

## 2022-23 Treasury Management Strategy Statement

### 1. Introduction

#### Background

- 1.1 The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.
- 1.2 The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure that the Council can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses. On occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.
- 1.3 CIPFA defines treasury management as:

*“The management of the local authority’s investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.”*

#### Reporting Requirements

- 1.4 The Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals.
- **Prudential and treasury indicators and treasury strategy (this report)** - The first, and most important report covers:
    - the capital plans (including prudential indicators);
    - a minimum revenue provision (MRP) policy (how residual capital expenditure is charged to revenue over time);
    - the treasury management strategy (how the investments and borrowings are to be organised) including treasury indicators; and
    - an investment strategy (the parameters on how investments are to be managed).
  - **A mid year treasury management report** – This will update members with the progress of the capital position, amending prudential indicators as necessary, and whether any policies require revision.

- **An annual treasury report** – This provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.
- 1.5 Governance and Audit Committee** – As part of the Committee’s terms of reference the above reports are presented to them for consideration and scrutiny during the year. The Committee also has authority to approve any in year amendments to the Treasury Management Strategy as requested by officers.
- 1.6** The CIPFA 2017 Prudential and Treasury Management Codes requires all local authorities to prepare a capital strategy report which will provide the following:
- a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
  - an overview of how the associated risk is managed
  - the implications for future financial sustainability
- 1.7** The aim of the Capital Strategy report is to ensure that all elected members on the full council fully understand the overall strategy, governance procedures and risk appetite.
- 1.8** The Capital Strategy is reported separately from the Treasury Management Strategy Statement; non-treasury investments will be reported through the Capital Strategy. This ensures the separation of the core treasury function under security, liquidity and yield principles, and the policy and commercialism investments usually driven by expenditure on an asset. The Capital Strategy for the period 2020/21 – 2022/23 was approved by Council on 2 March 2020 and will be reviewed as part of the budget setting preparations for 2023/24.

#### Treasury Management Strategy for 2022-23

- 1.9** The strategy for 2022-23 covers two main areas:

##### Capital issues

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

##### Treasury management issues

- the current treasury position;
- treasury indicators which limit the treasury risk and activities of the Council;
- prospects for interest rates;
- the borrowing strategy;
- policy on borrowing in advance of need;
- debt rescheduling;

- the investment strategy;
- creditworthiness policy; and
- policy on use of external service providers.

**1.10** These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, Department for Levelling Up, Housing and Communities (DLUHC) MRP Guidance, the CIPFA Treasury Management Code and DLUHC Investment Guidance.

#### Training

**1.11** The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny. Training was provided to members of Governance and Audit by the Council's treasury advisors on 29 September 2021 and further training is implemented as required.. The training needs of treasury management officers are periodically reviewed.

#### Treasury management consultants

**1.12** The Council uses Link Group, Treasury Solutions as its external treasury management advisors.

**1.13** The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers.

**1.14** It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

## **2 The Capital Prudential Indicators 2022-23 to 2024-25**

#### Introduction

**2.1** The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

#### Capital Expenditure

**2.2** This prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. Members are asked to approve the capital expenditure forecasts:

Capital Expenditure	2021/22 Provisional Outturn £m	2022/23 Estimated £m	2023/24 Estimated £m	2024/25 Estimated £m
Non-HRA	6.703	15.456	6.944	2.556
HRA	12.446	14.180	12.815	11.264
<b>Total</b>	<b>19.149</b>	<b>29.636</b>	<b>19.759</b>	<b>13.820</b>

- 2.3** The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need.

Financing of capital expenditure	2021/22 Provisional Outturn £m	2022/23 Estimated £m	2023/24 Estimated £m	2024/25 Estimated £m
Capital receipts reserve		4.655	3.770	3.026
Grants and Contributions		2.352	5.589	0.860
Reserves		11.966	10.400	9.934
Net financing need for the year	0	10.663	0	0

#### The Council's Borrowing Need (the Capital Financing Requirement)

- 2.4** The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of Council's underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR.
- 2.5** The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the borrowing need in line with each asset life, and so charges the economic consumption of capital assets as they are used.
- 2.6** The CFR includes any other long-term liabilities (e.g. PFI schemes, finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility and so the Council is not required to separately borrow for these schemes. The Council currently has no such schemes within the CFR.
- 2.7** The Council is asked to approve the CFR projections below:

	2021/22 Revised £m	2022/23 Estimated £m	2023/24 Estimated £m	2024/25 Estimated £m
<b>Capital Financing Requirement</b>				
Closing CFR – Non Housing	14.392	24.764	24.478	23.760

Closing CFR - Housing	93.182	89.960	86.738	83.516
<b>Total CFR</b>	<b>107.574</b>	<b>114.724</b>	<b>111.216</b>	<b>107.276</b>
Opening CFR	107.869	107.574	114.724	111.216
Movement in CFR	(0.295)	7.150	(3.508)	(3.940)

	2021/22 Revised £m	2022/23 Estimated £m	2023/24 Estimated £m	2024/25 Estimated £m
<b>Movement in CFR represented by</b>				
Net financing need for the year	3.063	10.663	0	0
Repayment of HRA Borrowing	(3.222)	(3.222)	(3.222)	(3.222)
Less MRP/VRP and other financing movements	(0.136)	(0.291)	(0.286)	(0.718)
Movement in CFR	(0.295)	7.150	(3.508)	(3.940)

### Core Funds and Expected Investment Balances

- 2.8** The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.). Detailed below are estimates of the year end balances for each resource and anticipated day to day cash flow balances.

Year End Resources	2021/22 Revised £m	2022/23 Estimated £m	2023/24 Estimated £m	2024/25 Estimated £m
General Fund balances	16.700	15.344	14.992	13.814
Capital reserves – General Fund	2.973	1.518	0.730	0.514
Capital reserves – HRA	7.214	7.369	7.826	8.516
HRA reserve	15.508	14.368	14.368	14.368
Major Repairs Reserve	16.041	12.606	9.983	8.936
<b>Total Core Funds</b>	<b>58.436</b>	<b>51.205</b>	<b>47.899</b>	<b>46.148</b>
Working Capital - GF*	1.986	1.923	1.923	1.923

Working Capital - HRA*	3.203	3.650	3.123	2.740
<b>Expected Investments</b>	<b>63.625</b>	<b>56.778</b>	<b>52.945</b>	<b>50.811</b>

Working capital balances shown are estimated year end; these may be higher mid-year.

### 3 Borrowing

- 3.1** An underpinning principle of the local authority financial system is that all capital expenditure has to be financed either from capital receipts, capital grants (or other contributions) or eventually from revenue income. The broad aim of prudent provision is to require local authorities to put aside revenue over time to cover their Capital Financing requirements. In doing so, local authorities should align the period over which they charge MRP to one that is commensurate with the period over which their capital expenditure provides benefits.
- 3.2** All future capital acquisitions that are financed through prudential borrowing will be required to demonstrate affordability but the extent that MRP is accounted for will be determined on a case-by-case basis and be in accordance with the four options set out in the statutory guidance. It is expected that the calculation method adopted will be the asset life method which allows the MRP provision to be based on the estimated useful life of the asset.
- 3.3** During the year it is anticipated that there will be a requirement to undertake borrowing to fund capital expenditure and this will impact on the prudential indicators that are presented in the current version of the Treasury Management Strategy. This will require approval to amend the relevant prudential indicators and these will be presented as part of the business case for the relevant proposal. It is proposed that changes to the Treasury Management Strategy during the year are considered and approved by Cabinet and Governance & Audit Committee as necessary.

#### Debt and Investment Projections

- 3.4** The capital expenditure plans set out in Section 1 provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the the relevant professional codes, so that sufficient cash is available to meet this service activity. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

#### Current Portfolio Position

- 3.5** The Councils forecast treasury portfolio position at 31 March 2022, with forward projections are summarised below. The table shows the actual external debt (the treasury management operations), against the underlying capital borrowing need (CFR), highlighting any over or under borrowing.

	2021/22 Revised £m	2022/23 Estimated £m	2023/24 Estimated £m	2024/25 Estimated £m
<b>External Debt</b>				
Existing Debt at 1 April	92.656	92.497	99.938	96.716
Expected change in debt	3.063	10.663	0.000	0
HRA Settlement	(3.222)	(3.222)	(3.222)	(3.222)
<b>Debt at 31 March</b>	<b>92.497</b>	<b>99.938</b>	<b>96.716</b>	<b>93.494</b>
<b>Closing CFR</b>	107.574	114.724	111.216	107.276
<b>Under / (over) borrowing</b>	15.077	14.786	14.500	13.782

- 3.6** Within the above figures there is no debt to commercial activities / non-financial investment.
- 3.7** Within the prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2022/23 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.
- 3.8** The Section 151 Officer reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this budget report.

#### Treasury Indicators: Limits to Borrowing Activity

- 3.9** The operational boundary and authorised limit have been increased to reflect the borrowing requirements to facilitate the delivery of the leisure and strategic land acquisition projects. Any capital schemes that have borrowing implications will be fully evaluated to identify the overall impact on the prudential indicators.

#### **3.10 The Operational Boundary.**

This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt and the ability to fund under-borrowing by other cash resources.

Operational Boundary	2021/22 Revised	2022/23 Estimated	2023/24 Estimated	2024/25 Estimated
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	£m	£m	£m	£m
General Fund	15.000	25.000	35.000	35.000
HRA	100.000	100.000	100.000	100.000
Other long-term liabilities	0.000	0.000	0.000	0.000
<b>Total</b>	<b>115.000</b>	<b>125.000</b>	<b>135.000</b>	<b>135.000</b>

**3.11** The operational boundary will be reviewed on an individual project basis as required.

### **3.12 The Authorised Limit for External Debt**

This is a key prudential indicator and represents a control on the maximum level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

**3.13** This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although no control has yet been exercised.

**3.14** The Council is asked to approve the following authorised limit:

Authorised limit	2021/22 Revised £m	2022/23 Estimated £m	2023/24 Estimated £m	2024/25 Estimated £m
General Fund	33.000	43.000	53.000	53.000
HRA	115.000	115.000	115.000	115.000
Other long-term liabilities	0.000	0.000	0.000	0.000
<b>Total</b>	<b>148.000</b>	<b>158.000</b>	<b>168.000</b>	<b>168.000</b>

### Prospects for Interest Rates

**3.15** The Council utilises the services of pointed Link Group as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. The following table gives the current Link central view:

Annual Average %	Bank Rate	PWLB Borrowing Rates (including certainty rate adjustment)		
		5 year	25 year	50 year
Dec 2021	0.25	1.50	2.10	1.90
Mar 2022	0.25	1.50	2.20	2.00



Jun 2022	0.50	1.60	2.30	2.10
Sep 2022	0.50	1.60	2.40	2.20
Dec 2022	0.50	1.70	2.40	2.20
Mar 2023	0.75	1.70	2.40	2.20
Jun 2023	0.75	1.70	2.50	2.30
Sep 2023	0.75	1.80	2.50	2.30
Dec 2023	0.75	1.80	2.60	2.40
Mar 2024	1.00	1.80	2.60	2.40
Jun 2024	1.00	1.90	2.60	2.40
Sep 2024	1.00	1.90	2.60	2.40
Dec 2024	1.00	2.00	2.70	2.50
Mar 2025	1.25	2.00	2.70	2.50

**3.16** The PWLB forecasts are based on the Certainty Rate (minus 20 bps) which has been accessible to most authorities since 1 November 2012.

**3.17** The Coronavirus outbreak has had a significant economic impact to the UK and economies around the world. The Bank of England took emergency action in March 2020 to reduce the Bank Rate to 0.10%, the rate has remained unchanged at its subsequent meetings. As shown in the table above, the forecast Bank Rate now includes five increases, the rate is expected to initially increase to 0.25% in December 2021 to 1.25% in March 2025.

#### Borrowing Strategy 2022/23 – 2023/24

**3.18** The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is still an issue that needs to be considered.

**3.19** When the Council is considering undertaking borrowing to fund the capital programme, projects or to fund future debt maturities a clear business case must be developed. The business case will need to take into consideration, the revenue consequences of the borrowing including interest payable, MRP and any future income to be generated from the project. Borrowing can then

be undertaken where there is a clear business case and affordability is demonstrated.

**3.20** Against this background and the risks within the economic forecast, caution will be adopted with the 2022/23 treasury operations. The Section 151 and Deputy Section 151 Officers will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

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

**3.21** The option of postponing borrowing and running down investment balances will also be considered. This would reduce counterparty risk and hedge against the expected fall in investments returns.

**3.22** Any borrowing decisions will be reported to the Governance and Audit Committee at the next available opportunity.

#### Policy on Borrowing in Advance of need

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

**3.24** The Section 151 or Deputy section 151 Officer may do this under delegated power where, for instance, a sharp rise in interest rates is expected, and so borrowing early at fixed interest rates will be economically beneficial or meet budgetary constraints. Whilst the Section 151 or Deputy section 151 Officer will adopt a cautious approach to any such borrowing, where there is a clear business case for doing so borrowing may be undertaken to fund the approved capital programme or to fund future debt maturities. It would not look to borrow more than 24 months in advance of need.

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

#### Debt Rescheduling

**3.26** Rescheduling of current borrowing in our debt portfolio is unlikely to occur as there is still a very large difference between premature redemption rates and

new borrowing rates, even though the general margin of PWLB rates over gilt yields was reduced by 100 bps in November 2020.

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

New financial institutions as a source of borrowing and/or types of borrowing

- 3.28** Currently the PWLB Certainty Rate is set at gilts + 80 basis points for both HRA and non-HRA borrowing. However, consideration may still need to be given to sourcing funding from the following sources for the following reasons:

- Local authorities (primarily shorter dated maturities)
- Financial institutions (primarily insurance companies and pension funds but also some banks, out of spot or forward dates where the objective is to avoid a “cost of carry” or to achieve refinancing certainty over the next few years)
- Municipal Bonds Agency (possibly still a viable alternative depending on market circumstances prevailing at the time).

- 3.29** Our advisors will keep us informed as to the relative merits of each of these alternative funding sources.

Approved Sources of Long and Short term Borrowing

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

Finance leases ● ●

#### **4 Annual Investment Strategy**

##### Investment Policy and Counterparty Selection Criteria

- 4.1** The Council's investment policy has regard to the DLUHC's Guidance on Local Government Investments ("the Guidance"), the CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017 ("the CIPFA TM Code") and the CIPFA Treasury Management Guidance Notes 2018. The Council's investment priorities will be security first, portfolio liquidity second, then yield.
- 4.2** In accordance with the above guidance from the DLUHC and CIPFA, and in order to minimise the risk to investments, the Council applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the Short Term and Long Term ratings.
- 4.3** Ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To this end the Council will engage with its advisors to maintain a monitor on market pricing such as "credit default swaps" and overlay that information on top of the credit ratings.
- 4.4** Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.
- 4.5** Investment instruments identified for use in the financial year are listed in Appendix 3 under the 'specified' and 'non-specified' investment categories. Counterparty limits will be as set through the Council's treasury management practices-schedules.

##### Creditworthiness policy

- 4.6** This Council applies the creditworthiness service provided by Link Group. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard and Poor's. The credit ratings of counterparties are supplemented with the following overlays:
- credit watches and credit outlooks from credit rating agencies;
  - CDS spreads to give early warning of likely changes in credit ratings;
  - sovereign ratings to select counterparties from only the most creditworthy countries.

**4.7** This modelling approach combines credit ratings, credit Watches and credit Outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the suggested duration for investments. The Council will therefore use counterparties within the following durational bands:

- Yellow 5 years \*
- Dark pink 5 years for Enhanced money market funds (EMMFs) with a credit score of 1.25
- Light pink 5 years for Enhanced money market funds (EMMFs) with a credit score of 1.5
- Purple 2 years
- Blue 1 year (only applies to nationalised or semi nationalised UK Banks)
- Orange 1 year
- Red 6 months
- Green 100 days
- No colour not to be used

Y	Pi1	Pi2	P	B	O	R	G	N/C
1	1.25	1.5	2	3	4	5	6	7
Up to 5yrs	Up to 5yrs	Up to 5yrs	Up to 2yrs	Up to 1yr	Up to 1yr	Up to 6mths	Up to 100days	No Colour

**4.8** The Link Group creditworthiness service uses a wider array of information other than just primary ratings. Furthermore, by using a risk weighted scoring system, it does not give undue importance to just one agency's ratings.

**4.9** Typically the minimum credit ratings criteria the Council use will be a Short Term rating (Fitch or equivalents) of F1 and a Long Term rating of A-. There may be occasions when the counterparty ratings from one agency are marginally lower than these ratings but may still be used. In these instances consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

**4.10** All credit ratings are monitored daily. The Council is alerted to changes to ratings of all three agencies through its use of the Link creditworthiness service.

- if a downgrade results in the counterparty/investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
- in addition to the use of credit ratings the Council will be advised of information in movements in credit default swap spreads against the iTraxx European Financials benchmark and other market data on a weekly basis via its Passport website, provided exclusively to it by Link. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

- 4.11** Sole reliance will not be placed on the use of this external service. In addition this Council will also use market data and market information, as well as information on any external support for banks to help support its decision making process.
- 4.12** The Treasury Management Officer will use the Link Credit Rating weekly listing as a tool for guidance, with the option to deviate from this guidance only when there are clear alternative options that are available to the Council. Any decision of this nature should be clearly documented for audit purposes.

#### Investment Strategy

- 4.13 In-house funds.** Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months). Greater returns are usually obtainable by investing for longer periods. While most cash balances are required in order to manage the councils cashflow, where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer term investments will be carefully assessed.
- If it is thought that Bank Rate is likely to rise significantly within the time horizon being considered, then consideration will be given to keeping most investments as being short term or variable.
  - Conversely, if it is thought that Bank Rate is likely to fall within that time period, consideration will be given to locking in higher rates currently obtainable, for longer periods.

#### Investment returns expectations.

- 4.14** Bank Rate is anticipated to increase to 0.25% in December 2021 though there is a high risk that it could be delayed until quarter 1 or 2 of 2022.
- 4.15** The suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year are as follows (the long-term forecast is for periods over 10 years in the future):

Average earnings in each year	Link Group	Budgeted*
2022/23	0.50%	0.5%
2023/24	0.75%	0.75%
2024/25	1.00%	1.00%
2025/26	1.25%	-
Long term later years	2.00%	

budgeted rates are the same as Link's as although a quarterly dividend is received from the Property Fund it is recognised that there is a risk associated with the increase in bank rate which will impact on investment rates increasing.

**4.19 Investment treasury indicator and limit** - total principal funds invested for greater than 365 days. These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.

**4.20** The Council is asked to approve the treasury indicator and limit: -

Maximum principal sums invested > 365 days			
	2021/22 £m	2022/23 £m	2023/24 £m
Principal sums invested > 365 days	15.000	15.000	15.000

**4.21** For its cash flow generated balances, the Council will seek to utilise its instant access and notice accounts, money market funds and short-dated deposits, (overnight to 100 days), in order to benefit from the compounding of interest.

#### Investment Risk Benchmarking

**4.22** These benchmarks are simple guides to maximum risk, so may be breached from time to time, depending on movements in interest rates and counterparty criteria. The purpose of the benchmark is that officers will monitor the current and trend position and amend the operational strategy to manage risk as conditions change. Any breach of the benchmarks will be reported, with supporting reasons in the Mid-Year or Annual Report.

**Security** - The Council's maximum security risk benchmark for the current portfolio, when compared to these historic default tables, is:

- 0.013% historic risk of default when compared to the whole portfolio.

**Liquidity** – In respect of this area the Council seeks to maintain:

- Bank overdraft - £0.5m
- Liquid short-term deposits of at least £9m available with a week's notice.
- Weighted Average Life benchmark is not expected to exceed a maximum of 1 year.

**Yield** - Local measures of yield benchmarks are:

- Investments – Internal returns above the 7-day LIBID rate
- Investments – External fund managers - returns 110% above 7-day compounded LIBID.

**4.23** And in addition, that the security benchmark for each individual year is:

	1 year	2 years	3 years	4 years	5 years
Maximum	0.05%	0.14%	0.26%	0.38%	0.54%

Note: This benchmark is an average risk of default measure (potential loss on investments) and would not constitute an expectation of loss against a particular investment.

End of year Investment Report

- 4.24** At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Report.



## Appendix 1

### THE MRP STATEMENT

#### **Minimum revenue provision (MRP) policy statement**

The Council is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the Minimum Revenue Provision - MRP), although it is also allowed to undertake additional voluntary revenue payments (VRP) if required.

DLUHC Regulations have been issued which requires Council to approve an MRP Statement in advance of each year. A variety of options are provided to councils, so long as there is a prudent provision. The Council is recommended to approve the following MRP Statement.

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

- **Existing practice** - MRP will follow the existing practice outlined in former DLUHC Regulations.

This option provides for an approximate 4% reduction in the borrowing need (CFR) each year.

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

- Asset life method – MRP will be based on the estimated life of the assets, in accordance with the regulations (this option must be applied for any expenditure capitalised under a Capitalisation Direction) (option 3);

These options provide for a reduction in the borrowing need over approximately the asset's life.

There is no requirement on the HRA to make a minimum revenue provision but there is a requirement for a charge for depreciation to be made (although there are transitional arrangements in place).

This policy will be regularly reviewed against the DLUHC MRP guidance and will be amended if necessary.

## Appendix 2

### **CAPITAL PRUDENTIAL AND TREASURY INDICATORS 2021/22 – 2022/23**

#### **Affordability Prudential Indicators**

The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances. The Council is asked to approve the following indicators:

#### **Ratio of financing costs to net revenue stream**

This indicator identifies the trend in the cost of capital (borrowing and other long-term obligation costs net of investment income) against the net revenue stream.

	2021/22 Revised %	2022/23 Estimated %	2023/24 Estimated %	2024/25 Estimated %
Non-HRA	(0.72)	(0.70)	(0.65)	0.87
HRA	12.66	11.79	10.55	9.41

The estimates of financing costs include current commitments and the proposals in this budget report.

#### **HRA Ratios**

	2020/21 Actual	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
HRA debt £m	92.656	89.434	86.212	82.990	79.768
Number of HRA dwellings	5,914	5,876	5,850	5,820	5,793
Debt per dwelling £	15,667	15,220	14,737	14,259	13,770

#### **Maturity Structure of Borrowing**

Maturity structure of borrowing. These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.

<b>Maturity structure of fixed interest rate borrowing 2021/22</b>		
	Lower	Upper
Under 12 months	0%	20%
12 months to 2 years	0%	20%
2 years to 5 years	0%	50%
5 years to 10 years	0%	60%
10 years and above	0%	80%

<b>Maturity structure of variable interest rate borrowing 2021/22</b>		
	Lower	Upper
Under 12 months	0%	20%
12 months to 2 years	0%	20%
2 years to 5 years	0%	20%
5 years to 10 years	0%	20%
10 years and above	0%	20%

### Appendix 3

#### Treasury Management Practice (TMP) 1 – Credit and Counterparty Risk Management

The investment policy proposed for the Council is:

**Strategy Guidelines** – The main strategy guidelines are contained in the body of the treasury strategy statement.

**Specified Investments** – all such investments will be sterling denominated, with maturities up to maximum 1 year, meeting the ‘high’ quality criteria where applicable.

**Table A – Specified Investments**

	<b>Specified Investments Category</b>	<b>Limit</b>
a	<p><b>A body of high credit quality</b>, this category includes the following –</p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Any bank or building society using Sector Creditworthiness service, following the suggested duration on the list up to a maximum of 365 days.</li> <li><input type="checkbox"/> Nationalised and Part nationalised banks can be included within specified investments as long as they remain part-nationalised</li> </ul>	<p><b>£15m per institution</b> or a maximum of <b>30% of total investment</b> (whichever is the greatest), <b>£15m per corporate group</b></p>
b	<p><b>The UK Government</b> (such as the Debt Management Account deposit facility, UK Treasury Bills or a Gilt with less than one year to maturity)</p>	no amount limit
c	<p><b>UK local authorities, Parish Council or Community Council</b></p>	<b>£5m per institution</b>
d	<p><b>Pooled investment vehicles</b> (such as money market funds) that have been awarded a high credit rating by a credit rating agency. This category covers pooled investment vehicles, such as money market funds, rated AAA by Standard and Poor’s, Moody’s or Fitch rating agencies. CLG Investment Guidance specifies that Money Market Funds with high credit ratings are classified as Specified Investment. These funds are instant access investment. There is possibility that part of the investment may be exposed to counterparties the Council would not approve normally or invest directly. The counterparty risk is mitigated by that –</p>	<b>£5m per fund,</b>

	<ul style="list-style-type: none"> <li>• The Fund Managers diversify investment in a range of counterparties;</li> <li>• The Funds are instant access;</li> <li>• The Council only invests in funds rated AAA;</li> <li>• DLUHC Investment Guidance classifying such funds as Specified Investment.</li> </ul>	
e	<p><b>Enhanced Money Market Funds</b> These are similar to normal money market funds but operate on a variable rate basis. The selection criteria will be on the same basis as the pooled investment vehicles with only funds rated AAA by Standard and Poor's, Moody's or Fitch rating agencies being used.</p> <p>In addition to this only EMMF's with a credit score of 1.25 and above will be used.</p>	£5m per fund,
f	<p><b>Ultra Short Dated Bond Funds</b> These are similar to normal money market funds but operate on a variable rate basis. The selection criteria will be on the same basis as the pooled investment vehicles with only funds with a credit score of 1.25 and rated AAA by Standard and Poor's, Moody's or Fitch rating agencies being used.</p>	£5m per fund
g	<b>Corporate Bond Funds</b>	£5m per fund

**Non-Specified Investments** – Are any other type of investment (i.e. not defined as Specified above). The identification and rationale supporting the selection of these other investments and the maximum limits to be applied are set out below. Non specified investments would include any sterling investments with:

Amounts invested with any one corporate group shall not exceed £5m (with the exception of Councils own bank).

Amounts invested in non-specified fixed term investments would normally not exceed 35% of the total Invested. The Section 151 or Deputy Section 151 has the discretion if required to exceed this, and the limits detailed below, should the rate of return on Investment be beneficial to the council. Any decision will be based on taking into account current and future market conditions as well as counterparty strength and rating. If these circumstances are required this will be reported back to the Governance and Audit Committee through the annual reporting cycle.

The table below is not an exhaustive list of all non-specified investments; further options are identified in the narrative section within the strategy.

**Table B – Non Specified Investments**

	<b>Non Specified Investment Category</b>	<b>Limit</b>

a.	<p><b>Any institutions meeting the criteria set out for Specified Investments</b>, with a maturity of greater than 1 year following the suggested duration on the list up to a maximum of 5 years.</p> <p>(including forward deals in excess of one year from inception to repayment).</p>	<p><b>£4m</b> maximum of <b>3-years</b> per institution</p>
b.	<p><b>Councils Bank</b> – Should it fail to meet the basic credit criteria, monies will be restricted to instant access and will be minimised as far as is possible.</p>	<p><b>£7m</b></p>
c.	<p><b>Top 10 building societies, by asset value</b> – The operation of some building societies does not require a credit rating, although in every other respect the security would match similarly sized societies with ratings.</p> <p>The Council may use such building societies that all placed within the top 10 by asset value.</p>	<p><b>£2m</b> maximum of <b>3-years</b> per institution.</p> <p><b>£10m for all top 10 building societies</b></p>
d.	<p><b>UK Local Authorities, Parish Council or Community Council</b></p>	<p><b>£5m per institution</b></p>
e.	<p><b>Property funds</b> The use of these instruments can be deemed capital expenditure, and as such will be an application (spending) of capital resources. This Authority will seek guidance on the status of any fund it may consider using.</p>	<p><b>£5m</b></p> <p><b>No maximum duration period.</b></p>

Note: This Authority will seek further advice on the appropriateness and associated risks with investments in these categories.

**Maximum limit per institution** – The maximum limit for both specified and non-specified investments is a total of £15m per corporate group with a higher limit of £18m at the discretion of the Section 151 Officer (or deputy) where an institution is considered to be of a higher credit quality.

**The monitoring of investment counterparties** – The credit rating of counterparties will be monitored regularly. The Council receives credit rating information (changes, rating watches and rating outlooks) from Link Group as and when ratings change, and counterparties are checked promptly. On occasion ratings may be downgraded when an investment has already been made. The criteria used are such that a minor downgrading should not affect the full receipt of the principle and interest. Any counterparty failing to meet the criteria will be removed from the list immediately by the Section 151 Officer (or Deputy), and if required new counterparties which meet the criteria will be added to the list.

**Ethical Investment Statement** – The Council has approved the following ethical investment statement that will apply to all cash investments made by, or on behalf of the council

“The Council, in making investments through its treasury management function fully supports the ethos of socially responsible investments”.

**Local Authority Controlled Company – LACC.**

The Council has the ability to make loans to a Local Authority Controlled Company.

The criteria for a Loan being made with a LACC will be that there is a clear business plan that demonstrates the affordability of the investment for the LACC.

**Registered Social Landlords (RSL's)**

- This scheme would lend amounts up to £5m per investment to Registered Social Landlords for the purpose of providing housing within the District.
- Repayment terms of up to 10 years would be offered.
- Can be deemed as a service investment as opposed to a Treasury Investment.
- Individual Housing Associations do not have credit ratings therefore it is proposed that we use our external treasury advisers to undertake due diligence checks to assess borrowers' ability to make good the repayment of the loan.
- Loans would be secured by means of a legal charge over the borrowers assets. Related legal costs and loan set up fees would be charged to the borrower.
- Interest rates charged would be set at PWLB/market rates available at the time the loan is agreed. This will provide an investment return and ensure that no gratuitous benefit is included which would have soft loan or state aid implications.
- For accounting purposes loans would be treated as capital expenditure and financed from internal borrowing. This will increase the Capital Financing Requirement (CFR) by the amount of the loan and then this will be written down upon repayment of the principal.
- This approach means that there is no requirement to make a Minimum Revenue Provision (MRP) contribution, depending on the circumstances
- Any activity of this type would only take place after detailed due diligence work be been undertaken.

**Use of External Fund Managers** – The Council is not restricted to placing funds with cash managers, and will manage funds in house, use fund managers, or brokers if it is appropriate to do so.

The fund managers will use both specified and non-specified investment categories and are contractually committed to keep to the Council's investment strategy. Currently the Council has an agreement with King & Shaxson, Tradition UK, Imperial Treasury and Sterling International. The fund managers are required to adhere to the following:

- All investments restricted to sterling denominated instruments;
- Amounts invested with any one institution or Corporate Group should not exceed the limits specified in Table A and Table B.
- Portfolio management is measured against the return provided by the 3-month sterling LIBID, or in accordance with the measures specified in the contract.

The performance of investment managed by Fund Managers is reviewed at least quarterly by the Section 151 or Deputy Section 151 Officer.