APPENDIX A

Capital Strategy Report 2021/22

Introduction

1. The capital strategy report gives a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services along with an overview of how associated risk is managed and the implications for future financial sustainability.

2. Decisions made this year on capital and treasury management will have financial consequences for the Council for many years into the future. They are therefore subject to both a national regulatory framework and to local policy framework, summarised in this report.

Capital Expenditure and Financing

3. Capital expenditure is where the Council spends money on assets, such as property or vehicles that will be used for more than one year. In local government this includes, in addition, spending on assets owned by other bodies, and loans and grants to other bodies enabling them to buy assets. The Council has some limited discretion on what counts as capital expenditure, for example assets costing below £5,000 are not capitalised and are charged to revenue in year.

4. The Council's policy on capitalisation can be found in the Accounting Policies in the annual Statement of Accounts.

5. In 2021/22, the Council is planning capital expenditure of £44.139 million as summarised in Table 1:

Table 1 Prudential Indicator - Estimates of Capital Expenditure							
	Actual 2019/20 *£,000*	**Revised 2020/21 £,000s**	**Budget 2021/22 £,000s**	**Budget 2022/23 £,000s**	**Budget 2023/24 £,000s**	**Budget 2024/25 £,000s**	**Budget 2025/26 £,000s**
Non Housing Capital Programme							
Core Programme	2,404	5,399	5,249	4,413	2,814	3,317	976
Building Council Homes	45	49	4,211				
Enterprise Zone	5,649	8,251	3,360				
Prentice Place	1,887	276					
HTS Equity Share &Loan		1,500					
Future High Street Project		1,250					
Town Regeneration Partnership			5,000				
Sub Total	9,985	16,725	17,820	4,413	2,814	3,317	976
Housing Capital Programme							
Core Programme	14,182	20,550	18,552	12,921	15,107	13,219	13,236
House Purchases and New Build	582	13,218	7,767	7,999	3,000	3,000	1,965
Sub Total	14,764	33,768	26,319	20,920	18,107	16,219	15,201
`							
Total`	24,749	50,493	44,139	25,333	20,921	19,536	16,177

6. It can be seen from Table 1 that in 2021/22 a significant element of the Non Housing Capital Programme (NHCP) relates to the ongoing development of Harlow's Enterprise Zone and Science Park. In addition there will be a significant investment in the new Town Regeneration Partnership which will act as catalyst to regenerate the town centre.

7. The Housing Capital Programme (HCP) is split between the core programme such as compliance, lift maintenance and the house purchase and new build projects. In line with business plan assumptions the core programme is financed from the Major Repairs Reserve (MRR).available capital receipts and direct revenue financing. The house purchase and new build programme is financed from right to buy receipts and borrowing.

8. There is a further house building scheme totalling £4.2 million planned to be funded through the Non Housing Capital Programme.

9. Further details of projected capital expenditure are contained in the 'Capital Programme Strategy Statement' (see Appendix B to this Report).

Governance

10. Service Managers commence a process annually in September to bid for projects in the Council's Non Housing Capital Programme. Bids are collated by the Finance Department who calculate the financing costs (which can be nil if the project is fully externally financed) and formulate capital project appraisals. The Deputy to the Chief Executive and Head of Finance & Property Services presents capital proposals to the Senior Management Board (SMB) for review. The review is based on a comparison of corporate priorities and service priorities and considers projected capital costs, financing costs and any resulting ongoing service costs. Recommendations from SMB formalise the Capital Programme for approval by Cabinet and to Full Council in January / February each year.

11. For full details of the Council's latest Capital Programme, see the report entitled 'Capital Programmes 2021/22', which is presented separately in the agenda to Cabinet (21 January 2021) and, upon publication, is available on the Council's website pages.

12. Capital expenditure may only be financed either from external sources (government grants and other contributions), the Council's own resources (revenue, reserves and capital receipts) or debt (borrowing, and leasing).

13. The planned financing of the above expenditure is set out in Table 2 as follows:

Table2 Prudential Indicator - Financing Capital Expenditure							
	Actual 2019/20 *£,000*	Revised 2020/21 £,000s	Budget 2021/22 £,000s	Budget 2022/23 £,000s	Budget 2023/24 £,000s	Budget 2024/25 £,000s	Budget 2025/26 £,000s
NHCP							
Earmarked Grant Funding	(30)	(20)	(20)	(20)	(20)		
Capital Receipts	(766)	(1,236)	(650)				
Ear Marked Capital Reserves		(152)	(466)				
Direct Revenue Financing	(805)	(327)	(362)	(156)	(156)	(150)	(150)
Disabled Facilities Grant	(736)	(500)	(500)	(500)	(500)	(500)	(500)
Towns Fund - Eastgate Grant		(1,000)					
SELEP Getting Building Fund Grant		(200)	(3,360)				
Home Renovation Loan repayments		(5)	(5)	(5)	(5)	(5)	
Other contributions		(35)					
Borrowing requirement	(7,649)	(13,235)	(11,194)	(3,732)	(2,133)	(2,662)	(326)
RTB Capital Receipts		(15)	(1,263)				
Sub Total	(9,986)	(16,725)	(17,820)	(4,413)	(2,814)	(3,317)	(976)
HCP							
RTB Capital Receipts	(207)	(3,965)	(2,330)	(2,400)	(900)	(900)	(590)
Other Capital Receipts	(1,688)	(1,030)	(1,257)	(1,200)	(1,200)	(1,200)	(1,200)
Major Repairs Reserve	(10,624)	(10,470)	(10,736)	(10,864)	(10,946)	(11,028)	(11,111)
Direct Revenue Financing		(7,247)	(6,559)	(856)	(2,961)	(991)	(925)
Other Contributions	(2,244)						
Borrowing		(11,056)	(5,437)	(5,600)	(2,100)	(2,100)	(1,375)
Sub Total	(14,763)	(33,768)	(26,319)	(20,920)	(18,107)	(16,219)	(15,201)
Total`	(24,749)	(50,493)	(44,139)	(25,333)	(20,921)	(19,536)	(16,177)

Borrowing and Capital Financing Requirement

14. Borrowing and leasing is an intermediate source of finance, since loans and leases must be repaid. The 2003 England and Wales Regulations place on local authorities in England and Wales a duty to charge to the revenue account a 'minimum revenue provision' (MRP) which is deemed to be prudent for the repayment of debt'. Set out in Appendix E is the Councils statement on the calculation of MRP and Table 3 shows the estimated MRP over the next five years

Table 3 Minimum Revenue Provision

	Actual 2019/20 *£,000*	Revised 2020/21 £,000s	Budget 2021/22 £,000s	Budget 2022/23 £,000s	Budget 2023/24 £,000s	Budget 2024/25 £,000s	Budget 2025/26 £,000s
General Fund	459	555	636	662	676	694	695

15. The capital financing requirement (CFR) is the Council's cumulative debt outstanding and is split between the HRA and General Fund. The CFR increases with new capital expenditure financed by borrowing and reduces with the repayment of debt. (MRP). The CFR is expected to increase by £24.186 million during 2021/22. Based on the above figures for expenditure and financing, the Council's estimated CFR is as follows:

Table 4 Capital Financing Requirement

	Actual 2019/20 *£,000*	Revised 2020/21 £,000s	Budget 2021/22 £,000s	Budget 2022/23 £,000s	Budget 2023/24 £,000s	Budget 2024/25 £,000s	Budget 2025/26 £,000s
General Fund CFR	62.655	75.785	86.784	90.321	92.259	94.726	94.857
HRA CFR	187.370	198.426	203.863	209.463	211.563	213.663	215.038
Total CFR	250.025	274.211	290.647	299.784	303.822	308.389	309.895

Asset Management and Non-Housing Capital Receipts

16. The Council has recently reviewed its Asset Management Strategy and has undertaken a detailed stock condition survey of all of its non-housing property assets. The strategy and associated action plan combined with the results of the stock condition survey have been applied to develop a future non housing capital investment programme.

17. The strategy also sets out the intention to dispose or transfer those assets which no longer fulfil an operational, community or commercial objective. This is essential especially where there is a clear investment requirement which would outweigh the long term benefits of undertaking that investment.

18. The objective of the strategy is to recognise the Council's asset portfolio as a resource which whilst providing operational and community benefits. The Strategy sets out a framework for governance of the portfolio which seeks to achieve greater engagement with users and elected councillors in order to ensure that capital investment decisions are aligned with the agreed corporate priorities as set out in the Council's Corporate Plan.

Asset disposals:

19. When an asset is no longer required it may be sold and the capital precepts used to repay debt or finance new capital expenditure The Council plans to receive £300,000 capital receipts in the coming financial year, 2021/22, as shown in Table 5

Table 5 Movement in Non Housing Capital Receipts				
Narrative	**2019/20 Actual £'000**	**2020/21 Original £'000**	**2020/21 Revised £'000**	**2021/22 Estimates £'000**
Balance at 1 April	(649)	(649)	(2,155)	(1,919)
Non Housing Receipts Received	(2,012)	(250)	(1,000)	(300)
Non Housing Receipts Used	506	209	1,236	650
Balance in hand at 31 March	(2,155)	(690)	(1,919)	(1,569)

20. Further details of projected asset disposals are included in the 'Capital Programme Statement' (Appendix B).

<u>Treasury Management</u>

21. Treasury management is concerned with keeping sufficient but not excessive cash available to meet the Council's spending needs, while managing the risks involved. Surplus cash is invested until required, while a shortage of cash will be met by temporary borrowing, to avoid excessive credit balances or overdrafts in the bank current account. The Council is typically cash rich in the short-term as revenue income is received before it is spent, but cash poor in the long-term as capital expenditure is incurred before being financed. The revenue cash surpluses are offset against capital cash shortfalls to reduce overall borrowing.

22. Due to decisions taken in the past, the Council currently (as at 31 December 2020) has £211.837m borrowing at an average interest rate of 3.31% and £20.445m treasury investments at an average rate of 0.432%.

Borrowing strategy:

23. The Council's main objectives when borrowing are to achieve a low but certain cost of finance while retaining flexibility should plans change in future. These objectives are often conflicting, and the Council therefore

seeks to strike a balance between low cost short-term loans (currently available at around 0.4%) and long-term fixed rate loans where the future cost is known but higher (currently around to 1.4%). The Council also utilises its ability to "internally borrow" which is very attractive when it has surplus funds available and it is unable to achieve any significant return through its Treasury Management activities with external interest rates for investments being at historic lows.

24. Projected levels of the Council's total outstanding debt are shown below, compared with the capital financing requirement (see above).

Table 6: Prudential Indicator: Gross Debt and the CFR

	31.3.2020 Actual £000	31.3.2021 Revised £,000	31.3.2022 Budget £,000	31.3.2023 Budget £,000	31.3.2024 Budget £,000
Borrowing	211.837	211.837	235.837	252.437	254.737
Capital Financing Requirement	250.026	274,211	290,647	299,784	303,822

25 Statutory guidance is that debt should remain below the capital financing requirement, except in the short-term. As can be seen from table 6, the Council expects to comply with this in the medium term

Affordable Borrowing Limit

26 The Council is legally obliged to set an affordable borrowing limit (also termed the authorised limit for external debt) each year and to keep it under review. In line with statutory guidance, a lower "operational boundary" is also set as a warming level should debt approach the limit

Table 7: Prudential Indicators: Authorised limit and operational boundary

	2020/21 Limit £,000	2021/22 Limit £,000	2022/23 Limit £,000	2023/24 Limit £,000
Authorised limit – borrowing	301.000	315.500	320.200	325.200
Operational boundary – borrowing	291.000	305.500	310.200	315.200

27 Further details on borrowing are given in paragraphs 31 to 42 of the 'Treasury Management Strategy' (Appendix C).

Investment strategy:

28 Treasury investments arise from receiving cash before it is paid out again. Investments made for service reasons or for pure financial gain are not generally considered to be part of treasury management.

29 The Council’s policy on treasury investments is to prioritise security and liquidity over yield; that is to focus on minimising risk rather than maximising returns. Cash that is likely to be spent in the near term is invested securely, for example with the government, other local authorities or selected high-quality banks, to minimise the risk of loss. Money that will be held for longer terms is invested more widely, which might include bonds, shares and property, to balance the risk of loss against the risk of receiving returns below inflation. Both near-term and longer-term investments may be held in pooled funds, where an external fund manager makes decisions on which particular investments to buy and the Council may request its money back at short notice.

30 Further details on treasury investments are in paragraphs 43 to 66 of the ‘Treasury Management Strategy’ (Appendix C).

Governance

31 Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the Deputy to the Chief Executive and Head of Finance & Property Services and staff, who must act in line with the treasury management strategy approved by Full Council. Half-yearly reports on treasury management activity are presented to Cabinet. The Cabinet Overview Working Group is responsible for scrutinising treasury management decisions.

Investments for Service Purposes

32 The Council makes investments to assist local public services, including making loans to promote economic growth and lending to its subsidiary company, HTS (Property and Environment) Ltd, which provides extensive building maintenance, grounds and environmental maintenance services to the Council. In light of the public service objective, the Council is willing to take more risk than with treasury investments, however it still plans for such investments to, at least, break even after all cost

33 All decisions to date have been made subject to formal reporting and approval by Cabinet. Further details on service investments are in paragraphs 6 to 10 of the ‘Appendix D

Commercial Activities

34 With central government financial support for local public services declining, some Councils are investing in commercial property purely or mainly for financial gain. Harlow Council has not followed this course of action to date.

35 New Guidance requires Councils to disclose any property that it holds primarily or partially to generate a profit. Councils are no longer allowed to borrow from the Public Works Loan Board at favourable rates to finance commercial investments.

36 Harlow Council has only four such assets, namely, the golf course, two cottages and a former farmhouse. These generate an income of just under £82,000 a year (see Appendix D, 'Investment Strategy').

37 The Nexus building at the Harlow Enterprise Zone has been completed This will be a wholly owned asset which will be let to commercial tenants and whilst it will deliver an income stream to the Council a key determinant in the decision to proceed with the building was the regeneration and economic benefits it would bring to Harlow. The Council has been successful in obtaining additional grant funding of £3.6 million to further develop the Enterprise Zone

Liabilities

38 In addition to debt of £211.837m detailed above, the Council is committed to making future payments to cover its pension fund deficit (valued at £90.200m as at 31 March 2020). It has also set aside £2.533m to cover risks of Business Rates appeals and £5.900m for other minor provisions. The Council is also covers the risk of having to pay for small-value insurance claims for which self-insurance is in place and managed through earmarked reserves.

Governance:

39 Decisions on incurring new discretional liabilities are taken by Senior Management Board in consultation with the Deputy to the Chief Executive and Head of Finance & Property Services. It is the responsibility of Senior Managers to consult the Deputy to the Chief Executive and Head of Finance & Property Services on any matter liable to affect the Council's finances materially (for values above £50,000). In the event of any substantial liabilities arising during the course of the financial year, these are highlighted in the financial and performance monitoring reports, presented quarterly to Cabinet and onwards to Full Council.

40 Further details guarantees are set out in the Investment Strategy 2021/22 (Appendix D, paragraph 14), whilst further details of contingent liabilities are contained in Note 32 of the Statement of Accounts 2019/20.

Revenue Budget Implications

41 Although capital expenditure is not charged to revenue it does have revenue implications. Both the, interest payable on loans and the repayment of debt (MRP)} is charged to revenue. This is offset by any investment income receivable. The net capital financing charge compared to the net revenue stream i.e. for the General Fund, the amount funded from Council Tax, business rates and general government grants; and for the Housing Revenue Account, predominantly housing rent income. Set out in Table 9 is the prudential indicator which compare the net capital financing charge with the net income stream

Table 9: Proportion of financing costs to net revenue stream

	2019/20 Actual £,000	2020/21 Revised £.000	2021/22 Budget £,000	2022/23 Budget £,000	2023234 Budget £000
General Fund					
Financing costs	0.824	1.110	1.305	1.354	1.383
Proportion of net revenue stream	0.076%	0.111%	0.117%	0.118%	0.120%
HRA					
Financing costs	6.673	7.067	7.261	7.460	7.535
Proportion of net revenue stream	13.81%	14.47%	14.09%	14.07%	13.95%

Sustainability

42 Due to the very long-term nature of capital expenditure and financing, the revenue budget implications of expenditure incurred in the next few years will extend for up to 50 years into the future. Capital investment decision making is not only about ensuring the initial allocation of capital funds meets the corporate and service priorities but ensuring the asset is fully utilised, sustainable and affordable throughout its whole life, which also includes the affordability of its debt financing costs. In approving the inclusion of schemes and projects within the Capital Programme the Deputy to the Chief Executive and Head of Finance & Property Services will need to have been satisfied that the proposed capital programme is prudent, affordable and sustainable.

Knowledge and Skills

43 The Council employs professionally qualified and experienced staff across a range of disciplines including finance, legal and property that follow Continuous Professional Development (CPD). The Council encourages apprenticeships and study programmes for staff with the ambition to achieve a professional qualification.

44 Recognising the scale of the Council's staffing, where Council staff do not have the knowledge and skills required, use is made of external advisers and consultants that are specialists in their field. The Council currently employs Arlingclose Limited as treasury management advisers, Wilks Head and Eve LLP as property valuation advisers, as well as other reputable firms of property consultants to support it in assessing the condition of its asset, advising on property transactions and any new developments. This approach is more cost effective than employing such staff directly, and ensures that the Council has access to knowledge and skills commensurate with its risk appetite

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45 Internal and external training is offered to elected Members to ensure they have up to date knowledge and expertise to understand and challenge capital and treasury decisions taken by the administration, the Strategic Management Board and the Deputy to the Chief Executive and Head of Finance & Property Services.

APPENDIX B

Capital Programme Strategy Statement 2021/22

Introduction

1. This Appendix sets out the Council's strategy for financing capital expenditure as part of the Medium Term Financial plan in order to supplement the 'Capital Strategy Report' in Appendix A

2. The Capital Programme is divided between a Housing Capital Programme (HCP) and Non Housing Capital Programme (NHCP). Both are then sub-divided between their Core Programmes and specific projects:

3. In the HCP the core programme includes the housing investment programme to maintain dwellings to a decent standard, .compliance testing and lift maintenance. The non-core HCP includes the house purchase and new build schemes'

4. In the NHCP the core programme includes the maintenance of community buildings enhancements to the Civic Centre and environmental projects. The non-core element includes the Enterprise Zone, the contribution to the new regeneration partnership and new builds schemes outside the HRA.

The Housing Capital Programme (HCP)

5. The estimates and funding of the HCP can be summarised in Table 10

Table 10 HCP 2020/21 to 2025/26

PROJECT AREA	Revised 2020/21 £,000s	Budget 2021/22 £,000s	Budget 2022/23 £,000s	Budget 2023/24 £,000s	Budget 2024/25 £,000s	Budget 2025/26 £,000s
Core Programme	20,550	18,552	12,921	15,107	13,219	13,236
House Purchase Scheme	12,600					
New Build Programme	618	*7,767*	*7,999*	*3,000*	*3,000*	*1,965*
TOTAL HCP	**33,768**	**26,319**	**20,920**	**18,107**	**16,219**	**15,201**
FUNDED BY:-						
RTB Capital Receipts	(3,965)	(2,330)	(2,400)	(900)	(900)	(590)
Other Capital Receipts	(1,030)	(1,257)	(1,200)	(1,200)	(1,200)	(1,200)
Major Repairs Reserve	(10,470)	(10,736)	(10,864)	(10,946)	(11,028)	(11,111)
Direct Revenue Financing	(7,247)	(6,559)	(856)	(2,961)	(991)	(925)
Borrowing	(11,056)	(5,437)	(5,600)	(2,100)	(2,100)	(1,375)
TOTAL FUNDING	**(33,768)**	**(26,319)**	**(20,920)**	**(18,107)**	**(16,219)**	**(15,201)**

6. The HRA Business Plan, approved by Full Council in January 2020, reflects that the HCP has been prepared in accordance with the following principles.

   a) That the HCP core projects are financed from contributions from the Major Repairs Reserve. Any shortfall will be financed from available housing capital receipts and direct revenue contributions

   b) That the HCP new build projects are financed from retained right to buy receipts and borrowing.

New Build Schemes

7. Set out in Table 11 is a summary of new build schemes included in the HCP

Table 11 - HCP Revised New Build Projects

Name of Scheme	No of Units	Approved Scheme Cost	Revised 2020/21 Budget	2021/22 Budget	2022/23 Budget	2023/24 Budget	2024/25 Budget	2025/26 Budget
		£,000	£,000	£,000	£,000	£,000	£,000	£,000
The Readings			13					
Bushey Croft	16	4,140	20	2,781	1,202			
Lister House	46	14,000	370	2,400	3,000	3,000	3,000	1965
The Yorkes	13	3,015	36	1,482	1,475			
Brenthall Towers	8	2,585	38	830	1,692			
Stackfield	5	550	40	156	350			
The Hill	2	500	101	118	280			
Total	90	24,790	618	7,767	7,999	3,000	3,000	1,965

8. The Readings project was removed from the Capital Programme at the December Cabinet meeting. Details of the progress made on all the other new build projects can be found in the Capital Programmes 2021/22 report. Set out in Table is an analysis of how the new build programme is funded

Table 12 Fundng of HCP New Build Projects

PROJECT AREA	Budget 2021/22 £,000s	Budget 2022/23 £,000s	Budget 2023/24 £,000s	Budget 2024/25 £,000s	Budget 2025/26 £,000s
New Build Programme	*7,767*	*7,999*	*3,000*	*3,000*	*1,965*
Financed By					
RTB Capital Receipts	(2,330)	(2,400)	(900)	(900)	(590)
Borrowing	(5,437)	(5,600)	(2,100)	(2,100)	(1,375)
TOTAL FUNDING	(7,767)	(8,000)	(3,000)	(3,000)	(1,965)

The Non Housing Capital Programme (NHCP)

9. The estimates and funding of the NHCP can be summarised in Table 13

Table 13 NHCP 2020/21 to 2025/26

PROJECT AREA	Revised 2020/21 £,000s	Budget 2021/22 £,000s	Budget 2022/23 £,000s	Budget 2023/24 £,000s	Budget 2024/25 £,000s	Budget 2025/26 £,000s
Core Programme	5,399	5,249	4,413	2,814	3,317	976
Special Projects	11,277	8,360	0	0	0	0
General Fund New Build	49	4,211	0	0	0	0
TOTAL NHCP	16,725	17,820	4,413	2,814	3,317	976
FUNDED BY:-						
Earmarked Grant Funding	(20)	(20)	(20)	(20)		
Capital Receipts	(1,236)	(650)				
Ear Marked Capital Reserves	(152)	(466)				
Direct Revenue Financing	(327)	(362)	(156)	(156)	(150)	(150)
Disabled Facilities Grant	(500)	(500)	(500)	(500)	(500)	(500)
Towns Fund -Eastgate Grant	(1,000)					
SELEP Getting Building Fund Grant	(200)	(3,360)				
Home Renovation Loan repayments	(5)	(5)	(5)	(5)	(5)	
Other contributions	(35)	0	0	0	0	
Borrowing requirement	(13,201)	(8,246)	(3,732)	(2,133)	(2,662)	(326)
New Build						
RTB Capital Receipts	(15)	(1,263)				
Borrowing requirement	(34)	(2,948)				
Total Project Funding	(16,725)	(17,820)	(4,413)	(2,814)	(3,317)	(976)

10. Financing of the NHCP follows the same principles as the HCP in that the financing of the Elm Hatch new build project will be from retained RTB and borrowing.

11. Part of the NHCP is financed from non- housing capital receipts and Table 14 below shows the estimated availability of those receipts in 2021/22.

Table 14 Movement in Non Housing Capital Receipts

Narrative	2019/20 Actual £'000	2020/21 Original £'000	2020/21 Revised £'000	2021/22 Estimates £'000
Balance at 1 April	(649)	(649)	(2,155)	(1,919)
Non Housing Receipts Received	(2,012)	(250)	(1,000)	(300)
Non Housing Receipts Used	506	209	1,236	650
`				
Balance in hand at 31 March	(2,155)	(690)	(1,919)	(1,569)

12. The remaining elements of the NHCP will be financed by Disabled Facilities Grant, direct revenue contributions and borrowing. Excluding the borrowing to finance the Elm Hatch new build project and the £5.0 million contribution to the new Regeneration Partnership the estimated borrowing required to finance the 2021/22 NHCP is £3.246 million .

APPENDIX C

Treasury Management Strategy Statement 2021/22

Summary of the Report

1. This Treasury Management Strategy Statement (TMSS) sets out the treasury management issues in accordance with proper practice.

2. The Council uses treasury management advisors to help its decision making, keeping officers up to date with economic developments and providing training and support. Arlingclose Limited has been the Council's appointed advisor since December 2012.

3. The UK economy is in an uncertain state as the impacts of the Covid-19 pandemic continue to be felt and the implications of the new trade deal with the European Union begin to be understood.

4. As a steward of public finance, the Council will continue to take all practical steps to protect its investment portfolio. In this respect emphasis remains in this order of priority:

    - **Security:** which includes the following, some of which might appear contradictory:
        - Reducing risk in order to protect the return of capital sums, particularly in relation to the Council's investments;
        - The repayment of the sums invested ; and / or
        - Attempting as far as possible, within the parameters of this document, a total return equal to or higher than the prevailing rate of inflation.

    - **Liquidity:** availability of cash when needed (adequate but not excessive liquidity).

    - **Yield:** a return commensurate with the level of risk.

5. Harlow Council has embarked on a number of major projects which will deplete surplus cash held. It is anticipated that, during 2021/22, the Council will need to undertake external borrowing.

Introduction

6. Treasury management is the management of the Council's cash flows, borrowing and investments, and the associated risks. The Council has 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 financial risk are therefore central to the Council's prudent financial management.

7. Treasury risk management at the Council 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) which requires the Council to approve a treasury management strategy before the start of each financial year. This report fulfils the Council's legal obligation under the 'Local Government Act 2003' to have regard to the CIPFA Code.

8. Investments held for service purposes or for commercial profit are considered in a different report, the 'Investment Strategy' (Appendix D).

9. **Interest rate forecast:** The Council's treasury management adviser Arlingclose is forecasting that the Bank Rate will remain at 0.1% until at least the end of 2023.

10. For the purpose of setting the budget, it has been assumed that new investments will be made at an average rate of 0.4%, and that new long-term loans will be borrowed at an average rate of 3%.

Local Context

11. On 31 December 2020, the Council held £211.837m of borrowing and £20.445m of investments.

12. 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 Council's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing.

13. The Council has an increasing CFR due to the capital programme, but minimal investments and will therefore be required to borrow up to £46.1m over the forecast period.

14. CIPFA's 'Prudential Code for Capital Finance in Local Authorities' recommends that the Council's total debt should be lower than its highest forecast CFR over the next three years. The Council expects to comply with this recommendation during 2021/22.

Borrowing Strategy

15. The Council currently holds £211.837m of loans, being the same as the previous year, as part of its strategy for funding previous years' capital programmes. The 2021/22 capital programme indicates that the Council expects to borrow up to £32m in 2021/22. The Council may also borrow

additional sums to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing of £301 million.

16. **Objectives:** The Council'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 Council's long-term plans change is a secondary objective.

17. **Strategy:** Given the significant cuts to public expenditure and in particular to local government funding, the Council'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 remains likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead. Where longer-term loans are utilised, they will be considered in the context of ensuring interest rates will be adequately balanced by income streams associated with the capital investment being financed.

18. By doing so, the Council is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of internal/ 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 Council with this 'cost of carry' and breakeven analysis. Its output may determine whether the Council 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.

19. The Council has previously raised all of its long-term borrowing from the PWLB. PWLB loans are no longer available to Councils planning to buy investment assets primarily for yield. The Council intends to avoid this activity in order to retain its access to PWLB loans.

20. Alternatively, the Council 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.

21. In addition, the Council may borrow short-term loans to cover unplanned cash flow shortages, although this eventuality is highly unlikely to occur because the spread of investments provides for sufficient cash liquidity to meet forecast cash flows.

22. **Sources of borrowing:** 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 UK public sector body
- any other bank or building society authorised to operate in the UK
- UK public and private sector pension funds (except Essex 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.

23. **Other sources of debt finance:** In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as debt liabilities:
    - Leasing
    - Hire purchase
    - Private Finance Initiative
    - Sale and leaseback

24. **Municipal Bonds Agency:** UK Municipal Bonds Agency plc was established in 2014 by the Local Government Association as an alternative to the PWLB. It plans to issue bonds on the capital markets and lend the proceeds to local authorities. This will be a more complicated source of finance than the PWLB for two reasons: borrowing authorities will be required to provide bond investors with a guarantee to refund their investment in the event that the agency is unable to for any reason; and there will be a lead time of several months between committing to borrow and knowing the interest rate payable. Any decision to borrow from the Agency will therefore be the subject of a separate report to Cabinet and Full Council.

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

26. **Debt rescheduling:** 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 Council 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.

Investment Strategy

27. The Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Council's investment balance has ranged between £19.5m and £42.4m. The expenditure profile of the Council is changing dramatically which will mean surpluses available for investment will reduce to about £10m.

28. **Objectives:** The CIPFA Code requires the Council 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 Council'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 Council 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.

29. **Negative interest rates:** In the event that the Bank of England sets the Bank Rate at or below zero security will be measured as receiving the contractually agreed amount at maturity, even though this may be less than the amount originally invested.

30. **Strategy:** Given the increasing risk and very low returns from short-term unsecured bank investments, the Council will retain diversification into more secure and/or higher yielding asset classes during 2021/22 where cash is identified as available for longer-term investment. This diversification will represent a continuation of the current strategy.

31. **Approved counterparties:** The Council may invest its surplus funds with any of the counterparty types in table 3 below, subject to the cash limits (per counterparty) and the time limits shown.

32. With reduce cash surpluses anticipated to be available, the cash limits assume an investment portfolio between £10m and £20m.

33. Harlow Council's typical day-to-day investments are with local authorities for up to one year.

Table 3: Approved investment counterparties and limits

Credit rating	Banks unsecured	Banks secured	Government	Corporates	Registered Providers
UK Govt	n/a	n/a	£ Unlimited 50 years	n/a	n/a
AAA	£1m 5 years	£2m 20 years	£2m 50 years	£1m 20 years	£1m 20 years
AA+	£1m 5 years	£2m 10 years	£2m 25 years	£1m 10 years	£1m 10 years
AA	£1m 4 years	£2m 5 years	£2m 15 years	£1m 5 years	£1m 10 years
AA-	£1m 3 years	£2m 4 years	£2m 10 years	£1m 4 years	£1m 10 years
A+	£1m 2 years	£2m 3 years	£1m 5 years	£1m 3 years	£1m 5 years
A	£1m 13 months	£2m 2 years	£1m 5 years	£1m 2 years	£1m 5 years
A-	£1m 6 months	£2m 13 months	£1m 5 years	£1m 13 months	£1m 5 years
None	£0.5m 6 months	n/a	**£2m 25 years**	£50,000 5 years	£1m 5 years
Pooled funds and real estate investment trusts		£4m per fund or trust			

This table must be read in conjunction with the notes below

34. **Credit rating:** Investment limits are set by reference to the lowest published long-term credit rating from a selection of external rating agencies. 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.

35. **Banks 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.

36. **Banks secured:** Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they 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 to determine cash and time limits. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

37. **Government:** Loans, 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 Central Government may, in principle, be made in unlimited amounts for up to 50 years, although tying up the Council's cashflow for such an extensive period is particularly unlikely and an unforeseen occurrence.

38. **Local Authorities:** The Council's day-to-day investment transactions have moved more towards investments with other local authorities rather than banks. Councils have a legal duty to pass a balanced budget, have revenue raising powers, and a lender of last resort in the form of the Public Works Loan Board. In unusual circumstances, the lender is able to recoup the principal sum lent under the Local Government Act 2003, sections 6 and 13. In spite of continued reductions in central government funding, making the setting of budgets and budget monitoring even more challenging, the risk of default remains very low. Where a Council issues a notice under Section 114(3) of the Local Government Finance Act 1988 – as is currently the case with Northamptonshire County Council – then section 115(6) of the Act prevents local authority lending. The local government community is becoming more concerned about some entering into a new field of excessive commercial activity. This Council will exercise a degree of caution and will not lend where it feels the risk is too great. The Council may consider using an investment platform (iDealTrade) which contains qualitative information about borrowers.

39. **Corporates:** Loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in, but are exposed to the risk of the company going insolvent. Loans to unrated companies will only be made either following an external credit assessment or to a maximum of £50,000 per company as part of a diversified pool in order to spread the risk widely.

40. **Registered providers:** Loans and bonds issued by, guaranteed by or secured on the assets of registered providers of social housing and registered social landlords, formerly known as housing associations. These bodies are tightly regulated by the Regulator of Social Housing (in England). As providers of public services, they retain the likelihood of receiving government support if needed.

41. **Pooled funds:** Shares or units in diversified investment vehicles consisting of the any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Short-term Money Market Funds that offer same-day liquidity and very low or no volatility will be used as an alternative to instant access bank accounts, while pooled funds whose value changes with market prices and/or have a notice period will be used for longer investment periods.

42. Bond, equity and property funds offer enhanced returns over the longer term, but are more volatile in the short term. These allow the Council 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 Council's investment objectives will be monitored regularly.

43. **Operational bank accounts:** The Council 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 balances will therefore be kept below £4m (except over the Christmas period, defined as 20 December to 4 January inclusive when the limit will be £6m). 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 Council maintaining operational continuity.

44. **Risk assessment and credit ratings**: Credit ratings are obtained and monitored by the Council'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.

45. 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 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.

46. **Other information on the security of investments**: The Council 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, reports in the quality financial press and analysis and advice from the Council'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 above criteria.

47. When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2011, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Council 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 Council'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 a reduction in the level of investment income earned, but will protect the principal sum invested.

48. **Investment limits**: The maximum that will be lent to any one organisation (other than the UK Government) will be £4m. A group of banks under the same ownership will be treated as a single organisation for limit purposes. 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.

49. The cash limits assume an investment portfolio between £10m and £20m. If, as anticipated, the cash holding falls to £12.2m then the approved investment limits will be reduced accordingly on instruction to officers by the Deputy to the Chief Executive and Head of Finance & Property Services.

Table 4: Investment limits

	Cash limit
Any single organisation, except the UK Central Government	£2m each
UK Central Government	unlimited
Any group of organisations under the same ownership	£2m per group
Any group of pooled funds under the same management	£5m per manager
Negotiable instruments held in a broker's nominee account	£5m per broker
Foreign countries	£2m per country
Registered providers and registered social landlords	£5m in total
Unsecured investments with building societies	£2m in total
Loans to unrated corporates	£2m in total
Money market funds	£20m in total
Real estate investment trusts	£5m in total

50. **Liquidity management:** The Council uses a purpose-built cash flow forecasting spreadsheet 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 Council being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Council's medium-term financial plan and cash flow forecast.

Treasury Management Indicators

51. The Council measures and manages its exposures to treasury management risks using the following indicators.

52. **Interest rate exposures**: This indicator is set to control the Council's exposure to interest rate risk. The upper limits on the one-year revenue impact of a 1% rise or fall in interest rates will be:

Interest rate risk indicator	Limit
Upper limit on one-year revenue impact of a 1% rise in interest rates	£113,641
Upper limit on one-year revenue impact of a 1% fall in interest rates	£113,641

53. The impact of a change in interest rates is calculated on the assumption that maturing loans and investments will be replaced at current rates.

54. **Maturity structure of borrowing:** This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of borrowing will be:

Refinancing rate risk indicator	Upper limit	Lower limit
Under 12 months	25%	0%
12 months and within 24 months	50%	0%
24 months and within 5 years	100%	0%
5 years and within 10 years	100%	0%
10 years and above	100%	0%

55. 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.

56. **Principal sums invested for periods longer than a year:** The purpose of this indicator is to control the Council'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:

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

<u>Related Matters</u>

57. The CIPFA Code requires the Council to include the following in its treasury management strategy.

58. **Policy on apportioning interest to the Housing Revenue Account:** On 1 April 2012, the Council notionally split each of its existing long-term loans into General Fund and HRA pools. In the future, new long-term loans borrowed will be assigned in their entirety to one pool or the other. Interest payable and other costs/income arising from long-term loans (e.g. premiums and discounts on early redemption) will be 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) will result in a notional cash balance which may be positive or negative. This balance will be measured each month and interest transferred between the General Fund and HRA at the Council's average interest rate on investments, adjusted for credit risk.

59. **Policy on the use of Financial Derivatives:** 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).

60. The Council 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 Council 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.

61. Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit.

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

63. **Markets in Financial Instruments Directive**: The Council has opted up to professional client status with its providers of financial services, including advisers, brokers and fund managers, allowing it access to a smaller range of services but with the greater regulatory protections afforded to individuals and small companies. Given the size and range of the Council's treasury management activities, the Deputy to the Chief Executive and Head of Finance & Property Services believes this to be the most appropriate status.

Financial Implications

64. The budget for investment income in 2020/21 is £149,000, based on an average investment portfolio of £21 million at an interest rate of 0.34%. The budget for debt interest paid in 2021/22 is £7.729 million, based on an average debt portfolio of £235.837 million at an average interest rate of 3.31%. If actual levels of investments and borrowing, or actual interest rates, differ from those forecast, performance against budget will be correspondingly different.

Other Options Considered

65. The CIPFA Code does not prescribe any particular treasury management strategy for local authorities to adopt. The Deputy to the Chief Executive and Head of Finance & Property, having consulted the Portfolio Holder (Resources), 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

Annex A
Glossary of Terms and Definitions

Bank Rate:
The term ‘Bank Rate’ is ‘the official Bank Rate paid on commercial bank reserves’, i.e. reserves placed by commercial banks with the Bank of England as part of the Bank’s operations to reduce volatility in short term interest rates in the money markets. Previously referred to as “repo rate” this term has been replaced as a result of the change in terminology used by the Bank of England as from May 2006

Base Rate:
The term Base Rate refers to the rate which is set by each high street bank; it is the key foundational rate on which they each base all their various lending rates to customers. It is normally set at the same rate as the Bank Rate (q.v.) and changes in line with, and very soon after changes in Bank Rate.

BRRD: ‘Bank Recovery and Resolution Directive’

CD: see ‘Certificate of deposit'.

CDS: see ‘Credit Default Swaps’

CFR: see ‘Capital Financing Requirement’

CP: see ‘Commercial paper'.

CRA: see ‘Credit Rating Agency’.

Call Account: ‘Call account' is a bank deposit where funds can be withdrawn at any time.

Callable Deposit
Placing a deposit with a bank or building society at a set rate for a set amount of time. However, the borrower has the right to repay the funds on pre agreed dates before maturity. This decision is based upon how market rates have moved since the deal was agreed. If rates have fallen, the likelihood of the deposit being repaid rises, as cheaper money can be found by the borrower.

Capital Financing Requirement
The Capital Financing Requirement reflects the Council’s underlying need to borrow for capital purposes. Thus, if new capital expenditure is incurred and not financed from sources other than by borrowing, the CFR will increase by the amount of that expenditure. Borrowing, up to the value of the CFR, may be either from internal cash balances or externally, such as from the Public Works Loan Board (q.v.).

Certificate of Deposit
A certificate of deposit is an unsecured investment issued by a bank or building society which is a fixed deposit, giving a guaranteed interest return. These differ from term deposits in that the lender is not obliged to hold the investment through to maturity and may realise the cash by selling the CD into an active secondary market. This may be useful in instances where the counterparty receives a downgraded credit rating, or the investor encounters an unexpected cashflow issue. CDs are obtained through specialist brokers who deal through the primary and secondary market. CDs offer liquidity and greater access to counterparties who do not trade in term deposits.

CIPFA: Chartered Institute of Public Finance and Accountancy.

CIPFA Treasury Management Code of Practice
This represents official practitioners' guidance, which is produced by CIPFA. The government expects Councils and other public service authorities to adopt and comply with the code. The recommendations made in the Code provide a basis for all these public service organisations to create clear treasury management objectives and to structure and maintain sound treasury management policies and practices.

CLG: Department of Communities and Local Government.

Commercial Paper
Short-term obligations with maturities ranging from 2 to 270 days issued by banks, corporations and other borrowers. Such instruments are unsecured and usually discounted, although some may be interest bearing.

Corporate Bond
Strictly speaking, corporate bonds are those issued by companies. However, the term is used to cover all bonds other than those issued by governments in their own currencies and includes issues by companies, supranational organisations and government agencies

Counterparty
A counterparty is a party with which a transaction is done.

CPI: Consumer Prices Index

Credit Default Swaps
A CDS is a contract between two counterparties in which the buyer of the contract makes quarterly payments to the seller of the contract in exchange for a payoff if there is a credit event (e.g. default) of the reference entity (i.e. the third party on whom the contract is based). The contract essentially provides a means of insurance to the buyer of the CDS against default by a borrower. The "spread" (effectively the premium paid by the CDS buyer) provides an indication of the perceived risk of a default occurring.

Credit Rating
A credit rating is an estimate of the quality of a debt from the lender viewpoint in terms of the likelihood of interest and capital not being paid and of the extent to which the lender is protected in the event of default.

An individual, a firm or a government with a good credit rating can borrow money from financial institutions more easily and cheaply than those who have a bad credit rating.

Credit Ratings are evaluated by Credit Rating agencies (q.v.).

Credit rating agency
'Credit rating agency', or 'rating agency', or CRA, is a firm that issues opinions on companies' ability to pay back their bonds. These opinions are often abbreviated on an alphanumeric scale ranging from AAA to C (or equivalent). The three CRAs used by the Council are Fitch, Moody's and Standard and Poor's.

DMADF: see 'Debt Management Agency Deposit Facility'

DMO: see 'Debt Management Office'

Dealing
Is the process of carrying out transactions with a counterparty (q.v.), including agreeing the terms of an investment. This is usually conducted through a broker.

Debt Management Agency Deposit Facility

Deposit Account offered by the Debt Management Office (q.v.), guaranteed by the UK government.

Debt Management Office
The Debt Management Office (DMO) is an executive agency of HM Treasury responsible for carrying out the government's debt management policy and managing the aggregate cash needs of the Exchequer. It is also responsible for lending to local authorities and managing certain public sector funds.

Derivative
A contract whose value is based on the performance of an underlying financial asset, index or other investment. e.g. an option is a derivative because its value changes in relation to the performance of an underlying stock.

ECB: European Central Bank

Equity
A share in a company with limited liability. It generally enables the holder to share in the profitability of the company through dividend payments and capital gain.

EU: European Union

Fed: The Federal Reserve (US)

FLS: Funding for Lending Scheme

Floating Rate Notes
Bonds on which the rate of interest is established periodically with reference to short-term interest rates

Forward Deal
The act of agreeing today to deposit funds with an institution for an agreed time limit, on an agreed future date, at an agreed rate.

Forward Deposits: see 'forward deal'

Fund Manager
The individual responsible for making decisions related to any portfolio of investments in accordance with the stated goals of the fund.

GDP: Gross Domestic Product

Gilt
Registered British government securities giving the investor an absolute commitment from the government to honour the debt that those securities represent.

Gilt Funds
Pooled fund investing in bonds guaranteed by the UK government.

HRA: Housing Revenue Account

HRACFR: Housing Revenue Account Capital Financing Requirement

iTraxx benchmark
A group of international credit derivative indexes that are monitored by the International Index Company (IIC). The credit derivatives market that iTraxx provides allows parties to

transfer the risk and return of underlying assets from one party to another without actually transferring the assets. iTraxx indexes cover credit derivatives markets in Europe, Asia and Australia.

Lender Option Borrower Option
'Lender Option Borrower Option' (LOBO) is a floating rate instrument which allows the lender to designate an adjustment rate at periodic reset dates and lets the borrower decide whether to pay the rate or redeem the bond.

Liquidity
Liquidity refers to an asset that can be turned into cash or the ability to quickly sell or buy an asset

LIBID: see 'London Interbank Bid Rate'

LIBOR: see 'London Interbank Offer Rate'

LOBO: see 'Lender Option Borrower Option'

London Interbank Bid Rate
The 'London Interbank Bid Rate' (LIBID) is the rate of interest at which first-class banks in London will bid for deposit funds. Often used as a benchmark for deposit rates. LIBID is not fixed in the same way as LIBOR (q.v.), but is typically one-sixteenth to one-eighth of a per cent below LIBOR.

London Interbank Offer Rate
'London Interbank Offer Rate' (LIBOR) is the interest rate which banks pay when lending to each other. It is calculated at a specified time each day and based on what it would cost a panel of banks to borrow funds for various periods of time and in various currencies. It then creates an average of the individual banks' figures.

Markets in Financial Instruments Directive II
New client classification rules were introduced from 3 January 2018 as a result of the UK's implementation of the second Markets in Financial Instruments Directive (MiFID II). Local authorities were transferred to 'client status' unless it requested to institutions to continue to be treated as a professional client in respect of all the regulated financial services that are provided.

MHCLG: Ministry of Housing, Communities and Local Government

MiFID II: see Markets in Financial Instruments Directive II

MMF: see 'Money Market Fund'

Money Market Fund
Money Market Funds are mutual funds that invest in short-term debt instruments. They provide the benefits of pooled investment, as investors can participate in a more diverse and high-quality portfolio than they otherwise could individually. Like other mutual funds, each investor who invests in a money market fund is considered a shareholder of the investment pool, a part owner of the fund. Money market funds are actively managed within rigid and transparent guidelines to offer safety of principal, liquidity and competitive sector-related returns. It is very similar to a unit trust, however, in a MMF equities are replaced by cash instruments. Returns are typically around 1 month LIBID (q.v.), and the average maturity is generally below 60 days.

MPC: Monetary Policy Committee

MRP: Minimum Revenue Provision, for the repayment of debt.

Open Ended Investment Companies (OEIC)
Investment funds that partly resemble an investment trust and partly a unit trust. Like investment trusts, they issue shares on the London Stock Exchange and invest money raised from shareholders in other companies. The term open-ended means that when demand for the shares rises the fund manager just issues more shares, instead of there being a rise in the share price. The price of OEIC shares is determined by the value of the underlying assets of the fund.

Other Bond Funds
Pooled funds investing in a wide range of bonds.

PWLB: see 'Public Works Loan Board'

Programme of Development
The balance of Programme of Development funding (POD) represents monies received from Central Government for regeneration in the east of England, and is held by the Council on behalf of a Partnership comprising local councils and partners from the third and private sectors. The funding was received after a series of successful bids by the Partnership.

Public Works Loan Board
The Public Works Loan Board (PWLB) is a UK Government statutory body whose function is to lend money from the National Loans Fund to Councils and other public bodies and to collect the repayments.

Rating Agency: see 'Credit Rating Agency'

Repo: see 'Repurchase Agreement'

Repurchase Agreement
'Repurchase agreement', or repo, is a contract where the seller of certain securities agrees to buy them back from the purchaser at a specified time for an agreed price.

Reverse Gilt Repo
This is a transaction as seen from the point of view of the party which is buying the gilts. In this case, one party buys gilts from the other and, at the same time and as part of the same transaction, commits to resell equivalent gilts on a specified future date, or at call, at a specified price.

Sovereign Issues (Ex UK Gilts)
Bonds issued or guaranteed by nation states, but excluding UK government bonds.

Supranational Bonds
Bonds issued by supranational bodies, e.g. European Investment Bank. These bonds – now known as Multilateral Development Bank bonds – are generally AAA rated and behave similarly to gilts, but pay a higher yield ("spread") given their relative illiquidity when compared with gilts.

T-bills: see 'Treasury Bills'.

Term Deposit

(or 'Time deposit') is a generic term for a bank deposit where funds cannot be withdrawn for a fixed period of time. The lender receives a fixed rate of interest. These are unsecured investments and place the lender at risk of bail-in should this occur during the term of the investment.

Time Deposit: see ‘Term Deposit’

Treasury Bills
Treasury bills are a AAA/AA+ rated, short-dated form of Government debt, issued by the Debt Management Office (q.v.), via a weekly tender, on a Friday. Lenders would use the services of a specialist broker to access the market. These usually have a maturity of one, three or six months and provide a return to the investor by virtue of being issued at a discount to their final redemption value. There is also an active secondary market for T-bills which means that lending may be available for a range of dates. Interest rates tend to be higher than the DMADF (q.v.).

Treasury Management Strategy
This is the Council’s overall policy and framework by which it will carry out that policy in relation to its borrowing and investment needs in the coming financial year.

Treasury Management Policy Statement
This is the Council’s statement of intention in respect of its treasury management. It is prescribed by the CIPFA Treasury Management Code of Practice (q.v.).

Variable Rate Asset Value
‘Variable Rate Asset Value’ (VNAV) occurs where the net asset value, or principal sum, invested may change depending on trading conditions. The value is calculated at the end of the business day based on the value of investments less any liabilities divided by the number of shares outstanding. With investments carrying this attribute, the capital sum invested may not be equal to the capital sum repaid.

VNAV: see ‘Variable Net Asset Value’.

Weighted Average Maturity
‘Weighted average maturity', or WAM, is used to measure interest rate risk. WAM is calculated by taking the maturity of the underlying money market instruments held by the fund, weighted according to the relative holdings per instrument.

APPENDIX D

Investment Strategy Report 2021/22

Introduction

1. The Council invests its money for three broad purposes:
   - because it has surplus cash as a result of its day-to-day activities, for example when income is received in advance of expenditure (known as **treasury management investments**),
   - to support local public services by lending to other organisations (**service investments**), and
   - to earn investment income (known as **commercial investments** where this is the main purpose).

2. This investment strategy meets the requirements of statutory guidance issued by the government in January 2018, and focuses on the second and third of these categories.

Service Investments: Loans

3. **Contribution:** The Council lends money to its subsidiary and a local business, to support local public services and stimulate local economic growth.

4. HTS (Property and Environment) Ltd is a wholly owned subsidiary of Harlow Council which began trading on 1 February 2017. The Council provided a start-up loan to the business of £1.209m repayable over five years, two months, approved on 21 July 2016. The balance outstanding as at 31 March 2019 was £0.468m. The company is also in the process of replacing plant and equipment for which the Cabinet has agreed a further loan of £670,000 likely to be drawn down before 31 March 2021

5. HTS (Housing & Property) Ltd is a wholly Owned subsidiary of Harlow Council and has been provided with Loans of £1,011,000 to enable the acquisition of Property for rent, These loans are repayable over a 40 year period on a commercial interest basis set at 4% per annum. These loans were advance during the period October to December 2020

6. Harlow Property Limited was provided with two loans to support the development of a part of the Harlow Enterprise Zone, approved on 23 January 2014. The amounts loaned were £1m on 15 March 2016 and a further £1.5m on 3 March 2017. Interest accrues on these loans. The total outstanding as at 31 March 2020 was £2.935m.

7. **Security:** The main risk when making service loans is that the borrower will be unable to repay the principal lent and/or the interest due. In order to limit this risk, and ensure that total exposure to service loans remains proportionate to the size of the Council, upper limits on the outstanding loans to each category of borrower have been set as follows:

Table 1: Loans for service purposes in £ millions

Category of borrower	**31.3.2020 Actual**			**2021/22**
	Balance owing	**Loss allowance**	**Net figure in accounts**	**Approved Limit**
Subsidiaries HTS P&E	0.468	-	0.468	0.234
Subsidiaries VPFE	0	-	0	0.670
Subsidiaries HTS H&P	0	-	0	1.007
Local businesses	2.935	-	2.935	3.220
Local residents	0.021	-	0.021	0.100
TOTAL	**3.424**	**-**	**3.424**	**5.231**

Accounting standards require the Council to set aside loss allowance for loans, reflecting the likelihood of non-payment. The Council considers that this loss should be zero because, (1) + (2) + (3) HTS is the sole shareholder of the Council; (4) HPL loans are a charge secured against property which considerably exceeds the value of the loan.

8.

Service Investment Equity

9. The Council has acquired 450,000 £1 shares in HTS (Housing & Property) Ltd. The Investment is to enable HTS (H&P) Ltd to provide rented accommodation within the Harlow District.

10. The Council is to provide a £5 million contribution during 2021-22 to the Town Centre limited liability partnership. This is a partnership with private developers to help stimulate private sector investment and regenerate the town centre

Commercial Investments: Property

11. The Ministry of Housing, Communities and Local Government (MHCLG) defines property to be an investment if it is held primarily or partially to generate a profit.

12. **Contribution:** The Council has historically held nine commercial and residential properties with the intention of making a profit that will be spent on

local public services. These include a Golf Club, and three other properties. Annual income from all these assets is about £81,980.

Table 2: Property held for investment purposes in £ millions

Property	Actual	31.3.2020 Actual		31.3.2021 expected	
	Value	Gains or (losses)	Value in accounts	Gains or (losses)	Value in accounts
Golf Club	0.782	-	0.782	-	0.782
Stewards Farm	0.322	-	0.322	-	0.322
Barrow Farm Cottage	0.153	-	0.153	-	0.153
Canons Cottage	0.116	-	0.116	-	0.116
TOTAL	**1.373**	**-**	**1.373**	**-**	**1.373**

Loan Commitments and Financial Guarantees

13. Although not strictly counted as investments, since no money has exchanged hands yet, loan commitments and financial guarantees carry similar risks to the Council and are included here for completeness.

14. In 1987 and 1992 the Council agreed to undertake joint liability with a number of other local authorities to guarantee loans of £66.3 million and £17.3 million to Home Housing Association (previously called North Housing Association) in support of their private initiative for the provision of housing in Harlow and surrounding authorities. The guarantee is for a 50-year period ending 2037. The Council's proportion of the total liability is £4.5 million. The Council considers that the probability of the guarantee being called upon is low.

Capacity, Skills and Culture

15. **Elected members and statutory officers**: Strategic investment decisions are subject to the advice from officers or treasury management advisors. Elected members are also invited to formal or informal training. The process is subject to scrutiny through the Overview Working Group, Cabinet and Full Council.

Investment Indicators

16. The Council has set the following quantitative indicators to allow elected members and the public to assess the Council's total risk exposure as a result of its investment decisions.

17. **Total risk exposure:** The first indicator shows the Council's total exposure to potential investment losses. This includes amounts the Council is contractually committed to lend but have yet to be drawn down and guarantees the Council has issued over third party loans.

Table 3: Total investment exposure in £millions

Total investment exposure	**31.03.2020 Actual**	**31.03.2021 Forecast**	**31.03.2022 Forecast**
Treasury management investments	26,135	20.445	15.500
Service investments: Loans	3.424	5.005	4.907
Service investments: HTS H&P Shares	-	.450	.450
Service Investment TC LLP	-	-	5.000
Commercial investments: Property	1.373	1.373	1.373
TOTAL INVESTMENTS	**30.932**	**27.273**	**27.230**

18. **How investments are funded:** Government guidance is that these indicators should include how investments are funded. Since the Council does not normally associate particular assets with particular liabilities, this guidance is difficult to comply with. However, the following investments could be described as being funded by borrowing. The remainder of the Council's investments are funded by usable reserves and income received in advance of expenditure.

Table 4: Investments funded by borrowing in £millions

Investments funded by borrowing	**31.03.2020 Actual**	**31.03.2021 Forecast**	**31.03.2022 Forecast**
Town Centre LLP	-	-	5.000
Treasury management investments	Nil	Nil	Nil
TOTAL FUNDED BY BORROWING	**Nil**	**Nil**	**Nil**

19. **Rate of return received:** This indicator shows the investment income received less the associated costs, including the cost of borrowing where appropriate, as a proportion of the sum initially invested. Note that due to the complex local government accounting framework, not all recorded gains and losses affect the revenue account in the year they are incurred.

Table 5: Investment rate of return (net of all costs)

Investments net rate of return	**2019/20 Actual**	**2020/21 Forecast**	**2021/22 Forecast**
Treasury management investments	0.83%	0.43%	0.34%
Service investments: Loans	4.69%	4.52%	4.51%
Commercial investments: Property	6.%	6.%	6.%

APPENDIX E

Minimum Revenue Provision Statement 2021/22

1. Where the Council finances capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP), although there has been no statutory minimum since 2008. The 'Local Government Act 2003' requires the Council to have regard to the Ministry of Housing, Communities and Local Government's 'Guidance on Minimum Revenue Provision' (the MHCLG Guidance), with revisions relating to MRP most recently issued in 2018.

2. The broad aim of the MHCLG Guidance is to ensure that debt is repaid over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant.

3. The MHCLG Guidance requires the Council to approve an Annual MRP Statement each year, and recommends a number of options for calculating a prudent amount of MRP. The following statement incorporates options recommended in the Guidance.

4. For capital expenditure incurred before 1 April 2008, and for supported capital expenditure incurred on or after that date, MRP will be determined in accordance with the former regulations that applied on 31 March 2008. For Harlow Council, the adjusted Capital Financing Requirement upon which the MRP is calculated is negative in each year prior to April 2008. The MRP on this portion of CFR is therefore zero. *(Option 1 in England & Wales)*

5. For unsupported capital expenditure incurred after 31 March 2008, with the exception of pump-priming economic development (defined below), MRP will be determined by charging the expenditure over the expected useful life of the relevant asset in equal instalments, starting in the year after the asset becomes operational. *(Option 3, the "Asset Life method", in England and Wales)*

6. Economic development is defined as the following capital expenditure projects: Prentice Place and the Enterprise Zone.

7. For assets acquired by finance leases, MRP will be determined as being equal to the element of the rent or charge that goes to write down the balance sheet liability.

8. Minimum Revenue Provision will not be made in relation to the following specific circumstances:

- Capitalised loan advances to other organisations or individuals. Instead of MRP, the capital receipts arising from the capitalised loan repayments will be used as provision to repay debt. However, revenue MRP contributions would still be required equal to the amount of any impairment of the loan advanced.
- Any capital investment made in projects aligned with Harlow's Enterprise Zone where third party funding is guaranteed to meet the costs of that investment (repayment of debt principal and interest) and borrowing has been aligned with the life of the designated enterprise zone.
- Any capital investment made in regeneration projects where those projects are deemed to be viable including the financing and repayment of any associated debt.
- The Housing Revenue Account (HRA) is not subject to a statutory requirement to make a minimum revenue provision payment, and is not currently doing so.

9. Capital expenditure incurred during 2020/21 will not be subject to a MRP charge until 2021/22.

10. Based on the Council's latest estimate of its Capital Financing Requirement (CFR) on 31 March 2020, the budget for MRP has been set as follows:

	31.03.2020 Estimated CFR £m	**2020/21 Estimated MRP £**
Capital expenditure before 01.04.2008	**5.455**	0
Capital expenditure after 31.03.2008	**57.799**	305,000
Total General Fund	**63.254**	**305,000**
Assets in the Housing Revenue Account	**187.370**	0
Total Housing Revenue Account	**187.370**	**0**
Total	**250.624**	**305,000**