Cabinet	
Meeting Date	10 February 2021
Report Title	Treasury Management Strategy 2021/22
Cabinet Member	Cllr. Roger Truelove, Leader and Cabinet Member for Finance
SMT Lead	Nick Vickers, Chief Financial Officer
Head of Service	Nick Vickers, Chief Financial Officer
Lead Officer	Phil Wilson, Financial Services Manager and Olga Cole, Management Accountant
Key Decision	Yes
Classification	Open
Recommendations	1. To approve the Treasury Management Strategy 2021/22 and the Prudential and Treasury Management Indicators.

1. Purpose of Report and Executive Summary

1.1 The Chartered Institute of Public Finance and Accountancy's Code of Practice for Treasury Management in Public Services and the Prudential Code require the Council to approve a Treasury Strategy and Prudential Indicators before the start of each financial year.

1.2 The Chartered Institute of Public Finance and Accountancy (CIPFA) has defined Treasury Management as: "The management of the organisation's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks".

1.3 This report sets out and seeks approval of the proposed Treasury Management Strategy, the Prudential and Treasury Management Indicators for 2021/22 and the Treasury Management Policy.

1.4 This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to both the CIPFA Code and the Ministry of Housing, Communities and Local Government (MHCLG) Guidance. Should the assumptions upon which this report is based change significantly, then a revised Treasury Strategy will be submitted for approval.

2. Background

Interest Rate Forecast and Market Outlook

2.1 The Bank of England (BoE) maintained the Bank Rate at 0.10% in November 2020. Within the latest forecasts, the Bank expects the UK economy to shrink -2% in Q4 2020 before growing by 7.25% in 2021, lower than the previous forecast of 9%. The BoE also forecasts the economy will now take until Q1 2022 to reach its pre-pandemic level rather than the end of 2021 as previously forecast.

2.2 The Council's treasury management adviser Arlingclose is forecasting that BoE Bank Rate will remain at 0.1% until at least the end of 2023. The risks to this forecast are judged to be to the downside as the BoE and UK government continue to react to the coronavirus pandemic and the Brexit transition period ends. The BoE kept Bank Rate on hold in its November 2020 meeting. However, further interest rate cuts to zero, or possibly negative, cannot yet be ruled out but this is not part of the Arlingclose central forecast. Arlinglose's forecast is set out below:

Bank Rate	**Dec-20**	**Mar-21**	**Jun-21**	**Sep-21**	**Dec-21**	**Mar-22**	**Jun-22**	**Sep-22**	**Dec-22**	**Mar-23**	**Jun-23**	**Sep-23**	**Dec-23**
	%	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**
Upside Risk	0.00	0.00	0.00	0.15	0.15	0.15	0.15	0.25	0.30	0.30	0.30	0.30	0.30
Arlingclose	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Downside Risk	-0.10	-0.20	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50

2.3 For the purpose of setting the 2021/22 budget, it has been assumed that new treasury investments will be made at an average rate of 0.1%, and that new long-term loans will be borrowed at an average rate of 0.27%.

Borrowing Strategy

2.4 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.

2.5 Councils are required to balance their revenue budget annually and cannot borrow to achieve a balanced position. However, they have very far reaching powers to borrow to fund capital expenditure. This has historically been funded from borrowing from the Public Works Loan Board (PWLB), which is part of the Debt Management Office which is part of the Treasury. Borrowing can be for up to 50 years at rates which are below commercial rates.

2.6 Government and the Chartered Institute of Public Finance and Accountancy (CIPFA) has taken a pretty dim view of Council borrowing to acquire assets for income generation purposes only. There has been extensive media coverage of some of the most egregious examples of this behaviour, it is very widespread. This Council has had a clear policy of not borrowing for income purposes only and the Sittingbourne Town Centre (STC) development is classified as a Regeneration project in the Council's accounts. The Government will reform the PWLB lending terms, ending the use of the PWLB for investment property bought primarily for yield, which the Government states is a risk for both national and local taxpayers. The Government will therefore cut PWLB lending rates to gilts + 100bps for Standard Rate and gilts + 80bps for Certainty Rate. This is welcome as all Councils were being penalised for irresponsible behaviour by others. PWLB rates have come down and the 50 year maturity rate is 1.68% (6 January 2021).

2.7 With short-term interest rates currently lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead of borrowing at fixed rates for long periods. 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. Arlingclose will assist the Council with this 'cost of carry' and breakeven analysis. The advice from Arlingclose is to continue to borrow short term from other local authorities.

2.8 The Council may also consider 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. In addition, the Council may borrow short-term loans to cover unplanned cash flow shortages.

2.9 In March 2020, the Cabinet approved proposals to set up a housing company which will help deliver affordable homes for local people without placing a financial burden on the Council. Council-owned land would be transferred to the company to provide around 139 new properties, in exchange for an equity share in the company. The estimated build costs, energy efficiency and lifecycle costs of developing, managing and maintaining the initially planned 139 properties to be up to £23 million, which would be initially paid for through a 50-year loan to the company.

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

- HM Treasury's PWLB Lending facility;
- Any institution approved for investments;
- UK Local Authorities;
- 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 the Kent Pension Fund); and,
- Capital market bond investors.

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

- Leasing
- Hire Purchase
- Private Finance Initiative
- Sale and Leaseback

2.12 The Council has the following loans outstanding:

Lender	Amount (£ million)	Borrowing rate	Start Date of Loan	Maturity Date of loan	Duration
London Borough of Havering	5	0.27 %	20/08/2020	24/08/2021	12 months
London Borough of Islington	5	1.10 %	30/08/2019	01/03/2021	18 months
Brighton & Hove City Council	5	1.25 %	20/01/2020	20/07/2021	18 months
Total	**15**				

Investment Strategy

2.13 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 averaged £39m compared with £31m in the previous financial year.

2.14 In considering investing in assets, the Council proposes three overriding principles to be applied:

- Investing in sustainable, affordable and social housing to increase overall supply;
- Using the ability to borrow at low rates of interest for the benefit of the physical and social infrastructure of the borough and for broader social value; and,
- Ensuring that the costs of borrowing are manageable long term within the Revenue budget.

2.15 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.

2.16 Negative interest rates: The COVID-19 pandemic has increased the risk that the Bank of England will set its Bank Rate at or below zero, which is likely to feed through to negative interest rates on all low risk, short-term investment options. Since investments cannot pay negative income, negative rates will be applied by reducing the value of investments. In this event, security will be measured as receiving the contractually agreed amount at maturity, even though this may be less than the amount originally invested.

2.17 Given the increasing risk and very low returns from short-term unsecured bank investments, the Council largely uses Money Market Funds for short-term investments. The only long-term investment remains the £3 million in the Church, Charities and Local Authorities (CCLA) Property Fund.

2.18 The Council could make use of the following asset classes for both Treasury and Non Treasury investments:

Government	Loans to, and bonds and bills issued or guaranteed by, national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk. Investments with the UK Government are deemed to be zero credit risk due to its ability to create additional currency and therefore may be made in unlimited amounts for up to 50 years. Supranational bonds are instruments issued by supranational organisations created by governments through international treaties.
Banks and Building Societies (unsecured)	Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See below for arrangements relating to operational bank accounts.
Secured investments	Investments secured on the borrower's assets, which limits the potential losses in the event of insolvency. The amount and quality of the security will be a key factor in the investment decision. Covered bonds and reverse repurchase agreements with banks and building societies are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used. The combined secured and unsecured investments with any one counterparty will not exceed the cash limit for secured investments.
Corporates	Loans, bonds and commercial paper issued by organisations 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 £1 million per company as part of a diversified pool in order to spread the risk widely.
Registered Providers (unsecured)	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 regulated by the Regulator of Social Housing. As providers of public services, they retain the likelihood of receiving government support if needed.

Money Market Funds	Pooled funds that offer same-day or short notice liquidity and very low or no price volatility by investing in short-term money markets. They have the advantage over bank accounts of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a small fee. Although no sector limit applies to money market funds, the Authority will take care to diversify its liquid investments over a variety of providers to ensure access to cash at all times.
Strategic Pooled Funds	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.
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 £500,000 per bank. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Authority maintaining operational continuity.
Non-Treasury Investments	The Council is a significant owner of assets in the borough and will, where there are opportunities, invest either to generate an income stream or for a capital gain.

2.19 The strategy for the coming year will not change significantly. The Council will retain the CCLA fund and keep the remaining monies primarily in Money Market Funds. The Chief Financial Officer does not believe that investing in equity or bond funds is advisable at the current time, given equity market valuations and the impact on bond investments. This will be reviewed as market conditions develop.

2.20 Currently the Council makes no direct investments in equities or corporate bonds. If this changed in the year the Chief Financial Officer will ensure that investments are consistent with the Council's health and climate change objectives.

2.21 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.

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

2.23 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 and reports in the quality financial press. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the credit rating criteria.

2.24 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. This will cause a reduction in the level of investment income earned, but will protect the principal sum invested.

2.25 The Council currently has the following Investments:

Counterparty	**Long-Term Rating**	**Balance Invested at 05 January 2021 £’000**
Debt Management Office (Bank of England)	AA	12,795
Invesco Money Market Fund	AAAmmf	3,000
Deutsche Money Market Fund	AAAmmf	3,000
Goldman Sachs Money Market Fund	AAAmmf	3,000
Aberdeen Money Market Fund	AAAmmf	3,000
Black Rock Money Market Fund	AAAmmf	3,000
JP Morgan Money Market Fund	AAAmmf	3,000
Morgan Stanley Money Market Fund	AAAmmf	3,000
SSGA Money Market Fund	AAAmmf	200
CCLA Property Fund		3,000
Total Investments		**36,995**

2.26 The ratings above are from Fitch credit rating agency. A description of the grading is provided below:

- AA Investments are judged to be of a high quality and are subject to very low credit risk.

- AAAmmf Funds have very strong ability to meet the dual objectives of providing liquidity and preserving capital.

2.27 The definition of investments in CIPFA's revised Treasury Management Code now covers all the financial assets of the Council, as well as other non-financial assets which the Council holds primarily for financial return. This is replicated in the Ministry of Housing, Communities and Local Government's (MHCLG's) Investment Guidance, in which the definition of investments is further broadened to also include all such assets held partially for financial return.

2.28 The Council has not made, and will not make, any direct commercial investments outside of the Borough. Capital funds will be used for the benefit of local residents.

2.29 At 31 March 2020 the Council held £3.6 million of longstanding investments in 14 directly owned properties. These investments generated £0.2 million of investment income for the Council in 2019/20 after taking account of direct costs, representing a rate of return of 6% and this level of income is forecast for 2020/21 and 2021/22. No significant change in this investment is anticipated in 2020/21 or 2021/22.

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

2.31 The loans made by the Council are shown below:

	31 March 2020 £'000
Housing repair loans	2,047
Employee car loans	165
Other debtors	1,765
Total	**3,977**

2.32 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, a loss allowance is calculated for each debt reflecting the statistical likelihood that the debtor will be unable to meet their contractual commitments to the Council, which for 2019/20 was £0.2 million. The loss allowance was been calculated by reference to the Council's historic experience of default. In addition, to mitigate risk, all debts have to be managed in accordance with the Council's Financial Regulations.

2.33 The most significant loans shown are the Housing Repair Loans which are loans for private sector housing home adaptations – landlords and owner-occupiers can apply for a loan for adaptations that will enable them to stay in their own homes. The risk relating to these loans is low as they are a charge of the property and are repayable when a property is sold.

2.34 An analysis of short-term debtors is reported to Cabinet as part of the quarterly Financial Management Report.

3. Proposal

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

Counterparty	Cash Limits
The UK Government (Debt Management Account Deposit Facility) and Treasury Bills	Unlimited
Local Authorities and other government entities	£3m
Major UK banks / building societies. (Barclays, HSBC, Lloyds Banking Group, RBS Group, Santander UK, Nationwide, Standard Chartered) unsecured deposits	£3m
Svenska Handelsbanken unsecured deposits	£3m
Leeds Building Society unsecured deposits	£1.5m
Close Brothers unsecured deposits	£1.5m
Money Market Funds	£3m each
Strategic Pooled Funds e.g. Absolute return, Equity income, Corporate Bond Funds	£3m each
CCLA Property Fund	£3m
Supranational Bonds	£3m in aggregate
Corporate Bonds	£3m in aggregate
Covered Bonds	£3m in aggregate with £1m limit per bank
Non treasury investments	To be agreed on a case by case basis

3.2 Currently the maximum duration for unsecured term deposits is 13 months. The Chief Financial Officer in consultation with the Leader and Cabinet Member for Finance may consider longer duration depending on market conditions. For bonds, the maximum duration will be five years including, where applicable, the 5-year benchmark government bond, which may at the point of issue, have a maturity a few months in excess of five years.

3.3 The Council may also purchase property for investment purposes and may also make loans and investments for service purposes, for example in shared ownership housing, as loans to local businesses and landlords, or as equity investments and loans to the Council's owned companies.

3.4 The Council does not directly invest in financial derivatives although these may be present in pooled funds and will be managed in line with the overall treasury strategy.

3.5 Government guidance is that local authorities must not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sum borrowed.

3.6 The Chief Financial Officer ensures that any commercial deals meet the regulatory requirements and the CIPFA prudential framework.

Treasury Adviser

3.7 The Council has appointed Arlingclose Limited as its treasury management adviser and receives specific advice on investment, debt and capital finance issues. Officers meet with Arlingclose on a quarterly basis, receive information daily and attend relevant training courses.

3.8 The day to day treasury management activity is undertaken on the Council's behalf by Kent County Council's Treasury & Investments team to the criteria set out in this report. This has been particularly beneficial in using their relationships to obtain the low cost loans from other Councils.

4. Alternative Options

4.1 The Strategy is intended to give flexibility with regard to borrowing and investment options.

4.2 The CIPFA Code does not prescribe any particular treasury management strategy for local authorities to adopt. The Chief Financial Officer, having consulted the Leader and Cabinet Member for Finance, believes that the above Strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

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

5. Consultation Undertaken or Proposed

5.1 Consultation has been taken with Arlingclose.

6. Implications

Issue	Implications
Corporate Plan	Good management of the Council's cash balances assists the overall financial position of the Council and this helps to meet the emerging Corporate Plan objectives.
Financial, Resource and Property	The budget for net investment income in 2021/22 is £20,000.
Legal, Statutory and Procurement	Ministry of Housing, Communities and Local Government and CIPFA requirements complied with.
Crime and Disorder	Not applicable
Environmental Sustainability	Not applicable
Health and Wellbeing	Not applicable
Risk Management and Health and Safety	Risk is controlled through adherence to specific guidance included in CIPFA's Treasury Management Code of Practice and Cross-Sectoral Guidance Notes. The principle of security of funds over-rides investment performance considerations.
Equality and Diversity	Not applicable
Privacy and Data Protection	Not applicable

7. Appendices

7.1 The following appendices are published with this report and form part of the report.

- Appendix I Prudential and Treasury Management Indicators

8. Background Papers

None

Prudential and Treasury Management Indicators

Background

There is a requirement under the Local Government Act 2003 for local authorities to have regard to CIPFA's Prudential Code for Capital Finance in Local Authorities (the "CIPFA Prudential Code") when setting and reviewing their Prudential Indicators. The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that the Council has fulfilled these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year.

Gross Debt and the Capital Financing Requirement (CFR)

This is a key indicator of prudence. Statutory guidance states that external debt should not exceed the capital financing requirement in the previous year plus the estimates of any increase in the CFR at the end of the current year and the next two years. The table below demonstrates that the Council is complying with this aspect of the Prudential Code.

Gross Debt and the Capital Financing Requirement	**2020/21 Revised**	**2021/22 Estimate**	**2022/23 Estimate**	**2023/24 Estimate**
	£'000	**£'000**	**£'000**	**£'000**
Capital Financing Requirements	42,475	61,789	71,969	70,418
Gross External Debt	(15,000)	(35,000)	(50,000)	(50,000)
Net Investments	**27,475**	**26,789**	**21,969**	**20,418**

Estimates of Capital Expenditure

This indicator is set to ensure that the level of proposed capital expenditure remains within sustainable limits and, in particular, to consider the impact on Council Tax. (See Capital Programme in 2021/22 Budget Report to Cabinet 10 February 2021).

Capital Expenditure and Financing	**2020/21 Revised**	**2021/22 Estimate**	**2022/23 Estimate**	**2023/24 Estimate**
	£'000	**£'000**	**£'000**	**£'000**
Total Expenditure	**13,978**	**18,524**	**13,613**	**2,113**
Revenue contributions	1,435	447	50	50
Capital receipts	418	1,164	0	0
Grants	4,630	2,163	2,063	2,063
Internal/ External borrowing	7,495	14,750	11,500	0
Total Financing	**13,978**	**18,524**	**13,613**	**2,113**

Prudential and Treasury Management Indicators

Ratio of Financing Costs to Net Revenue Stream

This is an indicator of affordability, highlighting the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs, net of investment income.

Ratio of Financing Costs to Net Revenue Stream	2020/21 Estimate %	2021/22 Estimate %	2022/23 Estimate %	2023/24 Estimate %
General Fund Total	**4.21**	**5.11**	**5.32**	**5.43**

Authorised Limit for External Debt

The Authorised Limit sets the maximum level of external borrowing on a gross basis (i.e. not net of investments) for the Council. It is measured on a daily basis against all external borrowing items on the Balance Sheet (i.e. long and short-term borrowing, overdrawn bank balances and long-term liabilities). This Prudential Indictor separately identifies borrowing from other long-term liabilities such as finance leases. It is consistent with the Council's existing commitments, its proposals for capital expenditure and financing, and its approved treasury management policy statement and practices.

The Authorised Limit has been set on the estimate of the most likely, prudent but not worst case scenario with sufficient headroom over and above this to allow for unusual cash movements.

The Authorised Limit is the statutory limit determined under Section 3(1) of the Local Government Act 2003 (referred to in the legislation as the Affordable Limit).

Authorised Limit for External Debt	2020/21 Revised £'000	2020/21 Estimate £'000	2021/22 Estimate £'000	2022/23 Estimate £'000
Borrowing	60,000	70,000	70,000	70,000
Other long-term liabilities	2,000	2,000	2,000	2,000
Total	**62,000**	**72,000**	**72,000**	**72,000**

Prudential and Treasury Management Indicators

Operational Boundary for External Debt

The operational boundary is based on the Council's estimate of most likely (i.e. prudent but not worst case) scenario for external debt. It links directly to the Council's estimates of capital expenditure, the capital financing requirement and cash flow requirements, and is a key management tool for in-year monitoring. Other long-term liabilities comprise finance lease and other liabilities that are not borrowing but form part of the Council's debt.

Operational Boundary	**2020/21 Revised £'000**	**2020/21 Estimate £'000**	**2021/22 Estimate £'000**	**2022/23 Estimate £'000**
Borrowing too low	55,000	55,000	55,000	55,000
Other long-term liabilities	500	500	500	500
Total Operational Boundary	**55,500**	**55,500**	**55,500**	**55,500**

Interest Rate Risk

The Council regularly reviews its interest rate exposures with its Treasury adviser Arlingclose and this is reflected in the monitoring of the budget. It is the aim of the Council to minimise interest paid on borrowing and maximise the interest earned on investments, but in the case of investments, protection of the capital sum must take precedence over the rate of return. As reported in the 2020/21 Half Year Treasury Report the Council had achieved a return of 0.43% on its investments and therefore an estimate of the impact of a 0.5% change in this return would be worth £206,000.

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 fixed rate borrowing will be:

Maturity Structure of Borrowing	**Lower Limit for 2021/22 %**	**Upper Limit for 2021/22 %**
Under 12 months	0	100
12 months and within 24 months	0	100
24 months and within 5 years	0	100
5 years and within 10 years	0	100
10 years and above	0	100

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:

	2021/22 Estimate £'000	**2022/23 Estimate £'000**	**2023/24 Estimate £'000**
Limit on principal invested longer than 1 year	10,000	10,000	10,000