Appendix 9

# Treasury Management Strategy Statements, MRP Strategy and Annual Investment Strategy 2023/24

February 2023

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# Contents

# Section 1 – Overview

## 1. Background

1.1 The Council is required to operate a balanced budget i.e. cash raised during the year will meet cash expenditure. In pursuit of this objective, amongst other things, the Council operates a treasury management function which incorporates the management of the Council's cash flows, lending and borrowing activities and the control management and mitigation of the risks associated with these activities.

1.2 Borrowing facilitates the funding of the Council's capital programme. The Council's capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning, to ensure that the Council can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans or using longer term cash flow surpluses. If the right circumstances prevail, debt previously drawn may be restructured to meet Council risk or cost objectives.

1.3 The contribution the treasury management function makes to the Council is critical, as the balance of debt and investment operations ensure liquidity and the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will maintain the balance between the interest costs of debt and the investment income arising from cash deposits to manage the available 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 in effect result in a loss to the General Fund balance

1.4 Although policy spending initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activities (arising usually from capital expenditure) and are separate from the day to day treasury management activities.

1.5 The Chartered Institute of Public Finance and Accountancy (CIPFA) defines treasury management as:

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

1.6 Revised reporting has been required since 2018/19 due to revisions of the Ministry for Housing Communities and Local Government (MHCLG) (now the Department for Levelling Up, Housing and Communities (DLUHC)) Investment Guidance, the MHCLG Minimum Revenue Provision (MRP) Guidance, the CIPFA Prudential Code and the CIPFA Treasury Management Code. The primary reporting changes included the introduction of a requirement for all local authorities to have a capital strategy, to provide a longer-term focus to the capital plans, and greater reporting requirements surrounding any commercial activity undertaken under the Localism Act 2011 especially using the 'General Powers of Competence' provision. The capital strategy is being reported separately, though some key prudential indicators will be retained within this document.

## 2. Reporting Requirements

2.1 CIPFA revised the Prudential and Treasury Management Codes in December 2021, these updates were implemented by the Council in 2022/23. The Prudential Codes requires all local authorities to prepare an additional report, 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; and
- the implications for future financial sustainability.

2.2 The aim is to ensure that all elected Members fully understand the long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite.

2.3 The expected income, costs and contributions, debt and associated interest costs and the MRP policy are included in the Treasury Management Strategy. The Capital Strategy and Treasury Management Strategy have been reviewed to ensure compliance with the updated requirements across the two strategies.

2.4 Non-treasury investments are reported through the Capital Strategy. This ensures the separation of the core treasury function under security, liquidity and yield principles, and the service and policy investments usually driven by expenditure on an asset. The capital strategy outlines:

- the corporate governance arrangements for these types of activities;
- any service objectives relating to the investments;
- the expected income, costs and resulting contribution;
- the debt related to the activity and the associated interest costs;
- the payback period (Minimum Revenue Provision (MRP) policy);
- for non-loan type investments, the cost against the current market value; and
- the risks associated with each activity.

2.5 Should a physical asset be bought for investment purposes, details of market research, advisers used (and their monitoring), ongoing costs and investment requirements and any credit information will be disclosed, including the ability to sell the asset and realise the investment cash.

2.6 If any non-treasury investment sustains a loss this will be reported through the final accounts, outturn and audit process, including the strategy and revenue implications.

2.7 To demonstrate the proportionality between the treasury operations and the non-treasury operation, high-level comparators are shown throughout this strategy document.

## 3. Treasury Management Reporting

3.1 The Local Government Act 2003 (the Act) and supporting regulations requires the Council to 'have regard to' the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice (Treasury Code) to set prudential and treasury indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable. The Council must also have regard to the DLUHC statutory guidance, Capital finance: guidance on minimum revenue provision.

3.2 In pursuit of the above, the Council must produce as a minimum three treasury reports each year:

a) Treasury Strategy, a requirement fulfilled by the production of this strategy document which includes:
   - capital plans (including prudential indicators);
   - minimum revenue provision (MRP) policy;
   - the treasury management strategy (including treasury indicators); and
   - an investment strategy;

b) A mid-year report which updates members on treasury progress, the capital position, the prudential indicators (and any amendments) and whether any strategies or policies require revision; and

c) An annual treasury outturn report (a backward looking review).

3.3 Full Council approves the Treasury Strategy as part of the annual budget-setting process. This appendix sets out the Treasury Strategy for 2023/24.

3.4 The scrutiny of the treasury management function within the Council is undertaken by Audit Committee, which carries out quarterly reviews.

3.5 The Council is also required to comply, and its Investment Strategy is compliant with, the DLUHC investment guidance, revised in 2018.

3.6 The Treasury Code was adopted by Council on the 9 March 2010. This strategy report complies with the revised Treasury Code.

3.7 In addition to the reporting schedule outlined above the Code requires the:

- Creation and maintenance of a treasury management policy statement which sets out the policies and objectives of the Council's treasury management activities. The Treasury Management Policy Statement is attached for reapproval as Annex 1.

- Creation and maintenance of Treasury Management Practices (TMPs) which set out the way the Council will seek to achieve those policies and objectives; these are maintained and kept under review by officers.

- Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions. The scheme of delegation is attached as Annex 2.

3.8 The Council complies with the necessary requirements and its governance process is strengthened by its Treasury Risk and Investment Board (TRIB), which meets regularly to support the Strategic Director of Corporate Resources (Section 151) in the execution of their delegated powers.

# Section 2 – Treasury Management Strategy for 2023/24

## 4. 2023/24 Strategy Overview

4.1 The Treasury Management Strategy for 2023/24 addresses capital issues including capital expenditure plans, prudential indicators, MRP and other treasury management issues such as the investment strategy and creditworthiness policy.

4.2 The proposed Treasury Management Strategy and Policy for the remainder of 2022/23 and for financial year 2023/24 adheres to the Council's policy on investments of "safety before returns" and investments are currently being placed with the following:

- United Kingdom (UK) Government (Debt Management Office);
- The Council's banker (Lloyds Bank);
- Nationwide; and
- Money Market Funds (see point 5 for regulatory changes to MMFs introduced from 21 January 2019).

4.3 Although current investments are per above, the investment parameters permissible under the Treasury Management Strategy are much broader as outlined in the Annual Investment Strategy (Annex 5) under specified and non-specified investments. After due consideration the Strategic Director of Corporate Resources (Section 151) can invest in any of the instruments/strategies if satisfied that the rewards are within acceptable risk parameters.

4.4 The proposed Treasury Management Strategy for 2023/24 is based upon treasury officers' views on interest rates and market forecasts (supplemented by forecasts provided by the Council's treasury advisors, Link Asset Services). The proposals in this report will assist the Council in mitigating risk in the treasury management activities and allow the borrowing necessary to finance the capital programme.

4.5 The strategy report covers:

- Pension Fund and West London Waste Authority cash;
- Capital Plans and Prudential Indicators;
- MRP;
- Borrowing (para 8);
- Treasury Limits for 2023/24 to 2025/26;
- Economic Background;
- Borrowing Strategy;
- Debt Rescheduling;
- Housing Revenue Account (HRA) Self Financing;
- Annual Investment Strategy;
- Financial Implications;

- Balanced Budget Requirement;
- Treasury Management Policy Statement; and
- Scheme of Delegation.

4.6 The strategy incorporates the requirements of the Local Government Act 2003, the CIPFA Prudential Code, DLUHC MRP Guidance, the CIPFA Treasury Code and DLUHC Investment Guidance.

## 5. Money Market Funds (MMFs)

5.1 Officers have previously reported that some MMFs faced difficulty during the global financial crisis, so the European Commission proposed new rules to safeguard investors. The changes to MMFs came into effect from January 2019.

**Summary of Revised Rules**

5.2 The revised regulations focus on the structure, composition, liquidity requirements, fees, redemption gates and understanding investor behaviour and information reporting. MMFs are categorised into structural options within the two categories below.

| Structural Options | Short-Term Money Market Funds | Standard Money Market Funds |
|---|---|---|
| Government Constant Net Asset Value (CNAV) | x | |
| Low Volatility Net Asset Value (LVNAV) | x | |
| Variable Net Asset Value (VNAV) | x | x |

5.3 Until changes were introduced European MMFs had CNAV and VNAV funds and the Council only used only CNAV funds. CNAV funds have now been restricted to government portfolios while a revised structural option for non-government funds, the Low Volatility Net Asset Value (LVNAV) MMF was introduced.

5.4 LVNAV MMFs retain stable NAV to two decimal places provided the fund is managed to certain maturity and liquidity constraints. If these constraints are breached the funds must be marked to market. The board of the MMF can take protective action in times of market stress or when more than 10% of the fund is redeemed in one day. These include gating or restricting the amount that can be drawn down in one day and levying liquidity fees on investors.

5.5 Currently the Council restricts its use of MMFs to CNAV and LVNAV funds although the strategy permits the use VNAV MMF should this be deemed appropriate at a future date.

## 6. Training

6.1 The Treasury Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training on treasury management and related issues. This especially applies to Members responsible for scrutiny, who regularly receive training.

6.2 Audit Committee members are scheduled to receive training this financial year to be delivered by the Council's treasury management advisers. The training needs of treasury management officers are met through attendance at relevant courses, conferences and forums and are periodically reviewed and addressed as part of the Council's appraisal scheme.

## 7. Treasury Management Consultants

7.1 The Council uses Link Asset Services, as its external treasury management advisors. 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 external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, treasury advisers.

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

7.3 The scope of investments within the Council's operations now includes both conventional treasury investments (the placing of residual cash from the Council's functions) and more policy/ service driven investments, such as policy loans for housing. The policy investments require specialist advisers, and the Council uses Link Asset Services and other commercial and legal advisors in relation to this activity.

## 8. Pension Fund Cash

8.1 The Council's arrangement for pension fund cash changed from 1 April 2011 to meet the requirements of (then) MHCLG regulations. In the past all pension fund transactions flowed through the Council's main bank account with monthly transfers to and from the Pension Fund bank account to manage surplus and deficit cash positions. A separate Pension Fund ledger has been operational since December 2018, to enable comprehensive and ring-fenced use of the Pension Fund bank account. All money due to/owed by Pension Fund to the Council is treated as a Debtor/Creditor and cash transfers are made to/from Pension Bank account for settlement.

8.2 All surplus Pension Fund cash will continue to be transferred monthly to the Custodian's (BNY Mellon) bank account where it is swept for overnight investment into a money market bank account. Pension Fund cash retained locally to manage cash flow will be invested in either the Pension Fund MMF or fixed term deposits.

8.3 The Council is responsible for managing the pension fund cash (that may be retained in house) in accordance with this Treasury Management Strategy. The Pension Fund Panel is updated of progress on a quarterly basis.

## 9. West London Waste Authority (WLWA) Cash

9.1 From 1 April 2014, the London Borough of Ealing started to carry out treasury management services for the WLWA. There are significant benefits in the WLWA engaging with one of the boroughs to provide treasury management services on their behalf.

9.2 During 2022/23 WLWA transferred their excess funds to the Council to be invested jointly and to have investments with Nationwide (£18m). They will earn the average interest rate achieved by the Council based on their average balance and the rate invested directly with Nationwide on their behalf. The WLWA has also subscribed to Link Asset Management Services and they will mirror the Council's investment strategy.

9.3 The performance of the treasury management service is reviewed from time to time. The annual charge for the WLWA using the Council's treasury management services has been agreed for at £7,700 and the current service contract will run to 2022/23. A contract extension of 2 years is expected to be signed in 2023.

## 10. MIFID II

10.1 As reported in previous years, on the 3 January 2018, the EU Market in Financial Instruments Directive II (MiFID II) came into effect and requires regulated bodies to classify Local Authorities as retail clients, unless they provide evidence that they should be opted up to 'professional client' status.

10.2 The Council has opted up to 'professional client' categorisation with all brokers and counterparties. In order to achieve this, the Council had to provide evidence that it held an investment balance of at least £10m and that the person(s) authorised to make investment decisions on behalf of the authority has at least one year's relevant professional experience. The Council currently meets these criteria and training needs will be regularly monitored to ensure compliance.

## 11. Prudential Indicators

11.1 The Local Government Act 2003 and supporting regulations requires the Council to 'have regard to' the Prudential Code and to set Prudential Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable.

11.2 The Council's Prudential Indicators for the period 2023/24 – 2025/26 are set out in **Annex 3** and Full Council is asked to approve these.

11.3 The benefit of the indicators are derived from monitoring them over time rather than the absolute value of each. A reporting schedule is maintained, with a mid-year report to Full Council to highlight any significant deviations from expectations. The indicators can be amended and reported to Full Council for approval at the earliest opportunity. The updated Prudential Indicators schedule will be taken to Full Council in March 2023.

11.4 The indicators for later years are broad estimates since a number of factors including the level of Government support beyond 2023/24 are not firmed up. These estimates will be revised, as more accurate information becomes available.

## 12. Minimum Revenue Provision (MRP) Policy Statement

12.1 Changes to statutory guidance for MRP were introduced effective from 2019/20.

12.2 The key changes were that:

- The option to calculate MRP in retrospect thereby creating a credit or a reduction in MRP for future years was closed, though the ability to reset a provision prospectively remains – any changes should use the residual CFR at that point in time;

- MRP should not be £nil in any year – unless CFR is nil or negative or a voluntary MRP is being clawed back;

- Maximum asset life is 50 years unless supported by expert opinion; and

- Where the asset life methodology (option 3) is being used, the guidance is prescriptive on the maximum number of years over which the type of expenditure can be written off – in the absence of a quantifiable asset life, 25 years is considered the reasonable default.

12.3 Full Council is asked to approve the MRP policy statement as set out in Annex 4.

## 13. Core funds and expected investment balances

13.1 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.). Outlined below are estimates of the year end balances on investments.

Table 1: Estimate of Year End Balance

| Year End Resources | 2021/22 Outturn | 2022/23 Estimate | 2023/24 Estimate | 2024/25 Estimate | 2025/26 Estimate |
|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m |
| **Expected Investments** | 410 | 574 | 340 | 300 | 310 |

## 14. Affordability Prudential Indicators

14.1 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. Full Council is asked to approve the indicators as set out in Annex 3.

## 15. Borrowing

15.1 The capital expenditure plans set out in this strategy document outline service activity for the Council. The treasury management function ensures that the Council adheres to the relevant treasury codes of practice as well as organising the Council's cash flow and borrowing needs to meet the requirements of service activity. It is a statutory requirement under the Local Government Finance Act 1992, for the Council to produce a balanced budget. Section 31A and S31B requires a local authority to calculate its budget requirement for each financial year to include the revenue costs that flow from capital financing decisions. This means that increases in capital expenditure must be limited to a level whereby increases in charges to revenue from:

- increases in interest charges caused by increased borrowing to finance additional capital expenditure; and
- any increases in running costs from new capital projects

are limited to a level which is affordable, prudent and sustainable within the projected income of the Council for the foreseeable future.

15.2 The strategy document covers the relevant treasury/ prudential indicators, the current and projected debt positions and the annual investment strategy.

15.3 The Council's current treasury management portfolio position is set out in table 2A and 2B below. The overall portfolio as at the 31 March 2022 and the position at 31 December 2022 are shown below for borrowing and investments.

Table 2A: Treasury Management Portfolio

| TREASURY PORTFOLIO | | | | |
|---|---|---|---|---|
| | Actual | Actual | Current | Current |
| | 31.3.2022 | 31.3.2022 | 31.12.2022 | 31.12.2022 |
| | £000 | % | £000 | % |
| **Treasury Investments** | | | | |
| | | | | |
| Banks | 30,000 | 5.67% | 22,000 | 3.97% |
| Building Societies - Unrated | 0 | 0.00% | 0 | 0.00% |
| Building Societies - Rated | 3,000 | 0.57% | 18,000 | 3.25% |
| Local Authorities | 0 | 0.00% | 0 | 0.00% |
| DMADF (HM Treasury) | 492,000 | 93.05% | 456,500 | 82.44% |
| Money Market Funds | 0 | 0.00% | 45,000 | 8.13% |
| Other | 3,725 | 0.70% | 12,252 | 2.21% |
| Certificate Of Deposit | 0 | 0.00% | 0 | 0.00% |
| **Total Managed In House** | **528,725** | **100.00%** | **553,752** | **100.00%** |
| Bond Funds | - | 0.00% | 0 | 0.00% |
| Property Funds | - | 0.00% | 0 | 0.00% |
| **Total Managed Externally** | **-** | **0.00%** | **0** | **0.00%** |
| **Total Treasury Investments** | **528,725** | **100.00%** | **553,752** | **100.00%** |
| | | | | |
| **Treasury External Borrowing** | | | | |
| **Local Authorities** | | | | |
| PWLB | 773,130 | 87.09% | 757,232 | 83.51% |
| LOBOs | 78,000 | 8.79% | 78,000 | 11.85% |
| Market Fixed Term Loan | 10,000 | 1.13% | 10,000 | 1.52% |
| Other | 26,650 | 3.00% | 32,125 | 3.12% |
| **Total External Borrowing** | **887,780** | **100.00%** | **877,357** | **100.00%** |
| | | | | |
| **Net Treasury Investments / (Borrowing)** | **(359,055)** | **100.00%** | **(323,605)** | **100.00%** |

15.4 The Council's projections for borrowing are summarised below. Table 2B shows the actual external debt against the underlying capital borrowing need, (the Capital Financing Requirement (CFR)), highlighting any over or under borrowing.

Table 2B: Actual External Debt against Capital Borrowing Need

| | 2021/22 Outturn £m | 2022/23 Estimate £m | 2023/24 Estimate £m | 2024/25 Estimate £m | 2025/26 Estimate £m |
|---|---|---|---|---|---|
| **External Debt** | | | | | |
| Debt at 1 April | 658.499 | 887.780 | 877.357 | 872.301 | 861.944 |
| Expected change in Debt +/- | 229.281 | (10.423) | (5.056) | (10.357) | 39.104 |
| **Actual gross debt at 31 March** | **887.780** | **877.357** | **872.301** | **861.944** | **901.048** |
| **The Capital Financing Requirement (CFR)** | **729.813** | **830.344** | **1,082.510** | **1,319.185** | **1,369.057** |
| **Under / (Over) borrowing** | **(157.967)** | **(47.013)** | **210.209** | **457.241** | **468.009** |
| Other long-term liabilities (OLTL) | 100.968 | 95.151 | 94.401 | 82.168 | 74.959 |
| Expected change in OLTL | (5.817) | (0.750) | (12.233) | (7.209) | (7.792) |
| **OLTL Total** | **95.151** | **94.401** | **82.168** | **74.959** | **67.167** |

*Note: **The table shows the impact of not externally borrowing (using the Council's cash balances/ investments to internally fund underlying borrowing). This policy is under constant review.*

15.5 Within the above figures the level of debt relating to non-treasury activities i.e. policy investment is:

Table 3: External Debt for Policy Investments (including Housing Loans) / non-treasury investments

| | 2021/22 Outturn £m | 2022/23 Estimate £m | 2023/24 Estimate £m | 2024/25 Estimate £m | 2025/26 Estimate £m |
|---|---|---|---|---|---|
| Actual debt at 31 March £m | 90.98 | 30.00 | 141.55 | 92.00 | 20.43 |
| Percentage of total external debt % | 10% | 3% | 16% | 11% | 2% |

15.6 Within the range of prudential indicators there are a number of indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2023/24 and the following two financial years. This allows some flexibility for limited early borrowing for future years but ensures that borrowing is not undertaken for revenue or speculative purposes.

15.7 The Strategic Director of Corporate Resources (Section 151) reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view considers current commitments, existing plans, and the proposals in this budget report.

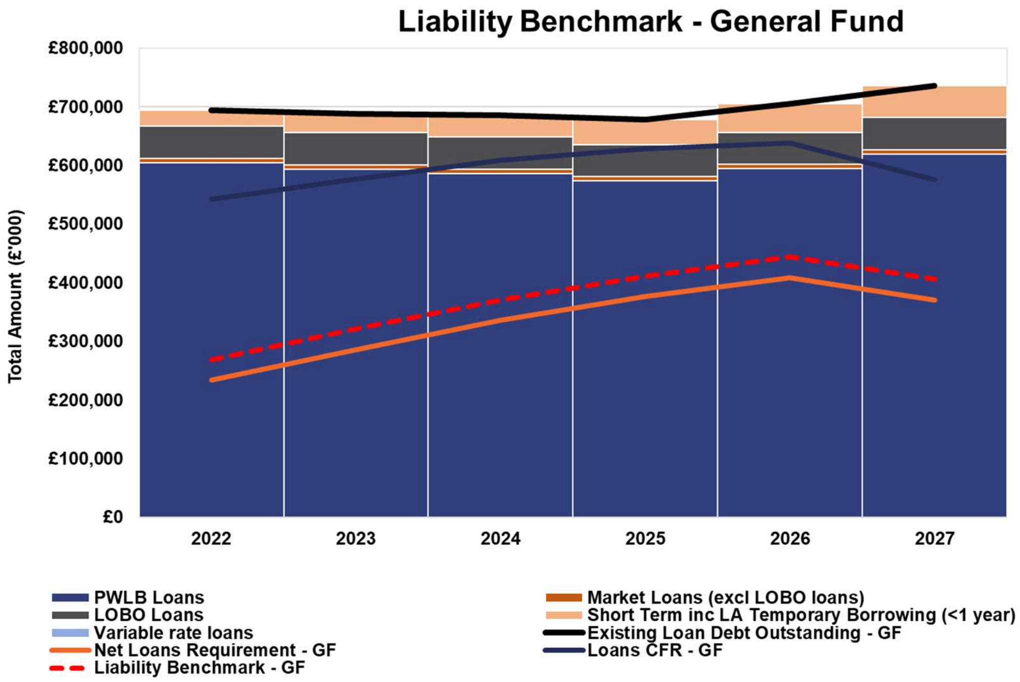
## 16. Liability Benchmark

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

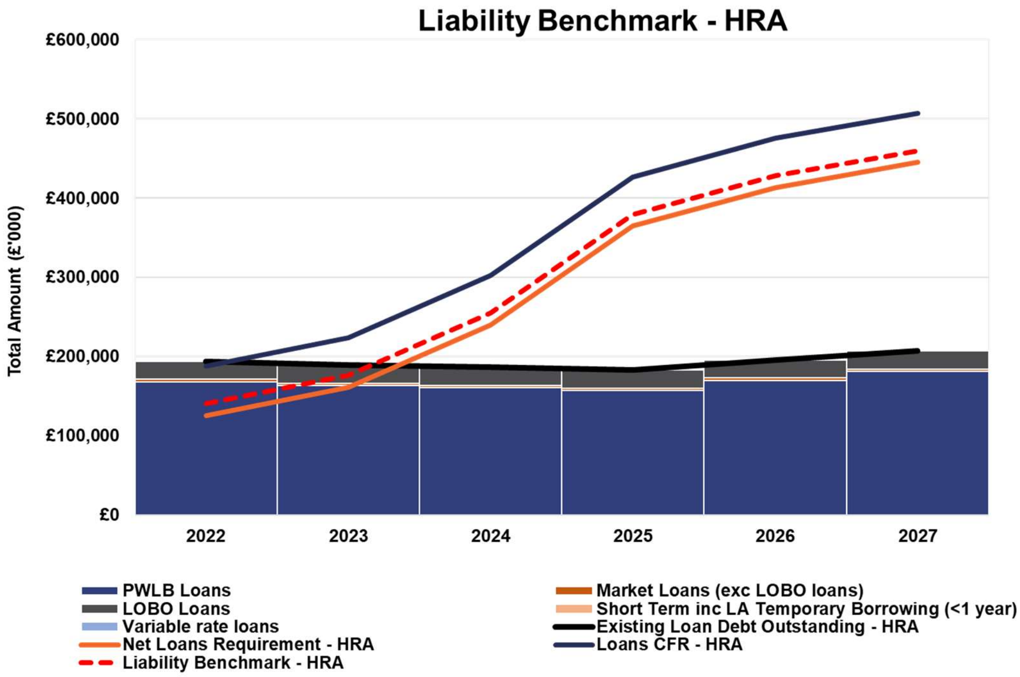
16.2 There are four components to the Liability Benchmark: -

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

16.3 Liability Benchmark charts for General Fund (GF) and HRA:




16.3.1 For the GF liability benchmarking, the Council is showing an overborrowed position relative to its CFR, the reason for the overborrowing is that the Council took advantage of the low interest rates borrowings in 2021/22 to fund its planned capital programme. However, the overborrowing position will be reduced in the next couple years.




**16.3.2** For the HRA liability benchmarking, the comparison between the current borrowing portfolio and the liability benchmark indicates a borrowing need. Currently the interest rates are not favourable for the new borrowings and interest rates are expected to fall in the coming years and at which point the Council will consider undertaking HRA borrowing.

## 17. Treasury Indicators

17.1 **Treasury Limits for 2023/24 to 2025/26**

17.1.1 It is a statutory duty under Section 3 of the Local Government Act 2003 and supporting regulations for the Council to determine and keep under review how much it can afford to borrow. The amount so determined is termed the "Affordable Borrowing Limit". In England and Wales, the Authorised Limit represents the legislative limit specified in the Act.

17.1.2 The Council must have regard to the Prudential Code when setting the Authorised Limit, which essentially requires it to ensure that total capital investment remains within sustainable limits and that the impact upon its future council tax and council rent levels is 'acceptable'.

17.1.3 Whilst termed an "Affordable Borrowing Limit", the capital plans considered for inclusion incorporate financing by both external borrowing and other forms of liability, such as credit arrangements. The Authorised Limit is to be set, on a rolling basis, for the forthcoming financial year and two successive financial years, details of the Authorised Limit are set out in Annex 3.

## 18. Economic Background and Interest Rate Forecasts

18.1 Link Asset Services, as treasury adviser, assists the Council in formulating a view on interest rate forecasts. The following table outlines the Link Asset Services view. It should be noted that the Public Works Loans Board (PWLB) offers a certainty rate discount of 0.20% to local authorities who provide specified information on their plans for capital spending and the associated longer-term borrowing. The Council has applied and qualifies to borrow at the certainty rate.

Table 4: Link Interest Rate Forecast

| Rate | Dec-22 % | Mar-23 % | Jun-23 % | Sep-23 % | Dec-23 % | Mar-24 % | Mar-25 % | Mar-26 % |
|---|---|---|---|---|---|---|---|---|
| Bank of England | 3.50 | 4.25 | 4.50 | 4.50 | 4.50 | 4.00 | 3.00 | 2.50 |
| 5yr PWLB | 4.30 | 4.30 | 4.20 | 4.10 | 4.00 | 3.90 | 3.40 | 3.10 |
| 10yr PWLB | 4.50 | 4.50 | 4.40 | 4.30 | 4.20 | 4.00 | 3.50 | 3.20 |
| 25yr PWLB | 4.70 | 4.70 | 4.60 | 4.50 | 4.40 | 4.30 | 3.70 | 3.50 |
| 50yr PWLB | 4.30 | 4.40 | 4.30 | 4.20 | 4.10 | 4.00 | 3.40 | 3.20 |

18.2 The UK Gross Domestic Product (GDP) shrank 0.3% on quarter in the three months to September of 2022, slightly more than a preliminary estimate of a 0.2% drop. Household expenditure dropped 1.1%, while business investment went down 2.5% and inventories fell by £5.2bn, mainly driven by reductions for retail and manufacturing. On the other hand, Government expenditure went up 0.5% and Government investment surged 17.3%, while exports jumped 8.9% compared to a 3.6% decline for imports. Nevertheless, the UK monthly GDP grew by 0.5% in October from September, the biggest increase in nearly a year and above forecasts of 0.4%.

18.3 The Consumer Prices Index (CPI) rose by 10.5% in the 12 months to December 2022, down from 10.7% in November. On a monthly basis, CPI rose by 0.4% in December 2022, compared with a rise of 0.5% in December 2021. The largest downward contribution to the change in the CPI annual inflation rates between November and December 2022 came from transport (particularly motor fuels), clothing and footwear, and recreation and culture, with rising prices in restaurants and hotels, and food and non-alcoholic beverages making the largest partially offsetting upward contributions.

18.4 The Bank of England's Monetary Policy Committee voted by a majority of 6-3 to raise interest rates by 50 basis points to 3.5% during its December 2022 meeting, pushing the cost of borrowing to the highest level since late-2008, as policymakers try to balance containing inflation amid rising concerns of a looming economic recession. Since then it raised interest rates to 4.00% at its February 2023 meeting.

18.5 The UK employment rose by 27,000 in the three months to October, beating market estimates of a 17,000 decline and following a 53,000 drop in the previous month's reading. The unemployment rate in the UK edged higher to 3.7% in October from 3.6% in the previous period, matching market forecasts. The employment rate also went up to 75.6% from 75.4%, with the timeliest figures for on-payrol employees rising by 107,000 in November to a record of 29.9m. Job vacancies however, fell by 65,000 to 1,187,000, a fifth consecutive decline, and reflecting uncertainty across industries, as economic pressures hold back on recruitment. Average weekly earnings including bonuses in the UK increased by 6.1% year on year in the three months to October, above a 6.0% gain in the three months to September but less than market forecasts of 6.2%. Meanwhile, regular pay which excludes bonus payment also went up 6.1%, the most since July 2021, exceeding forecasts of 5.9%. Adjusted for inflation, total pay fell 2.7%, and regular pay also dropped 2.7%, underlining the squeeze on households. In addition, retail sales unexpectedly declined 0.4% month on month in November, after an upwardly revised 0.9% in the previous month when there was a bounce back from the impact of the additional Bank Holiday in September for the State Funeral.

18.6 The Eurozone economy quarterly growth was revised slightly higher to 0.3% in the third quarter of 2022 from preliminary estimates of 0.2%. Fixed investment was the main driver of growth, rising by 3.6% during the quarter. The European Central Bank (ECB) raised interest rates by 50 basis points (bps) during its last monetary policy meeting of 2022, marking a fourth rate increase, following two consecutive 75bps hikes. In addition, household consumption advanced 0.9% and government spending increased slightly by 0.1%. Among the biggest economies, Italy and Germany's GDP grew fastest while France and Spain's GDP showed slight growth and Netherlands contracted. Meanwhile, the annual inflation in the Euro Area was revised to 10.1% in November, slightly up from a preliminary estimate of 10.0%. Energy prices rose at a softer rate compared to last month but remained the largest contributor to the overall price increase.

18.7 The unemployment rate in the United States (US) was unchanged at 3.7% in November 2022, matching market expectations while non-farm payrolls rose by a larger than forecast 263,000. The number of unemployed persons fell from 6.059m to 6.011m in November, while the number of employed decreased by 138,000 to 158.5m. The labour force participation rate edged down to a four-month low of 62.1% in November from 62.2% in the previous month. The US economy grew an annualised 3.2% on quarter in Q3 2022, better than 2.9% in the second estimate, and rebounding from two straight quarters of contraction. Consumer spending rose more than anticipated as growth in health care and "other" services partially offset a decrease in spending on goods, namely motor vehicles and food and beverages. The biggest positive contribution to growth came from net trade, although exports rose slightly less than reported in the second estimate while imports were unrevised. Meanwhile, annual inflation rate in the US slowed for a fifth straight month to 7.1% in November, the lowest since December last year, and below forecasts of 7.3%. Finally, the Federal Reserve raised the Fed Funds Rate by 50bps to 4.25%-4.5% during its last monetary policy meeting of 2022, pushing borrowing costs to the highest level since 2007. It was a seventh consecutive rate hike, following four straight three-quarter point increases.

## 19. Borrowing Strategy 2023/24

19.1 The Council's strategy is to achieve a low but stable cost of finance but retaining flexibility to alter its plans as circumstances change. In this regard, the Council was maintaining an under-borrowed position up until this year when advantageous borrowing rates has led to the Council taking out some borrowing early. This means that the capital borrowing need CFR is now funded in advance. This strategy is prudent as borrowing interest rates were low and the Council has a sizeable borrowing requirement to fund its ambitious capital delivery programme.

19.2 The Council has, to date, raised most of its long-term borrowing from the PWLB but will consider long-term loans from other sources including banks, pension funds and local authorities and will explore the possibility of issuing bonds and similar instruments to lower interest costs and reduce over-reliance on one source of funding in line with the CIPFA Code. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield; this Council will continue to avoid this activity and ensure the Council retains its access to PWLB loans.

19.3 **Sensitivities of the forecast**

19.3.1 If officers' felt there was a significant risk of a sharp fall in long and short term interest rates (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowing will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered. However, if there was a significant risk of a much sharper rise in long and short term rates than that currently forecast, then the portfolio position will be re-appraised with the likely action that fixed rate funding will be raised whilst interest rates are still lower than they will be in the foreseeable years ahead. The Council has, during 2021/22,raised borrowing in line with the latter strategy. All decisions and actions taken have or will be reported to Audit Committee or Full Council at the earliest opportunity.

19.3.2 The Council's borrowing strategy will consider new borrowing in the following priority as required:

- Temporary borrowing from the money markets or other local authorities;
- PWLB variable rate loans for up to 10 years;
- Short dated borrowing from non PWLB and other sources;
- PWLB borrowing for periods across all the durations when rates are at particularly good value;
- Long term fixed rate market loans at rates significantly below PWLB rates for the equivalent maturity period (where available) and to maintaining an appropriate balance between PWLB and market debt in the debt portfolio;
- Capital market bond investors;
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues;

- Individuals lending via peep-to-peer platform where necessary counterparty checks (for example proof of identity or money laundering requirements) are conducted by the platform; and
- Investors in capital market bonds and retail bonds issues by the Council.

19.3.3 **Other sources of debt finance:** In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- Leasing – a contract outlining the terms under which one party agrees to lease/ rent a property owned by another party;
- Hire purchase – financing where monthly payments are made but ownership does not occur until the last payment;
- Private Finance Initiative –a procurement method which uses private sector investment to deliver public infrastructure; and
- Sale and leaseback – selling a property and entering a lease arrangement with the purchaser to occupy.

19.3.4 The Council will continue to borrow in respect of the following:

- Maturing debt (net of MRP);
- Approved unsupported (prudential) capital expenditure; and
- To finance cash flow in the short term.

19.3.5 The type, period, rate and timing of new borrowing will be determined by the Strategic Director of Corporate Resources (Section 151) under delegated powers, considering the following factors:

- Expected movements in interest rates as outlined above;
- Current maturity profile;
- The impact on the medium term financial strategy; and
- Prudential indicators and limits.

## 19.4 New Financial Institutions as a source of borrowing and Types of Borrowing

19.4.1 Following the decision by the PWLB on 9 October 2019 to increase their margin over gilt yields by 100 bps to 180 bps on loans lent to local authorities, officers began to explore alternative sources of borrowing. However, in March 2020, the Government started a consultation process for reviewing the margins over gilt rates for PWLB borrowing. The chancellor announced the conclusion which amongst other things reversed certainty rate increase for the GF. Options for the diversification of loan source will still be explored and the Council will look to:

- Local authorities (primarily shorter dated maturities);
- Financial institutions (primarily insurance companies and pension funds but also some banks, out of spot or forward dates); and
- Municipal Bonds Agency.

19.4.2 Approved sources of borrowing include:

- PWLB;
- Any institution approved for investments;
- Financial Institutions including Assurance and Insurance Companies and Banks ;
- Local Authorities and Housing Associations;
- UK public sector and private sector pension funds;
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues;
- Any other public sector body;
- Any other institution which is legally able to lend to local authorities;
- Leasing;
- Hire purchase;
- Private Finance Initiative (PFI) and similar financing arrangements; and
- Sale and leaseback.

19.4.3 A range of organisations fall within the scope of the list and a range of financial instruments may be issued to evidence the borrowing including public or privately issued bonds, negotiable bonds, commercial paper, medium term notes etc. The Strategic Director of Corporate Resources (Section 151) will explore all options and determine the optimal source of borrowing for the Council.

### 19.5 Treasury Management Limits on Borrowing Activity

19.5.1 There are three debt related treasury activity limits. The purpose of these is to restrain the activity of the treasury function within a flexibly set remit, to manage risk, yet not impose undue restraints that constrain cost reduction or performance improvement. The indicators are:

- Upper limits on variable interest rate exposure net of investments;
- Upper limits on fixed interest rate exposure; and
- Maturity structure of borrowing to manage refinancing risk.

19.5.2 The proposed indicators are set out in Annex 3.

### 19.6 Policy on borrowing in advance of need

19.6.1 The Council needs to ensure that its total debt, does not, except in the short term, exceed the total of the CFR in the preceding year i.e. 2022/23 plus the estimates of any additional CFR for the year 2023/24 and the following two financial years. This allows some flexibility for limited early borrowing for future years but ensures that borrowing is not undertaken for revenue generation purposes. The Council has raised some future years borrowing taking advantage of low interest rates in 2021.

19.6.2 Any decision to borrow in advance will be considered carefully to ensure value for money can be demonstrated and that the Council can ensure the security of such funds.

19.6.3 Borrowing in advance of need will ideally be limited to no more than 100% of the expected increase in borrowing need (CFR) over the three-year planning period. In determining whether borrowing will be undertaken in advance of need the Council will:

- ensure that there is a clear link between the capital programme and maturity profile of the existing debt portfolio which supports the need to take funding in advance of need;
- ensure the ongoing revenue liabilities created, and the implications for the future and budgets have been considered;
- evaluate the economic and market factors that might influence the manner and timing of any decision to borrow;
- consider the merits and demerits of alternative forms of funding;
- consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use; and
- consider the pros and cons of the impact of borrowing in advance of need at attractive rates on the available cash balances the Council will hold and the risks associated with increased exposure to credit risk arising from investing this additional cash in advance of need.

## 19.7 Debt Rescheduling

19.7.1 As short-term borrowing rates can be considerably cheaper than longer term rates, there could have been potential to generate savings by switching from long term debt to short term debt. Any savings will need to be considered in the light of the size of premiums to be incurred, their short-term nature, and the likely cost of refinancing those short-term loans, once they mature, compared to the current rates of longer-term debt in the existing debt portfolio. Any such rescheduling and repayment of debt is likely to cause a flattening of the Council's maturity profile as in recent years there has been a skew towards longer dated PWLB.

19.7.2 The business case for any rescheduling will include:

- the generation of cash savings and / or discounted cash flow savings;
- helping to fulfil the strategy outlined above; and
- enhancing the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

19.7.3 Consideration will also be given to whether there is any potential for making savings by running down investment balances to repay debt prematurely as short-term rates on investments are lower than rates paid on current debt.

19.7.4 All rescheduling will be reported to Full Council at the earliest meeting following its implementation.

19.8 **Housing Revenue Account (HRA) Self Financing**

19.8.1 The housing subsidy system was dismantled and replaced by a system of self-financing of the HRA from 1 April 2012. Since then, two separate pools are operating for the management of HRA and GF debt.

19.8.2 Under the two pool approach legacy loans were notionally apportioned between the HRA and GF using the CFR split and loans since 2012 have been raised separately.

19.8.3 An equitable means of apportioning debt management expenses is in operation.

19.8.4 Until October 2018, HRA borrowing was capped by the government and the HRA needed to borrow within the parameters of its existing debt and the cap known as the headroom. In October 2018, the Government approved plans to remove the HRA borrowing cap, giving local authorities the flexibility to borrow prudently up to levels that can be supported through their revenue streams.

## 20. Annual Investment Strategy

20.1 The annual Investment Strategy is set out in Annex 5 for approval by Full Council which covers:

- Overview including durations bands for counterparties and minimum credit ratings (table 3 Annex 5);
- Policy lending (non-treasury management investments);
- Investment balances / liquidity of investments; and
- Specified / unspecified investments.

## 21. Financial Implications

21.1 Investment income is currently forecast to be £8.1m for 2022/23. For 2023/24 budgeted investment income is estimated at approximately £11.1m to reflect higher expected interest rates.

## 22. Balanced Budget Requirement

22.1 The Council complies with the provisions of the Local Government Finance Act 1992 to set a balanced budget.

22.2 Risk management plays a fundamental role in treasury activities due to the value and nature of transactions involved. In order to mitigate risks on investment income the Council holds an Economic Volatility Reserve, which can be used to manage unforeseen volatility of investment income or borrowing costs.

22.3 Budgeting for MRP requires the Council to make provision for MRP linked to the life of the assets. This makes budgeting for MRP complex and sensitive to changes in assets being financed and the amount of unsupported borrowing used.

22.4 Regulations and statutory guidance on MRP was issued in February 2018.

22.5 **Loans to third parties**

22.5.1 Expenditure on policy loans to third parties which constitute capital expenditure must have MRP set aside. In the past, some local authorities sought to justify not setting aside MRP for some investments as any borrowing would be repaid by selling the assets sometime in the future; this the statutory guidance now requires MRP will need to be set aside for these investment assets.

22.5.2 Repayments included in annual PFI unitary payments or finance leases are applied as MRP. There is no requirement for the HRA to set aside MRP, although there is a requirement for depreciation to be applied.

22.5.3 Acquisition of share capital can be written off over a maximum of 20 years.

# Annex 1 – Treasury Management Policy Statement

# Treasury Management Policy Statement

The Council defines the policies and objectives of its treasury management activities as follows:

(i) The Council defines its treasury management activities as the management of the Council's cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.

(ii) The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications.

(iii) The Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving best value in treasury management, and to employing suitable performance measurement techniques, within the context of effective risk management.

# Annex 2 – Treasury Management Scheme of Delegation

# Treasury Management Scheme of Delegation

The Council's Treasury Management Scheme of Delegation is approved by Full Council annually as part of the overall Treasury Management Strategy, it was last approved by Council at its meeting of March 2022 and there are no proposals for any amendments to the current scheme, which is set out below:

1. **Full Council**

   - Receiving and reviewing reports on treasury management policies, practices and activities;
   - Approval of/ amendments to the Council's adopted clauses, treasury management policy statement; and
   - Approval of annual strategy.

2. **Strategic Director of Corporate Resources (Section 151)**

   - Budget consideration and proposals to Full Council;
   - Approval of the division of finance and treasury management responsibilities;
   - Receiving and reviewing regular monitoring reports and acting on recommendations; and
   - Approving the selection of external service providers and advisers and agreeing terms of appointment.

3. **Audit Committee**

   - Scrutiny of the Treasury Management function and arrangements;
   - Receive and review quarterly reports; and
   - Reviewing the treasury management policy and procedures and making recommendations to Full Council.

4. **The treasury management role of the Strategic Director of Corporate Resources (Section 151) is to:**

   - Recommend the Treasury Management Strategy and related policies for approval;
   - Hold regular reviews, and monitor compliance with approved the approved Treasury Management Strategy;
   - Formulate, consult on and approve treasury management practices, outlining the detailed manner in which the treasury management function will operate;
   - Submit regular Treasury Management Strategy monitoring reports to Audit Committee and Full Council;

- Submit budgets and budget variations to the Strategic Leadership Team (SLT) Full Council and Cabinet;
- Receive and review management information reports;
- Review the performance of the treasury management function;
- Ensure the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
- Ensure the adequacy of internal audit, and liaising with external audit;
- Recommend the appointment of external service providers and advisors;
- Preparation of the capital strategy that is prudent, sustainable and affordable and provides value for money;
- Ensuring that due diligence has been carried out on all treasury and non-treasury financial investments;
- Ensuring proportionality of all investments to ensure risk is well managed;
- Provision of a schedule of all non-treasury investments;
- Ensuring that members are adequately informed and understand the risk exposures taken by the Council.

# Annex 3 – Prudential Indicators

# Prudential Indicators

## 1. Capital Prudential Indicators

1.1 The Council's capital expenditure plans are a key driver of treasury management activity.

## 2. Capital Expenditure

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

Table 1: Capital Expenditure Forecast

| | 2021/22 Outturn | 2022/23 Estimate | 2023/24 Estimate | 2024/25 Estimate | 2025/26 Estimate |
|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m |
| **Non-HRA** | 62.153 | 134.728 | 161.901 | 62.437 | 34.177 |
| **Housing Loan to BLRP** | 2.984 | 30.000 | 141.552 | 92.000 | 20.426 |
| **Policy investments / non-financial investments** | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| **HRA** | 59.629 | 82.240 | 137.741 | 153.790 | 98.754 |
| **Total Capital Programme** | **124.765** | **246.968** | **441.193** | **308.227** | **153.357** |
| **Add : Capital Additions/ Repurpose/Decommissioning /Re-profiling of Mainstream Funding** | 0.000 | (0.355) | (3.694) | 1.990 | 1.065 |
| **Total Capital Programme including proposed Growth** | **124.765** | **246.613** | **437.499** | **310.217** | **154.422** |

2.2 Other long-term liabilities – the above financing need excludes other long-term liabilities, such as PFI and leasing arrangements which are classified as borrowing instruments.

2.3 Table 2 outlines how the capital expenditure plans are proposed to be financed by capital or revenue resources. Any shortfall of resources results in a funding need i.e. borrowing.

Table 2: Capital Programme Funding Summary

| Capital Expenditure | 2021/22 Outturn £m | 2022/23 Estimate £m | 2023/24 Estimate £m | 2024/25 Estimate £m | 2025/26 Estimate £m |
|---|---|---|---|---|---|
| **Non-HRA** | 62.153 | 134.728 | 161.901 | 62.437 | 34.177 |
| **Housing Loan to BLRP** | 2.984 | 30.000 | 141.552 | 92.000 | 20.426 |
| **Policy investments / non-financial investments** | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| **HRA** | 59.629 | 82.240 | 137.741 | 153.790 | 98.754 |
| **Total** | **124.765** | **246.968** | **441.193** | **308.227** | **153.357** |
| **Financed by:** | | | | | |
| **Capital receipts** | 0.871 | 0.878 | 11.622 | 8.966 | 0.000 |
| **Capital grants** | 24.043 | 72.159 | 52.488 | 7.387 | 0.000 |
| **Revenue Contribution** | 5.442 | 1.466 | 2.911 | 0.000 | 0.000 |
| **Other: Parking Reserve; Invest to Save; Partnership; S106** | 2.840 | 6.235 | 30.088 | 2.260 | 0.000 |
| **HRA Direct Funding** | 41.029 | 46.422 | 59.050 | 29.256 | 49.632 |
| **Total Financed** | **74.225** | **127.159** | **156.159** | **47.869** | **49.632** |
| **Net Financing Need (General Fund & HRA - Borrowing)** | 50.540 | 119.809 | 285.034 | 260.358 | 103.724 |
| **TOTAL FUNDING** | **124.765** | **246.968** | **441.193** | **308.227** | **153.357** |
| **Add : Capital Additions/ Repurpose of Mainstream Funding** | 0.000 | (0.355) | (3.694) | 1.990 | 1.065 |
| **Total Capital Programme excluding Growth** | **124.765** | **247.323** | **444.887** | **306.237** | **152.292** |

2.4 New borrowing made up as follows:

*Table 3: New borrowing breakdown*

| | 2021/22 Outturn | 2022/23 Estimate | 2023/24 Estimate | 2024/25 Estimate | 2025/26 Estimate |
|---|---|---|---|---|---|
| **New Year Borrowing GF** | 31.939 | 83.991 | 206.343 | 135.824 | 54.603 |
| **New Year Borrowing HRA** | 18.600 | 35.818 | 78.691 | 124.534 | 49.122 |
| **Housing Loan to BLRP** | 2.984 | 30.000 | 141.552 | 92.000 | 20.426 |
| **Adjustments for Leases** | 0.000 | 0.000 | 10.165 | 0.000 | 0.000 |
| **Total borrowing** | **53.523** | **149.809** | **436.750** | **352.358** | **124.150** |

Table 4: Loan to BLRP

| | 2021/22 Outturn | 2022/23 Estimate | 2023/24 Estimate | 2024/25 Estimate | 2025/26 Estimate |
|---|---|---|---|---|---|
| Borrowing for non-financial investments | 2.984 | 30.000 | 141.552 | 92.000 | 20.426 |
| **Net financing need for the year** | **53.523** | **149.809** | **436.750** | **352.358** | **124.150** |
| Percentage of total net financing need % | **5.57%** | **20.03%** | **32.41%** | **26.11%** | **16.45%** |

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

3.1 This prudential indicator is the Council's Capital Financing Requirement (CFR), which is the total historic unfinanced capital expenditure, a measure of the Council's underlying borrowing need. Any capital expenditure not immediately paid for, will increase the CFR. The requirement to set aside the minimum revenue provision (MRP) reduces the Council's underlying need to borrow and the ensuing CFR.

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

3.3 The CFR includes any other long-term liabilities (OLTL) such as PFI schemes and finance leases brought onto the balance sheet. Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing/ financing facility and so the Council is not required to separately borrow for these schemes. The Council currently has £95.151m of such schemes that forms part of the CFR.

3.4 The Council is asked to approve the CFR projections below:

Table 5: CFR - Capital Financing Requirement

| | 2021/22 Outturn £m | 2022/23 Estimate £m | 2023/24 Estimate £m | 2024/25 Estimate £m | 2025/26 Estimate £m |
|---|---|---|---|---|---|
| **CFR – Non Housing** | 524.993 | 559.705 | 591.628 | 611.769 | 620.880 |
| **CFR – Housing** | 187.844 | 223.663 | 302.354 | 426.888 | 476.010 |
| **CFR – Housing Loan/Equity to BL/BLRP** | 16.976 | 46.976 | 188.528 | 280.528 | 272.167 |
| **OLTL** | 100.968 | 95.151 | 94.401 | 82.168 | 74.959 |
| **Total CFR** | **830.781** | **925.495** | **1,176.911** | **1,401.353** | **1,444.016** |
| **Movement in CFR** | **31.881** | **125.576** | **404.907** | **316.442** | **63.089** |

3.5 Movement in CFR inc OLTL is represented by:

*Table 5a: Movement in CFR inc OLTL*

| | 2021/22 Outturn £m | 2022/23 Estimate £m | 2023/24 Estimate £m | 2024/25 Estimate £m | 2025/26 Estimate £m |
|---|---|---|---|---|---|
| Net financing need for the year | 53.523 | 149.809 | 436.750 | 352.358 | 124.150 |
| Less MRP and other financing movements | (21.642) | (24.233) | (31.843) | (35.916) | (61.062) |
| Less VRP* | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| **Movement in CFR** | **31.881** | **125.576** | **404.907** | **316.442** | **63.089** |

**Voluntary Revenue Provision*

## 4. International Financial Reporting Standard (IFRS) 16 Leasing

4.1 IFRS16 requires off balance sheet operating leases onto the balance sheet for closing of the accounts for 2024/25 deferred by CIPFA from 2021/22, although early adoption will be allowed.

4.2 The CFR, external debt (OLTL), authorised limit and operational boundary, have been adjusted to allow for those leases which were previously off-balance sheet, being brought onto the balance sheet at 31 March 2024. It is not currently possible to be precise about the adjustment figures until detailed data gathering has been substantially completed in 2023/24 financial year. The authorised limit and operational boundary have been increased to allow for a current initial estimate of the likely effect of this change. Notwithstanding this, the limits will be amended mid-year if the allowance is insufficient. An assessment will also be made of the impact on the HRA share of the CFR.

4.3 A key aspect of the regulatory and professional guidance is that elected members are aware of the size and scope of any commercial or policy investment activity in relation to the Council's overall financial position. The capital expenditure figures shown in 2.1 and the details above demonstrate the scope of this activity and, by approving these figures, consider the scale proportionate to the Council's remaining activity.

4.4 Under the capital finance regulations, local authorities are permitted to borrow up to three years in advance of need. The Council will only consider borrowing in advance of need if market conditions indicate that it is the best course of action. This Council raised some borrowing in advance in 2021/22 to take advantage of and lock in low long term interest rates, especially as officers believed that long term rates were likely to rise. There may be a short term carry cost to borrowing in advance of need if investment rates are considerably lower than long term borrowing rates. Borrowing in advance of need also increases the level of temporary investments and thus increases the exposure to loss of investment principal. However, the Council has put in place a prudent methodology to minimise this risk.

## 5. Affordability Prudential Indicators

### 5.1 Actual and estimates of the ratio of financing costs to net revenue stream

5.1.1 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 6: Ratio of financing costs to revenue streams*

| | 2021/22 Outturn | 2022/23 Estimate | 2023/24 Estimate | 2024/25 Estimate | 2025/26 Estimate |
|---|---|---|---|---|---|
| | % | % | % | % | % |
| Non-HRA | 12.40% | 12.64% | 9.13% | 17.23% | 16.66% |
| HRA (inclusive of settlement) | 8.57% | 8.55% | 6.06% | 13.33% | 11.78% |
| Housing Loan to BLRP | 0.01% | 0.04% | 0.35% | 1.51% | 0.89% |

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

*Table 7: HRA Ratios*

| | 2021/22 Outturn | 2022/23 Estimate | 2023/24 Estimate | 2024/25 Estimate | 2025/26 Estimate |
|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m |
| **HRA debt (£m)** | 187.844 | 223.663 | 302.354 | 426.888 | 476.010 |
| **HRA revenues (£m)** | 64.376 | 73.694 | 76.767 | 81.075 | 86.638 |
| **Ratio of debt to revenues** | 2.92:1 | 3.04:1 | 3.94:1 | 5.27:1 | 5.49:1 |

| | 2021/22 Outturn | 2022/23 Estimate | 2023/24 Estimate | 2024/25 Estimate | 2025/26 Estimate |
|---|---|---|---|---|---|
| **HRA Debt (£m)** | 187.844 | 223.663 | 302.354 | 426.888 | 476.010 |
| **Number of HRA Dwellings** | 11,773 | 10,861 | 10,749 | 10,662 | 10,435 |
| **Debt per dwelling (£m)** | 0.016 | 0.021 | 0.028 | 0.040 | 0.046 |

## 6. Treasury Indicators: Limits on Borrowing Activity

### 6.1 The Operational Boundary

6.1.1 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 8: Treasury Indicators: Limits on borrowing activity*

| Operational Boundary – General Fund & HRA | 2021/22 Outturn | 2022/23 Estimate | 2023/24 Estimate | 2024/25 Estimate | 2025/26 Estimate |
|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m |
| **Debt** | 712.837 | 783.368 | 893.982 | 1,038.657 | 1,096.890 |
| **Other long term liabilities** | 95.151 | 94.401 | 82.168 | 74.959 | 67.167 |
| **Housing Loan to BLRP** | 16.976 | 46.976 | 188.528 | 280.528 | 272.167 |
| **Total** | **824.964** | **924.745** | **1,164.678** | **1,394.144** | **1,436.224** |

## 6.2 The Authorised Limit for external debt

6.2.1 A further 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 necessarily desired, could be afforded in the short term, but is not sustainable in the longer term.

6.2.2 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.

6.2.3 The authorised limit has built in a buffer in respect of operational leases to be brought on to the balance sheet in line with IFRS16.

6.2.4 Full Council is asked to approve the following Authorised Limits:

*Table 9: Authorised Limits*

| Authorised limit - General Fund & HRA | 2021/22 Outturn | 2022/23 Estimate | 2023/24 Estimate | 2024/25 Estimate | 2025/26 Estimate |
|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m |
| **Debt** | 752.837 | 823.368 | 933.982 | 1,078.657 | 1,136.890 |
| **Other long term liabilities** | 95.151 | 94.401 | 82.168 | 74.959 | 67.167 |
| **Housing Loan to BLRP** | 16.976 | 46.976 | 188.528 | 280.528 | 272.167 |
| **Total** | **864.964** | **964.745** | **1,204.678** | **1,434.144** | **1,476.224** |

## 6.3 Maturity Structure of Borrowing

6.3.1 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. Full Council is asked to approve the following treasury indicators and limits:

| **Maturity structure of fixed interest rate borrowing 2023/24** | | |
|---|---|---|
| | **Lower** | **Upper** |
| Under 12 months | 0% | 10% |
| 12 months to 2 years | 0% | 10% |
| 2 years to 5 years | 0% | 20% |
| 5 years to 10 years | 0% | 20% |
| 10 years to 20 years | 10% | 30% |
| 20 years to 30 years | 10% | 30% |
| 30 years to 40 years | 10% | 30% |
| 40 years to 50 years | 10% | 40% |
| **Maturity structure of variable interest rate borrowing** | | |
| | **Lower** | **Upper** |
| Under 12 months | 0% | 10% |
| 12 months to 2 years | 0% | 10% |
| 2 years to 5 years | 0% | 10% |
| 5 years to 10 years | 0% | 10% |
| 10 years to 20 years | 0% | 10% |
| 20 years to 30 years | 0% | 10% |
| 30 years to 40 years | 0% | 10% |
| 40 years to 50 years | 0% | 10% |

# Annex 4 – MRP Policy Statement

# MRP POLICY STATEMENT

The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 require the Council to determine for the current financial year an amount of minimum revenue provision (MRP) which it considers to be prudent. This involves allowing the debt to be repaid over a period reasonably commensurate with that over which the capital expenditure provides benefit.

MHCLG (now DLUHC) Guidance requires the Council to approve an annual MRP statement and requires the Council to make a prudent provision of MRP. The broad aim of the guidance is to ensure that capital is financed over a period for which it provides benefits.

The first MRP charge will be made in the year following the date that an asset becomes operational.

## Minimum Revenue Provision (MRP) Policy Statement

1. It was agreed at the Cabinet meeting of 24 February 2009 and Full Council meeting of 3 March 2009 that, the Council makes MRP charges to revenue in accordance with option 3, the asset life method as opposed to option 4 depreciation, which would have required the additional resource and administrative expense of tracking and revaluing assets at regular intervals. There is no basis for a change in policy and in accordance with approval sought and received in 2009 the Council will continue to apply option 3.

**2. Asset Life Method**

2.1 MRP will be based on the estimated life of the assets, in accordance with the proposed regulations (this option must be applied for any expenditure capitalised under a capitalisation direction) (option 3); this option provides for a reduction in the borrowing need over approximately the asset's life.

2.2 Under this policy the total charge to the General Fund budget in 2022/23, excluding PFI and finance leases is expected to be approximately £12.125 m of which a significant element (£4.407m) is in relation to debt incurred prior to 1 April 2008.

2.3 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 MRP. It is also allowed to undertake additional voluntary payments if considered prudent, a voluntary revenue provision (VRP).

2.4 DLUHC regulations require Full Council to approve an MRP Statement in advance of each financial year. Full Council is recommended to approve the following MRP Statement:

2.5 For capital expenditure incurred before 1 April 2008 or Supported Capital Expenditure after that date, the MRP policy will be:

"the MRP policy is equal to an annual reduction of 2% of the outstanding debt at 1 April 2017 for the subsequent 50 years"

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

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

2.7 These options provide for a reduction in the borrowing need over approximately the asset's life. There is no requirement on the HRA to make a minimum revenue provision but there is a requirement for a charge for depreciation to be made.

**2.8 MRP Overpayments**

2.8.1 A change introduced by the revised MRP Guidance was the allowance that any charges made over the statutory MRP, voluntary revenue provision or overpayments, can, if needed, be reclaimed in later years if deemed necessary or prudent. In order for these sums to be reclaimed for use in the budget, this policy must disclose the cumulative overpayment made each year.

2.8.2 In 2020/21 a Voluntary Revenue Provision (VRP) of £4.034m was made, of which £0.740m was paid in 2021/22 and the balance as at 31st March 2022 was £3.294m. In line with the asset life method adopted by the Council, this VRP has led to a recalculation and reduction of future MRP payments. It is estimated that the cumulative overpayments are as follows:

| MRP Overpayments | £m |
|---|---|
| Balance at 31 March 2022 | 3.294 |
| Impact of recalculation in 2022/23 | -0.74 |
| **Forecast Balance at 31 March 2023** | **2.554** |
| Impact of recalculation in 2023/24 | -0.74 |
| **Forecast Balance at 31 March 2024** | **1.814** |

**2.9 MRP for Loans/Service Investments Deemed to be Capital Expenditure**

2.9.1 When making service/ policy investments the Council needs to consider the potential MRP implications where the loan is classed as capital spend. The Council currently provides service loans to third parties to facilitate the delivery of housing or services that advance the Council's policy objectives. The cash advances will be used by the third parties to fund capital expenditure and this will be treated as capital expenditure and a loan to a third party. The CFR will increase by the amount of loans advanced (under the terms of contractual loan agreements). Once funds are returned to the Council, the returned funds are classed as a capital receipt, and off-set against the CFR, which will reduce accordingly.

2.9.2 Expenditure on service loans to third parties which constitute capital expenditure must have MRP set aside. In respect of the following types of capital expenditure, the Council has established an alternative methodology for calculating the annual MRP charges:

2.9.3 The housing loans to BLRP constitute capital expenditure and therefore must have MRP set aside, the Council has established an alternative and prudent methodology for setting the annual MRP charge. A loan facility repayment holiday will exist until completion of the development phase. This mirrors the Council policy which charges MRP in the year following the date that an asset becomes operational. MRP will then follow the loan agreement schedule, remaining within the overall 50-year BLRP business plan, thereby reducing the CFR accordingly.

2.9.4 The Council will undertake an annual financial assessment of the third party's ability to repay the debt and where any adverse changes are perceived a voluntary MRP provision will be made to cover any future potential financial losses. This arrangement will also be applied where a third party has committed to underwrite the debt costs of a specific project through amounts reserved for capital purposes.

2.9.5 The Council takes a holistic view on prudence spanning the lifecycle of the service loan.

## 2.10 Finance and Operational Leases

2.10.1 For assets acquired by finance/ operational leases or Private Finance Initiative schemes, MRP will be equal to the portion of the rent or unitary charge that is applied to write down the balance sheet liability (the capital element), or over the life of the asset.

## 2.11 Revenue Expenditure Funded from Capital Under Statute (REFCUS)

2.11.1 For capital expenditure under statute or incurred via the use of a Capitalisation Direction provision will be made over a period not exceeding 20 years.

## 2.12 Equity Investments

2.12.1 The Council will determine MRP on equity investments based on a 20-year life. However, for equity investments in asset backed companies, longer life may be assumed to match the Council's policy for investment assets.

2.12.2 The Strategic Director of Corporate Resources (Section 151) will determine alternative MRP approaches, in the interests of making prudent provision, where this is material, taking account of local circumstances, including specific project timetables and revenue-earning projections.

2.12.3 The Council has historic service loans to associated organisations for which MRP treatment is in line with the associated risk and prudence considerations and regulations at the time of issue. These arrangements may continue, however, the Strategic Director of Corporate Resources (Section 151) can vary the MRP methodology in line the parameters approved within this policy.

# Annex 5 – Investment Strategy

# INVESTMENT STRATEGY

## 1. OVERVIEW

1.1 Investments can be financial or non-financial. This report deals with financial investments (as managed by the treasury management function) although prudential indicators in as much as they pertain to borrowing for non-financial investment are outlined in this report. The purchase of non-financial income yielding assets are covered in the Capital Strategy report.

1.2 Investments are made broadly in three different circumstances:

- When excess cash is generated from the day to day activities(i.e. Treasury Management investments);
- Lending to organisations or investing in the share capital of same to promote a local service or policy objective; and
- To earn investment income, known as commercial investments.

1.3 **Treasury Management Investments**

1.3.1 The Council mostly receives income in cash (such as taxes and grants) and in turn funds its expenditure to pay salaries and invoices. the Council also holds reserves to manage risk. These activities, together with timing decisions surrounding borrowing can lead to surplus cash which is invested in line with statutory guidance. Treasury investment balance is expected to fluctuate between £300m and £500m during the 2023/24 financial year.

1.4 **Service/ Policy Investments**

1.4.1 The Council can lend money to third parties e.g. subsidiaries, special purpose vehicles (SPV), registered providers, its suppliers, local businesses, local charities, housing associations, residents and its employees to support local public services and stimulate local economic growth.

1.4.2 In some circumstances the Council may have entered into a partnership arrangement with organisations or institutions for the provision of a service/ facility that will directly promote the Council's policy objectives which either requires the Council to lend or jointly invest in a venture. The Council has provided loans to BL and BLRP, an arms-length company now a registered provider to increase the inadequate supply of high-quality affordable housing within the borough.

1.4.3 These types of service investments do not form part of the treasury management strategy but are discussed in the Capital Strategy.

1.4.4 The lending activities outlined in Table 1 below have been either scheduled or have been undertaken to support the Council's service objectives.

*Table 1: Loans for Policy Investments*

| Organisation | £m | Description |
|---|---|---|
| West London Waste Authority (WLWA) | 28.000 | An Invest to Save loan granted to West London Waste Authority (WLWA) towards the project for the development of a new Energy from waste facility. Interest payments for this loan commenced January 2017. |
| Broadway Living Limited | 8.035 | Two loans have been granted to Broadway Living Limited for £1.2m and £6.8m |
| Future Ealing | 0.563 | This is an investment that LBE made, which was part of a PFI structure. |
| Gunnersbury CIC | 0.120 | This loan of £250k was granted to Gunnersbury Community Interest Company to assist with initial set up costs. As at December 2021 total of £78k principal has been repaid. |
| Broadway Living Registered Provider (BLRP) | 15.390 | Loans were granted to BLRP totalling £11.6m for Tranche 1 Loan Utilisation and Westagte £3.8m. |

## 1.5 Security

1.5.1 A key risk is the inability of the borrower to repay the principal lent and/or the interest due. The Council mitigates this risk by limiting the quantum of exposure to any single borrower and having recourse to underlying real assets should the lender default.

1.5.2 Accounting standards now requires the Council to set aside loss allowance for loans, where it foresees the likelihood of default. Currently the Council does not expect any credit loss to arise from non-payment of the principal sum invested.

## 1.6 Risk assessment

1.6.1 The Council assesses the risk of loss before entering and whilst holding service loans. A business case is developed, and then external advisors are used to scrutinise and challenge the assumptions and projections presented. A risk analysis was carried out as part of the business case for loans to BL and BLRP. The performance of the companies is being kept under ongoing review via regular meetings with BL and BLRP Boards.

## 1.7 Service/ Investments Equity

1.7.1 The Council can and has invested in the shares of its subsidiaries or partner organisations to support local public services and stimulate local economic growth.

1.8 **Security**

1.8.1 One of the risks of investing in shares is that they fall in value meaning that the initial outlay may not be recovered. The shares that Council invest in do not have a ready market and are not acquired with the intention of trading the shares.

1.9 **Risk assessment**

1.9.1 As outlined above, a risk analysis is carried out as part of any business plan. The objective is to invest in an affiliated company that will grow successfully. The performance of all investee companies will be kept under close review via regular meetings with the Boards, so that corrective action can be taken if necessary.

1.10 **Liquidity**:

1.10.1 Although this type of investment is fundamentally illiquid, the limit on the level of investment mitigates the risk to the Council.

1.11 **Commercial Investments Property**

1.11.1 The Council may invest in property with the intention of making a profit that will be spent on local public services which will fall under the category of Commercial Investments. To date the Council has not invested in commercial investments.

1.11.2 Loan Commitments and Financial Guarantees: The Council may also make loan commitments or provide financial guarantees to third parties to further its service objective.

1.11.3 The Council will have regard to the Guidance on Local Government Investments and the CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes. The Council's Treasury investment priorities remain:

- security of the invested capital;
- liquidity of the invested capital; and
- an optimum yield which is commensurate with security and liquidity.

All investments will be in sterling.

1.11.4 In accordance with the above guidance, and to minimise the risk to investments, the Council applies minimum acceptable credit criteria to generate a list of highly creditworthy counterparties which also enables diversification and avoidance of concentration risk.

## 1.12 Other information

1.12.1 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, 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.

1.12.2 Other information sources will also be used including the financial press, share price and other financial sector information metrics that aid the scrutiny process to establish the suitability of Counterparties.

1.12.3 The Council has defined the types of investment instruments that the treasury management team are authorised to use. There are two lists in Table 3 and Table 7 under the categories of ‘specified’ and ‘non-specified’ investments.

1.12.4 Specified investments are those with a high level of credit quality and subject to a maturity limit of one year.

1.12.5 Non-specified investments are those with less high credit quality, may be for periods more than one year, and/ or are more complex instruments which require greater consideration by members and officers before being authorised for use. Once an investment is classed as non-specified, it remains non-specified all the way through to maturity i.e. an 18-month deposit would still be non-specified even if it has only 11 months left until maturity.

1.12.6 Non-specified investments limit. The Council has determined that it will limit the maximum total exposure to non-specified investments as being 30% of the total investment portfolio.

1.12.7 The Council will only use non-UK banks from countries with a minimum sovereign rating of -AA. The sovereign rating of -AA must be assigned by one of the three credit rating agencies. Transaction limits are set for each type of investment in 6.2.4.

1.12.8 The Council has engaged external advisers, to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of the Council in the context of the expected level of cash balances and need for liquidity throughout the year.

## 1.13 Pooled Investments

1.13.1 As a result of the change in accounting standards for 2019/20 under IFRS 9, this Council will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. A temporary statutory override to allow English local authorities time to adjust their portfolio of all pooled investments was announced to delay implementation of IFRS 9 for five years commencing 1 April 2018. The Council also has other options.

1.13.2 The Council will explore all options to allow any pooled fund investments to be elected from the onset as fair value through other comprehensive income as they are not held primarily for trading. Hence fair value gains and losses can be taken to the Financial Instrument Revaluation Reserve and there will be no dependence on the statutory override which can be withdrawn.

1.13.3 The Council will seek to achieve value for money from its treasury management activity and will monitor yield from investment income against appropriate benchmarks for investment performance. As such investment performance monitoring will be carried out at regular intervals throughout the year.

## 1.14 Creditworthiness policy

1.14.1 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, Moodys and Standard and Poors. The credit ratings of counterparties are supplemented with credit watches and credit outlooks from credit rating agencies, Credit Default Swap (CDS) spreads to give early warning of likely changes in credit ratings and sovereign ratings to select counterparties from only the most creditworthy countries.

1.14.2 This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the suggested duration for investments that exist on Link's recommended counterparty list. The Council will therefore use counterparties within the following durational (colour) bands.

*Table 2: Term deposits with nationalised banks and banks and building societies*

| | **Minimum Credit Criteria** | **Use** | **Max. maturity period** |
|---|---|---|---|
| UK part nationalised banks | Link Colour Bands | In-house | **1 year** |
| Banks part nationalised Non-UK | Link Colour Bands | In-house and Fund Managers | **1 year** |

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

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

1.14.5 The Strategic Director of Corporate Resources (Section 151) can also provide working capital loans to unrated affiliated bodies, i.e. they would not need to have and external rating.

*Table 3: Durational and Monetary limits applying to Specified and Non-Specified Investments*

| Counterparty | Maximum Lending per institution | Investment Duration | |
|---|---|---|---|
| UK Banks Term Deposits | £60m | Up to 5 years | CDs £5m per institution |
| The Council's Banker Lloyds Banking Group | £60m | | |
| Non-UK Banks | £30m | 2 years | |
| Building Society | £30m | 1 year | |
| MMF – CNAV | £20m per Fund | Instant Access | |
| MMF – LVNAV | £20m per Fund | Instant Access | |
| MMF – VNAV | £5m per Fund | Instant Access | |
| Debt Management Office Deposit Facility (DMADF) | Unlimited | 6 months (max available) | |
| Sterling Treasury Bills | Unlimited | 6 months (max available) | |
| Local Authorities | Unlimited (Per authority £20m) | 3 years | |
| Ultra short dated bond funds | £5m in total | Tradable | |
| Corporate Bonds | £5m in total | Tradable | |
| Corporate Bond Funds | £5m in total | Tradable | |
| UK Government Gilts/ Gilt Funds | £5m in total | Tradable | |
| Multi Asset Funds | £5m in total | Tradable | |
| Property Funds | £5m in total | Tradable | |
| Collateralised Deposit | £5m in total | 1 year | |
| Bond Issuance (guaranteed by UK Government) | £5m in total | 1 year | |
| Unrated Affiliated Bodies working capital * | Subject individual circumstance | Case by Case | |
| Unrated Affiliated Bodies Capital Expenditure Loan | Subject to individual circumstance | Case by Case | |

**unrated affiliated bodies such as: Charities, arm's length companies and registered providers and service providers,* 1.14.6 The Strategic Director of Corporate Resources (Section 151), as advised by TRIB, has delegated powers to make changes to local operational limits but remain within the parameters of the Treasury Strategy.

1.14.7 The Council is alerted of changes to ratings of all three agencies through its use of its adviser's creditworthiness service. In addition to the use of credit ratings the Council will be advised of information on movements in CDS spreads against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

1.14.8 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 except in the circumstances out lined above where TRIB determines the counterparty can remain on the Council's list.

1.14.9 Sole reliance will not be placed on the use of this external service. In addition, the Council will also use market data and market information, information on government support for banks and the credit ratings of that supporting government.

## 1.15 Country limits

1.15.1 As outlined above, the Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating from Fitch of AA- (or equivalent from other agencies if Fitch does not provide a rating). However, the most likely position is that any foreign institution the Council invests in should be as highly rated as the UK or better. Investments in the UK will not be subject to sovereign credit worthiness rating restriction.

1.15.2 The list of countries which currently meet this criterion are outlined in Table 6. The Strategic Director of Corporate Resources (Section 151) will monitor and update the position under delegated powers and report back to Full Council at the earliest opportunity.

1.15.3 Where institutions are not on the Council's advisers list and the Council makes its own assessment, the Council will only lend to counterparties using the minimum criteria specified below.

1.15.4 The minimum credit rating required for an institution to be included in the Council's counterparty list (where adviser's credit worthiness service is not being used) is as follows:

1.15.5

*Table 4: Minimum credit ratings*

| | Long-Term | Short-Term |
|---|---|---|
| Fitch | A | F1 |
| Moody's | Aa3 | P-2 |
| Standard & Poor's | A- | A-2 |

| | |
|---|---|
| Sovereign Rating | AA- |
| Money Market Funds | AAA |

*The above does not apply to policy/ service investments.*

1.15.6 As outlined above officers also take any market intelligence into consideration to further determine whether to suspend institutions from the list even though the institution meets our minimum lending criteria.

1.15.7 Setting and monitoring of the counterparty list and the agreed maximum limit per counterparty (and Council's rating criteria) constitutes part of the execution and administration function and forms part of the authority to "determine the annual treasury strategy and carry out all treasury management activities" as per the Council's scheme of delegation outlined in the financial regulations. The Strategic Director of Corporate Resources (Section 151) therefore has discretion to review and amend these minimum ratings in view of market conditions and report to Full Council at the earliest opportunity.

1.15.8 Officers must respond quickly to counterparty rating changes and include or suspend institutions as their ratings fall in/ out of the Council's minimum rating criteria. This ensures that investment risk continues to be spread across a range of creditworthy institutions. The lending list is under ongoing review by the Strategic Director of Corporate Resources (Section 151) under delegated authority.

1.15.9 Institutions with which the Council currently can place funds are as follows:

- Debt Management Office (DMO) – interest can be below equivalent money market rates with returns being an acceptable trade-off for security particularly in times of high market volatility although recently DMO rates have surpassed MMFs and officers will continue to monitor the position and invest in accordance with the Council's risk appetite;
- British institutions where the UK has a substantial stake, such as RBS;
- Other UK institutions meeting our minimum credit rating criteria;
- AAA rated money market funds;
- Other local authorities (LAs) who are relatively risk-free counterparties are deemed to offer high security and liquidity – limita are set at £5m for district councils and £10m for other LAs, subject to a group limit of £180m, though the strategy permits higher limits;
- Foreign institutions from countries with sovereign ratings equivalent to the UK's sovereign rating or higher provided they meet our minimum criteria;

- Institutions that fall within Link Asset Services' approved lending list having met the diverse criteria and who the Council assess as having sound credit worthiness;
- Other UK Government (Gilts and Treasury Bills);
- Property Funds where not classed as capital expenditure;
- Ultra-Short Dates Bond Funds;
- Corporate Bond Funds; and
- Multi Asset Funds.

## 2. INVESTMENT BALANCES / LIQUIDITY OF INVESTMENTS

2.1 Based on cash flow forecasts, the Council anticipates balances in 2022/23 to average around £500m if no long-term borrowing is raised. Balances will be higher if external borrowing is undertaken. For treasury investments, it is considered that the maximum percentage of its overall investments that the Council should hold for more than 365 days (investments with a maturity exceeding a year) is £50m. The prudential indicator figure of £50m for 2023/24 is therefore recommended. It should be noted that this indicator does not apply to investments made for policy/ service reasons.

2.2 In addition, the Council may enter forward deals, but with an exposure that does not exceed 5 years, from the date the forward deal was effected.

2.3 The actual amount available for investment in 2023/24 will fluctuate as a result of the timing of significant items such as:

- expenditure on capital projects;
- council tax, business rates, council house rents income;
- receipt of government grants;
- long-term loans taken out to fund capital expenditure; and
- capital receipts in respect of major asset sales.

2.4 The amounts available for investments consist of both cash flow and core balances made up of reserves not likely to be required for one to two years. It is possible for the Council to invest this core cash for longer term. The strategy is flexible and allows the Strategic Director of Corporate Resources (Section 151) to take the decision to extend the duration of lending when market conditions are conducive to such lending.

### 2.5 Investment Strategy and Interest Rate Outlook

2.5.1 The Bank Rate increased to 4% on 1 February 2023 and is forecasted to increase slightly in the short term and expected to reduce in future years. The Monetary Policy Committee (MPC) will adjust Bank Rate as necessary to return inflation to the 2% target sustainably in the medium term, in line with its remit.

2.5.2 Bank Rate forecasts for financial year ends (March) are:

- Q1 2023 4.25%
- Q1 2024 4.00%
- Q1 2025 3.00%

2.6 **In-house funds**

2.6.1 Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (investments up to 12 months).

**3. SPECIFIED/ UNSPECIFIED INVESTMENTS**

3.1 **Specified Investments**

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

3.2 **Non-Specified Investments**

3.2.1 These are investments with less high credit quality, may be for periods in excess of one year, and/ or are more complex instruments which require greater consideration by members and officers before being authorised for use. A maximum of £50m can be held in aggregate in non-specified investment.

3.2.2 A variety of investment instruments will be used, subject to the credit quality of the institution, and depending on the type of investment made it will fall into one of the above categories.

3.2.3 The criteria, time limits and monetary limits applying to institutions or investment vehicles are:

*Table 5: Term deposits with nationalised banks and banks and building societies*

| | Minimum Credit Criteria | Use | Max. maturity period |
|---|---|---|---|
| UK part nationalised banks | Link Colour Bands | In-house | **1 year** |
| Banks part nationalised Non-UK | Link Colour Bands | In-house and Fund Managers | **1 year** |

- If forward deposits are to be made, the forward period plus the deal period should not exceed one year in aggregate.
- Buy and hold may also include sale at a financial year end and repurchase the following day in order to accommodate the requirements of SORP.

- As collateralised deposits are backed by collateral of AAA rated local authority LOBOs, this investment instrument is regarded as being a AAA rated investment as it is equivalent to lending to a local authority.
- CD = Certificates of Deposit

LOCAL AUTHORITIES

- Although most local authorities do not have credit ratings, investing with local authorities provides good security for the council.

## 3.3 Accounting treatment of investments

3.3.1 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, we will review the accounting implications of new transactions before they are undertaken.

## 3.4 Blanket guarantees on all deposits

3.4.1 Some countries may support their banking system by giving a blanket guarantee on all deposits, however; the Council will generally not rely on the guarantees provided by any government unless there are overriding reasons for doing so.

## 3.5 Other Countries

3.5.1 At present the Council will determine whether to include other countries by reference to credit rating of the sovereign together with financial news data on the sovereign. The minimum credit rating required for an institution to be included within the council's list is AA-, although the Council will more likely invest in sovereigns that have a rating equivalent to or better than the UK Government's rating. Currently the countries falling within this are as follows:

*Table 6: Credit Rating of other countries*

| AAA | AA+ | AA | AA- |
|---|---|---|---|
| Australia | Finland | Abu Dhabi (UAE) | Belgium |
| Denmark | USA | France | Qatar |
| Germany | Canada | | Hong Kong |
| Netherlands | | | UK |
| Norway | | | |
| Singapore | | | |
| Sweden | | | |
| Switzerland | | | |

## 3.6 Non-Specified Investments

*Table 7: Non-Specified Investments*

**A. Maturities of any period.**

| Fixed term deposits with variable rate and variable maturities: | Minimum Credit Criteria | Use |
|---|---|---|
| Callable deposits | Falling within the Council's criteria | In-house |
| Range trade | Falling within the Council's minimum criteria | In-house |
| Other debt issuance by UK banks covered by UK Government guarantee | UK Government explicit guarantee | In-house<br>Fund Managers |
| Term deposits with unrated counterparties | Decision flowing through TRIB, or a delegated officer | In-house |
| Commercial Paper | Fitch F1, AA aa1 or equivalent | In-house<br>Fund Managers |
| Corporate Bonds | Fitch F1, AA aa1 or equivalent | In-house<br>Fund Managers |
| UK Floating Rate Notes | Fitch F1, AA aa1 or equivalent | In-house<br>Fund Managers |
| VNAV MMFs (where there is greater than 12-month history of a consistent £1 Net Asset Value) | High Credit Score | In-house<br>Fund Managers |
| Bond Funds | Long term AAA | In-house<br>Fund Managers |
| Multi Asset Funds | | In house<br>Fund Managers |
| Gilt Funds | Long Term AAA | In-house<br>Fund Managers |
| Property Funds | | In-house<br>Fund Managers |

**B. Maturities more than 1 year**

| |
|---|
| Investments as specified above in specified investments, but for periods in excess of 1 year. |

## 3.7 Investment Treasury Indicator and Limit

3.7.1 Total principal funds invested for greater than 364 days limits are set with regard to the Council's liquidity requirements and to reduce the need for the Council becoming a forced seller of an investment, and are based on the availability of funds after each year-end.

3.7.2 Full Council is asked to approve the treasury indicator and limit as follows:

*Table 8: Investment Treasury Indicator and limit to be approved Maximum principal sums invested > 364 days*

| | 2021/22 £m | 2022/23 £m | 2023/24 £m |
|---|---|---|---|
| Principal sums invested > 364 days | 50 | 50 | 50 |

*Note: This durational limit excludes policy/ service investments, where the decision is made on a case by case basis.*

3.7.3 For its cash flow generated balances, the Council will seek to utilise money market funds, call accounts and short-dated deposits (overnight to three months), treasury bills and the DMO.

## 3.8 Investment Risk Benchmarking

3.8.1 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 Report to Audit Committee and Full Council.

## 3.9 Security

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

- <1% historic risk of default when compared to the whole portfolio.

## 3.10 Liquidity

3.10.1 In respect of liquidity the council seeks to maintain:

- Bank overdraft - £0.5m
- Liquid short-term deposits of at least £5m available with a week's notice.

## 3.11 Yield

3.11.1 The yield benchmark for investments are internal returns above the overnight Sterling Overnight index average (SONIA) rate.

3.11.2 In addition, the security benchmark for each individual year is included in table 9:

*Table 9: Security Benchmark for each individual year*

| | 1 year | 2 years | 3 years | 4 years | 5 years |
|---|---|---|---|---|---|
| Maximum % | 2% | 2% | 2% | 2% | 2% |

*Note: This benchmark is an average risk of default measure, and would not constitute an expectation of loss against a particular investment.*

## 3.12 Provisions for Credit-related losses

3.12.1 If any of the Council's investments appeared at risk of loss due to default (i.e. this is a credit-related loss, and not one resulting from a fall in price due to movements in interest rates) then the Council will make revenue provision of an appropriate amount.

## 3.13 End of Year Investment Report

3.13.1 At the end of the financial year, the Council will prepare a report on its investment activity as part of its annual treasury management report to Full Council.