5. TREASURY MANAGEMENT STRATEGY

Background

5.1 The Council is required to operate a balanced budget; income and expenditure should match. Part of the treasury management operation is to ensure that cash flow is planned, so that cash is available when it is needed. Surplus monies are invested in counterparties or instruments commensurate with the Council's low risk appetite, providing liquidity before considering investment return.

5.2 The second main function of treasury management 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 loans or using cash flow surpluses. Sometimes, when it is prudent and economic, loan debt previously drawn may be restructured to support the Council's risk or cost objectives.

5.3 The contribution the treasury management function makes to the authority is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day expenditure or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will result in a loss of resources to the General Fund.

5.4 CIPFA (the Chartered Institute of Public Finance & Accountancy) 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."

5.5 This section of the budget report meets the council's legal obligation under the Local Government Act 2003 to have regard to relevant codes of practice and guidance issued by CIPFA (Chartered Institute of Public Finance & Accountancy) and the DLUHC (Department for Levelling Up, Housing and Communities).

5.6 This section therefore fulfils the need for council to approve:

- A treasury management strategy before the start of each financial year (as required by CIPFA's Treasury Management Code).
- Prudential indicators to ensure that the council's capital investment plans are affordable, prudent and sustainable (as required by CIPFA's Prudential Code).
- An investment strategy before the start of each financial year (as required by DLUHC's Investment Code).
- A Minimum Revenue Provision (MRP) policy (as required by DLUHC's MRP guidance).

5.7 The council's investment in commercial property, equity shares, and lending to third parties is considered in the capital strategy in Section 4.

5.8 However, for the purposes of clarity, the projections, indicators and limits given in this section of the budget report include:

- The general fund and HRA proposed capital programme and its funding as set out in Section 4, tables 4.4 and 4.5.

- The implications for the council's capital financing requirement and borrowing position arising from the non-financial investments proposed in section 4 of this report.

Reporting Requirements

Capital Strategy

5.9 The CIPFA 2021 Prudential and Treasury Management Codes require all local authorities to prepare a Capital Strategy report which will provide the following: -

- a high-level long-term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
- an overview of how the associated risk is managed
- the implications for future financial sustainability

5.10 The aim of the strategy is to ensure that all the Authority's elected members fully understand the overall long-term policy objectives and resulting Capital Strategy requirements, governance procedures and risk appetite.

Treasury management reporting requirements

5.11 On 27 September 2022, the Council agreed to establish and appoint to a Treasury Management Committee to support the in-depth consideration of a range of matters related to the governance of the Council's treasury management activity.

5.12 To support the Committee to meet its terms of reference and schedule forward meeting dates.an annual workplan has been adopted as follows:

January	**Treasury Management Committee - January Meeting** Consider the Annual Treasury Management Strategy Statement (TMS) prior to adoption by council
February	Full Council to receive Treasury Management Strategy
April	**Treasury Management Committee - April Meeting** Review proposed treasury activity for forthcoming year Initial update on end of year position
May	Statutory Accounts preparation
June	Treasury Management Outturn Report preparation
July	**Treasury Management Committee - July Meeting** Consider outturn position report
August	Full Council to receive Treasury Management Outturn Report
October	Treasury Management Mid-Year Review Report preparation
November	**Treasury Management Committee - November Meeting** Consider mid-year report Consider initial Treasury Management Strategy changes for forthcoming year
December	Full Council to receive Treasury Management Mid-Year Review Report

5.13 All Treasury Management reports will initially be presented to the Treasury Management Committee before onward reporting to Full Council.

5.14 The council is required to receive and approve as a minimum, three main reports each year, which incorporate a variety of, polices, estimates and actuals.

- Annual reporting requirements before the start of the year including - a review of the organisation's approved clauses, treasury management policy statements, Prudential and treasury indicators and treasury strategy (this report).

- A mid-year treasury management report – This will update members with the progress of activities undertaken, any material decisions, interim performance including an update on the capital position and amend any polices or prudential indicators as necessary.

- An annual treasury report after year-end – This provides details of compliance with prudential and treasury indicators, the impact of actual treasury operations compared to the estimates within the strategy.

5.15 As part of implementing the new requirements of the Treasury Management Code of Practice, in addition to the three major reports detailed above, from 2023/24 quarterly reporting (end of June/end of December) is also required. These additional reports will also be reported to the Treasury Management Committee.

Treasury management - role of the Section 151 Officer

5.16 The council's S151 officer is responsible for:

- Recommending 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 information required by internal or external audit is supplied;
- Recommending the appointment of external service providers;
- Ensuring that due diligence has been carried out on all treasury investments and is in accordance with the risk appetite and approved policies of the authority;
- Ensuring that members are adequately informed and understand the risk exposures taken on by an authority;
- Ensuring that the authority has adequate expertise, either in house or externally provided, to carry out the above;
- Training and qualifications of members responsible for treasury management approval and scrutiny as well as officers responsible for the day to day operations of treasury management.

Treasury management practices

5.17 A new CIPFA Treasury Management Code was published in December 2021. The revised TM Code provides details of what CIPFA recommends an organisation's treasury management practices (TMPs) should include;

- TMP1 Risk management
- TMP2 Performance measurement
- TMP3 Decision making and analysis
- TMP4 Approved instruments, methods and techniques
- TMP5 Organisation, clarity and segregation of responsibilities and dealing arrangements
- TMP6 Reporting requirements and management information arrangements
- TMP7 Budgeting, accounting and audit arrangements
- TMP8 Cash and cash flow management
- TMP9 Money laundering
- TMP10 Training and qualifications
- TMP11 Use of external service providers
- TMP12 Corporate governance

5.18 Each TMP requires a detailed explanation of the practices undertaken by the Council's Treasury Management team. The council's TMP's will continue to be developed to respond to best practice and regulatory updates.

Training

5.19 The CIPFA Code requires the responsible officer to ensure that all staff and members with responsibility for treasury management receive adequate training in this area (TMP10). The S151 officer is responsible for this function.

5.20 As a minimum, authorities should carry out the following to monitor and review knowledge and skills:

- Record attendance at training and ensure action is taken where poor attendance is identified.
- Prepare tailored learning plans for treasury management officers and board/council members.
- Require treasury management officers and council members to undertake self-assessment against the required competencies
- Have regular communication with officers and board/council members, encouraging them to highlight training needs on an ongoing basis."

5.21 The training needs of treasury management officers are recorded and periodically reviewed as part of the formal annual employee performance review. Member training is delivered via the Treasury Management Committee. At its meeting on14th November the members of the newly established Treasury Management Committee received three training presentations from the Councils Treasury Advisors including an Economic Outlook, an Update on the Treasury and Prudential code and a balance sheet review.

Treasury management advisers

5.22 The council uses Link Asset Services as its external treasury management advisors (TMP11).

5.23 Responsibility for treasury management decisions remains with the council at all times. Although the council will from time to time require the services of specialists, consultants and advisers in order to acquire access to specialist skills, undue reliance will not be placed upon the services and advice provided.

The Capital Prudential Indicators 2023/24 – 2027/28

5.24 The council's capital expenditure plans are a key driver of treasury management activity. A summary of the council's capital budget plans and how these are being financed is shown in table 5.1.

Capital Expenditure and Financing

5.25 This prudential indicator is a summary of the Authority's capital expenditure plans, both those agreed previously, and those forming part of the new budget cycle. The table below summarises the capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of capital resources results in a need for borrowing.

Table 5.1: The council's capital expenditure and financing plans

	2022/23 Estimate £000	2023/24 Estimate £000	2024/25 Estimate £000	2025/26 Estimate £000	2026/27 Estimate £000	2027/28 Estimate £000
Capital expenditure						
General Fund	16,430	25,545	6,367	3,716	3,492	3,423
Equity investment	0	0	0	0	0	0
Capital Loans	1,000	3,000	2,000	1,000	0	0
Total General Fund Expenditure	**17,430**	**28,545**	**8,367**	**4,716**	**3,492**	**3,423**
Housing Revenue Account	**38,417**	**35,594**	**39,173**	**38,880**	**37,375**	**31,098**
TOTAL CAPITAL EXPENDITURE	**55,847**	**64,138**	**47,540**	**43,596**	**40,867**	**34,521**
Financing						
Capital receipts	8,350	15,957	13,464	10,162	11,704	9,158
Capital receipts (ringfenced)	0	0	0	0	0	0
Retained "one for one" RTB receipts	5,166	6,020	6,309	6,324	5,657	2,624
Major repairs reserve	18,454	15,852	14,722	14,676	14,572	16,880
Contributions and grants	14,667	12,689	1,814	1,690	250	250
Revenue contribution	5,949	6,740	7,964	7,986	6,985	3,936
Revenue contribution from earmarked reserves	751	66	0	0	0	0
Greater Norwich growth partnership	260	565	8	0	0	0
Community infrastructure levy	881	1,591	1,259	1,759	1,699	1,673
S106	369	968	0	0	0	0
Total	54,847	60,448	45,540	42,596	40,867	34,521
Borrowing need for the year	**1,000**	**3,690**	**2,000**	**1,000**	**0**	**0**
TOTAL FINANCING	**55,847**	**64,138**	**47,540**	**43,596**	**40,867**	**34,521**

The Authority's Borrowing Need (the Capital Financing Requirement)

5.26 The Capital Financing Requirement (CFR) calculation for 2023/24 and future years of the capital programme is shown below in table 5.2. This is the total historic outstanding capital expenditure yet to be financed from revenue or capital resources and a future projection of CFR based on capital expenditure plans. It is a measure of the council's indebtedness, and therefore its underlying borrowing need. The CFR also includes other long-term liabilities such as finance leases.

5.27 The CFR incorporates interim figures in relation to the new reporting requirements detailed within IFRS16. The reporting standard requires certain leases currently accounted for through the revenue spend of the Council, to have its liabilities shown on the balance sheet, for example, if the lease has more than a year to run or is above a de-minimis value. An example for Norwich is vehicles procured through an operating lease.

5.28 This is a requirement of closing the accounts for 2024/25 and officers continue to undertake the required data gathering exercise, which will clarify the full impact on the CFR for the Council. It is therefore important to note that there may be a requirement to refresh the authorised limit and operational boundary once the review is substantially complete later in the 2024/25 financial year.

5.29 The general fund CFR does not increase indefinitely, as a Minimum Revenue Provision (MRP) is made each year which is a statutory annual revenue charge which broadly reduces indebtedness in line with each asset's expected life.

5.30 The repayment of loan debt made to external organisations also reduces the CFR where the loan is financed by borrowing.

Table 5.2: Capital Prudential Indicators

	2022/23 Estimate £000	2023/24 Estimate £000	2024/25 Estimate £000	2025/26 Estimate £000	2026/27 Estimate £000	2027/28 Estimate £000
Capital financing requirement at end of year						
General Fund	112,652	116,036	116,367	115,643	114,023	112,362
Housing Revenue Account	208,533	209,223	209,223	209,223	209,223	209,223
TOTAL	**321,185**	**325,259**	**325,590**	**324,866**	**323,246**	**321,585**
Annual change in capital financing requirement						
General fund	(351)	3,384	331	(724)	(1,620)	(1,661)
Housing Revenue Account	-	690	-	-	-	-
TOTAL	**(351)**	**4,074**	**331**	**(724)**	**(1,620)**	**(1,661)**

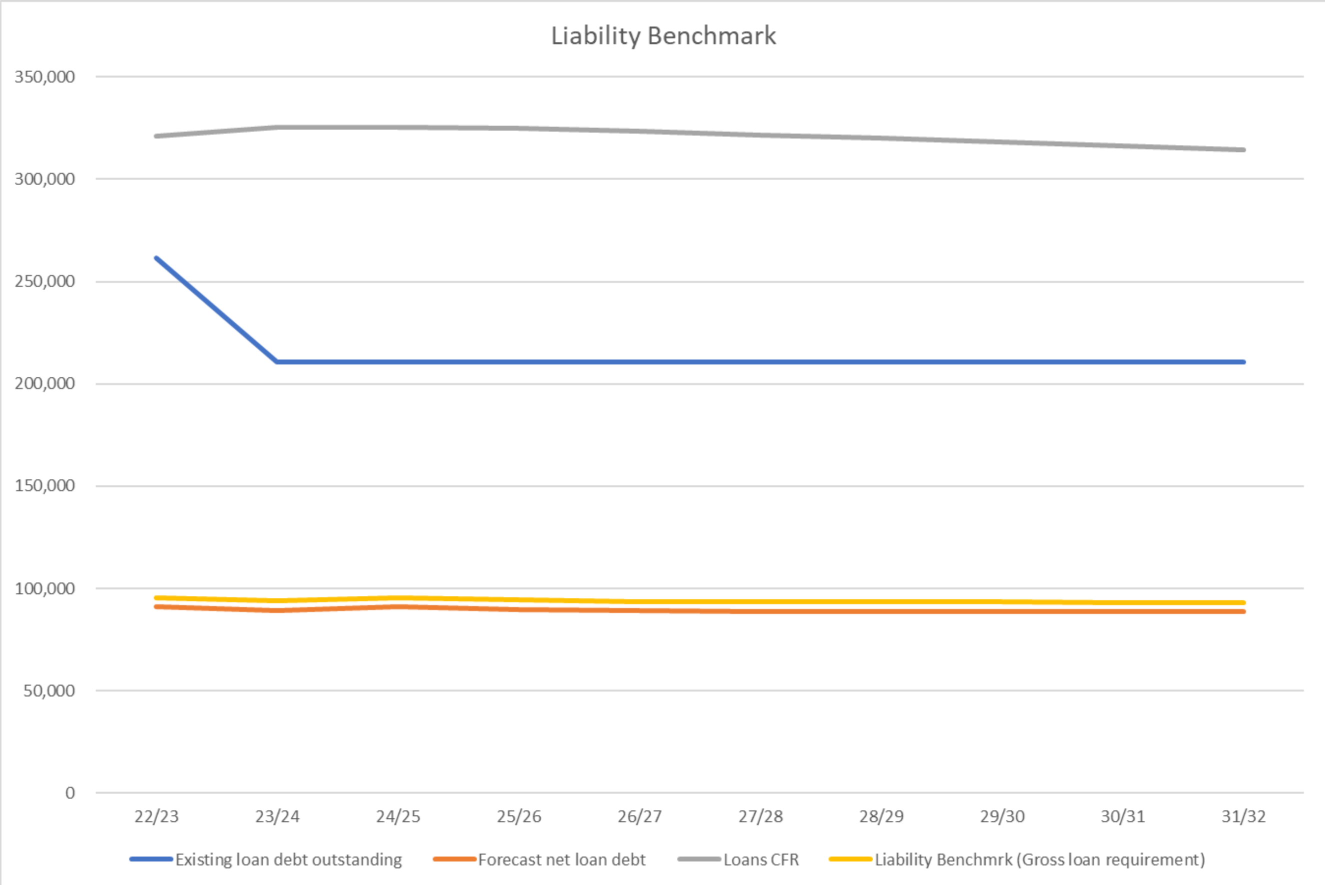
Liability Benchmark

5.31 A Liability Benchmark measure as defined in the new CIPFA Prudential and Treasury Management Codes is required to be included in the Council's Treasury Management Strategy from 2023/24. The Benchmark is included to determine the appropriate structure of the Councils external loans profile and is presented as a chart reflecting four balances as follows:

- Existing loan debt outstanding: the authority's existing loans which are still outstanding in future years;
- Loans CFR: 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 taking account of approved prudential borrowing;
- Net loans requirement: the authority's gross loan debt, less treasury management investments, at the last financial year end, projected into the future based on its approved prudential borrowing, planned MRP and any other forecast major cash flows and;
- Liability benchmark (or Gross Loans Requirement) = Net loans requirement + short term liquidity allowance.

5.32 Chart 5.1 shows the Council's existing outstanding loan debt on the blue line which is below the grey CFR line demonstrating an under borrowed position which is being met by internal borrowing. The dark orange line shows the net outstanding loan position after deducting treasury management investments. The yellow line is the Liability Benchmark (Gross Loan requirement) which is net loans plus a liquidity allowance. The yellow liability Benchmark is significantly below the CFR demonstrating the Councils under borrowed and internally borrowed position.

Chart 5.1Liability Benchmark



Maturity Structure of borrowing Strategy

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

Table 5.3: Maturity structure of borrowing

Maturity structure of fixed interest rate borrowing		
2 years to 5 years	0%	60%
5 years to 10 years	0%	60%
10 years to 15 years	0%	60%
15 years to 20 years	0%	60%
20 years and above	0%	80%

The table below summarises the council's forward projections for borrowing based on the assumptions given in table 5.1 above.

Table 5.4a: Estimated forward projections for borrowing

	2022/23 Estimate £000	2023/24 Estimate £000	2024/25 Estimate £000	2025/26 Estimate £000	2026/27 Estimate £000	2027/28 Estimate £000
External Debt						
Debt as at 1 April	261,607	210,648	210,648	210,648	210,648	210,648
Expected change in debt	(50,959)	0	0	0	0	0
Other long-term liabilities	559	432	296	152	0	0
Actual gross debt as at 31 March	**211,207**	**211,080**	**210,944**	**210,800**	**210,648**	**210,648**
Capital Financing Requirement	321,185	325,259	325,590	324,866	323,246	321,585
Under/(Over) borrowing	**109,978**	**114,179**	**114,646**	**114,066**	**112,598**	**110,937**

N.B. Other long-term liabilities are any liabilities and other credit arrangements that are outstanding for periods in excess of 12 months e.g. finance leases.

5.34 Over the six year period covered by this TM Strategy, the following loan maturities and new borrowing will occur:

Table 5.4b: Estimated forward projections for borrowing

Maturities	Financial Year	New Borrowing	Financial Year
2,061,140	2022-23	0	2022-23
48,898,000	2022-23	0	2022-23
4,000,000	2023-24	4,000,000	2023-24
2,500,000	2024-25	2,500,000	2024-25
2,500,000	2025-26	2,500,000	2025-26
700,000	2025-26	700,000	2025-26
50,000,000	2025-26	50,000,000	2025-26
2,500,000	2026-27	2,500,000	2026-27
5,000,000	2026-27	5,000,000	2026-27
50,000,000	2027-28	50,000,000	2027-28
2,500,000	2027-28	2,500,000	2027-28
170,659,140		**119,700,000**	

5.35 During 2022/23 the council will not take any new long-term borrowing. £45M of borrowing was taken out during 2021/22 whilst interest rates were at historical low levels ahead of a scheduled repayment of self-financing debt in March 2023.

5.36 The council is currently maintaining an under-borrowed position. This means that the capital borrowing need (CFR) has not been fully funded with external loan debt, as cash supporting the council's reserves, balances and cash flow is used as a temporary measure. This strategy is prudent as external loan costs are currently high with interest rising and set to be at higher levels for sometime.

5.37 The council has been well served by this policy over the last few years. The Section 151 Officer will continue to review and adopt a pragmatic approach to changing circumstances to avoid incurring higher borrowing costs as set out below:

- If it is felt that there is a significant risk of a sharp FALL in long and short term rates (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowings will be postponed and a potential rescheduling from fixed rate funding into short term borrowing will be considered.
- If it was felt that there was a significant risk of a much sharper RISE in long and short term rates than that currently forecast, perhaps arising from 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.

Minimum Revenue Provision Policy Statement

5.38 The proposed MRP Policy Statement is set out in Appendix 5.

5.39 The Council is required to pay off a proportion of the accumulated unfunded general fund capital expenditure each year (capital financing requirement) through an annual revenue charge (the MRP). This includes MRP for commercial properties and other non-treasury investments financed by borrowing.

5.40 The Council overpaid £6.982m of MRP in previous years. This amount is being gradually released to the general fund revenue budget on a straight-line basis over 40 years. From the 2023/24 TM Strategy onwards, there is £5.934m over 34 years still to be released.

5.41 It should be noted that it is not the council's policy to charge minimum revenue provision (MRP) on loans to third parties so long as there is no indication that the loan will not be repaid in full. All third-party loans will be reviewed annually with an assessment made of any MRP payments required. This provision is being kept under review in the light of recent consultation exercises and the potential for changes to the codes of practice in the future.

5.42 Currently there is no requirement for the HRA to make MRP provisions, although a voluntary revenue provision is being considered. This will provide a mechanism for the prudential repayment of debt over the life of the business plan. In the absence of a repayment mechanism, the business plan demonstrates that debt could continue to be financed. However, continued right-to-buy sales will lead to a decrease in the number of properties available to generate the income necessary to continue to make interest repayments. Therefore, given the cumulative impact of increasing interest charges it is considered sensible to put in place a means of extinguishing both the capital and interest element of debt.

Investment Property Review

5.43 The revised Treasury Management and Prudential codes require Councils to review assets held for investment purposes against ongoing borrowing requirements and consider disposal of those investments to finance borrowing where the sale of an investment is financially viable.

5.44 To inform its Investment Strategy and take into account the CIPFA code requirements, the Council commissioned a review of its investment portfolio in conjunction with Jones Lang LaSalle (JLL) to determine asset condition, assets returns and the potential cost of disposal, provide a high-level health check of the portfolio, outline a 5 year strategy for the portfolio and provide recommendations around the retention/disposal of each asset.

5.45 The review has identified a number of assets that can be considered for sale, in addition the Council disposed of the Norwich Airport Industrial Estate jointly owned with The County Council earlier in the year and in January completed the sale of another investment asset at Cambridge Science Park,which was wholly owned by the City Council. The Cabinet has also recently resolved to dispose of properties at Guildhall Hill, Norwich. Any further asset disposals identified through the review will also be approved by Cabinet and Council as required. The review by JLL identifies the potential to dispose of a number of additional assets over the next 5 years and these are being profiled to ensure that the timing of such disposals is appropriate and in line with the needs of the council's budget and MTFS. Further asset disposals are therefore planned over the next 5 years and such decisions will be taken in due course alongside a strategy for determining the most appropriate application of the capital receipts received.

Borrowing Strategy

5.46 The capital expenditure plans set out in tables 5.2 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, ensuring that sufficient cash is available to meet this service activity. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities.

Table 5.5: The Council's current investment and borrowing position

	31/03/2022 Actuals £000	%	31/12/2022 Actuals £000	%
Investments				
Banks	68,525	41.6	65,000	34.9
Building Societies	25,000	15.2	30,000	16.1
Local Authority	45,000	27.4	45,000	24.2
UK Government	2,000	1.2	21,000	11.3
Money Market Funds	24,000	14.6	25,000	13.4
TOTAL	**164,525**	**100.0**	**186,000**	**100.0**
Borrowing				
PWLB	256,607	97.8	256,607	97.8
Banks	5,000	1.9	5,000	1.9
Others	694	0.3	694	0.3
TOTAL	**262,301**	**100.0**	**262,301**	**100.0**

5.47 On the 31st of December 2022, the council held £262m of external borrowing and £186m of treasury investments.

5.48 During 2022/23 the council has not taken any new long-term borrowing. £45M of borrowing was taken out during 2021/22 whilst interest rates were at historical low levels ahead of a scheduled repayment of self-financing debt in March 2023.

5.49 The additional borrowing, combined capital and grant receipts front loaded in the year, has meant that investment balances have increased since the start of 2022/23. These are expected to decrease towards the year end following a scheduled repayment of PWLB debt and business rates grants to the government.

Treasury Indicators 2023/24 – 2027/28

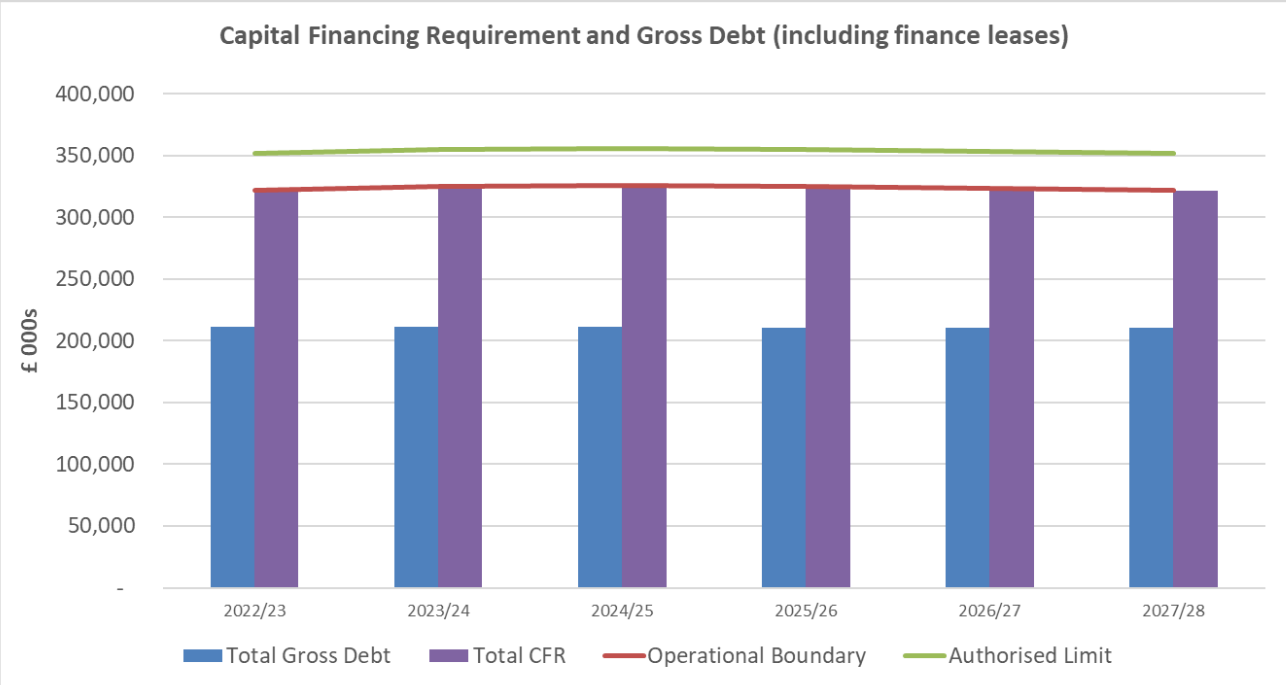
5.50 Table 5.6 below sets out the required affordable borrowing limit, namely:

a. The operational boundary - the limit beyond which external debt is not normally expected to exceed.
b. The authorised limit for gross external debt - a statutory limit determined under section 3 (1) of the Local Government Act 2003. It represents the legal limit on the maximum level of borrowing beyond which external debt is prohibited, and this limit needs to be set or revised by the full Council. It is also the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.
c. The estimated capital financing requirement for the HRA as at 1 April 2023 is £208.533m and this has been included in the authorised limit.
d. The HRA debt cap at the time it was removed in October 2018 was £236.989m.

Table 5.6: Treasury Indicators – Limits to Borrowing Activity

	2022/23 Estimate £000	2023/24 Estimate £000	2024/25 Estimate £000	2025/26 Estimate £000	2026/27 Estimate £000	2027/28 Estimate £000
Gross Debt						
Borrowing	211,207	211,079	210,944	210,800	210,648	210,648
Operational boundary for external debt						
Operational boundary	321,536	325,259	325,590	324,866	323,246	321,585
Authorised limit for external debt						
Authorised limit	351,536	355,259	355,590	354,866	353,246	351,585
Actual external debt						
Borrowing	210,648	210,648	210,648	210,648	210,648	210,648
Debt maturity profile - all borrowing %						
Less than one year	19%	2%	1%	25%	4%	25%
Between one and two years	2%	1%	25%	4%	25%	1%
Between 2 and 5 years	24%	54%	29%	27%	3%	3%
Between 5 and 10 years	23%	6%	7%	9%	9%	34%
Between 10 and 15 years	5%	4%	4%	2%	26%	4%
Between 15 and 20 years	0%	0%	0%	0%	0%	0%
Over 20 years	27%	33%	33%	33%	33%	33%
Upper limit for fixed interest rates	100%	100%	100%	100%	100%	100%
Upper limit for variable interest rates	20%	20%	20%	20%	20%	20%
Upper limit for investments > 365 days	£30m	£30m	£30m	£30m	£30m	£30m
Current treasury investments as at 31/12/2022 in excess of 1 year maturing in each year	-	-	-	-	-	-

__Chart 5.2: Forecast of CFR and borrowing limits__



Prospects for Interest Rates

5.51 The Council's treasury advisor's assist the Council to formulate a view on interest rates. Link provided the following forecasts on 19.12.22. These are forecasts for certainty rates, which are gilt (government bond) yields plus 80 bps.

Table 5.7 Interest Rate Forecasts

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

Source: Link

5.52 Links central forecast reflects a view that the MPC will be keen to demonstrate its anti-inflation credentials by delivering a succession of rate increases. This has happened throughout 2022, but the new Government's policy of emphasising fiscal rectitude will probably mean Bank Rate does not now need to increase to further than 4.5%.

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

5.54 The CPI measure of inflation is predicted to peak at close to 11% in Q4 2022. 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. Wage increases, excluding bonuses, are currently running at 5.7%.

5.55 In the upcoming months, the Link 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.)

5.56 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

5.57 Yield curve movements have become less volatile under the Sunak/Hunt government. PWLB 5 to 50 years certainty rates are, generally, in the range of 3.75% to 4.50%. The medium to longer part of the yield curve is currently inverted (yields are lower at the longer end of the yield curve compared to the short to medium end).

5.58 Link view the markets as having built in, already, nearly all the effects on gilt yields of the likely increases in Bank Rate and the poor inflation outlook but markets are volatile and further whipsawing of gilt yields across the whole spectrum of the curve is possible.

The balance of risks to the UK economy: -

- The overall balance of risks to economic growth in the UK is to the downside. Indeed, the Bank of England projected two years of negative growth in their November Quarterly Monetary Policy Report.

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 two years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than currently anticipated.
- 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 an even more rapid series of increases in Bank Rate faster than expected.

- The Government acts too slowly to increase taxes and/or cut expenditure to balance the public finances, in the 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.

- Borrowing advice: Our long-term (beyond 10 years) forecast for Bank Rate stands at 2.5%. As all PWLB certainty rates are now above this level, borrowing strategies will need to be seen 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.

Our suggested budgeted earnings rates for investments up to about three months' duration in each financial year are as follows: -

Table 5.8 Suggested budgeted earnings rates

	Average earnings in each year
2022/23 (remainder)	3.95%
2023/24	4.40%
2024/25	3.30%
2025/26	2.60%
2026/27	2.50%
Years 6 to 10	2.80%
Years 10+	2.80%

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

Borrowing Strategy

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

5.61 Against this background and the risks within the economic forecast, caution will be adopted with the 2023/24 treasury operations. The Council's S151 officer and the treasury team will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances.

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

Policy on borrowing in advance of need

5.63 CIPFA's Prudential Code allows borrowing in advance of need when changes in interest rates mean that it benefits the council to borrow before the planned expenditure is incurred. This will be considered carefully, and appropriate advice will be sought from the council's treasury management advisers.

5.64 Borrowing in advance of need from a treasury management perspective will be made within the following constraints:

- It will be limited to no more than 75% of the expected increase in borrowing need (CFR) over the three-year planning period; and
- The authority would not look to borrow more than 3 years in advance of need (current and next two financial years).

5.65 The risks associated with any advanced borrowing from a treasury management perspective will be subject to appraisal and will be reported via the mid-year or annual Treasury Management reports.

Debt rescheduling

5.66 As short-term borrowing rates will be considerably cheaper than longer term fixed interest rates, there may be potential opportunities to generate savings by switching from long-term debt to short-term debt. However, these savings will need to be considered in the light of the current treasury position and the size of the cost of debt repayment (premiums incurred).

5.67 Any rescheduling will take account of:

- The generation of cash savings and / or discounted cash flow savings;
- Helping to fulfil the treasury strategy;
- Enhancing the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

UK Municipal Bond Agency (MBA)

5.68 It is possible that the MBA will be offering loans to local authorities in the future at rates expected to be lowered than offered by the PWLB. The Council may make use of this new source of borrowing as and when appropriate.

Investment Strategy

Treasury investment policy

5.69 The council's treasury management investment policy has regard to DLUHC's Guidance on Local Government Investments ("the Guidance") and CIPFA's Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance

Notes ("the CIPFA TM Code") as well as the CIPFA Treasury Management Guidance Notes 2021. The Council's treasury management investment priorities will be Security first, Liquidity second, and then Yield.

5.70 All funds invested by the in-house treasury management team as part of the normal treasury management processes are made with reference to the cash flow requirements of the council and the outlook for short-term interest rates (i.e. rates for investments up to 12 months). Careful consideration will be given before investing sums identified for longer term investments.

Risk Management and Creditworthiness Policy

5.71 Management of risk is placed in high priority in accordance with the DLUHC and CIPFA Guidance. In order to minimise the risk to treasury investments, the council applies minimum acceptable credit criteria to generate a list of highly creditworthy counterparties which it maintains. 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.

5.72 Ratings will not be the sole determinant of the quality of an institution; the financial sector will be continuously monitored on both micro and macro basis and in relation to the economic and political environments in which these institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this, the council will engage with its advisors to watch the market pricing such as "credit default swaps" and overlay that information on top of the credit ratings.

5.73 Other information sources used will include the financial press, share price and other such information relating to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties. For local authority or related counterparties, the financial standing and other available information will be considered before placing investments.

5.74 Where applicable consideration will be given to the materiality of expected credit losses for treasury investments before they are used.

5.75 The counterparty list for treasury investments will be revised from time to time and submitted to council for approval as necessary.

5.76 In its selection process, the council will apply its approved minimum criteria to the lowest available rating for any institution. Credit rating information is supplied by Link Asset Services; the Council's treasury consultants. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list.

5.77 Any rating changes, rating watches (notification of a possible change), rating Any rating changes, rating watches (notification of a possible change), rating outlooks (notification of a possible longer-term change) are provided to officers almost immediately after they occur and this information is considered before dealing. On occasion ratings may be downgraded when an investment has already been made. The criteria used are such that a minor downgrading should not affect the full receipt of the principal and interest. Where a credit rating agency announces that a rating is on review for possible downgrade so that it may fall below the approved minimum rating criteria, then future investments (other than existing investments) will only be made with that organisation until the outcome of the review is announced. Building Societies will be subject to an additional criteria where the assets on their balance sheet are taken into account to asses credit worthiness. The counterparty list will therefore permit investment with a building societies where credit ratings are below the minimum for banks, but where the assets on the building societies balance sheet exceed £2.5bn.

5.78 The list of types of investment instruments that the treasury management team are authorised to use are categorised as specified and non- specified investments.

- **Specified investments** that the Council will use are high security and high liquidity investments in sterling and with a maturity of no more than a year.
- **Non-specified investments** are high security, high credit quality, in some cases more complex instruments for periods in excess of one year.

5.79 The council will consider the use of new investment instruments after careful consideration by officers and approval by council.

5.80 While all investments will be denominated in sterling, investments will only be placed with counterparties from countries with a specified minimum sovereign rating in table 5.10.

5.81 Lending and transaction limits for each counterparty will be set in the Treasury Management Principles (TMPs) through applying the matrix table 5.9 below.

Table 5.9: specified and non-specified investment approved instruments and limits

Counterparty/Financial instrument	Minimum Credit Criteria or Equivalent	Specified Investments		Non-specified Investments	
		Maximum duration	Counterparty Limit (£m)	Maximum duration	Counterparty Limit (£m)
DMAF - UK Government	n/a	3 months	£30m	n/a	n/a
UK Government gilts	UK Sovereign rating	12 months	£15m	3 years	£5m
UK Government Treasury bills	UK Sovereign rating	6 months	£10m	n/a	n/a
Money Market Funds - CNAV	AAA	Liquid	£10m per fund £25m overall limit	n/a	n/a
Money MARKET Funds - LVNAV	AAA			n/a	n/a
Money Market Funds - VNAV*	AAA			n/a	n/a
UK Local Authority term deposits (LA)**	n/a	12 months	£13m per LA	5 years	£5m per LA
Term Deposits with UK Building Societies	Assets worth at least £2.5bn but do not meet the minimum Bank/Building Society credit Criteria	12 months	£5m	n/a	n/a
Banks/UK Building Societies (Term deposits, CD, Call & Notice accounts)	AAA	12 months	£20m	2 years	£10m
Banks/UK Building Societies (Term deposits, CD, Call & Notice accounts)	AA+	12 months	£17m	12 months	£5m
	AA				
Banks/UK Building Societies (Term deposits, CD, Call & Notice accounts)	AA-	12 months	£10m	n/a	n/a
	A+				
	A				
Banks/UK Building Societies (Term deposits, CD, Call & Notice accounts)	A-	6 months	£5m	n/a	n/a
Property Funds	Credit loss analysis, financial and legal due diligence	n/a	n/a	n/a	£5m per fund
Loan Capital and other third party loans including parish councils	Subject to financial & legal due diligence	considered on individual basis	n/a	considered on individual basis	n/a

* Specialist advice will be obtained before the use of VNAV money market funds
** Local authorities will reviewed in line with CIPFA suggested indicators

5.82 Table 5.9 incorporates several increases to the specified investment counterparty limits compared to the 2022/23 Treasury Management Strategy. This decision has been taken in light of the increased cash balances currently being held by the authority. The increases have been applied to the lowest credit risk investments and will ensure the council has sufficient capacity to manage its current investments in a secure way. The following increases have been applied:

- Increase in specified investments with AAA rated Money Market Funds (MMF) (Term Deposits, CD, Call & Notice accounts) from £25m to £35m (maximum duration 12 months) and to increase the number of MMF’s available from three to Four;

5.83 The identification and rationale supporting the selection of these investments, the maximum limits and monetary limits to be applied are set out in table 5.9 above.

5.84 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.

Sovereign limits

5.85 Alongside changes in banking regulations which are focused on improving the banking sectors resilience to financial and economic stress, due care will be taken to consider the country, group and sector exposure of the Council’s investments.

5.86 The Council will only use approved counterparties from the UK and countries with a sovereign credit rating from the three main rating agencies equal to or above AA-. In addition:

- No more than 20% will be placed with any non-UK country at any time and would always be sterling investments
- Sector limits will be monitored regularly for appropriateness.

5.87 Due to the current economic outlook for the UK economy, the UK sovereign rating is currently on the lowest acceptable level suggested for approved countries of AA-. However, if credit rating agencies downgrade the UK below AA- (the minimum Sovereign rating for 2023/24), the council will immediately seek advice from its treasury adviser and report to cabinet at the earliest possible reporting date.

Table 5.10: Sovereign rating for 2023/24

AAA	Sweden	**AA**
Australia	Switzerland	Abu Dhabi (UAE)
Denmark		France
Germany	**AA+**	**AA-**
Luxembourg	Canada	Belgium
Netherlands	Finland	Hong Kong
Norway	USA	Qatar
Singapore		U.K.

Bank of England iteration UK bank stress tests

5.88 In addition to the use of credit ratings provided by the three main rating agencies the other factors identified in paragraphs 5.72 and 5.73 will be taken into consideration when selecting UK banks.

Money Market Funds (MMFs)

5.89 Money market funds are pooled investment vehicles consisting of instruments similar to those used by the council. They have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager and analyst team. Fees are deducted from the interest paid to the council.

Building societies

5.90 Although the regulation of building societies is no longer any different to that of banks, the council may use building societies which meet the minimum credit rating for Banks and Building Societies or have a minimum asset size of £2.5bn but will restrict these types of investments to fixed deposits subject to lower cash limit and shorter time limit.

Current account banking

5.91 The council's current accounts are held with Barclays Bank UK Plc (Ring Fenced Bank RFB). In the event of the credit rating of Barclays Bank UK Plc (RFB) falling to a point lower than the council's minimum credit criteria of A- long term rating, the council will treat its bank as "high credit quality" for the purpose of making investments that can be withdrawn on the next working day.

UK banks – ring fencing

5.92 The council will continue to assess any newly formed entities against existing criteria and those with sufficiently high ratings will be considered for investment purposes.

Investment risk benchmarking

5.93 These benchmarks are simple guides to maximum risk, so they may be breached from time to time, depending on movements in interest rates and counterparty criteria. The purpose of the benchmark is that officers will monitor the current and trend position and amend the operational strategy to manage risk as conditions change. Any breach of the benchmarks will be reported, with supporting reasons in the mid-year or annual Treasury Management report.

5.94 **Security benchmark** – Counterparty risk will increase as duration of investment increases. The council will continue its policy of investing the majority of its investments with duration of less than 12 months. The council's maximum security risk benchmark for the current portfolio, when compared to the historic default tables is 0.04%. This benchmark is an average risk of default measure and would not constitute an expectation of loss against a particular investment.

5.95 **Liquidity** – in respect of this area the council seeks to maintain:

- Bank overdraft – zero balance
- Liquid short-term deposits of at least £1m available with a week's notice.
- Weighted average life benchmark is expected to be 0.50 years, with a maximum of 1.00 year. However, this benchmark may change if the Council decides to invest longer than 12 months.

5.96 **Yield** - local measures of yield benchmarks are:

- Investments – internal returns above the 7-day SONIA (Sterling Overnight Index Average) rate.

Ethical investment

5.97 The council will not knowingly invest directly in businesses whose activities and practices pose a risk of serious harm to individuals or groups, or whose activities are inconsistent with the council's mission and values.

5.98 This applies to direct treasury investment only. The council's normal money market activity would usually be with financial institutions which may have unknown indirect links with companies which the council will be unable to monitor. However, where known links are publicly available the council will not knowingly invest.

Environmental, Social and Corporate Governance Policy

5.99 The updated Treasury Management Code published in December 2021 included a requirement under TMP1 that 'the organisation's credit and counterparty policies should set out its policy and practices relating to environmental, social and governance (ESG) investment considerations'. The Code acknowledges that this is a developing area, and it is not implied that the organisation's ESG policy will currently include ESG scoring or other real-time ESG criteria at the individual investment level. The council will continue to review and build on the emerging guidance in this area of treasury management as well as seek updates on good practice from its Treasury Management advisors.

5.100 The Council recognises that environment, social and governance (ESG) factors can influence investment performance and the ability to achieve sustainable returns. The Councils Treasury Management (TM) Committee therefore considers the following two key areas of responsible investment:

- Corporate Governance – acting as responsible and active investors.
- Sustainable investment – considering the financial impact of environmental, social and governance (ESG) factors on its investments.

5.101 The TM Committee takes ESG matters very seriously and will regularly conduct reviews of its policies in this area with advice from its Treasury Advisors. The TM Committee has developed the following responsible investment beliefs.

- The TM Committee has an overriding duty to manage its investments in accordance with the Committees Terms of reference and the council's legal obligation under the Local Government Act 2003;
- The Committee will adopt the relevant codes of practice and guidance issued by CIPFA (Chartered Institute of Public Finance & Accountancy) and the DLUHC (Department for Levelling Up, Housing and Communities) including CIPFA's Treasury Management Code of practice and the Prudential Code.
- The TM Committee consider proactive management of our ESG approach and will therefore encourage the Council's TM Advisers to actively engage with officers and the financial markets to identify suitable counterparty's and investments.

5.102 As part of their Environmental, Social and Governance (ESG) considerations, our TM Advisors should review the market for approaches to environmental factors such as fossil fuels and climate change along with Social factors such as employee rights and Governance factors such as compliance with standard industry practice and Legislation.

5.103 The TM Committee expects its advisors to demonstrate a positive review of the market in response to:

- Matters of social responsibility.
- Environmental policy on how their impact can be minimised.
- Monitor risks and opportunities associated with climate change and fossil fuels.
- Anticipate future legislative requirements.

5.104 As part of the Council's Counterparty list, the Council has access to a Sustainable triple A rated Money Market Fund. This allows the Council to place up to £10M of its surplus cash in an ESG focused fund which is low risk provides next day liquidity and market rate return.

Policy on charging interest to the Housing Revenue Account (HRA)

5.105 Following the reform of housing finance, the council can adopt its own policy on sharing interest costs and income between the General Fund (GF) and the Housing Revenue Account (HRA).

5.106 The CIPFA Code recommends that authorities state their policy on this matter each year in their treasury management strategy. The charge is required to be fair to the general fund and to the HRA. This council's policy is to charge the HRA with an element of any under-borrowing or surplus cash at the Council's pooled borrowing/investment rates.

Policy on use of financial derivatives

5.107 The council will not use standalone derivatives except where they can be clearly demonstrated to reduce the overall level of financial risk that the council is exposed to.

Regulatory Changes

5.108 In December 2021 CIPFA issued revised versions of the Treasury Management Code and its associated guidance, which in themselves interact closely with an updated Prudential Code for capital finance, governing local authority capital investment and borrowing activities. Formal adoption of the code by the Council is required from the 2023/24 financial year to which this Strategy document relates. The Council has to have regard to these codes of practice when it prepares the Treasury Management Strategy Statement and Annual Investment Strategy, and also related reports during the financial year, which are taken to Full Council for approval.

5.109 The revised codes have the following implications:

- 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;

- clarity on what CIPFA expects a local authority to borrow for and what they do not view as appropriate. This includes the requirement to set a proportionate approach to commercial and service capital investment;
- address ESG issues;
- a requirement to consider annually its commercial property investments, if it intends to have a borrowing need, and to consider the risks and benefits of continuing to hold such investments against the option to divest and realise capital receipts to pay down debt or reduce future borrowing needs;
- create new Investment Practices to manage risks associated with non-treasury investment (similar to 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 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 where supported by borrowing/leverage).

5.110 Members will continue to be updated on how all of these changes are being implemented as part of the regular reporting to the Treasury Management Committee.

APPENDIX 5: Minimum Revenue Provision (MRP) policy statement

For capital expenditure incurred:

(A) From 1st April 2008 for all unsupported borrowing (excluding finance leases) the MRP policy will be to; charge MRP on an annuity basis (using the prevailing rate of interest at the time) so that there is provision for the full repayment of debt over 50 years; Asset life is deemed to begin once the asset becomes operational. MRP will commence from the financial year following the one in which the asset becomes operational.

(B) MRP in respect of unsupported borrowing taken to meet expenditure, which is treated as capital expenditure by virtue of either a capitalisation direction or regulations, will be determined in accordance with the asset life method as recommended by the statutory guidance.

(C) Expenditure in respect of loans made to third parties will not be subject to a minimum revenue provision as the Council will have undertaken sufficient due diligence to expect these loans will be repaid in full to the Council by a capital receipt either during the loan agreement term or at the end of the agreement. Therefore, the Council considers that it can take a prudent view that the debt will be repaid in full at the end of the loan agreement (or during if it is an instalment loan), so MRP in addition to the loan debt repayments is not necessary. Each loan will be reviewed on an annual basis to ensure that is no change in the expectation that there will be a full repayment of the loan. If, upon review, this is no longer found to be the case then a minimum revenue provision will be made over a prudent timeframe to cover the potential non-repayment of part, or all of the loan balance.

This is subject to the following details:

1) An average asset life for each project will normally be used. There will not be separate MRP schedules for the components of a building (e.g. plant, roof etc.). The asset life will be determined by the Chief Finance Officer based on the standard schedule of asset lives provided by an appropriately qualified asset valuer will generally be used (as stated in the Statement of Accounts accounting policies).

2) MRP will commence in the year following the year in which capital expenditure financed from borrowing is incurred, except for single assets when expenditure is being financed from borrowing the MRP will be deferred until the year after the asset becomes operational.

3) Other methods to provide for debt repayment may occasionally be used in individual cases where this is consistent with the statutory duty to be prudent, as justified by the circumstances of the case. Where this is the case, the chief finance officer will first seek approval from Full Council.

4) 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.

5) Repayments included in annual finance leases are excluded from MRP as they are deemed to be a proxy for MRP.