Bournemouth, Christchurch and Poole Council (BCP) Treasury Management Strategy Statement 2021/22

Introduction

Background

1 The Council defines its treasury management activities as: "The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks." Part of the treasury management operation is to ensure that the cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.

2 The second main function of the treasury management service is the funding of the Council's capital plans. These 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. On occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

3 Revised reporting is required for the 2019/20 onwards 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 include the introduction of 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. The capital strategy is being reported separately.

Reporting Requirements

4 **Capital Strategy** - The CIPFA revised 2017 Prudential and Treasury Management Codes require, from 2019-20, all local authorities will 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

The aim of this capital strategy is to ensure that all elected members on the full Council fully understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite.

This capital strategy is reported separately from the Treasury Management Strategy Statement; non-treasury investments will be reported through the former. 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.

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

6 **Prudential and treasury indicators and treasury strategy** - The first, and most important report covers:

a The capital plans (including prudential indicators);

b A minimum revenue provision (MRP) policy (how residual capital expenditure is charged to revenue over time);

c The treasury management strategy (how the investments and borrowings are to be organised) including treasury indicators; and

d An investment strategy (the parameters on how investments are to be managed).

7 **Periodic treasury management report** – This will update members with the progress of the capital position, amending prudential indicators if necessary, and whether any policies require revision. This role is undertaken by the Audit and Governance Commitee.

8 **An annual treasury management report** – This provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

9 The above reports are required to be adequately scrutinised before being recommended to the Council. This role is undertaken by the Audit and Governance Commitee.

Treasury Management Strategy for 2021/22

10 The strategy for 2021/22 covers two main areas:

Capital issues

- the capital plans and the prudential indicators;
- the minimum revenue provision (MRP) policy.

Treasury management issues

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

11 These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, MHCLG MRP Guidance, the CIPFA Treasury

Management Code and MHCLG Investment Guidance.

Training

12 The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsibe for scrutiny. Training was provided to all members on the 7th January 2020 with support from the Councils Treasury Management advisors. It is not envisaged that more training will be required in 2021/22 but will look to arrange training for January 2022.

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

Treasury management consultants

14 The Councils Treasury Management advisors are Link Asset Services.

15 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. 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 Capital Prudential Indicators 2021/22 – 2023/24

16 The Council's capital expenditure plans have a key influence over the treasury management activity. The capital expenditure plans are reflected in the prudential indicators, which are designed to assist members' in considering the impact and risk of this Council's capital expenditure plans.

Capital expenditure

17 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:

Capital expenditure	2020/21 Estimate £'000	2021/22 Estimate £'000	2022/23 Estimate £'000	2023/24 Estimate £'000
General Fund	112,142	126,660	74,815	20,039
HRA	39,532	56,477	50,394	42,159
Total	**151,674**	**183,137**	**125,209**	**62,198**

18 The following tables summarise the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need.

General Fund and Commercial Activity Capital Expenditure

Capital expenditure	2020/21 Estimate £'000	2021/22 Estimate £'000	2022/23 Estimate £'000	2023/24 Estimate £'000
General Fund Total	**112,142**	**126,660**	**74,815**	**20,039**
Financed by:				
Capital receipts	444	14,298	-	-
Capital grants & Contributions	69,565	77,171	52,297	16,650
Revenue Contributions	720	518	518	518
Reserve Contributions	10,029	4,963	7,775	2,450
Prudential Borrowing in HRA Transfers	31,384	29,710	14,225	421
Total financing for the year	**112,142**	**126,660**	**74,815**	**20,039**

HRA Capital Expenditure

Capital expenditure	2020/21 Estimate £'000	2021/22 Estimate £'000	2022/23 Estimate £'000	2023/24 Estimate £'000
HRA Total	**39,532**	**56,477**	**50,394**	**42,159**
Financed by:				
Capital receipts	4,268	6,551	10,007	7,703
Major Repairs Allowance	21,519	26,913	12,677	11,514
Other Contributions	8,161	6,514	6,210	6,142
Prudential Borrowing	5,584	16,500	21,500	16,800
Total financing for the year	**39,532**	**56,477**	**50,394**	**42,159**

The Council’s borrowing need (the Capital Financing Requirement)

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

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

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

22 The Council is asked to approve the CFR projections overleaf:

	2020/21 Estimate £'000	2021/22 Estimate £'000	2022/23 Estimate £'000	2023/24 Estimate £'000
Capital Financing Requirement				
CFR – General Fund	330,041	348,667	350,528	339,717
CFR – HRA	145,929	162,429	183,929	200,729
CFR - IAS16 leases estimated impact	-	6,754	6,754	6,754
Total CFR	**475,970**	**517,850**	**541,211**	**547,200**
Movement in CFR	27,522	41,880	23,361	5,989
Movement in CFR represented by				
Net movement in borrowing for the year (above)	36,968	46,210	35,725	17,221
CFR - IAS16 leases estimated impact	0	6,754	0	0
Less MRP/VRP and other financing movements	(9,446)	(11,084)	(12,364)	(11,232)
Movement in CFR	**27,522**	**41,880**	**23,361**	**5,989**

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

Minimum Revenue Provision (MRP) policy statement

24 The Council is required to make a Minimum Revenue Provision (MRP). It is a statutory requirement to make a charge to the Council’s General Fund to make provision for the repayment of the Council’s past capital debt and other credit liabilities.

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

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

- **Existing practice** - MRP will follow the existing practice outlined in former CLG regulations (option 1);
- **Based on CFR** – MRP will be based on the CFR (option 2);

27 These options provide for an approximate 4% reduction in the borrowing need (CFR) each year.

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

- **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);

- **Depreciation method** – MRP will follow standard depreciation accounting procedures (option 4);

29 The type of approach intended by the MRP guidance is clearly to enable local circumstances and discretion to play a part, as the guidance in general contains a set of recommendations rather than representing a prescriptive process. The guidance makes it clear that Councils can follow an alternative approach, provided they still make a prudent provision.

30 It was agreed by members of previous Councils that the following MRP policy was applied from 2016/17 onwards:

- In respect of all supported borrowing, capital expenditure incurred prior to 2016/17 (excluding assets acquired under PFI or finance lease arrangements) MRP will be provided at a rate of 2% on a straight-line basis to ensure the balance is fully cleared over the period in line with the useful life of the assets.
- In respect of all unsupported borrowing, capital expenditure incurred prior to 2016/17 (excluding assets acquired under PFI or finance lease arrangements) the Council will apply the Asset life method as used in previous years and will apply an average life of 25 years for the unsupported borrowing requirement to be repaid over based on historical schemes that have required and applied unsupported borrowing.
- MRP charges from 1 April 2004 to 31 March 2016 exceeded what prudence required during the period under this revised policy. There will be a realignment of MRP charged to the revenue account in 2016/17 and subsequent years to recognise this excess sum. Total MRP after applying realignment will not be less than zero in any financial year.
- In respect of capital expenditure incurred in 2016/17 and subsequent financial years MRP will be provided at a rate of 4% on the written down balance.

31 In 2017/18 a proposed change was made that the 4% write down method will be used for all assets except for significant individual schemes exceeding £10m (such as asset investments) for which the specific asset life will be used for MRP purposes.

32 To allow for further flexibility in the Council MRP policy the Council will look at using specific asset life for individual schemes to ensure the debt repayments are reflective of the value these assets bring.

33 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).

34 Repayments included in annual PFI or finance leases are applied as MRP.

Borrowing

35 The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of approporiate borrowing facilities. The strategy covers the relevant treasury / prudential

indicators, the current and projected debt positions and the annual investment strategy.

Current portfolio position

36 The overall Treasury Management portfolio as at 31 March 2020 and for the position as at 31 December 2020 are shown below for both borrowing and investments.

Treasury investments	Actual 31/03/2020 £'000	Actual 31/03/2020 %	Current 31/12/2020 £'000	Current 31/12/2020 %
Money Market Funds	9,685	12%	7,825	10%
Bank Deposits	10,000	12%	10,000	13%
Local Authorities	5,000	6%	5,000	7%
DMO	26,100	31%	0	0%
Call Account	33,040	40%	51,800	69%
Total Treasury Investments	**83,825**	**100%**	**74,625**	**100%**
Treasury External Borrowing				
PWLB	142,354	55%	142,146	66%
Local Authorities	100,000	38%	56,000	26%
Private Sector	17,785	7%	17,232	8%
Salix	1,016	0%	507	0%
Total External Borrowing	**261,155**	**100%**	**215,885**	**100%**
Net treasury investment / (borrowing)	**(177,330)**		**(141,260)**	

37 It should be noted that Bournemouth Borough Council secured a £49m forward loan which will be issued to BCP Council in May 2021.

38 The Council's forward projections for borrowing are summarised below. The table shows the actual external debt (the treasury management operations), against the underlying capital borrowing need (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

	2020/21 Estimate £'000	2021/22 Estimate £'000	2022/23 Estimate £'000	2023/24 Estimate £'000
External Debt				
Treasury Debt at 1 April	**261,155**	**202,905**	**269,981**	**297,613**
PFI and Finance Lease Liability	**8,520**	**8,076**	**7,632**	**7,188**
Expected change in Debt	(66,770)	59,000	20,000	0
Actual gross debt at 31 March	**202,905**	**269,981**	**297,613**	**304,801**
The Capital Financing Requirement	**475,970**	**517,850**	**541,211**	**547,200**
Under / (over) borrowing	**273,065**	**247,869**	**243,598**	**242,399**

39 Within the 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 the current year 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.

40 The Council has complied with their prudential indicator in the current year and does not envisage difficulties for the future due to the large under borrowing

requirement. This view considers current commitments, existing plans, and the proposals in this budget report.

Treasury Indicators: limits to borrowing activity

41 **The operational boundary.** This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt.

42 **The authorised limit for external debt.** A further key prudential indicator represents a control on the maximum level of borrowing. This represents a 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 desired, could be afforded in the short term, but is not sustainable in the longer term.

a 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.

b The Audit and Governance Committee is asked to approve the following authorised limit:

	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m
Operational boundary	550	600	650	700
Authorised limit	600	650	700	750

Prospects for interest rates

43 Link Asset Services as part of their service is to assist the Council to formulate a view on interest rates. The following table gives their view on the base rate and PWLB borrowing costs.

Link Group Interest Rate View 9.11.20

These Link forecasts have been amended for the reduction in PWLB margins by 1.0% from 26.11.20

	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
BANK RATE	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
6 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
12 month ave earnings	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20
5 yr PWLB	0.80	0.80	0.80	0.80	0.80	0.90	0.90	0.90	0.90	0.90	1.00	1.00	1.00	1.00
10 yr PWLB	1.10	1.10	1.10	1.10	1.10	1.20	1.20	1.20	1.20	1.20	1.30	1.30	1.30	1.30
25 yr PWLB	1.50	1.50	1.60	1.60	1.60	1.60	1.70	1.70	1.70	1.70	1.80	1.80	1.80	1.80
50 yr PWLB	1.30	1.30	1.40	1.40	1.40	1.40	1.50	1.50	1.50	1.50	1.60	1.60	1.60	1.60

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

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

Investment and borrowing rates

46 Investment returns are likely to remain exceptionally low during 2021/22 with little increase in the following two years.

47 Borrowing interest rates fell to historically very low rates as a result of the COVID crisis and the quantitative easing operations of the Bank of England: indeed, gilt yields up to 6 years were negative during most of the first half of 20/21. The policy of avoiding new borrowing by running down spare cash balances has served local authorities well over the last few years.

48 On 25th November 2020, the Chancellor announced the conclusion to the review of margins over gilt yields for PWLB rates; the standard and certainty margins were reduced by 1% but a prohibition was introduced to deny access to borrowing from the PWLB for any local authority which had purchase of assets for yield in its three year capital programme. The new margins over gilt yields are as follows: -.

- PWLB Standard Rate is gilt plus 100 basis points (G+100bps)
- PWLB Certainty Rate is gilt plus 80 basis points (G+80bps)
- PWLB HRA Standard Rate is gilt plus 100 basis points (G+100bps)
- PWLB HRA Certainty Rate is gilt plus 80bps (G+80bps)
- Local Infrastructure Rate is gilt plus 60bps (G+60bps)

49 Borrowing for capital expenditure. As Link's long-term forecast for Bank Rate is 2.00%, and all PWLB rates are under 2.00%, there is now value in borrowing from the PWLB for all types of capital expenditure for all maturity periods, especially as current rates are at historic lows. However, greater value can be obtained in borrowing for shorter maturity periods so the Council will assess its risk appetite in conjunction with budgetary pressures to reduce total interest costs. Longer-term borrowing could also be undertaken for the purpose of certainty, where that is desirable.

50 While BCP Council will not be able to avoid borrowing to finance new capital expenditure and the rundown of reserves, there will be a cost of carry, (the difference between higher borrowing costs and lower investment returns), to any new borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost.

Borrowing strategy

51 The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances

and cash flow have been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is still an issue that need to be considered.

52 The Chief Financial Officer has the delegated responsibility to arrange such loans as are legally permitted to meet the Council's borrowing requirement and to arrange terms of all loans to the Council including amounts, periods and rates of interest.

53 Against this background and the risks within the economic forecast, caution will be adopted with the 2021/22 treasury operations. The Chief Financial Officer will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

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

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

Any decisions will be reported to the appropriate decision making body at the next available opportunity.

Policy on borrowing in advance of need

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

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

Debt rescheduling

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

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

Approved Sources of Long- and Short-term Borrowing

On Balance Sheet	Fixed	Variable
PWLB	●	●
Community municipal bonds	●	●
Municipal bond agency	●	●
Local authorities	●	●
Banks	●	●
Pension funds	●	●
Insurance companies	●	●
Market (long-term)	●	●
Market (temporary)	●	●
Market (LOBOs)	●	●
Stock issues	●	●
Local temporary	●	●
Local Bonds	●	
Local authority bills	●	●
Overdraft		●
Negotiable Bonds	●	●
Internal (capital receipts & revenue balances)	●	●
Commercial Paper	●	
Medium Term Notes	●	
Finance leases	●	●

Annual Investment Strategy

Investment Policy

58 The MHCLG and CIPFA have extended the meaning of 'investments' to include both financial and non-financial investments. This report deals solely with financial investments, (as managed by the treasury management team). Non-financial investments, essentially the purchase of income yielding assets, are covered in the Capital Strategy, (a separate report).

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

- MHCLG's Guidance on Local Government Investments ("the Guidance")
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017 ("the Code")
- CIPFA Treasury Management Guidance Notes 2018

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

60 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. The key ratings used to monitor counterparties are the Short Term and Long Term ratings.

61 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 this end 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.

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

Creditworthiness policy

63 The primary principle governing the Council’s investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. After this main principle, the Council will ensure that:

a It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the specified and non-specified investment sections below; and

b It has sufficient liquidity in its investments. For this purpose, it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council’s prudential indicators covering the maximum principal sums invested.

64 The Chief Financial Officer will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to Council for approval as necessary. These criteria are separate to which types of investment instruments that can be used as it provides an overall pool of counterparties considered high quality which the Council may use, rather than defining what types of investment instruments are to be used.

65 Credit rating information is supplied by Link Asset Services, our treasury consultants, on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. Any rating changes, rating watches (notification of a likely change), rating outlooks (notification of a possible longer-term change) are provided to officers almost immediately after they occur, and this information is considered before dealing. For instance, a negative rating watch applying to a counterparty at the minimum Council criteria will be suspended from use, with all others being reviewed in light of market conditions.

66 The criteria for providing a pool of high-quality investment counterparties (both specified and non-specified investments) is:

Sovereign Ratings

- AAA (non-UK)

(Rating Description: AAA = Prime Rating, AA+, AA, AA- = High Grade Rating)

Appendix 2 sets out the current list of countries that the Council can invest funds with.

The UK sovereign rating is currently AA. To ensure that the Treasury Function has capacity to operate effectively no specific minimum UK sovereign rating has been set out.

Selection Criteria

67 Banks 1 - the Council will use UK and non-UK banks which have, as a minimum at least one of, the following Fitch, Moody’s and Standard & Poors credit ratings (where rated):

	Fitch	**Moody’s**	**Standard & Poors**
Short Term	F1	P1	A-1
Long Term	A-	A3	A-

68 Investments will include term deposits, call accounts, notice accounts and Certificate of Deposits.

a Banks 2 – Part nationalised UK bank – Royal Bank of Scotland. This bank can be included provided it continues to be part nationalised or it meets the ratings in Banks 1 above.

b Banks 3 – The Council’s own bankers (HSBC, Lloyds and Barclays) for transactional purposes if the bank falls below the above criteria, although in this case balances will be minimised in both monetary size and time.

c Bank subsidiary and treasury operation - The Council will use these where the parent bank has provided an appropriate guarantee or has the necessary ratings outlined above.

d Building societies. The Council will use societies which meet the ratings for Banks 1 outlined above.

e Money Market Funds (MMFs) Constant net asset value (CNAV)

f Money Market Funds (MMFs) Low-Volatility net asset value (LVNAV)

g Money Market Funds (MMFs) Variable net asset value (VNAV)

h Ultra-Short Dated Bond Funds with a credit rating of at least 1.25

i Ultra-Short Dated Bond Funds with a credit rating of at least 1.50

j Cash Plus Funds

k UK Government (including gilts, Treasury Bills and the Debt Management Account Deposit Facility (DMADF))

l Royal Bournemouth and Christchurch Hospital NHS Foundation trusts

m Local authorities, Parish Councils, BCP Council Companies (Subsidiaries) and Partnerships.

n Pooled Funds

Maximum Time and Monetary Limits applying to Investments

69 The maximum amount that can be invested in any one institution at the time of the investment (including call accounts) as a percentage of the total investment

portfolio has been reviewed and rationalised. All AA- and above rated institutions have a maximum limit of 25%, all A+, A or A- rated institutions have a maximum limit of 20%. For practical reasons where the average investment balance falls below £10m it may become necessary to increase the percentage limit to 33% at the time of investment (this only applies to call accounts and money market funds).

70 The maximum time and monetary limits for institutions on the Council's Counterparty List are as follows (these will cover both Specified and Non-Specified Investments):

	Long Term Rating	Money Limit	Time Limit
Banks 1 higher quality	AA-	25%	2 years
Banks 1 medium quality	A	20%	1 year
Banks 1 lower quality	A-	20%	6 months
Banks 2 category – part-nationalised RBS / Nat West	N/A	20%	2 years
Banks 3 category – Council's banker HSBC	AA-	25%	3 months
UK Government (including gilts, Treasury Bills and the DMADF)	AAA	25%	6 months
Local Authorities	N/A	20%	5 years
Royal Bournemouth and Christchurch Hospital NHS Foundation Trusts	N/A	Fixed investment £14.9m	15 years
Money Market Funds CNAV	AAA	25%	Instant access
Money Market Funds LVNAV	AAA	25%	Instant access
Money Market Funds VNAV	AAA	25%	Instant access
Ultra-Short Dated Bond Funds	N/A	25%	Unlimited
Cash Plus Funds	AAA	25%	Unlimited
UK Gilts	UK Sovereign	25%	5 years

	Rate		

Use of additional information other than credit ratings

71 Additional requirements under the Code require the Council to supplement credit rating information. Whilst the above criteria relies primarily on the application of credit ratings to provide a pool of appropriate counterparties for officers to use, additional operational market information will be applied before making any specific investment decision from the agreed pool of counterparties. This additional market information will be applied to compare the relative security of differing investment counterparties.

Investment strategy

In-house funds

72 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).

Investment returns expectations

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

74 The suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year are as follows (the long term forecast is for periods over 10 years in the future):

- 2021/22 0.10%
- 2022/23 0.10%
- 2023/24 0.10%
- 2024/25 0.25%

75 The overall balance of risks to economic growth in the UK is probably now skewed to the upside, but is subject to major uncertainty due to the virus and how quickly successful vaccines may become available and widely administered to the population. It may also be affected by the deal the UK has agreed as part of Brexit.

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

Negative investment rates

77 While the Bank of England said in August / September 2020 that it is unlikely to introduce a negative Bank Rate, at least in the next 6 -12 months, and in November omitted any mention of negative rates in the minutes of the meeting of

the Monetary Policy Committee, some deposit accounts are already offering negative rates for shorter periods. As part of the response to the pandemic and lockdown, the Bank and the Government have provided financial markets and businesses with plentiful access to credit, either directly or through commercial banks. In addition, the Government has provided large sums of grants to local authorities to help deal with the COVID crisis; this has caused some local authorities to have sudden large increases in cash balances searching for an investment home, some of which was only very short term until those sums were able to be passed on.

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

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

Investment treasury limit

80 The maximum period for investments will be 5 years except the Royal Bournemouth and Christchurch Hospital NHS Foundation Trusts investment.

Ethical Investing

81 This is an area of investing that is becoming increasingly considered by financial institutions and customers. Products from financial institutions are growing but still remain limited. To consider investing in sustainable deposits they will still need to meet our counterparty criteria and parameters set out earlier in the strategy. Investment guidance, both statutory and from CIPFA, makes clear that all investing must adopt SLY principles – security, liquidity and yield: ethical issues must play a subordinate role to those priorities. The Treasury team will continue to explore this area and report to members of any further developments.

Treasury Management Policy, Practices and Schedules

82 The Treasury Management Policy, Practices and Schedules remain unchanged from those presented alongside the 2019/20 budget process. These rarely change and any significant changes will be reported to Audit and Governance before implementation.

Appendices

Appendix 1 - Approved Countries for investments

Appendix 1: Approved countries for investments

AA-

- United Kingdom

AA

- France

AA+

- Canada
- Finland
- U.S.A.

AAA

- Australia
- Denmark
- Germany
- Luxembourg
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland