Treasury Management Strategy Statement

Minimum Revenue Provision Policy Statement and Annual Investment Strategy

2023/24

Including commercial activities / non-treasury investments

INTRODUCTION

Background

1. The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet operational expenditure. The function of treasury management is to ensure that the Council's capital programme and corporate investment plans are adequately funded, and the cashflow is adequately planned, with cash being available when it is needed to discharge the Council's legal obligations and deliver Council services. Surplus monies are invested in counterparties or instruments commensurate with the Council's appetite for risk and liquidity requirements, as priorities before considering investment returns.

2. CIPFA defines treasury management as:

   "The management of the local authority's borrowing, 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."

3. The Council has formally adopted CIPFA's Code of Practice on Treasury Management and follows the key requirements of the Code as set out in Appendix 5.

4. The TMSS covers five main areas summarised below:

Section 1 Capital spending

- Capital strategy
- Commercial activity
- Capital Finance Requirement (CFR)
- Affordability
- Minimum Revenue Provision (MRP) policy statement

Section 2 Borrowing

- Overall borrowing strategy
- Post-PWLB interest rate increase borrowing strategy
- Alternative Borrowing Options
- Limits on external borrowing
- Maturity structure of borrowing
- Policy on borrowing in advance of need
- Debt rescheduling

Section 3 Managing cash balances

- The current cash position and cash flow forecast
- Prospects for investment returns
- Pension pre-funding payment
- Council policy on investing and managing risk
- Balancing short- and long-term investments

Section 4 Summary of Prudential Indicators

Legal Implications

5. The Annual Investment Strategy (AIS) at Appendix 2 provides more detail on how the Council's surplus cash investments are to be managed in 2023/24. Approved schedules of specified and non-specified investments will be updated following consideration by Members and finalisation of 2023/24 budget plans.

SECTION 1 - CAPITAL SPENDING

Capital spending plans

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

7. Table 1 summarises the Council's capital expenditure plans, both in terms of those projects agreed previously, and those forming part of the current budget cycle. The table sets out the Council's current and estimated capital spending and funding.

8. The General Fund capital spend has slipped back by around £25m and HRA capital spend by £10m in 2021/22. The slippage is forecast to be recovered in the 2022/23 revised budget and subsequent years. However there remains a risk of further slippage in future years.

9. The risks are that:

- continued slippage will push borrowing requirements to later years as the current interest rate forecast shows rates falling in the coming years.
- slippage in the programme of capital receipts may increase the need to borrow in the short to medium term.

Table 1 Capital spending and funding plans (Prudential Indicator 1)

2021/22 Actual £000s		2022/23 Forecast £000s	2023/24 Estimate £000s	2024/25 Estimate £000s	2025/26 Estimate £000s	2026/27 Estimate £000s	2027/28 Estimate £000s	Total £000s
	Expenditure							
88,298	General Fund	99,011	82,031	33,697	25,172	787	0	240,698
54,639	HRA	54,407	54,976	53,307	45,999	41,757	41,757	292,203
142,937		**153,418**	**137,007**	**87,004**	**71,171**	**42,544**	**41,757**	**532,901**
	Funding							
	General Fund							
(18,545)	Government Grant	(18,933)	(22,605)	(13,048)	(19,924)	0	0	(74,510)
(4,698)	Other Contributions	(5,390)	(4,277)	(2,531)	0	0	0	(12,198)
(4,537)	Revenue Contributions	(3,974)	(196)	(1,043)	0	0	0	(5,213)
(5,552)	Capital Receipts	(2,146)	(835)	(787)	(787)	(787)	0	(5,342)
(37,101)	Self-Financed via Future Disposal	(5,828)	(5,084)	(282)	(100)	0	0	(11,294)
	HRA							
(12,168)	Major Repairs Reserve	(12,543)	(12,997)	(13,372)	(13,673)	(13,987)	(14,309)	(80,881)
(10,505)	Government Grant	(18,631)	(3,926)	(1,300)	0	0	0	(23,857)
(1,600)	Other Contributions	(4,387)	(6,224)	0	(3,431)	0	0	(14,042)
(2,823)	Revenue Contributions	(672)	(1,297)	(4,512)	(5,089)	(6,155)	(5,731)	(23,456)
(15,919)	Capital Receipts	(3,647)	(5,997)	(5,259)	(5,137)	(1,372)	(1,372)	(22,784)
(113,447)		**(76,150)**	**(63,438)**	**(42,134)**	**(48,141)**	**(22,301)**	**(21,412)**	**(273,576)**
29,490	**Net financing need for the year**	**77,268**	**73,569**	**44,870**	**23,030**	**20,243**	**20,345**	**259,325**

Commercial activity

10. As well as investing in assets owned by the Council and used in the delivery of services, the Council can also invest, where appropriate, in:

- infrastructure projects, such as green energy.
- loans to third parties.
- shareholdings, and loans to limited companies and joint ventures.

11. Such investments are treated as capital expenditure for treasury management and prudential borrowing purposes even though they do not create physical assets in the Council's accounts. Appropriate budgets in respect of these activities are agreed as part of the Council's budget setting and ongoing monitoring processes and considered as part of the Annual Investment Strategy.

12. There is a requirement to develop Investment Management Practices (IMPs) for service and commercial investments.

13. Currently the Council is invested in the following activities which fall within the category of commercial activity under the CIPFA Prudential Code:

- a small commercial investment property portfolio comprising the Tramworks site acquired in October 2017 valued at £8.3m as at 31 March 2022. The Council also has three industrial estates at Lockwood Road, Selborne Walk Acacia and Hainault Road. These are held as operational assets as they were principally acquired for economic regeneration and fall outside the commercial activity category under the Prudential Code. Nonetheless they are managed to achieve a commercial rate of return.
- Investment in a few Council companies summarised in Table 2 below.

Table 2 Investment in Council companies

Company name	Share holding	Nominal value	Net Worth 31/3/2022
		£	£000s
Subsidiaries			
Waltham Forest Services Ltd	100%	100	44
Waltham Forest Trading Ltd	100%	100	0
Sixty Bricks Ltd	100%	100	(1,347)
Joint Venture			
More Homes Waltham Forest LLI	50%	100	(4,403)
Associate			
NPS (London) Ltd	11%	2	(1,731)
Investments in PFI companies			
Waltham Forest Local Education Partnership Ltd	10%	5,500	(22)
BY Education (Waltham Forest) Holdings Ltd	10%	5,000	(1,943)
Total		**10,902**	**(9,402)**

14. In addition to the investment of £10,902 in the above companies, the Council has provided a loan facility for working capital to Sixty Bricks Ltd of £2m of which £1.347m has been advanced.

15. The Council has Board representation on all companies. The Council's Shareholder Committee represents its interests in its wholly owned companies and other companies, ensuring that they act in the interests of the borough and contribute to the Council's objectives.

16. The Council is not dependent on income generated from the companies, as they are primarily for delivering service policy objectives for the Council. The accumulated losses to date of £9.402m are largely concerned with initial set-up costs and expected to reverse over the next three years as the companies develop further. Equally, the Council's financial accounts review have not highlighted any going concern or value for money issues. It should be noted that progress has been delayed in 2020/21 and 2021/22 by the impact of the Covid-19 pandemic.

Capital Financing Requirement (CFR)

17. The CFR measures the extent to which capital expenditure has not yet been financed from either revenue or capital resources. It is essentially a measure of the Council's indebtedness and so its underlying borrowing need. Any capital expenditure which has not immediately been paid for through a revenue or capital resource, will increase the CFR.

18. In addition to traditional capital expenditure on tangible assets, such as buildings, the CFR includes PFI schemes and finance leases. Whilst these increase the CFR, and therefore the Council's borrowing requirement, these contracts include an element of the charge to repay the financing provided by the PFI provider or the lessor. Consequently, the Council is not required to separately borrow for these schemes. At 31 March 2022, £42.2m of the CFR was in respect of PFI schemes and finance leases.

19. The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the indebtedness in line with each asset's life, and so charges the economic consumption of capital assets as they are used.

20. Table 3 shows that the CFR will increase over the medium term. Consequently, the capital financing charge to revenue will increase, reflecting the capital spending plans.

Table 3 Capital Financing Requirement forecast (Prudential Indicator 2)

2021/22 Actual £000s		2022/23 Forecast £000s	2023/24 Estimate £000s	2024/25 Estimate £000s	2025/26 Estimate £000s	2026/27 Estimate £000s	2027/28 Estimate £000s
	CFR as at 31 March						
332,656	General Fund	387,404	374,216	377,349	337,150	326,815	318,990
212,256	HRA	223,136	241,674	265,279	278,811	297,682	316,655
544,912		**610,539**	**615,889**	**642,627**	**615,961**	**624,496**	**635,644**
	Annual change						
27,519	General Fund	54,748	(13,188)	3,133	(40,199)	(10,336)	(7,825)
11,625	HRA	10,880	18,538	23,605	13,532	18,871	18,973
39,143		**65,628**	**5,350**	**26,738**	**(26,667)**	**8,535**	**11,148**
	Reason for change						
66,593	Net financing	77,268	73,569	44,870	23,030	20,243	20,345
(27,450)	Less MRP & Capital Receipts	(11,640)	(68,219)	(18,132)	(49,697)	(11,708)	(9,197)
39,143		**65,628**	**5,350**	**26,738**	**(26,667)**	**8,535**	**11,148**

21. Table 4 below confirms that the Council's gross debt does not exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for the current year and the following financial years. This allows some flexibility for limited early borrowing for future years and ensures that borrowing is not undertaken for revenue purposes. The gross debt for 2021-22 is the actual debts plus other long-term liabilities (PFI and finance lease).

Table 4 Borrowing compared to the CFR (Prudential Indicator 3)

2021/22 Actual £000s		2022/23 Forecast £000s	2023/24 Estimates £000s	2024/25 Estimates £000s	2025/26 Estimates £000s	2026/27 Estimates £000s	2027/28 Estimates £000s
423,395	Gross Projected Debt	541,443	607,162	593,050	610,023	613,146	621,858
544,912	Capital Financing Requirement	610,539	615,889	642,627	615,961	624,496	635,644
121,517	Under/(Over) borrowing	69,096	8,727	49,577	5,938	11,350	13,786

Affordability

22. The objective of the affordability indicator is to ensure that the level of investment in capital assets proposed remains within sustainable limits and the impact on the Council's "bottom line". The estimates of financing costs include current commitments and the proposals in the Council's budget report. Table 5 below sets out the expected ratio of capital financing costs to income for both General Fund and HRA activities:

23. Liability Benchmark

A third and new prudential indicator for 2023/24 is the Liability Benchmark (LB). The Authority is required to estimate and measure the LB for the forthcoming financial year and the following two financial years, as a minimum.

There are four components to the LB: -

1. Existing loan debt outstanding: the Authority's existing loans that are still outstanding in future years.
2. Loans CFR: this is calculated in accordance with the loans CFR definition in the Prudential Code and projected into the future based on approved prudential borrowing and planned MRP.
3. Net loans requirement: this will show the Authority's gross loan debt less treasury management investments at the last financial year-end, projected into the future and based on its approved prudential borrowing, planned MRP and any other major cash flows forecast.
4. Liability benchmark (or gross loans requirement): this equals net loans requirement plus short-term liquidity allowance.

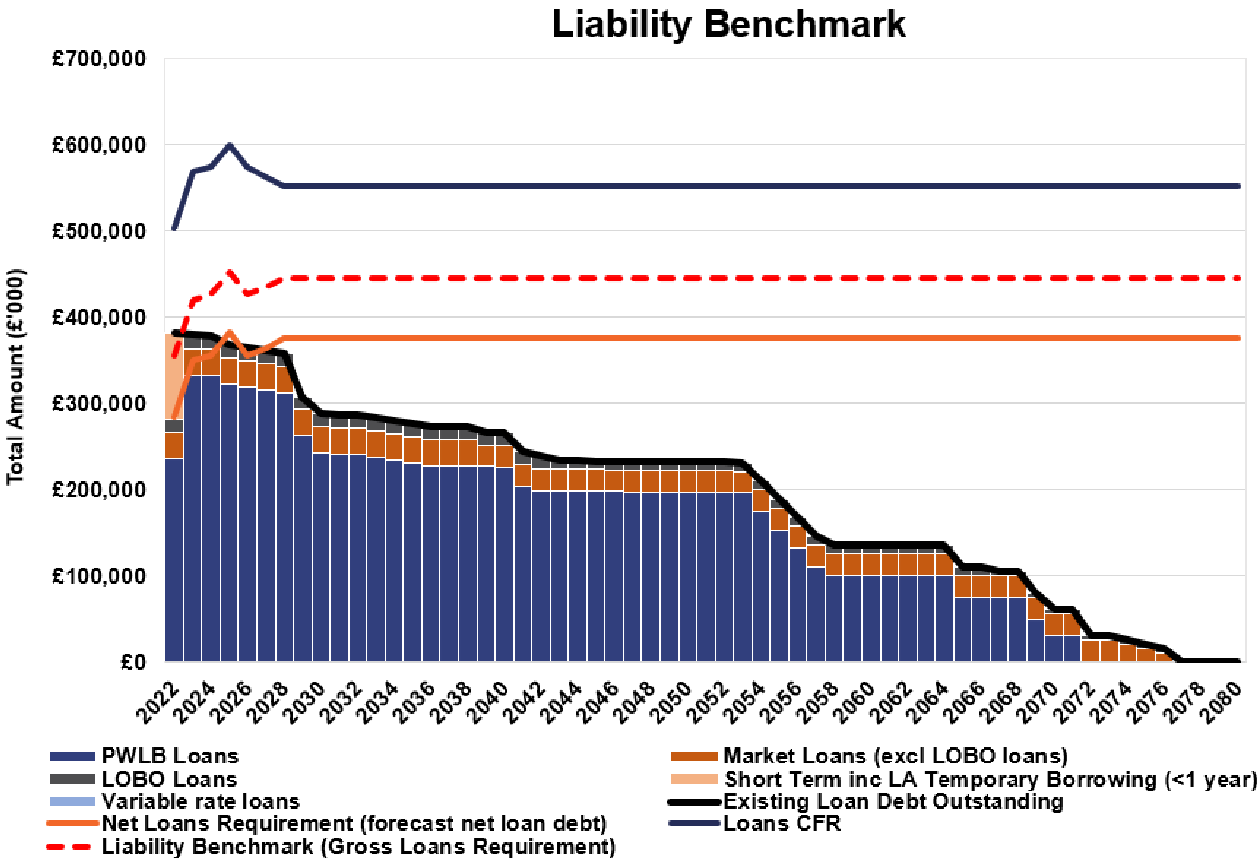


Table 5 Ratio of capital financing costs to income (Prudential Indicator 4)

2021/22 Actual £000s		2022/23 Forecast £000s	2023/24 Estimate £000s	2024/25 Estimate £000s	2025/26 Estimate £000s	2026/27 Estimate £000s	2027/28 Estimate £000s
7.77%	General Fund	12.31%	11.39%	11.45%	11.59%	11.51%	10.87%
12.35%	HRA	16.99%	17.17%	20.34%	20.30%	20.26%	20.40%

24. For the medium-term, gross capital financing charges (loan interest, MRP and finance and PFI payments) for the General Fund capital programme are largely outweighed. The new calculation now excludes investment income.

25. The capital financing charges arising from the HRA capital programme increase in line with the forecast increase income, hence capital charges as a proportion of the HRA net revenue stream remain steady. Table 4 shows a reduction between the outturn for 2021/22 and the forecast for 2022/23. This is because depreciation charges (which fund the Major Repairs Reserve) are

expected to rise thereon. This reflects the increase in value of the housing stock anticipated from the completion of the HRA Major Works programme.

Minimum Revenue Provision Policy Statement

26. Regulation 27 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 ('the 2003 Regulations') requires local authorities to 'charge to a revenue account a minimum revenue provision (MRP) for that year'. The minimum revenue provision is an annual amount set aside from the General Fund to meet the cost of capital expenditure that has not been financed from available resources, namely: grants, developer contributions (e.g. s.106 and community infrastructure levy) revenue contributions, earmarked reserves, or capital receipts.

27. MRP is sometimes referred to as the mechanism for setting aside monies to repay external borrowing. In fact, the requirement for MRP set aside applies even if the capital expenditure is being financed from the Council's own cash resources and no new external borrowing or other credit arrangement has been entered.

28. Regulation 28 of the 2003 Regulations requires full Council to approve a Minimum Revenue Provision (MRP) Statement setting out the policy for making MRP and the amount of MRP to be calculated which the Council considers to be prudent, the guidance states that the broad aim is to ensure that debt is repaid over a period reasonably commensurate with that over which the capital expenditure provides benefit to the Council's.

29. In setting a prudent level of MRP local authorities must "have regard" to guidance issued from time to time by the Secretary of State for Housing, Communities and Local Government. The latest version of this guidance (version four) was issued by Ministry of Housing, Communities and Local Government (MHCLG) in February 2018.

30. The Department for Levelling Up, Housing and Communities (DLUHC) issued "Consultation on changes to the capital framework: Minimum Revenue Provision" on 30th November 2021. The scope of the consultation includes the statement that local authorities have flexibility in how they calculate MRP, providing it is 'prudent'. The changes to the MRP guidance published for the implementation from 2024/25.

31. The Guidance sets out four "possible" options for calculating MRP, as set out below,

Option	Calculation method	Applies to
1: Regulatory method	Formulae set out in 2003 Regulations (later revoked)	Expenditure incurred before 1 April 2008
2: CFR method	4% of Capital Financing Requirement	Expenditure incurred before 1 April 2008
3: Asset life method	Amortises MRP over the expected life of the asset	Expenditure incurred after 1 April 2008
4: Depreciation method	Charge MRP on the same basis as depreciation	Expenditure incurred after 1 April 2008

32. Two main variants of Option 3 are set out in the Guidance (i) the equal instalment method and (ii) the annuity method. The annuity method weights the MRP charge towards the later part of the asset's expected useful life and is increasingly becoming the most common MRP option for local authorities.

33. The Guidance also includes specific recommendations for setting MRP in respect of finance lease, investment properties and revenue expenditure which is statutorily defined as capital expenditure under the 2003 Regulations (also referred to as revenue expenditure funded from capital under statute or REFCUS). Examples of REFCUS include capitalised redundancy costs, loans, or grants to third parties for capital purposes, and the purchase of shares in limited companies.

34. Other approaches are not ruled out however they must meet the statutory duty to make prudent MRP provision each financial year.

35. The 2022/23 MRP policy does not propose any changes from the 2021/22 approved policy, which is at Appendix 1.

SECTION 2 - BORROWING

Overall borrowing strategy

36. One of the main functions 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, when it is prudent and economic, any debt previously drawn may be restructured to meet Council risk or cost objectives.

37. The Council's main objective when borrowing money is to strike an appropriate balance between securing low interest costs and achieving cost certainty over the period for which funds are required. Given the significant cuts to public expenditure and to local government funding, the Council's borrowing strategy continues to address the key issue of affordability without compromising the long-term stability of the debt portfolio.

38. The key factors influencing the 2023/24 strategy are:

- forecast borrowing requirements,
- the current economic and market environment, and
- interest rate forecasts.

39. 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 source of temporary funding. This strategy is prudent as investment returns are low and counterparty risk is still an issue that needs to be considered.

40. Against this background and the risks within the economic forecast, caution will be adopted with the 2023/24 treasury operations. The Strategic Director Finance and Governance will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances.

41. 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. Any such decisions will be reported back to Audit and Governance Committee and full Council at the next available opportunity.

New Borrowing

The council's borrowing strategy will give consideration to the following forms of borrowing to finance capital requirements:

42. Internal borrowing: The need to undertake external borrowing can be reduced by the temporary use of internal balances held for provisions and reserves within the Council's accounts and cashflow movements on a day-to-day basis. The option of postponing borrowing and running down investment balances may provide short term revenue savings and reduce investment risk. The use of internal balances, however, must be monitored to mitigate the risks arising from the need to externally refinance when rates are unfavourable.

- Temporary Borrowing: from the money market or other local authorities.
- Shorter Term Borrowing (1 – 5 years): from non PWLB and other sources.
- Long Term Market Debt: where rates are significantly below those offered by the PWLB for an equivalent maturity period, and to provide diversity within the debt portfolio.
- PWLB: borrowing for periods across all durations where rates offer best value.
- Other borrowing arrangements: such as the use of leasing may be more cost efficient for some types of capital expenditure such as for vehicles and equipment.

43. The council will continue to borrow in respect of the following:

- Maturing debt.
- Approved (prudential) capital expenditure / capital investment.
- To finance short-term cashflow fluctuations.

44. The type, period, rates, and timing of new borrowing will be determined by the Strategic Director of Finance and Governance (Section 151 Officer) under delegated powers, taking into account the following factors:

- Expected movements in interest rates as outlined above.
- Maturity profile of the debt portfolio.
- The impact on the medium-term financial strategy.
- Prudential indicators and limits.

45. The Council's treasury management strategy permits borrowing from various sources, but it has not been previously anticipated that any alternatives to PWLB would need to be utilised, given the current low cost of PWLB funding.

46. The key advantage of PWLB is the speed and ease of transaction processing and the low fee and administration cost associated with the loans. Alternative types of funding could result in lengthy due diligence, consultancy costs, legal advice and fees and will be far more costly administratively.

47. SONIA

Please note that the publication of official LIBOR figures (and related LIBID calculations) ceased at the close of 2021. As such, we have updated references within this document to SONIA (Sterling Overnight Index Average), which is the risk-free rate for sterling markets administered by the Bank of England.

For reference, SONIA is based on actual transactions and reflects the average of the interest rates that banks pay to borrow sterling overnight from other financial institutions and other institutional investors.

To support the Risk-Free Rate transition in sterling markets the Bank of England began publishing the SONIA Compounded Index from 3rd August 2020. This simplifies the calculation of compounded interest rates and in doing so provides a standardised basis through its publication as an official source.

Link will be providing compounded SONIA rates to clients, including them in our regular reporting templates and digital publications.

Other Borrowing Options

48. Other options for funding include:

- **Banks/ Institutional investors**

Discussions with the Council's treasury consultant (LINK) suggest that the Council could access borrowing from banks providing deferred drawdown.

- **Pension Fund institutional investors**

  Initial indications have suggested that the Council may be able to borrow from institutional investors based on weighted average life of approximately 30 years. Such an arrangement will be subject to extensive negotiations with the lenders, who will need to carry out due diligence on a Council's finances, budgets, and balance sheet.

- **Bond issuance**

  A bond issue would first require the Council to become credit rated by one (or more) of the major ratings agencies: Fitch, S&P or Moody's. This is a complex, lengthy, repetitive, and costly process. The precise rate offered will be market led and dependent on the financial resilience of Council and the market's perception of its creditworthiness.

  Councils with significant reserves and a record of not overspending on budget will be able secure the most advantageous rates. Bond releases typically require a minimum size of at least £200m.

- **The Municipal Bonds Agency**

  The UK Municipal Bonds Agency (UKMBA) provides loans to UK local authorities to fund capital expenditure, essential projects such as schools, care homes, housing, recycling centres, energy from waste plants and infrastructure. With 56 local authorities and the Local Government Association as shareholders, the UKMBA is owned by local government for local government.

- **Loans to Third Parties**

  The Authority may borrow to make grants or loans to third parties for the purpose of capital expenditure, as allowable under paragraph 25 (1) (b) of the Local Authorities (Capital Financing and Accounting) (England) Regulations 2003 (Statutory Instrument No. 3146). This facility is likely to be used to support local economic regeneration and development activity but not limited to those purposes. The additional capital expenditure may be funded by external borrowing. Loans for working capital or revenue purposes are permitted as long as these are funded from the Council's internal cash balances as external borrowing is not permitted in such circumstances.

- **Pension Fund Cash** -

  In view of the limited returns on investments externally, the Council will aim to extend its programme of prepaying pension contributions and it proposes delegated authority be granted to the Strategic Director Finance and Governance.

  This strategy will benefit the Council in that the discount rate earned by paying pension fund contributions in advance at around 6.2% significantly outweighs the returns from direct investment in the money market which is currently generating a return of a little over 3%. In addition, it mitigates counter party risk.

49. Alternative opportunities for the Council may well present themselves, and the borrowing strategy will be designed to allow for this. The 'benchmark' for a borrowing opportunity is regarded at around gilts +0.80%. It is unclear at this stage whether feasible PWLB competition will materialise, and it is likely to take some time to do so. Officers will continue to explore alternatives to the PWLB, working with the Council's treasury advisor, Link. PWLB rates will also be kept under regular monitor and review.

50. Immediate liquidity needs can be satisfied by borrowing from other local authorities in the short term, consistent with the Council's current approved treasury management strategy.

Limits on external borrowing

51. The Prudential Code requires the Council to set two limits on its total external debt, as set out in Table 6 below. The Authorised Limit has been set higher than the CFR and operational limit is set the same as the CFR.

52. The limits are:

- **Authorised Limit for External Debt (Prudential Indicator 5a)** –This is a key prudential indicator and represents a control on the maximum level of borrowing. This limit prescribed by section 3(1) of the Local Government Act 2003 representing the maximum level of borrowing which the Council may incur. It reflects the level of external debt which, while not desired, could be afforded in the short term, but may not be sustainable in the longer term.

- **Operational Boundary (Prudential Indicator 5b)** – This is the limit which external debt is not normally expected to exceed. The boundary is set at to equal to the CFR, and the ability to fund under-borrowing by other cash resources.

Table 6 Overall borrowing limits (Prudential Indicators 5a and 5b)

2021/22 Actual £000s		2022/23 Forecast £000s	2023/24 Estimates £000s	2024/25 Estimates £000s	2025/26 Estimates £000s	2026/27 Estimates £000s	2027/28 Estimates £000s
	Authorised Limit :						
599,403	Borrowing	671,593	677,478	706,890	677,557	686,946	699,208
	Operational Boundary:						
544,912	Borrowing	610,539	615,889	642,627	615,961	624,496	635,644

53. The Strategic Director Finance and Governance reports that the Council complied with these prudential indicators 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 report.

Maturity structure of borrowing (Prudential Indicator 7)

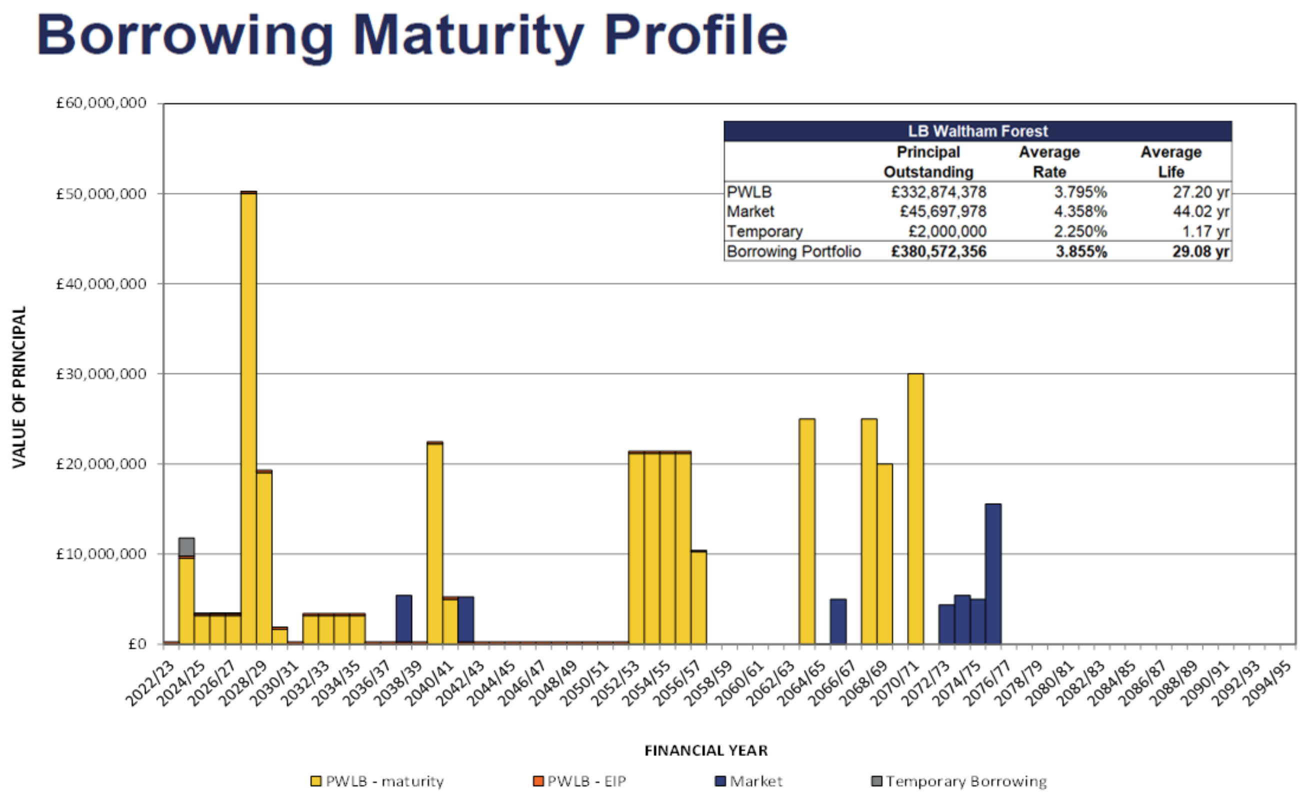
54. Managing the maturity profile of debt is essential for reducing the Council's exposure to large fixed rate sums falling due for refinancing within a short period, and thus potentially exposing the Council to additional cost. Table 7 below sets out current upper and lower limits for debt. The principal repayment profile for current council borrowing remains within these limits.

Table 7 Debt maturity profile limits

31-Dec-22 %	Actual maturity	Upper Limit %	Lower Limit %
0.72	Under 12 months	75	0
1.10	1 to 2 years	25	0
4.89	3 to 5 years	25	0
24.22	6 to 10 years	25	0
69.07	more than 10 years	75	0

55. The chart below shows the maturity of loan debt by type of borrowing at 31 December 2022. Currently the borrowing strategy is to continue to use temporary borrowing while rates remain substantially below long-term interest rates.

Chart 1 Loan maturity by type of borrowing



56. Table 8 below sets out the upper limits for interest rate exposures.

Table 8 Interest rate exposures

	2023/24 Upper	2024/25 Upper	2025/26 Upper
Limits on fixed interest rates based on net debt	100%	100%	100%
Limits on variable interest rates based on net debt	25%	25%	25%

57. If there is a much sharper rise in long- and short-term rates than currently forecast, then the balance of the loan portfolio will be revisited with a view to taking on further longer-term fixed rate borrowing in anticipation of future rate rises.

Policy on borrowing in advance of need

58. The Council can borrow in advance of need where the borrowed funds are to support approved function (policies), within the confines of the agreed capital programme. The Council will not borrow more than or in advance of its needs primarily to profit from the investment of the extra sums borrowed i.e. (debt for yield). 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. Therefore, the Council must not borrow to fund primarily yield generating investments.

59. In determining whether borrowing will be undertaken in advance of need the Council will:

- Ensure that the ongoing revenue liabilities created, and the implications for future capital plans and budgets have been considered.
- Evaluate economic and market factors that might influence the manner and timing of the decision to borrow.
- Consider the pros and cons of alternative forms of funding, interest rate structures and repayment profiles.
- Consider the positive and negative impacts of borrowing in advance of need on the Council's cash balances, the increased exposure to credit risk that will arise because of investing this additional cash in advance of need.
- 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

60. The treasury team are constantly monitoring the interest rates and liaising with Link for any borrowing opportunities. However, savings will need to be considered in the light of the current treasury position and the cost of debt repayment (premiums incurred).

61. The reasons for any rescheduling to take place will include:

- generating cash savings and/or discounted cash flow savings.
- helping to fulfil the treasury strategy; and
- enhancing the balance of the portfolio by amending the maturity profile and/or the balance of volatility.

Consider the positive and negative impacts of borrowing in advance of need on the Council's cash balances, the increased exposure to credit risk that will arise because of investing this additional cash in advance of need.

62. Should an opportunity for debt rescheduling arise, it will be reported to the Audit and Governance Committee and full Council at the earliest meeting following its action.

SECTION 3 – MANAGING CASH BALANCES

The current cash position and cash flow forecast

63. 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).

64. As at 31 December 2022 core cash and short-term investments totalled £68.9m. The medium-term cashflow forecast is that it will remain around this level during the rest of the year. Treasury officers will work closely with the Corporate Finance team to monitor slippage within the capital programme and income through the Collection Fund, which will impact on cashflow levels.

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

Prospects for investment rates

65. The Bank of England's MPC acted for a ninth consecutive meeting in December, hiking Bank Rate by 50bps to 3.50%. Further to the votes for no change, the meeting was also seen as more dovish as the accompanying statement dropped the reference of inflation risks being skewed to the "upside", while the section pushing back against market expectations that policy rates would rise to 5.25% was also removed. While potentially dovish, the removal of this latter statement may just have been factual in that market expectations had already eased back to a terminal peak of 4.5% - 4.75% ahead of the meeting. Despite the more dovish tone, the statement still noted that, aside from those voting for no change, Committee members still believed that "further increases in Bank Rate may be required" and that the MPC would respond "forcefully" to "more persistent inflationary pressures".

66. In respect of recent developments, the minutes showed that hiking members noted that activity had been "more resilient than expected", that the policy measures announced in the Autumn Statement would either boost or leave GDP unchanged over the next two years and only reduce GDP in year three, and that private sector regular pay was "continuing to surprise on the upside". This suggested to analysts that these members are more concerned over the underlying drivers of inflation, which may yet prove more persistent, rather than the level itself, which has likely peaked. In terms of current market views, pricing for February's meeting remains mixed between 3.75% and 4%. Further out, a move to 4.25% has been pulled back into the March meeting, with a move to 4.5% near-fully priced in for August but there is then little change priced through the remainder of 2023 as investors digest this week's key data releases.

67. The suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year are set out in Table 9 below (the long-term forecast is for periods over 10 years in the future):

Table 9 Forecast investment returns

Average earning in each year	
2022/23	4.00%
2023/24	4.50%
2024/25	3.30%
2025/26	2.60%
2026/27	2.50%
Long-term later years	2.80%

Council policy on investing and managing risk

68. The aim is to manage risk and reduce the impact of any adverse movement in interest rates on the one hand but, at the same time, not setting the limits to be so restrictive that they impair opportunities to reduce costs or improve performance.

Balancing short and long-term investments

69. Greater returns are usually obtainable by investing for longer periods. While most cash balances are required 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. During 2022/23, no investments exceeded 364 days. This means the Council remains well within the upper limit for such investments of £70m.

Table 10 Investment limits (Prudential Indicator 6)

	2022/23 Forecast £000s	2023/24 Estimate £000s	2024/25 Estimate £000s	2025/26 Estimate £000s
Upper limit for principal sums invested for more than 365 days	£70m or 50% of the outstanding balances			

SECTION 4 - SUMMARY OF PRUDENTIAL INDICATORS (PIs)

70. The Prudential code 2021 supports local strategic planning, local asset management planning and proper option appraisal. The objectives of the Prudential Code are to ensure, within a clear reporting framework, that:

- a local authority's capital expenditure plans and investment plans are affordable and proportionate.
- all external borrowing and other long-term liabilities are within prudent and sustainable levels
- the risks associated with investments for commercial purposes are proportionate to their financial capacity, and
- treasury management decisions are taken in accordance with good professional practice.

The prudential indicators are to illustrate the impact of capital programme on treasury management activity.

71. As the Council's S151 officer, the Strategic Director Finance and Governance has a responsibility to ensure that appropriate PIs are set and monitored and that any breaches are reported to Members.

72. The Strategic Director Finance and Governance has confirmed that the PIs set out below are all expected to be complied with in 2022/23 and he does not envisage at this stage that there will be any difficulty in achieving compliance with the suggested indicators for 2023/24.

The main requirements of the Prudential Code relating to service and commercial investments are: -

1. The risks associated with service and commercial investments should be proportionate to their financial capacity – i.e. those plausible losses could be absorbed in budgets or reserves without unmanageable detriment to local services.
2. An authority must not borrow to invest for the primary purpose of commercial return.
3. It is not prudent for local authorities to make any investment or spending decision that will increase the CFR, and so may lead to new borrowing, unless directly and primarily related to the functions of the authority, and where any commercial returns are either related to the financial viability of the project in question or otherwise incidental to the primary purpose.
4. An annual review should be conducted to evaluate whether commercial investments should be sold to release funds to finance new capital expenditure or refinance maturing debt.
5. A prudential indicator is required for the net income from commercial and service investments as a proportion of the net revenue stream.
6. Create new Investment Management Practices to manage risks associated with non-treasury investments, (similar to the current Treasury Management Practices).

An authority's Capital Strategy or Annual Investment Strategy should include: -

1. The authority's approach to investments for service or commercial purposes (together referred to as non-treasury investments), including defining the authority's objectives, risk appetite and risk management in respect of these investments, and processes ensuring effective due diligence.
2. An assessment of affordability, prudence, and proportionality in respect of the authority's overall financial capacity (i.e. whether plausible losses could be absorbed in budgets or reserves without unmanageable detriment to local services).
3. Details of financial and other risks of undertaking investments for service or commercial purposes and how these are managed.
4. Limits on total investments for service purposes and for commercial purposes respectively (consistent with any limits required by other statutory guidance on investments).
5. Requirements for independent and expert advice and scrutiny arrangements (while business cases may provide some of this material, the information contained in them will need to be periodically re-evaluated to inform the authority's overall strategy).
6. State compliance with paragraph 51 of the Prudential Code in relation to investments for commercial purposes, in particular the requirement that an authority must not borrow to invest primarily for financial return.

As this TMSS and AIS deals solely with treasury management investments, the categories of service delivery and commercial investments should be addressed as part of the Capital Strategy report.

However, as investments in commercial property have implications for cash balances managed by the treasury team, it will be for each authority to determine whether to add a high-level summary of the impact that commercial investments have, or may have, if it is planned to liquidate such investments within the three-year time horizon of this report, (or a longer time horizon if that is felt appropriate).

73.

Prudential Indicator	2021/22 Actual £000s	2022/23 Forecast £000s	2023/24 Proposed £000s
Capital Expenditure	142,937	153,418	137,007
Capital Financing Requirement	544,912	610,539	615,889
Gross debt vs CFR - Under/(over) borrowed	121,517	69,096	8,727
Ratio of Financing cost to revenue stream:			
General fund	7.77%	12.31%	11.39%
HRA	12.35%	16.99%	17.17%
Authorised limit for external debt	599,403	671,593	677,478
Operational debt boundary	544,912	610,539	615,889
Limit on surplus funds held for more than 365 days (i.e. non-specified investments)	£70m or 50% of outstanding bal	£70m or 50% of outstanding bal	£70m or 50% of outstanding bal
Maturity structure of borrowing:			
Upper limit under 12 months	75%	75%	75%
Lower limit 10 years and above	0%	0%	0%

LEGAL IMPLICATIONS

74. The Local Government Act 2003 provides that a local authority has the power both to borrow and invest money for any purpose relevant to its functions and for the prudent management of its financial affairs. The Act requires the Council to determine and to keep under review how much money it can afford to borrow. The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, as amended, provide that, in complying with this duty, the Council must have regard to the Prudential Code for Capital Finance in Local Authorities published by CIPFA. The Council is also required to have regard to the CIPFA Treasury Management Code of Practice and Secretary of state's investment guidance.

75. The current CIPFA Treasury Management Code of Practice 2021 and the Secretary of State's Investment Code both require the Section 151 officer (Strategic Director Finance and Governance) to present an Annual Treasury Management Strategy Statement, which includes an Annual Investment Strategy, for the forthcoming year for approval by the Full Council before the beginning of each financial year.

76. The revised CIPFA Prudential Code for Capital Finance in Local Authorities sets out various indicators that are to be used to support capital expenditure plans and treasury management decisions. The prudential and treasury indicators must be set by the Full Council when the budget is set and are monitored during the year. The prudential indicators are included in section 8 of this report.

77. The Council is also required to approve a Treasury Management Policy Statement setting out the overarching framework for treasury management services within the Council. This statement is set out in sections 5-7 of this report.

APPENDICES

1 Minimum Revenue Provision (MRP) Policy

2 Annual Investment Strategy

3 Approved Counterparty List

4 Approved Countries for Investments

5 CIPFA Treasury Management Code requirements including:

  a. Treasury Management Scheme of Delegation

  b. Treasury Management role of s.151 officer

6 Prospect for Interest Rates/ Economic Update

BACKGROUND PAPERS

1. Treasury Management Strategy Statement 2022/23 (Approved by Council March 2022)
2. Section 3 Local Government Act 2003
3. Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, as amended
4. DLUHC Guidance on Minimum Revenue Provision 2021
5. MHCLG Capital Finance Guidance on Local Government Investments February 2018
6. CIPFA Prudential Code for Capital Finance in Local Authorities, 2021
7. CIPFA Treasury Management Code of Practice, 2021
8. CIPFA Treasury Management Guidance Notes 2021

APPENDIX 1

Minimum Revenue Provision (MRP) policy statement

The Department for Levelling Up, Housing and Communities (DLUHC) issued "Consultation on changes to the capital framework: Minimum Revenue Provision" on 30th November 2021 and to be effective on 1st April 2024.

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).

The Authority is required to calculate a prudent provision of MRP which ensures that the outstanding debt liability is repaid over a period that is reasonably commensurate with that over which the capital expenditure provides benefits. The MRP Guidance (2018) gives four ready-made options for calculating MRP, but the Authority can use any other reasonable basis that it can justify as prudent.

The MRP policy statement requires full council approval (or closest equivalent level) in advance of each financial year.

The Authority is recommended to approve the following MRP Statement.

For expenditure incurred before 1 April 2008 which forms part of supported capital expenditure, the MRP policy will be:

Either

- **4% reducing balance (regulatory method) -** MRP will follow the historical practice outlined in former regulations as 4% of the opening GF CFR balance less adjustment A; *or*
- **4% reducing balance (CFR method)** – MRP will be calculated as 4% of the opening GF CFR balance; *or*
- *Another method which the Authority has deemed a more suitable method after having regard to the MRP Guidance*

From 1 April 2008 for all unsupported borrowing the MRP policy will be *(either / or):*

- **Asset life method (straight line)** – MRP will be based on the estimated life of the assets;
- **Asset life method (annuity)** – MRP will be based on the estimated life of the assets;
- *Another method which the Authority has deemed a more suitable method after having regard to the MRP Guidance*

Capital expenditure incurred during 2022/23 will not be subject to an MRP charge until 2023/24, or in the year after the asset becomes operational

The Authority will apply the asset life method for any expenditure capitalised under a Capitalisation Direction.

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 in respect of assets acquired under Finance Leases or PFI will be charged at an amount equal to the principal element of the annual repayment; *or*

For capital expenditure on loans to third parties where the principal element of the loan is being repaid in annual instalments, the capital receipts arising from the principal loan repayments will be used to reduce the CFR instead of MRP.

Where no principal repayment is made in a given year, MRP will be charged at a rate in line with the life of the assets funded by the loan; *or*

MRP Overpayments - Under the MRP guidance, any charges made in excess of the statutory MRP can be made, known as voluntary revenue provision (VRP).

VRP can be reclaimed in later years if deemed necessary or prudent. In order for these amounts to be reclaimed for use in the budget, this policy must disclose the cumulative overpayment made each year.

APPENDIX 2

ANNUAL INVESTMENT STRATEGY

Investment policy

1. The Council's investment policy has regard to the following:

- DLUHC Guidance on Local Government investments (the "Guidance)
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2021 ("the Code")
- CIPFA Treasury Management Guidance Notes 2021

2. The Council's investment priorities will be security first, portfolio liquidity second and then yield, (return). The above guidance from DLUHC and CIPFA places a high priority on the management of risk. This Council has adopted a prudent approach to managing risk and defines its risk appetite by the following means:

i. Minimum acceptable **credit criteria** are applied 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.

ii. **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 its advisors to maintain a monitor on market pricing such as "credit default swaps" and overlay that information on top of the credit ratings where applicable.

iii. **Other information sources** used will include the financial press, share price and other such information pertaining to the financial sector to establish the most robust scrutiny process on the suitability of potential investment counterparties.

iv. 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 5.4 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 at the start of the investment of up to one year.

  - **Non-specified investments** are any financial investments that are not loans and do not meet the criteria to be treated as specified investments. These are long-term investment so may not just be lower credit quality than specified investments and carry a higher degree of credit risk.

v. Investments will only be placed with counterparties from countries with a specified minimum **sovereign rating**.

vi. This authority has engaged **external consultants**, 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.

vii. All investments will be denominated in **sterling**.

viii. 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.

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

Creditworthiness Policy

4. The primary principle governing the Council's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration.

5. After this main principle, the Council will ensure that:

- it maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security and monitoring their security. This is set out in the specified and non-specified investment sections below; and

- it has sufficient liquidity in its investments. For this purpose, it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested.

6. The Strategic Director Finance and Governance will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to Council for approval as necessary. These criteria are separate to those which determine which types of investment instrument are either specified or non-specified as they provide an overall pool of counterparties considered high quality which the Council may use, rather than defining what types of investment instruments are to be used.

7. Credit rating information is supplied by the Council's treasury advisors, Link Group, any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. Any rating changes, rating watches (notification of a likely change), rating outlooks (notification of the longer-term bias outside the central rating view) are provided to officers almost immediately after they occur, and this information is considered before dealing.

8. The Council takes into account the following relevant matters when proposing counterparties:

- the financial position and jurisdiction of the institution.
- the market pricing of credit default swaps for the institution.
- any implicit or explicit Government support for the institution.
- Standard & Poor's, Moody's and Fitch's short- and long-term credit ratings.
- sovereign ratings to select counterparties from only the most creditworthy countries; and
- core Tier 1 capital ratios.

9. Changes to the credit rating will be monitored and, in the event, that a counterparty is downgraded and does not meet the minimum criteria specified in Appendix 1, which is MRP policy the following action will be taken immediately:

- no new investments will be made.
- existing investments will be recalled if there are no penalties; and
- full consideration will be given to recall or sale of existing investments which would be liable to penalty clause.

Specified and Non-specified investments

10. The MHCLG Guidance on Local Government Investments made under section 15(1) of the Local Government Act 2003, places restrictions on local authorities around the use of specified and non-specified investments.

11. A **specified investment** is defined as an investment which satisfies all the conditions below:

- the investment and any associated cash flows are denominated in sterling.
- the investment has a maximum maturity of one year.
- the investment is not defined as capital expenditure; and
- the investment is made with a body or in an investment scheme of high credit quality; or with the UK Government, a UK Local Authority or parish/community council.

12. **Non-specified investments**

Any investment not meeting the definition of a specified investment is classed as non-specified. The Council does not intend to make any investments denominated in foreign currencies, nor any that are defined as capital expenditure by legislation, such as company shares. Non-specified investments will therefore be limited to long-term investments, i.e. those that are due to mature 12 months or longer from the date of arrangement, and investments with bodies and schemes not meeting the definition on high credit quality. In addition to the long-term investments listed in the table at the end of Appendix 1, the following non-specified investments that the Council may make include:

- **Green Energy Bonds** - Investments in solar farms are a form of Green Energy Bonds that provide a secure enhanced yield. The investments are structured as unrated bonds and secured on the assets and contracts of solar and wind farms. Before proceeding with any such investment, internal and external due diligence will be undertaken in advance of investments covering the financial, planning, and legal aspects.

- **Social Housing Bonds** – Various fund managers facilitate the raising of financing housing associations via bond issues. The investment is therefore asset backed and provides enhanced returns. Officers will need to undertake due diligence on each potential investment to understand the risks and likelihood of default. This is a type of vehicle a few local authorities are involved which not only helps to meet a local authority's statutory duty to house the homeless, but also provides a return more than short-term investment rates.

- **Loans** - The Council will allow loans (as a form of investment) to be made to organisations delivering services for the Council where this will lead to the enhancement of services to the Council's Stakeholders. The Council will undertake due diligence checks to confirm the borrower's creditworthiness before any sums are advanced and will obtain appropriate levels of security or third party guarantees for loans advanced. The Council would expect a return commensurate with the type, risk, and duration of the loan. A limit of £70 million for this type of investment is proposed with a duration commensurate with the life of the asset and Council's cash flow requirements. All loans will need to be in line with the Council's Scheme of Delegation and Key Decision thresholds levels.

- **Shareholdings in limited companies and joint ventures**.

    i. Trading vehicles which the Council has set up to undertake functions. These are not held primarily as investments but to fulfil Council service objectives e.g. Sixty Bricks Ltd. Any new proposals will be subject to due diligence as part of the initial business case. As these are not to be held primarily as investment vehicles, then there is an expectation that they will break even.

    ii. Trading vehicles held for a commercial purpose where the Council is obliged to undertake transactions via a **company** vehicle. Examples include the companies set up under the former Building Schools for the Future programme which operate the schools PFI contracts.

13. For any such investments, specific proposals will be considered by the Strategic Director Finance and Governance after taking into account of the following:

- cash flow requirements
- investment period
- expected return
- the general outlook for short to medium term interest rates
- creditworthiness of the proposed investment counterparty
- other investment risks.

14. The nominal value of non-specified investments will be capped at £70m.

Country of Domicile

15. Due care will be taken to consider the exposure of the Council's total investment portfolio to non-specified investments, countries, groups, and sectors.

16. The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA- or equivalent except in the UK. The list of countries that qualify using this credit criteria as at the date of this report are shown in Appendix 4. This list will be kept under review and any proposed changes to the policy reported to the next meeting.

Schedule of investments

17. The criteria for providing a pool of high quality short, medium, and long-term, cash-based investment counterparties along with the time and monetary limits for institutions on the Council's counterparty list are set out in Appendix 3.

18. Officers will monitor the impact of the UK's exit from the European Union on the names within the Council's counterparty list.

APPENDIX 3
Approved counterparty list

	Minimum credit criteria / colour band	Max % of total investments/ £ limit per institution	Max. maturity period
Specified Investments			
DMADF – UK Government	N/A	**100%**	6 months*
Money market funds: CNAV and VNVAV	AAA	100%	Daily Liquidity
Local authorities	N/A	100%	3 years
Barclays Bank plc (the Council's bankers)		£20m £5m	Overnight deposits ** Up to 12 months
Term deposits with banks and rated building societies	Yellow Purple Blue Orange Red Green		Up to 3 years Up to 3 years Up to 3 years Up to I year Up to 6 Months Up to 3 months
Current and Ex - Government Supported banks	Green	50%	Up to 1 year

* DMO – is the maximum period offered by the Debt Management Office of H.M Treasury

** Over £20 million with the explicit agreement of the Strategic Director of Finance and Governance (Section 151 Officer).

	Minimum credit criteria / colour band	Max % of total investments/ £ limit per institution	Max. maturity period
Non-specified investments			
Term deposits with unrated Building Societies	Assets over £1.0bn	25%	12mths
UK Banks – Natwest, Santander, Lloyds, HSBC, Barclays and RBS	n/a	£70m or 50% of total investments	1-3 yrs.
Pooled Vehicles: Enhanced Money Market Funds: UK Government and Government Guaranteed securities Pooled Property Funds Short – Term Investment – grade sterling denominated instruments	N/A	£10m	4yrs
UK Treasury Bills, Certificate of Deposits and T-bills	Yellow Purple Blue Orange Red Green No Colour		Up to 3 years Up to 2 years Up to I year Up to 6 Months Up to 6 Months Up to 3 months Not for use
Corporate Bonds including Floating Rate Notes (FRNs)	Minimum Credit Rating: BBB		3yrs

APPENDIX 4

APPROVED COUNTRIES FOR INVESTMENTS

1. This list is based on those countries which have sovereign ratings of AA- or higher, (we show the lowest rating from Fitch, Moody's and S&P) and also, (except - at the time of writing - for Hong Kong, Norway and Luxembourg), have banks operating in sterling markets which have credit ratings of green or above in the Link credit worthiness service.

Lowest available rating	Approved Country
AAA	Australia Denmark Germany Luxembourg Netherlands Norway Singapore Sweden Switzerland
AA+	Canada Finland U.S.A.
AA	Abu Dhabi (UAE) France
AA-	Belgium Hong Kong Qatar United Kingdom

APPENDIX 5
CIPFA TREASURY MANAGEMENT CODE

The Council has formally adopted CIPFA's Code of Practice on Treasury Management (updated 2017) and complies with the requirements of the Code. CIPFA has published the revised codes on 20th December 2021. This Council must have regard to these codes of practice when it prepares the Treasury Management Strategy Statement and Annual Investment Strategy, and related reports during the financial year, which are taken to Full Council for approval.

CIPFA has produced the TM Code and the accompanying guidance notes to help satisfy nine main purposes:

- To assist public service organisations in the development and maintenance of firm foundations and clear objectives for their treasury management activities, thereby adding to their credibility in the public eye.

- To emphasise the overriding importance of effective risk management as the foundation for treasury management in all public service bodies.

- To provide transparency for treasury management decisions, including the use of counterparties and financial instruments that individual public service organisations intend to use for the prudent management of their financial affairs.

- To encourage the pursuit of value for money in treasury management and to promote the reasoned use, development and appreciation of appropriate and practical measures of performance

- To enable CIPFA members to fulfil their professional and contractual responsibilities to the organisations they serve and to maintain and develop the professional competence of both themselves and those they supervise.

- To help facilitate a standardisation and codification of treasury management policies and practices in the public services.

- To assist those involved in the regulation and review of treasury management in the public services, particularly those charged with the audit of the same.

- To foster a continuing debate on the relevance and currency of the statutory and regulatory regimes under which treasury management in the various parts of the public services operates.

- To further the understanding and confidence of, and to act as a reference work for, financial and other institutions whose businesses bring them into contact with the treasury.

Management activities of public service organisations.

- a requirement for the Council to adopt a new debt liability benchmark treasury indicator to support the financing risk management of the capital financing requirement.

- clarify what CIPFA expects a local authority to borrow for and what they do not view as appropriate. This will include the requirement to set a proportionate approach to commercial and service capital investment.

- address ESG issues within the Capital Strategy.

- require implementation of a policy to review commercial property, with a view to divest where appropriate.

- create new Investment Practices to manage risks associated with non-treasury investment (like the current Treasury Management Practices).

- ensure that any long-term treasury investment is supported by a business model.

- a requirement to effectively manage liquidity and longer-term cash flow requirements.

- amendment to TMP1 to address ESG policy within the treasury management risk framework.

- amendment to the knowledge and skills register for individuals involved in the treasury management function - to be proportionate to the size and complexity of the treasury management conducted by each council.

- a new requirement to clarify reporting requirements for service and commercial investment, (especially were supported by borrowing/leverage).

In addition, all investments and investment income must be attributed to one of the following three purposes: -

- Treasury management

  Arising from the organisation's cash flows or treasury risk management activity, this type of investment represents balances which are only held until the cash is required for use. Treasury investments may also arise from other treasury risk management activity which seeks to prudently manage the risks, costs or income relating to existing or forecast debt or treasury investments.
- Service delivery

  Investments held primarily and directly for the delivery of public services including housing, regeneration, and local infrastructure. Returns on this category of investment which are funded by borrowing are permitted only in cases where the income is "either related to the financial viability of the project in question or otherwise incidental to the primary purpose".

- Commercial return

  Investments held primarily for financial return with no treasury management or direct service provision purpose. Risks on such investments should be proportionate to a council's financial capacity – i.e., that 'plausible losses' could be absorbed in budgets or reserves without unmanageable detriment to local services. An authority must not borrow to invest primarily for financial return.

Training

1. 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 will be arranged as required.

2. The training needs of treasury management officers are periodically reviewed.

Treasury management consultants

3. The Council uses Link Group, Treasury solutions as its external treasury management advisors.

4. The Council recognises that responsibility for treasury management decisions always remains with the organisation and will ensure that undue reliance is not placed upon the services of our external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisers.

5. It also recognises that there is value in employing external providers of treasury management services 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.

6. The scope of investments within the Council's operations now includes both conventional treasury investments, (the placing of residual cash from the Council's functions), and more commercial type investments, such as investment properties. The commercial type investments require specialist advisers, and the Council uses Link Group in relation to this activity.

Treasury Management Delegations and Responsibilities

7. The respective roles of the Council, Audit and Governance Committee and Strategic Director of Finance and Governance (Section 151 officer) are summarised below. Further details are set out in the Treasury Management Practices.

(i) Full Council

- Approval of annual strategy, mid-year review and Annual Report

(ii) Treasury Strategy Group/Strategic Director Finance and Governance

- approval of/amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices.

- budget consideration and approval.

- approval of the division of responsibilities.

- receiving and reviewing regular monitoring reports and acting on recommendations.

- approving the selection of external service providers and agreeing terms of appointment.

(iii) Audit and Governance Committee with responsibility for scrutiny

- reviewing the treasury management policy and procedures and making recommendations to the responsible body.

THE TREASURY MANAGEMENT ROLE OF STRATEGIC DIRECTOR OF FINANCE AND GOVERNANCE (SECTION 151 OFFICER)

The S151 (responsible) officer

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance.
- submitting regular treasury management policy reports.
- submitting budgets and budget variations.
- receiving and reviewing management information reports.
- reviewing the performance of the treasury management function.
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function.
- ensuring the adequacy of internal audit and liaising with external audit.
- recommending the appointment of external service providers.

APPENDIX 6
Prospects for interest rates

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

Additional notes by Link on this forecast table: -

Our central forecast for interest rates was updated on 19 December and reflected a view that the MPC 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 H1 2023.

Further down the road, we anticipate the Bank of England will be keen to loosen monetary policy when the worst of the inflationary pressures are behind us – but that timing will be one of fine judgment: cut too soon, and inflationary pressures may well build up further; cut too late and any downturn or recession may be prolonged.

The CPI measure of inflation looks 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.

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, now that the short-lived effects of the Truss/Kwarteng unfunded dash for growth policy are firmly in the rear-view mirror.

In the upcoming months, our 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.)

On the positive side, consumers are still estimated to be sitting on over £160bn of excess savings left over from the pandemic so that will 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.

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%.
- We view the markets as having built in, already, nearly all the effects on gilt yields of the likely increases in Bank Rate and the elevated inflation outlook.

The balance of risks to the UK economy: -

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

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, to be weaker than we currently anticipate.

- **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 sorting out 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 we currently project 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 QT,** could be too much for the markets to comfortably digest without higher yields consequently.

Borrowing advice: Our 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.