CAPITAL AND INVESTMENT STRATEGY REQUIREMENTS 2020/21

Introduction

1. Under CIPFA's Prudential Code 2017 and Treasury Management Code 2017, the Council is required to publish four separate strategies or statements in addition to the revenue and capital medium term budget positions. These are contained within Appendix 12 to the budget report.

Strategy requirements

2. The Capital Strategy is an overarching document with a simple guide on the capital programme, borrowing investments and sets out the prudential indicators that the Council defines as parameters to work within setting a prudent and sustainable approach to its investment to meet service needs and any commercial activities.

3. The Capital Programme within the MTFF provides more comprehensive details on the Capital expenditure and financing from the information provided in the Capital Strategy.

4. The Treasury Management Strategy Statement provides further details on impact of the capital programme in relation to its need to borrow and cash flow forecast and strategy with parameters around methods in which it can invest Council money.

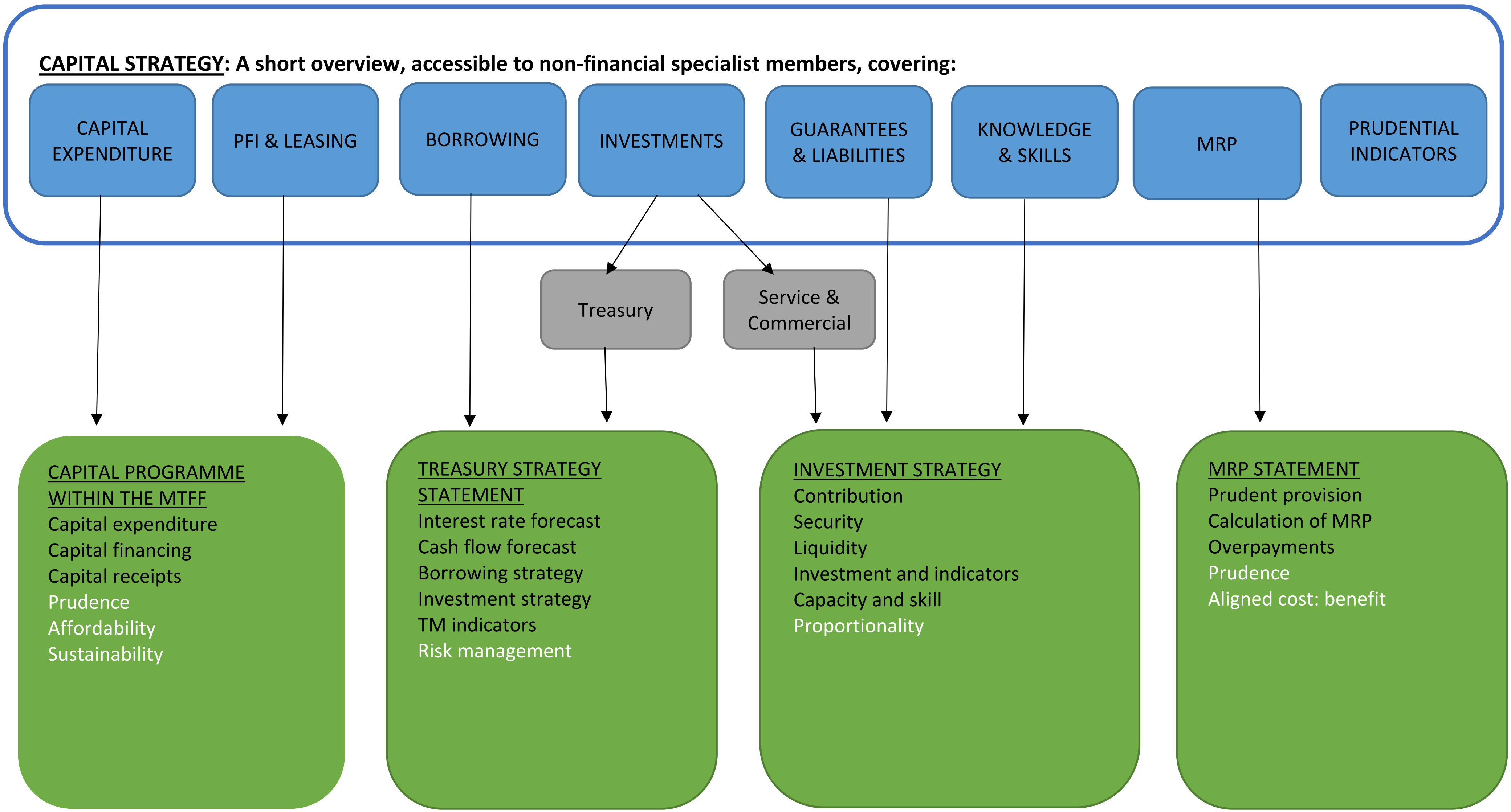
5. The Investment Strategy provides further detail from the Capital Strategy on Investment objectives and parameters, focused on service and commercial investment activities.

6. The MRP statement outlines the approach to calculating the minimum revenue contribution within the legislative framework which is a revenue cost resulting from borrowing to fund the capital programme.

Recommended Changes for 2020/21

7. In addition to refreshing all forecasts and Prudential Indicators to align to the budget proposals for the new financial year, it is recommended that the upper limits of the Council's debt maturing within two years are increased from 25% to 50% of total borrowing. This will provide greater flexibility to pursue alternative, more cost effective borrowing than available from PWLB following the 1% increase in borrowing rates. In addition, it is proposed to simplify investment holding limits by presenting these as a cash sum only, rather than both cash and percentage holding as in previous years.

Appendix 12


CAPITAL STRATEGY: A short overview, accessible to non-financial specialist members, covering:
CAPITAL EXPENDITURE
PFI & LEASING
BORROWING
INVESTMENTS
GUARANTEES & LIABILITIES
KNOWLEDGE & SKILLS
MRP
PRUDENTIAL INDICATORS
Treasury
Service & Commercial
CAPITAL PROGRAMME WITHIN THE MTFF
Capital expenditure
Capital financing
Capital receipts
Prudence
Affordability
Sustainability
TREASURY STRATEGY STATEMENT
Interest rate forecast
Cash flow forecast
Borrowing strategy
Investment strategy
TM indicators
Risk management
INVESTMENT STRATEGY
Contribution
Security
Liquidity
Investment and indicators
Capacity and skill
Proportionality
MRP STATEMENT
Prudent provision
Calculation of MRP
Overpayments
Prudence
Aligned cost: benefit

CAPITAL STRATEGY REPORT 2020/21

Introduction

1. This 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. The strategy also provides an overview of how associated risk is managed and the implications for future financial sustainability.

2. This strategy is integrated with other strategies; MTFF Capital Programme, Treasury Management Strategy, Investment Strategy and the MRP Statement where more detail is provided.

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 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 £10,000 are not capitalised and are charged to revenue in year.

4. In 2020/21, the Council is planning capital expenditure of £139.8m as summarised below:

Table 1: Prudential Indicator: Estimates of Capital Expenditure

	2019/20 forecast £m	2020/21 budget £m	2021/22 budget £m	2022/23 budget £m	2023/24 budget £m	2024/25 budget £m
General Fund services	75.5	73.3	74.6	78.7	55.4	37.7
Housing Revenue Account (HRA)	59.6	51.5	40.1	40.7	36.5	32.7
Capital investments	10.0	15.0	15.0	10.0	0.0	0.0
TOTAL	**145.1**	**139.8**	**129.7**	**129.4**	**91.9**	**70.4**

5. The main General Fund capital programme includes a new Leisure Centre in West Drayton, a major programme of investment in the borough's highways, a programme of sports club rebuild/refurbishment, a libraries refurbishment programme, provision for investment in youth infrastructure and the potential purchase of Uxbridge Police Station. In addition the Council has a £50m budget to support investment in housing through Hillingdon First Limited.

6. The Housing Revenue Account (HRA) is a ring-fenced account which ensures that council housing does not subsidise, or is itself be subsidised, by other local services. HRA capital expenditure is therefore recorded separately, and includes the building of new general needs, shared ownership and supported housing as well as works to stock and major adaptations to existing properties.

Governance of Capital Expenditure

7. Specific capital projects are identified primarily through the Council's annual budget setting process which revises the approved capital programme for the following five years. Service managers submit proposals for new projects, outlining the reasons and benefits for the proposal and the estimated cost and method of financing. These proposals are reviewed at internal challenge sessions attended by senior managers across the organisation chaired by the Corporate Director of Finance. If proposals are deemed satisfactory at this stage they are included in a further submission to the Leader of the Council. There is then a pubic consultation period in December on the full budget and impact to Council Tax. Following any further feedback the final revised five year capital programme is submitted to Cabinet and Council for approval in February each year.

8. Implications of existing and new capital investment proposals in terms of the future impact on prudential borrowing levels and capital financing costs are taken into account in setting the revenue budget which is also approved by Council in February each year. The various sources of finance for all existing and new capital projects and programmes are identified and included in the Council's budget.

9. Some capital projects arise which require more short-term implementation during the current financial year and these are usually managed through existing programme budgets included in the five year programme where there is anticipated need for that type of investment. These projects would normally be managed within overall borrowing limits approved by Council.

10. In order to subsequently proceed with implementation, all individual capital expenditure projects require a formal democratic decision from the Leader of the Council and Cabinet Member for Finance, Property and Business Services to release the monies included within the capital programme budget. To obtain approval for the budget to be released, a formal report is submitted providing detailed information on the objectives of the project and including a cost plan.

11. All capital expenditure must be financed, either from external sources (government grants and other contributions), the Council's own resources (revenue, reserves and capital receipts) or debt (borrowing, leasing and Private

Finance Initiative). The planned financing of the above expenditure is as follows:

Table 2: Capital financing

	2019/20 forecast £m	2020/21 budget £m	2021/22 budget £m	2022/23 budget £m	2023/24 budget £m	2024/25 budget £m
External Sources	31.6	18.3	24.4	21.9	16.4	12.4
Own Resources	68.2	39	38.5	50.6	51.6	44.8
Debt	45.3	82.5	66.8	56.9	23.8	13.2
TOTAL	**145.1**	**139.8**	**129.7**	**129.4**	**91.8**	**70.4**

12. Debt is only a temporary source of finance, since loans and leases must be repaid, and this is therefore replaced over time by other financing, usually from revenue which is known as minimum revenue provision (MRP). Alternatively, proceeds from selling capital assets (known as capital receipts) may be used to replace debt finance. MRP is a statutory mechanism for General Fund borrowing and details on how this is calculated is included in the MRP Statement policy. The HRA also provide a regular contribution towards it financing of debt.

Table 3: Projected MRP and debt provision

	2019/20 forecast £m	2020/21 budget £m	2021/22 budget £m	2022/23 budget £m	2023/24 budget £m	2024/25 budget £m
General Fund services	5.5	7.3	9.8	12.2	14.3	15.1
Housing Revenue Account (HRA)	9.2	9.2	9.2	9.2	9.2	9.2

13. The Council's cumulative outstanding amount of debt finance is measured by the capital financing requirement (CFR). This increases with new debt-financed capital expenditure and reduces with MRP and capital receipts used to replace debt. The CFR is expected to increase by £88.8m during 2020/21. Based on the above figures for expenditure and financing, the Council's estimated CFR is as follows:

Table 4: Prudential Indicator: Estimates of Capital Financing Requirement

	2019/20 forecast £m	2020/21 budget £m	2021/22 budget £m	2022/23 budget £m	2023/24 budget £m	2024/25 budget £m
General Fund services	242.2	303.3	339.3	369.1	372.1	367.4
Housing Revenue Account (HRA)	182.8	195.5	192.5	188.3	185.7	179.4
Capital investments	10.0	25.0	40.0	50.0	50.0	50.0
TOTAL	**435.0**	**523.8**	**571.8**	**607.4**	**607.8**	**596.8**

Asset Management

14. The maintenance and improvement of the Council's property assets and wider infrastructure are managed and formally set out in the Council's organisational structure, with specific service teams in place to manage various parts of the Council's asset portfolio.

15. In general, assets are managed in accordance with the principles of good estate management. The Council seeks continuous improvement in the quality of assets used to deliver services and wherever possible use its ownership of assets to deliver service improvements.

16. Service teams with responsibility for managing Council assets include:
    - Capital Programme team: responsible for delivery of major new construction projects and capital works on existing property assets.
    - Facilities Management and Planned Works: maintenance of existing assets including repairs to Council buildings, voids and renewal of existing housing stock.
    - Highways and Street Lighting: maintenance and improvement of the roads and footways infrastructure, and maintenance and enhancement of street lighting.
    - Property and Estates Management: provide a complete overview of all properties and land owned by the council, including management of leases, ensuring that the full potential is being gained from each property asset.
    - Fleet Management: manage the Council's vehicle requirements for areas such as waste management and various other services.
    - ICT: maintaining and improving the Council's ICT infrastructure for both internal business operations, front line services and enhancing residents' online interactions with the Council.
    - Green Spaces: maintain and enhance the various parks and green spaces sites across the Borough.

Asset Disposals

17. Assets are continually reviewed, to determine those that may be declared surplus to service requirements, with regular monitoring meetings. Proposals to change the purpose, to redevelop or to sell an asset are reported with options presented to the Councils property governance working group lead by the Council's Leader, Strategic Property Governance (SPG), to determine next steps on the most appropriate development or disposal route before recommendations are made to Cabinet. Progress on asset development and disposals is reported through monthly budget monitoring. Surplus assets may be sold to generate proceeds, known as capital receipts, which can be used to finance capital expenditure on new assets or enhancements to existing assets, or to repay debt. With the approval of Cabinet, surplus assets can also be appropriated between the General Fund and Housing Revenue Account (HRA) to reflect planned changes in use of the land where notional receipts are transferred between the funds.

18. Right to Buy Council housing sales, repayments of capital grants, loans and investments also generate capital receipts. The Council is currently also permitted to spend capital receipts on service transformation projects until 2020/21. The Council plans to invest £17.5m of capital receipts in the coming financial year (2020/21) on General Fund and HRA capital programmes and also transformation projects.

Table 5: Capital receipt financing applied

	2019/20 forecast £m	2020/21 budget £m	2021/22 budget £m	2022/23 budget £m	2023/24 budget £m	2024/25 budget £m
Capital Receipts	19.0	17.5	14.5	25.5	25.5	17.5

The Council's Flexible Use of Capital Receipts Policy, Efficiency Strategy is available here: https://www.hillingdon.gov.uk/budgetreports

Treasury Management

19. 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 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.

20. As at the 31 March 2020 the estimated borrowing is £296.6m and £25.0m treasury investments.

Borrowing strategy

21. 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 low cost short-term loans (currently available at around 0.75%) and long-term fixed-rate loans where the future cost is known but higher (currently 2.0 to 3.0%).

22. Projected levels of the Council's total current outstanding debt (which comprises borrowing, PFI liabilities, leases) are shown below, compared with the projected capital financing requirement (see details above).

Table 6: Prudential Indicator: Gross Debt and the Capital Financing Requirement

	2019/20 forecast £m	2020/21 budget £m	2021/22 budget £m	2022/23 budget £m	2023/24 budget £m	2024/25 budget £m
Debt (including PFI and leases)	296.6	251.8	245.3	228.8	222.3	215.8
Capital Financing Requirement	435.0	523.8	571.8	607.4	607.8	596.8

23. Statutory guidance is that debt should remain below the capital financing requirement, except in the short-term. As can be seen from table 6, with the existing levels of debt the Council expects to comply with this in the medium term. Planned Debt expected to meet this capital strategy, compared to the CFR can be seen in table 7 for the liability benchmark.

24. Liability benchmark: To compare the Council's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing compared to the CFR borrowing requirement. This assumes that internal resources such as reserves and working capital are utilised and that cash and investment balances are kept to £15m at each year-end.

Table 7: Borrowing and the Liability Benchmark

	2019/20 forecast £m	2020/21 budget £m	2021/22 budget £m	2022/23 budget £m	2023/24 budget £m	2024/25 budget £m
Outstanding Borrowing	296.6	251.8	245.3	228.8	222.3	215.8
Borrowing Required to meet CFR	138.4	272.0	326.5	378.6	385.5	381.0
Borrowing Required to meet Liability Benchmark	36.7	195.7	258.1	311.5	317.1	312.6

25. Affordable borrowing limit: The Council is legally obliged to set an affordable borrowing limit (also termed the authorised limit for external debt) each year. In line with statutory guidance, a lower "operational boundary" is also set as a warning level should debt approach the limit. Further details on borrowing can be found in the Treasury Management Strategy.

Table 8: Prudential Indicators: Authorised limit and operational boundary for external debt

	2019/20 limit £m	2020/21 limit £m	2021/22 limit £m	2022/23 limit £m	2023/24 limit £m	2024/25 limit £m
Authorised Limit - Borrowing	576.8	612.4	612.8	612.8	612.8	601.8
Authorised Limit - PFI and Leases	3.0	30.0	30.0	30.0	30.0	30.0
Authorised Limit - Total External Debt	**579.8**	**642.4**	**642.8**	**642.8**	**642.8**	**631.8**
Operational Boundary - Borrowing	546.8	582.4	582.8	582.8	582.8	571.8
Operational Boundary - PFI and Leases	3.0	25.0	25.0	25.0	25.0	25.0
Operational Boundary - Total External Debt	**549.8**	**607.4**	**607.8**	**607.8**	**607.8**	**596.8**

Treasury Investment Strategy

26. 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.

27. The Council's policy on treasury investments is to prioritise security and liquidity over yield, which 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 in funds including in bonds and shares, to balance the risk of loss against the risk of receiving returns below inflation. Both short-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.

28. The Council will aim to hold a level of short-term investment balances which are not excessive, but will ensure sufficient liquidity to manage the day-to-day activities of the Council. Longer-term investments are forecast at £15m over the next 5 years.

29. Further details on treasury investments can be found in the Treasury Management Strategy.

30. Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the Corporate Director of Finance and staff, who must act in line with the treasury management strategy. The treasury management strategy statement is agreed by Cabinet in February prior to agreement at full Council before the start of each financial year. Amendments to the Treasury Management Strategy during the year are only done with Cabinet approval.

31. Treasury activity is monitored and reported to senior management on a daily and weekly basis. Monthly reports on treasury management activity, including compliance with prudential indicators, are provided to Cabinet as part of the budget monitoring process.

Investments for Service Purposes

32. The Council lends money to, and has a 100% shareholding in one subsidiary, Hillingdon First Ltd. The objective is to deliver a financial return to the Council and provide housing and or a commercial unit for sale or rent. It will achieve this by generating of long-term sustainable revenue streams through the delivery of high quality housing to meet the need of Hillingdon's residents.

33. The Hillingdon First Ltd shareholder agreement and memorandum of association sets out in detail the governance arrangements and provides details of the operating framework, controls and reporting requirements.

Commercial Activities

34. The Council has a £4.6m historic portfolio of investment properties which are managed through the Council's organisation structure. These assets are not held for normal operational activity but held under long-term commercial leases. Net Income generated from these assets is approximately £350k per annum.

Liabilities

35. In addition to debt detailed above, the Council is committed to making future payments to cover its pension fund deficit and has made provisions to cover risks such as insurance claims and non-domestic rates appeal losses. The Council is also at risk of having to pay for claims following legal proceedings but has not put aside any money because the claims are denied and will be defended, and in some instances, counterclaims pursued.

Revenue Budget Implications

36. Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue, offset by any investment income receivable. The net annual charge is known as financing costs; this is compared to the net revenue stream i.e. the amount funded from Council Tax, business rates and general government grants.

Table 9: Prudential Indicator: Proportion of financing costs to net revenue stream

	2019/20 forecast £m	2020/21 budget £m	2021/22 budget £m	2022/23 budget £m	2023/24 budget £m	2024/25 budget £m
Financing Costs (£m)	7.3	8.2	10.7	13.8	17.1	20.0
Proportion of Net Revenue Stream	3%	3%	5%	6%	7%	8%

Net revenue stream is the general fund budget requirement, which is funded through Council Tax Business Rates and Government Grants.

Sustainability

37. 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 35 years into the future. The Corporate Director of Finance is

satisfied that both the proposed individual schemes and the overall programme are tested for affordability, sustainability and prudence.

38. Projects to be financed from planned borrowing fall into three broad financing strategies, with a fourth category of investment to be financed from future Council Tax revenues. The broad financing strategies are: investment projects where specific capital receipts are recognised on completion of the project to cover costs; commercial activity with full funding through dividends, interest and principle repayments; and invest to save projects where borrowing costs are offset by ongoing revenue savings. The fourth category are projects linked to service delivery, with associated ongoing financing costs driving an element of future savings requirements.

39. Given the intrinsic link between this fourth category of investment and the level of savings necessary to deliver balanced budgets over the medium to long term, prioritisation of projects to be funded from general resources should therefore be considered in the context of the overall budget rather than within the capital programme alone.

Knowledge and Skills

40. The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions.

41. The Council adopts a continuous performance and development programme to ensure officers are regularly appraised and any training needs identified. Where appropriate, officers will attend training sessions, seminars and workshops to ensure their knowledge is up to date and relevant. Council Members are provided access to additional training where required.

42. 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.

TREASURY MANAGEMENT STRATEGY STATEMENT 2020/21

Summary

1. The Treasury Management Strategy represents the Council's operating guidelines on the daily management of cash, investments, borrowing and associated risks. Through daily cash flow management, surplus cash is invested with security of investments being the prime consideration; only then are the liquidity and yield of investments, within the Council's risk parameters, considered.

2. Over the longer term, the Council considers the need to borrow money to fund its major capital projects and when the best time is to do this. The strategy aims to minimise borrowing and make use of internal funds where viable. Currently, there is an expectation that new borrowing will be required during 2020/21 of £195.7m. New borrowing to fund the capital financing requirement will be taken for cash flow purposes or where there is a positive budget impact in terms of the cost of carry. New debt will be a mixture of short and medium-term durations designed to minimise cost without having a detrimental effect on refinancing risk.

3. Interest rates are forecast to stay relatively low and as such investment returns will remain subdued for short-term and liquid cash.

4. This report details the Councils approach and strategy towards borrowing and investing and provides details on sources of debt and investment instruments in which the Council can invest. All institutions on the counterparty list are regularly monitored assessing risk and determining the limits of duration and value of investments.

5. For 2020/21, Treasury Management Strategy Statement (TMSS) follows the revised 2017 Code of Practice guidance. Other specific changes include:

6. In October 2019 the government increased PWLB rates by 1% making it now a relatively expensive option. As a result, the Council will look to borrow any long-term loans from alternative sources including banks, pensions and local authorities in order to lower interest costs and reduce over reliance on one source of borrowing in line with the CIPFA code.

7. Given the longer lead in times for sourcing debt for counterparties other than the PWLB and in light of a general expectation that interest rates will remain low, it is proposed to increase the upper limits of borrowing held for periods of less than two years from 25% to 50%. This will allow the flexibility to pursue more cost effective borrowing options than those available from the PWLB.

Introduction

8. Treasury risk management 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). This 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. The strategy is developed as part of the Council's MTFF process.

9. Investments held for service purposes or for commercial profit are considered in a separate report; the 'Investment Strategy'.

10. The Council, by having significant investments and borrowing, is exposed to financial risks, including the loss of invested funds and the revenue effect of changing interest rates. As such treasury management operations are fundamentally concerned with managing risk. Whilst there are regulations and controls in place designed to minimise or neutralise risk, some risk exposure remains, due to the nature of managing loan and investment portfolios and cash flow activities. Active monitoring of the economic outlook, as well as changes in regulation, is undertaken where it impacts on the Council's treasury management strategy and risk parameters.

11. The major external influence on the Council's Treasury Management Strategy for 2020/21 will be the UK's progress in negotiating its exit from the European Union together with its future trading arrangements. The global economy has entered a period of weaker growth in response to political issues. The UK economy continues to experience slower growth due to Brexit uncertainty and the down turn in global activity. In response global and UK interest rate expectations are low. Some improvement in global economic data and a more positive outlook for US/China trade negotiations has prompted worst case scenarios to be pared back.

12. The new Conservative UK government will progress with achieving Brexit on 31st January 2020. The more stable political environment will prompt a partial return in business and household confidence in the short term, but the subsequent limited Brexit transitionary period, which the government is seeking to enforce, will create additional economic uncertainty. The week outlook for the UK economy and current low inflation have placed pressure on the MPC to loosen monetary policy and the market is indicating possible rate cuts in Spring 2020.

Balance Sheet and Treasury Position

13. The Council's borrowing strategy is driven by the estimated Balance Sheet position in the medium-term and capital programme expectations. The underlying need to borrow for capital purposes is reflected by the Capital Financing Requirement (CFR) which measures the cumulative capital expenditure that has not been financed from other Council resources such as capital grants, revenue contributions or financed from reserves. The CFR will generally be higher than the actual debt held due to timing requirements for cash flow purposes. This is called "internal borrowing".

14. Estimates of the CFR, based on the projected capital programme over the next five years are shown in table 1. The Council's opening CFR is estimated at £435m for 2020/21, based on the closing 2019/20 figures. This CFR, less outstanding loans and other long term liabilities of £296.6m, results in an opening gross borrowing requirement of £138.4m. Existing borrowing is identified into separate loan pools for GF and HRA. GF debt is £112.3m and HRA £181.6m, with £2.7m liabilities under PFI and finance leases.

Table 1

	2019/20 forecast £m	2020/21 budget £m	2021/22 budget £m	2022/23 budget £m	2023/24 budget £m	2024/25 budget £m
General Fund CFR	252.2	328.3	379.3	419.1	422.1	417.4
HRA CFR	182.8	195.5	192.5	188.3	185.7	179.4
Total CFR	**435.0**	**523.8**	**571.8**	**607.4**	**607.8**	**596.8**
Existing Borrowing*	-296.6	-251.8	-245.3	-228.8	-222.3	-215.8
Gross External Borrowing Required to meet CFR	**138.4**	**272.0**	**326.5**	**378.6**	**385.5**	**381.0**
Projected Useable Reserves**	-96.7	-71.3	-63.4	-62.1	-63.4	-63.4
Projected Working Capital	-20.0	-20.0	-20.0	-20.0	-20.0	-20.0
Investments / (New Borrowing Required)	**21.7**	**180.7**	**243.1**	**296.5**	**302.1**	**297.6**
Plus Minimum Investments	15.0	15.0	15.0	15.0	15.0	15.0
Liability Benchmark	**36.7**	**195.7**	**258.1**	**311.5**	**317.1**	**312.6**

*Borrowing profile does not include potential calls on LOBO borrowing.

** Council controllable reserves only

15. The increasing General Fund CFR is due to the Council’s programme of capital investment funded by Council resources, with investment in local infrastructure and housing supply leading this requirement. In addition, the CFR will rise in 2020/21 as changes in accounting standards require all lease liabilities to be brought onto the Council’s balance sheet. This technical change has no practical implications for treasury management.

16. To compare the Council’s actual borrowing against an alternative strategy, table 1 also shows a liability benchmark which calculates the lowest risk level of borrowing. This assumes the same CFR forecasts, but that cash and investment balances are kept to a minimum level of £15m at each year-end.

Borrowing Strategy

17. The Council's external debt at 31 March 2020 will be £294m, an increase of £30m on the previous year. This is due to £75m of new borrowing being taken out during 19/20, which consisted of £55m of temporary borrowing and refinancing of a maturing £20m PWLB loan, less £45m as a result of naturally maturing debt. There were no opportunities to repay debt early in 2019/20. A further £66m is scheduled for repayment in 2020/21. Over 2019/20 the Council’s loan portfolio had an average interest rate of 3.10%.

18. Projected capital expenditure levels, market conditions and interest rate levels are monitored throughout the year. This enables the Council to adapt borrowing strategies to minimise borrowing costs over the medium to longer term whilst maintaining financial stability. Table 1 above shows the Council is expecting it will need to borrow in 2020/21 based on the full capital programme and debt maturity profile.

19. Where prudent the Council will take short-term borrowing to offset its current internal borrowing to retain an element of cash reserves for long-term strategic investment purposes. It is forecast that over the TMSS period £15m will be sourced from other Local Authorities for this purpose. This will enable to Council to meet the MiFID II minimum investment balance criteria with the subsequent long-dated investments contributing to the income target.

20. Taking new fixed rate borrowing would not normally be cost effective when compared to utilising internal balances, due to the differential between debt costs and investment earnings; despite long term borrowing rates being at low

levels, however this position may change with changes in interest rates. By utilising internal balances and delaying borrowing until required for cash flow purposes, borrowing costs will be reduced whilst also allowing the Council to lower credit risk and take pressure off the investment Counterparty list. This approach will be adopted throughout 2020/21 where cash balances allow, however due to overall borrowing requirement shown in table 1, an element of new and refinancing of debt will need to take place during the year.

21. The Council may arrange forward starting loans during 2020/21, where the interest rate is fixed in advance, but the cash is received in the later years. This would enable certainty of cost to be achieved without suffering a cost of carry (borrowing costs before the debt is physically required for cash flow purposes) in the intervening period.

22. If the Council takes out new borrowing the Council will consider the following approved sources of borrowing:
    - Public Works Loan Board (PWLB) and any successor body
    - Any institution approved for investments
    - UK local authorities
    - Any other bank or building society authorised to operate in the UK
    - Any other UK public sector body
    - UK public and private sector pension funds (except Hillingdon Pension Fund)
    - Capital market bond investors
    - Municipal Bonds Agency (subject to Cabinet approval)
    - Other special purpose companies created to enable local authority bond issues
    - Leasing, Hire Purchase and, Sale and Leaseback

23. The Authority has previously raised the majority of its long term borrowing from the PWLB but the government increased PWLB rates by 1% in October 2019 making it now a relatively expensive option. The Authority will now look to borrow any long-term loans from other sources including banks, pensions and local authorities in order to lower interest costs and reduce over reliance on one source of borrowing in line with the CIPFA code.

24. To cover unexpected cash flow shortages or short term borrowing requirements, the Council may borrow short term, which would mainly be sourced from other local authorities. However, short term borrowing leaves the Council exposed to the risk of short term interest rate rises and are therefore subject to interest rate exposure limits in the treasury management indicators in table 2.

25. Where borrowing is required this will be attributed directly to either the GF or HRA loan pools. Interest costs will be separated between the two pools and allocated accordingly.

Interest Rate Risk

26. The Council's has fixed rate loans of £288.9m which protect against interest rate rises. There are variable rate loans totalling £5m which are LOBO loans in their call period during 2020/21. Although variable rate loans are exposed to increases in rates, any additional loan costs would be offset by a corresponding increase in investment income.

27. Within the loan portfolio, the Council holds market loans of £48m of which £36m are Lender’s Option Borrower’s Option (LOBO) loans. The remaining £12m are classified as fixed rate debt. In 2020/21 one £5m loan will be in its call period and so are reclassified for the period as variable. It is highly unlikely that the loans will be called given interest rates are now lower than those at the inception of the loan. In the event that the lender exercises the option to change the rate or terms of the loan, the Council will consider the new terms and also the option of repayment of the loan without penalty. The Council may utilise cash resources for repayment or may consider replacing the loan by borrowing from the approved sources. The default position however will be early repayment without penalty. The Council will not utilise LOBO's for any new borrowing.

Interest rate exposures

28. In order to manage interest rate risk the Council will aim to balance variable rate debt with its exposure to variable rate investments. This approach will offset any increase or decrease in borrowing costs with comparable changes in investment income.

29. The Council is required to set an indicator to control the Council’s exposure to interest rate risk. Table 2 shows upper limits on the one-year revenue impact of a 1% rise or fall in interest rates.

Table 2

Interest rate risk indicator	Limit
Upper limit on one-year revenue impact of a 1% rise in interest rates	£1.0m
Upper limit on one-year revenue impact of a 1% fall in interest rates	£(1.0m)

The impact of a change in interest rates is calculated both on the assumption that fixed-rate maturing loans and investments will be replaced at their existing fixed rates and with a forecast maximum variable rate net investment and debt position of £100m.

Debt Rescheduling

30. The PWLB allows authorities to repay loans before maturity at a premium or discount. The Council may take advantage of this and replace some loans with new loans or repay early without replacement. The rationale for rescheduling is to reduce interest costs with minimal risk; balance the volatility profile (i.e. the ratio of fixed to variable rate debt); or amend the profile of maturing debt to reduce any inherent refinancing risks.

31. Rates and markets are regularly monitored to identify opportunities for rescheduling and any borrowing and rescheduling activity is reported monthly to Cabinet. However, current market conditions are resulting in significant early redemption costs for fixed rate debt and unless these are significantly reduced, it is unlikely any debt rescheduling will be undertaken in 2020/21.

32. The Council will limit and monitor large concentrations of debt needing to be replaced through the prudential indicator in table 3. The upper and lower percentage limits are intended to control excessive exposure to volatility in interest rates on refinancing of maturing debt by setting a structure for borrowing maturity profiles. The first scheduled LOBO call option is included as the maturity date within this indicator.

33. In light of the requirement to source borrowing from a broader range of sources than the PWLB, it is proposed to increase the upper limits of borrowing held for periods of less than two years from 25% to 50%. This will allow the flexibility to pursue more cost effective borrowing options than those available from the PWLB.

Table 3

Maturity structure of borrowing	% PWLB maturity profile at 31/03/20	% Market LOBO 1st call option profile at 31/03/20	Lower Limit for 2019/20 %	Upper Limit for 2019/20 %
Under 12 months	22.53	1.70	0	50
12 months and within 24 months	1.99	3.40	0	50
24 months and within 5 years	9.36	5.44	0	50
5 years and within 10 years	14.69	1.70	0	100
10 years and within 20 years	21.44	0	0	100
20 years and within 30 years	3.94	0	0	100
30 years and within 40 years	9.73	0	0	100
40 years and within 50 years	2.72	0	0	100
50 years and above	1.36	0	0	100
Total	87.76	12.24	0	100

Investment Strategy

34. The CIPFA Code requires the Council to invest funds prudently, and have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield.

35. The Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves. For 2019/20, the Council's investment ranged between £15m and £84m. As a result of the capital programme expenditure, investment balances are expected to be lower during 2020/21.

36. When investing funds the Council looks to balance risk and return, minimising the risk of incurring losses from defaults, and the risk 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.

37. If the UK enters into a recession in 2020/21, there is a small chance that the Bank of England could set its Bank Rate at or below zero, which is likely to feed through to negative interest rates on all low risk, short-term investment options. This situation continues to exist in many other European countries. In this event, security will be measured as receiving the contractually agreed amount at maturity, even though this may be less than the amount originally invested.

38. Given the increasing risk and very low returns from short-term unsecured bank investments, the Council will continue with the strategy adopted in 2018/19 of investing £15m in strategic pooled funds as they target higher yields and aim to enhance investment income.

39. The Corporate Director of Finance under delegated powers will, on a daily basis, determine the most appropriate form of investments, in keeping with investment objectives, income and risk management requirements. Investments will also be made with reference to the approved investments detailed in table 6. Activity concerning the core strategic investment portfolio will be reported monthly to Cabinet.

Bail-In Risk

40. Banking reform legislation was incorporated into UK law from January 2015 and exposes the Council to bail-in risk on all unsecured bank deposits. The risk of bail-in is effective at the point when banks are considered to be underperforming rather than once they have failed. With most large entities either exempt or not exposed, local authorities will be one of the primary bail-in targets with a potential loss of 100% of the deposit.

41. There are a number of secure deposits available to the Council to reduce bail-in exposure. Secure deposits include Covered Bonds (fixed and floating rate notes) and Repurchase Agreements (REPO's). Secure deposits are longer in duration and can be difficult to invest as a result. An element of the Councils investments must remain liquid to fund cash flow requirements, resulting in bail-in risk being inherent in the Council's investment portfolio.

42. Covered Bonds are bail-in exempt and are issued in their own right rather than in the name of the counterparty, with each issue having its own credit rating. The covered bond has security of underlying assets which can be called upon in the event of default of the issuing counterparty. The decision to invest in a covered bond will be based on the individual bond issue rather than an agreed list of specific counterparties, as each bond is standalone from the issuing counterparty and should be assessed individually. Duration and exposure limits will be aligned with the credit rating of the bond issue with consideration to other investment factors. The Council will only invest in a covered bond which is rated AA or above.

43. Repurchase Agreements (REPO's) require the use of either a tri-party facilitator to negotiate and hold the instrument or a custodian and broker if a bi-lateral

arrangement is in place. REPO's are ring-fenced and not subject to the failure of the issuing counterparty, making them bail-in exempt instruments; however unlike Covered Bonds REPOs are issued in the name of the counterparty.

Funds

~~44.~~ Money Market Funds (MMF's) remain an important vehicle for instant access deposits. Money Market Funds reduce the risk of bail-in as the funds are diversified with limits on the exposure to any specific institution. The Council also utilises more than one MMF to further diversify exposure. Where MMF’s participate, the Council utilises the facilities of a MMF portal to make subscriptions and redemptions. The portal procedure involves the use of a clearing agent; however the Council’s funds are ring-fenced throughout the process.

45. Pooled Funds provide the Council with the facility to access a diversified pool of longer duration investments which the Council could not utilise on a segregated basis. These funds have a variable net asset value and offer the potential of greater risk adjusted returns over the longer term.

Credit Risk

46. Credit ratings remain an important element of assessing credit risk but they are not the sole feature in the assessment of counterparties. The Council also considers alternative assessments of credit strength and information including corporate intelligence, market sentiment and pricing as well as any overriding doubts regarding security.

47. The Council’s in-house investments are made with reference to the outlook for the UK Bank Rate, money market rates and other macroeconomic factors. In any period of significant stress in the markets or heightened counterparty risk, the fallback position is for investments to be placed with central government’s Debt Management Office (DMO), to purchase UK Treasury Bills or deposits with other local authorities. The rates of interest from the DMO are below the equivalent money market rates in most cases, but this is an acceptable counterbalance for the guarantee that the Council’s capital is secure.

High Credit Quality

48. The Council has defined "high credit quality" for deposits and investments in organisations and securities as those having a minimum credit rating of A- for UK counterparties, A+ for overseas counterparties and AA+ for non-UK sovereigns. Covered Bonds will be restricted to bond issues of AA or above.

49. When determining the minimum acceptable credit quality the Council will not only consider the credit rating criteria above but also advice from Arlingclose, information on corporate developments and market sentiment towards investment counterparties. For credit rated counterparties, the minimum criteria will be the lowest equivalent long term ratings assigned by Fitch, Moody’s and Standard & Poor’s (where assigned). Long-term minimum: A- (Fitch); A3 (Moody’s); A- (S&P). The Council will aim to have a weighted average credit score of A- for the rated element of its investment portfolio. The Council's portfolio average credit rating as at 31 March 2020 is forecast at AA-.

50. In order to diversify investments within the portfolio, funds will be placed with a range of counterparties which meet agreed minimum credit risk requirements. Diversification will be achieved by applying individual limits with each counterparty; for unsecured deposits this is capped at 5% of the total portfolio. Varying instruments and investment periods will be utilised to meet liquidity requirements and mitigate risks. Table 6 shows investment limits and allowable instruments.

Investment limits:

51. The maximum that will be lent to any one organisation (other than the UK Government) will be £6.5m. 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.

Risk Assessment and Credit Ratings

52. 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 resulting in it failing to continue 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.

53. 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 new investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

Liquidity Risk

54. The Council will ensure it has liquid funds available to settle its payment obligations when they fall due and uses cash flow modelling techniques to determine the maximum term for which funds may be prudently committed. It will utilise instant access facilities including call accounts and Money Market Funds (MMF's) for core working capital balances and structure longer term maturities to correspond to large cash outflows with reference to the Council's capital programme.
55. The Council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within 1 day, without additional borrowing.

Table 4

Liquidity risk indicator	Target
Total cash available within 1 day	£10m

Principal sums invested for periods longer than a year

56. The Council has placed an upper limit for principal sums invested for periods longer than a year. This limit is to contain exposure to the possibility of loss that may arise as a result of the Council having to seek early repayment of the sums invested.

Table 5

Price Risk Indicator	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m
	35	35	35	35	35	35

Return on Invested Sums

57. As interest rates are forecast to remain low on liquid balances, the investment strategy is aiming to lengthen investment periods, where cash flow and credit conditions permit, in order to achieve higher rates of acceptable risk adjusted returns. Longer term investments will typically be through deposits with local authority entities, the use of secured deposits and strategic and long-dated pooled funds.

Council's Bank Account

58. The Council's bank account is held with Lloyds Bank Plc and is currently rated above the Council's agreed minimum A- rating at A+. Should the credit rating fall below A- the Council may continue to deposit surplus cash providing investments can be withdrawn on the next working day, and the bank maintains a credit rating no lower than BBB-.

Approved investment counterparties and limits

Table 6: Limits for investments

Instruments	Counterparty	Maximum Exposure Limits	Maximum Duration Limits
Term Deposits	DMADF, DMO	No Limit	No Limit
Term Deposits	Other UK Local Authorities	£35m per Local Authority / No total limit	No Limit
Instant Access Accounts / Notice Accounts / Term Deposits / Certificates of Deposit / REPO's	UK Banks and Building Societies	Unsecured Deposits £6.5m Secured Deposit - REPO's (In addition to unsecured limits) £15m	13 Months
Instant Access Accounts / Notice Accounts / Term Deposits / Certificates of Deposit	Overseas Banks	Unsecured Deposits 5% / £6.5m Overseas Bank Total - 50% in aggregate Secured Deposit - REPO's (In addition to unsecured limits) £15m	13 Months
Registered Secured Deposits (including Covered Bonds)	Bond issue minimum AA Rated	£15m (Per issue)	5 Years
Gilts	DMO	No Limit	No Limit
Treasury Bills	DMO	No Limit	No Limit
Local Authority Bonds	Other UK Local Authorities	No Limit	No Limit
Money Market Funds	Money Market Funds(LVNAV)	£5m per fund. Maximum MMF exposure 50%	Instant Access
Pooled Funds	Pooled Funds (Cash Plus & Short-Bond Funds with investment horizons < 1year)	£5m per fund. Maximum Pooled Fund exposure £15m	2 Years
Pooled Funds	Pooled Funds (Strategic & Long-Dated Funds with investment horizons > 1year)	£5m per fund. Maximum Pooled Fund exposure £15m	5 Years

59. Specific duration limits will be based on guidance from the Council's treasury advisers and with an additional overlay of prudence applied by the Council. In determining the period to maturity of an investment, the investment should be regarded as commencing on the date of the commitment of the investment rather than the date on which funds are paid over to the counterparty. Instruments and limits would be amended on notification of any potential risk concerns.

60. For 2020/21 the limits for investments with counterparties have been set with reference to a cash limit only, rather than a cash limit and percentage of the Council's overall investment balance. This change is intended to minimise volatility in holding limits throughout the year.

Other Items

Policy on Use of Financial Derivatives

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

62. 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 to which the Council is exposed. 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.

63. 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.

Policy on Apportioning Interest to the Housing Revenue Account (HRA)

64. With the introduction of HRA self financing in March 2012 the Council allocated specific loans to both the General Fund and the HRA. Interest costs applicable to each loan are charged directly to the respective revenue account.

65. Interest earned on HRA balances will be calculated and distributed in accordance with MHCLG guidelines and based on a DMADF risk free rate of return to match the risk free credit exposure applicable to the HRA.

Balanced Budget Requirement

66. The Council complies with the provisions of S32 of the Local Government Finance Act 1992 to set a balanced budget.

Monitoring and Reporting

67. Treasury activity is monitored and reported to senior management on a daily and weekly basis. Monthly updates including compliance with Prudential Indicators are provided to Cabinet as part of the budget monitoring process.

68. The Treasury Management Strategy Statement is agreed by Cabinet prior to agreement at full Council in February each year. Amendments to the TMSS during the year are only done with Cabinet approval.

Financial Implications

69. The proposed budget for investment income in 2019/20 is £0.6m and debt interest payable of £9.5m (£3.3m GF, £6.2m HRA). If actual levels of investments and borrowing, or actual interest rates, differ from those forecast, performance against budget will be correspondingly different and split into General Fund and HRA budgets if applicable.

Market in Financial Instruments Directive II (MiFID II)

70. In January 2018 a revised European directive, MiFID II, required the Council to meet certain criteria in order to attain professional investor status and subsequently avail itself of the services required to perform its treasury management function. The Council successfully attained this classification with all relevant suppliers and counterparties. In order to maintain an ongoing professional status the Council must hold as a minimum £10m of investments at all times. The allocation to strategic pooled funds and minimum cash requirements will ensure compliance with this particular criterion.

INVESTMENT STRATEGY REPORT 2020/21

Introduction

1. The Council invests money for two broad purposes:
   - because it has surplus cash as a result of its day-to-day activities, (**treasury management investments**),
   - to support local public services by lending to or buying shares in other organisations (**service investments**).

2. This investment strategy is a new report for 2020/21, meeting the requirements of statutory guidance issued by the government in January 2018, and focuses on the second of these categories.

Treasury Management Investments

3. The Council typically receives its income in cash before it pays for its expenditure in cash. It also holds reserves for future expenditure and collects local taxes on behalf of other local authorities and central government. These activities, plus the timing of borrowing decisions, lead to a cash surplus which is invested in accordance with guidance from the Chartered Institute of Public Finance and Accountancy. Treasury management investments can be made on either a short-term or long-term basis. The balance of treasury management investments is expected to fluctuate between £15m and £84m during the 2020/21 financial year.

4. The contribution that these investments make to the objectives of the Council is to support effective treasury management activities.

5. Full details of the Council's policies and its plan for 2020/21 for treasury management investments are covered in a separate document; the Treasury Management Strategy.

Service Investments: Loans & Shares

6. The Council lends money to, and has a 100% shareholding in one subsidiary, Hillingdon First Ltd, which was incorporated during 2018/19. The objective is to deliver a financial return to the Council and provide housing and or a commercial unit for sale or rent. It will achieve this by generating of long-term sustainable revenue streams through the delivery of high quality housing to meet the need of Hillingdon's residents. Both loans and share holdings commenced during 2018/19.

7. The main risk when making service loans is that the borrower will be unable to repay the principal lent and/or the interest due. While one of the risks of investing in shares is that they fall in value meaning that the initial outlay may not be recovered.

8. In order to limit these risks, upper limits on the sums invested in each category have been set in table 1 below. Furthermore, the Council is protected against any loss through a charge over the assets of Hillingdon First Ltd.

Table 1: Loans & Shares for service purposes

Hillingdon First Ltd	**2020/21 Approved Limit £m**
Loans	*0-35*
Shares	*0-50*
TOTAL	***50***

9. Accounting standards require the Council to set aside loss allowance for loans, reflecting the likelihood of non-payment. The figures for loans in the Council's statement of accounts from 2018/19 onwards will be shown net of this loss allowance.

10. The Council assesses the risk of loss before entering into and whilst holding service loans. While the property market across Hillingdon and London has entered a period of downward price pressure, in contrast to substantial year-on-year growth seen in recent years, continued development and demand across the borough indicates the market for high quality new properties continues to exist.

11. The Council aligns loan durations with each specific development. A specific loan agreement will be drawn up for each development using the agreed schedule as a framework. Hillingdon First Ltd will be required to provide full development scheme details to the Shareholder Committee (acting on behalf of the Council as the shareholder) before the loan facility can be drawn down for specific expenditure on that development.

12. The Council will ensure it remains within the limits shown in table 1 for service loans and shares through monthly monitoring and reporting to senior management. Compliance with limits will also form part of the monthly reporting to Cabinet.

13. Shares are the only investment type classified as non-specified investment, the limits above in table 1 on share investments are therefore also the Council's upper limits on non-specified investments.

Loan Commitments and Financial Guarantees

14. 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.

15. The Council has a contractual agreement in place to enable it to make up to £35m of loans, in total, to Hillingdon First Ltd should it request it. The Council has powers to terminate this agreement. The Council has no loan guarantees in place.

Proportionality

16. In the 2020/21 budget plan the Council does not intend to be dependent on profit generating investment activity to achieve a balanced revenue budget. The primary role of Hillingdon First Ltd is to contribute to delivering more quality housing to meet the needs of Hillingdon's residents and towards improving long-term revenue income, which it is anticipated be a more efficient route than the disposal of surplus assets.

Borrowing in Advance of Need

17. In accordance with government guidelines, the Council does not intend to borrow more than or in advance of need purely in order to profit from investment of the extra sums borrowed.

Capacity, Skills and Culture

18. Elected members and Officers receive training and undergo continuous professional development to ensure their knowledge is current and relevant. Where required, Officers and Members are supported by specialists on technical, commercial and regulatory matters.

19. The Council's investment strategy to date has been approved by Cabinet and full Council as part of the Treasury Management Strategy statement. Under delegated powers, the Corporate Director of Finance will, on a daily basis, determine the most appropriate form of investments in accordance with the Council's investment objectives, income and risk management requirements.

20. The Council's investment position, including compliance with prudential indicators, is reported to Cabinet on a monthly basis as part of the monitoring process.

21. The shareholder agreement and memorandum of association sets out in detail the governance arrangements and provides details of the operating framework, controls and reporting requirements for Hillingdon First Ltd. No actions should cause the company or the Council to breach the Local Authorities (Companies) Order 1995.

Investment Indicators

22. 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.

23. The indicator in table 2 shows the Council's total exposure to potential investment losses. This includes amounts the Council has agreed it could lend to Hillingdon First Ltd, but have yet to be drawn down.

Table 2: Total investment exposure

Total investment exposure	**31.03.2019 Actual £m**	**31.03.2020 Forecast £m**	**31.03.2021 Forecast £m**
Treasury management investments	46.4	25.0	25.0
Service investments: Loans	*0*	*6.5*	*16.2*
Service investments: Shares	*0*	*3.5*	*8.8*
Total Exposure	***46.4***	***35.0***	***45.0***

24. Service loans and shares in Hillingdon First Ltd are classified as capital expenditure and can be described as being funded by borrowing. The remainder of the Council's investments are financed by usable reserves and income received in advance of expenditure.

Table 3: Investments funded by borrowing

Investments funded by borrowing	**31.03.2020 Forecast £m**	**31.03.2021 Forecast £m**
Treasury management investments	0.0	0.0
Service investments: Loans	6.5	16.2
Service investments: Shares	3.5	8.8
Total funded by borrowing	**10.0**	**25.0**

25. The Rate of return received 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 4: Investment rate of return (net of all costs)

Investments net rate of return	**2018/19 Actual**	**2019/20 Forecast**	**2020/21 Forecast**
Treasury management investments	0.62%	0.66%	0.60%
Strategic Long-Term Investments	2.6%	2.8%	2.7%
Service investments: Loans	n/a	5.1%	5.1%
Service investments: Shares	n/a	0%	0%

2020/21 MRP STATEMENT

1. Where the Council finances its capital programme through borrowing it must set aside resources annually through a Minimum Revenue Provision. This is within the revenue budget to repay the debt in later years. The Local Government Act 2003 requires the Council to have regard to Guidance on Minimum Revenue Provision issued by the Department of Communities and Local Government.

2. The four options available to establish a prudent amount of MRP are:
   - Option 1: Regulatory Method
   - Option 2: CFR Method (4%)
   - Option 3: Asset Life Method (equal instalment or annuity method)
   - Option 4: Depreciation Method

3. This does not preclude other prudent methods to provide for the repayment of debt principal.

4. Options 1 and 2 are only available options for GF supported borrowing prior to 31 March 2008

5. MRP in 2020/21: MRP will generally be charged over the useful life of the assets, beginning in the year after the asset becomes operational. In all cases we will consider the most prudent method of providing for debt repayment. The HRA will make a form of MRP to pay down its self-financing settlement debt over the 30 year business cycle on which the settlement is based.

6. Capital expenditure incurred during 2020/21 is not subject to an MRP charge until 2021/22.