APPENDIX F

The Nottinghamshire Office of the Police & Crime Commissioner

Draft

Treasury Management Strategy

Minimum Revenue Provision Policy Statement and Annual Investment Strategy

2021-22

Contents

1. INTRODUCTION

1.1 Background

The Nottinghamshire Office of the Police and Crime Commissioner (NOPCC) is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Police and Crime Commissioner's low risk appetite, providing adequate liquidity initially before considering investment return.

The second main function of the treasury management service is the funding of the Commissioner's capital plans. These capital plans provide a guide to borrowing need, and longer term cash flow planning to ensure that the NOPCC can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans. If advantageous debt previously borrowed may be restructured to meet NOPCC risk or cost objectives.

The responsible officer for treasury management is the Chief Finance Officer to the Police & Crime Commissioner (CFO). CIPFA defines treasury management as:

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

1.2 Reporting requirements

The Commissioner is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of polices, estimates and actuals.

Prudential and treasury indicators and treasury strategy (this report) - The first and most important report covers:

- the capital plans (see also the strategy report), prudential indicators and borrowing plans
- a minimum revenue provision (MRP) policy, (how residual capital expenditure is charged to revenue over time)
- the treasury management strategy, (how the investments and borrowings are to be organised) including treasury indicators; and
- an investment strategy (the parameters on how investments are to be managed)

A mid-year treasury management report – This is primarily a progress report and will update the Commissioner on the capital position, amending prudential indicators as necessary. It also monitors whether the treasury activity is meeting the strategy and whether any policies require revision.

An annual treasury report – This is a backward looking review document and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

A detailed capital strategy report – contained in a separate report.

Scrutiny
The responsibility for scrutiny lies with the Commissioner supported by the Audit and Scrutiny Panel. The above reports are reviewed at the Strategic Resources and Performance meetings of the Commissioner.

The values within the strategy have been rounded appropriately, and the extent of rounding is clearly labelled. This rounding will in some cases cause a note to be apparently mathematically incorrect.

1.3 Treasury Management Strategy 2021-22

The strategy covers two main areas:

Capital issues
- capital expenditure plans and the associated prudential indicators;
- the minimum revenue provision (MRP) policy

Treasury management issues
- the current treasury position
- treasury indicators which limit the treasury risk and activities of NOPCC
- prospects for interest rates
- the borrowing strategy
- policy on borrowing in advance of need
- debt rescheduling
- the investment strategy
- creditworthiness policy
- the policy on use of external service providers

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

1.4 Treasury management consultants

NOPCC uses Link Group, Treasury Solutions as its external treasury management advisors.

NOPCC recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external advisors. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisers.

It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The CFO will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

1.5 Training

The CIPFA Code requires that the responsible officer ensures that relevant personnel receive adequate training in treasury management. This especially applies to the Commissioner who is responsible for scrutiny. Training for the Commissioner was formally delivered in March 2014, and the Chief Financial Officer to the Commissioner (CFO) has provided subsequent updates. The training needs of treasury management officers are periodically reviewed.

2. THE CAPITAL PRUDENTIAL INDICATORS 2021-22 to 2025-26

The Commissioner's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, to give an overview and confirm capital expenditure plans. Full information regarding capital expenditure plans is included within the separate capital strategy report and capital programme report.

2.1 Capital expenditure

This prudential indicator is a summary of the Commissioner's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle.

The Commissioner is asked to approve the capital expenditure forecasts.

The table below summarises the capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a net financing need.

Capital Expenditure	2019-20 Actual £m	2020-21 Forecast £m	2021-22 Estimate £m	2022-23 Estimate £m	2023-24 Estimate £m	2024-25 Estimate £m	2025-26 Estimate £m
Assets	4.658	19.624	21.595	4.213	2.174	2.240	2.308
IS	2.917	4.253	3.303	1.775	2.348	0.774	0.144
Fleet	0.215	0.933	2.361	2.422	2.308	2.430	2.498
Other	0.248	0.187					
Capital Programme	**8.038**	**24.997**	**27.259**	**8.410**	**6.830**	**5.444**	**4.950**
Financed by:							
Capital Receipts	(0.364)	(2.173)	(2.464)	(1.197)	(2.656)	(1.204)	(0.642)
Capital Grants	(0.787)	(0.200)	(0.200)	0.000	0.000	0.000	0.000
Capital Contributions	(0.042)	(0.975)	(2.490)	(0.047)	0.000	0.000	0.000
Direct Revenue Financing	0.000	(4.500)	(4.000)	0.000	0.000	0.000	0.000
Capital Reserve	(1.300)	(0.171)	(5.935)	(0.503)	0.000	0.000	0.000
Net Financing need	**5.545**	**16.978**	**12.170**	**6.663**	**4.174**	**4.240**	**4.308**

2.2 Commissioner's borrowing need (Capital Financing Requirement)

The second prudential indicator is the Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure, which has not yet been financed from either revenue or capital resources. It is essentially a measure of the underlying borrowing need. Any capital expenditure above, which has not immediately been financed, will increase the CFR.

The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge, which broadly reduces the borrowing need in line with each asset's life.

The CFR includes any other long term liabilities (e.g. PFI schemes and finance leases). Whilst these increase the CFR, and therefore the borrowing requirement, these types of scheme include a borrowing facility by the provider and so the Commissioner is not required to separately borrow for these schemes.

The Commissioner is asked to approve the CFR projections below:

Capital Financing Requirement (CFR)	2019-20 Actual £m	2020-21 Forecast £m	2021-22 Estimate £m	2022-23 Estimate £m	2023-24 Estimate £m	2024-25 Estimate £m	2025-26 Estimate £m
Total CFR	63.606	77.196	85.204	87.043	86.007	85.273	84.365
Movement in CFR	2.382	13.590	8.008	1.840	(1.036)	(0.735)	(0.907)

Movement in CFR represented by	2019-20 Actual £m	2020-21 Forecast £m	2021-22 Estimate £m	2022-23 Estimate £m	2023-24 Estimate £m	2024-25 Estimate £m	2025-26 Estimate £m
Net financing need for the year (above)	5.545	16.978	12.170	6.663	4.174	4.240	4.308
Less MRP/VRP and other financing movements	0.000	(3.388)	(4.162)	(4.823)	(5.210)	(4.975)	(5.215)
Movement in CFR	5.545	13.590	8.008	1.840	(1.036)	(0.735)	(0.907)

N.B. The code does not require the reporting of estimated downward movements to CFR, but this information is included for completeness.

2.3 Minimum Revenue Provision (MRP) policy statement

NOPCC is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the minimum revenue provision - MRP). Additional voluntary payments are also allowed (voluntary revenue provision – VRP). Payments included in annual PFI or finance leases are applied as MRP.

A change introduced by the revised MHCLG MRP Guidance was the allowance that any charges made over the statutory minimum revenue provision (MRP), voluntary revenue provision or overpayments, can, if needed, be reclaimed in later years if deemed necessary or prudent. In order for these sums to be reclaimed for use in the budget, this policy must disclose the cumulative overpayment made each year.

The additional provision that has been made to date is shown in the table below:

Additional Revenue Provision	£m
2016-17	0.750
2017-18	0.250
Total Additional Provision	1.000

Ministry of Housing,Communities and Local Government (MHCLG) regulations have been issued, which require the Commissioner to approve an MRP Statement in advance of each year. A variety of options are available to the Commissioner, as long as there is a prudent provision. No change is proposed from last year.

The Commissioner is recommended to approve the following MRP Statement:

The Commissioner will set aside an amount for MRP each year, which is deemed to be both prudent and affordable. This will be after considering statutory requirements and relevant guidance from the MHCLG.

2.4 Core funds and expected investment balances

The application of resources (capital receipts, grants, reserves etc.) to either finance capital or revenue expenditure, will reduce investments unless resources are supplemented each year from new sources (asset sales, revenue underspends, etc). Detailed below are estimates of the year end resource balances and anticipated day to day cash flow balances:

	2019-20 Actual £m	2020-21 Forecast £m	2021-22 Estimate £m	2022-23 Estimate £m	2023-24 Estimate £m	2024-25 Estimate £m	2025-26 Estimate £m
Fund balances/Reserves	26.117	27.461	20.706	20.301	20.368	20.435	20.502
Capital Receipts	4.882	4.269	6.905	5.708	3.052	1.848	1.206
Provisions	4.160	4.160	4.160	4.160	4.160	4.160	4.160
Other	(3.026)	(3.026)	(3.026)	(3.026)	(3.026)	(3.026)	(3.026)
Total Core funds	**32.133**	**32.864**	**28.745**	**27.143**	**24.554**	**23.417**	**22.842**
Working Capital*	**1.640**	**1.640**	**1.640**	**1.640**	**1.640**	**1.640**	**1.640**
(Under)/Over borrowing	**(7.553)**	**(18.358)**	**(17.992)**	**(16.623)**	**(12.954)**	**(12.611)**	**(12.060)**
Expected Investments	**26.220**	**16.146**	**12.393**	**12.160**	**13.240**	**12.446**	**12.422**

*Working capital balances shown are estimated year-end; these may be higher mid-year

2.5 Affordability

The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Commissioners overall finances.

The Commissioner is requested to approve the following indicators:

2.6 Ratio of financing costs to net revenue stream

This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream. This indicator is not a mandatory indicator under the revised code, but it has been reviewed and considered a good indication of the commitment from capital spending.

The estimates of financing costs include commitments and a reasonable assessment of forthcoming capital proposals.

Ratio	2019-20 Actual	2020-21 Forecast	2021-22 Estimate	2022-23 Estimate	2023-24 Estimate	2024-25 Estimate	2025-26 Estimate
	1.9%	2.0%	2.3%	2.7%	2.8%	2.7%	2.8%

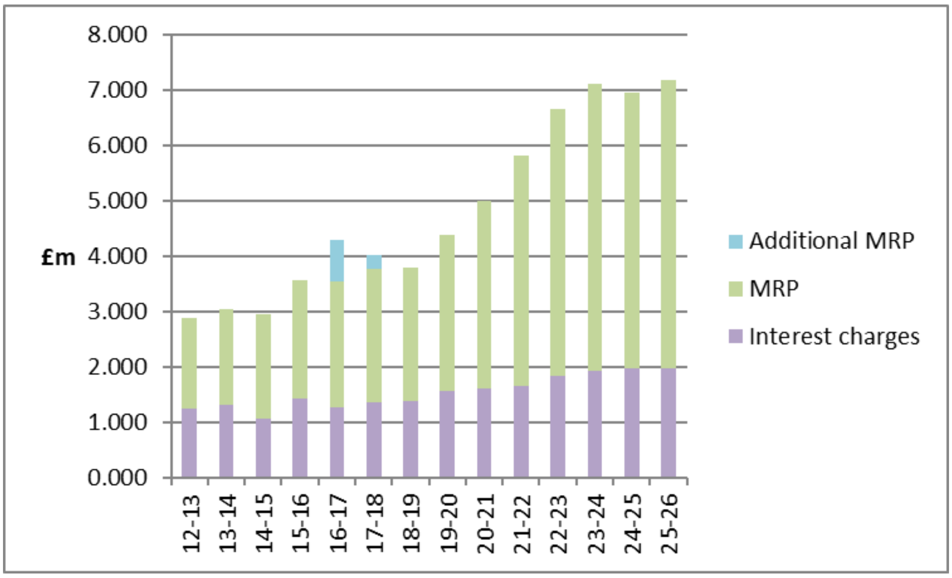
2.7 Incremental impact of capital investment decisions on council tax

This indicator identifies the revenue costs associated with a reasonable assessment of forthcoming capital proposals, compared to the Commissioners existing approved commitments and current plans. The assumptions are based on current plans, but will invariably include some estimates, such as the level of Government support, which is not published over a three year period. Again this indicator is not a mandatory indicator under the revised code, but it has been reviewed and considered a good indicator of the commitment from capital spending.

Incremental impact of capital investment decisions on the band D council tax

Ratio	2020-21 Estimate	2021-22 Estimate	2022-23 Estimate	2023-24 Estimate	2024-25 Estimate	2025-26 Estimate
	£0.13	£2.54	£5.41	£7.04	£8.15	£9.06

The graph below shows the financial impact of capital expenditure and borrowing on the Revenue Account:


8.000
7.000
6.000
5.000
£m 4.000
3.000
2.000
1.000
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12-13
13-14
14-15
15-16
16-17
17-18
18-19
19-20
20-21
21-22
22-23
23-24
24-25
25-26
Additional MRP
MRP
Interest charges

3. BORROWING

The treasury management function ensures that the Commissioners cash is organised in accordance with the the relevant professional codes, so that sufficient cash is available to meet the capital expenditure plan summarised in Section 2. This will involve both the organisation of the cash flow, including the arrangement of borrowing as approporiate. The strategy covers the relevant treasury/prudential indicators, the current and projected debt positions and the annual investment strategy.

3.1 Current portfolio position

The Commissioners borrowing portfolio position at March 2019, with forward projections is summarised below. The table shows external debt against the underlying capital borrowing need (the Capital Financing Requirement – CFR), highlighting any over or under borrowing.

	2019-20 Actual £m	2020-21 Estimate £m	2021-22 Estimate £m	2022-23 Estimate £m	2023-24 Estimate £m	2024-25 Estimate £m	2025-26 Estimate £m
External Debt							
Debt at 1 April	46.349	59.395	58.838	67.212	70.420	73.053	72.662
New Borrowing	14.000	3.000	12.170	6.663	4.174	4.240	4.308
Borrowing Repaid	(0.954)	(3.557)	(3.796)	(3.455)	(1.541)	(4.631)	(4.665)
Movement in Borrowing	13.046	(0.557)	8.374	3.208	2.633	(0.391)	(0.357)
Debt as at 31 March	**59.395**	**58.838**	**67.212**	**70.420**	**73.053**	**72.662**	**72.305**
Capital Financing Requirement	63.606	77.196	85.204	87.043	86.007	85.273	84.365
Other longterm liabilities	3.342	0.000	0.000	0.000	0.000	0.000	0.000
Underlying Borrowing Need	66.948	77.196	85.204	87.043	86.007	85.273	84.365
Under/(over) borrowing	**7.553**	**18.358**	**17.992**	**16.623**	**12.954**	**12.611**	**12.060**
Investments	26.220	16.146	12.393	12.160	13.240	12.446	12.422
Net Debt	**33.175**	**42.692**	**54.819**	**58.260**	**59.813**	**60.216**	**59.883**

Within the prudential indicators there are a number of key indicators to ensure that activities operate within well defined limits. One of these is that the Commissioner needs to ensure that his gross debt does not (except in the short term), exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2020-21 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.

The CFO reports that this prudential indicator will be complied with in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this budget report.

3.2 Treasury Indicators - Limits to borrowing activity

Operational boundary. This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR.

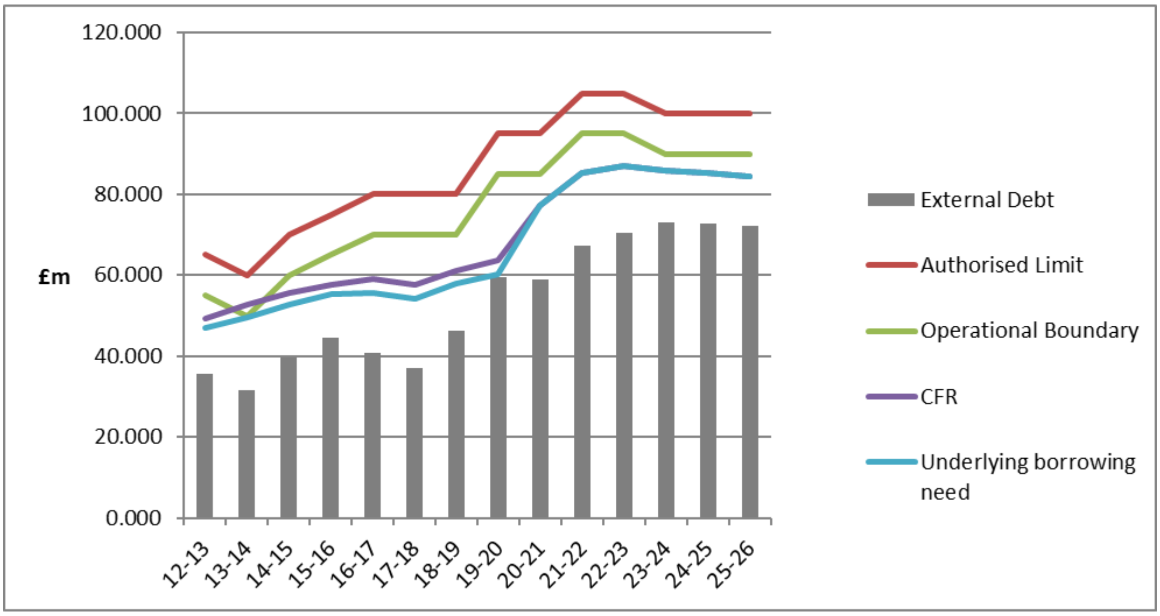
Operational Boundary	2020-21 £m	2021-22 £m	2022-23 £m	2023-24 £m	2024-25 £m	2025-26 £m
	85.000	95.000	95.000	90.000	90.000	90.000

Authorised limit. A further key prudential indicator representing a control on the maximum level of borrowing. This is a limit beyond which external debt is prohibited, and this limit needs to be set or revised by the Commissioner. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

The Commissioner is requested to approve the following authorised limit:

Authorised Limit	2020-21 £m	2021-22 £m	2022-23 £m	2023-24 £m	2024-25 £m	2025-26 £m
	95.000	105.000	105.000	100.000	100.000	100.000

The graph below shows CFR and debt figures from paragraphs 2.2 and 3.1 compared with relevant borrowing limits.



3.3 Prospects for interest rates and economic background

One of the services provided by Link Asset Services is to assist the Commissioner in formulating a view on interest rates. The table below gives the view as at 9th November 2020.

Link Group Interest Rate View	9.11.20													
	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
BANK RATE	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
6 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
12 month ave earnings	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20
5yr PWLB	1.80	1.80	1.80	1.80	1.80	1.90	1.90	1.90	1.90	1.90	2.00	2.00	2.00	2.00
10 yr PWLB	2.10	2.10	2.10	2.10	2.20	2.20	2.20	2.30	2.30	2.30	2.30	2.30	2.30	2.30
25 yr PWLB	2.50	2.50	2.60	2.60	2.60	2.60	2.70	2.70	2.70	2.70	2.80	2.80	2.80	2.80
50 yr PWLB	2.30	2.30	2.40	2.40	2.40	2.40	2.50	2.50	2.50	2.50	2.60	2.60	2.60	2.60

The coronavirus outbreak has done huge economic damage to the UK and economies around the world. After the Bank of England took emergency action in March to cut Bank Rate to first 0.25%, and then to 0.10%, it left Bank Rate unchanged at its subsequent meetings to 5th November, although some forecasters had suggested that a cut into negative territory could happen. However, the Governor of the Bank of England has made it clear that he currently thinks that such a move would do more damage than good and that more quantitative easing is the favoured tool if further action becomes necessary. As shown in the forecast table above, no increase in Bank Rate is expected in the forecast table above as economic recovery is expected to be only gradual and, therefore, prolonged.

As the interest forecast table for PWLB certainty rates above shows, there is expected to be little upward movement in PWLB rates over the next two years as it will take economies, including the UK, a prolonged period to recover all the momentum they have lost in the sharp recession caused during the coronavirus shut down period. From time to time, gilt yields, and therefore PWLB rates, can be subject to exceptional levels of volatility due to geo-political, sovereign debt crisis, emerging market developments and sharp changes in investor sentiment, (as shown on 9th November when the first results of a successful COVID-19 vaccine trial were announced). Such volatility could occur at any time during the forecast period.

Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

- **UK** - further national lockdowns or severe regional restrictions in major conurbations during 2021.
- **UK/EU trade negotiations** – if it were to cause significant economic disruption and downturn in the rate of growth.

- **UK - Bank of England** takes action too quickly, or too far, over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- A resurgence of the **Eurozone sovereign debt crisis**. The ECB has taken monetary policy action to support the bonds of EU states, with the positive impact most likely for "weaker" countries. In addition, the EU agreed a €750bn fiscal support package. These actions will help shield weaker economic regions for the next year or so. However, in the case of Italy, the cost of the virus crisis has added to its already huge debt mountain and its slow economic growth will leave it vulnerable to markets returning to taking the view that its level of debt is unsupportable. There remains a sharp divide between northern EU countries favouring low debt to GDP and annual balanced budgets and southern countries who want to see jointly issued Eurobonds to finance economic recovery. This divide could undermine the unity of the EU in time to come.
- Weak capitalisation of some **European banks**, which could be undermined further depending on extent of credit losses resultant of the pandemic.
- **German minority government & general election in 2021**. In the German general election of September 2017, Angela Merkel's CDU party was left in a vulnerable minority position dependent on the fractious support of the SPD party, as a result of the rise in popularity of the anti-immigration AfD party. The CDU has done badly in subsequent state elections but the SPD has done particularly badly. Angela Merkel has stepped down from being the CDU party leader but she intends to remain as Chancellor until the general election in 2021. This then leaves a major question mark over who will be the major guiding hand and driver of EU unity when she steps down.
- **Other minority EU governments**. Austria, Sweden, Spain, Portugal, Netherlands, Ireland and Belgium also have vulnerable minority governments dependent on coalitions which could prove fragile.
- **Austria, the Czech Republic, Poland and Hungary** now form a strongly anti-immigration bloc within the EU. There has also been a rise in anti-immigration sentiment in Germany and France.
- **Geopolitical risks**, for example in China, Iran or North Korea, but also in Europe and other Middle Eastern countries, which could lead to increasing safe haven flows.

Upside risks to current forecasts for UK gilt yields and PWLB rates

- **UK -** stronger than currently expected recovery in UK economy, especially if effective vaccines are administered quickly to the UK population and lead to a resumption of normal life and a return to full economic activity across all sectors of the economy.

- **Post-Brexit** – if an agreement was reached that removed the majority of threats of economic disruption between the EU and the UK.
- The **Bank of England is too slow** in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to build up too strongly within the UK economy, which then necessitates a later rapid series of increases in Bank Rate faster than we currently expect.

Investment and borrowing rates

- **Investment returns** are likely to remain exceptionally low during 2021/22 with little increase in the following two years.
- **Borrowing interest rates** fell to historically very low rates as a result of the COVID crisis and the quantitative easing operations of the Bank of England: indeed, gilt yields up to 6 years were on negative yields during most of the first half of 20/21.

While the NOPCC will not be able to avoid borrowing to finance new capital expenditure, replace maturing debt or avoid the complete rundown of reserves, there will be a cost of carry, (the difference between higher borrowing costs and lower investment returns), to any new short or medium-term borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost.

Against this background and the risks within the economic forecast, caution will be adopted with the 2021-22 treasury operations. The CFO will monitor interest rates and financial markets and adopt a pragmatic approach to changing circumstances.

Treasury Management limits on activity

There are three debt related treasury activity limits. The purpose of these are to constrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set too restrictively they will impair the opportunities to reduce costs/improve performance.

The indicators are:
Upper limits on variable interest rate exposure. This identifies a maximum limit for variable interest rates based upon the debt position net of investments
Upper limits on fixed interest rate exposure. This gives a maximum limit on fixed interest rates;
Maturity structure of borrowing. These gross limits are set to reduce the exposure to large fixed rate sums falling due for refinancing.

APPENDIX F

The Commissioner is requested to approve the following treasury indicators and limits:

Upper Interest rate exposures 2021-22 to 2023-24		
Limits on fixed interest rates: • **Debt only** • **Investments only**		 100% 100%
Limits on variable interest rates • **Debt only** • **Investments only**		 50% 100%
Maturity structure of fixed interest rate borrowing 2021-22 to 2023-24		
	Lower	**Upper**
Under 12 months	0%	30%
12 months to 2 years	0%	40%
2 years to 5 years	0%	50%
5 years to 10 years	0%	70%
10 years and above	0%	100%

3.4 Policy on borrowing in advance of need

NOPCC will not borrow more than, or in advance of its needs purely in order to profit from the investment of extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the security of such funds is considered.

Borrowing in advance will be made within the following constraints:

- It will be limited to no more than 50% of the expected increase in borrowing need (CFR) over the three year planning period
- Would not be more than 18 months in advance of need

Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

3.5 Debt rescheduling

Rescheduling of current borrowing in our debt portfolio is unlikely to occur as the 100 bps increase in PWLB rates only applied to new borrowing rates and not to premature debt repayment rates.

Following the decision by the PWLB on 9th October 2019 to increase their margin over gilt yields by 100 bps to 180 basis points on loans lent to local authorities, consideration will also need to be given to sourcing funding at cheaper rates from the following:

- Local authorities (primarily shorter dated maturities)
- Financial institutions (primarily insurance companies and pension funds but also some banks, out of spot or forward dates)
- Municipal Bonds Agency (no issuance at present but there is potential)

The degree which any of these options proves cheaper than PWLB Certainty Rate is still evolving at the time of writing, but our advisors will keep us informed.

As short term borrowing rates will be considerably cheaper than longer term fixed interest rates, there may be potential opportunities to generate savings by switching from long term debt to short term debt. However, these savings will need to be compared to the cost of debt repayment (premiums incurred). Also the current treasury position needs due consideration.

The reasons for any rescheduling to take place will include:

- the generation of cash savings and/or discounted cash flow savings
- helping to fulfil the treasury strategy
- enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility)

Consideration will also be given to identify if there is any potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.

All rescheduling will be reported to the Commissioner at the earliest opportunity.

3.6 Municipal Bond Agency

It is possible that the Municipal Bond Agency, will offer loans to Local Authorities at borrowing rates lower than those offered by the Public Works Loan Board (PWLB). The Commissioner intends to make use of this new source of borrowing if rates are favourable.

4. ANNUAL INVESTMENT STRATEGY

4.1 Investment Policy

The Commissioner's investment policy has regard to the following:-

- 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

The Commissioner's investment priorities will be security first, liquidity second and then return.

In accordance with guidance from the MHCLG and CIPFA, and in order to minimise the risk to investments, the NOPCC has below clearly stipulated the minimum acceptable credit quality of counterparties for inclusion on the lending list. This enables diversification and avoids the concentration of risk. The key ratings used to monitor counterparties are the Short Term and Long Term ratings.

The aim of the strategy is to generate a list of highly creditworthy counterparties which will also enable diversification and thus avoidance of concentration risk. Therefore, providing security of investment and minimisation of risk.

Ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets, by actively engaging with advisors to maintain monitoring on market pricing such as "credit default swaps" and overlay that information on top of the credit ratings.

Other information sources used will include the financial press, share price and other such information regarding the banking sector. This allows a robust scrutiny process on investment counterparties.

At the end of the financial year, the CFO will report on the investment activity as part of the Annual Treasury Report.

4.2 Non-financial Investments Policy

Non-financial investments are essentially the purchase of income yielding assets. Currently radio masts are held and income is received for an item that is no longer operational. They were not acquired with that as a purpose, and were originally operational. The current income yield is circa £0.090m per annum. There is no intention to purchase these kinds of investments and any divergence from this would be the subject of a future report.

4.3 Creditworthiness Policy

The primary criterion is the security of investments. The liquidity (availability) of the investments is secondary consideration. The yield (return) on the investment is also a further consideration. The Commissioner will ensure that:

- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the specified and non-specified investment sections below:
- It has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the prudential indicators covering the maximum principal sums invested.

The CFO will maintain a counterparty list in compliance with the following considerations and will keep the criteria under review. It provides an overall pool of counterparties considered high quality which the Commissioner may use, rather than defining what types of investment instruments are to be used.

The lowest credit rating from the main agencies is used when considering counterparties. It is considered that this does not significantly increase risk but may widen the pool of available counter parties. Credit rating information is supplied by Link Asset Services, on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. Any rating changes, rating watches (notification of a likely change), rating outlooks (notification of a possible longer term change) are provided to officers almost immediately after they occur and this information is considered before dealing. Link Asset Services updates counterparties who qualify under the list on a daily basis.

Country and sector considerations - Due care will be taken to consider the country, group and sector exposure of the Commissioners investments. In addition to the considerations already outlined the limits in place will apply to a group of companies and sector limits will be monitored regularly for appropriateness. Investments will only be made in sterling.

Use of additional information other than credit ratings - Additional requirements under the Code requires the Commissioner to supplement credit rating information. Whilst the above criteria relies primarily on the application of credit ratings to provide a pool of appropriate counterparties for officers to use, additional operational market information will be applied before making any specific investment decision from the agreed pool of counterparties. This additional market information (for example Credit Default Swaps, negative rating watches/outlooks and relevant news articles) will be applied to compare the relative security of differing investment counterparties.

Time and monetary limits applying to all investments. The time and monetary limits for institutions on the Commissioners counterparty list are as follows: No changes are proposed. The range of values for Low Volatility Net Asset Value Funds and Ultra Short Dated Bond Funds have the lower limit being the 'normal limit' and above this being at the CFO's discretion.

	Fitch Long term Rating (or equivalent)	Money and/or % Limit	Time Limit
Banks 1 higher quality	*AAA*	£5m	1 yr
Banks 1 medium quality	*AA-*	£5m	1 yr
Banks 1 medium/lower quality	*A*	£4m	6 month
Banks 1 Lower quality	*A-*	£3m	3 months
Banks 2 – part nationalised	N/A	£5m	1yr
Additional criteria for non UK Banks			
Sovereign	AA-		
Country		25%/£5m	
Banks 3 category – Commissioners banker (not meeting Banks 1)	N/A	£5m	1 day
UK Govt - DMADF	AAA	Unlimited	6 months
Local authorities	N/A	£8m	2 yr
Low Volatility Net Asset Value Funds (LVNAV) (Used to be called Enhanced money market funds with instant access)	AAA	£12/15m	liquid
Ultra Short Dated Bond Funds (Used to be called Enhanced money market funds with notice)	AAA	£3/5m	liquid

4.4 Country Limits

The Commissioner has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of *AA-* from Fitch. For information the UK is currently rated AA-.

Approved Non UK countries for investments as at 11th November 2020

Based on lowest available rating

AAA	AA+	AA	AA-
Australia Denmark Germany Luxembourg Netherlands Norway Singapore Sweden Switzerland	Canada Finland U.S.A.	Abu Dhabi France	Belgium Hong Kong Qatar

4.5 Investment Strategy

In-house funds. Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (up to 12 months). While most cash balances are required in order to manage the ups and downs of cash flow, 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.

- If it is thought that Bank Rate is likely to rise significantly within the time horizon being considered, then consideration will be given to keeping most investments as being short term or variable.
- Conversely, if it is thought that Bank Rate is likely to fall within that time period, consideration will be given to locking in higher rates currently obtainable, for longer periods.

Investment returns expectations - Bank Rate is unlikely to rise from 0.10% for a considerable period. It is very difficult to say when it may start rising so it may be best to assume that investment earnings from money market-related instruments will be sub 0.50% for the foreseeable future.

The suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year are as follows:

Average earnings in each year	
2021-22	0.10%
2022-23	0.10%
2023-24	0.10%
2024-25	0.25%

Investment treasury indicator and limit - total principal funds invested for greater than 365 days are limited with regard to liquidity requirements and to reduce the need for early redemption.

The Commissioner is requested to approve the treasury indicator and limit:

Maximum principal sums invested > 365 days	2020-21 £m	2021-22 £m	2022-23 £m	2023-24 £m	2024-25 £m	2025-26 £m
	5.000	5.000	5.000	5.000	5.000	5.000

There are currently no funds invested for greater than 365 days. For cash flow generated balances, the CFO will seek to utilise instant access and notice accounts, LVNAVs and short-dated deposits (overnight to 100 days) in order to benefit from the compounding of interest. Ultra Short Dated Bond Funds will be used if considered appropriate by the CFO.

4.6 Investment Risk Benchmarking

These benchmarks are simple guides to maximum risk, and may be breached occasionally, depending on circumstances. The purpose of the benchmarks is that officers will 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, with supporting reasons in the mid-year or Annual Report.

Security - The Commissioner's maximum security risk benchmark for the current portfolio, when compared to these historic default tables, is 0.06% historic risk of default when compared to the whole portfolio.

Liquidity - in respect of this area the Commissioner seeks to maintain:

- Bank overdraft - avoided if possible
- Liquid short term deposits of at least £5.0m available on instant access
- Weighted average life benchmark is expected to be 1 month, with a maximum of 6 months

Yield - local measures of yield benchmarks is that investments achieve returns above the 7 day LIBID rate.

SECTION 151 OFFICER

5.1 Treasury Management Role

The S151 (responsible) officer is the Chief Financial Officer to the Commissioner and they have responsibility for the following:

- Recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance
- Submitting regular treasury management policy reports
- Submitting budgets and budget variations
- Receiving and reviewing management information reports
- Reviewing the performance of the treasury management function
- Ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function
- Ensuring the adequacy of internal audit, and liaising with external audit
- Recommending the appointment of external service providers
- Preparation of a capital strategy to include capital expenditure, capital financing and treasury management, with a long term timeframe