Appendix 9

Treasury Management Strategy Statements, MRP Strategy and Annual Investment Strategy 2021/22

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Contents

Section 1 – Overview

1. Background

1.1 The council is required to operate a balanced budget i.e. cash raised during the year will meet cash expenditure. In pursuit of this objective, amongst other things, the council operates a treasury management function which incorporates the management of the council's cash flows, lending and borrowing activities and the control management and mitigation of the risks associated with these activities.

1.2 Borrowing facilitates the funding of the council's capital programme. The Council's capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning, to ensure that the Council can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans or using longer term cash flow surpluses. If the right circumstances prevail debt previously drawn may be restructured to meet Council risk or cost objectives.

1.3 The contribution the treasury management function makes to the authority is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will maintain the balance between the interest costs of debt and the investment income arising from cash deposits to manage the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance

1.4 Although policy spending initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activities, (arising usually from capital expenditure), and are separate from the day to day treasury management activities.

1.5 CIPFA defines treasury management as:

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

1.6 Revised reporting has been required since 2018/19 reporting cycle due to revisions of the MHCLG Investment Guidance, the MHCLG Minimum Revenue Provision (MRP) Guidance, the CIPFA Prudential Code and the CIPFA Treasury Management Code. The primary reporting changes included the introduction of a requirement for all local authorities to have a capital strategy, to provide a longer-term focus to the capital plans, and greater reporting requirements surrounding any commercial activity undertaken under the Localism Act 2011 especially using the 'General Powers of Competency' provision. The capital strategy is being reported separately, though some key prudential indicators will be retained within this document.

2. Reporting Requirements

2.1 The CIPFA revised 2017 Prudential and Treasury Management Codes requires, all local authorities to prepare an additional report, a capital strategy report, which will provide the following:

- a high-level long-term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
- an overview of how the associated risk is managed
- the implications for future financial sustainability

2.2 The aim is to ensure that all elected Members of the council fully understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite.

2.3 Ealing's existing Capital Strategy and Treasury Management Strategy have been reviewed to ensure compliance with the updated requirements across the two strategies.

2.4 Non-treasury investments are reported through the Capital Strategy. This ensures the separation of the core treasury function under security, liquidity and yield principles, and the policy and commercialism investments usually driven by expenditure on an asset. The capital strategy outlines:

- The corporate governance arrangements for these types of activities;
- Any service objectives relating to the investments;
- The expected income, costs and resulting contribution;
- The debt related to the activity and the associated interest costs;
- The payback period (MRP policy);
- For non-loan type investments, the cost against the current market value;
- The risks associated with each activity.

2.5 The expected income, costs and resulting contribution, the debt related to the activity and the associated interest costs, and the MRP policy are included in the Treasury Management Strategy. Ealing's existing Capital Strategy has been further reviewed for 2021/22 and updated to ensure full compliance with the Codes' requirements.

2.6 Where a physical asset is being bought for investment purposes, details of market research, advisers used, (and their monitoring), ongoing costs and investment requirements and any credit information will be disclosed, including the ability to sell the asset and realise the investment cash.

2.7 If any non-treasury investment sustains a loss during the final accounts and audit process, the strategy and revenue implications will be reported through the same procedure as the capital strategy.

2.8 To demonstrate the proportionality between the treasury operations and the non-treasury operation, high-level comparators are shown throughout this report.

3. Treasury Management Reporting

3.1 The Local Government Act 2003 (the Act) and supporting regulations requires the council to ‘have regard to’ the Chartered Institute of Public Finance and Accountancy’s (CIPFA) Prudential Code (Prudential Code) and the CIPFA Treasury Management Code of Practice (Treasury Code) to set prudential and treasury indicators for the next three years to ensure that the council’s capital investment plans are affordable, prudent and sustainable. Also, the Council must pay due regard to the MHCLG guidance on MRP.

3.2 In pursuit of the above the council must produce as a minimum three key treasury reports each year:

a) Treasury Strategy, prudential and treasury indicators, a requirement fulfilled by the production of this report. The report covers:
   - capital plans (including prudential indicators),
   - minimum revenue provision (MRP) policy,
   - the treasury management strategy; (including treasury indicators) and
   - an investment strategy.

b) A mid-year report which updates members on treasury progress, the capital position, the prudential indicators (any amendments) and whether any strategies or policies require revision.

c) An annual treasury outturn report. (backward looking review).

3.3 Council approves the Treasury Strategy as part of the annual budget-setting process. This appendix sets out the Treasury Strategy for 2021/22.

3.4 The scrutiny of the treasury management function within the council is undertaken by Audit Committee, which carries out quarterly reviews.

3.5 The council is also required to comply with investment guidance issued by the MHCLG investment guidance revised in 2018. The council’s investment strategy is compliant with the revised MHCLG investment guidance.

3.6 The Treasury Code was adopted by Council on the 9 March 2010. This strategy report complies with the revised 2017 Treasury Management Code of Practice.

3.7 In addition to the reporting schedule outlined above the code requires the:

- Creation and maintenance of a treasury management policy statement which sets out the policies and objectives of the council's treasury management activities. The Treasury Management Policy Statement is attached for reapproval as Annex 1.

- Creation and maintenance of Treasury Management Practices which set out the way the council will seek to achieve those policies and objectives; these are maintained and kept under review by officers.

- Delegation by the council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions. The scheme of delegation is attached as Annex 2.

3.8 The council complies with the above and its governance process is strengthened by its Treasury Risk and Investment Board (TRIB), which meets regularly to support the Chief Finance Officer in the execution of their delegated powers.

Section 2 – Treasury Management Strategy for 2021/22

4. 2021/22 Strategy Overview

4.1 The Strategy for 2021/22 addresses Capital Issues i.e. capital expenditure plans, prudential indicators, and the minimum revenue provision (MRP) and other treasury management issues such as the investment strategy and creditworthiness policy.

4.2 The proposed Treasury Management Strategy and Policy for the remainder of 2020/21 and for financial year 2021/22 adheres to the council's policy on investments of "safety before returns" and investments are currently being placed with the following:

- The UK government directly (Debt Management Office)
- RBS
- The council's banker (Lloyds Bank)
- HSBC
- Nationwide
- Barclays
- Other local authorities; and
- Money Market Funds (note regulatory changes to MMFs introduced from 21 January 2019)

4.3 Although current investments are per above, the investment parameters permissible under this strategy are much broader as outlined in the Annual Investment Strategy (Annex 5) under specified and non-specified investments. After due consideration the Chief Finance Officer can invest in any of the instruments/strategies if satisfied that the rewards are within acceptable risk parameters.

5. Money Market Funds (MMFs)

5.1 Officers have previously reported that some MMF's faced difficulty during the global financial crisis, so the European Commission proposed new rules to safeguard investors. The changes to MMF's came into effect from January 2019.

Summary of Revised Rules

5.2 The revised regulations focus on the structure, composition, liquidity requirements, fees, redemption gates and understanding investor behaviour and information reporting. MMF's are categorised into structural options within these two categories per below.

Structural Options	Short-Term Money Market Funds	Standard Money Market Funds
Government Constant Net Asset Value (CNAV)	x	
Low Volatility Net Asset Value (LVNAV)	x	
Variable Net Asset Value (VNAV)	x	x

5.3 Until changes were introduced European MMF's had CNAV and VNAV funds and the Council only used only CNAV funds. CNAV funds have now been restricted to government portfolios while a revised structural option for non-government funds, the Low Volatility NET Asset Value (LVNAV) MMF was introduced.

5.4 The LVNAV MMF overall retain stable NAV to two decimal places provided the fund is managed to certain maturity and liquidity constraints. If these constraints are breached the funds must be marked to market. The board of the MMF can take protective action in times of market stress or when more than 10% of the fund is redeemed in one day. These include gating or restricting the amount that can be drawn down in one day and levying liquidity fees on investors.

5.5 Currently the Council restricts its use of MMF's to CNAV and LVNAV funds although the strategy permits the use VNAV MMF should this be deemed appropriate at a future date.

5.6 The proposed strategy for 2021/22 is based upon treasury officers' views on interest rates, market forecasts acquired directly by council officers and supplemented by forecasts provided by the council's treasury advisors, Link Asset Services. The strategy proposed in this report will assist the council in mitigating risk in the council's treasury management activities and allow the borrowing necessary to finance the capital programme.

5.7 The strategy report covers:

- Update on Pension Fund and West London Waste Authority cash
- Capital Plans and Prudential Indicators
- Minimum Revenue Provision (MRP)
- Borrowing (para 8)
- Treasury Limits for 2021/22 to 2023/24
- Economic Background
- Borrowing Strategy including borrowing in advance of need
- Debt Rescheduling
- Housing Revenue Account (HRA) Self Financing

- Annual Investment Strategy
- Financial Implications
- Balanced Budget Requirement
- Treasury Management Policy Statement
- Scheme of Delegation
- Prudential Indicators

5.8 These strategy incorporates the requirements of the Local Government Act 2003, the CIPFA Prudential Code, MHCLG MRP Guidance, the CIPFA Treasury Code and MHCLG Investment Guidance.

6. Training

6.1 The Treasury Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training on treasury management and related issues. This especially applies to Members responsible for scrutiny, who regularly receive training on the subject by the council. Audit Committee members are scheduled to receive training at the meeting scheduled for the next Audit Committee meeting. The training needs of treasury management officers are met through attendance at relevant courses, conferences and forums and are periodically reviewed and addressed as part of the council's appraisal scheme.

7. Treasury Management Consultants

7.1 The council uses Link Asset Services, as its external treasury management advisors. 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 service providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisers.

7.2 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.

7.3 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 policy type investments, such as policy loans for housing, investment properties. The policy type investments require specialist advisers, and the Council uses Link in relation to this activity.

8. Pension Fund Cash

8.1 The council's arrangement for pension fund cash changed from 1 April 2011 to meet the requirements of CLG regulations. In the past all pension fund transactions flowed through the Council's main bank account with monthly transfers to and from the Pension Fund Bank account to manage surplus and deficit cash positions. A separate Pension Fund ledger has been operational since December 2018, to enable comprehensive and ring-fenced use of the pension fund bank account. All money due to/owed by Pension Fund to the Council is treated as a Debtor/Creditor and cash transfers are made to/from Pension Bank Account for settlement.

8.2 All surplus Pension Fund cash will continue to be transferred monthly to the Custodian's (BNY Mellon) bank account where it is swept for overnight investment into a money market bank account. Pension Fund cash retained locally to manage cash flow will be invested in either the pension fund MMF or fixed term deposits.

8.3 The council is responsible for managing the pension fund cash (that may be retained in house) in accordance with this Treasury Management Strategy. The Pension Fund Panel is updated of progress on a quarterly basis.

9. West London Waste Authority (WLWA) Cash

9.1 From 1 April 2014, the London Borough of Ealing started to carry out treasury management services for the WLWA. There are significant benefits in the WLWA engaging with one of the boroughs to provide treasury management services on their behalf.

9.2 During 2020/21 WLWA transferred their excess funds to the council to be invested jointly. They will earn the average interest rate achieved by the council based on their average balance. The WLWA has also subscribed to Link Asset Management Services and they will mirror the council's investment strategy.

9.3 The performance of the treasury management service is reviewed from time to time. The annual charge for the WLWA using Ealing's treasury management services has been agreed for at £7,700 and the current service contract will run to 2022/23.

10. MIFID II

10.1 As reported in previous years, on the 3rd of January 2018, the EU Market in Financial Instruments Directive II (MiFID II) came into effect and requires regulated bodies to classify Local Authorities as retail clients, unless they provide evidence that they should be opted up to 'professional client' status.

10.2 The council has opted up to 'professional client' categorisation with all brokers and counterparties. In order to achieve this, the authority had to provide evidence that it held an investment balance of at least £10 million and that the person(s) authorised to make investment decisions on behalf of the authority has at least one year's relevant professional experience. The London Borough of Ealing currently meets these criteria and training needs will be regularly monitored to ensure compliance.

11. Prudential Indicators

11.1 The Local Government Act 2003 and supporting regulations requires the council to 'have regard to' the Prudential Code and to set Prudential Indicators for the next three years to ensure that the council's capital investment plans are affordable, prudent and sustainable.

11.2 Ealing's Prudential Indicators for the period 2021/22 – 2023/24 are set out in **Annex 3** and council is asked to approve these.

11.3 The benefit of the indicators are actually derived from monitoring them over time rather than from the absolute value of each. A reporting schedule is maintained, with a mid-year report to council to highlight any significant deviations from expectations. The indicators can be amended and reported to council for approval at the earliest opportunity. The updated Prudential Indicators schedule was taken to Full Council in December 2020.

11.4 The indicators for later years are broad estimates since a number of factors including the level of government support beyond 2021/22 are not firmed up. These estimates will be revised, as more accurate information becomes available.

12. Minimum Revenue Provision (MRP) Policy Statement

12.1 MHCLG changes to MRP were introduced effective from 2019/20

12.2 The key changes are that:

- The option to calculate MRP in retrospect thereby creating a credit or a reduction in MRP for future years was closed, though the ability to reset a provision prospectively remains. Any changes should use the residual CFR at that point in time

- MRP should not be £nil in any year – unless CFR is nil or negative or a Voluntary MRP is being clawed back

- Maximum asset life is 50 years unless supported by expert opinion

- Where the asset life methodology option 3 is being used the new guidance is prescriptive on the maximum number of years over which the type of expenditure can be written off. In the absence of a quantifiable asset life 25 years is considered the reasonable default.

12.3 Council is recommended therefore to approve the MRP policy statement as set out in Annex 4.

13. Core funds and expected investment balances

13.1 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 (asset sales etc.). Outlined below are estimates of the year end balances on investments.

Table 1 – Estimate of year End Balance

Year End Resources	2019/20 Outturn	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
	£m	£m	£m	£m	£m
Expected Investments	216	215	200	200	200

14. Affordability Prudential Indicators

14.1 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. Council is asked to approve the indicators as set out in Annex 3.

15. Borrowing

15.1 The capital expenditure plans set out in this appendix outline the service activity for the council. The treasury management function ensures that the council adheres to the relevant treasury codes of practice as well as organising the council's cash flow and borrowing needs to meet the requirements of the service activity. It is a statutory requirement under the Local Government Finance Act 1992, for the council to produce a balanced budget. Section 31A and S31B requires a local authority to calculate its budget requirement for each financial year to include the revenue costs that flow from capital financing decisions. This therefore means that increases in capital expenditure must be limited to a level whereby increases in charges to revenue from:

- increases in interest charges caused by increased borrowing to finance additional capital expenditure, and
- any increases in running costs from new capital projects are limited to a level which is affordable, prudent and sustainable within the projected income of the council for the foreseeable future.

15.2 The strategy covers the relevant treasury/prudential indicators, the current and projected debt positions and the annual investment strategy.

15.3 The council's current treasury portfolio position is set out in table 2A and 2B below:

15.4 The overall treasury management portfolio as at the 31 March 2020 and the position as at 31 December are shown below for both borrowing and investments.

Table 2A – Treasury Portfolio

TREASURY PORTFOLIO				
	Actual	Actual	Current	Current
	31.3.20	31.3.20	31.12.20	31.12.20
	£000	%	£000	%
Treasury Investments				
Banks	29,950	15.62%	0	0.00%
Building Societies - Unrated	0	0.00%	0	0.00%
Building Societies - Rated	0	0.00%	0	0.00%
Local Authorities	161,000	83.94%	20,000	9.91%
DMADF (HM Treasury)	0	0.00%	120,000	59.48%
Money Market Funds	0	0.00%	60,000	29.74%
Other	850	0.44%	1,739	0.86%
Certificate Of Deposit	0	0.00%	0	0.00%
Total Manged In House	**191,800**	**100.00%**	**201,739**	**100.00%**
Bond Funds	-	0.00%	0	0.00%
Property Funds	-	0.00%	0	0.00%
Total Manged Externally	**-**	**0.00%**	**0**	**0.00%**
Total Treasury Investments	**191,800**	**100.00%**	**201,739**	**100.00%**
Treasury External Borrowing				
Local Authorities				
PWLB	541,609	83.34%	549,880	83.51%
LOBOs	78,000	12.00%	78,000	11.85%
Market Fixed Term Loan	10,000	1.54%	10,000	1.52%
Other	20,243	3.11%	20,568	3.12%
Total External Borrowing	**649,852**	**100.00%**	**658,448**	**100.00%**
Net Treasury Investments / (Borrowing)	**(458,052)**	**100.00%**	**(456,709)**	**100.00%**

15.5 The Council's forward projections for borrowing are summarised below. Table 2B shows the actual external debt against the underlying capital borrowing need, (the Capital Financing Requirement – CFR), highlighting any over or under borrowing.

15.6

Table 2b – Actual External Debt against Capital Borrowing Need

	2019/20 Outturn	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
	£m	£m	£m	£m	£m
External Debt					
Debt at 1 April	616.311	629.609	637.880	625.147	609.249
Expected change in Debt +/-	13.298	8.271	(12.734)	(15.898)	(10.556)
Actual gross debt at 31 March	**629.609**	**637.880**	**625.146**	**609.249**	**598.693**
The Capital Financing Requirement (CFR)	**692.700**	**837.887**	**978.336**	**1,157.601**	**1,230.074**
Under / (Over) borrowing	**63.091**	**200.007**	**353.190**	**548.352**	**631.381**
Other long-term liabilities (OLTL)	115.185	110.504	117.166	111.908	104.831
Expected change in OLTL	(4.681)	6.662	(5.258)	(7.077)	(7.092)
OLTL Total	**110.504**	**117.166**	**111.908**	**104.831**	**97.739**

Note: the table shows the impact of not externally borrowing i.e. using the council's investments to internally fund the council's underlying borrowing and this policy is under constant review.

15.7 Within the above figures the level of debt relating to non-treasury activities i.e. policy investment is:

Table 3 – External Debt for Policy Investments (including Housing Loans) / non-treasury investments

	2019/20 Outturn	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
	£m	£m	£m	£m	£m
Actual debt at 31 March £m	10.17	22.70	85.36	244.90	317.16
Percentage of total external debt %	2%	4%	14%	40%	53%

15.8 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. This allows some flexibility for limited early borrowing for future years but ensures that borrowing is not undertaken for revenue or speculative purposes.

15.9 The Chief Finance Officer reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view considers current commitments, existing plans, and the proposals in this budget report.

16. Treasury Indicators

16.1 Treasury Limits for 2021/22 to 2023/24

16.1.1 It is a statutory duty under Section 3 of the Local Government Act 2003 and supporting regulations for the council to determine and keep under review how much it can afford to borrow. The amount so determined is termed the "Affordable Borrowing Limit". In England and Wales, the Authorised Limit represents the legislative limit specified in the Act.

16.1.2 The Council must have regard to the Prudential Code when setting the Authorised Limit, which essentially requires it to ensure that total capital investment remains within sustainable limits and that the impact upon its future council tax and council rent levels is 'acceptable'.

16.1.3 Whilst termed an "Affordable Borrowing Limit", the capital plans to be considered for inclusion incorporating financing by both external borrowing and other forms of liability, such as credit arrangements. The Authorised Limit is to be set, on a rolling basis, for the forthcoming financial year and two successive financial years, details of the Authorised Limit is set out in Annex 3.

17. Economic Background and Interest Rate Forecasts

17.1 Link Asset Services has been appointed as treasury adviser to the council and part of its service is to assist the council to formulate a view on interest rates. The following table outlines the Link view. It should be noted that the Public Works Loans Board (PWLB) offers a certainty rate discount of 0.20% to local authorities who provide specified information on their plans for capital spending and the associated longer-term borrowing. The council has applied and qualifies to borrow at the certainty rate.

Table 4 – Link Interest Rate Forecast

Rate	Dec-20 %	Jun-21 %	Sep-21 %	Dec-21 %	Mar-22 %	Mar-23 %	Mar-24 %
Bank of England	0.01	0.01	0.01	0.01	0.01	0.01	0.01
5yr PWLB	0.80	0.80	0.80	0.80	0.90	0.90	1.00
10yr PWLB	1.10	1.10	1.10	1.10	1.20	1.20	1.30
25yr PWLB	1.50	1.60	1.60	1.60	1.60	1.70	1.80
50yr PWLB	1.30	1.40	1.40	1.40	1.40	1.50	1.60

17.2 The interest rate forecasts provided by Link Asset Services in Table 4 were based on an assumption that a Brexit trade deal would be agreed by 31.12.20: as this has now occurred, these forecasts do not need to be revised. 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 16th December, 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 near-term as economic recovery is expected to be only gradual and, therefore, prolonged.

17.3 The Consumer Prices Index (CPI) 12-month rate was 0.3% in November 2020, down from 0.7% in October. The greater than expected fall was largely attributable to increased discounting during Black Friday sales at month-end.

17.4 The US economy had been recovering quite strongly from its contraction in 2020 of 10.2% due to the pandemic with GDP only 3.5% below its pre-pandemic level and the unemployment rate dropping below 7%.

17.5 Europe in early December, the figures for Q3 GDP confirmed that the economy staged a rapid rebound from the first lockdowns. This provides grounds for optimism about growth prospects for next year. In Q2, GDP was 15% below its pre-pandemic level. But in Q3 the economy grew by 12.5% q/q leaving GDP down by "only" 4.4%. That was much better than had been expected earlier in the year. However, growth is likely to stagnate during Q4 and in Q1 of 2021, as a second wave of the virus has affected many countries: it is likely to hit hardest those countries more dependent on tourism.

17.6 The impact of Covid on larger UK banks remains uncertain whilst the pandemic rages. In this regards, officers continue to closely monitor counterparty risk. The banking reforms ringfencing the retail part of the banks from the risk-taking part is now well established. All UK banks passed recent stress tests.

18. Borrowing Strategy 2021/22

18.1 The Council's strategy is to achieve a low but stable cost of finance but retaining flexibility to alter its plans as circumstances change. In this regard, the council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement - CFR), has not been fully funded with loan debt as cash supporting the council's reserves, balances and cash flow is being deployed in the interim. This strategy is prudent as investment returns are low and counterparty risk is relatively high.

18.2 **Sensitivities of the forecast**

18.2.1 If Officers' felt there was a significant risk of a sharp fall in long and short term interest rates (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered. However, if there was a significant risk of a much sharper rise in long and short term rates than that currently forecast, then the portfolio position will be re-appraised with the likely action that fixed rate funding will be raised whilst interest rates are still lower than they will be in the foreseeable years ahead. Any decisions and actions taken will be reported to Audit Committee or Council at the earliest opportunity.

18.2.2 The council's borrowing strategy will consider new borrowing in the following prioritising as required:

- Temporary borrowing from the money markets or other local authorities
- PWLB variable rate loans for up to 10 years
- Short dated borrowing from non PWLB and other sources
- PWLB borrowing for periods across all the durations when rates are being at particularly good value.
- Long term fixed rate market loans at rates significantly below PWLB rates for the equivalent maturity period (where available) and to maintaining an appropriate balance between PWLB and market debt in the debt portfolio.

18.2.3 The council will continue to borrow in respect of the following:

- Maturing debt (net of minimum revenue provision).
- Approved unsupported (prudential) capital expenditure.
- To finance cash flow in the short term.

18.2.4 The type, period, rate and timing of new borrowing will be determined by the Chief Finance Officer under delegated powers, considering the following factors:

- Expected movements in interest rates as outlined above.
- Current maturity profile.
- The impact on the medium term financial strategy.
- Prudential indicators and limits.

18.3 New Financial Institutions as a source of borrowing and Types of Borrowing

18.3.1 Following the decision by the PWLB on 9 October 2019 to increase their margin over gilt yields by 100 bps to 180 basis points on loans lent to local authorities, Officers began to explore alternative sources of borrowing. However, in March 2020, the Government started a consultation process for reviewing the margins over gilt rates for PWLB borrowing. The chancellor announced the conclusion which amongst other things reversed certainty rate increase for the GF. Options for the diversification of loan source will still be explored and the authority will look to:

- 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 one in the pipeline)

18.3.2 Approved Sources of Long and Short term Borrowing include:

- PWLB
- Municipal Bonds Agency or any other ‘aggregator’
- Financial Institutions including Assurance and Insurance Companies and Banks
- Local Authorities and Housing Associations
- Any other institution which is legally able to lend to local authorities

18.3.3 A range of organisations fall within the scope of the above list and a range of financial instruments may be issued to evidence the borrowing and these could include public or privately issued bonds, negotiable bonds, commercial paper, medium term notes etc. The Chief Finance Officer will explore all options and determine the optimal source of borrowing for the Council.

18.4 Treasury Management Limits on borrowing Activity

18.4.1 There are three debt related treasury activity limits. The purpose of these are to restrain the activity of the treasury function within a flexibly set remit, to managing risk, yet not impose undue restraints that constrain cost reduction or performance improvement. The indicators are:

- Upper limits on variable interest rate exposure net of investments.
- Upper limits on fixed interest rate exposure.
- Maturity structure of borrowing to manage refinancing risk.

18.4.2 The proposed indicators are set out in Annex 3.

18.5 Policy on borrowing in advance of need

18.5.1 The council needs to ensure that its total debt, does not, except in the short term, exceed the total of the CFR in the preceding year i.e. 2020/21 plus the estimates of any additional CFR for the year 2021/22 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.

18.5.2 Any decision to borrow in advance will be considered carefully to ensure value for money can be demonstrated and that the council can ensure the security of such funds.

18.5.3 Borrowing in advance of need will ideally be limited to no more than 100% of the expected increase in borrowing need (CFR) over the three-year planning period. In determining whether borrowing will be undertaken in advance of need the council will:

- ensure that there is a clear link between the capital programme and maturity profile of the existing debt portfolio which supports the need to take funding in advance of need
- ensure the ongoing revenue liabilities created, and the implications for the future and budgets have been considered
- evaluate the economic and market factors that might influence the manner and timing of any decision to borrow
- consider the merits and demerits of alternative forms of funding
- consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use
- consider the pros and cons of the impact of borrowing in advance of need at attractive rates on the available cash balances the council will hold and the risks associated with increased exposure to credit risk arising from investing this additional cash in advance of need.

18.6 Debt Rescheduling

18.6.1 As short-term borrowing rates will be considerably cheaper than longer term rates, there could have been potential to generate savings by switching from long term debt to short term debt. So any savings will need to be considered in the light of the size of premiums to be incurred, their short-term nature, and the likely cost of refinancing those short-term loans, once they mature, compared to the current rates of longer-term debt in the existing debt portfolio. Any such rescheduling and repayment of debt is likely to cause a flattening of the council's maturity profile as in recent years there has been a skew towards longer dated PWLB.

18.6.2 However, 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.

18.6.3 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 strategy outlined above
- enhancing the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

18.6.4 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 most likely going to continue being lower than rates paid on current debt.

18.6.5 All rescheduling will be reported to Council at the earliest meeting following its implementation.

18.7 Housing Revenue Account (HRA) Self Financing

18.7.1 The housing subsidy system was dismantled and replaced by a system of self-financing of the HRA from 1 April 2012. Since then, two separate pools are operating for the management of HRA and GF debt.

18.7.2 Under the two pool approach legacy loans were notionally apportioned between the HRA and general fund using the CFR split and future loans have been raised separately.

18.7.3 An equitable means of apportioning debt management expenses is in operation

18.7.4 Until October 2018, HRA borrowing was capped by the government and the HRA needed to borrow within the parameters of its existing debt and the cap known as the headroom. In October 2018, the Government approved plans to remove the HRA borrowing cap, giving local authorities the flexibility to borrow up to levels that can be supported through their revenue streams.

19. Annual Investment Strategy

19.1 The annual investment strategy is set out in Annex 5 for approval by Council. This covers:

- Overview including durations bands for counterparties and minimum credit ratings (table 3 Annex 5)
- Policy lending – non treasury management investments
- Investment balances / liquidity of investments
- Specified / unspecified investments

20. Financial Implications

20.1 Investment income is currently forecast to be £0.7m for 2020/21. For 2021/22 budgeted investment income is estimated at approximately £0.06m to reflect lower expected interest rates.

21. Balanced Budget Requirement

21.1 The council complies with the provisions of the Local Government Finance Act 1992 to set a balanced budget.

21.2 Risk management plays a fundamental role in treasury activities due to the value and nature of transactions involved. In order to mitigate risks on investment income the council holds a economic volatility reserve, which can be used to manage unforeseen volatility of investment income or borrowing costs.

21.3 Budgeting for MRP requires the council to make provision for MRP linked to the life of the assets being enhanced. This makes budgeting for MRP more complex and sensitive to changes in assets being financed and the amount on unsupported borrowing used.

21.4 MHCLG issued regulations and guidance on MRP set aside in February 2018.

21.5 **Loans to third parties**

21.5.1 Expenditure on policy loans to third parties which constitute capital expenditure must have MRP set aside. In the past it was possible to justify not setting aside MRP for some investments as any borrowing would be repaid by selling the assets sometime in the future; this will not now be possible meaning MRP will need to be set aside for these assets.

21.5.2 As before repayments included in annual PFI or finance leases are applied as MRP. There is no requirement for the HRA to set aside MRP, although there is a requirement for depreciation to be applied.

21.5.3 Acquisition of share capital can be written off over a maximum of 20 years.

Annex 1 – Treasury Management Policy Statement

Treasury Management Policy Statement

The London Borough of Ealing defines the policies and objectives of its treasury management activities as follows: -

(i) This organisation defines its treasury management activities as:
“The management of the authority’s 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”.

(ii) This organisation regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation.

(iii) This organisation acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving best value in treasury management, and to employing suitable performance measurement techniques, within the context of effective risk management.”

Annex 2 – Treasury Management Scheme of Delegation

Treasury Management Scheme of Delegation

The London Borough of Ealing's Treasury Management Scheme of Delegation is approved by Full Council annually as part of the overall Treasury Management Strategy, it was last approved by Council at its meeting of 25 February 2020 and there are no proposals for any amendments to the current scheme, which is set out below:

1. Council

- receiving and reviewing reports on treasury management policies, practices and activities
- approval of/amendments to the organisation's adopted clauses, treasury management policy statement
- approval of annual strategy.

2. Section 151 Officer/ Chief Finance Officer

- budget consideration and approval
- approval of the division of responsibilities
- receiving and reviewing regular monitoring reports and acting on recommendations
- approving the selection of external service providers and agreeing terms of appointment.

3. Audit Committee

- scrutiny of the Treasury Management Function
- receive and review quarterly reports
- reviewing the treasury management policy and procedures and making recommendations to the responsible body.

4. The treasury management role of the section 151 officer is to:

- Recommend clauses, treasury management policy for approval, hold regular reviews, and monitor compliance

- Formulate consulting on and approving the treasury management practices, outlining the detailed manner in which the treasury management function will operate

- Submit regular treasury management policy reports
- Submit budgets and budget variations

- Receive and review management information reports

- Review the performance of the treasury management function

- Ensure the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function

- Ensure the adequacy of internal audit, and liaising with external audit

- Recommend the appointment of external service providers.

- Preparation of the capital strategy

- Ensuring the capital strategy is prudent, sustainable and affordable and provides value for money

- Ensuring that due diligence has been carried out on all treasury and non-treasury financial investments

- Ensuring proportionality of all investments to ensure risk is well managed

- Provision of a schedule of all non-treasury investments

- Ensuring that members are adequately informed and understand the risk exposures taken by the authority.

Annex 3 – Prudential Indicators

Prudential Indicators

1. Capital Prudential Indicators

1.1 The council's capital expenditure plans are a key driver of treasury management activity.

2. Capital Expenditure

2.1 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:

Table 1: Capital Expenditure Forecast

	2019/20 Outturn	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
	£m	£m	£m	£m	£m
Non-HRA	60.613	157.967	164.880	20.398	2.357
HRA	57.032	76.343	86.161	85.706	84.936
Housing Loan to BLRP*	2.668	9.859	73.366	159.538	59.961
Total	**120.313**	**244.169**	**324.407**	**265.642**	**147.254**

** Policy investments / non-financial investments relate to areas such as capital expenditure on investment properties, loans to third parties etc. This figure currently comprises policy loans to Housing Loan/Equity to BL/BLRP.*

2.2 Other long-term liabilities. The above financing need excludes other long-term liabilities, such as PFI and leasing arrangements which are classified as borrowing instruments.

2.3 Table 2 outlines how the capital expenditure plans are proposed to be financed by capital or revenue resources. Any shortfall of resources results in a funding need i.e. borrowing.

Table 2: Capital Programme Funding Summary

Capital Expenditure	2019/20 Outturn	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
	£m	£m	£m	£m	£m
Non-HRA	60.613	157.967	164.880	20.398	2.357
HRA	57.032	76.343	86.161	85.706	84.936
Housing Loan to BLRP	2.668	9.859	73.366	159.538	59.961
Total	**120.313**	**244.169**	**324.407**	**265.642**	**147.254**
Financed by:					
Capital receipts	36.651	1.948	12.637	5.550	0.000
Capital grants	24.453	22.066	54.135	5.032	0.000
Revenue Contribution	3.900	0.022	0.000	0.000	0.000
Other: Parking Reserve; Invest to Save; Partnership; S106	6.329	14.003	7.860	0.950	0.000
HRA Direct Funding	0.000	47.320	81.406	51.845	63.377
Total Financed	**71.333**	**85.360**	**156.038**	**63.377**	**63.377**
Net Financing Need (General Fund & HRA - Borrowing)	48.980	158.809	168.370	202.265	83.877
TOTAL FUNDING	**120.313**	**244.169**	**324.407**	**265.642**	**147.254**

Table 3: New borrowing made up as follows:

	2019/20 Outturn	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
New Year Borrowing GF	46.312	119.927	90.248	8.866	2.357
New Year Borrowing HRA	0.000	29.023	4.755	33.861	21.559
Housing Loan to BLRP	2.668	9.859	73.366	159.538	59.961
Total borrowing	**48.980**	**158.809**	**168.370**	**202.265**	**83.877**

Table 4: Housing Loan to BLRP

	2019/20 Outturn	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
Borrowing for non-financial investments	2.668	9.859	73.366	159.538	59.961
Net financing need for the year	**48.980**	**158.809**	**168.370**	**202.265**	**83.877**
Percentage of total net financing need %	**5%**	**6%**	**44%**	**79%**	**71%**

3. The Council's Borrowing Need (the Capital Financing Requirement)

3.1 This prudential indicator is the council's capital financing requirement (CFR), which is simply the total historic unfinanced capital expenditure i.e. a measure of the council's underlying borrowing need. Any capital expenditure not immediately paid for, will increase the CFR. The requirement to set aside the minimum revenue provision (MRP) reduces the council's underlying need to borrow and the ensuing CFR.

3.2 The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the indebtedness in line with each asset's life, and so charges the economic consumption of capital assets as they are used.

3.3 The CFR includes any other long-term liabilities (OLTL) (e.g. PFI schemes, finance leases) brought onto the balance sheet. Whilst these increase the CFR, and therefore the council's borrowing requirement, these types of scheme include a borrowing facility and so the council is not required to separately borrow for these schemes. The council currently has £110.5m of such schemes that forms part of the CFR.

3.4 The Council is asked to approve the CFR projections below:

Table 5: CFR - Capital Financing Requirement

	2019/20 Outturn	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
	£m	£m	£m	£m	£m
CFR – Non Housing	519.728	623.365	696.396	682.262	660.912
CFR – Housing	162.801	191.824	196.579	230.440	251.999
CFR – Housing Loan/Equity to BL/BLRP	10.171	22.698	85.361	244.899	317.163
Total CFR ex OLTL	**692.700**	**837.887**	**978.336**	**1,157.601**	**1,230.074**
OLTL	110.504	117.166	111.908	104.831	97.739
Total CFR inc. OLTR	**803.204**	**955.053**	**1,090.244**	**1,262.432**	**1,327.813**
Movement in CFR	**29.747**	**136.658**	**144.475**	**171.840**	**52.703**

Table 5a: Movement in CFR inc OLTL represented by:

	2019/20 Outturn	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
	£m	£m	£m	£m	£m
Net financing need for the year	48.980	158.809	168.370	202.265	83.877
Less MRP and other financing movements	(19.233)	(22.151)	(23.895)	(30.425)	(31.174)
Less VRP*	0.000	0.000	0.000	0.000	0.000
Movement in CFR	**29.747**	**136.658**	**144.475**	**171.840**	**52.703**

**Voluntary Revenue Provision*

4. IFRS16 Leasing

4.1 It is requirement under IFRS16 to bring off balance sheet operation leases onto the balance sheet for closing of the accounts for 2022/23 deferred by CIPFA from 2021/22.

4.2 The Capital Financing Requirement, External debt (Other long-term liabilities), authorised limit and operational boundary, have been adjusted to allow for those leases which were previously off-balance sheet, being brought onto the balance sheet at 31 March 2023. It is not currently possible to be precise about the adjustment figures until detailed data gathering has been substantially completed later in the 2021/22 financial year. The authorised limit and operational boundary have been increased to allow for a current initial estimate of the likely effect of this change. Notwithstanding this, the limits will be amended mid-year if the allowance is insufficient. An assessment will also be made of the impact on the HRA share of the CFR.

4.3 A key aspect of the regulatory and professional guidance is that elected members are aware of the size and scope of any commercial or policy investment activity in relation to the authority's overall financial position. The capital expenditure figures shown in 2.1 and the details above demonstrate the scope of this activity and, by approving these figures, consider the scale proportionate to the Authority's remaining activity.

4.4 Under the capital finance regulations, local authorities are permitted to borrow up to three years in advance of need. This council will only consider borrowing in advance of need if market conditions indicate that it is the best course of action. One of the reasons for borrowing in advance is to take advantage of and lock in low long term interest rates, especially if officers believe long term rates are likely to rise. There is a short term carry cost to borrowing in advance of need as currently investment rates are considerably lower than long term borrowing rates. Borrowing in advance of need also increases the level of temporary investments and thus increases the exposure to loss of investment principal. However, the council has put in place a prudent methodology to minimise this risk.

5. Affordability Prudential Indicators

5.1 Actual and estimates of the ratio of financing costs to net revenue stream

5.1.1 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.

Table 6: Ratio of financing costs to revenue streams

	2019/20 Outturn	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
	%	%	%	%	%
Non-HRA	10.54%	11.81%	15.16%	17.51%	17.50%
HRA (inclusive of settlement)	7.75%	8.22%	10.91%	11.20%	11.13%
Housing Loan to BLRP	4.11%	9.15%	34.40%	98.15%	126.40%

5.1.2 The estimates of financing costs include current commitments and the proposals in this budget report.

Table 7: HRA Ratios

	2019/20 Outturn	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
	£m	£m	£m	£m	£m
HRA debt (£m)	162.801	191.824	196.579	230.440	251.999
HRA revenues (£m)	65.485	68.540	69.528	73.209	75.888
Ratio of debt to revenues	2.42:1	2.98:1	3.11:1	3.80:1	4.13:1

	2019/20 Outturn	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
HRA Debt (£m)	162.801	191.824	196.579	230.440	251.999
Number of HRA Dwellings	11,851	11,148	11,348	11,000	10,975
Debt per dwelling (£m)	0.014	0.017	0.017	0.021	0.023

6. Treasury Indicators: Limits to Borrowing Activity

6.1 The Operational Boundary

6.1.1 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.

Table 8 – Treasury Indicators Limits on borrowing activity

Operational Boundary – General Fund & HRA	2019/20 Outturn	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
	£m	£m	£m	£m	£m
Debt	682.529	815.189	892.974	912.701	912.911
Other long term liabilities	110.504	117.166	111.908	104.831	97.739
Housing Loan to BLRP	10.171	22.698	85.361	244.899	317.163
Total	**803.204**	**955.053**	**1,090.243**	**1,262.431**	**1,327.813**

6.2 The Authorised Limit for external debt

6.2.1 A further 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 limit needs to be set or revised by the Full Council. It reflects the level of external debt which, while not necessarily desired, could be afforded in the short term, but is not sustainable in the longer term.

6.2.2 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.

6.2.3 The council is asked to approve the following Authorised Limit:

Table 9 – Authorised Limits

Authorised limit - General Fund & HRA	2019/20 Outturn	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
	£m	£m	£m	£m	£m
Debt	702.529	835.189	912.974	932.701	932.911
Other long term liabilities	110.504	117.166	111.908	104.831	97.739
Housing Loan to BLRP	10.171	22.698	85.361	244.899	317.163
Total	**823.204**	**975.053**	**1,110.243**	**1,282.431**	**1,347.813**

6.3 Maturity Structure of borrowing

6.3.1 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.

6.3.2 The Council is asked to approve the following treasury indicators and limits:

Maturity structure of fixed interest rate borrowing 2021/22		
	Lower	**Upper**
Under 12 months	0%	10%
12 months to 2 years	0%	10%
2 years to 5 years	0%	20%
5 years to 10 years	0%	20%
10 years to 20 years	10%	30%
20 years to 30 years	10%	30%
30 years to 40 years	10%	30%
40 years to 50 years	10%	40%
Maturity structure of variable interest rate borrowing 2021/22		
	Lower	**Upper**
Under 12 months	0%	10%
12 months to 2 years	0%	10%
2 years to 5 years	0%	10%
5 years to 10 years	0%	10%
10 years to 20 years	0%	10%
20 years to 30 years	0%	10%
30 years to 40 years	0%	10%
40 years to 50 years	0%	10%

Annex 4 – MRP Policy Statement

MRP POLICY STATEMENT

The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 require the Council to determine for the current financial year an amount of minimum revenue provision which it considers to be prudent. This involves allowing the debt to be repaid over a period reasonably commensurate with that over which the capital expenditure provides benefit.

MHCLG Guidance requires the Authority to approve an annual MRP statement and requires the Authority to make a prudent provision of MRP. Broad aim of the guidance is to ensure that capital is financed over a period for which it provides benefits.

The first MRP charge will be made in the year following the date that an asset becomes operational.

Minimum Revenue Provision (MRP) Policy Statement

1. It was agreed at the Cabinet meeting of 24 February 2009 and Council meeting of 03 March 2009 that, the council makes MRP charges to revenue in accordance with option 3, the asset life method as opposed to option 4 depreciation, which would have required the additional resource and administrative expense of tracking and revaluing assets at regular intervals. There is no basis for a change in policy and in accordance with approval sought and received in 2009 the council will continue to apply option 3.

2. Asset Life Method

2.1 MRP will be based on the estimated life of the assets, in accordance with the proposed regulations (this option must be applied for any expenditure capitalised under a capitalisation direction) (option 3); this option provides for a reduction in the borrowing need over approximately the asset's life.

2.2 Under this Policy the total charge to the General Fund budget in 2020/21, excluding PFI and finance leases is expected to be approximately £15.509 of which a significant element (£4.407m) is in relation to debt incurred prior to 1 April 2008.

2.3 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). The Council has to date not undertaken any VRP.

2.4 MHCLG regulations require the full Council to approve an MRP Statement in advance of each financial year. The Council is recommended to approve the following MRP Statement:

2.5 For capital expenditure incurred before 1 April 2008 or which in the future will be Supported Capital Expenditure, the MRP policy will be:

“the MRP policy is equal annual reduction of 2% of the outstanding debt at 1 April 2017 for the subsequent 50 years”

2.6 From 1 April 2008 for all unsupported borrowing (including PFI and finance leases) the MRP policy will be:

- **Asset life method** – MRP will be based on the estimated life of the assets, in accordance with the regulations (this option must be applied for any expenditure capitalised under a Capitalisation Direction) (option 3);

2.7 These options provide for a reduction in the borrowing need over approximately the asset’s life. 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 (although there are transitional arrangements in place). Repayments included in annual PFI or finance leases are applied as MRP.

2.8 MRP Overpayments

2.8.1 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. No overpayment has been proposed for now, but should this be deemed appropriate officers will update Members of the intention to overpay and reclaim in future years.

2.9 MRP for Loans/Service Investments Deemed to be Capital Expenditure

2.9.1 When making service/policy investments the council needs to consider the potential MRP implications should the loan be classed as capital spend. The authority currently provides service loans to third parties to facilitate the delivery of housing or services that advance the council’s policy objectives. The cash advances will be used by the third parties to fund capital expenditure and this will be treated as capital expenditure and a loan to a third party. The capital financing requirement (CFR) will increase by the amount of loans advanced (under the terms of contractual loan agreements). Once funds are returned to the authority, the returned funds are classed as a capital receipt, and off-set against the CFR, which will reduce accordingly.

2.9.2 Expenditure on service loans to third parties which constitute capital expenditure must have MRP set aside. In respect of the following types of capital expenditure, the Council has established an alternative though prudent methodology for calculating the annual MRP charges:

2.9.3 The housing loans to BLRP constitute capital expenditure and therefore must have MRP set aside, the Council has established an alternative though prudent methodology for setting the annual MRP charge. A loan facility repayment holiday will exist until completion of the development phase and MRP will then follow the loan agreement schedule, but still remaining within the overall 50-year BLRP business plan, thereby reducing the Capital Financing Requirement accordingly.

2.9.4 The Council will undertake an annual financial assessment of the third party's ability to repay the debt and where any adverse changes are perceived a voluntary MRP provision will be made to cover any future potential financial losses. This arrangement will also be applied where a third party has committed to underwrite the debt costs of a specific project through amounts reserved for capital purposes.

2.9.5 The Authority takes a holistic view on prudence spanning the lifecycle of the service loan.

2.10 Finance and Operational Leases

2.10.1 For assets acquired by finance leases or the Private Finance Initiative, MRP will be equal to the portion of the rent or charge that is applied to write down the balance sheet liability, or over the life of the asset.

2.11 Revenue Expenditure Funded from Capital Under Statute (REFCUS)

2.11.1 For capital expenditure incurred via the use of a Capitalisation Direction: provision will be made over a period not exceeding 20 years.

2.12 Equity Investments

2.12.1 The council will determine MRP on equity investments based a 20-year life. However, for equity investments in asset backed companies, longer life may be assumed to match the Council's policy for investment assets.

2.12.2 The Chief Finance Officer will determine alternative MRP approaches, in the interests of making prudent provision, where this is material, taking account of local circumstances, including specific project timetables and revenue-earning projections.

2.12.3 The Authority has historic service loans to associated organisations for which MRP treatment is in line with the associated risk and prudence considerations and regulations at the time of issue. These arrangements may continue, however, the Chief Finance officer can vary the MRP methodology in line the parameters approved within this policy.

Annex 5 – Investment Strategy

INVESTMENT STRATEGY

1. OVERVIEW

1.1 Investments can be financial or non-financial. This report deals with financial investments (as managed by the treasury management team) although prudential indicators in as much as it pertains to borrowing for non-financial investment are outlined in this report. The purchase of non-financial income yielding assets are covered in the Capital Strategy report. -

1.2 Investments are made broadly in three different circumstances:

- When excess cash is generated from the day to day activities of the authority (i.e. Treasury Management investments)
- Lending to organisations or investing in the share capital of same to promote a local service
- Purely to earn investment income known as commercial investments

1.3 **Treasury Management Investments**

1.3.1 The Authority mostly receives income in cash (e.g. from taxes and grants) and in turn funds its expenditure by same such as to pay salaries and invoices. It also holds reserves for future expenditure. These activities, together with timing decisions surrounding borrowing can lead to surplus cash which is invested in line with statutory guidance. Treasury investment balance is expected to fluctuate between £150m and £200m during the 2021/22 financial year.

1.4 **Service/Policy Investments**

1.4.1 The Council can lend money to third parties e.g. subsidiaries, special purpose vehicles (SPV) registered providers, its suppliers, local businesses, local charities, housing associations, residents and its employees to support local public services and stimulate local economic growth.

1.4.2 In some circumstances the council may have entered into a partnership arrangement with organisations or institutions for the provision of a service/facility that will directly promote the council's policy objectives which either requires the council to lend or jointly invest in a venture. The Council has provided loans to Broadway Living an arms-length company to increase the inadequate supply of high-quality affordable housing within the borough.

1.4.3 These types of service investments do not form part of the treasury management strategy as such but are discussed in more detail in the Capital Strategy.

1.4.4 The lending activities outlined in Table 1 below have been either scheduled or have been undertaken to support the Council's service objectives.

Table 1 – Loans for Policy Investments

Organisation	£m	Description
West London Waste Authority (WLWA)	15.000	An Invest to Save loan granted to West London Waste Authority (WLWA) towards the project for the development of a new Energy from waste facility. Interest payments for this loan commenced January 2017.
Broadway Living Limited	11.800	Three loans have been granted to Broadway Living Limited for £1.2m , £6.8m and £3.8m
Future Ealing	0.600	This is an investment that LBE made, which was part of a PFI structure.
Gunnersbury CIC	0.237	This loan of £250k was granted to Gunnersbury Community Interest Company to assist with initial set up costs. In 20/21 £13k principal has been repaid.
Greener Ealing	0.900	This loan was granted in 20/21 for costs towards initial set up costs such as acquisition of plant and equipment, IT software and hardware.

1.5 Security

1.5.1 A key risk is the inability of the borrower to repay the principal lent and/or the interest due. The Authority mitigates this risk by limiting the quantum of exposure to any single borrower and having recourse to underlying real assets should the lender default.

1.5.2 Accounting standards now requires the Authority to set aside loss allowance for loans, where it foresees the likelihood of default. Currently the authority does not expect any credit loss to arise from non-payment of the principal sum invested.

1.6 **Risk assessment**

1.6.1 The Authority assesses the risk of loss before entering and whilst holding service loans. A business case is developed, and then external consultants are used to scrutinise and challenge the assumptions and projections presented. A risk analysis was carried out as part of the business case for loans to Broadway Living. The performance of the company is being kept under ongoing review via regular meetings with Broadway Living Board.

1.7 **Service/ Investments Equity**

1.7.1 The Council can and has invested in the shares of its subsidiaries or partner organisations to support local public services and stimulate local economic growth.

1.8 **Security**

1.8.1 One of the risks of investing in shares is that they fall in value meaning that the initial outlay may not be recovered. The shares that Council invest in do not have a ready market and are not acquired with the intention of trading the shares.

1.9 **Risk assessment**

1.9.1 As outlined above, a risk analysis is carried out as part of any business plan. The objective is to invest in an affiliated company that will grow successfully. The performance of all investee companies will be kept under close review via regular meetings with the company board, so that corrective action can be taken if necessary.

1.10 **Liquidity**:

1.10.1 Although this type of investment is fundamentally illiquid, the limit on the level of investment mitigates the risk and the Council.

1.11 **Commercial Investments Property**

1.11.1 The Council may invest in property with the intention of making a profit that will be spent on local public services which will fall under the category of Commercial Investments. To date the Council has not invested in commercial investments.

1.11.2 Loan Commitments and Financial Guarantees: The Council may also make loan commitments or provide financial guarantees to third parties to further its service objective.

1.11.3 The council will have regard to the MHCLG's Guidance on Local Government Investments ("the Guidance") and the 2017 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). The council's Treasury investment priorities remain: -

- security of the invested capital;
- liquidity of the invested capital; and
- an optimum yield which is commensurate with security and liquidity.
- all investments will be in sterling.

1.11.4 In accordance with the above guidance from the MHCLG and CIPFA, and in order to minimise the risk to investments, the council applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of concentration risk.

1.12 Other information

1.12.1 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.

1.12.2 Other information sources will also be used including the financial press, share price and other financial sector information metrics that aid the scrutiny process to establish the suitability of the Counterparties.

1.12.3 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 Table 3 and Table 7 under the categories of 'specified' and 'non-specified' investments.

1.12.4 Specified investments are those with a high level of credit quality and subject to a maturity limit of one year.

1.12.5 Non-specified investments are those with less high credit quality, may be for periods more than one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use. Once an investment is classed as non-specified, it remains non-specified all the way through to maturity i.e. an 18-month deposit would still be non-specified even if it has only 11 months left until maturity.

1.12.6 Non-specified investments limit. The Council has determined that it will limit the maximum total exposure to non-specified investments as being 30% of the total investment portfolio.

1.12.7 The Council will only use non-UK banks from Countries with a minimum sovereign rating of -AA. The sovereign rating of -AA must be assigned by one of the three credit rating agencies. Transaction limits are set for each type of investment in 4.2.

1.12.8 This authority has engaged external consultants, 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.

1.13 Pooled Investments

1.13.1 As a result of the change in accounting standards for 2019/20 under IFRS 9, this authority will consider the implications of investment instruments which could result in an 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, the Ministry of Housing, Communities and Local Government, [MHCLG], concluded a consultation for a temporary override to allow English local authorities time to adjust their portfolio of all pooled investments by announcing a statutory override to delay implementation of IFRS 9 for five years commencing from 01/04/2018. The authority also has other options.

1.13.2 The authority will explore all options to allow any pooled fund investments will qualify to be elected from the onset as fair value through other comprehensive income as they are not held primarily for trading. Hence fair value gains and losses can be taken to the Financial Instrument Revaluation Reserve and there will be no dependence on the statutory override which can be withdrawn.

1.13.3 The authority will seek to achieve value for money from its treasury management activity and will monitor yield from investment income against appropriate benchmarks for investment performance. As such investment performance monitoring will be carried out at regular intervals throughout the year.

1.14 Creditworthiness policy

1.14.1 The 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, Moody's and Standard and Poor's. The credit ratings of counterparties are supplemented with credit watches and credit outlooks from credit rating agencies, CDS spreads to give early warning of likely changes in credit ratings and sovereign ratings to select counterparties from only the most creditworthy countries

1.14.2 This modelling approach combines credit ratings, credit Watches and credit Outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product 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 suggested duration for investments that exist on Links's recommended counterparty list. The council will therefore use counterparties within the following durational (colour) bands.

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

1.14.4 Typically, the minimum credit ratings criteria the Council use based on this service will be a short term rating (Fitch or equivalents) of F1 and a long term rating of A-. There may be occasions 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.

1.14.5 The Chief Finance Officer can also provide working capital loans to unrated affiliated bodies, i.e. they would not need to have and external rating.

Table 3: Durational and Monetary limits applying to Investment Specified and Non-Specified Investments

Counterparty	Maximum Lending Limit per institution	Durational Limit	
UK Banks Term Deposits	£60m	Up to 5 years	CD's £5m per institution
The Councils Banker Lloyds Banking Group	£60m		
Non UK Banks	£30m	2 year	
Building Society	£30m	1 year	
MMF – CNAV	£20m per Fund	Instant Access	
MMF - LVNAV	£20m per Fund	Instant Access	
MMF - VNAV	£5m per Fund	Instant Access	
Debt Management Office Deposit Facility (DMADF)	Unlimited	6 months (max available)	
Sterling Treasury Bills	Unlimited	6 months (max available)	
Local Authorities	Unlimited (Per authority £20m)	3 years	
Ultra short dated bond funds	£5m in total	tradable	

Counterparty	Maximum Lending Limit per institution	Durational Limit	
Corporate Bonds	£5m in total	Tradable	
Corporate Bond Funds	£5m in total	Tradable	
UK Government Gilts/Gilt Funds	£5m in total	Tradable	
Multi Asset Funds	£5m in total	Tradable	
Collateralised Deposit	£5m in total	1 year	
Bond Issuance (guaranteed by UK Government	£5m in total	1 year	
Unrated Affiliated Bodies working capital *	Subject individual circumstance	Case by Case	
Unrated Affiliated Bodies Capital Expenditure Loan	Subject to individual circumstance	Case by Case	

**unrated affliliated bodies such as: Charities, arm's length companies and registered providers, Ealing service providers,*

Board (TRIB) under the auspices of the Chief Finance Officer have delegated powers to make changes to their local operational limits but remain within the parameters of the Treasury Strategy.

1.14.6 The council is alerted of changes to ratings and of all three agencies through its use of its adviser's creditworthiness service. In addition to the use of credit ratings the council will be advised of information on movements in credit default swap spreads 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

1.14.7 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 except in the circumstances out lined above where TRIB determines the counterparty can remain on the councils list.

1.14.8 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 government support for banks and the credit ratings of that supporting government.

1.15 Country limits

1.15.1 As outlined above, the council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating from Fitch of AA- (or equivalent from other agencies if Fitch does not provide a rating). However, it must be noted that the most likely position is that any foreign institution the council invest in should be as highly rated as the UK or better. Investments in the UK will not be subject to sovereign credit worthiness rating restriction.

1.15.2 The list of countries which currently meet this criterion are outlined in Table 6. The Chief Finance Officer will monitor and update the position under delegated powers and report back to Council at the earliest opportunity.

1.15.3 Where Institutions are not on the council's advisers list and the council makes its own assessment, the council will only lend to counterparties using the minimum criteria specified below.

1.15.4 The minimum credit rating required for an institution to be included in the council's counterparty list (where Link credit worthiness service is not being used) is as follows:

Table 4 Minimum credit ratings

	Long-Term	Short-Term
Fitch	A	F1
Moody's	Aa3	P-2
Standard & Poor's	A-	A-2

Sovereign Rating	AA-
Money Market Funds	AAA

Note: The above does not apply to policy investments.

1.15.5 As outlined above officers also take any market intelligence gleaned into consideration to further determine whether to suspend institutions from the list even though the institution meets our minimum lending criteria.

1.15.6 Setting and monitoring of the counterparty list and the agreed maximum limit per counterparty (and council's rating criteria) constitutes part of the execution and administration function and forms part of the authority to "determine the annual treasury strategy and carry out all treasury management activities" as per the council's scheme of delegation outlined in our financial regulations. The Chief Finance Officer therefore has discretion to review and amend these minimum ratings in view of market conditions and report to Council at the earliest opportunity.

1.15.7 Officers must respond quickly to counterparty rating changes and include or suspend institutions as their ratings fall in/out of the council's minimum rating criteria. This ensures that investment risk continues to be spread across a range of credit worthy institutions. The lending list is under ongoing review by the Chief Finance Officer under delegated authority.

1.15.8 Institutions with which the council currently can place funds are as follows:

- Debt Management Office (DMO). The rates of interest from the DMO are below equivalent money market rates. However, the returns are an acceptable trade-off for the guarantee that the council's capital is secure particularly in times of high market volatility. Indeed in recent times the DMO rates have surpassed MMF rates. Officers will continue to monitor the position and invest in accordance with the Council's risk appetite.

- The British institutions where the UK has a substantial stake such as RBS

- Other UK institutions meeting our minimum credit rating criteria

- AAA rated money market funds.

- Other local authorities (LAs) who are relatively risk-free counterparties. In the CLG's own investment guidance issued to councils, LA deposits are deemed to offer high security and liquidity. Their current limit is set at £5m for district councils and £10m for other LAs, subject to a group limit of £180m, though the strategy permits higher limits.

- Foreign institutions from countries with sovereign ratings equivalent to the UK's sovereign rating or higher provided they meet our minimum criteria.

- Institutions that fall within Link Asset Services' approved lending list having met the diverse criteria and who the council assess as having sound credit worthiness.

- UK government including the Debt Management Office– (gilts and treasury bills).

- Property Funds where not classed as capital expenditure

- Ultra-Short Dates Bond Funds

- Corporate Bond Funds

- UK Government Gilt Funds

- Multi Asset Funds

2. INVESTMENT BALANCES / LIQUIDITY OF INVESTMENTS

2.1 Based on Ealing's cash flow forecasts, the council anticipates its fund balances in 2020/21 to average around £200m if no long-term borrowing is raised. Balances will be higher if we raise external borrowing. For treasury investments, it is considered that the maximum percentage of its overall investments that the council should hold for more than 365 days is £50m. (Investments with a maturity exceeding a year). The prudential indicator figure of £50m for 2021/22 is therefore recommended. It should be noted that this indicator does not apply to investments made for service reasons.

2.2 In addition, the council may enter forward deals, but with an exposure that does not exceed 5 years, from the date the forward deal was affected.

2.3 The actual amount available for investment in 2021/22 will fluctuate as a result of the timing of significant items such as:

- expenditure on capital projects
- council tax, business rates, council house rents income
- receipt of government grants
- long-term loans taken out to fund capital expenditure
- capital receipts in respect of major asset sales

2.4 The amounts available for investments consist of both cash flow and core balances made up of reserves not likely to be required for one to two years. It is possible for the council to invest this core cash for longer term. The strategy is flexible and allows the Chief Finance Officer to take the decision to extend the duration of lending when market conditions are conducive to such lending.

2.5 **Investment Strategy and Interest Rate Outlook**

2.5.1 The Bank Rate is forecast to remain the same @ 0.01% for the next 3 years. Bank Rate forecasts for financial year ends (March) are:

- Q1 2022 0.01%
- Q1 2023 0.01%
- Q1 2024 0.01%

2.5.2 The overall balance of risks to these forecasts is currently to the downside (i.e. start of increases in bank rate occurs later). However, should the pace of growth quicken and / or forecasts for increases in inflation rise, there could be an upside risk.

2.6 **In-house funds**

2.6.1 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).

3. SPECIFIED/ UNSPECIFIED INVESTMENTS

3.1 **Specified Investments**

3.1.1 All such investments will be sterling denominated, with **maturities up to maximum of 1 year** meeting the minimum ‘high’ quality criteria where applicable.

3.2 **Non-Specified Investments**

3.2.1 These are investments 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. A maximum of £50m can be held in aggregate in non-specified investment.

3.2.2 A variety of investment instruments will be used, subject to the credit quality of the institution, and depending on the type of investment made it will fall into one of the above categories.

3.2.3 The criteria, time limits and monetary limits applying to institutions or investment vehicles are:

Table 5 Term deposits with nationalised banks and banks and building societies

	Minimum Credit Criteria	Use	Max. maturity period
UK part nationalised banks	Link Colour Bands	In-house	**1 year**
Banks part nationalised Non-UK s	Link Colour Bands	In-house and Fund Managers	**1 year**

- *If forward deposits are to be made, the forward period plus the deal period should not exceed one year in aggregate.*
- *Buy and hold may also include sale at a financial year end and repurchase the following day in order to accommodate the requirements of SORP.*
- *As collateralised deposits are backed by collateral of AAA rated local authority LOBOs, this investment instrument is regarded as being a AAA rated investment as it is equivalent to lending to a local authority.*
- *CD = Certificates of Deposit*

LOCAL AUTHORITIES

- *Although most local authorities do not have credit ratings, investing with local authorities provides good security for the council.*

3.3 Accounting treatment of investments

3.3.1 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.

3.4 Blanket guarantees on all deposits

3.4.1 Some countries may support their banking system by giving a blanket guarantee on all deposits, however; this council will generally not rely on the guarantees provided by any government unless there are overriding reasons for doing so.

3.5 Other Countries

3.5.1 At present the council will determine whether to include other countries by reference to credit rating of the sovereign together with financial news data on the sovereign. The minimum credit rating required for an institution to be included within the council's list is AA-, although the council more likely invest in sovereigns that have a rating equivalent to or better than the UK governments rating. Currently the countries falling within this are as follows:

Table 6– Credit Rating of other countries

AAA	AA+	AA	AA-
Australia	Finland	Abu Dhabi (UAE)	Belgium
Canada	USA	France	Qatar
Denmark		Hong King	
Germany		U.K	
Luxembourg			
Netherlands			
Norway			
Singapore			
Sweden			
Switzerland			

3.6 Non-Specified Investments

Table 7 – Non-Specified Investments

A. Maturities of any period.

Fixed term deposits with variable rate and variable maturities: -	Minimum Credit Criteria	Use
Callable deposits	Falling within the council's criteria	In-house
Range trade	Falling within the council's minimum criteria	In-house
Other debt issuance by UK banks covered by UK Government guarantee	UK Government explicit guarantee	In-house and Fund Managers
Term deposits with unrated counterparties	Decision flowing through TRIB, or a delegated officer	In-house
Commercial Paper	Fitch F1, AA aa1 or equivalent.	In-house / Fund Managers
Corporate Bonds	Fitch F1, AA aa1 or equivalent.	In-house/ Fund Managers
UK Floating Rate Notes	Fitch F1, AA aa1 or equivalent.	In-house/Fund Managers
VNAV MMF's (where there is greater than 12-month history of a consistent £1 Net Asset Value)	High Credit Score	In-house and Fund Managers
Bond Funds	Long term AAA	In-house and Fund Managers
Multi Asset Funds		In house and Fund Managers
Gilt Funds	Long Term AAA	In-house and Fund Managers
Property Funds		In-house and Fund Managers

B. Maturities more than 1 year

Investments as specified above in specified investments, but for periods in excess of 1 year.

3.7 Investment Treasury Indicator and Limit

3.7.1 Total principal funds invested for greater than 364 days. These limits are set with regard to the council's liquidity requirements and to reduce the need for the council becoming a forced seller of an investment, and are based on the availability of funds after each year-end.

3.7.2 The council is asked to approve the treasury indicator and limit: -

Table 8 – Investment Treasury Indicator and limit to be approved Maximum **principal sums invested > 364 days**			
	2021/22 £M	**2022/23 £M**	**2023/24 £M**
Principal sums invested > 364 days	50	50	50

Note: This durational limit excludes policy investments, where the decision is made on a case by case basis.

3.7.3 For its cash flow generated balances, the council will seek to utilise money market funds, call accounts and short-dated deposits (overnight to three months), treasury bills and the debt management office.

3.8 Investment Risk Benchmarking

3.8.1 These benchmarks are simple guides to maximum risk, so they may be breached from time to time, depending on movements in interest rates and counterparty criteria. The purpose of the benchmark 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.

3.9 Security

3.9.1 The council's maximum-security risk benchmark for the current portfolio, when compared to these historic default tables, is:

- <1% historic risk of default when compared to the whole portfolio.

3.10 Liquidity

3.10.1 In respect of liquidity the council seeks to maintain:

- Bank overdraft - £0.5m
- Liquid short-term deposits of at least £5m available with a week's notice.

3.11 Yield

3.11.1 Local measures of yield benchmarks are:

Investments – internal returns above the 7-day LIBID rate

3.11.2 In addition, the security benchmark for each individual year is:

Table 9– Security Benchmark for each individual year

	1 year	2 years	3 years	4 years	5 years
Maximum %	2%	2%	2%	2%	2%

Note: This benchmark is an average risk of default measure, and would not constitute an expectation of loss against a particular investment.

3.12 Provisions for Credit-related losses

3.12.1 If any of the council's investments appeared at risk of loss due to default (i.e. this is a credit-related loss, and not one resulting from a fall in price due to movements in interest rates) then the council will make revenue provision of an appropriate amount.

3.13 End of year Investment Report

3.13.1 At the end of the financial year, the council will prepare a report on its investment activity as part of its annual treasury management report.