

TORRIDGE DISTRICT COUNCIL**Treasury Management and Investment Strategy for Year Ending 31 March 2022****1.0 BACKGROUND**

- 1.1 The proposed Treasury Management and Investment Strategy for the financial year 2021/22 are set out in accordance with the CIPFA Code of Practice on Treasury Management. The Strategy is in line with the Prudential Indicators approved by Council.

2.0 BORROWINGS

- 2.1 No new long-term loans were taken out with the Public Works Loan Board (PWLB) during 2020/21.
- 2.2 Borrowings from PWLB at 31 March 2021 will total £0.661m. The next scheduled redemption occurs in March 2022 when a maturity type loan of £0.191m will be settled. Further ahead there are 3 fixed interest rate loans outstanding totalling £0.470m with redemption dates that run from March 2024 to March 2027.
- 2.3 The approved Prudential Indicators envisage that substantial further long-term borrowing may be undertaken in the year 2021/22 relating to the new Environmental Centre. The Waste Review report approved by Full Council on 23rd January 2017, highlighted the potential requirement for up to £4.00m of external borrowing linked to the purchase of a new depot and this was incorporated into the 2017/18 Capital Programme. This borrowing is expected to be increased by full council by a further £1.6m to fund the new increased costs of the Environmental Centre.
In addition to the Environmental Centre borrowing of £1m was approved by full council on the 8th April 2019 (in order to increase the capital programme by £1m for homelessness/temporary accommodation).
- 2.4 The Prudential Indicators on Appendix 3 to this report have been compiled on the assumption that the borrowing will take place in the 2021/22 financial year however the timing will be dependent upon the progress made with the project, the financial climate and the availability of internal resources.
- 2.5 The Council will ensure that borrowing will only be undertaken when it is identified that there is a need to do so.
- 2.6 The existing debt and loan schedule was considered in 2017/18 and it was concluded that there was no advantage from re-scheduling or early redemption of existing loans.

3.0 INVESTMENTS

- 3.1 The Annual Investment Strategy for the forthcoming year is prepared in accordance with guidance issued under the Local Government Act 2003.
- 3.2 On 31st March 2021 short-term investments placed with financial institutions are estimated to be approximately £10m. The bulk of this amount represents the balances on Reserves and Usable Capital Receipts.
- 3.3 The Capital Programme for 2021/22 will be financed from capital receipts, grants and contributions, revenue contributions, reserves and borrowing. Internal borrowing may also

be utilised in the implementation of parts of the Waste Review / further spend on homelessness/temporary accommodation, and this will reduce the funds available for investment.

- 3.4 The Investment Strategy during 2020/21 has been to keep investments at a shorter duration due to ensure cashflow requirements relating to government grant programmes as well as the delivery of the capital programme. With historically low yields this move to shorter term investments (compared with longer investment periods) has had little impact on the investment income the council receives.
- 3.5 The Investment Strategy for 2021/22 will be to spread the investments across counterparties to minimise risk. Investment periods are expected to be maintained, interest rates are expected to remain at their current historically low level. It is anticipated that the level of investments will reduce further due to a projected budget shortfall and continued capital expenditure.

4.0 INTEREST RATES

- 4.1 During 2020/21 the Bank of England Bank Base Interest Rate has remained at 0.10%.
- 4.2 The interest rate indications from the Bank of England's latest meeting are for an expectation that the Bank Base Rate will stay low for some time. Though they are not expected to go negative, this is something the Bank of England has not ruled out.
- 4.3 Short-term interest rates are around 0.05% for 3 months rising to 0.10% approaching one year. Interest rates available to the Torridge will be slightly lower because of the limited names on Counterparty List and the size of the amounts that we invest.
- 4.4 Long term borrowing rates from the PWLB were increased by 1% on the 9th October 2019; this was done by the treasury to try to discourage some of the borrowing to invest that had been occurring by various councils around the country. This 1% increase has been reversed this year along with increased reporting requirements surrounding the nature and purpose of the borrowing. The current impact of this means the interest on a 20 year loan will fall back to just under 2% from around 3%

5.0 COUNTERPARTY LIST & LIQUIDITY FRAMEWORK

- 5.1 The security of an investment should be considered paramount together with liquidity to ensure that an investment will be repaid on the due date. These will be considered of greater importance than yield. Investment yield will only be considered after security, liquidity and market sector risk have been evaluated.
- 5.2 In order to minimise the risk from a failed deposit-taker the Council sets a maximum investment amount and a maximum holding with any institution limit.

The current limits are:

- Maximum Investment amount to £3m.
- Maximum holding with any individual institution £5m

The Council's counterparty list includes all Fitch F1 rated UK Banks and Building Societies.

- 5.3 The Authority will only undertake Specified Investments, which are denominated in sterling. Such investments can only be made with the United Kingdom Government, another local authority, or a body awarded a high credit rating by a credit rating agency. The Authority will not undertake Non-specified Investments. This strategy will avoid being locked into lower rates when interest rates rise and to ensure flexibility to fund the capital programme.

5.4 For the purposes of this Strategy a high credit rating is defined as short-term F1 or better as rated by Fitch Ratings Ltd. The Senior Capital Accountant maintains a counterparty list comprising UK Government Departments, UK Local Authorities and major banks and building societies with a minimum credit rating of Fitch F1 that operate in the local authority market. Guidance recommends that other factors and information such as the sovereign rating of a country or market data regarding the sector or the counterparty should also be considered.

5.5 Link Asset Services (formerly known as Capita Asset Services) are engaged as the council's external Treasury advisors. As part of their service they undertake a monthly review of investments held and produce a report to confirm the credit strength of investments held.

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 Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

5.6

Appendix 2 gives details of our authorised counterparties comprising UK Government Departments, UK Local Authorities and major banks and building societies with a minimum credit rating of Fitch F1 that operate in the local authority market. A list of our current counterparties/investments is also given. The Credit ratings of the Counterparty List will be monitored at least quarterly to ensure they continue to meet the council's requirements. Credit ratings of relevant counterparties will be checked on the day of (and prior to) the investment being placed. Some counterparties are not taking further deposits as they do not require further funding and this could limit our ability to invest at the most beneficial rates from time to time.

5.7

Appendix 6 gives the details of the council's approach to ethical investments, comprising of "green treasury deposits", where such deposits are given priority if they meet the following conditions:

- Meet the councils investing limits and credit requirements (i.e. F1 rated UK Banks and Building Societies)
- Meet the investment timescales required to manage the councils cashflow (e.g. 3 months / 6 months / 1 year)
- Any reduced yield when comparing to standard treasury deposits is within 0.2% (at an annual rate)

5.7

It is inevitable that as part of daily transactions and cash management, sums will be held with the council's bankers consistent with the council's cash management needs. The Council appointed Lloyds Bank as its bankers with effect from 1 January 2015.

5.8

The Council has previously approved Svenska Handelsbanken to operate a call/short term notice account and will be operated when the interest rates on offer are competitive. Interest rates on call accounts will vary from time to time and it may be necessary to change providers from time to time.

6.0 DELEGATION

6.1 It should be recognised that the background to this Strategy may change very quickly which is why the detailed operation of the Treasury Management function is delegated to the

S151 Officer.

The S151 (responsible) officer is responsible for:-

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance;
- submitting regular treasury management policy reports;
- submitting budgets and budget variations;
- receiving and reviewing management information reports;
- reviewing the performance of the treasury management function;
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
- ensuring the adequacy of internal audit, and liaising with external audit; recommending the appointment of external service providers.

Members should recognise that decisions often have to be taken quickly in the light of prevailing circumstances and that the strategy may therefore need to change during the course of the year.

The Council's Community and Resources Committee receive reports on treasury management policies, practices and activities and make recommendations to full Council.

7.0 TREASURY MANAGEMENT INDICATORS

7.1 The Indicators for Treasury Management are as follows;

7.2 The Council must set limits to contain the activity of the treasury function within certain limits. An upper limit is required on its fixed and variable interest rate exposures for outstanding principal sums on both borrowing and investment.

Upper limit on interest rate exposure % Principal outstanding	2020/21 Estimate	2020/21 Forecast Actual for 31st March	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
Fixed Interest Rate Exposures	100%	100%	100%	100%	100%
Variable Interest Rate Exposures	0%	0%	0%	0%	0%

7.3 Upper and lower limits are needed for the maturity structure of borrowing. The amount of projected borrowing that is at a fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate at the start of the period:

	2020/21 Actual	Lower limit	Upper limit
Under 1 year	19%	0%	30%
1 year < 2 years	24%	0%	30%
2 years < 5 years	34%	0%	60%
5 years < 10 years	23%	0%	60%
10 years and above	0%	0%	100%

8.0 The CIPFA Code requires the Responsible Officer to ensure that members with responsibility for treasury management receive adequate training in treasury

management. This especially applies to Members responsible for scrutiny. The need for Member training in treasury management will be revisited during 2021/22.