value to be obtained from this is undertaken.

5.7 Guidance issued by both the MHCLG and CIPFA as identified at paragraph 5.2 places a high priority on the management of risk and whilst this will never completely be eliminated, it can be minimised. The Director of Finance and Systems will maintain a counterparty list with the assistance of LG specifying which institutions it can place funds with. By only placing funds with those institutions which appear on this list it reduces the risk of an institution defaulting, enables diversification and avoids concentration risk. The key credit ratings used to monitor institutions are the short term and long-term ratings.

5.8 The Council will use UK institutions, including banks, building societies and local authorities together with banks located in a country which has a minimum Sovereign Long term credit rating of AA-. As well as detailing the criteria institutions must meet to enable them to be included onto the Council's approved lending list, within their respective category, Appendix 3 also specifies both the maximum value and duration funds can be placed at any one time.

5.9 Credit rating information is supplied by LG, the Council's treasury advisors, on all active counterparties that comply with the criteria above. Any rating changes, rating Watches (notification of a likely change), rating Outlooks (notification of the longer-term bias outside the central rating view) are provided to officers immediately after they occur and this information is considered before dealing. For instance, a negative rating Watch applying to an institution at the minimum Council criteria will be suspended from use, with all others being reviewed in light of market conditions.

5.10 This approach uses real time credit rating information provided by LG and enables an institution, should they meet or no longer meet the minimum credit criteria required to be immediately included on to or removed off the approved list.

5.11 A full explanation of the credit ratings determining the institutions which the Council will use can be found at Appendix 5.

5.12 The Council's in-house treasury management team recognises ratings should not be the sole basis of determining the quality of an institution. It is important to continually assess and monitor institutions both on the economic and political environments in which they operate together with information that reflects the opinion of the markets. To achieve this, the Council will, with LG, monitor market pricing on additional factors such as "credit default swaps" (CDS) and overlay this information on top of the credit ratings. This additional market information is detailed for Members' reference at Appendix 5.

5.13 As a result of the current economic position, several of the banks the Council uses to place funds with, have either restricted the levels of funds permitted to be placed with them, are no longer in the market. To maintain security and diversity of funds and avoid a potential concentration of investments being placed in too few institutions, it is requested that the number of building societies permitted to be used within the Council's approved counterparty list be increased from 2 to 10. To facilitate this request it is proposed that building societies which have minimum net asset value of £2.5bln regardless of their credit ratings are added to the list of approved counterparties. The operation of building societies are greatly limited when compared to banks and therefore their inclusion onto the Council's approved list of counterparties will not have any adverse effect to the quality of institutions permitted to be used.

Investment instruments identified for use in the financial year together with institution limits are detailed in Appendix 3.

5.14 In the event the Monetary Policy Committee moved to negative interest rates, this would put pressure on the level of investment income generated with any shortfall met from the interest rate smoothing reserve. The overriding objectives for the strategy will continue to be security of funds, diversity and liquidity. To minimise the financial exposure, opportunities would be considered to undertake internal borrowing to support capital expenditure in the short term whist maintaining appropriate levels of liquidity.

5.15 Members are asked to approve this base criteria, however the Director of Finance and Systems may temporarily restrict further investment activity to those institutions considered of higher credit quality than the minimum criteria set out for approval should any exceptional market conditions be encountered.

5.16 Investments will continue to be placed as follows;

- Short-term – cash required to meet known cash flow outgoings in the next month, plus a contingency to cover any unexpected transaction over the same period with bank call / notice accounts and money market funds being the main methods used for this purpose.
- Medium-term – cash required to manage the annual seasonal cash flow cycle covering the next 12 months and will generally be in the form of fixed term deposits and ultra-short dated bond funds.
- Long-term – cash not required to meet any immediate cash flow requirements and can be used primarily to generate investment income by using fixed or structured term deposits, certificates of deposits, government bonds or the Local Authority Property Investment fund.

5.17 Use of longer term instruments (greater than one year from inception to repayment) will fall in the Non-specified investment category and these will only be used where the Council's liquidity requirements are safeguarded and be limited to the Prudential Indicator detailed at Appendix 3.

5.18 The level of the Council's investments together with the average interest rate, as at 31 December 2020, is provided for reference at Appendix 6.

5.19 *The Council is requested to approve the;*

- *adoption of the above Investment strategy and*
- *minimum criteria for providing a list of high quality investment institutions, instruments and limits to be applied as set out at Appendix 3.*

6. Investment Risk Benchmarking

6.1 The CIPFA Code of Practice and MHCLG Investment Guidance require that appropriate security and liquidity benchmarks are considered and reported to Members annually and details of these are provided in Appendix 5.

6.2 Benchmarks are simple guides (not limits) to maximum risk for use with cash deposits and so may be breached from time to time, depending on movements in interest rates and institution criteria. The purpose of the benchmark is to assist officers to monitor the current and trend position and amend the operational strategy to manage risk as conditions change. Any breach of the benchmarks will be reported to Members, with supporting reasons in the Mid-Year or Annual Report. For reference the benchmarks proposed are;

- Security -Each individual year the security benchmark is:

1 year investments	2 year investments	3 year investments
0.05%	0.04%	0.09%

Note - This benchmark is an average risk of default measure and would not constitute an expectation of loss against a particular investment. At 31 December 2020 the Council's default rate of its investments placed was 0.008% which is 0.042% below the 1 year benchmark of 0.05%.

- Liquidity -Weighted Average Life (WAL) - benchmark for 2021/22 is set at 6 months, with a maximum of 3 years for cash time deposits;

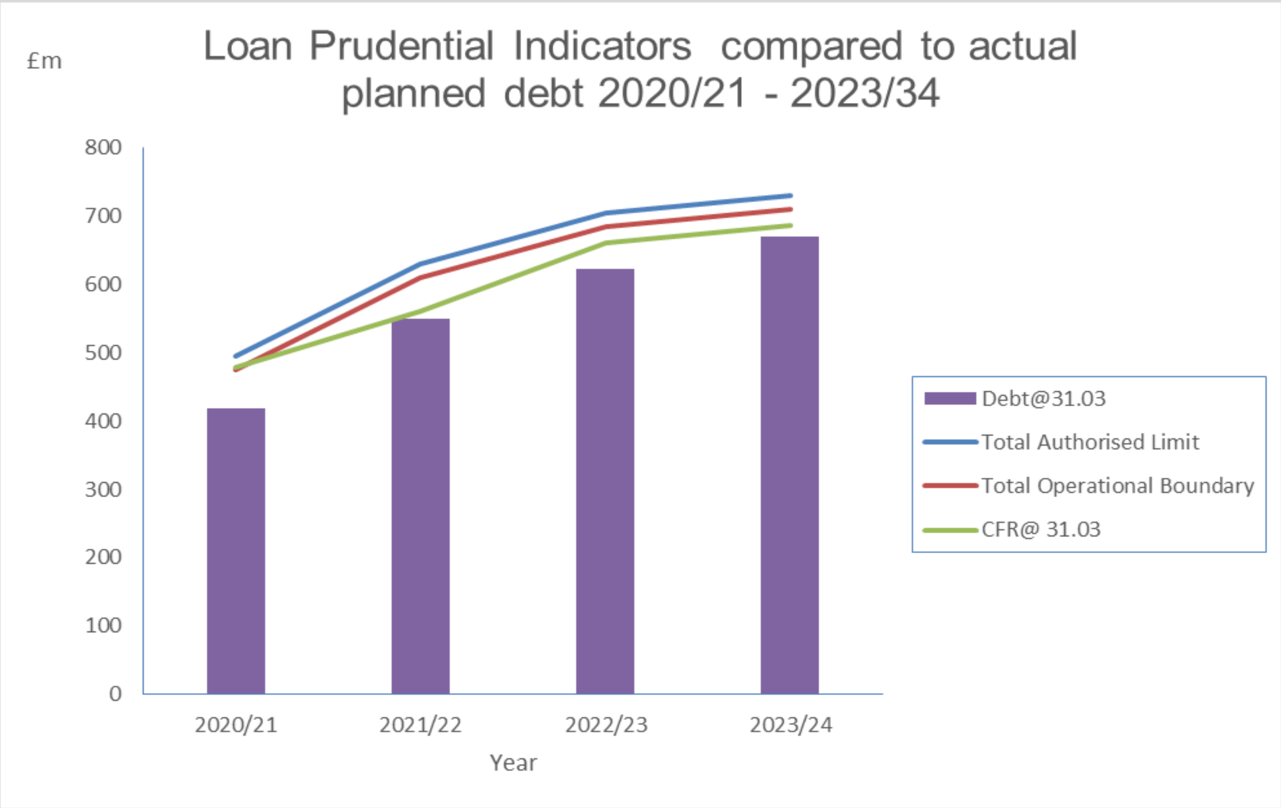
-Liquid short term deposits - at least £5m is available within a week's notice;

- Yield -Previously the Council aimed to achieve a return on its internally placed investments of greater than the 7 day London Interbank Deposit (LIBID) rate without sacrificing any security aspects. The Financial Conduct Authority (FCA) announced in July 2017 that it was to look at replacing this rate together with several other rates as they had become unreliable. It is expected that new replacement rates will be in place by the end of 2021 and the Council will work with LG in determining a suitable replacement investment benchmark ahead of this and will inform members accordingly.

7. Prudential Indicators

7.1 A number of prudential indicators have been devised for the treasury management process and these have been prepared to assist managing risk and reduce the impact of an adverse movement in interest rate. These indicators have been set at levels which do not restrict day to day activities whilst at the same time ensure the Council's capital expenditure plans are prudent, affordable and sustainable.

7.2 The graph below shows how 2 of these prudential indicators (Authorised Limit and Operational Boundary) relate to potential levels of debt and *Members are requested to approve the full set of Prudential Indicators for the Council's treasury management activities as detailed at Appendix 3.*



8. Related Treasury Issues

8.1 Greater Manchester Pension Fund (GMPF). During April 2020, the Council along with several other Greater Manchester councils paid over to GMPF a discounted advance equivalent to 3 years' of employer pension contributions in order to take advantage of the pension fund's wider investment powers. This initial payment will have run its course by 31st March 2023.

8.2 Asset Investment Regeneration Strategy. During 2017/18 the Council introduced a programme to acquire suitable assets which will deliver significant regeneration benefits for the area and increase the Council’s income generating capacity thereby enabling it to maintain the provision of services in future years.

8.3 Whilst investments under Asset Investment Regeneration strategy are made to support policy related activities and are therefore considered outside the treasury management of purely financial investments, their implementation will have an impact on the Council’s cash flow and all such investments are therefore also considered on each occasion in accordance with the principles set out in paragraphs 5.2 and 5.3 above.

8.4 International Financial Reporting Standards 9 (IFRS9). This was introduced in response to the 2008 financial crisis and is designed to generate transparency in the Council’s accounts enabling the reader to fully assess the worth and risk of its financial instruments with any potential losses or profits being taken to the account in full in the year they occur. To mitigate against this MHCLG have issued a 5 year override expiring on 31 March 2023 which will enable councils to either arrange for a planned exit or for potential surpluses to be placed into an unusable reserve and applied to overcome those years when a downward revaluation occurs. Whilst IFRS 9 is primarily a re-classification not a re-valuation exercise, its introduction is not envisaged to have any major impact for the Council. Currently there is 1 investment which is effected by this re-classification and that is the CCLA transaction. Whilst this investment generates a return of approximately 4.5% to 5.0% per annum the Council’s in-house team will;

- continue to monitor both the monthly valuations received for this investment and the quarterly market forecasts produced to ensure that any potential losses in valuation are kept to a minimum and
- consider setting aside a proportion of the annual interest received into a reserve for use to smooth out any potential losses.

9. Medium Term Financial Plan

9.1 Detailed for reference at Appendix 7 is a headline breakdown of the treasury management budgets for the period 2021/22 – 2023/24 split between Treasury and Non-Treasury activities. Whilst these budgets have been produced using the latest interest rate forecasts and predicted movements in the Council’s income and expenditure plans, they will be subject to change due to factors beyond the Council’s control i.e. interest rate movements.

10. Recommendations

That Accounts & Audit Committee be requested to note and recommend the report to Executive.

That Executive notes the report and recommends that Council approves;

- the Treasury Management Strategy 2021/22 – 2023/24 including the:
- policy on debt strategy as set out in section 3;
- investment strategy as set out in section 5;

  Prudential Indicators and limits including the Authorised Limit (as required by section 3(1) of the Local Government Act 2003), Operational Boundary, Minimum Revenue Provision Statement and Investment criteria as detailed in Appendix 3.

Other Options

This report is a mandatory report which has been produced in order to comply with Financial Procedure Rules and relevant legislation. The MHCLG Guidance and CIPFA Code do not prescribe any particular treasury management strategy for Councils to adopt and there are an unlimited number of other options that the Council could consider as part of its treasury management activities. This report however outlines a clear and practical approach with an appropriate balance between risk management and cost effectiveness and is recommended by the Corporate Director of Finance and Systems.

Consultation

There are no applicable consultation requirements in respect of this report. Advice has been obtained from Link Group, the Council's external advisors.

Reasons for Recommendation

The Financial Procedure Rules, incorporating the requirements of the CIPFA Treasury Management Code of Practice requires that the annual strategy report is provided to the Council as an essential control over treasury management activities. In it the Council approves the parameters under which officers will operate. In addition The Local Government Act 2003 requires that the Council approves an annual borrowing limit (the Authorised Limit) and MHCLG Guidance an annual investment strategy (setting out the limits to investment activities) prior to the commencement of each financial year.

Key Decision

This will be a key decision likely to be taken in: February 2021

This is a key decision currently on the Forward Plan: Yes

Finance Officer Clearance GB

Legal Officer Clearance JLF

Corporate Director's Signature

APPENDIX 1

STATUTORY FRAMEWORK

Local Government Act 2003

In accordance with the Local Government Act 2003 (and supporting regulations and guidance) each Council must before the commencement of each financial year, produce a report fulfilling three key requirements as stipulated below;

- The debt strategy in accordance with the CIPFA Code of Practice on Treasury Management (section 3);
- The investment strategy in accordance with the MHCLG investment guidance (section 5);
- The reporting of the prudential indicators as required by the CIPFA Prudential Code for Capital Finance in Local Authorities (Appendix 3).

CIPFA Code of Practice

The Council's treasury activities are strictly regulated by statutory requirements in conjunction with a professional code of practice (the CIPFA Treasury Management Code of Practice). This Council adopted the Code of Practice on Treasury Management on 24 April 2002 and followed recommended practices by considering an annual Treasury Management Strategy before the commencement of each financial year. These Codes are revised from time to time and the Council complies with any revisions.

Investment Guidance

MHCLG issued Investment Guidance in 2018 and this forms the structure of the Council's Investment policy as set out below:

- The strategic guidelines for decision making on investments, particularly non-specified investments;
- Specified investments that the Council will use. These are high security (no guidelines are given defining what this should consist of and each individual Council is required to state what this should be i.e. high credit ratings), high liquidity investments in sterling and with a maturity of no more than a year;
- Non-specified investments, clarifying the greater risk implications, identifying the general types of investment that may be used and a limit to the overall amount of various categories that can be held at any time;
- The principles to be used to determine the maximum periods for which funds can be committed.

APPENDIX 2

MAIN 2020 ECONOMIC HEADLINES

GLOBAL-

- A new worldwide pandemic caused by the spread of the coronavirus resulted not only in a large number of tragic deaths but also generated a downturn in the world economy as governments imposed lockdowns in order to try and reduce the spread of this new virus.
- Scientists have now developed successful vaccines to help combat the virus and these are now starting to be administered.
- The International Monetary Fund (IMF) predicts that the world economy will shrink by 4.4% in 2020 and expects the global growth to be slow and gradual.
- Extreme global poverty is set to rise for the first time in more than two decades.

UK-

- In order to restrict the spread of the coronavirus, an initial National lockdown in March 20 lasting to the beginning of July 20 was implemented by the Government. This was followed by local area lockdowns/restrictions and further national lockdowns were implemented in November 20 and January 21.
- News that safe and effective coronavirus vaccines had been developed were first announced in November and these started to be administered in December 20. Whilst a comprehensive roll-out of vaccines might take into late 2021 to fully complete, it is hoped that if these vaccines are successful current restrictions will begin to be relaxed enabling for an improved economic outlook. It should be noted that as effective vaccines will take time to administer, economic news could well get worse before it starts getting better.
- During the first half of 2020 the economy shrank by 21.8% and whilst a recovery was seen to be taking effect, the economy was down by 7.9% from the pre-pandemic level of February 2020. Overall, the pace of recovery is not expected to have a quick bounce back but a more elongated and prolonged one taking until the end of 2022 for it to fully recover to February 2020 levels.
- Public borrowing for 2020/21 is now forecast by the Office for Budget Responsibility (OBR) to reach £394bn by March 2021, the highest level ever in peace time and equivalent to 19% of GDP. In the current climate of low interest rates the Government is able to lock in at historic low levels enabling the interest paid by the Government to be manageable despite the huge increase in the total amount of debt which at the end of October 2020 was £2.08 trillion.
- Consumer Price Index (CPI) which started the year off at 0.8% in April reduced to 0.3% in November 2020 which is 1.7% below the Bank of England's target of 2%.
- The Monetary Policy Committee, (MPC) in response to the outbreak of the coronavirus reduced Bank Rate twice in March 2020 from 0.75% to 0.10% and increased Quantitative Easing from £445bn to £895bn in November 2020. It has decided against the use negative interest rates, relying on other instruments it has available such as QE.
- Unemployment rose from an opening position of 4.0% in April 2020 to 4.8% in September and is currently set to peak in the middle of 2021 at 8%. It is

hoped that following a successful roll out of vaccines that activity in restaurants, travel and hotels will return to their pre-pandemic levels, which would help to bring the unemployment rate down.

- Brexit trade negotiations produced a successful outcome ahead of the 31 December 2020 deadline although it is too early to be sure how this will impact on the economies of both the UK and Eurozone.

Eurozone –

- The economy was recovering well towards the end of Quarter 2 and into Quarter 3 2020 after a sharp drop in GDP caused by the virus. However, growth is likely to stagnate during Quarter 4, and Quarter 1 of 2021, as further waves of the virus affects many countries, with those countries more dependent on tourism being likely to be hit the hardest.
- The €750bn fiscal support package eventually agreed by the EU after prolonged disagreement between various countries, is unlikely to provide an appreciable difference in the worst affected countries.
- Inflation is not expected to get much above 1% over the next two years and this is well below the European Central Bank target of 2%. It is currently unlikely that the ECB will cut its central rate even further into negative territory from its current level of -0.5%.

US –

- The outcome of the November 2020 Presidential elections resulted in Joe Biden, Democrat, being returned as the 46th President.
- The economy had been recovering quite strongly from its contraction in 2020 of 10.2% due to the pandemic with GDP only 3.5% below its pre-pandemic level and the unemployment rate dropping below 7%.

China-

- After an intensive effort by the Chinese Government to get on top of the coronavirus outbreak in Quarter 1, economic recovery was strong in both Quarter 2 and Quarter 3 thereby enabling China to recover all of the contraction it suffered in Quarter 1.
- Policy makers have both quashed the virus and implemented a programme of monetary and fiscal support that has been particularly effective at stimulating short-term growth. At the same time, China's economy has benefited from the shift towards online spending by consumers in developed markets.

MAIN ECONOMIC FORECASTS FOR 2021

Producing accurate economic forecasts continues to be an extremely difficult task due to the many external factors which have an impact on them, particularly more so in the current pandemic climate. Forecasters are currently predicting the following levels of activity for the year ahead however these will be liable to change as the year progresses;

Indicator	UK	Eurozone	US	China
Gross Domestic Product	3.2%	4.0%	3.7%	5.6%
Consumer Price Index	1.9%	1.4%	1.5%	1.9%
Unemployment Rate	7.4%	8.8%	6.5%	5.4%
Bank Rate	0.10%	0.0%	0.25%	3.70%

Source - Trading Economics

APPENDIX 3

ELEMENTS FOR COUNCIL APPROVAL

(including Prudential and Treasury Indicators, Minimum Revenue Provision & Investment Criteria)

In accordance with the current MHCLG Guidance, CIPFA Treasury Management Code of Practice, each council is required to set before the commencement of each financial year Treasury Management Prudential Indicators and limits, a Minimum Revenue Provision Statement and Investment criteria.

The Accounts and Audit Committee and Executive are requested to recommend that Council approve these for the period 2021/22 – 2023/24 as detailed below.

TREASURY PRUDENTIAL INDICATORS AND LIMITS –

In accordance with the current CIPFA Prudential code, the Council is required to produce prudential indicators and limits reflecting the projected capital activity regarding its capital investment programme. These have an impact on the Council's treasury management activities and Council is required to approve the prudential indicators and limits affecting treasury management performance as shown below;

Authorised Limit for External debt	2020/21 estimate £m	2021/22 estimate £m	2022/23 estimate £m	2023/24 estimate £m
General capital programme	190.0	225.0	225.0	225.0
Regeneration projects	300.0	400.0	475.0	500.0
Other long term Liabilities (PFI)	4.5	4.5	4.0	3.5
Total	**494.5**	**629.5**	**704.0**	**728.5**

Authorised external debt limit - This is a key prudential indicator and represents a control on the maximum level of external debt that the Council will require for all known potential requirements. It includes headroom to cover the risk of short-term cash flow variations that could lead to temporary borrowing and any potential effects arising from bringing "off balance sheet" leased assets onto the balance sheet in compliance with IFRS 16. This statutory limit as determined under section 3(1) of the Local Government Act 2003 needs to be approved by Council prior to the commencement of each financial year.

Operational Boundary for External debt	2020/21 estimate £m	2021/22 estimate £m	2022/23 estimate £m	2023/24 estimate £m
General capital	170.0	205.0	205.0	205.0
Regeneration projects	300.0	400.0	475.0	500.0
Other long term Liabilities (PFI)	4.5	4.5	4.0	3.5
Total	**474.5**	**609.5**	**684.0**	**708.5**

Operational boundary - calculated on a similar basis as the authorised limit but represents the likely level of external debt that may be reached during the course of the year and is not a limit.

Upper limit for Principal sums invested over 1 Year	2020/21 estimate £m	2021/22 estimate £m	2022/23 estimate £m	2023/24 estimate £m
	100.0	**100.0**	**100.0**	**100.0**

Upper Limit for sums invested for over 1 year – these limits are set with regard to the Council's liquidity requirements. Included within this limit are the Manchester Airport Shares which at 31 March 2020 were independently valued at £30.2m, the Church Commissioners Local Authorities Property Investment Fund investment of £5m and Commercial asset loan £17.6m.

Upper limits	2020/21 estimate £m	2021/22 estimate £m	2022/23 estimate £m	2023/24 estimate £m
Fixed interest rate exposure based on net debt	9.5	9.5	9.5	9.5
Variable interest rate exposure based on net debt	1.0	1.0	1.0	1.0

Upper Interest Limits – identifies the maximum limit for both fixed and variable interest rates exposure based upon the Council's debt position net of investments.

Maturity structure of all external loan debt – 2021/22 to 2023/24	Lower limit %	Upper limit %
Under 12 months	0	40
12 months to 2 years	0	40
2 years to 5 years	0	40
5 years to 10 years	0	40
10 years to 20 years	0	40
20 years to 30 years	0	40
30 years to 40 years	0	70
40 years and above	0	90

Maturity Structure of Borrowing – these gross limits are set to reduce the Council's exposure to large sums falling due for refinancing and reflect the next date on which the lending bank can amend the interest rate for any Lender Option Borrower Option loans the Council currently has.

Gross Debt and the Capital Financing Requirement – this reflects that over the medium term, debt will only be for capital purposes. The Director of Finance and Systems will ensure that:

- all external debt does not exceed the capital financing requirement with any exceptions being reported to Council and
- this requirement has been complied with in the current year and does not envisage difficulties for future years taking into account current commitments.

All the treasury prudential indicators and limits are monitored on a regular basis with any breaches being reported to Council at the earliest opportunity.

MINIMUM REVENUE PROVISION - (no changes)

In accordance with the current MHCLG Guidance, the Council shall determine an amount of minimum revenue provision that it considers to be prudent and submit an MRP Statement setting out its policy for the annual MRP to Council for approval. The following MRP Statement has been prepared in accordance with the Council's accounting procedures and is recommended for approval:

- **Capital expenditure financed by Supported Borrowing:** MRP will be calculated on a straight line basis over the expected average useful life of the assets (50yrs);
- **Capital expenditure financed by Prudential Borrowing:** MRP will be based on the estimated life of the assets once operational and charged on a straight line or annuity basis in accordance with MHCLG guidance;
- **Asset Investment Strategy financed by Prudential Borrowing:** Voluntary Revenue Provision (VRP) using the periods stipulated within the MHCLG Guidance of up to 50 years will be applied. By adopting this approach it will enable the Council upon the sale of each asset, to either apply the capital receipt or use the VRP receipts to extinguish debt taken. If the capital receipt is applied then the VRP previously set-aside will have been undertaken for no purpose and therefore can be reclaimed. Annual reviews are undertaken to ensure that this policy remains prudent and as at 31 March 2020 the total VRP overpayments were £2.553m and are forecasted to total £4.670m by 31 March 2021.
- **PFI schemes and leases shown on the balance sheet:** MRP will be based on the amount of the principal element within the annual unitary service payment and financed from the provision set-up to cover the final bullet payment. Capital receipts are to be used to replenish this provision to ensure any final bullet payment can still be made in 2028/29;
- **Expenditure that does not create an asset:** this is where the Council through the Asset Investment Strategy has made equity investment with Joint Venture companies with VRP being provided and calculated on a straight line basis for periods up to 50 years. Whilst this is a departure from statutory guidance for equity it is equivalent to the period allowed for Investment Property;
- **Use of a Capitalisation Direction**: Expenditure incurred in response to the issuance of a Capitalisation Direction by Central Government, MRP will be made over a period not exceeding 20 years, in accordance with the 2018 Guidance;
- **Lending to a third party**: In instances where the Council lends funds to a third party and in accordance with the guidelines issued (February 2018) by the Secretary of State, MRP is required to be provided over the useful life of the asset created. The Council in this instance will not follow the guidance but rather treat any advance as "Serviced debt" and therefore no MRP will be set-aside providing there is an agreed repayment date. Annually the Council will undertake a financial assessment of the third parties ability to repay the debt and where any adverse changes are perceived to be occurring then a provision will be created to cover any future potential financial losses.

INVESTMENT CRITERIA – (minor changes to policy as highlighted)

Counterparty Selection

- The Council will only use institutions which are located in the UK or from a country with a minimum Sovereign Long term credit rating of AA-. The individual credit criteria, is highlighted below and where credit ratings have been issued, both the Long and Short term rating from 2 of the 3 main agencies will need to meet the minimum required. The requirements shown below for categories 1 to 5 and 7 will be applied to both Specified and Non-specified investments. Category 6 applies only to The Church Commissioners Local Authorities Property Investment fund.

The limits shown in the table below are set at a contingency level and operationally monies will be placed with a number of institutions with a maximum 20% of the portfolio being placed with any one institution at the time each investment is made. This situation will be monitored during the course of the year with any corrective action being undertaken at the first opportunity without any financial penalty being incurred.

	Fitch (or equivalent) – Long Term	Maximum Group Limit	Maximum Time Limit
Category 1 – • UK & Non UK Banks (bank subsidiaries must have a parent guarantee in place), • UK Building Societies Institutions must also have an individual minimum short term credit rating of – Fitch F1 or equivalent.	AA to AAA A+ to AA- A- to A	£75m £25m £10m	3yrs 1yr 1yr
Category 2 – UK Building Societies which are unrated or do not meet the minimum ratings as per Category 1 with assets in excess of; ➢ £5bln+, ➢ £2.5bln - £4.99bln	- -	£5m £3m	1yr 1yr
Category 3 – UK Banks part nationalised - Royal Bank of Scotland. This bank or its subsidiaries can be included provided it continues to be part nationalised or meets the ratings in category1 above.	-	£20m	1yr
Category 4 – The Council's own banker for transactional purposes if the bank falls below the above criteria.	-	n/a	1day
Category 5 – • Pooled Investment Vehicles: ➢ Money Market Funds ➢ Ultra-Short Dated Bond Funds • Social & Ethical funds • UK Government (including treasury bills, gilts and the DMO) • Local Authorities • Supranational Institutions	AAA AA - - - -	(£20m per fund) (£15m per fund) (£5m per fund) (£20m) (£10m per LA) (£20m)	3yrs 3yrs 10yrs 3yrs 3yrs 1yrs
Category 6 – • Local Authority Property Investment fund	-	£10m	10yrs

Cont.	Fitch (or equivalent) – Long Term	Maximum Group Limit	Maximum Time Limit
Category 7 – • Support the Asset Investment Regeneration Strategy	-	£50m	5yrs

Specified and Non Specified Investments – (minor changes to policy as highlighted)

In accordance with the current Code of Practice, the Council is required to set criteria which identify its investments between Specified and Non Specified investments and these are classified as follows;

- Specified investments are high security and liquid investments with a maturity of no more than a year or those which could be for a longer period but where the Council has the right to be repaid within one year if it wishes. These are considered low risk assets where the possibility of loss of principal or investment income is small.
- Non specified investments are any other type of investment not defined as specified above. Once an investment is classed as non-specified, it remains non-specified all the way through to maturity i.e. an 18 month deposit would still be non-specified even if it has only 11 months left until maturity. A maximum of £100m is permitted to be held in this classification as detailed on page 21, Prudential Indicator Upper limit for sums invested over one year.

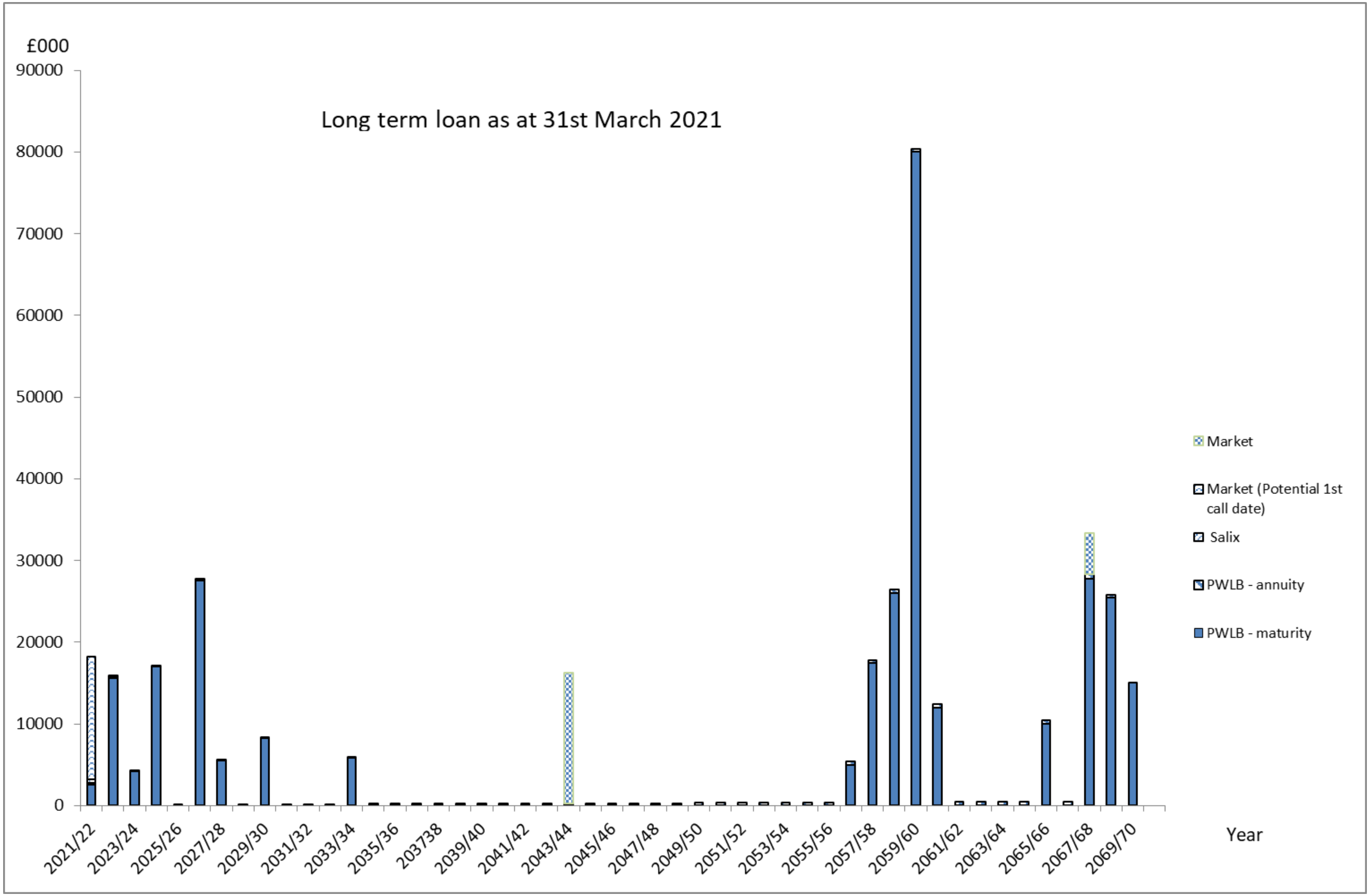
Instruments & Maximum period

All Investments will be undertaken in Sterling in the form of Term Deposits, Money Market Funds, Ultra Short Dated Bond Funds, Treasury Bills, Bonds, Gilts or Certificates of Deposits unless otherwise stated below;

Specified Investments	Maximum Maturity
The UK Government including Local Authorities and Debt Management Office.	1 Year
Supranational bonds of less than one year duration (e.g. International Monetary Fund)	1 Year
Pooled investment vehicles such as money market funds (including the revised categories of Low Volatility Net Asset value and variable Net Asset Value funds) Social & Ethical funds and low volatility bond funds.	1 Year
An institution that has been awarded a high short term credit rating (minimum F1 or equivalent) by a credit rating agency, such as a bank or building society.	1 Year

Non-Specified Investments	**Maximum Maturity**
Multilateral development bank bonds - These are bonds defined as an international financial institution having as one of its objects economic development, either generally or in any region of the world (e.g. World Bank). The security of principal and interest on maturity is on a par with the Government and these bonds usually provide returns above equivalent gilt edged securities. The value of the bond may rise or fall and losses may accrue if the bond is sold prematurely.	3 Years
Gilt edged securities. These are Government bonds and provide the highest security of interest and principal. The value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity.	3 Years
The Council's own bank if it fails to meet the basic credit criteria with balances being kept to a minimum.	1 Day
UK Banks which have significant Government holdings	1 Year
Any bank or building society which meets the minimum long term credit criteria for Category 1 institutions detailed on page 23 with a maturity of greater than one year (including forward deals in excess of 1 year from inception to repayment).	3 Years
Building societies The operation of some building societies does not require a credit rating, although in every other respect the security of the society would match similarly sized societies with ratings. The Council may use such building societies which have a minimum asset size of £2.5bln but will restrict these type of investments as shown for Category 2 institutions on page 23.	1 Year
The UK Government including Local Authorities and Debt Management Office.	3 Years
Pooled investment vehicles such as money market funds (including the revised categories of Low Volatility Net Asset value and variable Net Asset Value funds) Social & Ethical funds and low volatility bond funds.	10 Years
Share capital or loan capital in a body corporate – The use of these instruments will be deemed to be capital expenditure, and as such will be an application (spending) of capital resources. It is envisaged this facility will apply to the Manchester Airport share-holding which the Council holds at a historical value of £30.2m as reported in the 2019/20 Statement of Accounts. It is not envisaged that this type of investment will be undertaken in the future.	Unspecified
Manchester Airport Group – This is in response to the restructuring of the airports existing debt and is included for clarity and transparency purposes only.	Term of loans

Non-Specified Investments cont.	**Maximum Maturity**
Church Commissioners Local Authorities Property Investment Fund - This fund is aimed solely for use by public sector organisations wishing to invest in the property market whilst at the same time generating a favourable rate of return.	10 Years
Support the Asset Investment Regeneration Strategy - where external borrowing to support the investment would not be in accordance with the CIPFA Prudential Code.	5 Years


£000
90000
80000
70000
60000
50000
40000
30000
20000
10000
0
Long term loan as at 31st March 2021
Market
Market (Potential 1st call date)
Salix
PWLB - annuity
PWLB - maturity
2021/22
2023/24
2025/26
2027/28
2029/30
2031/32
2033/34
2035/36
203738
2039/40
2041/42
2043/44
2045/46
2047/48
2049/50
2051/52
2053/54
2055/56
2057/58
2059/60
2061/62
2063/64
2065/66
2067/68
2069/70
Year

APPENDIX 4

APPENDIX 5

INVESTMENT CREDIT AND INSTITUTION RISK MANAGEMENT

The Council receives credit rating advice from its treasury management advisers as and when ratings change and institutions are checked promptly to ensure they comply with the Council's criteria. The criteria used are such that any minor downgrading should not affect the full receipt of the principal and interest. Any institution failing to meet the criteria, or those on the minimum criteria placed on negative credit watch, will be removed from the list immediately and if required new institutions which meet the criteria will be added.

		Credit Rating Agency		
Classification	**Description**	**Fitch (Minimum)**	**Moody's (Minimum)**	**Standard & Poors (Minimum)**
Short Term	Ensures that an institution is able to meet its financial obligations within 1 Year	F1 (Range **F1+, F2 A** to **D**)	P1 (Range **P1** to **P3**)	A1 (Range **A-1,** to **C**)
Long Term	Ensures that an institution is able to meet its financial obligations greater than 1 Year	A- (Range **AAA** to **D**)	A3 (Range **AAA** to **C**)	A- (Range **AAA** to **CC**)

The Council's list of Investment institutions is prepared primarily using credit rating information, full regard is also given to other available information on the credit quality of each institution in which it invests. The information below will continue to be considered when undertaking investments;

- Credit default swaps - CDS were first created in 1997 and are a financial instrument for swapping the risk of debt default. Essentially the owner of the debt would enter into an agreement with a third party who would receive a payment in return for protection against a particular credit event – such as default. Whilst absolute prices can be unreliable, trends in CDS spreads do give an indicator of relative confidence about credit risk.
- Equity prices – like CDS prices, equities are sensitive to a wide array of factors and a decline in share price may not necessarily signal that the institution in question is in difficulty.
- Interest rates being paid - If an institution is offering an interest rate which is out of line with the rest of the market this could indicate that the investment is likely to carry a high risk.
- Information provided by management advisors – this may include some information detailed above together with weekly investment market updates.
- Market & Financial Press information – information obtained from the money market brokers used by the Council in respect of interest rates & institutions will also be considered.

No investment will be made with an institution if there are substantive doubts about its credit quality, even though it may meet the credit rating criteria.

Investment Limits

In order to further safeguard the Council's investments and in addition to the information shown at Appendix 3, due care will be taken to consider country, group and sector exposure as follows;

- **Country** – this will be chosen by the credit rating of the Sovereign state as shown at Appendix 3 and no more than 40% of the Council's total investments will be directly placed with non-UK counterparties at any time;
- **Group** – this will apply where a number of financial institutions are under one ownership (e.g. Royal Bank of Scotland / Nat West) and the Group limit will be the same as the individual limit for any one institution within that group;
- **Sector** limits will be monitored regularly for appropriateness.

Investment Risk benchmarking

Security and liquidity benchmarks are central to the approved treasury strategy through the institution selection criteria and proposed benchmarks for these are set out below.

Security - A method to benchmark security risk is to assess the historic level of default against the minimum criteria used in the Council's investment strategy. The table below shows average defaults for differing periods of investment grade products for each of Fitch, Moody's and Standard and Poors long term rating category over the period 1981 to 2019. The Council can generally place investments up to a maximum period of 3 years and for this purpose will only use high rated institutions in order to ensure any potential risk in the form of defaults are kept to a minimum. Investments placed over 1 year but up to 3 years are placed with higher rated institutions in order to ensure that any potential risk of default as highlighted in the table below is kept to a minimum.

Long term rating	Average 1 yr default	Average 2 yr default	Average 3 yr default	Average 4 yr default	Average 5 yr default
AAA	0.04%	0.10%	0.17%	0.26%	0.35%
AA	0.02%	0.04%	0.09%	0.16%	0.24%
A	0.05%	0.15%	0.27%	0.40%	0.55%
BBB	0.15%	0.40%	0.70%	1.05%	1.41%
BB	0.65%	1.84%	3.22%	4.60%	5.84%
B	2.76%	6.66%	10.26%	13.35%	15.82%
CCC	18.96%	26.64%	31.60%	35.08%	37.88%

The Council's minimum long term rating criteria is currently "A-", meaning the average expectation of default for a one year investment in an institution with a "A-" long term rating would be 0.05% of the total investment (e.g. for a £1m investment the average loss would be £500). This is only an average as any specific institution loss is likely to be higher.

Liquidity – The current CIPFA Treasury Management Code of Practice defines this as "*having adequate, though not excessive cash resources, borrowing arrangements, overdrafts or standby facilities to enable at all times to have the level of funds available which are necessary for the achievement of its business/service objectives"*.

The availability of liquidity and the period of risk in the portfolio can be benchmarked by the monitoring of the Weighted Average Life (WAL) of the portfolio (shorter WAL would generally represent less risk).

APPENDIX 6

INVESTMENT & EXTERNAL DEBT POSITION – December 2020

	Principal £m	Average Rate %
DEBT		
Commercial Regeneration Programme		
Fixed rate:		
- PWLB	200.6	2.23
- Market	30.0	0.14
Total	***230.6***	***1.96***
General Capital Programme		
Fixed rate:		
- PWLB	127.7	2.87
- Salix	1.5	0.00
- Market	21.0	4.79
Sub-total	***150.2***	***3.11***
Variable rate:		
- PWLB	0.0	0.0
- Market	15.0	4.24
Sub-total	***15.0***	***4.24***
Total	**165.2**	**3.22**
Grand Total debt	**395.8**	**2.48**
INVESTMENTS		
Internally managed		
Fixed rate	(25.5)	0.37
Variable rate	(46.7)	0.04
Sub-total	**(72.2)**	**0.16**
Externally managed		
Church Commissioners Local Authority	(5.0)	4.52
Asset Investment Programme	(17.6)	n/a
Sub-total	**(22.6)**	**3.77**
Total Investments	**(94.8)**	**1.06**
NET ACTUAL DEBT	**301.0**	

APPENDIX 7

SUMMARY MEDIUM FINANCIAL PLAN 2021/22-2023/24

Non-Treasury items

	2021/22 £000	2022/23 £000	2023/24 £000
Loan Interest	4,654	4,156	3,432
Loss of Investment interest	51	51	51
VRP	2,124	2,128	2,132
TOTAL	6,829	6,335	5,615

Treasury items

	2021/22 £000	2022/23 £000	2023/24 £000
Net Interest payable	5,666	5,901	5,851
Net MRP payable	5,311	5,701	5,858
Net Interest receivable	(551)	(602)	(709)
Other Income - MAG	(3,528)	(3,528)	(6,625)
TOTAL	6,898	7,472	4,375

APPENDIX 8

NON-TREASURY INVESTMENT ACTIVITIES

Details of the actual spend and commitments on the Council's non-treasury activities are outlined below:

Description	£m	Purpose
General		
Manchester Airport Group	35.2	Regeneration – 4 Shareholder loans
Homestep	0.7	Regeneration – Capital loan monies advanced to assist first time buyers to acquire property within Trafford
Town Centre	0.2	Regeneration – Capital loan monies advanced to assist businesses occupy empty high street units within Trafford.
Sub-total	**36.1**	
Asset Regeneration Schemes		
Sonova House - Warrington	12.2	
DSG - Preston	17.4	
The Grafton Centre - Altrincham	10.8	
Magistrates Courts - Sale	4.1	
The Fort - Wigan	13.9	
Sainsbury's Altrincham	25.6	
Former Sorting Office - Stretford	0.9	
The Crescent - Salford	0.0	Loan of £44.3m is currently being repaid and is set to be completed this financial year
CIS - Manchester	60.0	
Altrincham & Stretford Shopping Malls - Equity contribution Trafford / Bruntwood loan	 25.5 25.6	
K Site Old Trafford - Equity contribution Trafford / Bruntwood loan	 12.3 12.3	
Brown Street Hale	7.5	
The Hut Group - Manchester	67.5	
Castle Irwell - Salford	19.0	
Various Development sites	0.5	
Sub-total	**315.1**	
TOTAL	**351.2**	