Classification	Item No.
Open	

Meeting:	Overview & Scrutiny – 9th February 2023 Cabinet – 15th February 2023
Title of report:	Treasury Strategy 2023-24
Report by:	Cabinet Member for Finance and Communities
Decision Type:	**Non-Key Decision**
Ward(s) to which report relates	All

1. Executive Summary:

1.1 This report presents the Council's 2023-24 Treasury Management Strategy. The Treasury Management Strategy is a plan to manage cash, borrowing and investments. This plan is set in the context of the Council's Capital Programme, General Fund Medium Term Financial Strategy, Collection Fund and Balance Sheet.

1.2 The Capital Programme is the most important determinant of the Council's cash requirements. Under statute, the Council can only borrow long-term to fund its Capital Programme.

1.3 As the most important determinant of the cash demand, the Capital Programme also impacts most on the quantitative ratios, measuring projections of future treasury management activity. These quantitative ratios are called Treasury and Prudential Indicators. They are set out in the report and are standardised measures used across all Local Authorities.

1.4 The Treasury and Prudential Indicators shown in this report summarise key parts of the Council's Treasury Strategy and should be considered alongside the analysis of risks and other commentary.

1.5 The Treasury Management Strategy is the first of three reports in each financial year to manage risks associated with the Treasury Management function. In addition to the Strategy, there will be a mid-year progress report, with the final report showing the Outturn position.

1.6 The reports form part of the statutory regulation of Treasury Management activity, to assist in the management of financial risks. It is the role of Cabinet to scrutinise these reports and the identified risks, prior to recommending them to Full Council.

2. Recommendation(s)

Cabinet is asked to approve the 2023-24 Treasury Management Strategy and recommend its approval by Council.

3. Key considerations

Overview

3.1 The Council's 2023-24 Treasury Management Strategy covers:

- Treasury Management definition
- Treasury Management Regulation
- The Capital Prudential Indicators
- Minimum Revenue Provision (MRP)
- Borrowing
- Treasury Indicators
- Prospects for Interest Rates
- Annual Investment Strategy

4. Definition

4.1 The Local Government accounting organisation (CIPFA) defines treasury management as:

4.2 *"The management of the local authority's borrowing, investments and cash flows, including 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."*

4.3 Optimum performance is within the context of the priorities set out by CIPFA. These priorities, starting with the most important are security, liquidity and yield. It is absolutely not the role of Local Government Treasury functions to maximise yield regardless of the risk of capital loss.

4.4 Commercial initiatives and loans to third parties are classed as non-treasury activities. However, they will impact on the Treasury Management and Prudential Indicators shown in this report.

5. Treasury Management Regulation

5.1 Due to the financial risks, the Treasury Management function in Local Government is highly regulated. This includes:

- The Treasury Management Code
- The Prudential Code for Capital Finance in Local Authorities
- Part 1 of the Local Government Act 2003
- The CIPFA Financial Management Code of Practice.

6. The Capital Prudential Indicators 2023/24 – 2025/26

6.1 The Capital Prudential Indicators are standardised ratios measuring the Capital Programme, which drive treasury management activity.

6.2 The Capital Prudential Indicators are detailed below:

Prudential Indicator 1 (A): Capital Expenditure

6.3 Table 1 is a summary of the Council's capital expenditure plans. There is a separate report on this agenda detailing the future years capital programme and budget for approval.

Capital expenditure £m	**2021/22 Actual**	**2022/23 Forecast Spend**	**2023/24 Estimate**	**2024/25 Estimate**	**2025/26 Estimate**
Non-HRA	32.120	60.334	110.290	59.253	14.630
HRA	13.616	14.703	16.782	14.247	14.000
Total	**45.736**	**75.037**	**127.072**	**73.500**	**28.630**
Source: Capital Strategy and Housing Revenue Account					

Prudential Indicator 1 (B): Capital Financing

6.4 Table 2 summarises how the capital expenditure plans are being financed by capital and revenue resources:

Financing of capital expenditure **£m**	**2021/22** **Actual**	**2022/23** **Forecast Spend**	**2023/24** **Estimate**	**2024/25** **Estimate**	**2025/26** **Estimate**
Net financing need for the year (Prudential Borrowing)	**17.141**	**36.148**	**54.973**	**55.330**	**11.057**
External Funding	15.258	23.641	51.165	3.446	3.446
Capital Receipts	0.613	0.108	3.875	0.477	0.127
General Fund Reserves	0.306	1.429	1.507	0.000	0.000
Housing Revenue Account/Housing Revenue Account Reserve	12.418	13.711	15.552	14.247	14.000
Total	**45.736**	**75.037**	**127.072**	**73.500**	**28.630**

Source: Capital Strategy 2023-24 & Quarter 3 Cabinet monitoring report

Prudential Indicator 2: The Capital Financing Requirement

6.5 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 a measure of the Council's indebtedness for a capital purpose. Any capital expenditure which is not financed in year, generates a net financing need for the year. The Council repays a proportion of the General Fund CFR each year out of the revenue budget. This repayment is called the Minimum Revenue Provision (MRP).

6.6 The Housing Capital Financing Requirement is projected to remain the same from 2021-22 to 2025-26. This is because the Council does not finance any of its housing spend from borrowing. Also, the balance on the Housing CFR, unlike the General Fund CFR does not have to repaid.

6.7 The CFR and MRP projections are based on the Council's Capital Programme. This programme prudently shows the availability of grant funding only when fully confirmed. In practice the CFR and MRP are likely to be lower due to additional grant funding. However, if required, the Council would use previous MRP overpayments to reduce the 2023-24 MRP cost* by £1m (See 7, Minimum Revenue Provision Statement Explanation).

6.8 The Council is asked to approve the CFR projections shown in the tables below:

£m	2021/22	2022/23	2023/24	2024/25	2025/26
	Actual	Estimate	Estimate	Estimate	Estimate
Capital Financing Requirement					
Non-HRA	174.242	207.423	258.232	308.050	311.506
Housing	118.784	118.784	118.784	118.784	118.784
Total CFR	293.026	326.207	377.016	426.835	430.290
Movement in CFR	**14.539**	**33.181**	**50.809**	**49.819**	**3.455**
Movement in CFR represented by					
Net financing need for the year (above)	17.141	36.148	54.974	55.330	11.057
Less MRP/VRP and other financing movements	-2.602	-2.967	-4.165	-5.511	-7.602
Movement in CFR	**14.539**	**33.181**	**50.809**	**49.819**	**3.455**

(*£4.165 less £1m is £3.165m)

Prudential Indicator 2b: External Borrowing

6.9 *The indicator below illustrates that the external borrowing requirement driven by the Capital Programme is equal to the net financing need shown in the above tables.*

External borrowing £m	2021/22	2022/23	2023/24	2024/25	2025/26
	Actual	Estimate	Estimate	Estimate	Estimate
Treasury Management (Capital Fin Need)	17.141	36.148	54.974	55.330	11.057

Prudential Indicator 3: Liability Benchmark

6.10 A new Prudential indicator included in the 2023-24 Treasury Strategy is the Liability Benchmark (LB). The components to this indicator are:

- Existing loan debt outstanding – loans already taken out.
- Loans CFR – projection of the Capital Financing Requirement.
- Net loans requirement – loan requirements due to short-term, non-capital cash requirements plus existing loans and loans for capital borrowing (Loans CFR)
- Liability benchmark – the net loan requirement plus a cushion for short-term and unexpected liquidity requirements.

6.11 The liability benchmark indicator measures the overall cash demand pressures to increase borrowing. The indicator will increase between 2021/22 and 2025/26.

External borrowing £m	**2021/22**	**2022/23**	**023/24**	**2024/25**	**2025/26**
	Actual	**Estimate**	**Estimate**	**Estimate**	**Estimate**
Existing loan debt outstanding	220.826	226.634	207.826	202.826	200.526
Projection Capital Financing Requirement.	14.539	33.181	50.809	49.819	3.455
Net loans requirement	5.808	33.181	120.259	185.919	193.675
Liability benchmark	25.808	53.181	140.259	205.919	213.675

Prudential Indicator 4: Core Funds and Expected Investment Balances

Prudential Indicator 4 shows the Council's core funds as cash reserves alongside its working capital position. The working capital position reduces the Council's core funds: the Council has significant long-term debtors, but has cash owing, these balances reduce cash in the bank account.

The working capital position reduces the Council's core funds, which are further reduced to allow for a liquidity buffer. However, overall, the Council's core funds will still reduce external borrowing and interest costs.

Year End Resources	**2021/22**	**2022/23**	**2023/24**	**2024/25**	**2025/26**
£m	**Actual**	**Estimate**	**Estimate**	**Estimate**	**Estimate**
Fund balances / reserves	141.966	124.504	113.663	111.663	109.663
Capital receipts	6.967	6.859	2.984	2.984	2.984
Provisions	8.500	8.500	8.500	8.500	8.500
Other	-57.660*	-57.660	-57.660	-57.660	-57.660
Total core funds	**99.773**	**82.203**	**67.487**	**65.487**	**63.487**
Liability Adjustment	**20.000**	**20.000**	**20.000**	**20.000**	**20.000**
(Under)/over borrowing	-74.773	-57.203	-42.487	-40.487	-38.487
Expected investments	5.000	5.000	5.000	5.000	5.000

(*Includes adjustment for working capital)

7. Minimum Revenue Provision (MRP) Policy Statement Explanation

7.1 Under Regulation 27 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, where the Authority has financed capital expenditure by borrowing it is required to make a provision each year through a revenue charge (MRP).

7.2 The Council is recommended to approve the following MRP Statement for the year 2023/24. This statement is the same as in the current 2022/23 financial year.

- MRP for supported financing will be calculated using 2.39% over 50 years under the annuity method of calculating MRP.
- The Asset Life method of calculating repayment provision will be used for prudential borrowing.

- The Executive Director of Finance may from time to time and when it is beneficial to the efficient financial administration of the Council, vary the amounts charged as MRP in the year by making additional and voluntary payments of MRP. In these circumstances, the amount paid would not prejudice the existing strategy or be counter to the regulatory intent of that strategy.
- These options provide for a reduction in the borrowing need over 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.
- MRP Overpayments – A change introduced by the revised MHCLG MRP Guidance was the allowance that any charges made over the statutory minimum revenue provision (MRP), voluntary revenue provision (VRP) or overpayments, can, if needed, be reclaimed in later years if deemed necessary or prudent. In order for these sums to be reclaimed for use in the budget, this policy must disclose the cumulative overpayment made each year. The cumulative value of the over payments to date is £2.789m.

8. Borrowing

8.1 The Council's Capital Programme sets out the future investment, which will provide long-term benefit to residents. The overall treasury management portfolio as of 31 March 2022 and the current January 2023 position are shown below for both borrowing and investments:

TREASURY PORTFOLIO		
	£m	**£m**
	31.3.22	**20.01.23**
Treasury investments		
Local authorities	14.000	0.000
Banks	0.000	4.810
DMADF (H.M Treasury)	0.000	0.000
Money Market Funds	0.000	0.000
Certificates of Deposit	0.000	0.000
TOTAL MANAGED EXTERNALLY	**14.000**	**4.810**
Bond Funds		
Property Funds		
Total managed externally	**0.000**	**0.000**
Total treasury investments		
Treasury external borrowing		
Local Authorities	17.300	26.300
PWLB	153.695	150.503
Market Loans	16.828	16.828
LOBOs	33.003	33.003
Total external borrowing	**220.826**	**226.634**
Net treasury investments / (borrowing)	6.34%	2.12%

8.2 The Council's forward projections for borrowing are summarised below. The table shows the actual external debt, against the underlying capital borrowing need, (the Capital Financing Requirement – CFR), highlighting any over or under borrowing. Please see the forward borrowing projections in the table below:

£m	2021/22 Actual £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m
External Debt					
Debt at 1 April	206.016	220.826	254.008	304.816	354.635
Debt Repayments	-5.000	-13.000	-5.000	-2.300	0.000
Replacement Loans	19.810	13.000	5.000	2.300	0.000
Unsupported borrowing (Prudential)		33.181	50.809	49.819	3.455
Debt at 31 March	**220.826**	**254.008**	**304.816**	**354.635**	**358.090**
Net change	**14.810**	**33.181**	**50.809**	**49.819**	**3.455**

9. Treasury Indicators: Limits to Borrowing Activity

9.1 The Operational Boundary is a treasury indicator. This is the limit beyond which external debt is not normally expected to exceed. It is set at the same level as the Council's projected external borrowing. It is less than the CFR, as the Council uses its core funds and earmarked reserves to reduce borrowing levels and associated costs.

Operational boundary	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m
Borrowing	269.004	334.529	386.348	391.804
Other long term liabilities	0.010	0.010	0.010	0.010
Total	**269.014**	**334.539**	**386.358**	**391.814**

9.2 The Authorised Limit for external debt is a treasury indicator. This is a key treasury indicator and represents a control on the maximum level of borrowing. This represents a legal 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.

9.3 The Authorised Limit is set at a level of £10m above the Operational Boundary.

9.4 The Authority is asked to approve the following Authorised Limits.

Authorised limit	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m
Borrowing	279.004	344.529	396.348	401.804
Other long term liabilities	0.010	0.010	0.010	0.010
Total	**279.014**	**344.539**	**396.358**	**401.814**

10. Prospects for Interest Rates (Link Group Treasury Advisors)

10.1 The Authority has appointed Link Group as its treasury advisor and part of their service is to assist the Authority to formulate a view on interest rates. Link provided the following forecasts on 19.12.22. These are forecasts for certainty rates, gilt yields plus 80 bps.

Link Group Interest Rate View	19.12.22												
	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
BANK RATE	3.50	4.25	4.50	4.50	4.50	4.00	3.75	3.50	3.25	3.00	2.75	2.50	2.50
3 month ave earnings	3.60	4.30	4.50	4.50	4.50	4.00	3.80	3.30	3.00	3.00	2.80	2.50	2.50
6 month ave earnings	4.20	4.50	4.60	4.50	4.20	4.10	3.90	3.40	3.10	3.00	2.90	2.60	2.60
12 month ave earnings	4.70	4.70	4.70	4.50	4.30	4.20	4.00	3.50	3.20	3.10	3.00	2.70	2.70
5 yr PWLB	4.20	4.20	4.20	4.10	4.00	3.90	3.80	3.60	3.50	3.40	3.30	3.20	3.10
10 yr PWLB	4.30	4.40	4.40	4.30	4.10	4.00	3.90	3.80	3.60	3.50	3.40	3.30	3.30
25 yr PWLB	4.60	4.60	4.60	4.50	4.40	4.20	4.10	4.00	3.90	3.70	3.60	3.50	3.50
50 yr PWLB	4.30	4.30	4.30	4.20	4.10	3.90	3.80	3.70	3.60	3.50	3.30	3.20	3.20

10.2 Central forecast for interest rates were updated on 19 December and reflected a view that the Monetary Policy Committee would be keen to further demonstrate its anti-inflation credentials by delivering a succession of rate increases. Bank Rate stands at 3.5% currently but is expected to reach a peak of 4.5% in the first half of 2023.

10.3 The CPI measure of inflation appears to have peaked at 11.1% in Q4 2022 (currently 10.7%). Despite the cost-of-living squeeze that is still taking shape, the Bank will want to see evidence that wages are not spiralling upwards in what is evidently a very tight labour market.

10.4 Regarding the plan to sell £10bn of gilts back into the market each quarter (Quantitative Tightening), this has started and will focus on the short, medium and longer end of the curve in equal measure.

10.5 In the upcoming months, forecasts will be guided not only by economic data releases and clarifications from the MPC over its monetary policies and the Government over its fiscal policies, but the on-going conflict between Russia and Ukraine. (More recently, the heightened tensions between China/Taiwan/US also have the potential to have a wider and negative economic impact.

10.6 On the positive side, consumers are still estimated to be sitting on over £160bn of excess savings following the pandemic which should cushion some of the impact of the above challenges. However, most of those are held by more affluent people whereas lower income families already spend nearly all their income on essentials such as food, energy and rent/mortgage payments.

11. PWLB RATES

- The yield curve movements have become less volatile of late and PWLB 5 to 50 years Certainty Rates are, generally, in the range of 4.10% to 4.80%.

11.1 The balance of risks to the UK economy: -

- The overall balance of risks to economic growth in the UK is to the downside.

11.2 Downside risks to current forecasts for UK gilt yields and PWLB rates include: -

- **Labour and supply shortages** prove more enduring and disruptive and depress economic activity (accepting that in the near-term this is also an upside risk to inflation and, thus, rising gilt yields).
- **The Bank of England** acts too quickly, or too far, over the next year to raise Bank Rate and causes UK economic growth and increases in inflation.
- **UK / EU trade arrangements** – if there was a major impact on trade flows and financial services due to complications or lack of co-operation in addressing significant remaining issues.
- **Geopolitical risks,** for example in Ukraine/Russia, China/Taiwan/US, Iran, North Korea and Middle Eastern countries, which could lead to increasing safe-haven flows.
- **Upside risks to current forecasts for UK gilt yields and PWLB rates: -**
- The **Bank of England is too slow** in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to build up too strongly and for a longer period within the UK economy, which then necessitates Bank Rate staying higher for longer than currently projected or even necessitates a further series of increases in Bank Rate.
- **The Government** acts too quickly to cut taxes and/or increases expenditure in light of the cost-of-living squeeze.
- **The pound weakens** because of a lack of confidence in the UK Government's fiscal policies, resulting in investors pricing in a risk premium for holding UK sovereign debt.
- Longer term **US treasury yields** rise strongly and pull gilt yields up higher than currently forecast.
- Projected **gilt issuance, inclusive of natural maturities and Quantitative tightening,** could be too much for the markets to comfortably digest without higher yields consequently. (Quantitative tightening is when the Bank England sells the Government Bonds it owns back into the market. This increases bond sellers relative to the number of buyers in the market, forcing increased yields on Government Bonds to increase their attractiveness to buyers. The overall effect of the increase in yields and the mechanism by which the Bank of England sells Government bonds is to reduce the money supply).

11.3 Borrowing advice: The long-term (beyond 10 years) forecast for Bank Rate stands at 2.5%. As all PWLB certainty rates are currently above this level, borrowing strategies will need to be reviewed in that context. Better value can generally be obtained at the shorter end of the curve and short-dated fixed LA to LA monies should be considered. Temporary borrowing rates are likely, however, to remain near Bank Rate and may also prove attractive whilst the market waits for inflation, and therein gilt yields, to drop back later in 2023.

11.4 Suggested budgeted earnings rates for investments up to three months' duration in each financial year are rounded to the nearest 10bps as follows: -

Average earnings in each yea	
2022/23 (remainder)	4.00%
2023/24	4.40%
2024/25	3.30%
2025/26	2.60%
2026/27	2.50%
Years 6 to 10	2.80%
Years 10+	2.80%

11.5 As there are so many variables at this time, caution must be exercised in respect of all interest rate forecasts.

11.6 interest rate forecast for Bank Rate is in steps of 25 bps, whereas PWLB forecasts have been rounded to the nearest 10 bps and are central forecasts within bands of + / - 25 bps. Continuous monitoring takes place and forecasts are updated as and when appropriate.

12. Borrowing Strategy

12.1 The Authority 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 Authority's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as medium and longer dated borrowing rates are expected to fall from their current levels once prevailing inflation concerns are addressed by tighter near-term monetary policy. That is, Bank Rate increases over the remainder of 2022 and the first half of 2023.

12.2 Against this background and the risks within the economic forecast, caution will be adopted with the 2023/24 treasury operations. The Director of Finance 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,* 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,* fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.

12.3 Any decisions will be reported to the appropriate decision-making body at the next available opportunity.

12.4 Currently interest rates are forecast by Link Group to peak at around 4.4% in the financial year and fall gradually to 2.5% in 2026-27. An interest rate of 2.5% is the likely rate when the Bank of England achieves its mandating of 2% inflation.

12.5 The above interest rate forecast suggests a borrowing strategy in which new borrowing is restricted to short maturity periods. This would enable the Council to refinance borrowing at lower interest rates, if interest rates peak during the next financial year, per the current Link Group Forecast. The borrowing strategy is kept under review by the Section 151 Officer.

13 Policy on Borrowing in Advance of Need

13.1 The Authority 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 Authority can ensure the security of such funds.

14 Rescheduling

14.1 The Council has no plans to reschedule its debt portfolio. The external debt projections assume that maturing debt will be refinanced. Specific decisions around this will be taken in accordance with the borrowing strategy set out above.

15 Approved Sources of Long and Short-term Borrowing.

15.1 approved Sources of Long- and Short-term Borrowing

On Balance Sheet	**Fixed**	**Variable**
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	●	●

16 Annual Investment Strategy

16.1 Investment policy – management of risk

The Department of Levelling Up, Housing and Communities (DLUHC – formerly MHCLG) and CIPFA have extended the meaning of "investments" to include both financial and non-financial investments. This report deals solely with financial investments, (as managed by the treasury management team). Non-financial investments, essentially the purchase of income yielding assets, are covered in the Capital Strategy, (a separate report).

16.2 The Council's investment policy has regard to the following:-

- DLUHC's Guidance on Local Government Investments ("the Guidance")
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017 ("the Code").
- CIPFA Treasury Management Guidance Notes 2018.

16.3 The Council's investment priorities will be security first, portfolio liquidity second and then yield (return). The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and with the Council's risk appetite. In the current economic climate, it is considered appropriate to keep investments short term to cover cash flow needs. However, where appropriate (from an internal as well as external perspective), the Council will also consider the value available in periods up to 12 months with high credit rated financial institutions, as well as wider range fund options.

16.4 The above guidance from the DLUHC and CIPFA place a high priority on the management of risk. This authority has adopted a prudent approach to managing risk and defines its risk appetite by the following means:-

- Minimum acceptable **credit citeria** are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the Short Term and Long Term ratings.
- **Other information**: 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 achieve this consideration the Council will engage with it's advisors to maintain a monitor on market pricing such as "**credit default swaps**" and overlay that information on top of the credit ratings.

- **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.
- This authority has defined the list of **types of investment instruments** that the treasury management team are authorised to use. There are two lists in appendix 2 under the categories of “specified” and “non-specified” investments.
- **Specified investments** are those with a high level of credit quality and subject to a maturity limit of one year.
- **Non-specified investments** are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use.
- **Lending limits**, (amounts and maturity), for each counterparty will be set through applying the matrix table in paragraph 15.2.
- This authority will set a limit for the amount of its investments which are invested for **longer than 365 days** (see paragraph 15.2)
- Investments will only be placed with counterparties from countries with a specified minimum **sovereign rating** (see Appendix 3)
- This authority has engaged **external consultants** (see paragraph 10.1), to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of this authority in the context of the expected level of cash balances and need for liquidity throughout the year.
- All investments will be denominated in **sterling**.
- As a result of the change in accounting standards for 2020/21 under IFRS 9, this authority will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. (In November 2018, the Ministry of Housing, Communities and Local Government, [MHCLG], concluded a consultation for a temporary override to allow English local authorities time to adjust their portfolio of all pooled investments by announcing a statutory override to delay implementation of IFRS 9 for five years ending 31.3.23.)

16.5 However, this authority will also pursue **value for** money in treasury management and will monitor the yield from investment income against appropriate benchmarks for investments performance (see paragraph 15.1). Regular monitoring of investment performance will be carried out during the year.

16.6 The above criteria are unchanged from 2022/23.

17 Creditworthiness policy

17.1 This Council applies the creditworthiness service provided by Link Asset Services. 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.

17.2 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 Ultra Short Dated Bond Funds with a credit score of 1.25
- Light Pink 5 years for Ultra Short Dated Bond Funds with a credit score of 1.5
- Purple 2 years
- Blue 1 year (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

17.3 The Link Asset Services' 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 preponderance to just one agency's ratings.

17.4 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 rating 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.

17.5 All credit ratings will be monitored weekly. The Council is alerted to changes to ratings of all three agencies through its use of the Link Asset Services' 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 benchmark and other market data on a daily basis via its Passport website, provided exclusively to it by Link Asset Services. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

17.6 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, information on any external support for banks to help support its decision making process.

	Colour (and long-term rating where applicable)	Time Limit
Banks *	**yellow**	**5 yrs**
Banks	**purple**	**2 yrs**
Banks	**orange**	**1 yr**
Banks – part nationalised	**blue**	**1 yr**
Banks	**red**	**6 mths**
Banks	**green**	**100 days**
Banks	**No colour**	**Not to be used**
Limit 3 category – Council's banker (where "No Colour")		**1 day**
DMADF	**UK sovereign rating**	**6 months**
Local authorities	**n/a**	**5 yrs**
Housing associations	**Colour bands**	**As per colour band**
	Fund rating	**Time Limit**
Money Market Funds CNAV	**AAA**	**liquid**
Money Market Funds LVNAV	**AAA**	**liquid**
Money Market Funds VNAV	**AAA**	**liquid**
Ultra-Short Dated Bond Funds with a credit score of 1.25	**Dark pink / AAA**	**liquid**
Ultra-Short Dated Bond Funds with a credit score of 1.50	**Light pink / AAA**	**liquid**

17.7 Significant levels of downgrades to Short – and long – Term credit ratings have not materialised since the crisis in March 2020. In the main, where they did change, any alterations were limited to Outlooks. However, as economies are beginning to reopen, there have been some instances of previous lowering of Outlooks being reversed.

17.8 **Credit Default Swap (CDS) prices -** Although bank CDS prices, (these are market indicators of credit risk), spiked upwards at the end of March / early April 2020 due to the heightened market uncertainty and ensuing liquidity crisis that affected financial markets, they have returned to more average levels since then. However, sentiment can easily shift, so it will remain important to undertake continual monitoring of all aspects of risk and return in the current circumstances. Link monitor CDS prices as part of their creditworthiness service to local authorities and the Council has access to this information via its Link-provided Passport portal.

17.9 **Other limits -** The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA- from Fitch Ratings (or equivalent from other agencies if Fitch does not provide). The list of counterparties will be added to, or deducted from, by officers should ratings change in accordance with this policy.

18 Investment Strategy

18.1 **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 ups and downs of cash flow, 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.

18.2 **Investment returns expectations.** The current forecast includes a forecast for Bank Rate to reach 4.5% in Q2 2023.

18.3 As noted above the suggested budgeted investment earnings rates for returns on investments placed for periods up to three months during each financial year, (based on a first increase in Bank rate in quarter 2 of 2022), are as follows:

Year	Average earnings in each year
2022/23	4.00%
2023/24	4.40%
2024/25	3.30%
2025/26	2.60%
2026/27	2.50%
Years 6 to 10	2.80%
Years 10+	2.80%

18.4 For its cash flow generated balances, the Council will seek to utilise its business reserve 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.

9 Environmental, Social and Governance Strategy

9.1 The Council is currently developing an Environmental, Social and Governance Strategy. However, the Council does not invest in equities directly.

Community impact/links with Community Strategy

The Treasury Management Strategy sets the cash management strategy for the authority, which underpins the Capital Programme and the Revenue Budget.

Equality Impact and considerations:

Equality Analysis	*Treasury Report does not impact on resource allocation.*

Assessment of Risk:

The following risks apply to the decision:

Risk / opportunity	Mitigation
The Council borrows or invests money at too hi too low an interest rate and doesn't achieve be value	Use of specialist advisors

Consultation: There are no requirements to consult on the content of this report

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Legal Implications:

The Treasury Management Strategy, Minimum Revenue Provision Policy and Annual Investment Strategy set out the Council's policies for managing its investments which includes giving priority to security and liquidity. It is effectively the management of the

Council’s 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. The Local Government Act 2003 (the Act) and supporting regulations require the Council to ‘have regard to’ the Chartered Institute of Public Finance and Accountancy’s (CIPFA) Prudential Code and to set Prudential and Treasury Indicators to ensure that the Council’s capital investment plans are affordable, prudent and sustainable.

The Council also has an obligation to comply with the Ministry for Housing, Communities and Local Government (MHCLG) Guidance under section 15(1)(a). The Act requires the Council to set out its Treasury Management Strategy at the start of each new financial year and to prepare an Annual Investment Strategy. This report sets out the Council’s policy for maintaining capital security whilst managing its investments and for giving priority to the security and liquidity of those investments. The borrowing strategy aims to minimise the revenue cost of debt whilst securing the Council from revenue pressures in the event of interest rate volatility.

Financial Implications:

All financial implications are covered within the report.

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Please include a glossary of terms, abbreviations and acronyms used in this report.

Term	Meaning
Capital Financing Requirement (CFR)	The Council's cumulative borrowing balance for a capital purpose.
Minimum Revenue Provision (MRP)	The repayment of the Capital Financing Requirement allocated between current and future financial years. The repayments are generally aligned with the service benefit derived by the Council from the use of the land and buildings purchased from the original borrowing. The Minimum Revenue Provision Policy statement sets how the repayments are calculated.
Prudential Borrowing	This is where a Council externally borrows for a capital purpose in accordance with the regulations – the Prudential Code. A capital purpose is where the borrowing is used to finance land, buildings or plant, which delivers service benefit to the Council lasting more than one year
Prudential Code	The CIPFA Code of Practice on financing capital expenditure. The key principle is that Councils' can borrow to finance capital expenditure but should determine the appropriate level of borrowing according to their ability to repay the debt. This is in contrast to the regulation prior to the Prudential Code, where Central Government set a borrowing ceiling for each Local Authority.
Prudential Indicators	These are standardised ratios measuring the Council's borrowing and its ability to repay. The Indicators are standardised by CIPFA and must be produced by all Local Authorities alongside its strategies.
Public Works Loan Board (PWLB)	A department of the Treasury which provides loans to Local Authority when they make a determination to borrow for a capital purpose.
Treasury Management	The management of the local authority's borrowing, investments and cash flows, including 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.
Voluntary Repayment Provision	This is similar to minimum revenue provision, where the Council repays some of its Capital

	Financing Requirement. However, it is an additional voluntary payment in addition to the Minimum Revenue Provision. For example, the Council might receive some unexpected funding and decided to use this to pay off debt.