TREASURY MANAGEMENT STRATEGY

Gravesham Borough Council

2021 - 2022

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1.2 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 Guidance.

2. TRAINING

2.1 The CIPFA code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny. Training was last provided by officers on 2 November 2020.

2.2 The training needs of treasury management officers are periodically reviewed.

3. TREASURY MANAGEMENT CONSULTANTS

3.1 The Council currently uses Link Asset Services, Treasury Solutions as its external treasury management advisors.

3.2 The contractual arrangement with Link ran to the end of September 2020. It was originally the intention to undertake a full procurement process for the provision of Treasury Management Consultants from October 2020. However, due to the impact of Covid-19 on workloads, the practicalities of working from home and the importance of maintaining access to such a service given the resulting complex economic situation, the Section 151 Officer agreed a two year contract with Link Asset Services, Treasury Solutions, from October 2020 to September 2022, in line with Procurement Policy Note (PPN 01/20) – Responding to Covid-19.

3.3 The Council 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 services providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisers.

3.4 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 Council 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.

3.5 Link Asset Services have provided a summary on the economic background. This can be found in Appendix 1.

3.6 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 complex type investments, such as investment properties. The Council engages external consultants to provide a valuation report when purchasing an investment property. The consultants will vary depending on the nature of the property.

4. THE CAPITAL PRUDENTIAL INDICATORS 2021/22 TO 2023/24

4.1 The Council'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, which are designed to assist Members overview and confirm capital expenditure plans.

4.2 **Capital Expenditure**. This prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. Members are asked to approve the capital expenditure forecasts.

4.3 Given where the authority is in the annual budget setting process, the capital estimates on the following page are based on the latest information available. Members are asked to approve the capital expenditure forecasts and also to delegate authority to the Director (Corporate Services) in consultation with the Chair of the Finance and Audit Committee to amend the forecasts and other indicators as necessary in line with the authority's budget which will be discussed and approved by Full Council on 23 February 2021.

Capital Expenditure	2019/20 Actual £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m
Non-HRA	3.977	13.559	53.194	48.809	26.665
HRA	15.160	15.709	20.019	17.370	18.244
Commercial activities/ non-financial investments	0.000	0.000	0.000	0.000	0.000
Total	**19.137**	**29.268**	**73.213**	**66.179**	**44.909**

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

Capital Expenditure[1]	2019/20 Actual £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m
Total	**19.137**	**29.268**	**73.213**	**66.179**	**44.909**
Financed by:					
Capital receipts	4.042	4.295	3.450	3.843	4.053
Grants/Contributions	2.056	2.412	6.290	4.801	3.885
Reserves	0.552	2.311	1.570	0.807	0.692
Revenue	4.455	0.000	0.497	0.000	0.000
Major Repairs Reserve	8.032	6.567	7.812	7.332	7.509
Revenue Grants not year applied	0.000	0.661	0.155	0.000	0.000
Net financing need for the year	**0.000**	**13.022**	**53.439**	**49.396**	**28.770**

4.5 **The Council's Borrowing Need (the Capital Financing Requirement).** The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is the total historic outstanding capital expenditure that has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's indebtedness and so its underlying borrowing need. Any capital expenditure above (that has not been immediately paid for) will increase the CFR.

4.6 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 assets life, and so charges the economic consumption of capital assets as they are used.

4.7 The CFR includes any other long term liabilities (e.g. PFI schemes, finance leases). Whilst these increase the CFR, and therefore the Council's borrowing

[1] Figures subject to change when the treatment of the St George's Centre transactions has been agreed

requirement, these types of scheme include a borrowing facility and so the Council is not required to separately borrow for these schemes. The Council has £93.625m of such schemes within the CFR, which is currently shown as a finance lease in relation to the St George's Shopping Centre. However this treatment is subject to amendment and agreement with the Council's auditors prior to the effects being reflected within this document.

4.8 The Finance and Audit Committee is recommending to Council to approve the CFR projections below:

Note[2]	2019/20 Actual £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m
Capital Financing Requirement					
CFR – Non HRA	118.474	125.640	169.918	211.906	232.742
CFR – HRA	79.826	79.601	83.093	83.731	84.346
CFR – Commercial	6.437	6.300	6.164	6.027	5.890
Total CFR	**204.737**	**211.541**	**259.175**	**301.664**	**322.978**
Movement in CFR	**(5.635)**	**6.804**	**47.634**	**42.489**	**21.314**

Note[3]	2019/20 Actual £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m
Movement in CFR represented by					
New capital financing need for the year	0.000	13.022	51.172	47.341	26.618
Refinancing of HRA Debt	0.000	0.000	2.266	2.054	2.152
HRA contribution to loan repayment	(4.738)	(5.418)	(4.918)	(5.707)	(6.218)
Less MRP and other financing movements	(0.897)	(0.800)	(0.886)	(1.199)	(1.238)
Movement in CFR	**(5.635)**	**6.804**	**47.634**	**42.489**	**21.314**

4.9 A key aspect of the regulatory and professional guidance is that elected members are aware of the size and scope of any commercial activity in relation to the authority's overall financial position. The capital expenditure shown in paragraph 4.3 and the details above demonstrate the scope of this activity and, by approving these figures, consider the scale and proportionate to the Authority's remaining activity.

4.10 **Core funds and expected investment balances**. The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources

[2] Figures subject to change when the treatment of the St George's Centre transactions has been agreed
[3] Figures subject to change when the treatment of the St George's Centre transactions has been agreed

(asset sales etc.). Detailed below are estimates of the year-end balances for each resource.

	2019/20 Actual £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m
Fund Balances / Reserves (HRA and Non-HRA)	27.747	30.631	22.562	20.710	20.822
Capital receipts	12.625	10.580	11.704	13.597	13.966
Grants / Contributions	21.524	21.234	15.793	11.740	8.664
Total core funds	**61.896**	**62.445**	**50.059**	**46.047**	**43.452**

5. MINIMUM REVENUE PROVISION POLICY

5.1 The Council 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), although it is also allowed to undertake additional voluntary payments if required (voluntary revenue provision – VRP).

5.2 MHCLG regulations have been issued which require the Full Council to approve an MRP Statement in advance of each year. A variety of options are provided to councils, so long as there is a prudent provision. The Council is recommended to approve the following MRP Statement.

5.3 For capital expenditure incurred before 1 April 2008 and capital expenditure incurred on or after that date which the authority is satisfied forms part of its Supported Capital Expenditure the MRP policy will be

The Regulatory Method - Under the previous MRP regulations MRP was set at a uniform rate of 4% of the adjusted General Fund Capital Financing Requirement (CFR) i.e. adjusted for “Adjustment A” on a reducing balance method. Adjustment A was introduced to coincide with changes to the capital finance system on 1 April 2004 to ensure local authorities were not adversely affected financially by these changes. The Capital Financing Requirement is a measurement of the council’s underlying need to borrow.

5.4 From 1 April 2008 to 31 March 2020 for all unsupported borrowing the MRP policy will be:

Asset Life (Equal Instalment Method) – MRP will be based on the estimated life of assets, in accordance with the regulations. This provides for a reduction in the borrowing need over approximately the asset’s life.

5.5 From 1 April 2020, the Council considers the most appropriate MRP policy on a scheme by scheme basis, whilst ensuring a prudent approach is taken, so that sufficient sums are set aside on an annual basis which will result in cash balances being available to repay the debt on redemption.

5.6 In addition to the Equal Instalment Method detailed above, the Council may determine an MRP charge over the expected useful life of the corresponding asset as the principal repayment on an annuity basis.

5.7 There is no requirement on the HRA to make a minimum revenue provision but there is a requirement for a charge for depreciation to be made.

5.8 If assets are transferred between funds, where the transfer results in an increase in the General Fund CFR, it will be considered whether it is prudent to make an MRP provision on the higher CFR in subsequent years.

5.9 MRP Overpayments – A change introduced by the revised MHCLG MRP Guidance was that the allowance that any changes made over the statutory minimum revenue provision (MRP), voluntary revenue provision (VRP) 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 overpayments made each year. Up until the 31 March 2021 the total VRP overpayments were £30.083m. This is equivalent to the value of HRA self-financing loans that have been repaid since the start of the scheme.

6. BORROWING

6.1 The capital expenditure plans set out in Section 6 provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity and the Council's capital strategy. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

6.2 **The current portfolio position** - The Council's treasury position as at 31 March 2020 and the position as at 31 December 2020 are shown below for both borrowing and investments.

TREASURY PORTFOLIO				
Treasury Investments	**Actual 31/03/2020 £'000**	**Actual 31/03/2020 %**	**Actual 31/12/2020 £'000**	**Actual 31/12/2020 %**
Banks	8,000	19%	-	0%
Local Authorities	3,000	7%	8,000	14%
Money Market Funds	4,528	10%	18,464	32%
Certificate of Deposits	5,000	12%	-	0%
Call Accounts - Bank	4,500	10%	4,000	7%
Call Accounts - Building Society		0%	8,000	14%
Total managed in house	**25,028**	**58%**	**38,464**	**67%**
Multi Asset Funds	7,922	18%	9,109	16%
Property Funds	10,195	24%	9,908	17%
Total managed externally	**18,117**	**42%**	**19,017**	**33%**
Total treasury investments	**43,145**	**100%**	**57,481**	**100%**
Treasury External Borrowing				
PWLB	81,081	91%	81,081	100%
Stock Loan	8,000	9%	-	0%
Short Term Loans	13	0%	13	0%
Total external borrowing	**89,094**	**100%**	**81,094**	**100%**
Net treasury investments / (borrowing)	**(45,949)**		**(23,613)**	

6.3 The Council's forward projections for borrowings are summarised in the next table. The table shows the actual external debt, against the underlying capital borrowing need (the Capital Financing Requirement – CFR), highlighting any under or over borrowing.

Note[4]	**2019/20 Actual £m**	**2020/21 Estimate £m**	**2021/22 Estimate £m**	**2022/23 Estimate £m**	**2023/24 Estimate £m**
External Debt at 1 April	93.912	89.093	88.697	130.272	173.961
Expected Change in Debt	(4.818)	(0.396)	41.575	43.689	24.505
Other long-term liabilities OLTL	93.625	93.431	93.196	92.915	92.593
Expected Change in OLTL	(0.194)	(0.235)	(0.281)	(0.322)	(0.365)
Actual gross debt as at 31 March	**182.525**	**181.893**	**223.187**	**266.554**	**290.694**
The Capital Financing Requirement	**204.737**	**211.541**	**259.175**	**301.664**	**322.978**
(Under)/Over Borrowing	**(22.212)**	**(29.648)**	**(35.988)**	**(35.110)**	**(32.284)**

[4] Figures subject to change when the treatment of the St George's Centre transactions has been agreed

6.4 Within the range of prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its 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 2021/22 and the following two financial years (shown as net borrowing above). This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.

6.5 The Director (Corporate Services) reports that the Council complied with this prudential indicator 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 the budget report.

7. TREASURY INDICATORS: LIMITS TO BORROWING ACTIVITY

7.1 **The 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, but may be lower or higher depending on the levels of actual debt and the ability to fund under-borrowing by other cash resources.

Operational Boundary[5]	**2020/21 Estimate £m**	**2021/22 Estimate £m**	**2022/23 Estimate £m**	**2023/24 Estimate £m**
Debt (including HRA Settlement)	106.340	154.260	197.070	218.750
Other Long Term Liabilities	98.200	97.920	97.590	97.230
Commercial activities / non-financial investments	30.000	30.000	30.000	30.000
Total	**234.540**	**282.180**	**324.66**	**345.980**

7.2 **The Authorised Limit for external debt –** This is a key prudential indicator represents a control on the maximum level of borrowing. This represents a legal limit beyond which external debt is prohibited, and this needs to be set or revised by the Full Council. 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.

- This is the statutory limit, determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.

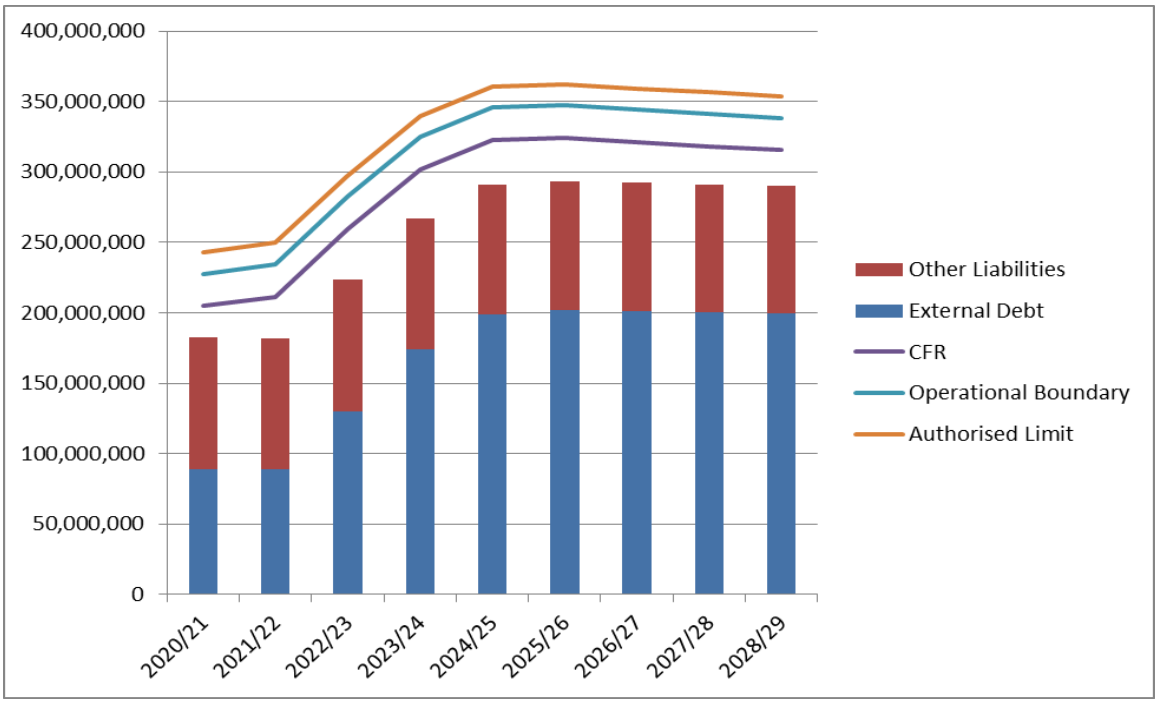
- The Finance and Audit Committee is asked to recommend to Council the following Authorised Limit:

Authorised limit[6]	**2020/21 Estimate £m**	**2021/22 Estimate £m**	**2022/23 Estimate £m**	**2023/24 Estimate £m**
Debt (including HRA Settlement)	111.340	159.260	202.070	223.750
Other Long Term Liabilities	103.200	102.920	102.590	102.230
Commercial activities / non-financial investments	35.000	35.000	35.000	35.000
Total	**249.540**	**297.180**	**339.680**	**360.980**

[5] [6] Figures subject to change when the treatment of the St George's Centre transactions has been agreed

7.3 The following table and pictorial representation of the Council's Operational and Authorised limits against the Capital Finance Requirement

CAPITAL FINANCING REQUIREMENT										
	Actual 2019/20 £m	Est 2020/21 £m	Est 2021/22 £m	Est 2022/23 £m	Est 2023/24 £m	Est 2024/25 £m	Est 2025/26 £m	Est 2026/27 £m	Est 2027/28 £m	Est 2028/29 £m
CFR - Non HRA	118.47	125.64	169.92	211.91	232.74	233.98	231.78	228.44	225.06	221.63
CFR - HRA	79.83	79.60	83.09	83.73	84.35	84.70	85.09	85.56	86.09	86.67
CFR - Commercial Activity / non-financial instruments	6.44	6.30	6.16	6.03	5.89	5.75	4.52	4.38	4.25	4.11
Total CFR	**204.74**	**211.54**	**259.18**	**301.66**	**322.98**	**324.44**	**321.39**	**318.38**	**315.40**	**0.00**
External Borrowing	89.09	88.70	130.27	173.96	198.47	201.73	201.01	200.35	199.74	205.54
Other Long Term Liabilities	93.43	93.20	92.92	92.59	92.23	91.82	91.37	90.87	90.32	89.72
Total Debt	**182.52**	**181.90**	**223.19**	**266.55**	**290.70**	**293.55**	**292.38**	**291.22**	**290.06**	**295.26**
Authorised Limit	242.74	249.54	297.18	339.66	360.98	362.44	359.39	356.38	353.40	350.41
Operational Boundary	227.74	234.54	282.18	324.66	345.98	347.44	344.39	341.38	338.40	335.41



8. PROSPECTS FOR INTEREST RATES

8.1 Link Asset Services are the Council's current treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. The following table gives their central view.

Link Group Interest Rate View 9.11.20													
These Link forecasts have been amended for the reduction in PWLB margins by 1.0% from 26.11.20													
	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
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
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
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
5yr PWLB	0.80	0.80	0.80	0.80	0.90	0.90	0.90	0.90	0.90	1.00	1.00	1.00	1.00
10 yr PWLB	1.10	1.10	1.10	1.10	1.20	1.20	1.20	1.20	1.20	1.30	1.30	1.30	1.30
25 yr PWLB	1.50	1.60	1.60	1.60	1.60	1.70	1.70	1.70	1.70	1.80	1.80	1.80	1.80
50 yr PWLB	1.30	1.40	1.40	1.40	1.40	1.50	1.50	1.50	1.50	1.60	1.60	1.60	1.60

8.2 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 six years were negative during most of the first half of 2020/21. The policy of avoiding new borrowing by running down spare cash balances has served local authorities well over the last few years.

- Following the Government's consultation on the future of the PWLB, the Chancellor announced new margins over gilt yields as follows:

  - **PWLB Standard Rate** is gilt plus 100 basis points (G+100bps)

  - **PWLB Certainty Rate** is gilt plus 80 basis points (G+80bps)

  - **PWLB HRA Standard Rate** is gilt plus 100 basis points (G+100bps)

  - **PWLB HRA Certainty Rate** is gilt plus 80bps (G+80bps)

- Borrowing for capital expenditure - As Link's long-term forecast for Bank Rate is 2.00%, and all PWLB rates are under 2.00%, there is now value in borrowing from the PWLB for all types of capital expenditure for all maturity periods, especially as current rates are at historic lows. The Council will assess its risk appetite in conjunction with budgetary pressures to reduce total interest costs. Although short-term interest rates are cheapest, longer-term borrowing could also be undertaken for the purpose of certainty, where that is desirable, or for flattening the profile of a heavily unbalanced maturity profile.

- While this authority will not be able to avoid borrowing to finance new capital expenditure, to replace maturing debt and the rundown of reserves, there will be a cost of carry, (the difference between higher borrowing costs and lower investment returns), to any new borrowing that causes a temporary increase in cash balances.

9. THE BORROWING STRATEGY

9.1 The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt 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.

9.2 Against this background and the risks within the economic forecast, caution will be adopted with the 2021/22 treasury operations. The Director (Corporate Services), will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- if it was felt that there was a significant risk of a sharp FALL in borrowing rates, then borrowing wll be postponed.

- if it was felt that there was a significant risk of a much sharper RISE in borrowing rates than that currently forecast, perhaps arising from an acceleration in the rate of increase in central rates in the USA and UK, an increase in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates are still lower than they will be in the next few years.

9.3 Any decisions will be reported to the Finance and Audit Committee at the next available opportunity.

10. POLICY ON BORROWING IN ADVANCE OF NEED

10.1 The Council will not borrow more than, or in advance of its need, purely in order to profit from the investments of the 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 Council can ensure the security of such funds.

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

11. DEBT RESCHEDULING

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

11.2 If rescheduling was done, it will be reported to the Finance and Audit Committee, at the earliest meeting following its action.

12. NEW FINANCIAL INSTITUTIONS AS A SOURCE OF BORROWING

12.1 Currently the PWLB Certainty Rate is set at gilts + 80 basis points for both HRA and non-HRA borrowing. However, consideration may still need to be given to sourcing funding from the following sources for the following reasons:

- Local authorities (primarily shorter dated maturities out to 3 years or so – still cheaper than the Certainty Rate).

- Financial institutions (primarily insurance companies and pension funds but also some banks, out of forward dates where the objective is to avoid a "cost of carry" or to achieve refinancing certainty over the next few years).

- Municipal Bonds Agency (possibly still a viable alternative depending on market circumstances prevailing at the time).

13. APPROVED SOURCES OF LONG AND SHORT TERM BORROWING

13.1 In recent years when it has been necessary to take on external borrowing to fund capital expenditure, this has been secured through the PWLB. When borrowing, the Council will need to carefully consider and take the necessary steps to secure the most appropriate source of borrowing. The Council will consider (but not limited to) the following sources for external borrowing.

- PWLB
- Municipal Bonds Agency
- Local authorities
- Banks
- Pension Funds
- Insurance Companies
- Market (long-term, short-term, LOBO)
- Stock Issue

14. AFFORDABILITY PRUDENTIAL INDICATORS

14.1 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 Council's overall finances. Finance and Audit Committee are asked to recommend the following indicators to Full Council for approval:

14.2 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.

%	2019/20 Actual	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
Non- HRA	3.63	0.51	2.07	8.75	13.12
HRA	28.15	30.06	27.44	28.89	29.45

Commercial activities / non-financial investments	35.11	33.98	36.71	51.78	46.24
Total	20.69	20.84	19.72	23.12	24.94

14.3 Commercial Activity – The following local indicator identifies the trend in income from commercial properties purchased outside of the borough in relation to net revenue spend.

	2019/20 Actual	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
Net Income from Commercial activity £m	0.389	0.406	0.506	0.423	0.472
Net Revenue Spend £m	0.136	0.138	0.186	0.219	0.219
Ratio of income of net revenue spend %	35.11	33.98	36.71	51.78	46.24

14.4 **HRA ratios** – the following indicators identifies the trend of HRA debt in relation to revenue income and HRA debt per dwelling.

	2019/20 Actual £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m
HRA debt £m	81.081	81.463	86.130	88.474	89.578
HRA revenue income £m	25.031	25.528	26.273	27.592	28.612
Ratio of debt to revenue income %	30.872	31.337	30.504	31.119	31.941
Number of HRA dwellings	5,685	5,698	5,768	5,780	5,796
Debt per dwelling £	14,262	14,296	14,932	15,307	15,455

14.5 **Maturity Structure of Borrowing -** These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.

Maturity Structure of fixed interest rate borrowing 2021/22		
	Lower	**Upper**
Under 12 months	0%	50%
12 months to 2 years	0%	50%

2 years to 5 years	0%	75%
5 years to 10 years	0%	75%
10 years to 15 years	0%	100%
15 years to 20 years	0%	100%
Over 20 years	0%	100%

Maturity Structure of variable interest rate borrowing 2021/22		
	Lower	***Upper***
Under 12 months	0%	50%
12 months to 2 years	0%	50%
2 years to 5 years	0%	75%
5 years to 10 years	0%	75%
10 years to 15 years	0%	100%
15 years to 20 years	0%	100%
Over 20 years	0%	100%

15. ANNUAL INVESTMENT STRATEGY

15.1 **Investment Policy – Management of Risk -** The MHCLG and CIPFA have extended the meaning of 'investments' 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 purchase of income yielding assets, are covered in the Capital Strategy, (a separate report).

15.2 The Council'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

15.3 The Council's investment priorities will be security first, portfolio liquidity second and then yield, (return).

15.4 The above guidance from the MHCLG and CIPFA places a high priority on the management of risk. This authority has adopted a prudent approach to managing risk and defines its risk appetite by the following means:-

1. Minimum acceptable **credit criteria** are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short term and long-term ratings.

2. **Other information:** 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. To achieve this consideration the Council will engage with its advisors to maintain a monitor on market pricing such as **"credit default swaps"** and overlay that information on top of the credit ratings.

3. **Other information sources** used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

4. This authority has defined the list of **types of investment instruments** that the treasury management team are authorised to use. There are two lists in appendix 2 under the categories of 'specified' and 'non-specified' investments.

   - **Specified investments** are those with a high level of credit quality and subject to a maturity limit of one year.
   - **Non-specified investments** are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use.

5. **Non-specified investments limit.** The Council has determined that it will limit the maximum total exposure to non-specified investments as being £75m of the total investment portfolio, (see paragraph 17.1).

6. **Lending limits**, (amounts and maturity), for each counterparty is set at £8m and in accordance section 16 and appendix 2.

7. **Transaction limits** for groups, counterparties and money market funds are set at £8m.

8. This authority will set a limit for the amount of its investments which are invested for **longer than 365 days**, (see paragraph 17.1).

9. Investments will only be placed with counterparties from countries with a specified minimum **sovereign rating**, (see paragraph 17.1).

10. This authority has engaged **external consultants**, (see paragraph 3.1), to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of this authority in the context of the expected level of cash balances and need for liquidity throughout the year.

11. All investments will be denominated in **sterling**.

12. As a result of the change in accounting standards under IFRS 9, the Council will consider the implications of investment instruments which could result in adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. (In November 2018, MHCLG concluded a consultation for a temporary override to allow English local authorities time to adjust their portfolio of all

pooled investments or build sufficient reserves by announcing a statutory override to delay implementation of IFRS 9 for five years commencing from 1 April 2018.)

15.5 However, this authority will also pursue **value for money** in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance, (see paragraph 16.8). Regular monitoring of investment performance will be carried out during the year.

16. CREDITWORTHINESS POLICY

16.1 This Council applies the creditworthiness service provided by Link Asset Services. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moodys and Standard and Poors. The credit ratings of counterparties are supplemented with the following overlays:

- Credit watches and credit outlooks from credit rating agencies
- Credit Default Swaps (CDS) spreads to give early warning of likely changes in credit ratings
- Sovereign ratings to select counterparties from only the most creditworthy countries

16.2 This modelling approach combines credit ratings and any assigend Watches and Outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads. The end product of this is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the duration for investments. The Council will therefore use counterparties within the following durational bands.

Colour/ long term rating	Maximum Period of investment
Yellow	5 Years
Purple	2 Years
Orange	1 Year
Blue	1 Year (nationalised or semi nationalised UK Banks)
Red	6 Months
Green	100 days
No Colour	Not to be used

16.3 The Link Asset Services creditworthiness service uses a wider array of information othre than just primary ratings. Furthermore, by using a risk weighted scoring system, does not give undue preponderance to just one agency's ratings.

16.4 Typically the minimum credit ratings criteria the Council use will be a Short Term rating (Fitch or equivalents) of F1 and a Long Term rating of A-. There may be occassions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

16.5 All credit ratings will be monitored on a daily basis by officers within the Finance Department. The Council is alerted to changes to ratings of all three agencies through its use of the Link Asset Services creditworthiness service.

- if a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
- in addition to the use of credit ratings the Council will be advised of information in movements in the Credit Default Swap market against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

16.6 Sole reliance will not be placed on the use of this external service. In addition this Council will also use market data and market information, information on any external support for banks to support its decision making process.

16.7 **Creditworthiness - UK Banks (Ring Fencing) -** Although the credit rating agencies changed their outlook on many UK banks from Stable to Negative at the start of 2020/21 due to upcoming risks to banks' earnings and asset quality during the economic downturn caused by the pandemic, the majority of ratings were affirmed due to the continuing strong credit profiles of major financial institutions, including UK banks. However, during Q1 and Q2 2020, banks made provisions for expected credit losses and the rating changes reflected these provisions. Soon more information will emerge on actual levels of credit losses which have the potential to cause rating agencies to revisit their initial rating adjustments earlier in the current year. These adjustments could be negative or positive, although it should also be borne in mind that banks went into this pandemic with strong balance sheets.

16.8 All three rating agencies have reviewed banks around the world with similar results in many countries of most banks being placed on Negative Outlook, but with a small number of actual downgrades.

17. OTHER LIMITS

17.1 Due care will be taken to consider the exposure of the Council's total investment portfolio to non-specified investments, countries, group and sectors.

- **Non-Specified Investment Limit –** The Council has determined that it will limit the maximum total exposure to non-specified investments as being £75m of the total investment portfolio.

- **Country Limits –** As in previous years the Council has determined that it will only use approved counterparties from countries with a minimum sovereign rating of AAA, as determined by at least two of the three rating agencies (Fitch, Moody's or Standard and Poor's). The list of countries that currently qualify using the credit criteria as at the date of this report are shown in Appendix 3. Officers will amend this list during the year should ratings change in accordance with this policy.

- **The UK Sovereignty Rating –** The 2020/21 Treasury Management Strategy Statement recommended that the UK should be an exemption from the above country limits and that officers would continue to place investments with counterparties within the UK provided that the sovereign rating remained above AA-, in consultation with the Section 151 Officer, who (under the Constitution) can take all necessary action in respect of the management of the Council's investments to ensure their security is maintained.

- In March 2020, Fitch, one of the three ratings agencies, downgraded the UK to AA- at the start of the Covid-19 pandemic. At the time the then Director (Corporate Services) in his capacity as Section 151 Officer in consultation with other officers agreed to reduce the UK sovereign rating by one level to enable officers to continue placing investments with counterparties within the UK provided the sovereign rating remains above A+.

- Moody's have also subsequently reduced their UK sovereign rating and therefore investments will continue to place investments with institutions provide the UK sovereign rating remains above A+. Should the UK be downgraded further, discussions will be held with the relevant officers at such time and members of the Finance and Audit Committee will be kept informed.

- **Other Limits -** In addition:

    a. no more than £16m will be placed with any non-UK country at any time;

    b. limits in place above will apply to a group of companies;

    c. sector limits will be monitored regularly for appropriateness.

18. INVESTMENT STRATEGY

18.1 **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 (i.e. rates for investments up to 12 months). Greater returns are usually obtainable by investing for longer periods. 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.

18.2 **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.

18.3 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 (the long term forecast is for periods over 10 years in the future):

Average earnings in each year	
2020/21	0.10%

2021/22	0.10%
2022/23	0.10%
2023/24	0.10%
2024/25	0.25%
Later years	2.00%

- The overall balance of risks to economic growth in the UK is probably now skewed to the upside, but is subject to major uncertainty due to the virus and how quickly successful vaccines may become available and widely administered to the population.

- There is relatively little UK domestic risk of increases or decreases in Bank Rate and significant changes in shorter term PWLB rates. The Bank of England has effectively ruled out the use of negative interest rates in the near term and increases in Bank Rate are likely to be some years away given the underlying economic expectations. However, it is always possible that safe haven flows, due to unexpected domestic developments and those in other major economies, or a return of investor confidence in equities, could impact gilt yields, (and so PWLB rates), in the UK.

18.4 **Negative investment rates -** While the Bank of England said in August / September 2020 that it is unlikely to introduce a negative Bank Rate, at least in the next 6 -12 months, and in November omitted any mention of negative rates in the minutes of the meeting of the Monetary Policy Committee, some deposit accounts are already offering negative rates for shorter periods. As part of the response to the pandemic and lockdown, the Bank and the Government have provided financial markets and businesses with plentiful access to credit, either directly or through commercial banks. In addition, the Government has provided large sums of grants to local authorities to help deal with the COVID crisis; this has caused some local authorities to have sudden large increases in cash balances searching for an investment home, some of which was only very short term until those sums were able to be passed on.

18.5 As for money market funds (MMFs), yields have continued to drift lower. Some managers have already resorted to trimming fee levels to ensure that net yields for investors remain in positive territory where possible and practical. Investor cash flow uncertainty, and the need to maintain liquidity in these unprecedented times, has meant there is a surfeit of money swilling around at the very short end of the market. This has seen a number of market operators, now including the DMADF, offer nil or negative rates for very short term maturities. This is not universal, and MMFs are still offering a marginally positive return, as are a number of financial institutions for investments at the very short end of the yield curve.

18.6 Inter-local authority lending and borrowing rates have also declined due to the surge in the levels of cash seeking a short-term home at a time when many local authorities are probably having difficulties over accurately forecasting when disbursements of funds received will occur or when further large receipts will be received from the Government.

18.7 **Investment treasury indicator and limit** – total principal funds invested for greater than 365 days. These limits are set with regard to the Council’s liquidity requirements and to reduce the need for early sale of an investment, as are based on the availability of funds after each year end.

Maximum principal sums invested > 365 days			
	2021/22 £m	2022/23 £m	2023/24 £m
Principal sums invested > 365 days	20.000	20.000	20.000

18.8 Whilst the Council has placed £10m with three Property Funds and a further £10m with three Multi Asset Funds with a view to holding the funds for a longer term, due to the funds liquidity they are not taken into account for the purposes of the above indicator. The indicator applies to funds invested for a fixed period only.

18.9 For its cash flow generated balances, the Council will seek to utilise its instant access and notice accounts, money market funds and short dated deposits (overnight to 100 days) in order to benefit from the compounding of interest.

18.10 **Investment Risk Benchmark -** The Council will use an investment benchmark to assess the investment portfolio of 3 month LIBID.

19. END OF YEAR INVESTMENT REPORT

19.1 At the end of the financial year, the Council will report on its investments activity as part of its Annual Treasury Report.

20. SERVICE INVESTMENTS

20.1 The Investment Strategy recognises that the Council may, from time to time, make investment decisions are part of its policy decision making process or to help it fulfil its strategic objectives. Such decisions will be subject to due diligence checks but will be classified as a service investment, rather than a treasury managment investment, and will therefore fall outside of the specified/non specified investment categories.

20.2 At the time of preparing this report the Council had interests in two such service investments:

- Municipal Bonds Agency (MBA) - In January 2015, a report to Cabinet outlined proposals by the Local Government Association (LGA) to set up the MBA with the aim that the Agency would be able to provide council's with the opportunity to raise funds at significantly lower rates than those offered by the Public Works Loan Board (PWLB). The Council, along with many other local authorities become a member of the MBA and therefore £20,000 was paid in February 2015 towards the Agency's estimated start-up costs of £1m. It is anticipated that there will, at some point, be a financial return (to be remunerated at commercial rates) for these capital subscriptions to the Agency's establishment costs. There were significant difficulties with the original proposed offer, but work progressed following the engagement of PFM and in March 2020 issued its first bond. Gravesham will consider
- Commercial acquisitions – In previous Treasury Management Strategy Statements, updates on commercial properties was reported under the Service Investments section of the report. Due to the revised reporting reqiuirements from MHCLG, the impact of such investments are

incorporated throughout this report and the Capital Strategy provides a longer term focus of such investments.

21. OTHER TREASURY ACTIVITY

21.1 A long term cashflow model continues to be maintained and a summary of this can be found at Appendix 7 and Appendix 8 to this report. Two graphs have been presented following requests made at the previous Finance and Audit Committee. The first shows the current long term cashflow along with key events such as loan repayments. The current cashflow has been amended, to reflect the changes in the Medium Term Financial Plan and the HRA Business Plan. The second shows the current long term cashflow against that which was presented to the previous Finance and Audit Committee to enable Members to see the movement that has occurred as a result of the changes detailed above.

22. SCHEME OF DELEGATION

22.1 The Treasury Management Scheme for Delegation is outlined in Appendix 4.

23. ROLE OF THE SECTION 151 OFFICER

23.1 The council's Section 151 Officer is the Director (Corporate Services) and their role is outlined in Appendix 5.

24. RISK

24.1 Given the nature, size and volume of the transactions involved, Treasury Management continues to remain a high risk area and as such is reflected in the corporate risk register. A summary of the perceived risks associated with Treasury Management is identified below.

Risk Area Identified	Potential Impact of Risk	Mitigation
Interest rates	Interest rate forecasts vary from the assumptions made in the financial forecasts resulting in a shortfall in investment interest.	Professional and specialist advice taken on interest rate forecast. Cash flow modelled against anticipated financial forecast. Treasury Management Strategy and Policies.
Cash flow	Unexpected adverse movements of significant sums of money may vary from the cash flow estimated and therefore result in a reduction in investment interest.	Cash flow modelled against anticipated financial forecast.
Sums lost in imprudent investment	Loss of sums invested in institution that is unable to pay its creditors.	Invest in institutions in accordance with Link Treasury Services creditworthiness service and in conjunction with Finance Teams assessment of the various counterparties.
Downgrading of banks and building	Loss of sums invested	Invest with the Government's Deposit Management Account

societies		Facility if necessary.
Legal and regulatory risk	The council fails to act in accordance with its legal powers	Comprehensive documentation of the organisations legal powers.
Sums lost through fraud, error and corruption	Financial Loss	Proper system of internal controls.
Refinancing borrowing on appropriate terms and conditions.	Higher borrowing costs	Reliable forecasts of maturing loans and capital expenditure to enable the council to negotiate appropriate terms.

25. SECTION 17 OF THE CRIME & DISORDER ACT 1998

25.1 Section 17 of the Crime & Disorder Act 1998 has been taken in account when preparing the Treasury Management Strategy and the Annual Investment Strategy.

26. BACKGROUND PAPERS

26.1 CIPFA Treasury Management in the public services - Guidance Notes for Local Authorities 2011.

26.2 Templates and forecasts provided by Link Asset Services.

APPENDIX 1

Link Asset Services – Economic Background As At 21/01/21

5.1 The Bank of England Monetary Policy Committee kept Bank Rate unchanged on 5.11.20. However, it revised its economic forecasts to take account of a second national lockdown which will put back economic recovery and do further damage to the economy. It therefore decided to do a further tranche of quantitative easing (QE) of £150bn, to start in January when the current programme of £300bn of QE, announced in March to June, runs out.

5.2 There was no mention of negative interest rates in the minutes or Monetary Policy Report, suggesting that the MPC remains some way from being persuaded of the case for such a policy, at least for the next 6 -12 months.

5.3 Significantly, one key addition to the Bank's forward guidance in August was a new phrase in the policy statement, namely that "it does not intend to tighten monetary policy until there is clear evidence that significant progress is being made in eliminating spare capacity and achieving the 2% target sustainably". That seems designed to say, in effect, that even if inflation rises to 2% in a couple of years' time, do not expect any action from the MPC to raise Bank Rate – until they can clearly see that level of inflation is going to be persistently above target if it takes no action to raise Bank Rate.

5.4 Covid-19 vaccine announcements to date, plus expected further announcements that other vaccines could be approved soon, have enormously boosted confidence that life could largely return to normal during the second half of 2021, with activity in the still-depressed sectors like restaurants, travel and hotels returning to their pre-pandemic levels; this would help to bring the unemployment rate down. With the household saving rate having been exceptionally high since the first lockdown in March, there is plenty of pent-up demand and purchasing power stored up for these services. If vaccines prove to be highly effective, then there is a possibility that restrictions could start to be eased, beginning possibly in Q2 2021 once vulnerable people and front-line workers have been vaccinated. At that point, there would be less reason to fear that hospitals could become overwhelmed any more. Effective vaccines would radically improve the economic outlook once they have been widely administered; it may allow GDP to rise to its pre-virus level a year earlier than otherwise and mean that the unemployment rate peaks at 7% in 2021 instead of 9%.

5.5 The final Brexit agreement on 24 December 2020 has eliminated a significant downside risk for the UK economy. The initial agreement only covers trade so there is further work to be done on the services sector.

Appendix 2

Specified and Non Specified Investments

Investments that councils can make are of two types and these are identified in the subsequent paragraphs and table.

Specified Investments offer high security and high liquidity, must be in sterling and have a maturity of no more than a year. Such investments made with the UK government, UK local authorities and town/parish councils automatically count as specified investments.

Non Specified Investments are those investments not meeting the definition of specified investments, which are therefore of greater potential risk. Any investments with a maturity exceeding one year are automatically classed as non specified investments. The criteria for selecting counterparties for longer term investments is the same as that for short term investments i.e. Link Asset Services Durational Colour bands.

All specified and non-specified Investments will be

- Subject to the sovereign, group and counterparty exposure limits identified in the Annual Investment Strategy
- Subject to the duration limit recommended by Link Assets Services Treasury Solutions at the time each investment is placed
- Subject to a maximum of £75m of cored funds, in aggregate, being held in non-specified investments at any one time (£25m in property funds, £25m in Multi Asset Funds and £25m in other non-specified investments).

SPECIFIED INVESTMENTS: All such investments will be sterling denominated, with **maturities up to maximum of 1 year**

	Minimum Credit Criteria	**Maximum maturity period**
Debt Management Agency Deposit Facility	N/A	6 months
UK Government Gilts	UK sovereign rating	12 months
UK Government Treasury Bills	UK sovereign rating	12 months
Bonds issued by multilateral development banks	AAA	6 months
Money Market Funds (including Money Market Funds with notice periods)	AAA	Liquid
VNAV Ultra Short Duration Bond Funds with a credit score of 1.25	AA	Liquid
VNAV Ultra Short Duration Bond Funds with a credit score of 1.5	AA	Liquid
UK Local authorities and other public authorities ie Police and Fire authorities	N/A	12 months
Term deposits with housing associations	Blue Orange Red	12 months 12 months 6 months

	Green No Colour	100 days Not for use
Term deposits with banks and building societies	Link's "Green" rating	As per Link's rating
Term deposits with part nationalised banks	Link's "Blue" rating	As per Link's rating
Certificates of deposit (CD's) or Corporate bonds with banks and building societies	Link's "Green" rating	As per Link's rating
Certificates of deposit (CD's) with part nationalised banks	Link's "Green" rating	As per Link's rating
Gilt Funds	UK sovereign rating	
Sovereign bond issues (other than the UK govt)	AAA	

NON-SPECIFIED INVESTMENTS: All such investments will be sterling denominated, with **maturities in excess of 1 year**

	Minimum Credit Criteria	**Max. maturity period**
Fixed term deposits with variable rate and variable maturities: -Structured deposits with UK nationalised and part nationalised banks	UK Sovereign rating	2 years
Fixed term deposits with variable rate and variable maturities: -Structured deposits with banks and building societies	UK Sovereign rating	2 years
Term deposits with unrated counterparties : ie Local Authorities, Police Authorities, Fire Authorities, Housing Associations	UK Sovereign rating	2 years
Term deposits with UK nationalised and part nationalised banks excluding Ulster Bank (part of RBS)	Link's "Purple" rating	2 years
Term deposits with banks and building societies	Link's "Purple" rating	2 years
Certificates of deposits with UK nationalised and part nationalised banks excluding Ulster bank (part of RBS)	Link's "Purple" rating	2 years
Certificates of deposits with banks and building societies	Link's "Purple" rating	2 years
Commercial paper issuance with UK nationalised and part nationalised banks excluding Ulster Bank (part of RBS)	UK sovereign rating	2 years

Commercial paper issuance bank and building societies	Link's "Purple" rating	2 years
Bonds issued by multilateral development banks	AAA	5 years
Sovereign bond issues (other that the UK Government)	AAA	5 years
UK Government Gilts	UK Sovereign rating	Max of 25% 5 years
Property Funds	N/A	No Limit
Multi Asset Funds	N/A	No Limit

ACCOUNTING TREATMENT OF INVESTMENTS - The accounting treatment may differ from the underlying cash transactions arising from investment decisions made by this Council. To ensure that the Council is protected from any adverse revenue impact, which may arise from these differences, we will review the accounting implications of new transactions before they are undertaken.

APPENDIX 3

Approved countries for investments (Position as at 21/01/2021)

All counterparties in addition to meeting the minimum credit criteria specified in the Annual Investment Strategy must be regulated by a AAA sovereign rated as such by at least two of the three rating agencies (Fitch, Moody's and Standard and Poor's) with the exception of the UK.

The list will be reviewed and amended if appropriate on a daily basis by the Director of Corporate Services.

As of 21 January 2021 sovereigns meeting the above requirement were:

- Australia
- Canada
- Denmark
- Germany
- Netherlands
- Singapore
- Sweden
- Switzerland
- U.K. (currently rated AA by Standard and Poor's, AA- by Fitch and Aa3 by Moody's)
- USA (currently rated AAA by Fitch and Moody's, AA+ Standard and Poor's)

APPENDIX 4

Treasury Management Scheme for Treasury Delegation

(i) Full Council

- receiving and reviewing reports on treasury management policies, practices and activities
- approval of annual strategy.

(ii) Finance & Audit Committee

- To receive and scrutinise the council's Treasury Management Strategy and the prudential indicators prior to the start of the financial year and make recommendations thereon to the Full Council
- To receive and scrutinise the Treasury Management Annual Report and comment on any actions that may have taken during the course of the year.
- To monitor the overall state of the council's finances on at least a quarterly basis and advise on any actions it recommends.
- To consider the division of responsibilities in respect of the Treasury Management function.
- To consider the selection of external service providers and agreeing terms of appointment.

APPENDIX 5

The treasury management role of the section 151 officer

The S151 (responsible) officer

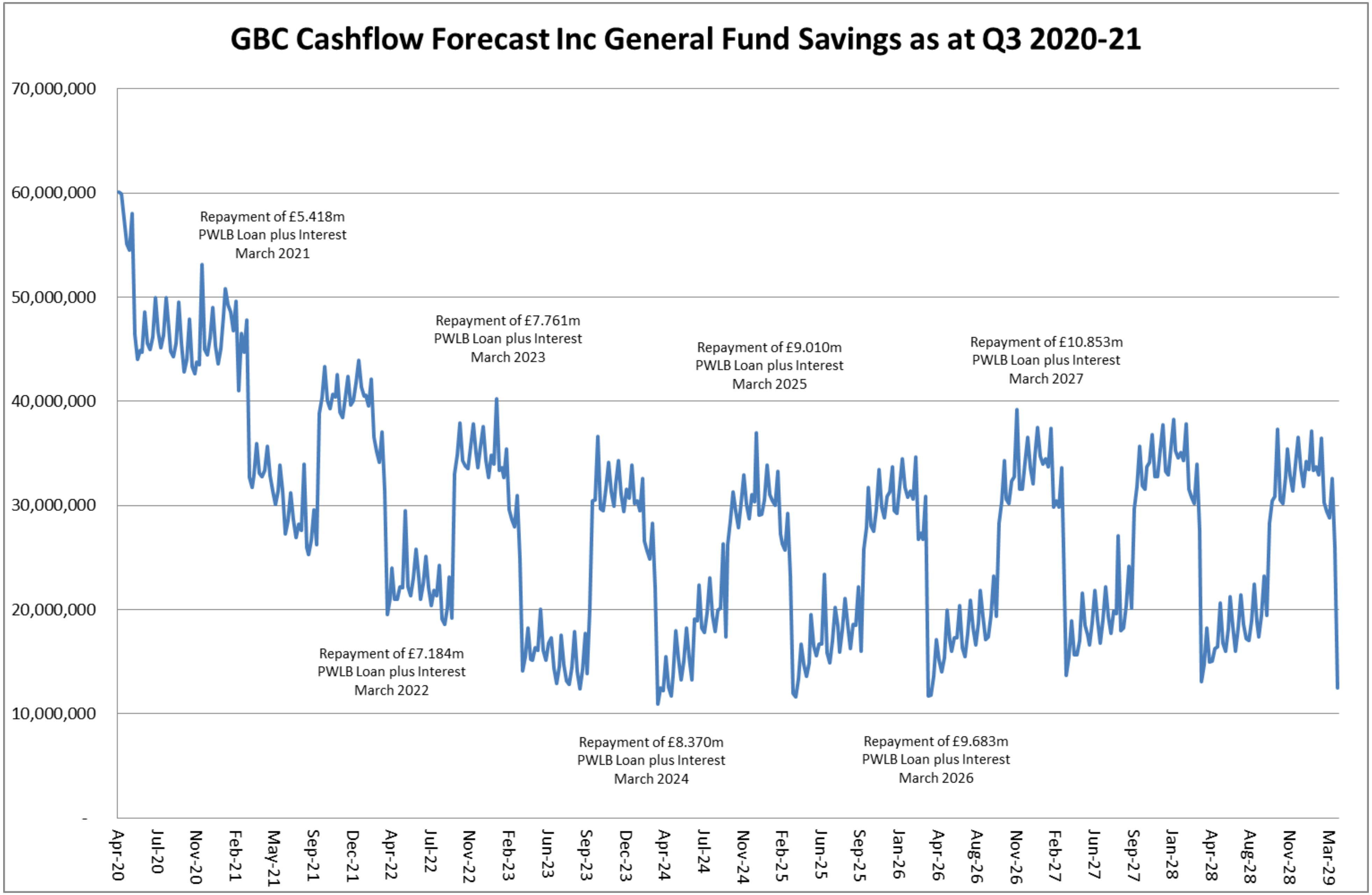
- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance
- submitting regular treasury management policy reports
- submitting budgets and budget variations
- receiving and reviewing management information reports
- reviewing the 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, non-financial investments and treasury management, with a long term timeframe
- ensuring that the capital strategy is prudent, sustainable, affordable and prudent in the long term and provides value for money
- ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the authority
- ensure that the authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing
- ensuring the proportionality of all investments so that the authority does not undertake a level of investing which exposes the authority to an excessive level of risk compared to its financial resources
- ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long term liabilities
- provision to members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees
- ensuring that members are adequately informed and understand the risk exposures taken on by an authority
- ensuring that the authority has adequate expertise, either in house or externally provided, to carry out the above

APPENDIX 6

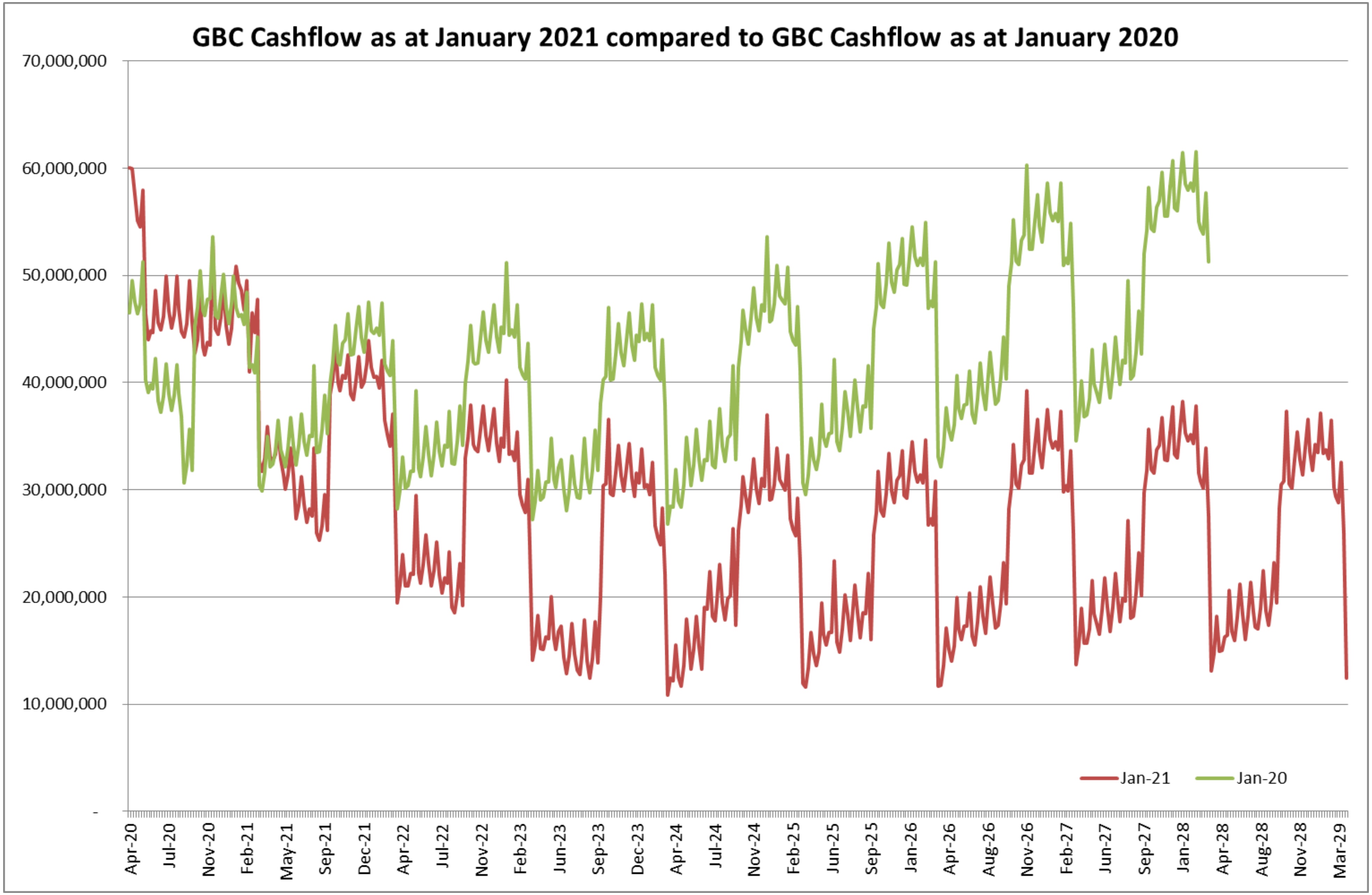
GLOSSARY

Authorised Limit	This represents a level of borrowing which, though not desired, could be afforded but may not be sustainable.
Asset Life (Equal Instalment Method)	Where MRP is an equal annual charge every year and is calculated by dividing the original amount of borrowing by the useful life of that asset.
Capital Financing Requirement	A measurement of the council's underlying need to borrow for a capital purpose.
Certificate of Deposit	An investment product offered by banks and other financial institutions which is issued for a specific period of time and at a certain interest rate but which can be traded on the secondary market, providing a greater level of flexibility.
CIPFA Treasury Management Code Of Practice	The professional code governing treasury management, which the council has formally adopted.
Debt Management Agency Deposit Facility	This deposit facility allows short-term or long term deposits to be lodged with the government. This offers the highest security for a Principal sum on short-term placements.
Money Market Funds	A money market fund is a "pool" of different types of investments, managed by a fund manager. The pool of investments will typically include bank deposits, certificates of deposit (CDs) amongst other investments. A number of organisations will invest in a particular fund. The interest rate yield on an MMF deposit is not known at the time of the deal. In return for this uncertainty, money can be accessed whenever necessary.
Minimum Revenue Provision (MRP)	The minimum amount which a council must charge to its revenue budget each year.
Multi-Asset Fund	An investment product with a higher level of diversification (in areas such as equities, bonds, property,.etc) and which therefore offers a certain level of protection in times when markets are volatile.

Municipal Bond Agency	An agency established by the Local Government Association intended to offer councils an alternative and less costly option for borrowing of long-term funds than the PWLB through the introduction of competition and diversity to the marketplace.
Net Revenue Stream (NRS)	The NRS for the general fund is the "amount to be met from government grant and local taxpayers", as shown in the consolidated revenue account. This represents the budget requirement for the council. The NRS for the housing revenue account is the amount to be met from housing subsidy and rent income as shown in the HRA accounts.
Operational Boundary	This indicator is based on the probable external debt during the course of the year; it is not a limit. Actual external debt could vary around this boundary for short times during the year. It should act as a monitoring indicator to ensure that authorised limit is not breached.
Prudential Indicators	These demonstrate a council's ability to meet the key principles of the Prudential Code by reflecting the level to which its capital programme is affordable, prudent and sustainable and they help to explain this effectively to those charged with governance.
Public Works Loan Board (PWLB)	Part of the government's debt management office, making long-term funds available to local authorities on prescribed terms and conditions. The PWLB is normally the cheapest source of long-term borrowing for a local authority.


GBC Cashflow Forecast Inc General Fund Savings as at Q3 2020-21
70,000,000
60,000,000
50,000,000
40,000,000
30,000,000
20,000,000
10,000,000
-
Repayment of £5.418m PWLB Loan plus Interest March 2021
Repayment of £7.184m PWLB Loan plus Interest March 2022
Repayment of £7.761m PWLB Loan plus Interest March 2023
Repayment of £8.370m PWLB Loan plus Interest March 2024
Repayment of £9.010m PWLB Loan plus Interest March 2025
Repayment of £9.683m PWLB Loan plus Interest March 2026
Repayment of £10.853m PWLB Loan plus Interest March 2027
Apr-20
Jul-20
Nov-20
Feb-21
May-21
Sep-21
Dec-21
Apr-22
Jul-22
Nov-22
Feb-23
Jun-23
Sep-23
Dec-23
Apr-24
Jul-24
Nov-24
Feb-25
Jun-25
Sep-25
Jan-26
Apr-26
Aug-26
Nov-26
Feb-27
Jun-27
Sep-27
Jan-28
Apr-28
Aug-28
Nov-28
Mar-29

Appendix 8



GBC Cashflow as at January 2021 compared to GBC Cashflow as at January 2020
70,000,000
60,000,000
50,000,000
40,000,000
30,000,000
20,000,000
10,000,000
-
Jan-21
Jan-20
Apr-20
Jul-20
Nov-20
Feb-21
May-21
Sep-21
Dec-21
Apr-22
Jul-22
Nov-22
Feb-23
Jun-23
Sep-23
Dec-23
Apr-24
Jul-24
Nov-24
Feb-25
Jun-25
Sep-25
Jan-26
Apr-26
Aug-26
Nov-26
Feb-27
Jun-27
Sep-27
Jan-28
Apr-28
Aug-28
Nov-28
Mar-29