APPENDIX H1

Treasury Management Strategy Statement 2022/23 to 2024/25

PURPOSE OF THE REPORT

1.1 To present for approval the Prudential and Treasury Indicators and Treasury Management and Investment Strategies for 2022/23 to 2024/25, and the Minimum Revenue Provision Policy Statement for 2022/23.

2. RECOMMENDATION(S)

2.1 That Council approve:

- The capital expenditure Prudential Indicators for 2022/23 to 2024/25 in Tables 1 to 5.
- The revised annual Minimum Revenue Provision (MRP) Policy statement starting at paragraph 10.3.
- The Treasury Management Strategy and treasury management Prudential Indicators for 2021/22 to 2023/24, in Tables 6 to 10.
- The Annual Investment Strategy 2021/22 including Investment Counterparties starting at paragraph 12, including the revised investment benchmark as set out in paragraph 12.5.

3. REASONS FOR RECOMMENDATIONS

3.1 Setting the annual budget is a statutory requirement part of which is the Treasury Management Policy.

4. OTHER OPTIONS CONSIDERED AND REJECTED

4.1 None

5. CORPORATE OUTCOMES

1. The report relates to the following corporate priorities:

An exemplary council	✓	Thriving communities	
A fair local economy that works for everyone		Good homes, green spaces, healthy places	

6. BACKGROUND TO THE REPORT

6.1 For each financial year the Council sets a balanced budget so that cash income raised during the year is sufficient to meet all of its cash expenditure commitments. One of the key functions of the Council's treasury management activity is to ensure that these cash flows are effectively managed, so that cash is available when it is needed. Surplus cash is invested having regard to risk, liquidity and yield.

6.2 A further key function of the treasury management activity is to ensure that the Council has sufficient funds to pay for its capital and other investment plans. These capital plans, which are set out in the Capital Programme, identify the borrowing needs of the Council over a longer time horizon than the current year. In managing its longer-term cash flow requirements for capital expenditure the Council will take out loans or alternatively use its cash flow surpluses in lieu of external borrowing. This latter practice is referred to as "internal borrowing". In managing its loans, it may at times be advantageous for the Council to repay or restructure its borrowings to optimise interest payments or achieve a balanced debt portfolio.

6.3 Having regard to these activities, the Chartered Institute of Public Finance and Accountancy (CIPFA) defines treasury management as:

"The management of the Council's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

6.4 As treasury management decisions involve borrowing and investing substantial sums of money, the Council is exposed to potentially large financial risks, including the loss of invested funds and the revenue effect of changing interest rates. The identification, control and monitoring of risk are therefore integral elements of treasury management activity.

6.5 The Treasury Management Policy Statement for 2022/23 is based upon the Director of Finance Officer and Treasury Officers' views on interest rates supplemented by leading market forecasts. The policy statement covers:

a) The policy for managing capital borrowing and debt rescheduling
b) The annual investment strategy for treasury management investments
c) Reporting arrangements
d) Training arrangements
e) Performance indicators
f) Minimum Revenue Provision (MRP) Policy
g) Use of treasury management advisors

6.6 Council of 24 February 2021 approved the Treasury Management Strategy for 2021/22, including Prudential and Treasury Indicators, the Treasury Management and Investment Strategies, and the annual Minimum Revenue Provision (MRP) Policy Statement for 2021/22. Treasury Management activities during the year have been overseen by the Governance Committee.

6.7 This report updates Prudential and Treasury Indicators for financial years 2022/23 to 2024/25. It presents updated Treasury Management and Investment Strategies and proposes the Minimum Revenue Provision Policy Statement for 2022/23.

7. TREASURY MANAGEMENT STRATEGY 2022/23

7.1 The strategy for 2022/23 covers two main areas:

Capital issues

- the capital plans and the Prudential Indicators;
- the Minimum Revenue Provision (MRP) policy.

Treasury management issues

- the current treasury position;
- Treasury Indicators which limit the treasury risk and activities of the Council;
- prospects for interest rates;
- the borrowing strategy;
- policy on borrowing in advance of need;
- debt rescheduling;
- the investment strategy;
- creditworthiness policy; and
- the policy on use of external service providers.

7.2 These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, MHCLG MRP Guidance, the CIPFA Treasury Management Code, and MHCLG Investment Guidance.

7.3 The Statutory Guidance on Minimum Revenue Provision remains that issued by the Ministry of Housing, Communities & Local Government on 2 February 2019 and effective from 1 April 2019.

8. TRAINING

8.1 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 provided on the implications of the revised CIPFA Prudential and Treasury Management Codes, and the revised MHCLG Investment Guidance and MRP Guidance.

8.2 The training needs of treasury management officers are reviewed periodically. Both CIPFA and Link Asset Services provide workshops and seminars.

9. TREASURY MANAGEMENT CONSULTANTS

9.1 The Council uses Link Asset Services, Treasury Solutions as its external treasury management advisors. The advisors provide access to specialist skills and resources including

- Technical support on treasury matters and capital finance issues.
- Economic and interest rate analysis.
- Debt services, which includes advice on the timing of borrowing.
- Debt rescheduling advice surrounding the existing portfolio.
- Generic investment advice on interest rates, timing and investment instruments.
- Credit ratings/market information service comprising the three main credit rating agencies.

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

9.3 The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed, documented and subjected to regular review.

10. CAPITAL PRUDENTIAL INDICATORS 2021/22 – 2024/25 AND MRP POLICY STATEMENT

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

10.2 **Capital expenditure**

This prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle.

Table 1 - Capital Expenditure	2021/22 Estimate £000	2022/23 Estimate £000	2023/24 Estimate £000	2024/25 Estimate £000
Good homes, green spaces and healthy places	8,893	20,768	25,738	874
A fair economy that works for everyone	2,606	4,587	1,000	0
Thriving communities	298	846	0	0
An exemplary council	1,942	2,991	1,038	0
Capital Expenditure Total	**13,739**	**29,192**	**27,776**	**874**

The table below summarises the above capital expenditure plans identified in the Capital & Investment Strategy and the Capital Programme and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a borrowing requirement.

Table 2 - Capital Financing	2021/22 Revised £000	2022/23 Estimate £000	2023/24 Estimate £000	2024/25 Estimate £000
Capital expenditure from Table 1	13,739	29,192	27,776	874
Grants & Contributions	(6,532)	(13,938)	(774)	(774)
Capital Receipts	(70)	0	0	0
Revenue and Reserves	(4,108)	(4,153)	0	0
Net financing needed for year	**3,029**	**11,101**	**27,002**	**100**

The Council's borrowing need (the Capital Financing Requirement)

The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's indebtedness and so its underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR.

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 assets life, and so charges the economic consumption of capital assets as they are used.

The CFR includes any other long-term liabilities (finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility by the lease provider and so the Council is not required to separately borrow for these schemes:

Table 3 - Capital Financing Requirement	2021/22 Revised £000	2022/23 Estimate £000	2023/24 Estimate £000	2024/25 Estimate £000
Opening CFR	2,500	5,259	16,059	42,754
Net financing need for the year (Table 2)	3,029	11,101	27,002	100
Less MRP/VRP	(270)	(301)	(307)	(728)
Closing CFR	**5,259**	**16,059**	**42,754**	**42,126**

10.3 **Minimum Revenue Provision (MRP)**

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

MHCLG regulations have been issued which require the full Council to approve an MRP Statement in advance of each year. A variety of options are provided to councils, so long as there is a prudent provision.

In setting the 2022/23 Budget, the Council has reviewed its approach to MRP, key changes are summarised in the table below;

	Previous Approach	Proposed Approach
Pre 2008 Debt	The Council has charged the MRP on pre-2008 debt on a “reducing balance” basis at a rate of 4% of the balance at the end of the preceding financial year. This method is no longer considered **prudent** as the total value of debt is never actually written off – a residual balance always remains using the reducing balance method.	It is proposed to charge MRP in “equal annual instalments” over asset lives; this is a **prudent** approach as it ensures debt is fully cleared.
Post 2008 Debt	The Council has previously charged MRP in equal instalments over the life of an asset. However using an annuity basis would recognise the “real terms” value of money over time (£1 now being worth less in future years); this is considered more **equitable**.	On the grounds of adopting a more **equitable** approach, it is proposed to adopt the “annuity basis” for <u>all</u> post 2008 debt. The proposed change remains **prudent** as it still spreads the MRP fully over the life of the asset.

The Council is recommended to approve the following MRP Policy Statement:

Annual Statement of MRP Policy 2022/23

The aim of the policy is to ensure that MRP is charged over a period that is reasonably commensurate with the period over which the capital expenditure which gave rise to the debt provides benefits.

MRP shall commence in the financial year following that in which the capital expenditure is incurred, or in the year following that in which the relevant asset becomes operational.

In respect of the proportion of the Capital Financing Requirement which relates to debt incurred prior to 2008/09, MRP shall be charged in equal annual instalments over the life of assets (Equal instalment method). This generates a series of equal annual amounts over the life of each asset that is financed by borrowing, with the life determined upon acquisition. This means that the charge to revenue closely matches the period of economic benefit of the asset. This method is considered prudent as it ensures the debt is cleared in full over the life of the asset.

The MRP liability on debt incurred from 2008/09 onwards shall be based on the estimated useful life of the asset. The MRP shall be calculated using the annuity basis where the principal repayments increase over the life of the asset to reflect the "real terms" value of money over time.

Estimated life periods shall be determined under delegated powers, with reference to the guidance and advice of appropriate professional advisers, in the year that MRP commences. As some types of capital expenditure are not capable of being related to an individual asset, the MRP shall be assessed on a basis which most reasonably reflects the anticipated period of benefit arising from the expenditure.

The change in MRP policy has the following financial impact;

Years	**Saving (-) / Additional Cost (£)**
0 – 5	-354,514
6 – 10	83,395
11 – 15	89,474
16 – 20	96,666
21 – 25	104,998
26 – 30	114,517
31 - 35	125,286
36 – 40	137,389
41 – 45	-378,022
46 - 50	1,760
TOTAL	20,951

Notes:

- Essentially the proposed policy is a reprofiling exercise to reflect the real terms value of money over time.
- There is a marginal additional cost over time, as the proposed approach now fully recovers the MRP charge over the life of assets (previously the reducing balance method did not do this). This is considered a more prudent approach.
- Figures are based upon current forecasts of Capital Expenditure; inevitably these will change as schemes slip / new schemes are introduced; for this reason, the MRP Policy and budgets are reviewed annually.

The Government (DLUHC) is currently consulting on proposed changes to MRP regulation as follows;

- Capital receipts may not be used in place of the revenue charge. The intent is to prevent authorities avoiding, in whole or part, a prudent charge to revenue. It is not the intention to prevent authorities using capital receipts to reduce their overall debt position, which may have the effect of reducing the MRP made with respect to the remaining debt balance.
- Prudent MRP must be determined with respect to the authority's total capital financing requirement. The intent is to stop the intentional exclusion of debt from the

MRP determination because it relates to an investment asset or capital loan. Authorities should still be able to charge MRP over the period in which their capital expenditure provides benefits and begin charging MRP in the year following capital expenditure, in accordance with proper accounting practices set out in the government's statutory guidance on Minimum Revenue Provision.

Neither of these changes impact upon either the current or proposed MRP Policy at the Council.

Members will be informed of the outcome of this consultation and if there are any relevant changes to the Council's MRP Policy in the mid-year Treasury Management Review Report 2022/23.

10.4 **Affordability prudential indicators**

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

Ratio of financing costs to net revenue stream

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

Table 4 - Ratio of Financing Costs to Net Revenue Stream	2021/22 Revised %	2022/23 Estimate %	2023/24 Estimate %	2024/25 Estimate %
Ratio	2.45%	2.51%	4.42%	7.32%

The estimates of financing costs include current capital commitments and the proposals in the Budget and Capital and Capital Strategy reports. The increasing ratio for the remainder of the budget period reflects the additional level of borrowing required to finance the Council's planned Capital Programme. However, the intention for schemes funded through borrowing is that they will, where possible, deliver a financial return and therefore contribute to the sustainability of the Council's debt financing costs.

10.5 **Core funds and expected investment balances**

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.).

Table 5 - Year-End Resources	2021/22 Revised £000	2022/23 Estimate £000	2023/24 Estimate £000	2024/25 Estimate £000
Core Funds/Working Balances	(52,259)	(37,198)	(37,144)	(36,977)
Under/(over) borrowing (Table 6)	5,259	16,059	21,752	21,124
Expected investments	**(47,000)**	**(21,139)**	**(15,392)**	**(15,853)**

The projected reduction in Core Funds/Working Balances in 2022/23 is driven by two main factors:

- The unwinding of cash flow impacts of measures taken in response to the Covid-19 pandemic.
- The use of reserves and application of capital grants in financing the capital programme (see Table 2).

The balance of investments is then further decreased by the use of internal funds to finance the borrowing requirement for the year (see Tables 2 and 6).

11. BORROWING

11.1 The capital expenditure plans set out in paragraph 10.2 above provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity and the Council's capital strategy. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant Treasury / Prudential Indicators, the current and projected debt positions and the annual Investment Strategy.

11.2 **Current portfolio position**

11.3 The Council's treasury portfolio position at 31 March 2022, with forward projections, is summarised below. The table shows the actual external debt (the treasury management operations), against the underlying capital borrowing need (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

Table 6 - Portfolio Position	2021/22 Revised £000	2022/23 Estimate £000	2023/24 Estimate £000	2024/25 Estimate £000
Debt at 1 April	0	0	0	21,002
Other long-term liabilities (OLTL)	0	0	0	0
Total gross debt 1 April	0	0	0	21,002
Expected change in Debt	0	0	21,002	0
Expected change in OLTL	0	0	0	0
Expected change in gross debt	0	0	21,002	0
Gross debt 31 March	0	0	21,002	21,002
Capital Financing Requirement (Table 3)	5,259	16,059	42,754	42,126
Under / (over) borrowing	**5,259**	**16,059**	**21,752**	**21,124**

The figures for long-term liabilities in the above table relates to leases which the Council has entered into, based on current accounting requirements. Currently, a new accounting standard for leasing, IFRS 16, is due to be introduced for application in the Council's 2022/23 financial statements. The impact of this on those statements will be fully assessed during the year and, if necessary, a revision to the figures shown here may be brought to Council for approval. However, CIPFA is currently undertaking a review which may result in the further deferment of the implementation of IFRS 16 to 2023/24 or even to 2024/25.

Treasury Indicators: limits to borrowing activity

11.4 Within the prudential indicators there are two key indicators to ensure that the Council operates its activities within well-defined limits. These are the Operational Boundary and the Authorised Limit. The principal aim is to ensure that borrowing is only undertaken in respect of previous and approved future capital spending and not for revenue or speculative purposes. This is achieved by setting limits which restrict the amount of borrowing which can be undertaken to that required to finance the current underlying borrowing requirement (ie the CFR), plus the impacts of approved capital schemes for each of the coming three financial years. This is the Operational Boundary. To allow for some operational flexibility in the timing of borrowing, scope is provided for some headroom above this, but this is only to be used on a short-term basis and is subject to a maximum limit which may not be exceeded. This is the Authorised Limit. Further detail of both indicators is set out below.

11.5 The S151 Officer reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this budget report.

11.6 **Treasury Indicators: limits to borrowing activity**

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

Table 7 - Operational Boundary	2021/22 Revised £000	2022/23 Estimate £000	2023/24 Estimate £000	2024/25 Estimate £000
Debt	0	3,600	26,402	26,502
Other long-term liabilities	0	0	0	0
Operational Boundary	**0**	**3,600**	**26,402**	**26,502**

To allow for operational flexibility, this table allows for the possibility that part of the projected use of internal borrowing assumed in Table 6 will not be available and a higher level of external borrowing therefore be required.

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

This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.

Table 8 - Authorised Limit	2021/22 Revised £000	2022/23 Estimate £000	2023/24 Estimate £000	2024/25 Estimate £000
Debt	3,000	6,600	29,402	29,502
Other long-term liabilities	0	0	0	0
Authorised Limit	**3,000**	**6,600**	**29,402**	**29,502**

11.7 **Maturity structure of borrowing**

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

Table 9 - Maturity Structure of Borrowing		
Maturity structure of fixed interest rate borrowing 2022/23		
	Lower	**Upper**
Under 12 months	0%	20%
12 months to 2 years	0%	20%
2 years to 5 years	0%	30%
5 years to 10 years	0%	50%
Over 10 years	0%	100%

It is not anticipated that any borrowing will be taken at variable interest rates.

11.8 **Control of interest rate exposure**

Please see paragraphs 11.9, 12.4 and Appendix H2.

Appendix H2 compares the forecast of a year ago with that prepared for the mid-year review, and the current forecast.

11.9 **Prospects for borrowing interest rates**

The Bank of England's Monetary Policy Committee (MPC) made a significant move at its meeting in the first week of February 2022, raising Bank Rate by another 0.25% to 0.50% and only narrowly deciding against a 0.50% increase by a 5-4 voting margin. The Council's treasury advisor's forecast now expects the MPC to deliver another 0.25% increase in March; with its position seeming to be to go for sharp increases to get address its objectives quickly. The March increase is expected to be followed by an increase to 1.0% in May and then to 1.25% in November. The Committee is currently much more closely focused on combating inflation than on protecting economic growth.

In respect of PWLB rates, the advice received is that the yield curve has flattened out considerably, with the view being that the markets as have already built in nearly all the effects on gilt yields of the likely increases in Bank Rate. Since the start of 2021, there has been a lot of volatility in gilt yields, and hence in PWLB rates. Current forecasts show little overall increase in gilt yields during the forecast period to March 2025 but there will doubtless be a lot of unpredictable volatility during this forecast period.

Based upon the capital plans set out above, the Council will need to enter into further long-term external borrowing during the term of this strategy.

11.10 **Borrowing strategy**

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

Against this background and the risks within the economic forecast, caution will be adopted with the 2022/23 treasury operations. The Section 151 Officer 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, perhaps arising from an acceleration in the rate of increase in central rates in the USA and UK, an increase in world economic activity, or a sudden increase in inflation risks, then the portfolio position will be re-appraised. Most likely, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.

Any decisions will be reported at the next available opportunity.

11.11 **Policy on borrowing in advance of need**

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

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.

12. ANNUAL INVESTMENT STRATEGY

12.1 Investment Policy

The Council's investment policy has regard to the DLUHC's Guidance on Local Government Investments ("the Guidance") and the CIPFA Treasury Management in the Public Services: Guidance Notes for Local Authorities incl Police and Fire Authorities (2021) ("the CIPFA TM Code"). The Council's investment priorities will be **S**ecurity first, portfolio **L**iquidity second, and only then return (**Y**ield).

In accordance with the above guidance from the DLUHC and CIPFA, and in order to minimise the risk to investments, the Council applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the Short Term and Long Term ratings.

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.

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.

Treasury Management Practice 1 (TMP1) deals with credit and counterparty risk management. In applying this practice, the following limits are relevant:

SPECIFIED INVESTMENTS: All such investments will be sterling denominated, with **maturities up to maximum of 1 year**, meeting the minimum 'high' quality criteria where applicable.

NON-SPECIFIED INVESTMENTS: These are any investments which do not meet the specified investment criteria. A maximum of £6m will be held in aggregate in non-specified investments, specifically term deposits with UK local authorities.

12.2 Creditworthiness policy

The 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 & 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.

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
Purple	2 years
Blue	1 year (only applies to nationalised or semi nationalised UK Banks)
Orange	1 year
Red	6 months
Green	100 days
No colour	Not to be used

The yellow colour category is for UK Government debt, or its equivalent, money market funds and collateralised deposits where the collateral is UK Government debt.

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.

Typically, the minimum credit ratings criteria the Council use will be a Short-Term rating (Fitch or equivalents) of F1 and a LongTerm 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.

All credit ratings will be monitored weekly and will be checked at the time of placing investments. The Council is alerted to changes to ratings of all three agencies through its use of the Link Asset Services' creditworthiness service, and has access to the websites of Fitch, Moody's and Standard & Poor's.

- 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.

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.

Investment Counterparties 2022/23

Category	Institutions	LAS Colour Code	Maximum Period	Limit per Institution
Banks & Building Societies: Call Accounts /Term Deposits / Certificates of Deposit (CDs)				
Government related/guaranteed	DMADF (DMO) UK Local Authority	Yellow Yellow	6 months 2 years	Unlimited £6m per LA
UK part-nationalised institutions	Royal Bank of Scotland group	Blue	1 year	£6m per group
UK-incorporated Institutions	UK banks and building societies of high credit quality	Orange Red Green	1 year 6 months 3 months	£6m per group (or independent institution)
Non-UK Banks	Non-UK banks of high credit quality	Orange Red Green	1 year 6 months 3 months	£4m per group (or independent institution); £8m in total for this category
Money Market Funds				
Money Market Funds	MMFs of high credit quality - AAA rated		Instant access	£5m per fund

This list is unchanged from that for 2021/22.

12.3 **Country limits**

In addition to the detailed UK counterparties, the above list includes non-UK banks from countries which have a minimum sovereign credit rating of AA- from Fitch. To this are added the requirement for the individual institution to itself have a high credit rating and a limit of £4m per institution/group and £8m in total in this category of investment.

The list of eligible countries at the date of this report would then be as shown below. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

The only non-UK counterparty used in the last three years is the German bank Landesbank Hessen-Thüringen Girozentrale (Helaba). The Council currently has the maximum amount of £4m invested with this counterparty.

APPROVED COUNTRIES FOR INVESTMENTS – United Kingdom plus the following:

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

12.4 Investment strategy

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).

Investment returns expectations

Bank Rate is forecast to reach 0.75% by the end of March 2022, rising to 1.25% by the end of March 2023, before then remaining steady across the whole of the remaining period covered by this strategy report. Current Bank Rate forecasts for financial year ends (March) are shown below, compared to those from twelve months ago:

2021/22	0.75%	Was 0.10% in 2021/22 Treasury Strategy report
2022/23	1.25%	Was 0.10%
2023/24	1.25%	Was 0.10%
2024/25	1.25%	

The suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year are as follows:

	Now	2021/22 report
2022/23	1.00%	0.10%
2023/24	1.25%	0.10%
2024/25	1.25%	0.10%
2025/26	1.25%	0.20%
Following five years	1.50%	2.00%
Long-term later years	2.00%	2.00%

The overall balance of risks to economic growth in the UK is now to the downside. This includes risks from Covid and its variants, both domestically and their potential effects worldwide.

It is not expected that Bank Rate will go up fast after the initial rate sharp rises over the next few months, as the supply potential of the economy is not likely to have taken a major hit during the pandemic. It should, therefore, be able to cope well with meeting demand after supply shortages subside over the next year, without causing inflation to remain elevated in the medium-term, or to inhibit inflation from falling back towards the MPC's 2% target after a spike up to around 5%. The forecast includes four increases in Bank Rate over the three-year forecast period to March 2025, ending at 1.25%. However, it is likely that these forecasts will need changing within a relatively short timeframe for the following reasons: -

- We do not know how severe an impact continuing variants of the virus may have on the economy
- Some of the current key supply shortages may spill over into causing economic activity in some sectors to take a significant hit.
- Rising gas and electricity prices in October and next April and increases in other prices caused by supply shortages and increases in taxation next April, are already going to deflate consumer spending power without the MPC having to take any action on Bank Rate to cool inflation.
- It looks as if the economy coped well with the end of furlough on 30th September. It is estimated that there were around 1 million people who came off furlough then and there was not a huge spike up in unemployment. The other side of the coin is that vacancies have been hitting record levels so there is a continuing acute shortage of workers. This is a potential danger area if this shortage drives up wages.
- There could be further severe impacts from continuing Covid variations.

In summary, with the high level of uncertainty prevailing on several different fronts and the expectation is that forecasts will have to be revised again during the year.

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

Table 10 - Maximum Principal Sums Invested > 365 Days	2021/22 Revised £000	2022/23 Estimate £000	2023/24 Estimate £000	2024/25 Estimate £000
UK Government	0	0	0	0
UK Local Authorities	6,000	6,000	6,000	6,000
UK Banks & Building Societies	0	0	0	0
Non-UK Banks	0	0	0	0
Total	**6,000**	**6,000**	**6,000**	**6,000**

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.

12.5 **Investment Risk Benchmarking**

The Council has previously set its investment performance benchmark based on the 7-day LIBID compounded rate. As was expected at the time when the 2021/22 Strategy was approved, the publication of official LIBOR figures and related LIBID calculations ceased at the end of December 2021. The replacement recommended by the Council's treasury management advisors is SONIA (Sterling Overnight Index Average), which is the risk-free rate for sterling markets administered by the Bank of England. 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.

SONIA is the Working Group on Sterling Risk Free Reference Rates' preferred benchmark for the transition to sterling risk-free rates from LIBOR/LIBID. To support this transition, the Bank of England began publishing the SONIA Compounded Index from 3 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.

Going forwards, the Council's advisors will be providing compounded SONIA rates to clients in the same way that they previously did with LIBOR / LIBID rates. Rates will be available for overnight, 7 day, 1, 3, 6 or 12 month compounded / SONIA, allowing a choice of the benchmark rate which is the most appropriate to the individual council.

It is recommended that the Council adopt SONIA for investment performance benchmarking purposes and that it applies the 3-month compounded rate, as being the most suitable to the Council's cashflows, the typical pattern of which produces a mix of term investments and funds held at short or immediate notice.

12.6 **End of Year Investment Report**

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

12.7 **Accounting treatment of investments**

The accounting treatment may differ from the underlying cash transactions arising from investment decisions made by this Council. To ensure that the Council is protected from any adverse revenue impact, which may arise from these differences, officers will review the accounting implications of new transactions before they are undertaken.

13. Risk

The financial risks are outlined throughout the report as well as the appendices to the report.

14. Equality and diversity

None

15. Air quality implications

None

COMMENTS OF THE STATUTORY FINANCE OFFICER

These are contained in the report.

COMMENTS OF THE MONITORING OFFICER

The recommendations are appropriate as explained in the body of the report.

16. BACKGROUND DOCUMENTS

CIPFA Treasury Management in the Public Services: Code of Practice & Cross-Sectoral Guidance Notes (2021 edition)
CIPFA Treasury Management in the Public Services: Guidance Notes for Local Authorities (2021 edition)
CIPFA Prudential Code for Capital Finance in Local Authorities (2021 edition)
CIPFA Standards of Professional Practice: Treasury Management
DLUHC Guidance on Local Government Investments
DLUHC Guidance on Minimum Revenue Provision

APPENDIX H2 – Link Advisory Service – Commentary on Economic Background / Interest Rate Forecasts