**TRAFFORD COUNCIL**

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| **Report to:** | **Accounts and Audit Committee 5 February 2020**<br>**Executive and Council 19 February 2020** |
| **Report for:** | **Decision** |
| **Report of:** | **The Executive Member for Finance and Investment and the Corporate Director of Finance and Systems** |

## Report Title

**TREASURY MANAGEMENT STRATEGY 2020/21 – 2022/23**

## 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

The Accounts & Audit Committee recommend that:

(a) Executive note the report and

(b) Council approves the Treasury Management Strategy 2020/21 – 2022/23 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

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| Relationship to Policy Framework / Corporate Priorities | Value for Money |
| Financial | The treasury management strategy will aim to maximise investment interest whilst minimising risk to the Council. 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 | Not applicable |
| Sustainability Implications | Opportunities to invest monies in products which both supports sustainable assets and complies with the Council's investment strategy will continued to be explored as and when they become available. |
| Resource Implications e.g. Staffing / ICT / Assets | Not applicable |
| Risk Management Implications | The monitoring and control of risk underpins all treasury management activities and these factors have been incorporated into the treasury management systems and procedures which are independently tested on a regular basis. No Treasury activity is without risk and the Council's in-house treasury management team continually monitor risks to ensure that adverse or unforeseen fluctuations in interest rates are avoided and security of capital sums are maintained at all times. |
| Health & Wellbeing Implications | Not applicable |
| Health and Safety Implications | Not applicable |

**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 continuing trade wars between China and US together with the uncertainty of Brexit have dominated the economic events of 2019 and look to do so for 2020. Despite these events the International Monetary Fund is forecasting that a slight recovery in world growth will occur in 2020.

**Debt (Section 3)**

Borrowing interest rates are forecasted to move upwards from their current position. Any new external borrowing will be taken to assist finance the Council's capital borrowing requirement as outlined in the 2020/23 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, Security of capital first, then Liquidity of its cash flows and finally Yields.

The Council is required to agree the lending criteria, which is primarily determined by credit ratings issued by the 3 major credit rating agencies as detailed at Appendix 3.

**Prudential Indicators and limits (Section 7 and Appendix 3)**

The Council is required to approve a set of Prudential Indicators and limits ensuring the Council's 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.

**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. 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 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:

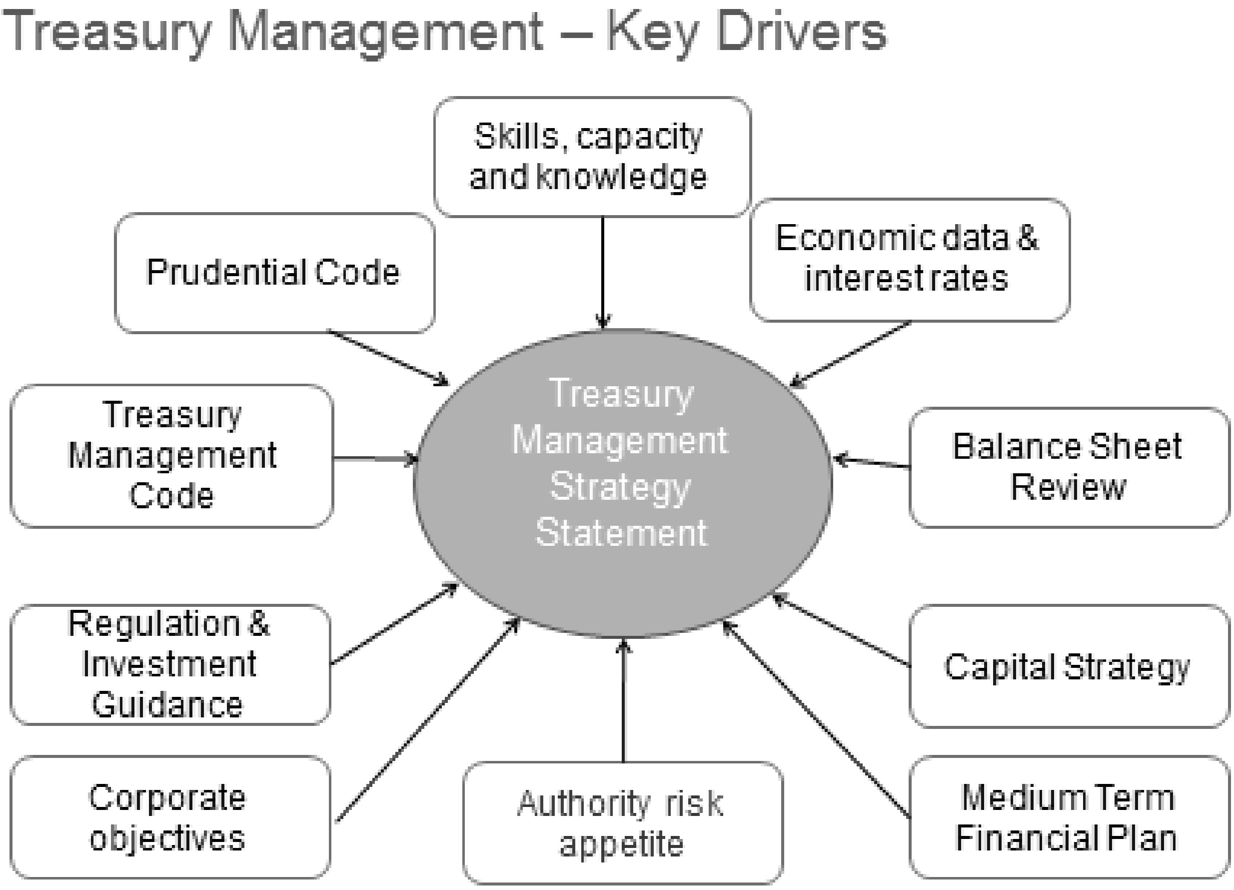
*"The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."*

1.4 In 2017 and 2019, CIPFA issued a revised Treasury Management Code of Practice and an update on Prudential Property Investment which primarily focused on non-treasury investments, particularly the purchase of property with a view to generating income. This update has clarified CIPFA's position in that it has now drawn a cleaner separation between treasury and non-treasury investments, the latter being included in the Capital Programme report.

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 usually 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 failure to provide sufficient funding when needed would result in payments not being made which could have a negative impact on the Council's reputation. In addition to this, cash balances generally result from reserves and balances and 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 For Members reference the diagram below identifies all factors which are considered in preparing the Annual Treasury Management Strategy:




1.8 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.

1.9 Each of the above 3 reports are scrutinised by the Accounts & Audit Committee before being recommended to either Executive or Council for final approval.

1.10 The In-house treasury management team will ensure that all treasury management transactions undertaken comply with the statutory requirements together with Ministry of Housing Communities & Local Government (MHCLG) Guidance and CIPFA Treasury Management Code of Practice which the Council has previously adopted. A brief outline of these frameworks is provided at Appendix 1.

1.11 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).

1.12 The Council uses Link Asset Services (LAS) as its treasury management advisors who provide a range of services on all 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 in order to acquire access to specialist skills and resources and the provision of this service is subject to regular review.

1.13 Whilst the advisors provide support to the in-house team, the Council recognises that the final decision on all treasury management matters remains with it at all times.

1.14 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), and more commercial type investments, such as investment properties. The commercial type investments require specialist advisors and the Council uses CBRE in relation to this activity.

1.15 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 aspect is further highlighted in the CIPFA Code which requires the responsible officer, Corporate Director of Finance and Systems, to ensure that Members with responsibility for treasury management receive adequate training in treasury management.

1.16 For reference Member training events were provided by the Council's in-house team and Link Asset Services in June 2019 and January 2020 and these were further supplemented with more specific training during the course of the year. Officers will continue to attend relevant courses / seminars presented by CIPFA and other suitable professional organisations with additional training for Members being provided when required.

## 2. Economic & Interest Rate forecast

2.1 During 2019 the world economic growth weakened mainly as a consequence of the continuing trade war between the US and China however economic forecasters are predicting that the outlook for world growth will strengthen from its current position during 2020.

2.2 Further details of the major economic events which occurred during 2019 and which forecasters are predicting for 2020 are outlined at Appendix 2 for reference.

2.3 LAS produces interest rate projections periodically throughout the year and the latest forecasts (November 2019) cover the period up to March 2023, are highlighted in the table below;

| Average rates | 2019-20 Forecast % | 2020-21 Forecast % | 2021-22 Forecast % | 2022-23 Forecast % |
|---|---|---|---|---|
| Bank Rate | 0.75 | 0.81 | 1.00 | 1.25 |
| Investment Rates (LIBID) | | | | |
| 3 month | 0.70 | 0.85 | 1.08 | 1.30 |
| 1 Year | 1.00 | 1.15 | 1.45 | 1.70 |
| PWLB Loan Rates | | | | |
| 5 Year | 2.35 | 2.50 | 2.83 | 3.13 |
| 25 Year | 2.63 | 3.48 | 3.78 | 4.05 |
| 50 Year | 2.45 | 3.30 | 3.68 | 3.95 |

2.4 The above interest rate forecasts have been based on an assumption that there is an agreed deal on Brexit including agreement on the terms of trade between the UK and EU. The result of the general election held in December 2019 has removed much uncertainty on this. However doubt around whether agreement can be reached with the EU on a trade deal by December 2020 remains. Until that major uncertainty has been removed it is unlikely that the MPC would move the Bank Rate.

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

## 3. Debt Strategy

3.1 The underlying need to borrow comes from the Capital Financing Requirement (CFR) and represents the level of capital expenditure incurred which has not yet been paid for by revenue or other capital resources, for example capital receipts or grants.

3.2 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 2022/23. 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.

3.3 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.

3.4 Also included within the CFR are any other long-term liabilities (e.g. Private Finance Initiative (PFI) schemes and finance leases) and whilst these increase its overall balance the Council's borrowing requirement is not increased as this type of scheme includes a borrowing facility by the PFI or lease provider. The Council currently has £5.1m (31 March 2020) liability of such schemes within the CFR which is set to fall to £4.2m by 31 March 2023 as highlighted in the table below;

| Other long-term liabilities | 2019/20 Estimate £000 | 2020/21 Estimate £000 | 2021/22 Estimate £000 | 2022/23 Estimate £000 |
|---|---|---|---|---|
| Total at 1 April | 5,319 | 5,067 | 4,799 | 4,514 |
| Expected repayment | (252) | (268) | (285) | (304) |
| Total at 31 March | 5,067 | 4,799 | 4,514 | 4,210 |

3.5 With effect from April 2020, 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.

3.6 The total of the Council's loans outstanding as at 31 December 2019 totalled £366.0m and this was made up of loans taken from the Public Works Loan Board (PWLB) £322.1m & the money market (banks & publically funded companies) £43.9m. A breakdown of this debt is provided for reference at Appendix 6.

3.7 The Council holds, as mentioned above £43.9m 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 Corporate 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. The remainder of the Market loans, £28.9m are held at fixed rates of interest.

3.8 In addition to the borrowing undertaken directly, the Council is also responsible for a further £0.4m of loan debt administered by Tameside Borough Council. This follows the conversion in February 2010 of loans previously held on behalf of Manchester International Airport into an equity rated instrument.

3.9 In line with similar practices adopted by the majority of councils, 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 low and counterparty risk is still an issue that needs to be considered. As at 31 March 2019 the Council's under borrowed position was £30.9m and this is currently set to rise by 31 March 2020 due to internal borrowing on a number of the Asset Investment Strategy investments.

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 and which is forecasted to continue for the foreseeable future. This situation however 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 no budgetary provision included within the Council's MTFP and therefore any new projects requiring borrowing will need to be self-financing.

3.12 The Corporate Director of Finance and Systems will contine to monitor interest rates and adopt a sensible approach to changing circumstances within the 2020/21 treasury operations before taking on any new debt to finance a proportion of the Council's capital investment projects or Asset Investment Strategy programme.

3.13 Based on the current positon the tables below reflect the potential level of long term external debt (loans only) the Council could have for the period 2019/20 to 2022/23 which is used to part fund its capital programme;

| **Commercial programme** | **2019/20 Estimate £000** | **2020/21 Estimate £000** | **2021/22 Estimate £000** | **2022/23 Estimate £000** |
|---|---|---|---|---|
| Total at 1 April | 91,400 | 254,922 | 454,789 | 454,652 |
| Expected repayment | (129) | (11,833) | (137) | (141) |
| New requirement | 163,651 | 211,700 | 0 | 0 |
| Total at 31 March | 254,922 | 454,789 | 454,652 | 454,511 |

| **General capital programme** | **2019/20 Estimate £000** | **2020/21 Estimate £000** | **2021/22 Estimate £000** | **2022/23 Estimate £000** |
|---|---|---|---|---|
| Total at 1 April | 129,250 | 160,791 | 158,863 | 159,685 |
| Expected repayment | (4,662) | (4,662) | (3,078) | (4,114) |
| New requirement | 36,203 | 2,734 | 3,900 | 35,450 |
| Total at 31 March | 160,791 | 158,863 | 159,685 | 191,021 |

3.14 All interest incurred on the Council's debt is charged directly to treasury management apart from where Executive have previously agreed to capitalise interest and will only be incurred on major development schemes i.e. Brown Street Hale.

3.15 In order to assist short term cash flow or finance longer term capital investment, the Council has the powers to borrow new funds from a variety of sources comprising of;

- Other local authorities,
- The Government via the Public Works Loan Board, (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 Following the decision by the PWLB on 9 October 2019 to increase their margin over gilt yields by 100 basis points (bps) to 180 bps on loans lent to Councils, it is anticipated that alternative providers of finance will enter into the market for lending to councils although this will take time to develop.

3.17 The uptake of new long term debt is done 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 In the event the Corporate Director of Finance and Systems takes out any new debt or undertakes any restructuring, this action will be processed in accordance with the Council's approved scheme of delegation and reported to Members at the earliest opportunity.

3.19 Rescheduling any of the Council's current PWLB loans is unlikely to occur as a result of the PWLB applying the 100 bps increase for new borrowing rates and not to premature debt repayment rates. As a result of this action the early repayment penalty (premium) has increased significantly making any opportunites for any debt restructuirng to occur very remote. In the unlikely event any debt rescheduling was done, it will be reported to the Members at the earliest meeting following its action.

3.20 The Council retains the flexibility to borrow funds in advance of requirement should market conditions unexpectedly change i.e. a sharp rise in interest rates is suddenly expected and 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.

3.21 No new loans will be taken ahead of schedule purely to profit from the investment of the extra sums borrowed and any borrowing taken by the Corporate 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.

3.22 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.

3.23 *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 year. This Statement details how the Council will set aside annual amounts for the repayment of debt (by reducing the CFR), through a revenue charge MRP 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 meaning of 'investments' has now been extended to include both financial and non-financial investments. This report deals solely with financial investments, (as managed by the treasury management team). Non-financial investments, essentially the Council's Asset Investment Strategy, are covered in the Capital Strategy, (a separate report).

5.2 In the continuing environment of low investment interest rates the Council is restricted in its operations to be able to generate 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 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.

5.3 The Council's in-house treasury management team places investments with reference to the outlook for short-term interest rates using monies received in advance of spend requirement and from its balances and reserves which it holds. Greater returns are usually obtainable by investing for longer periods and while most cash balances are required in order to manage the ups and downs of the Council's cash flows, where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer term investments will be carefully assessed.

5.4 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, **L**iquidity followed by **Y**ield.

5.5 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.

5.6 All of the Council's investments are undertaken in accordance with guidance issued by both the MHCLG and CIPFA and whilst investment risk will never completely be eliminated, it can be minimised. In order to reduce the risk of an institution defaulting, the Council creates and maintains a list of high creditworthy institutions which enables diversification and thereby avoids concentration risk. The key ratings used to monitor counterparties are the short term and long-term ratings.

5.7 The Council will only use institutions which are located in a country with a minimum Sovereign Long term credit rating of AA-. A list is completed by requiring that each institution included on it has been issued with minimum Long and Short term credit ratings of A- and F1 respectively or equivalent as issued by 2 of the 3 main independent rating agencies Fitch, Moody's and Standard and Poor's. These minimum requirements represent, in the opinion of the credit rating agencies, the long and short term financial strength of that institution.

5.8 Credit rating information is supplied by LAS, the Council's treasury advisors, on all active counterparties that comply with the criteria above and is available on a real time basis. Any counterparty failing to meet the criteria would immediately be omitted from the counterparty (dealing) list. 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 almost immediately after they occur and this information is considered before dealing. For instance, a negative rating Watch applying to counterparty at the minimum Council criteria will be suspended from use, with all others being reviewed in light of market conditions.

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

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

5.11 The Council's in-house treasury management team recognises ratings should not be the sole basis of determining the quality of an institution. To achieve this, the Council will with LAS, 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.

5.12 In all instances when funds are being placed, the Council's in-house team will, apart from when it places funds with other local authorities which are predominately unrated and deemed to share the same credit rating as the UK government of AA- and Money Market Funds as the Council only uses AAA+ rated funds, always ensure that the institution:

- has been issued with both a Long and Short term credit rating from 2 of the 3 main agencies,
- that the credit ratings issued meet the minimum required and the institution appears on the Council's approved list,
- has a minimum Long Term rating of AA if funds are to be placed for a period in excess of 1 year,
- that the CDS, where issued, does not show any adverse confidence in the institution and
- the rate of interest being offered is in-line with levels paid by other institutions in the market for the same period.

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

5.14 Members are asked to approve this base criteria, however the Corporate 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.

5.15 Investments will continue to be placed into three categories 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 forthcoming cash flow requirements which 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, after taking into consideration the forecasted interest rate yield curve.

5.16 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.

5.17 The largest UK banks are required by UK law, to separate core retail banking services (day to day operations) ring-fenced bank, (RFB) from their investment and international banking non-ring-fenced bank, (NRFB) activities from 1st January 2019. This is known as "ring-fencing" and is intended to ensure that the bank's core activities are not adversely affected from its more risky business. While the structure of the banks included within this process may have changed, the fundamentals of credit assessment have not and the Council will continue to assess the banks in the same way that it does with any other investment institution.

5.18 The level of the Council's investments together with the average interest rate, as at 31 December 2019, is provided for reference at Appendix 6.

5.19 *The Council is requested to approve;*

- *the adoption of the above Investment strategy and*
- *the 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%** | **0.17%** |

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 2019 the Council's default rate of its investments placed was 0.010% which is 0.04% below the 1 year benchmark of 0.05%.

- Liquidity – Weighted Average Life (WAL) - benchmark for 2020/21 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 weeks notice;
- Yield - Internal returns are aimed to achieve above the 7 day London Interbank Deposit (LIBID) rate without sacrificing any Security aspects.

## 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 *Members are requested to approve the 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 2017, 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 2020 and another payment consisting of 3 years of discounted employer contributions will be made into the fund in April 2020.

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

8.3 Whilst the above projects are policy related activities and therefore not deemed to be treasury management, their implementation will have an impact on the Council's cash flow which is considered on each occasion.

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 which expires 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 and its introduction is not envisaged to have any major impact for the Council there is 1 investment which is effected by this re-classification and that is the CCLA transaction. Whilst this investment generates an excellent 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 at worse 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 2020/21 – 2022/23 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

The Accounts & Audit Committee recommends that:

- Executive note the report and
- Council approves the Treasury Management Strategy 2020/21 – 2022/23 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 Asset Services, 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 2020

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

**Finance Officer Clearance GB**

**Legal Officer Clearance DS**

**Corporate Director's Signature**

# 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 2004 with subsequent amendments being issued periodically thereafter. This Guidance 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 ECONOMIC HEADLINES DURING 2019

**GLOBAL-**

- The International Monetary Fund issued updated forecasts for world growth at 3.2% for 2019 and 3.5% in 2020.
- The trade war between the US and China continues to impact on the major economies of the world and remains a major concern to the financial markets although Donald Trump's proposal to implement tariffs on European cars by mid-November did not materialise.
- The chance of a disruptive no-deal Brexit as the UK looks to leave the EU have dropped sharply after the UK withdrew objections to a customs border in the Irish Sea

**UK-**

- 2019 was a year of upheaval on the political front with Theresa May resigning as Prime Minister and being replaced by Boris Johnson. In December the 3rd election in 5 years took place and the outcome of this produced a Conservative Government with a working majority of 80.
- The original deadline for the UK to leave the EU of 31 March 2019 did not occur and this was extended to 31 October 2019 which was consequently extended further to 31st January 2020. Following the outcome of the December 2019 general election the Government has a large overall majority and this deal will be passed by this latest date however much uncertainty remains as to the outcome of any trade negotiations.
- Economic growth has been at its slowest annual rate in almost a decade due to the uncertainty from Brexit with a recession only being avoided in quarter 3 when growth was reported at 0.3%. Annual growth is projected to be 1.4% year on year (y/y) for 2019.
- Consumer Price Index (CPI) which started the year off at 1.8% peaked in April and July at 2.1% slightly above the Bank of England's target of 2% before falling to 1.5% in October.
- The Monetary Policy Committee, (MPC) left the Bank Rate unchanged at 0.75% with any potential future movements subject to the outcome of Brexit.
- Unemployment fell from an opening position to 4.0% to 3.8% in September despite the slowdown in growth. Wage inflation also edged down slightly from a high point of 3.9% to 3.8% in August.

**Eurozone** –

- Growth in the economy was 0.4% in quarter 1 falling back to 0.2% in quarters 2 & 3 and the level of annual growth for 2019 is expected to be in the region of nearly 1.2% y/y.
- The European Central Bank (ECB) ended its programme of quantitative easing purchases of debt in December 2018 however at its September meeting it cut the deposit rate further from -0.4% to -0.5% and announced a resumption of quantitative easing purchases of debt.
- CPI started the year off at 1.0% peaking at 1.7% in April before falling to 0.7% in October the lowest level since November 2016.

- Unemployment fell from an opening position of 7.8% to 7.5% in September 2019, the lowest level since July 2008.

**US –**

- The annual economic rate of growth has slowed in 2019 from the 2018 position of 3.0% and is currently forecasted to be 2.2% for the year.
- Unemployment fell from an opening position of 4.0% in January to 3.6% in October which was a minor increase from the September low of 3.5%.
- CPI inflation fell to 1.5% in February from an opening position off 1.6% then peaked at 2.0% in April before falling back to 1.8% in October.
- The increase in interest rates in December 2018 by The Fed taking them to between 2.25% and 2.50% was the last and in July and September rates were cut by 0.25% on each occasion to 1.75% - 2.00%. A further cut of 0.25% is currently forecast to take place in December.
- The trade war between the US and China continues to depress world growth and this has been seen to have a negative impact in investor confidence.

**Other** –

- China's economic growth for 2019 is forecasted to grow by 6% y/y, the lowest level since 1992 due to the impact of the continuing trade wars with US and domestic issues.
- Japan's economy, the 3rd largest in the world is estimated to have grown by 1% in 2019 although the county's government debt is at 224% of GDP. For comparison, the equivalent position for the UK is 85.9%.

## MAIN ECONOMIC FORECASTS FOR 2020

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

| Indicator | UK | Eurozone | US | China |
|---|---|---|---|---|
| **Growth Domestic Product** | 1.0% | 1.1% | 2.0% | 5.8% |
| **Consumer Price Index** | 2.3% | 1.2% | 2.0% | 2.0% |
| **Unemployment Rate** | 3.8% | 7.3% | 3.9% | 4.0% |
| **Bank Rate** | 0.75% | 0.0% | 1.50% | 3.50% |

Source - Trading Economics & Organisation for Economic Co-operation and Development

**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 2020/21 – 2022/23 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;

| | 2019/20 estimate £m | 2020/21 estimate £m | 2021/22 estimate £m | 2022/23 estimate £m |
|---|---|---|---|---|
| **Authorised Limit for External debt** | | | | |
| - Non-Commercial | 185.0 | 185.0 | 185.0 | 215.0 |
| - Asset Investments | 300.0 | 500.0 | 500.0 | 500.0 |
| - Other long term Liabilities (PFI) | 5.5 | 5.0 | 5.0 | 5.0 |
| **Total** | **490.5** | **690.0** | **690.0** | **720.0** |

**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. 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.

| | 2019/20 estimate £m | 2020/21 estimate £m | 2021/22 estimate £m | 2022/23 estimate £m |
|---|---|---|---|---|
| **Operational Boundary for External debt** | | | | |
| - Non-Commercial | 170.0 | 170.0 | 170.0 | 200.0 |
| - Asset Investments | 300.0 | 500.0 | 500.0 | 500.0 |
| - Other long term Liabilities (PFI) | 5.5 | 5.5 | 5.0 | 5.0 |
| **Total** | **475.5** | **675.5** | **675.0** | **705.0** |

**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.

| | 2019/20 estimate £m | 2020/21 estimate £m | 2021/22 estimate £m | 2022/23 estimate £m |
|---|---|---|---|---|
| **Upper limit for Principal sums invested over 1 Year** | **110** | **110** | **110** | **110** |

**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 2019 were independently valued at £52.7m, the Church Commissioners Local Authorities Property Investment Fund investment of £5m and Commercial asset loan £17.6m.

| | 2019/20 estimate £m | 2020/21 estimate £m | 2021/22 estimate £m | 2022/23 estimate £m |
|---|---|---|---|---|
| **Upper limits on fixed interest rate exposure based on net debt** | **8.3** | **12.3** | **16.8** | **18.0** |
| **Upper limits on variable interest rate exposure based on net debt** | **1.0** | **2.0** | **2.1** | **2.3** |

**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 – 2020/21 to 2022/23 | Forecast (31.03.20) % | Lower limit % | Upper limit % |
|---|---|---|---|
| Under 12 months | 9 | 0 | 40 |
| 12 months to 2 years | 1 | 0 | 40 |
| 2 years to 5 years | 7 | 0 | 40 |
| 5 years to 10 years | 12 | 0 | 40 |
| 10 years to 20 years | 2 | 0 | 40 |
| 20 years to 30 years | 5 | 0 | 40 |
| 30 years to 40 years | 37 | 0 | 70 |
| 40 years and above | 27 | 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 Corporate 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 - (minor changes to policy as highlighted)**

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 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 2019 the total VRP overpayments were £0.955m and are forecasted to total £2.422m by 31.03.20.
- **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 a country with a minimum Sovereign Long term credit rating of AA-. The individual credit criteria, is highlighted below and for categories 1 to 4 and 6 this will be applied to both Specified and Non-specified investments. Category 5 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** –<br>• UK & Non UK Banks (bank subsidiaries must have a parent guarantee in place),<br>• UK Building Societies<br>Institutions must also have an individual minimum short term credit rating of – Fitch F1 or equivalent. | AA to AAA<br><br>A+ to AA-<br><br>A- to A | £75m<br><br>£25m<br><br>£10m | 3yrs<br><br>1yr<br><br>1yr |
| **Category 2** –<br>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 3** –<br>The Council’s own banker for transactional purposes if the bank falls below the above criteria. | - | n/a | 1day |
| **Category 4** –<br>• Pooled Investment Vehicles:<br>➢ Money Market Funds<br>➢ Ultra-Short Dated Bond Funds<br>➢ Social & Ethical funds | <br><br>AAA<br>AA<br>- | (previously £100m per fund)<br>(£20m per fund)<br>(£15m per fund)<br>(£5m per fund) | <br><br>3yrs<br>3yrs<br>10yrs |

| | | | |
|---|---|---|---|
| | **Fitch (or equivalent) – Long Term** | **Maximum Group Limit** | **Maximum Time Limit** |
| **Category 4 cont.** –<br>• UK Government (including treasury bills, gilts and the DMO)<br>• Local Authorities<br>• Supranational Institutions | -<br><br>-<br>- | (£20m)<br><br>(£10m per LA)<br>(£20m) | 3yrs<br><br>3yrs<br>1yrs |
| **Category 5 –**<br>• Local Authority Property Investment fund | - | £10m | 10yrs |
| **Category 6 –**<br><br>• Support the Asset Investment Strategy | - | (previously £25m)<br>£50m | 5yrs |

**Specified and Non Specified Investments – (no change)**

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. All investments can be held under this definition,
- 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 £110m is permitted to be held in this classification as detailed in Appendix 3, Prudential Indicator (5) 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**

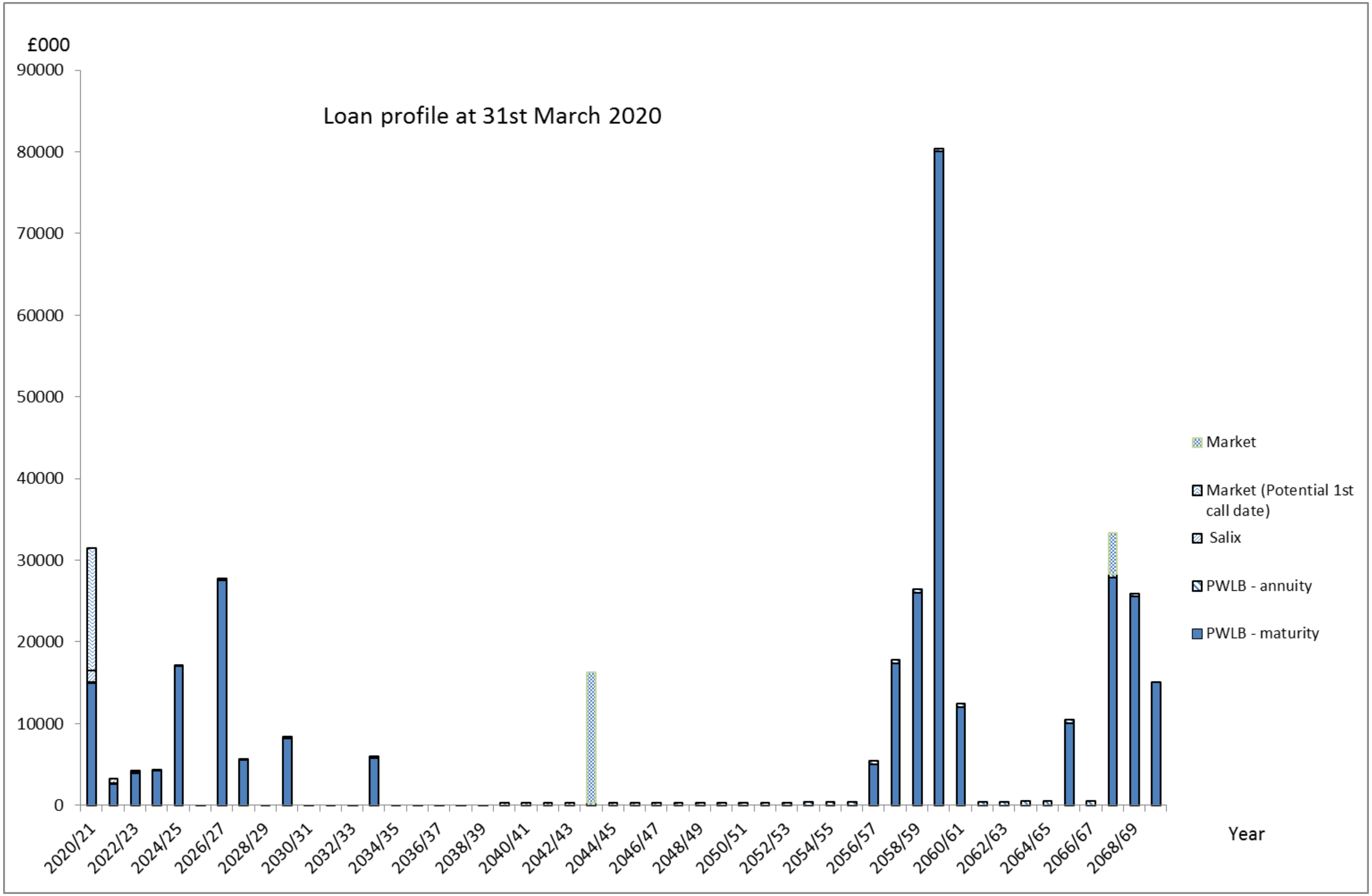
| **Investment** | **Maximum Maturity** |
|---|---|
| **The UK Government** including Local Authorities and Debt Management Office. | 1 Year |
| **Supranational bonds** of less than one year duration (e.g. International Monetary Fund) | 1 Year |

| Investment cont. | Maximum Maturity |
|---|---|
| **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**

| Investment | 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).<br>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 detailed in Appendix 3, for deposits with a maturity of greater than one year (including forward deals in excess of 1 year from inception to repayment). | 3 Years |
| **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 |

| Investment | Maximum Maturity |
|---|---|
| **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 £52.7m as reported in the 2018/19 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 |
| **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 Strategy -** where external borrowing to support the investment would not be in accordance with the CIPFA Prudential Code. | 5 Years |


£000
Loan profile at 31st March 2020
90000
80000
70000
60000
50000
40000
30000
20000
10000
0
2020/21
2022/23
2024/25
2026/27
2028/29
2030/31
2032/33
2034/35
2036/37
2038/39
2040/41
2042/43
2044/45
2046/47
2048/49
2050/51
2052/53
2054/55
2056/57
2058/59
2060/61
2062/63
2064/65
2066/67
2068/69
Year
Market
Market (Potential 1st call date)
Salix
PWLB - annuity
PWLB - maturity

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 2018. 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% | 0.36% |
| **AA** | 0.02% | 0.04% | 0.09% | 0.17% | 0.24% |
| **A** | 0.05% | 0.14% | 0.26% | 0.40% | 0.56% |
| **BBB** | 0.15% | 0.42% | 0.73% | 1.10% | 1.47% |
| **BB** | 0.68% | 1.92% | 3.34% | 4.73% | 5.95% |
| **B** | 2.80% | 6.78% | 10.40% | 13.48% | 15.85% |
| **CCC** | 18.82% | 26.40% | 31.62% | 35.13% | 38.19% |

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 2019**

| | **Principal £m** | **Average Rate %** |
|---|---|---|
| **DEBT** | | |
| | | |
| **Commercial Programme** | | |
| Fixed rate: | | |
| - PWLB | 200.8 | 2.23 |
| ***Sub-total*** | ***200.8*** | ***2.23*** |
| **General Capital Programme** | | |
| Fixed rate: | | |
| - PWLB | 121.3 | 3.08 |
| - Market | 23.9 | 4.21 |
| ***Sub-total*** | ***144.5*** | ***3.28*** |
| **Variable rate**: | | |
| - PWLB | 0.0 | 0.0 |
| - Market | 15.0 | 4.24 |
| ***Sub-total*** | ***15.0*** | ***4.24*** |
| **Temporary – cash flow** | | |
| **Fixed rate:** | | |
| - Market | 5.0 | 0.67 |
| ***Sub-total*** | ***5.0*** | ***0.67*** |
| | | |
| **Total debt** | **366.0** | **2.70** |
| **INVESTMENTS** | | |
| | | |
| **Internally managed** | | |
| Fixed rate | (79.1) | 0.98 |
| Variable rate | (14.3) | 0.80 |
| ***Sub-total*** | **(93.4)** | **0.95** |
| **Externally managed** | | |
| Church Commissioners Local Authority | (5.0) | 4.77 |
| Asset Investment Programme | (17.6) | n/a |
| ***Sub-total*** | **(22.6)** | **3.98** |
| | | |
| **Total Investments** | **(116.0)** | **1.54** |
| | | |
| **NET ACTUAL DEBT** | **250.0** | |

**APPENDIX 7**

## SUMMARY MEDIUM FINANCIAL PLAN 2020/21-2022/23

### Non-Treasury items

| | 2020/21 £000 | 2021/22 £000 | 2022/23 £000 |
|---|---|---|---|
| **EXPENDITURE** | | | |
| Loan Interest | 4,476 | 4,270 | 3,664 |
| Loss of Investment interest | 791 | 856 | 99 |
| MRP | 2,156 | 2,159 | 2,163 |
| Sub-total | 7,423 | 7,286 | 5,926 |
| **RECHARGES** | | | |
| Sub-total | (7,423) | (7,286) | (5,926) |
| **NET TOTAL** | 0 | 0 | 0 |

### Treasury items

| | 2020/21 £000 | 2021/22 £000 | 2022/23 £000 |
|---|---|---|---|
| **EXPENDITURE** | | | |
| Loan Interest | 4,765 | 4,753 | 5,329 |
| MRP | 5,337 | 5,525 | 6,420 |
| Premium | 548 | 548 | 548 |
| Other – Sale PFI interest etc. | 393 | 380 | 367 |
| Sub-total | 11,043 | 11,206 | 12,664 |
| **INVESTMENTS** | | | |
| Interest | (1,599) | (1,262) | (869) |
| MAG | (7,765) | (7,832) | (7,832) |
| Sub-total | (9,364) | (9094) | (8,701) |
| **RECHARGES** (ex. Non-treasury) | | | |
| Sub-total | (143) | (143) | (1,995) |
| **NET TOTAL** | **1,536** | **1,969** | **1,968** |

**APPENDIX 8**

## NON-TREASURY ACTIVITIES

Details of the actual spend incurred on the Council's non-treasury activities undertaken as at 31st December 2019 are outlined below:

| Description | Total £m | Purpose |
|---|---|---|
| **General** | | |
| Manchester Airport Group | 19.9 | Regeneration – 2 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** | **20.8** | |
| **Asset Investment Property** | | |
| Sonova House - Warrington | 12.2 | |
| DSG - Preston | 17.4 | |
| The Grafton Centre - Altrincham | 10.8 | |
| Magistrates Courts - Sale | 4.1 | |
| Walthew House Lane - Wigan | 13.9 | |
| Sainsbury's Altrincham | 25.6 | |
| Former Sorting Office - Stretford | 0.8 | |
| The Crescent - Salford | 28.6 | |
| Project Devonshire - Manchester | 60.0 | |
| Altrincham & Stretford Shopping Malls -<br>Equity contribution<br>Trafford / Bruntwood loan | <br><br>25.3<br>25.3 | |
| K Site Old Trafford -<br>Equity contribution<br>Trafford / Bruntwood loan | <br>10.5<br>10.5 | |
| Brown Street Hale | 2.3 | |
| **Sub-total** | **247.3** | |
| **TOTAL** | **268.1** | |