This Report will be made public on 12 January 2021

Folkestone & Hythe District Council

Report Number **C/20/64**

To: **Cabinet**
Date: **20 January 2021**
Status: **Key Decision**
Head of Service: **Charlotte Spendley - Director of Corporate Services**
Cabinet Member: **Councillor David Monk – Leader and Portfolio Holder for Finance**

Subject: **TREASURY MANAGEMENT STRATEGY STATEMENT 2021/22 AND TREASURY MANAGEMENT MONITORING REPORT 2020/21**

SUMMARY: This report sets out the proposed strategy for treasury management for 2021/22 including Treasury Management Indicators. The report also provides an update on the council's treasury management activities that have taken place during 2020/21 against the agreed strategy for the year.

REASONS FOR RECOMMENDATION:
Cabinet is asked to agree the recommendations set out below because:-

a) The Council must have regard to CIPFA's Code of Practice for Treasury Management in the Public Services when carrying out its duties under Part 1 of the Local Government Act 2003, including approving an annual Treasury Management Strategy Statement in advance of the financial year.
b) The Council's Financial Procedure Rules require an annual plan and strategy for treasury management to be approved in advance of the financial year.
c) Both the CIPFA Code of Practice on Treasury Management and the Council's Financial Procedure Rules require Members to receive a report on the Council's treasury management activities during the year.

RECOMMENDATIONS:

1. **To receive and note Report C/20/64.**
2. **To approve the strategy for treasury management in 2021/22 set out in the report is adopted.**
3. **To approve the Treasury Management Indicators for 2021/22 set out in the report.**

1. INTRODUCTION

1.1 Treasury management is the management of the authority's cash flows, borrowing and investments, and the associated risks. The authority has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the authority's treasury management strategy and its prudent financial management.

1.2 This report is in two main sections.

i) Section A – Treasury Management Monitoring Report 2020/21

This provides an update on the council's treasury management activities that have taken place during 2020/21 against the agreed strategy for the year up to 30 November 2020. It also considers any significant issues which may impact upon the treasury management function for the remainder of the current financial year.

ii) Section B – Treasury Management Strategy Statement 2021/22

This sets out the proposed strategy for treasury management for 2021/22, including Treasury Management Indicators.

1.3 Treasury risk management at the authority is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2017 Edition* (the CIPFA Code). The Code requires the authority to approve both a treasury management strategy before the start of each financial year and, as a minimum, a mid-year treasury management monitoring report on its activities against the agreed strategy for the current financial year. This report fulfils the authority's legal obligation under the *Local Government Act 2003* to have regard to the CIPFA Code. The authority's own Financial Procedure Rules also require an annual plan and strategy for treasury management to be approved in advance of the each financial year.

1.4 Investments held for service purposes or for commercial profit are considered in a different report, the Investment Strategy which Cabinet is due to consider on 24 February 2021 ahead of it being submitted to full Council for approval on the same day.

2. ECONOMIC BACKGROUND AND PROSPECT FOR INTEREST RATES

2.1 Economic Background

2.1.1 The economic background is dominated by the unprecedented impact of the Covid-19 pandemic. The key issues affecting the UK economy in particular are:

i) GDP fell by a record 19.8% in quarter 2 of 2020 as the impact of the lockdown bit hard on all sectors of the UK economy. The Office of Budget Responsibility (OBR) forecast GDP will fall by 11.3% for the calendar year of 2020 before seeing growth in 2021 and 2022 of 5.5%

and 6.6% respectively. This will broadly return GDP to its pre-pandemic position and then continue with more moderate growth in future years.

ii) The headline rate of UK Consumer Price Inflation (CPI) was 0.5% at September 2020, up from 0.2% in August 2020. Inflation is expected to remain close to 0.5% during this winter before rising quite sharply towards the BoE's target of 2% during next year as the effects of low energy process and the VAT reductions from 2020 unwind.

iii) The official unemployment rate has increased from its historic low of 3.8% at the end of 2019 to 4.5% at October 2020. The OBR forecast this to rise to 7.5% by the spring of 2021 with about 2.6 million people out of work. Total pay, after inflation, fell by 0.8% in the year to the August 2020. Both these factors will impact on household spending and will be a drag on growth.

iv) The BoE's Monetary Policy Committee (MPC) unanimously maintained the Bank Rate at 0.1% in November 2020 and also extended its Quantitative Easing programme by £150 billion to £895 billion. The MPC have made no mention of the potential for negative interest rates but a number of commentators are forecasting this will happen during 2021.

v) Like the UK, the US and Eurozone economies both suffered from severe contraction during 2020. However both these economies appear to be recovering more quickly than the UK. Again, these economies have received huge support from their central banks and it seems likely that their interest rates will remain unchanged during 2021 at or close to 0%.

vi) Some uncertainty remains about the impact to the domestic economy of the trade deal currently being negotiated for the UK's exit from the EU due to come into force from 1st January 2021.

2.2 Credit Outlook

2.2.1 Although uncertainly around Covid-19 related loan defaults lead to banks provisioning billions for potential losses in the first half of 2020, drastically reducing profits, reported impairments for Q3 were much reduced in some institutions. However, general bank profitability in 2020 is likely to be significantly lower than in previous years.

2.2.2 The credit ratings for many UK institutions were downgraded on the back of downgrades to the sovereign rating. Credit conditions more generally though in banks and building societies have tended to be relatively benign, despite the impact of the pandemic.

2.2.3 Looking forward, the potential for bank losses to be greater than expected when government and central bank support starts to be removed remains a risk suggesting a cautious approach to bank deposits in 2021/22 remains advisable.

2.3 Interest Rate Forecast

2.3.1 The Authority's treasury management adviser Arlingclose is forecasting that BoE Bank Rate will remain at 0.1% until at least the end of 2023. The risks to this forecast are judged to be to the downside as the BoE and UK government continue to react to the coronavirus pandemic and the Brexit transition period ends. However, further interest rate cuts to zero, or possibly negative, cannot yet be ruled out but this is not part of the Arlingclose central forecast.

2.3.2 Equity markets have saw significant falls at the height of the pandemic with the FTSE 100 losing about 30% of its value compared to the start of the year. However, measures implemented by central banks and governments and the recent news of vaccines being available to tackle Covid-19 have seen equity markets rally during the year. By the end of November 2020 the FTSE 100 had recovered about half of its value since its low point in the spring.

2.3.3 Gilt yields, which the Public Works Loans Board (PWLB) use to set its interest rates for loans to local authorities, are expected to remain very low in the medium-term while short-term yields are likely remain below or at zero until such time as the BoE expressly rules out the chance of negative interest rates or growth/inflation prospects improve. The 10-year gilt yield has been around 0.2% since April 2020 with the 20-year gilt between 0.6% and 0.7% over the same period, although subject to periods of some volatility. The central case is for 10-year and 20-year to rise to around 0.5% and 0.75% respectively over the period to March 2022. The risks around the gilt yield forecasts are judged to be broadly balanced between upside and downside risks, but there will almost certainly be short-term volatility due to economic and political uncertainty and events. A more detailed interest rate forecast provided by Arlingclose is attached at Appendix 1.

2.3.4 For the purpose of setting the budget, it has been assumed that new treasury investments will be made at an average rate of 0.1%, and that new long-term loans will be borrowed at an average rate of 1.25%.

SECTION A – TREASURY MANAGEMENT MONITORING REPORT 2020/21

3 BACKGROUND AND SUMMARY POSITION

3.1 Cabinet approved the Treasury Management Strategy Statement for 2020/21, including treasury management indicators, on 22 January 2020 (minute 65 refers). The Capital Strategy for 2020/21 covering capital expenditure and financing, treasury management and non-treasury investments was due to be considered by Cabinet on 19 March 2020 and Council on 25 March 2020. However, the first national lockdown prevented this from happening and an officer decision to approve the Capital Strategy was taken by the Director of Corporate Services on 27 March 2020 (Decision Number 19/034 refers).

3.2 On 31 March 2020, the authority had net borrowing of £60.6m arising from its revenue and capital income and expenditure. The underlying need to borrow for capital purposes is measured by the Capital Financing

Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. These factors are summarised in table 1 below.

Table 1: Balance Sheet Summary

	31.3.20 Actual £m
General Fund CFR	70.0
HRA CFR	47.4
Total CFR	**117.4**
Less: Usable reserves	(53.5)
Less: Working capital	(3.3)
Net borrowing	**60.6**

3.3 The authority's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing, in order to reduce risk and keep interest costs low. The treasury management position as at 30 November 2020 and the change since the 31 March 2020 is show in table 2 below.

Table 2: Treasury Management Summary

	31.3.20 Balance £m	**Net Movement £m**	**30.11.20 Balance £m**	**30.11.20 Rate %**
Long-term borrowing	58.5	-	58.5	3.36
Short-term borrowing	31.8	(10.0)	21.8	1.07
Total borrowing	**90.3**	**(10.0)**	**80.3**	**2.74**
Long-term investments	(14.1)	(0.7)	(14.8)	4.19
Short-term investments	(3.5)	3.5	-	-
Cash and cash equivalents	(12.1)	(4.9)	(17.0)	0.02
Total investments	**(29.7)**	**(2.1)**	**(31.8)**	**1.96**
Net borrowing	**60.6**	**(12.1)**	**48.5**	

3.4 The council's underlying borrowing requirement is expected to increase over the current financial year. However, as table 2 above shows, there has been a temporary reduction in the council's net borrowing to the 30 November of £12m. The following three main factors have contributed to this net reduction in borrowing:

i) Higher than anticipated usable reserves at 31 March 2020

ii) Delays to the council's General Fund capital expenditure programme for 2020/21 to be met from prudential borrowing

iii) Short-term net positive cash flow from both Council Tax receipts and government grants in response to the coronavirus pandemic

4. BORROWING STRATEGY AND ACTIVITY 2020/21

4.1 At 30 November 2020, the Authority held £80.3m of loans, a reduction of £10m compared to 31 March 2020, as part of its strategy for funding previous and current years' capital programmes. Following the introduction of the Housing Revenue Account (HRA) Self-Financing regime in 2012 the authority operates a two pool debt approach allocating its loans between the General Fund and HRA. The borrowing position at 30 November 2020 compared to 31 March 2020 is shown in table 3 below. A list of the individual loans borrowed at 30 November 2020 is shown in appendix 2 to this report.

Table 3: Borrowing Position – Two Pool Debt Approach

	31.3.20 Balance £m	**2020/21 Movement £m**	**30.11.20 Balance £m**	**30.11.20 Rate %**
General Fund				
Public Works Loan Board	7.2	-	7.2	4.69%
Local Authorities (long-term)	5.0	-	5.0	1.60%
Local Authorities (short-term	30.5	(10.0)	20.5	1.13%
Total General Fund borrowing	42.7	(10.0)	32.7	2.00%
Housing Revenue Account Public Works Loan Board	47.6	-	47.6	3.25%
Total HRA borrowing	47.6	-	47.6	3.25%
Total borrowing	**90.3**	**(10.0)**	**80.3**	**2.74%**

4.2 The weighted average maturity of the overall loans portfolio at 30 November 2020 was 8.2 years.

4.3 Changes to the Public Works Loan Board Lending Arrangements

4.3.1 Following a consultation exercise earlier in 2020, HM Treasury introduced revised lending arrangements for loans made by the PWLB to local authorities which came into force from 26 November 2020. In summary, the main reason for the review of the borrowing arrangements was government concerns about the increasing amount of local authority borrowing being

incurred on the purchase of investment assets primarily for yield rather than service delivery requirements.

4.3.2 The new PWLB lending arrangements now require local authorities to provide more detailed information about their capital expenditure plans over a rolling three year period to prevent borrowing be used for acquiring investment assets primarily for yield. There will also be additional checks made during the application process to ensure the borrowing is for acceptable purposes. The PWLB define these acceptable purposes as:

- Service delivery
- Housing
- Regeneration
- Preventative action (i.e interventions for community assets not already owned by the local authority)
- Refinancing of existing borrowing (including replacing internal borrowing)

4.3.3 Typically investment assets bought primarily for yield would have one or more of the following characteristics:

- Buying land or existing buildings to let out at market rent
- Buying land or buildings that continue to be operated on a commercial basis without any additional investment or modification
- Buying land or buildings other than housing which generate income and are intended to be held indefinitely rather than the achievement of some meaningful trigger such as the completion of land assembly

4.3.4 It is important to note the changes to the lending arrangements are prospective rather than retrospective.

4.3.5 As part of the changes to their lending arrangements, the PWLB announced an immediate reduction in the interest rate charged on new loans made to local authorities of 1%. This means the PWLB Certainty Rate, the typical interest rate on new loans, is set at 80 basis points (0.8%) above the prevailing gilt rate for the relevant duration. So, for example, the interest rate on a ten year maturity loan from the PWLB changed on 26 November 2020 from a relatively expensive 2.35% to a much more attractive 1.35%.

4.4 Borrowing Activity in 2020/21

4.4.1 The authority's chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the authority's long-term plans change being a secondary objective.

4.4.2 In meeting these objectives £10m of short term loans borrowed from other local authorities have been repaid so far in 2020/21 and met from surplus cash balances, outlined in section 3 above. There are a further £21m in loan maturities due over the remainder of 2020/21. In anticipation of these loan maturities, three new loans have been agreed in advance (forward deals),

all with other local authorities. These forward deals are for durations of between 20 and 24 months at interest rates averaging about 0.60%. The interest rates on these forward deals compare favorably even against the new cheaper PWLB loan rates, being about 0.2% cheaper allowing for dealing costs. Further information of the three forward deals is included as part of appendix 2 to this report.

4.4.3 The need for further borrowing over the remainder of the current financial year will continue to be closely monitored in conjuction with Arlingclose.

5 INVESTMENTS

5.1 The council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During the period to 30 November 2020, the authority's investment balance has ranged between £22.6m and £63.6m due to timing differences between income and expenditure. The average investment balance held to 30 November 2020 was £30.7m. The investment position during the period to 30 November 2020 is shown in table 4 below. A list of the individual investments held at 30 November 2020 is shown in appendix 3 to this report.

Table 4: Investment Position

	31.3.20 Balance £m	**Net Movement £m**	**30.11.20 Balance £m**	**Average Return**
Banks & building societies (unsecured)	0.2	-	0.2	0.01%
Covered bonds (secured)	3.5	(3.5)	-	1.03%
Money Market Funds	11.9	4.9	16.8	0.17%
Property Pooled Fund	5.3	(0.2)	5.1	4.20%
Multi-Asset Income Funds	8.8	0.9	9.7	4.50%
Total investments	**29.7**	**2.1**	**31.8**	**2.16%**

5.2 The weighted average maturity of the investment portfolio at 30 November 2020 was 11 days.

5.3 Both the CIPFA Code and government guidance require the authority to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

5.4 On 1 April 2020 the Authority received £28.8m in central government funding to support small and medium businesses during the coronavirus pandemic through grant schemes. This was temporarily invested in short-dated, liquid instruments such as Money Market Funds and H.M. Treasury's Debt Management Account Deposit Facility (DMADF). Approximately £25.3m was disbursed by the end of September of which about £21.5m was paid out

in April. Further central government funding of about £4.4m to support local businesses through the second national lockdown was received on 16 November 2020 and payments commenced from this on 24 November 2020.

5.5 The council is meeting its investment objectives and strategy for 2020/21. As previously outlined in sections 3 and 4 of this report, the council has been able to use short term liquid cash to meet its underlying borrowing need through internal borrowing, reducing its exposure to credit risk. Secondly, the return from the strategic investments in pooled funds have continued to provide cash returns in excess of inflation. The performance of these pooled funds is considered in more detail below.

5.6 The level of cash available for short term investments has been higher than originally anticipated for 2020/21, as outlined in section 3 above. At the same time interest rates on short term deposits have fallen over the period from around 0.7% to less than 0.1%. The interest rate available from the H.M. Treasury for its DMADF deposit account has become negative during the year, ranging between -0.01% and -0.11% for investment durations up to 4 months. It is expected the level of surplus cash for investments will reduce quite significantly over the remainder of the current financial year as Council Tax and Business Rates income collected by instalments tails off from January 2021.

5.7 Externally Managed Pooled Funds

5.7.1 The council has £15m invested in externally managed multi-asset and commercial property pooled funds, representing the authority's forecast minimum level of cash reserves and balances over the medium term. These pooled funds aim to provide returns in excess of inflation and, over time, provide the opportunity for some limited capital growth. The sudden economic impact of the pandemic had a negative impact on the value of these funds at 31 March 2020 and this was reported to Cabinet on 21 October 2020 in the Treasury Management Outturn Report for 2019-20 (Report C/19/39).

5.7.2 Table 5 below provides a summary of the pooled funds showing the changes in their unrealised capital values and actual dividend returns from 1 April 2019 to 30 November 2020.

Table 5 – Pooled Funds Summary

Fund	Value at 01/04/19	Value at 31/03/20	Value 30/11/20	Valuation change 2020/21	Dividend Return 2019/20	Dividend Return YTD 2020/21
	£m	£m	£m	£m	£'000	%
CCLA Local Authority Property Fund	5.52	5.32	5.10	(0.22)	4.37%	4.20%

CCLA Diversified Income Fund	1.97	1.80	1.89	0.09	3.22%	3.82%
Aegon Diversified Monthly Income Fund	3.52	2.96	3.42	0.46	4.89%	4.71%
Ninety-One Diversified Income Fund	3.52	3.19	3.48	0.29	4.17%	4.38%
UBS Multi-Asset Income Fund	0.98	0.86	0.93	0.07	4.74%	5.46%
Total	**15.51**	**14.13**	**14.82**	**0.69**	**4.32%**	**4.38%**

5.7.3 Overall, the pooled funds have regained about 50% (£0.7m) of their value at 30 November 2020 compared to that at 1 April 2019. The multi-asset pooled funds have regained about 75% of their value and this is largely due to the recovery in equity markets where this class of asset typical accounts for about one third of the investment portfolio. The CCLA Local Authority Property Fund has seen a further small reduction in its capital value so far this year reflecting the continued economic impact of the pandemic on UK commercial property prices.

5.7.4 The dividend yields across the pooled funds in percentage terms, based on the net asset value of the units in the funds, are broadly unchanged from those received last year. However, the cash value of the dividends may be around 10% lower in total over the year compared to 2019/20 because of the reduction in the net asset value of the units in the funds. Nevertheless, the cash returns from the pooled funds remains significantly above inflation, helping to meet the council's investment objectives.

5.7.5 Trading in the CCLA Local Authority Property Fund was suspended from March 2020 until September 2020 due to the economic impact of the pandemic. This position was repeated with all UK commercial property funds. However, since the CCLA fund resumed trading it is encouraging to note there have been net investments made in it of £35m by other UK local authorities.

6. FINANCIAL SUMMARY

6.1 The projected outturn for the net cost of treasury management to the General Fund in 2020/21 is summarised in table 6 below:

Table 6: Financial Summary

	2020/21 Original Estimate	2020/21 Projection	Variance
	£'000	£'000	£'000
Interest on all Borrowing	1,945	2,210	265
Less Capitalised Interest	-	(265)	(265)
Related HRA Charge	(1,547)	(1,547)	-

General Fund Borrowing Cost	**398**	**398**	**-**
Investment Interest	(635)	(557)	78
HRA Element	50	38	(12)
General Fund Investment Income	**(585)**	**(519)**	**66**
Net General Fund Borrowing Cost	**(187)**	**(121)**	**66**

6.2 The projected increase in the net borrowing cost is due to lower than anticipated investment returns owing to the economic impact of the pandemic. In particular the projected returns from the pooled fund investments are lower than originally estimated, outlined in section 5.6 above.

7 NON-TREASURY INVESTMENTS

7.1 Although not classed as treasury management activities, the 2017 CIPFA Code and the MHCLG Investment Guidance requires the authority to report on investments for policy reasons outside of normal treasury management. This includes service investments for operational and/or regeneration as well as commercial investments which are made mainly for financial reasons. This includes the authority's investment in its wholly owned subsidiary company, Oportunitas Limited. These are summarised in table 7 below:

Table 7: Non-Treasury Investments

Investment Type	Value 31/03/20 £m	Value 30/11/20 £m	Income 2020/21 £'000	Rate of Return %
Investment Property				
Otterpool Property	55.9	59.1	66	0.11
Offices	17.0	17.0	892	5.25
Commercial Land	0.8	0.8	-	-
Commercial Units	1.6	1.6	130	8.19
Agricultural Land	-	-	-	-
Assets Under Construction	0.6	0.6	-	-
Total Investment Property	**75.9**	**79.1**	**1,088**	**1.38**
Subsidiary Company				
Oportunitas loan	4.3	4.3	210	3.16
Oportunitas equity	1.3	2.3	0	0
Total Subsidiary	**5.6**	**6.6**	**210**	**3.16**
Total	**81.5**	**85.7**	**1,298**	**1.51**

7.2 Ordinarily the rate of return on non-treasury investment assets would be expected to be higher than that earned on treasury investments reflecting

the additional risks to the council of holding such investments. This is demonstrated with the return on the commercial units and Oportunitas. However the return on the investment property portfolio for 2020/21 is significantly distorted because of the land acquisition taking place for the Otterpool Park project in particular. The council anticipates receiving rental streams from some of the property being acquired in the short to medium term.

SECTION B – TREASURY MANAGEMENT STRATEGY STATEMENT 2021/22

8. THE COUNCIL'S FORECAST BORROWING AND INVESTMENT POSITION

8.1 The forecast borrowing and treasury investment positions are shown in the balance sheet analysis in table 8 below.

Table 8: Balance Sheet Summary and Forecast

	31.3.20 Actual £m	**31.3.21 Estimate £m**	**31.3.22 Forecast £m**	**31.3.23 Forecast £m**	**31.3.24 Forecast £m**
General Fund CFR	11.0	15.4	17.6	20.8	17.2
HRA CFR	47.4	47.4	52.8	63.0	72.3
Investments CFR	59.0	65.5	80.3	101.3	123.3
Total CFR	**117.4**	**128.3**	**150.7**	**185.1**	**212.8**
Less: External borrowing	(90.3)	(78.9)	(77.7)	(47.2)	(43.2)
Internal borrowing	**27.1**	**49.4**	**73.0**	**137.9**	**169.6**
Less: Usable reserves	(53.5)	(42.0)	(26.2)	(22.1)	(21.1)
Less: Working capital	(3.3)	(14.0)	(4.0)	(4.0)	(4.0)
Treasury Investments (-) or / New Borrowing (+)	**(29.7)**	**(6.6)**	**42.8**	**111.8**	**144.5**

8.2 The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. The authority's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing.

8.3 The movement in table 8 is based on the projected outturn for the current financial year, the draft revenue and capital budgets being proposed for 2021/22, the proposed Medium Term Capital Progamme, the HRA Business Plan and information taken from the latest approved Medium Term Financial Strategy for 2022/23 and 2023/24. The authority has an increasing CFR arising from its planned capital investment and will therefore be required to borrow up to £145m over the forecast period.

8.4 CIPFA's *Prudential Code for Capital Finance in Local Authorities* recommends that the Authority's total debt should be lower than its highest forecast CFR over the next three years. Table 8 shows that the authority expects to comply with this recommendation during 2021/22.

8.5 Liability Benchmark

8.5.1 To compare the Council's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes the same forecasts as table 8 above, but that cash and investment balances are kept to a minimum level of £15m at each year-end, in line with strategic investment objectives.

Table 9: Liability benchmark

	31.3.20 Actual £m	**31.3.21 Estimate £m**	**31.3.22 Forecast £m**	**31.3.23 Forecast £m**	**31.3.24 Forecast £m**
CFR	117.4	128.3	150.7	185.1	212.8
Less: Usable reserves	(53.5)	(42.0)	(26.2)	(22.1)	(21.1)
Less: Working capital	(3.3)	(14.0)	(4.0)	(4.0)	(4.0)
Plus: Minimum investments	15.0	15.0	15.0	15.0	15.0
Liability Benchmark	**75.6**	**87.3**	**135.5**	**174.0**	**202.7**

8.5.2 Following on from the medium-term forecasts in table 9 above, the long-term liability benchmark assumes further capital expenditure funded by borrowing after 31 March 2024 for Otterpool Park and the HRA new build programme, minimum revenue provision on new capital expenditure based on asset life (except for Otterpool Park which assumes the borrowing to be repaid over 15 years), and income, expenditure and reserves all increasing by inflation of 2.5% a year. This is shown in the chart below:

9. BORROWING STRATEGY

9.1 The authority currently holds £80.3 million of loans as part of its strategy for funding previous years' capital programmes. The current loans are shown in appendix 2 to this report. The balance sheet forecast in table 8 shows that the authority expects to borrow up to £42.8m in 2021/22. The authority may however borrow to pre-fund future years' requirements, providing this does not exceed the proposed authorised limit for borrowing of £191 million for 2021/22. The authorised borrowing limit will be considered in more detail as one of the prudential indicators for capital expenditure which will be included in the Capital Strategy for 2021/22 report to Cabinet at its meeting on 24 February 2021 before going to full Council for approval on the same day.

9.2 Objectives

9.2.1 The authority's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should the authority's long-term plans change is a secondary objective.

9.3 Strategy

9.3.1 Given the significant reductions to public expenditure and in particular to local government funding, the authority's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead.

9.3.2 By doing so, the authority is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of both internal and short-term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. Arlingclose will assist the authority with this 'cost of carry' and breakeven analysis. Its output may determine whether the authority borrows additional sums at long-term fixed rates in 2021/22 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

9.3.3 The authority has previously raised all of its long-term borrowing from the PWLB but the government increased PWLB rates by 1% in October 2019 making it a relatively expensive options. However, following the government's response to the HM Treasury's consultation on the PWLB lending arrangements, PWLB rates were reduced by 1% from 26 November 2020 making these loans much more attractive again. In addition to the PWLB, the authority will consider borrowing long-term loans from other sources including banks, pensions and local authorities, and will investigate the possibility of issuing bonds and similar instruments, in order to lower interest costs and reduce over-reliance on one source of funding in line with the CIPFA Code.

9.3.4 Alternatively, the authority may arrange forward starting loans where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.

9.3.5 In addition, the authority may borrow further short-term loans to cover unplanned cash flow shortages.

9.4 Sources of Borrowing

9.4.1 The approved sources of long-term and short-term borrowing are:

- Public Works Loan Board (PWLB) and any successor body
- any institution approved for investments (see below)
- any other bank or building society authorised to operate in the UK
- any other UK public sector body
- UK public and private sector pension funds (except the Kent County Council Pension Fund)
- capital market bond investors
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues

9.4.2 In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- leasing
- hire purchase
- Private Finance Initiative

- sale and leaseback

9.5 Short-term and Variable Rate Loans

9.5.1 These loans leave the authority exposed to the risk of short-term interest rate rises and are therefore subject to interest rate exposure limits in the treasury management indicators below. Financial derivatives may be used to manage this interest rate risk (see section below).

9.6 Debt Rescheduling

9.6.1 The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The authority may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk.

10 TREASURY INVESTMENT STRATEGY

10.1 The authority holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During 2020/21 until 30 November, the authority's investment balance has ranged between £22.6 and £63.6 million with the average being £30.7 million. The average investment balance held is expected to reduce to around £25 million in the coming year as the council uses its reserves to meet its approved capital expenditure plans and also continues to use some of its cash balances in lieu of external borrowing (i.e. internal borrowing). The authority has about £15m invested in a range of professionally managed pooled property and diversified income funds. These are seen as longer term strategic investments which aim to provide returns in excess of inflation and have the potential for some limited capital growth, thereby helping to protect the value of the authority's cash reserves. Maintaining these pooled funds is seen as an important part of the authority's proposed investment strategy for 2021/22. The authority's current investment portfolio is shown in appendix 3 tot his report.

10.2 Objectives

10.2.1 The CIPFA Code requires the authority to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the authority will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested.

10.2.2 **Negative Interest Rates -** The Covid-19 pandemic has increased the risk that the Bank of England will set its Bank Rate at or below zero, which is likely to feed through to negative interest rates on all low risk, short-term investment options. Since investments cannot pay negative income,

negative rates will be applied by reducing the value of investments. In this event, security will be measured as receiving the contractually agreed amount at maturity, even though this may be less than the amount originally invested.

10.3 Strategy

10.3.1 Given the increasing risk and very low returns from short-term unsecured bank investments, the authority aims to continue with its current strategy to diversify into more secure and/or higher yielding asset classes during 2021/22. This is especially the case for the estimated £22m that is available for longer-term investment. A significant but reducing proportion of the authority's surplus cash is currently invested in money market funds in particular, although this is likely to reduce further in 2021/22 as a result of the capital expenditure plans. Given the council's increasing borrowing need for 2021/22 and beyond the maximum duration for new investments is proposed to be set at 5 years.

10.4 Business Models

10.4.1 Under the new IFRS 9 standard, the accounting for certain investments depends on the authority's "business model" for managing them. The authority aims to achieve value from its internally managed treasury investments by a business model of collecting the contractual cash flows and therefore, where other criteria are also met, these investments will continue to be accounted for at amortised cost.

10.5 Approved Counterparties

10.5.1 The authority may invest its surplus funds with any of the counterparty types in table 10 below, subject to the cash limits (per counterparty) and the time limits shown.

Table 10: Approved Investment Counterparties and Limits for New Investments effective from 1 April 2021

Sector	Time limit	Counterparty limit	Sector limit
The UK Government	5 years	Unlimited	n/a
Local authorities & other government entities	5 years	£5m	Unlimited
Secured investments *	5 years	£5m	Unlimited
Banks (unsecured) *	13 months	£3m	Unlimited
Building societies (unsecured) *	13 months	£3m	£6m
Registered providers (unsecured) *	5 years	£3m	£15m

Money market funds *	n/a	£5m	Unlimited
Strategic pooled funds	n/a	£5m	£25m
Real estate investment trusts	n/a	£5m	£15m
Other investments *	5 years	£3m	£9m

This table must be read in conjunction with the notes below

10.5.2 ***Minimum credit rating:** Treasury investments in the sectors marked with an asterisk will only be made with entities whose lowest published long-term credit rating is no lower than [A-]. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

10.5.3 For entities without published credit ratings, investments may be made either (a) where external advice indicates the entity to be of similar credit quality; or (b) to a maximum of £5m per counterparty as part of a diversified pool e.g. via a peer-to-peer platform.

10.5.4 **Government** - Loans to, and bonds and bills issued or guaranteed by, national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk. Investments with the UK Government are deemed to be zero credit risk due to its ability to create additional currency and therefore may be made in unlimited amounts for up to 5 years.

10.5.5 **Secured investments:** Investments secured on the borrower's assets, which limits the potential losses in the event of insolvency. The amount and quality of the security will be a key factor in the investment decision. Covered bonds and reverse repurchase agreements with banks and building societies are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used. The combined secured and unsecured investments with any one counterparty will not exceed the cash limit for secured investments.

10.5.6 **Banks and building societies (unsecured):** Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See below for arrangements relating to operational bank accounts.

10.5.7 **Registered providers (unsecured):** Loans to, and bonds issued or guaranteed by, registered providers of social housing or registered social landlords, formerly known as housing associations. These bodies are

regulated by the Regulator of Social Housing (in England), the Scottish Housing Regulator, the Welsh Government and the Department for Communities (in Northern Ireland). As providers of public services, they retain the likelihood of receiving government support if needed.

10.5.8 **Money market funds:** Pooled funds that offer same-day or short notice liquidity and very low or no price volatility by investing in short-term money markets. They have the advantage over bank accounts of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a small fee. Although no sector limit applies to money market funds, the Authority will take care to diversify its liquid investments over a variety of providers to ensure access to cash at all times.

10.5.9 **Strategic pooled funds:** Bond, equity and property funds that offer enhanced returns over the longer term but are more volatile in the short term. These allow the Authority to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's investment objectives will be monitored regularly.

10.5.10 **Real estate investment trusts:** Shares in companies that invest mainly in real estate and pay the majority of their rental income to investors in a similar manner to pooled property funds. As with property funds, REITs offer enhanced returns over the longer term, but are more volatile especially as the share price reflects changing demand for the shares as well as changes in the value of the underlying properties.

10.5.11 **Other investments:** This category covers treasury investments not listed above, for example unsecured corporate bonds and company loans. Non-bank companies cannot be bailed-in but can become insolvent placing the Authority's investment at risk.

10.5.12 **Operational bank accounts:** The authority may incur operational exposures, for example though current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments, but are still subject to the risk of a bank bail-in, and the authority will endeavour to keep its end of day balances below £0.5m per bank. However, unexpected cash flow transactions may mean this level could be breached and would need rectifying on the next working day. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the authority maintaining operational continuity.

10.6 Risk Assessment and Credit Ratings

10.6.1 Credit ratings are obtained and monitored by the authority's treasury advisers, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made,
- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

10.6.2 Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as “rating watch negative” or “credit watch negative”) so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

10.7 Other Information on the Security of Investments

10.7.1 The authority understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support and reports in the quality financial press and analysis and advice from the authority’s treasury management adviser. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may otherwise meet the credit rating criteria.

10.7.2 When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2020, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the authority will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the authority’s cash balances, then the surplus will be deposited with the UK Government, via the Debt Management Office or invested in government treasury bills for example, or with other local authorities. This will cause investment returns to fall but will protect the principal sum invested.

10.8 Investment Limits

10.8.1 The authority’s revenue reserves available to cover investment losses are forecast to be £18 million 31 March 2021. In order that no more than 25% of available reserves will be put at risk in the case of a single default, the maximum that will be lent to any one organisation (other than the UK Government) will be £5 million. A group of entities under the same ownership will be treated as a single organisation for limit purposes.

10.8.2 Credit risk exposures arising from non-treasury investments, financial derivatives and balances greater than £0.5m in operational bank accounts count against the relevant investment limits.

10.8.3 Limits will also be placed on fund managers, investments in brokers' nominee accounts, foreign countries and industry sectors as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

Table 11: Additional Investment Limits

	Cash limit
Any group of pooled funds under the same management	£10m per manager
Negotiable instruments held in a broker's nominee account	£10m per broker
Foreign countries	£5m per country

10.9 Liquidity Management

10.9.1 The authority uses spreadsheet forecasts to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the authority being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the authority's medium term financial plan and cash flow forecast.

10.9.2 The Authority will spread its liquid cash over at least four providers (e.g. bank accounts and money market funds) to ensure that access to cash is maintained in the event of operational difficulties at any one provider.

11. TREASURY MANAGEMENT INDICATORS

11.1 The authority measures and manages its exposures to treasury management risks using indicators and those proposed for 2021/22 are outlined below for approval. The latest position for the indicators in 2020/21 against the existing approved target is also shown below. The Director of Corporate Services confirms the Council has complied with the approved indicators for 2020/21 to 30 November 2020.

11.2 Security - The authority has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

	2020/21 Target	**30.11.20 Actual**	**2021/22 Target**
Portfolio average credit rating	A	AA-	A

11.3 **Liquidity -** The authority has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet

unexpected payments within a rolling three month period, without additional borrowing.

	2020/21 Target	30.11.20 Actual	2021/22 Target
Total cash available within 3 months	£5m	£16.9m	£5m

11.4 **Interest Rate Exposures** - This indicator is set to control the authority's exposure to interest rate risk. The upper limits of a 1% rise or fall in interest rates will be:

	2020/21 Limit	30.11.20 Actual	2021/22 Limit
Upper limit on one year revenue impact of a 1% **rise** in interest rates	£290,000	£80,000	£164,000
Upper limit on one year revenue impact of a 1% **fall** in interest rates	(£310,000)	(£122,000)	(£185,000)

11.5 The impact of a change in interest rates is calculated on the assumption that maturing loans and investments will be replaced at current rates. The indicator also incorporates the impact of new borrowing forecast to support the authority's capital expenditure plans over the next 12 months.

11.6 **Maturity Structure of Borrowing -** This indicator is set to control the authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing will be:

	30.11.20 Actual	2021/22 Upper	2021/22 Lower
Under 12 months	12.1%	30%	0%
12 months and within 24 months	3.5%	40%	0%
24 months and within 5 years	5.0%	50%	0%
5 years and within 10 years	11.1%	80%	0%
10 years and above	12.9%	100%	0%

11.7 Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment. The borrowing is measured against the authority's authorised borrowing limit

11.8 **Principal Sums Invested for Periods Longer than 364 days -** The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end will be:

	2021/22	2022/23	2023/24
Limit on principal invested beyond year end	£15m	£5m	£5m

12. OTHER ITEMS

12.1 The CIPFA Code requires the authority to include the following in its Treasury Management Strategy.

12.2 Policy on Use of Financial Derivatives

12.2.1 Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in Section 1 of the *Localism Act 2011* removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).

12.2.2 The authority will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the authority is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

12.2.3 Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria, assessed using the appropriate credit rating for derivative exposures. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit.

12.2.4 In line with the CIPFA Code, the Authority will seek external advice and will consider that advice before entering into financial derivatives to ensure that it fully understands the implications.

12.3 Policy on Apportioning Interest to the HRA

12.3.1 On 1st April 2012, the authority notionally split each of its existing long-term loans into General Fund and HRA pools. Since then, new long-term loans borrowed are assigned in their entirety to one pool or the other (General Fund or HRA). Interest payable and other costs/income arising from long-term loans (e.g. premiums and discounts on early redemption) are charged/ credited to the respective revenue account. Differences between the value of the HRA loans pool and the HRA's underlying need to borrow (adjusted for HRA balance sheet resources available for investment) result in a notional cash balance which may be positive or negative. This balance is measured over the financial year and interest transferred between the General Fund and HRA at the Authority's average interest rate on investments, adjusted for credit risk. This policy will continue for 2021/22.

12.4 Markets in Financial Instruments Directive

12.4.1 The authority has opted up to professional client status with its providers of financial services, including advisers, banks, brokers and fund managers, allowing it access to a greater range of services but without the greater regulatory protections afforded to individuals and small companies. Given the size and range of the authority's treasury management activities, the Director of Corporate Services believes this to be the most appropriate status.

13. FINANCIAL IMPLICATIONS

13.1 The net revenue cost of the council's treasury management borrowing and investment activity based on information at budget setting time is estimated to be:

£'000	**2020/21 Estimate**	**2021/22 Estimate**	**Variance 2020/21 to 2021/22**
Revenue Budgets	£'000	£'000	£'000
Interest on Borrowing	1,945	**2,705**	760
Less Capitalised Interest	-	**(581)**	(581)
HRA Element	(1,547)	**(1,573)**	(26)
GF Borrowing Cost	398	**551**	153
Investment income	(635)	**(535)**	100
HRA Element	50	**50**	-
GF Investment income	(585)	**(485)**	100
Net Cost (GF)	(187)	**66**	253

13.2 The main reasons for the projected net increase in the General Fund borrowing cost of £253k in 2021/22 compared to 2020/21 are:

		£'000
i)	Interest on existing and planned capital expenditure being met from prudential borrowing	153
ii)	Reduction in investment income on pooled funds due to the continued economic impact of the Covid-19 pandemic	100
	Total increase	**253**

14. OTHER OPTIONS CONSIDERED

14.1 The CIPFA Code does not prescribe any particular treasury management strategy for local authorities to adopt. The Director for Corporate Services, having consulted the Cabinet Member for Finance, believes that the above strategy represents an appropriate balance between risk management and

cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

Alternative	Impact on income and expenditure	Impact on risk management
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses may be greater
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses may be smaller
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs may be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long term costs may be less certain
Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs may be less certain

15 RISK MANAGEMENT ISSUES

15.1 Inherently treasury management is concerned with the management of risk, e.g. interest rate risk, market risk, credit risk and liquidity risk. The strategies in this Report are developed to minimise the impact of risk changes whilst at the same time providing a framework for the council to reduce its net interest costs.

15.2 Specific risks to be addressed are as follows:

PERCEIVED RISK	SERIOUSNESS	LIKELIHOOD	PREVENTATIVE ACTION

Interest Rate Risk (rates moving significantly different to expectations)	High	Medium	With an increasing borrowing requirement rising interest rates would be detrimental. The council would need to consider taking out fixed borrowing to help mitigate this risk and/or use further internal borrowing if resources are available. Falling interest rates would be broadly beneficial to the council given the increasing borrowing requirement.
Market Risk (adverse market fluctuations affect value of investment capital)	Medium	Low	A limit is placed on the value of principal exposed to changes in market value.
Credit Risk (risk to repayment of Capital)	High	Medium	The council's investment criteria restricts counterparties to those of the highest quality and security.
Liquidity Risk (risk that cash will not be available when needed)	Medium	Medium	Council's investment portfolio structured to reflect future liquidity needs. Temporary borrowing is also available to meet short term liquidity issues.
Changes to the Capital Programme and/or revenue streams	High	Medium	Cash flows are calculated monthly and regular projections are made to identify changes to the council's funding requirements. Prudential borrowing to support capital expenditure can be used for schemes expected to provide a financial benefit to the council. There may

			be some slippage in capital expenditure between years and the impact will be monitored.

16 LEGAL/FINANCIAL AND OTHER CONTROLS/POLICY MATTERS

16.1 Legal Officer's Comments (NM)

There are no legal implications arising directly out of this report. Part 1 of the Local Government Act 2003 gives the Council the power to borrow and to invest for any purpose relevant to its functions or for the purposes of the prudent management of its financial affairs. It also requires the Council to act prudently when carrying out these activities, including an obligation to determine and keep under review how much money it can borrow. In addition, the Council is required by the Local Government Finance Act 1992 to produce a balanced budget. Generally the Council must take into account its fiduciary duties to local tax payers and its continuing obligation to ensure it has the funding required to perform its statutory undertakings.

16.2 Finance Officer's Comments (LW)

The report has been prepared by Finance and the relevant financial implications are contained within it.

16.3 Diversities and Equalities Implications (DA)

The report does not cover a new service/policy or a revision of an existing service or policy therefore does not require an EIA

17. CONTACT OFFICER AND BACKGROUND DOCUMENTS

Councillors with any questions arising out of this report should contact the following officers prior to the meeting:

Lee Walker – Capital and Treasury Senior Specialist
Tel: 01303 853593 Email: lee.walker@folkestone-hythe.gov.uk

The following background documents have been relied upon in the preparation of this report:

Arlingclose's Half Year Treasury Management Monitoring Report Template 2020/21
Arlingclose's Treasury Management Strategy Statement Template 2021/22
Appendicies
Appendix 1 – Arlingclose Interest Rate Forecast at November 2020
Appendix 2 – Borrowing portfolio at 30 November 2020
Appendix 3 – Investment portfolio at 30 November 2020

Appendix 1 – Arlingclose Interest Rate Forecast November 2020

	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23
Official Bank Rate													
Upside risk	0.00	0.00	0.00	0.15	0.15	0.15	0.15	0.30	0.30	0.30	0.30	0.30	0.30
Arlingclose Central Case	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Downside risk	-0.10	-0.20	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
3-month money market rate													
Upside risk	0.05	0.05	0.05	0.10	0.10	0.15	0.20	0.30	0.30	0.30	0.30	0.30	0.30
Arlingclose Central Case	0.10	0.10	0.15	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20
Downside risk	-0.40	-0.40	-0.45	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
5yr gilt yield													
Upside risk	0.40	0.40	0.40	0.45	0.45	0.50	0.50	0.55	0.60	0.60	0.65	0.65	0.70
Arlingclose Central Case	0.00	0.00	0.05	0.10	0.15	0.15	0.20	0.20	0.25	0.25	0.25	0.25	0.25
Downside risk	-0.30	-0.40	-0.50	-0.55	-0.60	-0.60	-0.60	-0.60	-0.60	-0.60	-0.60	-0.60	-0.60
10yr gilt yield													
Upside risk	0.40	0.40	0.40	0.45	0.45	0.50	0.50	0.55	0.60	0.60	0.65	0.65	0.70
Arlingclose Central Case	0.30	0.30	0.35	0.40	0.40	0.45	0.45	0.50	0.50	0.55	0.55	0.55	0.55
Downside risk	-0.30	-0.40	-0.50	-0.55	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
20yr gilt yield													
Upside risk	0.40	0.40	0.40	0.45	0.45	0.50	0.50	0.55	0.60	0.60	0.65	0.65	0.70
Arlingclose Central Case	0.70	0.70	0.70	0.75	0.75	0.75	0.80	0.80	0.85	0.85	0.85	0.85	0.85
Downside risk	-0.20	-0.20	-0.25	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30
50yr gilt yield													
Upside risk	0.40	0.40	0.40	0.45	0.45	0.50	0.50	0.55	0.60	0.60	0.65	0.65	0.70
Arlingclose Central Case	0.60	0.60	0.60	0.65	0.65	0.65	0.70	0.70	0.75	0.75	0.75	0.75	0.75
Downside risk	-0.20	-0.20	-0.25	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30

PWLB Certainty Rate (Maturity Loans) = Gilt yield + 0.80%
PWLB HRA Rate = Gilt yield + 0.80%
PWLB Local Infrastructure Rate (Maturity Loans) = Gilt yield + 0.60%

Appendix 2 – Borrowing Portfolio at 30 November 2020

Folkestone and Hythe District Council Itemised Borrowing at 30 November 2020

Lender	Loan No	Loan Type	Start Date	Maturity Date	Principal Outstanding 30/11/2020	Interest Rate
					£	%
Public Works Loan Board	430141	Fixed	09/11/1973	01/11/2033	3,776	11.38
Public Works Loan Board	480111	Fixed	14/10/1997	31/03/2023	1,000,000	6.63
Public Works Loan Board	488942	Fixed	12/08/2004	07/08/2034	2,000,000	4.80
Public Works Loan Board	492233	Fixed	28/09/2006	15/03/2054	2,000,000	4.05
Public Works Loan Board	493698	Fixed	10/08/2007	07/08/2055	2,500,000	4.55
Public Works Loan Board	493914	Fixed	10/09/2007	07/02/2053	2,500,000	4.55
Public Works Loan Board	494027	Fixed	31/10/2007	15/03/2044	2,000,000	4.65
Public Works Loan Board	494028	Fixed	31/10/2007	15/03/2045	2,000,000	4.65
Public Works Loan Board	494029	Fixed	31/10/2007	15/03/2046	2,141,190	4.65
Public Works Loan Board	500536	Fixed	28/03/2012	28/03/2023	4,000,000	2.56
Public Works Loan Board	500537	Fixed	28/03/2012	28/03/2031	4,010,000	3.26
Public Works Loan Board	500538	Fixed	28/03/2012	28/03/2028	4,000,000	3.08
Public Works Loan Board	500540	Fixed	28/03/2012	28/03/2025	4,000,000	2.82
Public Works Loan Board	500541	Fixed	28/03/2012	28/03/2029	4,000,000	3.15
Public Works Loan Board	500542	Fixed	28/03/2012	28/03/2030	4,000,000	3.21
Public Works Loan Board	500543	Fixed	28/03/2012	28/03/2027	4,000,000	3.01
Public Works Loan Board	500544	Fixed	28/03/2012	28/03/2021	1,300,000	2.21
Public Works Loan Board	500545	Fixed	28/03/2012	28/03/2022	1,300,000	2.40
Public Works Loan Board	500546	Fixed	28/03/2012	28/03/2024	4,000,000	2.70
Public Works Loan Board	500548	Fixed	28/03/2012	28/03/2026	4,000,000	2.92
Total - Public Works Loan Board					**54,754,966**	
London Borough of Havering		Fixed	03/02/2020	01/02/2021	5,000,000	1.00
London Borough of Barking and Dagenham		Fixed	31/01/2020	31/01/2022	5,000,000	1.60
Greater London Authority		Fixed	31/01/2020	29/01/2021	10,000,000	1.00
Milton Keynes Council		Fixed	25/03/2020	25/03/2021	5,000,000	1.65
Folkestone Town Council	n/a	Variable - 2 day call notice	Various May 2018	n/a	500,000	0.00
Total - Borrowing at 30/11/2020					**80,254,966**	

Borrowing Agreed in Advance (Forward Deals) as at 30/11/2020

Lender	Loan No	Loan Type	Start Date	Maturity Date	Principal	Interest Rate
London Borough of Wandsworth		Fixed	29/01/2021	31/01/2023	10,000,000	0.60
Durham County Council		Fixed	01/02/2021	03/10/2022	5,000,000	0.55
Leicester City Council		Fixed	01/03/2021	01/03/2023	5,000,000	0.65
Total Borrowing Agreed in Advance					**20,000,000**	

Appendix 3 – Investment Portfolio at 30 November 2020

Category and Counterparty	Amount or Value £	Terms	Interest Rate or Yield %
Banks & Building Societies (unsecured)			
NatWest - Business Reserve	220,000	No notice instant access	0.01
Money Market Funds			
Aberdeen Standard MMF	4,950,000	No notice instant access	0.04
Goldman Sachs MMF	1,980,000	No notice instant access	0.01
Legal & General MMF	4,790,000	No notice instant access	0.01
Federated MMF	5,000,000	No notice instant access	0.01
Other Pooled Funds			
Commercial Property Funds			
CCLA Property Fund	5,099,118		4.45
Multi-Asset Income Funds			
CCLA Diversified Income Fund	1,885,563		3.46
UBS Multi-Asset Income Fund	934,299		5.42
Aegon Asset Management Diversified Monthly Income Fund	3,420,349		4.17
Ninety-One Diversified Income Fund	3,478,142		4.30
Total Investments	**31,757,471**		1.96