AUDIT COMMITTEE	AGENDA ITEM No. 4
21 FEBRUARY 2022	PUBLIC REPORT

Report of:	Cecilie Booth, Interim Corporate Director Resources	
Cabinet Member(s) responsible:	Cllr Andy Coles, Cabinet Member for Finance	
Contact Officer(s):	Cecilie Booth, Interim Corporate Director Resources	Tel. 452520

2022/23 DRAFT TREASURY MANAGEMENT STRATEGY (TMS)

RECOMMENDATIONS	
FROM: Cecilie Booth, Interim Corporate Director Resources	**Deadline date:** *2 March 2022*

It is recommended that Audit Committee:

1. Review and comment on the draft 2022/23 Treasury Management Strategy (TMS) before it is approved as part of the Medium-Term Financial Strategy (MTFS) at Full Council in March 2022.

1. ORIGIN OF REPORT

1.1 The Treasury Management in the Public Services: Code of Practice 2017 recommends that Members receive reports on its treasury management policies, practices and activities, including an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close.

1.2 The annual strategy is approved by Council as part of the MTFS. Members are required to review and approve the strategy to ensure compliance with best practice.

2. PURPOSE AND REASON FOR REPORT

2.1 To provide the Treasury Management Strategy 2022/23 to Audit Committee for approval of the policies and Prudential Indicators in line with the consultation timelines for the MTFS.

2.2 This report is for Audit Committee to consider under its Terms of Reference No. 2.2.1.18 To consider the Council's arrangements for corporate governance and agreeing necessary actions to ensure compliance with best practice.

3. TIMESCALES

Is this a Major Policy Item/Statutory Plan?	**YES**	If yes, date for Cabinet meeting	
Date for relevant Council meeting	2 March 2022 As part of the MTFS process	Date for submission to Government Dept. *(Please specify which Government Dept.)*	

4. BACKGROUND AND KEY ISSUES

4.1 The Prudential Code underpins the system of capital finance. Local authorities determine their own programmes for capital investment in long term and current assets that are central to the delivery of quality local public services. Prudential indicators are developed as part of the annual MTFS process to ensure that:
a) Capital investment plans are affordable;
b) All external borrowing and other long term liabilities are within prudent and sustainable levels; and
c) Treasury management decisions are taken in accordance with professional good advice.

The 2022/23 – 2024/25 Treasury Management Strategy is contained in Appendix 1 to this report.

The Council has continued to operate a restrictive lending list due to the continued economic uncertainty. Surplus cash is only invested for short periods with Barclays, Bank of Scotland (part of the Lloyds Banking Group) and the Churches, Charities and Local Authorities (CCLA) money market fund. The Council also invests with other Local Authorities and the Debt Management Office (DMO).

The Council has continued to borrow to fund the capital programme. Loans have been arranged at interest rates to achieve budget certainty and for varying periods to fit in with the Councils debt maturity profile.

The main changes to the TMS policies from last year's MTFS Treasury Strategy are as follows:

- An amendment to the Minimum Revenue Provision (MRP) Policy from the 2023/24 financial year where capital receipts received will be used to either fund capital expenditure or fund the revenue costs of transformation projects under the Capital Receipts Flexibility programme, rather than to redeem debt.
- a revised capital programme profile over the next three years with the purpose of reducing external borrowing.

The strategy presented at this meeting is in draft format as final borrowing assumptions, phasing of the capital programme is refined as part of the final Medium Term Financial Strategy (MTFS) which will be taken to Council on 2 March 2022. It is anticipated that the final indicators will be amended, but overall approach and policy will not be changed from this version.

5. CONSULTATION

5.1 The Council's Prudential Code and Treasury Management Strategy 2022/23 - 2024/25 will undergo a full consultation and go through the scrutiny process as it forms part of the Annual MTFS.

5.2 The Council continues to liaise with its treasury advisors, Link Asset Services.

6. ANTICIPATED OUTCOMES OR IMPACT

6.1 As set out in the report.

7. REASON FOR THE RECOMMENDATION

7.1 This report and strategy are presented to the Committee to provide the opportunity to review and approve the policies and Prudential Indicators of the 2022/23 TMS in advance of it being presented to Full Council in March 2022.

7.2 There is a statutory requirement for Council to approve the Prudential Indicators as contained in the TMS, and it is in line with best practice for scrutiny to be undertaken on this strategy prior to full approval by Council.

8. ALTERNATIVE OPTIONS CONSIDERED

8.1 The Prudential Code and Treasury Management Strategy 2022/23 - 2024/25 is required to be prepared in accordance with the Treasury Management in the Public Services: Code of Practice 2017.

9. IMPLICATIONS

Financial Implications

9.1 The assumptions as contained in the TMS have been used to inform the capital financing budget as contained and detailed in the MTFS.

Legal Implications

9.2 Treasury Management activities have to conform to the Local Government Act 2003, the Local Authorities (Capital; Finance and Accounting) (England) Regulations 2003 (SI 2003/3146), which specifies that the Council is required to have regard to the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice and also the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2017, which clarifies the requirements of the Minimum Revenue Provision guidance.

Updated versions of both the Prudential Code for Capital Finance in Local Authorities and the Treasury Management in the Public Services Code of Practice were published in December 2021. However, the guidance notes for practitioners which accompany and support the codes are not expected to be published until the end of January. Although the new Codes apply immediately, the Prudential Code states that the changes to reporting requirements that they introduce can be deferred until the 2023/24 financial year. These new reporting requirements include changes to the capital strategy, prudential indicators and investment reporting. Given the timing of the publication of the updated Codes it has not been possible to implement the new reporting requirements in the 2022/23 Treasury Management and Capital and Investment strategy documents, however work is underway to evaluate the new requirements. Full adoption and compliance with the new Codes is therefore expected to be in place for the 2023/24 Financial year.

Equalities Implications

9.3 None

10. BACKGROUND DOCUMENTS

Used to prepare this report, in accordance with the Local Government (Access to Information) Act 1985

10.1
- The Prudential Code for Capital Finance in Local Authorities –2017 Edition, CIPFA; and
- Treasury Management in the Public Services, Code of Practice and Cross-Sectoral Guidance Notes – 2017 Edition, CIPFA

11. APPENDICES

11.1 Appendix 1 - Treasury Management Strategy 2022/23 to 2024/25 - Including: Minimum Revenue Provision Policy 2021/22 and 2022/23

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Treasury Management Strategy 2022/23 to 2024/25

Including:
Minimum Revenue Provision (MRP) Policy 2021/22 & 2022/23

1. Introduction

1.1. Background

1.1.1. The Council is required to operate a balanced budget, which means that cash raised through the year will meet its cash expenditure. The Treasury Management Strategy (TMS) has four fundamental roles:

- Manage external investments - security, liquidity and yield
- Ensure debt is prudent and economic
- Produce and monitor the Prudential Indicators
- To ensure that decisions comply with regulations.

1.1.2. The role of treasury management is to ensure cash flow is adequately planned so that cash is available when it is needed. Surplus monies are invested in low-risk counterparties commensurate with the Council's low risk appetite ensuring that security and liquidity are achieved before considering investment return.

1.1.3. The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning, to ensure that the Council can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans or using longer-term cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet Council risk or cost objectives.

1.1.4. The contribution the treasury management function makes to the authority is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the 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.

1.1.5. Whilst any 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.

1.1.6. In Financial Sustainability Workstream 3 – Capital Programme, one of the key objectives is to reduce borrowing costs as a proportion of the annual revenue budget. This will require an almost zero tolerance to new borrowing across the medium-term. This will help ensure that one of the four fundamental roles of this TMS (Ensure debt is prudent and economic) is met. This TMS reflects the key objectives of the Council's Improvement Plan, where appropriate.

1.1.7. CIPFA defines treasury management as:

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

1.2. Reporting Requirements

1.2.1. Capital Strategy

1.2.2. The CIPFA revised 2017 Prudential and Treasury Management 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;
- the implications for future financial sustainability;
- Asset Investment Strategy – this was previously a separate report however due to the changes in PWLB borrowing after the recent consultation the this has now been included within the Capital Strategy.

1.2.3. The aim of this Capital Strategy is to ensure that all elected members on the full council fully understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite.

1.2.4. This Capital Strategy is reported separately from the Treasury Management Strategy Statement and non-treasury investments will be reported through the former. This ensures the separation of the core treasury function under security, liquidity and yield principles, and the policy and investments usually driven by expenditure on an asset. The Capital Strategy will show:

- the corporate governance arrangements for these types of activities;
- any service objectives relating to the investments;
- the expected income, costs and resulting contribution;
- for non-loan type investments, the cost against the current market value;
- the risks associated with each activity.

1.2.5. Where a physical asset is being bought, 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.

1.2.6. Where the Council has borrowed to fund any non-treasury investment, there should also be an explanation of why borrowing was required and why the DLUHC (Department for Levelling Up, Housing and Communities) Investment Guidance and CIPFA Prudential Code have not been adhered to.

1.2.7. The Council does not hold any non-treasury investment for purely yield and financial return purposes. However, if a loss is incurred on any non-treasury investment during the final accounts and audit process, the strategy and revenue implications will be reported through the budgetary control process.

1.3. Treasury Management Reporting

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

1.3.2. **Prudential and Treasury Indicators and Treasury Strategy** - The first, and most important report is forward looking and covers:

- the capital plans, (including prudential indicators);
- a Minimum Revenue Provision (MRP) policy, (how residual capital expenditure is charged to revenue over time);
- the treasury management strategy, (how the investments and borrowings are to be organised), including treasury indicators; and
- an investment strategy, (the parameters on how investments are to be managed).

1.3.3. **A Mid-Year Treasury Management Report** – This is primarily a progress report and will update members on the capital position, amending prudential indicators as necessary, and whether any policies require revision.

1.3.4. **An Annual Treasury Report** – This is a backward-looking review document and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

1.3.5. **Scrutiny**

1.3.6. The above reports are required to be adequately scrutinised before being recommended to the Council and this role is undertaken by the Audit Committee and Cabinet.

1.4. **Treasury Management Strategy for 2022/23**

1.4.1. The strategy for 2022/23 covers:

Capital issues

- the capital expenditure plans and the associated prudential indicators;
- the MRP policy.

Treasury management issues

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

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

1.5. **IFRS16 - Leases**

1.5.1. A new International Financial Reporting Standard (IFRS) on leases is due to be adopted by the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) with effect from 1st April 2022. IFRS 16 defines a lease as a contract or part of a contract, which conveys the right to use as asset (the underlying asset) for a period of time in exchange for a consideration. The CIPFA/LASAAC Local Authority Accounting Code Board has agreed to defer the implementation of IFRS 16 *Leases* until the 2022/23 financial year, CIPFA/LASAAC has taken this decision in response to pressures on council finance teams as a result of the COVID-19 pandemic.

1.5.2. Under the standard the distinction between finance leases and operating leases under the previous leasing standard is removed and all leases are treated in the way the finance leases currently are. A 'right of use' asset is shown on the balance sheet with a corresponding liability of the discounted value of the future lease payments. There are exceptions for short dated leases (under a year, or with less than a year remaining at transition) and low value leases (low value to be determined by the Council using its approach to determining de minimus items).

1.5.3. This means that all leases that do not meet the exceptions will be treated as capital expenditure from 2022/23 and form part of the Capital Financing Requirement. An estimate of the impact of the transition to the new standard has been built into the relevant indicators. The full impact will not be known until the 2022 Code has been issued and the detailed assessment completed. If this has a material impact on the

Prudential Indicators then an amendment will be made in the mid-year Treasury Management Report once the detailed impact is known.

1.6. Training

1.6.1. The CIPFA Code requires the responsible officer to ensure that Council members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny. The training needs of treasury management officers are reviewed regularly as part of the monthly supervisions- “our conversations”.

1.7. Changes to the Treasury Management Code and Prudential Code

1.7.1 CIPFA published the revised codes on 20th December 2021 and has stated that formal adoption is not required until the 2023/24 financial year. The Council has to have regard to these codes of practice when it prepares the Treasury Management Strategy and Annual Investment Strategy, and also related reports during the financial year, which are taken to Full Council for approval.

The revised codes will have the following implications:

- a requirement for the Council to adopt a new debt liability benchmark treasury indicator to support the financing risk management of the capital financing requirement;
- clarify what CIPFA expects a local authority to borrow for and what they do not view as appropriate. This will include the requirement to set a proportionate approach to commercial and service capital investment;
- address ESG (Environmental, Social and Governance) issues within the Capital Strategy;
- require implementation of a policy to review commercial property, with a view to divest where appropriate;
- create new Investment Practices to manage risks associated with non-treasury investment (similar to the current Treasury Management Practices);
- ensure that any long term treasury investment is supported by a business model;
- a requirement to effectively manage liquidity and longer term cash flow requirements;
- amendment to TMP1 to address ESG policy within the treasury management risk framework;
- amendment to the knowledge and skills register for individuals involved in the treasury management function - to be proportionate to the size and complexity of the treasury management conducted by each council;
- a new requirement to clarify reporting requirements for service and commercial investment, (especially where supported by borrowing/leverage).

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

Treasury management

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

Service delivery

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

Commercial return

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

1.7.2 Members will be updated on how all these changes will impact our current approach and any changes required will be formally adopted within the 2023/24 TMS report.

1.8. **Treasury Management Advisors**

1.8.1. The Council uses Link Group, Treasury solutions as its external treasury management advisors who have a contract until September 2023.

1.8.2. The Council recognises that responsibility for treasury management decisions remains with the Council at all times and will ensure that undue reliance is not placed upon external advisors.

1.8.3. The Council also recognises that there is value in employing external providers of treasury management services in order 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, documented and subjected to regular review.

1.9. **Treasury Management Policy Statement**

1.9.1. The Treasury Management Policy Statement sets out the policies and objectives of Treasury Management Activities which is revised annually. It reflects December 2017 guidance.

1.9.2. 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 for the organisation, and any financial instruments entered into to manage these risks.

1.9.3. 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 value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

1.9.4. Investments using the above definition cover all financial assets of the organisation, as well as other non-financial assets which the organisation holds primarily for financial returns such as existing investment property portfolios. This may therefore include investments which are not managed as part of normal treasury management or under treasury management delegations. All investments require an appropriate investment management and risk management framework.

1.9.5. The Council's high-level policies for borrowing and investments are set out below.

- to invest available cash balances with a number of high-quality investment counterparties over a spread of maturity dates in accordance with the Council's lending list;
- to reduce the revenue cost of the Council's debt in the medium term by obtaining financing at the cheapest rate possible;
- to seek to reschedule or repay debt at the optimum time.

1.10. The Treasury Management Role of the Section 151 Officer

The S151 (responsible) officer must do the following:

- recommend clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance;
- submit regular treasury management policy reports;
- submit budgets and budget variations;
- receive and reviewing management information reports;
- review the performance of the treasury management function;
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
- ensuring the adequacy of internal audit, and liaising with external audit;
- recommending the appointment of external service providers;
- preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments and treasury management, with a long-term timeframe
- ensuring that the capital strategy is prudent, sustainable, affordable and prudent in the long-term and provides value for money;
- ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the authority;
- ensure that the authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing;
- ensuring the proportionality of all investments so that the authority does not undertake a level of investing which exposes the authority to an excessive level of risk compared to its financial resources;
- ensuring that an adequate governance process is in place for the approval, monitoring and ongoing -risk management of all non-financial investments and long-term liabilities;
- provision to members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees;
- ensuring that members are adequately informed and understand the risk exposures taken on by an authority. This is done by regular training presentations to the Audit Committee;

- ensuring that the authority has adequate expertise, either in house or externally provided, to carry out the above. This is done by regular attendance at course and conferences and joint working with Link Group;
- creation of Treasury Management Practices (TMPs) which specifically deal with how non treasury investments will be carried out and managed, to include the following -
  - Risk management (TMP1 and schedules), including investment and risk management criteria for any material non-treasury investment portfolios;
  - Performance measurement and management (TMP2 and schedules), including methodology and criteria for assessing the performance and success of non-treasury investments;
  - Decision making, governance and organisation (TMP5 and schedules), including a statement of the governance requirements for decision making in relation to non-treasury investments; and arrangements to ensure that appropriate professional due diligence is carried out to support decision making;
  - Reporting and management information (TMP6 and schedules), including where and how often monitoring reports are taken to the various committees;
  - Training and qualifications (TMP10 and schedules), including how the relevant knowledge and skills in relation to non-treasury investments will be arranged.

2. Capital Prudential Indicators 2022/23 to 2024/25

2.1 The Council's capital programme is the key driver of the treasury management activity. The output of the capital programme is reflected in the prudential indicators which are designed to assist member's overview and confirm the capital programme.

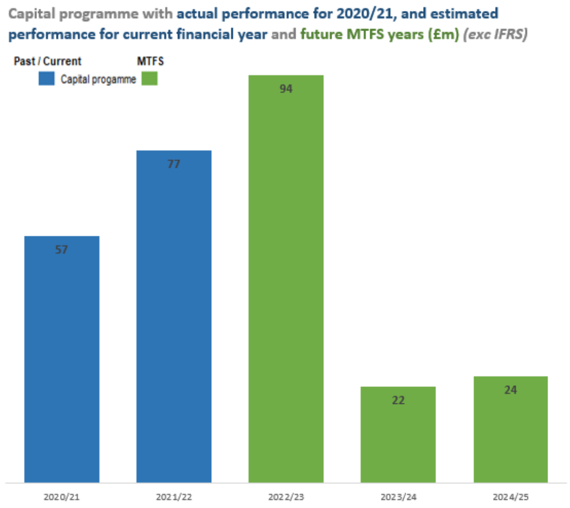
2.2 **Indicator 1** – Capital Expenditure – this Prudential Indicator is a summary of the Council's estimated capital expenditure for the forthcoming financial year and the following two financial years including how it will be funded either from grants, contributions, or capital receipts with the remaining being the 'net financing requirement'

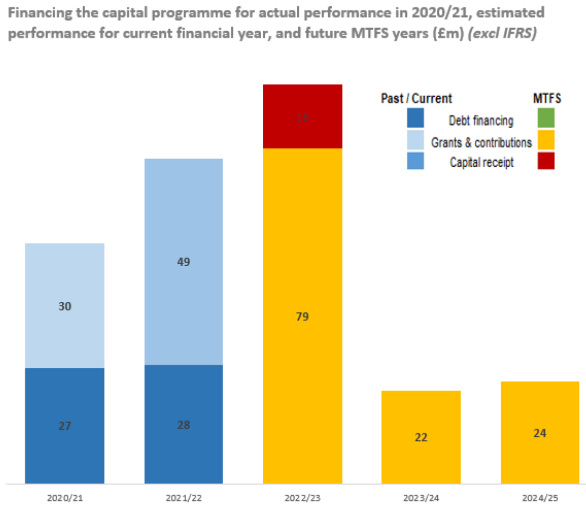
Capital Expenditure	**2020/21 Actual £m**	**2021/22 Est £m**	**2022/23 Est £m**	**2023/24 Est £m**	**2024/25 Est £m**
Customer & Digital Services	1.6	3.1	3.2	2.1	3.0
People & Communities	15.5	37.8	22.4	7.2	15.7
Place & Economy	27.9	32.3	71.5	21.1	13.6
Resources	8.0	4.6	2.9	1.5	1.5
Capitalisation Direction	0.8	-	-	-	-
Invest to Save	3.0	8.9	3.2	-	-
Target Reduction tbc		-10.0	-9.2	-9.8	-9.4
Total	**56.8**	**76.7**	**94.0**	**22.1**	**24.4**
Financed by:					
Capital receipts (repayment of capital loans)	-	-	15.0	-	-
Capital receipts (used to fund capital programme)	-	-	-	0.2	0.2
Capital grants & contributions	29.5	48.6	79.0	21.9	24.2
Net Financing Requirement	27.3	28.1	-	-	-
Total	**56.8**	**76.7**	**94.0**	**22.1**	**24.4**
IFRS16 Transition			22.0		

2.3 The capital receipts (repayment of capital loans) shown in the table above relate to:

- 2022/23 - Hotel – capital loan - £15m

2.4 The Invest to Save schemes are included in total capital expenditure and the funding resources to be used. However, these schemes will either generate income or generate savings on revenue budgets elsewhere in the Council's services. Therefore, the borrowing costs associated with these projects will have a minimal impact on the Council's MTFS position.





2.5 **Indicator 2** – Capital Financing Requirement (CFR) – the CFR is the total historical capital expenditure which has not yet been paid for from either revenue or capital resources. It is a measure of the Council's underlying borrowing requirement. Any capital expenditure which has not immediately been paid for will increase the CFR.

2.6 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.

2.7 The CFR includes any other long-term liabilities (e.g. PFI schemes, finance leases) included on the Council's balance sheet. Whilst this increases the CFR, and therefore the Council's borrowing requirement, these types of schemes include a borrowing facility and so the Council is not required to separately borrow for these schemes. The following table shows the CFR estimates for the next three financial years for Council approval:

Capital Financing Requirement	**2020/21 Actual £m**	**2021/22 Est £m**	**2022/23 Est £m**	**2023/24 Est £m**	**2024/25 Est £m**
CFR brought forward	588.4	598.8	609.0	613.1	595.2
Borrowing / Repayment	6.6	1.3	(21.1)	(17.1)	(16.7)
Invest to Save	3.0	8.9	3.2	-	-
IFRS16 Transition adjustment	-	-	22.0	(0.8)	(0.8)
Capitalisation Direction	0.8	-	-	-	-
CFR carried forward	598.8	609.0	613.1	595.2	577.8
Movement in CFR	**10.4**	**10.2**	**4.1**	**(17.9)**	**(17.5)**
Net financing requirement	27.3	28.1	-	-	-
Lease Liability (Est IFRS16 adj)	-	-	22.0	-	-
Less MRP & other financing	(16.9)	(17.9)	(17.9)	(17.9)	(17.5)
Movement in CFR	**10.4**	**10.2**	**4.1**	**(17.9)**	**(17.5)**

2.8 **Indicator 3 –** Actual and estimates of the ratio of financing costs to net revenue budget. This indicator identifies the proportion of the revenue budget which is taken up in financing capital expenditure i.e., the net interest cost and the provision to repay debt.

Ratio of Gross Financing Costs to Net Revenue Budget	2020/21 Actual	2021/22 Est	2022/23 Est	2023/24 Est	2024/25 Est
Total Ratio	12.8%	14.0%	16.5%	17.0%	16.2%
Ratio with gross MRP charge (capital receipts to redeem debt not factored into financing)	16.1%	16.7%	19.5%	17.0%	16.2%
Relating to Capitalisation Direction	0.2%	0.2%	0.2%	0.2%	0.2%

3. Minimum Revenue Provision (MRP) Policy Statement

3.1 Capital expenditure is generally expenditure on assets which have a life expectancy of more than one year e.g., buildings, vehicles, equipment, etc. Such expenditure is spread over several years in order to try to match the years over which such assets benefit the local community through their useful life. The manner of spreading these costs is through an annual MRP.

3.2 DLUHC Regulations require full Council to approve an MRP statement in advance of each year. A variety of options are provided to Councils to calculate this revenue charge and the Council must satisfy itself that the provision is prudent.

3.3 A change introduced by the revised DLUHC MRP Guidance was the allowance that any charges made over the statutory MRP, voluntary revenue provision (VRP) or overpayments, can, if needed, be reclaimed in later years if deemed necessary or prudent. In order for these sums to be reclaimed for use in the budget, this policy must disclose the cumulative overpayment made each year. Previous accumulated overpayments were fully utilised as at 31 March 2021.

3.4 Councils are allowed by statute to use capital receipts for the repayment of any borrowing previously incurred. The application of capital receipts to repay debt would reduce the level of MRP chargeable to revenue, but statutory guidance does not address how such a reduction should be calculated. When the Council uses its capital receipts to redeem borrowing, the value of the MRP which would otherwise have been set aside for that year will be reduced by the amounts which have instead been repaid from capital receipts. This results in a prudent level of MRP, as there will be no reduction in the overall level of funding set aside to redeem debt.

3.5 During 2019/20 detailed discussions were held with DLUHC with regards to the council's application of capital receipts to redeem debt. On 30 November 2021 DLUHC released a consultation on changes to the Capital Framework – Minimum Revenue Provision. The paper primarily covers the concerns that the government has in respect of compliance with the duty to make a prudent revenue provision, which in their view, results in an underpayment of MRP. The consultation document states that the DLUHC are not intending to change the statutory MRP guidance, but to clearly set out in legislation the practices that authorities should already be following. The proposed change to the regulation is set out below

The government is proposing additional text to be added to the 2003 Regulations to make explicit that:

1. Capital receipts may not be used in place of the revenue charge. The intent is to prevent authorities avoiding, in whole or part, a prudent charge to revenue. It is not the intention to prevent authorities using capital receipts to reduce their overall debt position, which may have the effect of reducing the MRP made with respect to the remaining debt balance.

2. Prudent MRP must be determined with respect to the authority's total capital financing requirement. The intent is to stop the intentional exclusion of debt from the MRP determination because it relates to an investment asset or capital loan. Authorities should still be able to charge MRP over the period in which their capital expenditure provides benefits and begin charging MRP in the year following capital expenditure, in accordance with proper accounting practices set out in the government's statutory guidance on Minimum Revenue Provision.

The proposal is that the changes will first come into force for the financial year beginning 1 April 2023.

The council has amended its approach from the 2023/24 financial year where capital receipts received will be used to either fund capital expenditure or fund the revenue costs of transformation projects under the Capital Receipts Flexibility programme.

The closing date for responding to the consultation is 8 February 2022 and the Council intends to submit a response.

3.6 Repayments for the PFI scheme and finance leases are applied as MRP, and the associated amounts are included in these Prudential Indicators.

3.7 The following table summarising the MRP Policy.

Capital Expenditure Incurred	MRP Policy Update 2021/22 & 2022/23
Expenditure funded by unsupported borrowing	Asset Life, annuity method – MRP will be based on the prevailing PWLB interest rate for a loan with a term equivalent to the estimated life of the project. If capital receipts have been used to repay borrowing for the year then the value of MRP which would have otherwise been set aside to repay borrowing will be reduced by the amounts which have instead been repaid from capital receipts. The level of capital receipts to be applied to redeem borrowing will be determined annually by the Chief Finance Officer (S151), taking into account forecasts for future expenditure, the generation of further receipts and alternative uses which may provide better value for money for the Council's financial strategy. The same process will apply for S106, POIS and CIL receipts.
Private Finance Initiative (PFI) - Finance Lease	Use the annuity method of calculation over the remaining asset life
Other Finance Leases	The MRP requirement would be regarded as met by a charge equal to the element of the rent/charge that goes to write down the balance sheet liability. Where a lease (or part of a lease) is brought onto the balance sheet, having previously been accounted for off- balance sheet, the MRP requirement would be regarded as having been met by the inclusion in the charge for the year in which the restatement occurs, of an amount equal to the write-down for that year plus retrospective writing down of the balance sheet liability that arises from the restatement.
Secured Loans to third parties repaid in bullet form.	No MRP will be charged each year as reliance can be placed on the capital receipt that will be generated when the loan is repaid or, in the event of a default, the realisation of the security. If realisation of the security does not equate to the original loaned amount the Council will recognise the associated impairment and will charge MRP for the outstanding loan amount over the next MTFS periods or remaining life of the asset, whichever is longer. Impairment relating to IFRS9 adjustments will attract the same treatment.
Secured Loans to third parties repaid over the life of the loan	MRP will be charged each year equal to the Annual Base Repayment Amounts profiled in the legal agreement. Where additional repayments are made by the borrower the Council will make voluntary MRP charges to match. In the event of default reliance will be placed on the capital receipt that will be generated on realisation of the security. If realisation of the security does not equate to the remaining balance of the loan the Council will recognise the associated impairment and charge MRP on this amount over the next MTFS period or remaining life of the asset, whichever is longer. Impairment relating to IFRS9 adjustments will attract the same treatment.

4 **Current Treasury Position**

4.1 The capital expenditure plans set out in Section 2 provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity and the Council's capital strategy. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

4.2 The overall treasury management portfolio as at 31 March 2021 and for the position as at 14h January 2022 are shown in the following table for both borrowing and investment.

Treasury Portfolio	Actual 31.03.21 £'000	Actual 31.03.21 %	Current 14.01.22 £'000	Current 14.01.22 %
Treasury Investments				
Banks	8,125	45	4,785	17
DMADF (HM Treasury)			14,000	49
Money Market Funds	10,000	55	10,000	34
Total Treasury Investments	**18,125**	**100**	**28,785**	**100**
Treasury External Borrowing				
Local Authorities	(82,500)	18	(50,000)	12
PWLB	(369,587)	79	(365,087)	84
LOBOs	(17,500)	3	(17,500)	4
Total External Borrowing	**(469,587)**	**100**	**(432,587)**	**100**
Net Treasury Investment / (Borrowing)	**(451,462)**		**(403,802)**	

4.3 **Indicator 4** - The Council's treasury position at 31 March 2022, with estimates for future years, is summarised below. The table below shows the actual external borrowing (Gross Debt) against the CFR

Gross debt & capital financing requirement	2020/21 Actual £m	2021/22 Est £m	2022/23 Est £m	2023/24 Est £m	2024/25 Est £m
External Borrowing					
Market Borrowing	477.6	469.6	479.8	461.9	444.9
Repayment of borrowing	(110.5)	(82.0)	(32.2)	(17.0)	(16.7)
Expected change in borrowing	102.5	92.2	14.2	-	-
Capitalisation Direction	-	-	-	-	-
Other long-term liabilities	48.8	48.0	69.2	67.5	65.8
Gross Debt at 31 March	**518.4**	**527.8**	**531.0**	**512.4**	**494.0**
CFR	598.8	609.0	613.1	595.2	577.8
% of Gross Debt to CFR	**86.6%**	**86.7%**	**86.6%**	**86.1%**	**85.5%**

4.4 Based on the prudential indicators there are a number of key measures to ensure that the Council operates its activities within defined limits. One of these is that the Council needs to ensure that its total borrowing does not, except in the short-term, exceed the total of the CFR in the year plus the estimates of any additional CFR for 2022/23 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 purposes.

4.5 The Chief Finance Officer (S151) reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans and the proposals in this Medium-Term Financial Strategy (MTFS).

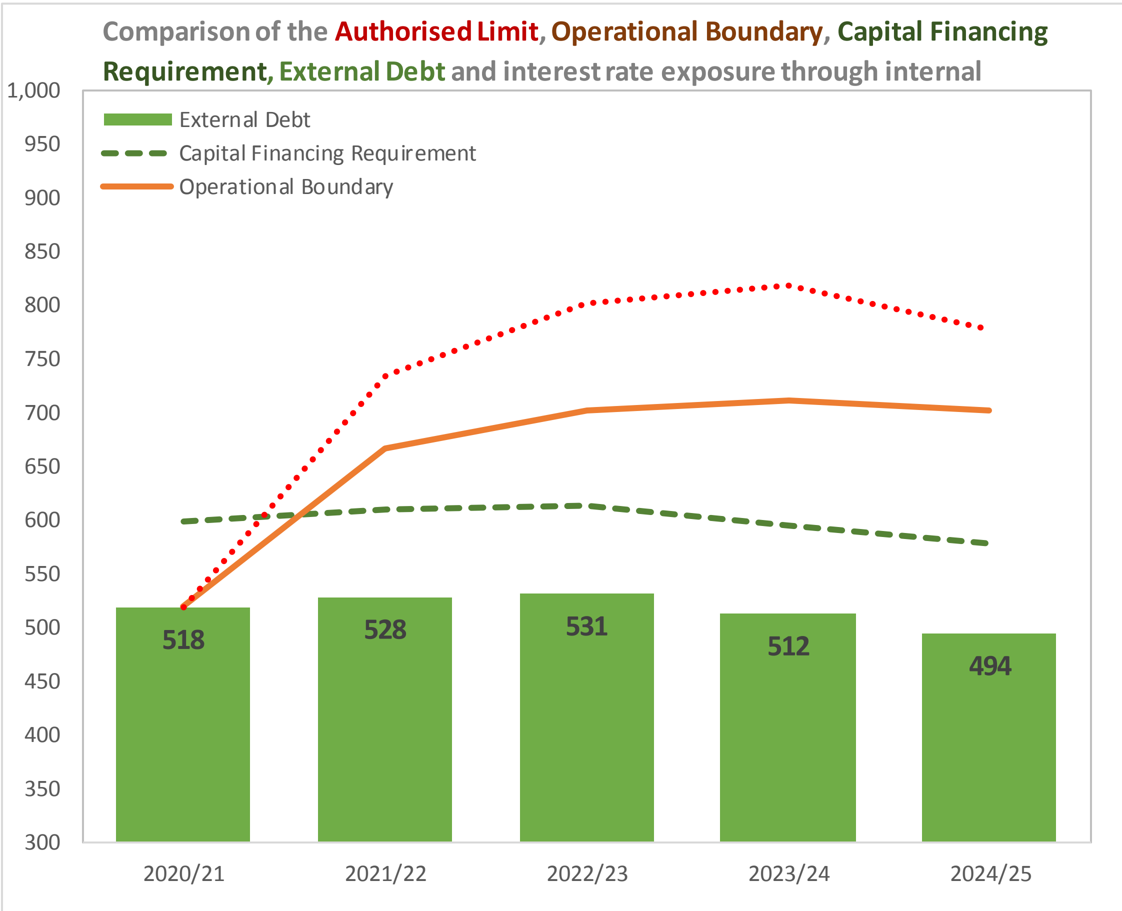
4.6 **Indicator 5** - The Operational Boundary - external borrowing is not normally expected to exceed this limit. If the operational boundary was exceeded this would be reported immediately to the members of the Audit Committee with a full report taken to the next committee meeting. In the current year it has not been exceeded. The Operational Boundary is set out below:

Operational Boundary	**2020/21 Actual £m**	**2021/22 Est £m**	**2022/23 Est £m**	**2023/24 Est £m**	**2024/25 Est £m**
Borrowing	469.6	619.0	633.1	643.1	635.2
Other long-term liabilities	48.8	48.0	69.2	67.5	65.8
Total	**518.4**	**667.0**	**702.3**	**710.6**	**701.0**

4.7 **Indicator 6** - The Authorised Limit for external borrowing - this represents a limit beyond which external borrowing is prohibited. This limit is set and revised by full Council.

Authorised Limit	**2020/21 Actual £m**	**2021/22 Est £m**	**2022/23 Est £m**	**2023/24 Est £m**	**2024/25 Est £m**
Borrowing	469.6	687.0	732.3	750.6	711.1
Other long-term liabilities	48.8	48.0	69.2	67.5	65.8
Total	**518.4**	**735.0**	**801.5**	**818.1**	**776.9**

4.8 This is a statutory limit determined under section 3 (1) of the Local Government Act 2003. Government under sections 4(1) and 4(2) may limit either the total of all Council borrowing, or those of a specific Council, although this power has not yet been exercised.



Prospects for Interest Rates

4.9 The Council utilises the treasury services of Link Group and part of their service is to assist the Council to formulate a view on interest rates to assist with borrowing and investment decisions.

4.10 The Link Group forecast for bank base rate (as at 20.12.21) and PWLB new borrowing as at 20.12.21 is as follows (note that the PWLB Borrowing Rate includes the Certainty Rate adjustment)

Interest Rate (All rates shown as %)	Bank Rate View	5yr PWLB Rate	10yr PWLB Rate	25yr PWLB Rate	50yr PWLB Rate	Budget Assumption
Mar-22	0.25	1.50	1.70	1.90	1.70	1.70
Jun-22	0.50	1.50	1.80	2.00	1.80	1.90
Sep-22	0.50	1.60	1.80	2.10	1.90	
Dec-22	0.50	1.60	1.90	2.10	1.90	
Mar-23	0.75	1.70	1.90	2.20	2.00	
Jun-23	0.75	1.80	2.00	2.20	2.00	2.05
Sep-23	0.75	1.80	2.00	2.20	2.00	
Dec-23	0.75	1.80	2.00	2.30	2.10	
Mar-24	1.00	1.90	2.10	2.30	2.10	
Jun-24	1.00	1.90	2.10	2.40	2.20	2.25
Sep-24	1.00	1.90	2.10	2.40	2.20	
Dec-24	1.00	2.00	2.20	2.50	2.30	
Mar-25	1.25	2.00	2.30	2.50	2.30	

4.11 Following the conclusion of the PWLB Lending terms consultation, revised lending terms were published of which one of the main features was that authorities will be asked to submit a high-level description of their capital spending and financing plans for the following three years, including their expected use of the PWLB. This process is closely modelled on the existing application process that authorities follow to access the Certainty Rate. The Council applied to be one of the principal local authorities that would qualify for the Certainty Rate, during the period 1 April 2021 to 31 March 2022. This results in the Council being able to benefit from reduced interest rates on PWLB loans by 20 basis points (0.20%).

4.12 When borrowing is undertaken an assessment of the prevailing interest rates is performed across the different period lengths and the debt taken will represent best value for money in accordance with the existing debt maturity profile and capital financing budget performance.

4.13 Link Group interest rate forecasts, detailed above, are based on their views of the future economic climate, and below are some extracts taken from their economic forecasts:

Over the last two years, the coronavirus outbreak has done huge economic damage to the UK and to economies around the world. After the Bank of England took emergency action in March 2020 to cut Bank Rate to 0.10%, it left Bank Rate unchanged at its subsequent meetings until raising it to 0.25% at its meeting on 16th December 2021.

As shown in the forecast table above, the forecast for Bank Rate now includes four increases, one in December 2021 to 0.25%, then quarter 2 of 2022 to 0.50%, quarter 1 of 2023 to 0.75%, quarter 1 of 2024 to 1.00% and, finally, one in quarter 1 of 2025 to 1.25%.

Significant risks to the forecasts

- **Mutations** of the virus render current vaccines ineffective, and tweaked vaccines to combat these mutations are delayed, or cannot be administered fast enough to prevent further lockdowns. 25% of the population not being vaccinated is also a significant risk to the NHS being overwhelmed and lockdowns being the only remaining option.
- **Labour and supply shortages** prove more enduring and disruptive and depress economic activity.
- **The Monetary Policy Committee** acts too quickly, or too far, over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- **The Monetary Policy Committee** tightens monetary policy too late to ward off building inflationary pressures.
- **The Government** acts too quickly to cut expenditure to balance the national budget.
- **UK / EU trade arrangements** – if there was a major impact on trade flows and financial services due to complications or lack of co-operation in sorting out significant remaining issues.
- **Longer term US treasury yields** rise strongly and pull gilt yields up higher than forecast.
- **Major stock markets** e.g., in the US, become increasingly judged as being over-valued and susceptible to major price corrections. Central banks become increasingly exposed to the "moral hazard" risks of having to buy shares and corporate bonds to reduce the impact of major financial market selloffs on the general economy.
- **Geopolitical risks,** for example in Ukraine, Iran, North Korea, but also in Europe and Middle Eastern countries; on-going global power influence struggles between Russia/China/US. These could lead to increasing safe-haven flows.

The balance of risks to the UK economy: -

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

A SUMMARY OVERVIEW OF THE FUTURE PATH OF BANK RATE

- In December, the Bank of England became the first major western central bank to put interest rates up in this upswing in the current business cycle in western economies as recovery progresses from the Covid recession of 2020.
- The next increase in Bank Rate could be in February or May, dependent on how severe an impact there is from Omicron.
- If there are lockdowns in January, this could pose a barrier for the MPC to putting Bank Rate up again as early as 3rd February.
- With inflation expected to peak at around 6% in April, the MPC may want to be seen to be active in taking action to counter inflation on 5th May, the release date for its Quarterly Monetary Policy Report.
- The December 2021 MPC meeting was more concerned with combating inflation over the medium term than supporting economic growth in the short term.
- Bank Rate increases beyond May are difficult to forecast as inflation is likely to drop sharply in the second half of 2022.

- However, the MPC will want to normalise Bank Rate over the next three years so that it has its main monetary policy tool ready to use in time for the next down-turn; all rates under 2% are providing stimulus to economic growth.
- We have put year end 0.25% increases into Q1 of each financial year from 2023 to recognise this upward bias in Bank Rate - but the actual timing in each year is difficult to predict.
- Covid remains a major potential downside threat in all three years as we ARE likely to get further mutations.
- How quickly can science come up with a mutation proof vaccine, or other treatment, – and for them to be widely administered around the world?
- Purchases of gilts under QE ended in December. Note that when Bank Rate reaches 0.50%, the MPC has said it will start running down its stock of QE.

MPC MEETING 16H DECEMBER 2021

- The Monetary Policy Committee (MPC) voted 8-1 to raise Bank Rate by 0.15% from 0.10% to 0.25% and unanimously decided to make no changes to its programme of quantitative easing purchases due to finish in December 2021 at a total of £895bn.
- The MPC disappointed financial markets by not raising Bank Rate at its November meeting. Until Omicron burst on the scene, most forecasters, therefore, viewed a Bank Rate increase as being near certain at this December meeting due to the way that inflationary pressures have been comprehensively building in both producer and consumer prices, and in wage rates. However, at the November meeting, the MPC decided it wanted to have assurance that the labour market would get over the end of the furlough scheme on 30th September without unemployment increasing sharply; their decision was, therefore, to wait until statistics were available to show how the economy had fared at this time.
- **On 10th December we learnt of the disappointing 0.1% m/m rise in GDP** in October which suggested that economic growth had already slowed to a crawl even before the Omicron variant was discovered in late November. Early evidence suggests growth in November might have been marginally better. Nonetheless, at such low rates of growth, the government's "Plan B" COVID-19 restrictions could cause the economy to contract in December.
- **On 14th December, the labour market statistics** for the three months to October and the single month of October were released. The fallout after the furlough scheme was smaller and shorter than the Bank of England had feared. The single-month data were more informative and showed that LFS employment fell by 240,000, unemployment increased by 75,000 and the unemployment rate rose from 3.9% in September to 4.2%. However, the weekly data suggested this didn't last long as unemployment was falling again by the end of October. What's more, the 49,700 fall in the claimant count and the 257,000 rise in the PAYE measure of company payrolls suggests that the labour market strengthened again in November. The other side of the coin was a further rise in the number of vacancies from 1.182m to a record 1.219m in the three months to November which suggests that the supply of labour is struggling to keep up with demand, although the single-month figure for November fell for the first time since February, from 1.307m to 1.227m.
- These figures by themselves, would probably have been enough to give the MPC the assurance that it could press ahead to raise Bank Rate at this December meeting. However, the advent of Omicron potentially threw a spanner into the works as it poses a major headwind to the economy which, of itself, will help to cool the economy. The financial markets, therefore, swung round to expecting no change in Bank Rate.
- **On 15th December we had the CPI inflation** figure for November which spiked up further from 4.2% to 5.1%, confirming again how inflationary pressures have been building sharply. However, Omicron also caused a sharp fall in world oil and other

commodity prices; (gas and electricity inflation has generally accounted on average for about 60% of the increase in inflation in advanced western economies).

- **Other elements of inflation are also transitory** e.g., prices of goods being forced up by supply shortages, and shortages of shipping containers due to ports being clogged have caused huge increases in shipping costs. But these issues are likely to clear during 2022, and then prices will subside back to more normal levels. Gas prices and electricity prices will also fall back once winter is passed and demand for these falls away.
- Although it is possible that the Government could step in with some **fiscal support for the economy**, the huge cost of such support to date is likely to pose a barrier to incurring further major economy wide expenditure unless it is very limited and targeted on narrow sectors like hospitality, (as announced just before Christmas). The Government may well, therefore, effectively leave it to the MPC, and to monetary policy, to support economic growth – but at a time when the threat posed by rising inflation is near to peaking.
- This is the adverse set of factors against which the MPC had to decide on Bank Rate. For the second month in a row, the MPC blind-sided financial markets, this time with a **surprise increase in Bank Rate from 0.10% to 0.25%.** What's more, the hawkish tone of comments indicated that the MPC is now concerned that inflationary pressures are indeed building and need concerted action by the MPC to counter. This indicates that there will be more increases to come with financial markets predicting 1% by the end of 2022. The 8-1 vote to raise the rate shows that there is firm agreement that inflation now poses a threat, especially after the CPI figure hit a 10-year high this week. The MPC commented that "there has been significant upside news" and that "there were some signs of greater persistence in domestic costs and price pressures".
- On the other hand, it did also comment that **"the Omicron variant is likely to weigh on near-term activity".** But it stressed that at the November meeting it had said it <u>would</u> raise rates if the economy evolved as it expected and that now "these conditions had been met". It also appeared more worried about the possible boost to inflation form Omicron itself. It said that "the current position of the global and UK economies was materially different compared with prior to the onset of the pandemic, including elevated levels of consumer price inflation". It also noted the possibility that renewed social distancing would boost demand for goods again, (as demand for services would fall), meaning "global price pressures might persist for longer". (Recent news is that the largest port in the world in China has come down with an Omicron outbreak which is not only affecting the port but also factories in the region.)
- On top of that, there were no references this month to inflation being expected to be below the **2% target in two years' time,** which at November's meeting the MPC referenced to suggest the markets had gone too far in expecting interest rates to rise to over 1.00% by the end of the year.
- These comments indicate that there has been a material reappraisal by the MPC of the inflationary pressures since their last meeting and the Bank also increased its forecast for inflation to peak at 6% next April, rather than at 5% as of a month ago. However, as the Bank retained its guidance that only **a "modest tightening"** in policy will be required, it cannot be thinking that it will need to increase interest rates that much more. A typical policy tightening cycle has usually involved rates rising by 0.25% four times in a year. "Modest" seems slower than that. As such, the Bank could be thinking about raising interest rates two or three times next year to 0.75% or 1.00%.
- In as much as a considerable part of the inflationary pressures at the current time are indeed **transitory,** and will naturally subside, and since economic growth is likely to be weak over the next few months, this would appear to indicate that this tightening cycle is likely to be comparatively short.
- As for the timing of the next increase in Bank Rate, the MPC dropped the comment from November's statement that Bank Rate would be raised "in the coming months". That may imply another rise is unlikely at the next meeting in February and that May is more likely. However, much could depend on how adversely, or not, the economy is affected by

Omicron in the run up to the next meeting on 3rd February. Once 0.50% is reached, the Bank would act to start shrinking its stock of QE, (gilts purchased by the Bank would not be replaced when they mature).

- **The MPC's forward guidance on its intended monetary policy** on raising Bank Rate versus selling (quantitative easing) holdings of bonds is as follows: -
  - Raising Bank Rate as "the active instrument in most circumstances".
  - Raising Bank Rate to 0.50% before starting on reducing its holdings.
  - Once Bank Rate is at 0.50% it would stop reinvesting maturing gilts.
  - Once Bank Rate had risen to at least 1%, it would start selling its holdings.

5 Investment and Borrowing Rates

5.1 Investment returns are expected to improve in 2022/23. However, while markets are pricing in a series of Bank Rate hikes, actual economic circumstances may see the MPC fall short of these elevated expectations

5.2 Borrowing interest rates fell to historically very low rates as a result of the COVID crisis and the quantitative easing operations of the Bank of England and still remain at historically low levels. The policy of avoiding new borrowing by running down spare cash balances has served local authorities well over the last few years

5.3 On 25.11.20, the Chancellor announced the conclusion to the review of margins over gilt yields for PWLB rates which had been increased by 100 bps in October 2019. The standard and certainty margins were reduced by 100 bps but a prohibition was introduced to deny access to borrowing from the PWLB for any local authority which had purchase of assets for yield in its three-year capital programme.

5.4 Borrowing for capital expenditure - greater value can be obtained in borrowing for shorter maturity periods so the Council will assess its risk appetite in conjunction with budgetary pressures to reduce total interest costs. Longer-term borrowing could also be undertaken for the purpose of certainty, where that is desirable, or for flattening the profile of a heavily unbalanced maturity profile**.**

5.5 Against this background and the risks within the economic forecast, caution will be adopted with the 2022/23 treasury operations. The Chief Finance Officer (S151) will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances.

5.6 There will remain a cost of carry to any new long-term borrowing that temporarily increases cash balances. This revenue cost is the difference between borrowing costs and investment returns.

6 Borrowing Strategy

6.1 The Council is currently maintaining an under-borrowed position, where the CFR balance is greater than gross debt, see Indicator 2, and chart on page 10. This is in line with the agreed strategy that the Council's cash balances be used to fund capital expenditure before additional borrowing is undertaken. This strategy is prudent as investment returns are low and counterparty risk is still an issue that needs to be considered.

6.2 The capital programme consists of three main types of capital projects:

- Invest to Save – Self Funding Schemes
- Specific Schemes – e.g. School Extensions
- Rolling Capital Projects e.g. Enhancing current assets

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

6.4 The MTFS is based on the following borrowing strategy for the next three years. The borrowing strategy is under constant review throughout the year monitoring changes in interest rates and borrowing opportunities. The proposed strategy for 2022/23 financial year is:

a) To consider the rescheduling (early redemption and replacement) of loans to maximise interest rate savings and possible redemption discounts.

b) Significant risk of a sharp fall in long and short-term rates may arise. In this case long-term borrowings will be postponed, and potential rescheduling from fixed rate funding into short-term borrowing will be considered.

c) Significant risk of a much sharper rise in long and short-term rates than currently forecast may arise. This may arise due to a greater than expected increase in world economic activity or a sudden increase in inflation risks. In this case the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates were still relatively cheap.

d) To maintain an appropriate balance between PWLB, Local Authority and other market debt in the debt portfolio and a balance in the maturity profile of debt.

e) To give full consideration to other debt instruments e.g. Local Authority Bonds as an alternative to PWLB borrowing. Due regard will be given to money laundering regulations. The Council is monitoring the development of the scheme and may participate if this proves beneficial.

7 Approaches Considered for New Borrowing Requirements

7.1 To realign the loan maturity profile with the rate of the existing CFR debt will be financed by taking out shorter term Local Authority Loans. In the current climate this will reduce interest costs in the short term.

7.2 Currently the PWLB Certainty Rate is set at gilts + 80 basis points for both HRA and non-HRA borrowing. However, consideration may still need to be given to sourcing funding at cheaper rates from Financial institutions (primarily insurance companies and pension funds but also some banks, out of spot or forward dates) and the Municipal Bonds Agency. Our advisors will keep us informed as to the relative merits of each of these alternative funding sources.

7.3 Maturing long-term debt is replaced by new borrowing. To achieve long-term financial sustainability the Council should aim to reduce its overall debt and the associated financing costs including interest. A high value of outstanding debt represents a financial risk because of potential interest rate changes.

7.4 The use of Capital receipts or S106 receipts to make MRP is a one-off revenue saving. Using these funds in this way means they are not available to fund Capital assets and reduce the overall borrowing requirement.

7.5 Interest rates are liable to change. In the event of significant changes, the Council seeks to avoid an increased revenue cost on its capital financing charges.

7.6 The Treasury Management Strategy uses the planned Capital Programme to calculate the borrowing requirement. Typically, the Council does not spend at the planned level in any financial year.

7.7 Link Group have a product that will allow the Council to borrow from the market at current interest rates with a small premium but not draw down the funds until they are required - ‘forward borrow’.

8 Treasury Debt Prudential Indicators

8.1 There are three debt treasury indicators which ensure debt structure remains within appropriate limits. This manages risk and reduces the impact of any adverse movement in interest rates.

8.2 **Indicator 7** – Upper limit on fixed interest rate exposure. This identifies a maximum limit for fixed interest rates based upon the debt position net of investments. This has been set at 100% of the borrowing requirement.

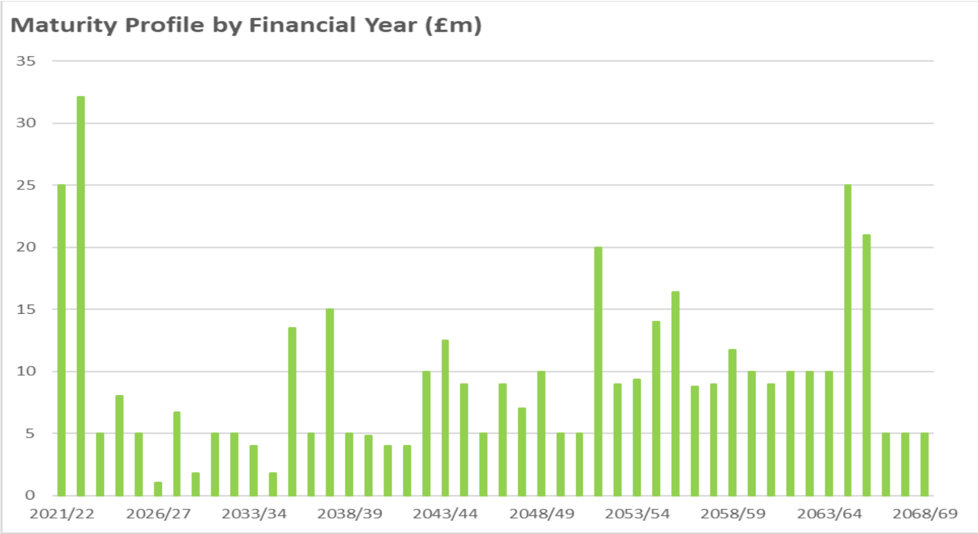
8.3 **Indicator 8** - Upper limit on variable rate exposure. This identifies a maximum limit for variable interest rates based upon the debt position net of investments. This has been set at 25% of the borrowing requirement.

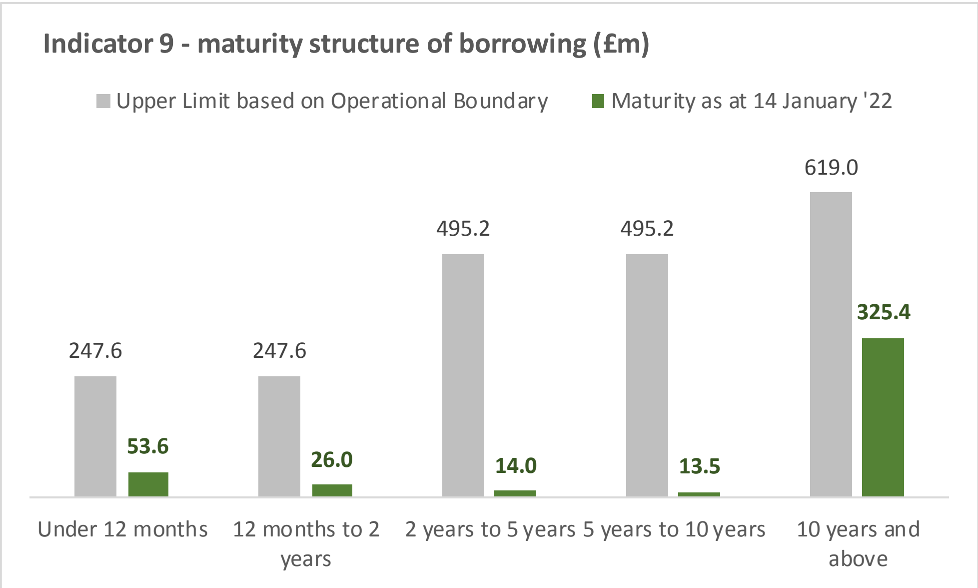
Interest Rate Exposure (Upper Limits)	2020/21 Actual £m	2021/22 Est £m	2022/23 Est £m	2023/24 Est £m	2024/25 Est £m
(7) Limits on fixed interest rate net debt	469.6	643.1	663.1	683.1	645.2
% of fixed interest rate exposure	100%	100%	100%	100%	100%
(8) Limits on variable interest rate on net debt	-	160.8	165.8	170.8	161.3
% of variable interest rate exposure	-	25%	25%	25%	25%

8.4 **Indicator 9** - Maturity structure of borrowing. These gross limits are set to reduce the Council’s immediate exposure to large fixed rate sums falling due for refinancing.

Maturity Structure of borrowing	Upper Limit	As at 14th January 2022
Under 12 months	40%	12.40%
12 months to 2 years	40%	6.01%
2 years to 5 years	80%	3.24%
5 years to 10 years	80%	3.12%
10 years and above	100%	75.23%

8.5 The following chart shows the Council’s debt maturity profile by financial year as at 14th January 2022:





9 Policy on Borrowing in Advance of Need (Future Capital Expenditure)

9.1 The Council will not borrow more than it requires, or in advance of its needs, purely in order to profit from the investment of the extra sums borrowed. However, at any time the Council may obtain a loan or other financing at what are considered advantageous terms in anticipation of future capital expenditure. The money borrowed will be invested temporarily. The Council may also borrow in the day-to- day management of its cash flow operations or as an alternative to redeeming higher yielding investments.

9.2 The Council will ensure there is a clear link between the capital programme across the future years and the maturity profile of the existing debt portfolio which supports the need to take funding in advance of capital expenditure.

9.3 The Council will ensure the ongoing revenue liabilities created, and the implications for the future plans and budgets have been considered and factored into the MTFS.

9.4 Consideration will be given to the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use.

10 Debt Rescheduling on Existing Debt Portfolio

10.1 Rescheduling of current borrowing in our debt portfolio is unlikely to occur as there is still a very large difference between premature redemption rates and new borrowing rates, even though the general margin of PWLB rates over gilt yields was reduced by 100 bps in November 2020.

11 Investment Strategy Principles

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

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

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

11.3 The DLUHC and CIPFA have extended the meaning of 'investments' to include both financial and non-financial investments. This report deals solely with financial investments, (as managed by the treasury management team).

12 Investment Counterparty Selection Criteria and Financial Investment Strategy

12.1 As the Council has run down its cash balances, surplus cash will be generated from cash flow movements e.g., a grant received in advance of spend or from borrowing in advance of need. Therefore, investment activity will be kept to a minimum.

12.2 However, where it is necessary for investments to be undertaken in order to manage the Council's cash flows, the Council's primary principle is for the security of its investments. After this main principle the Council will ensure that:

- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security and monitoring their security.
- It has sufficient liquidity in its investments. For this purpose, it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested.

12.3 The Chief Finance Officer (S151) will maintain a counterparty list in compliance with the set out below. Any revision of the criteria will be submitted to Council for approval as necessary.

12.4 The Councils minimum criteria will apply to the lowest rating for any institution according to the type of investment account being used. For instance, the credit rating criteria for the use of the Council's call accounts and Money Market Funds, which are used for short-term investments only, will use the Short-Term credit ratings in the table shown within 12.5. If an institution is rated by the three credit agencies and two meet the Council's criteria and the other one does not, the institution will fall outside the lending criteria.

This complies with a CIPFA Treasury Management Panel recommendation in March 2009 and the CIPFA Treasury Management Code of Practice 2017.

12.5 In order to minimise the risk to investing, the Council has clearly stipulated the minimum acceptable credit quality of counterparties for inclusion on the lending list. The Council uses the creditworthiness service provided by Link Group which uses ratings from all three rating agencies, Fitch, Moody's and Standard and Poor's, as well as Credit Default Swap (CDS) spreads. Link Group monitors ratings on a real time basis and notifies clients immediately on any rating changes or possible downgrades. Minimum Credit Ratings Criteria – further explanations are given in Annex 1.

Minimum Credit Ratings for Group 2 Banks		
Agency	**Short-Term**	**Long-Term**
Fitch	F1	AA+
Moody's	P-1	Aa1
Standard & Poor's	A-1	AA+

12.6 All credit ratings will be monitored weekly. The Council is alerted to changes to ratings of all three rating agencies by Link creditworthiness service

12.7 The Council does not place sole reliance on the use of Link Groups advice as the Council uses internal expertise and knowledge to make decisions. Market data, market information, information on government support for banks and the credit ratings of that government support are also considered when making treasury decisions.

12.8 The criteria for providing a pool of high-quality investment counterparties (both Specified and Non-Specified investments), and is shown in the order of use by the Council, all of the following are subject to continuous credit rating reviews:

- Money Market Funds
- UK Government (including gilts and the Debt Management Account Deposit Facility (DMADF)).
- Bank of Scotland call account (part of the Lloyds Banking Group).
- UK Local Authorities.

12.9 The Council also uses Barclays Bank, the Council's own banker. If Barclays fall below the criterion in 12.5 then the following strategy will be followed:

- with regard to the three credit rating agencies, if one reduces its rating but the other two remain the same or improve, the Council will reduce the maximum of £15m in the call account to £5m and a keep a low balance in the current account.
- if two or more credit rating agencies reduce their ratings below the criteria in 12.5 the Council will still require to use the Barclays accounts for transactional purposes, so maximum balance of £500k will be left overnight in the current account to prevent the account becoming overdrawn and incurring overdraft fees.
- Seek advice from Link Group

12.10 The above action applies to Barclays only due to its status as the Council's banking provider. Use of other bank accounts would be subject to criteria set out in the point 12.5. The above approach to Barclay's Bank has been developed following consideration that the Council needs banking facilities to process daily banking transactions, and such activity presents a lower risk profile compared to investment activity the significant impact, resource requirement, and risk exposure of changing bank provider the possible state and stability of the banking sector and viable alternative suppliers.

- Banks Group 1 - Part nationalised UK banks - Lloyds Banking Group Plc. (Bank of Scotland and Lloyds) and Royal Bank of Scotland Group Plc. (National Westminster Bank, The Royal Bank of Scotland and Ulster Bank Ltd). These banks can be included if they continue to be part nationalised and / or they meet the ratings in 14.6.
- Banks Group 2 – good credit quality - the Council will only use banks which are UK banks and have the minimum credit ratings criteria relating to the type of investment being undertaken.
- Building Societies – if they meet the ratings above
- Money Market Funds – AAA - rated by Fitch
- Bill Payment Service – The Council currently has a contract with Santander UK who collect payments of Council Tax through the post office via various methods of payment such as Paypoint. The funds that are collected are transferred to the Council daily thus minimising the risk of Santander UK holding the Council's cash. This arrangement for the bill payment service falls outside the investment criteria for investments therefore any downgrade of Santander UK will not affect this service. However, this arrangement will be closely monitored to ensure funds continue to be transferred daily.

12.11 The Council's lending list will comprise of the institutions that meet the investment criteria above. Each counterparty on the list is assigned a counterparty limit as per the table in Annex 1. Counterparties that no longer meet the investment criteria due to a credit rating downgrade will be removed from the list and any changes will be approved by Council. Approval will also be required if any new counterparties are added to the lending list.

12.12 Link Group approach to assessing creditworthiness of institutions is by combining credit ratings, credit watches and credit outlooks to produce a colour coding system. The Council will use counterparties within the following maximum maturity periods, in order to mitigate the risk of investing in these institutions:

Link Asset Services Banding	Description
Blue	1 year (only applies to nationalised / semi nationalised UK banks)
Orange	1 year
Red	6 months
Green	100 days
No colour	The Council will not invest with these institutions

12.13 The proposed criteria for Specified and Non-Specified investments are shown in Annex 1 for approval.

12.14 **Indicator 10** - Upper limit for total principal sums invested for over 365 days excluding loans. This limit is set with regard to the Council's liquidity requirements and to reduce the need for an early sale of an investment and is based on the availability of funds after each year-end and up-dates are reported to the Audit Committee at midyear.

Overall limit for sums invested over 365 days	2020/21 Actual £m	2021/22 Est £m	2022/23 Est £m	2023/24 Est £m	2024/25 Est £m
Principal sums invested 365 days	0.0	0.0	10.0	10.0	10.0

13 **Loans Made to Third Parties**

13.1 The Council makes secured loans to third parties to advance the Council's strategic interests.

13.2 Loans are only made after the Council's formal decision-making process has been followed. This includes formal approval by the Chief Finance Officer (S151).

13.3 As part of the formal decision to make the loan, the security for the loan will be assessed as to its adequacy in the event of the third party defaulting on repayment.

13.4 Non treasury investments are disclosed in the Capital Strategy.

13.5 A facility for an unsecured loan to Peterborough Limited, a Council wholly owned company, of £1.75m was agreed at the end of the 2019/20 financial year for a period of five years. As at 31st March 2021, the full £1.75m of this loan had been draw down, £0.15m of which was a capital loan, and £0.83m had been repaid.

13.6 Further unsecured loans to Council owned Local Authority Trading Companies (LATCo's) only may require to be issued during the financial year and will only be issued in accordance with the governance set out in point 13.2 above.

14 **Non-financial Investments**

14.1 The Council does currently not hold any non-financial investments whose purpose is to generate revenue to support core services. For further information see the Acquisitions Policy.

15 **Treasury Management Scheme of Delegation**

15.1 The following is a list of the main tasks involved in treasury management and who in the Council is responsible for them:

<u>Full Council / Audit Committee</u>

- Receiving and reviewing reports on treasury management policies, practices and activities.
- Approval of the Annual Strategy.

<u>Audit Committee / S151 Officer (Chief Finance Officer (S151))</u>

- Approval of / amendments to the Council's adopted clauses, Treasury Management Policy Statement and Treasury Management Practices.
- Budget consideration and approval.
- Approval of the division of responsibilities.
- Receiving and reviewing regular monitoring reports and acting on recommendations.

<u>Section 151 Officer (Chief Finance Officer (S151)) / Deputy Section 151 Officer</u>

- Reviewing the Treasury Management Policy and procedures and making recommendations to the responsible body.
- Recommending clauses, treasury management policy/practices and making recommendations to the responsible body.
- Submitting regular treasury management reports.
- Submitting budgets and budget variations.
- Receiving and reviewing management information reports.
- Reviewing the performance of the treasury management function.

- Ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function.
- Ensuring the adequacy of internal audit and liaising with external audit.
- Recommending the appointment of external service advisors

16 Housing Revenue Account (HRA)

16.1 The Regulator of Social Housing confirmed the Council as a Registered Provider on 2nd November 2020. This follows the Cabinet decision of September 2019 to explore the viability of opening an HRA and engaging in the supply of affordable housing. Discussions have taken place with Homes England to explore potential funding opportunities. Once the strategic direction of this area has been agreed any plans will be included in future Treasury Management strategies.

16.2 If it is agreed to move forward with an HRA a revised Treasury Management Strategy will be produced which will include separately identified HRA capital expenditure and associated accumulated debt and further indicators relating to the affordability of this expenditure.

Specified Investment Credit Criteria and Limits
Specified Investment:

- Offer high perceived security such as placements with Central Government Agencies, Local Authorities or with organisations that have strong credit ratings
- They offer high liquidity i.e. short-term or easy access to funds
- Are denominated in £ sterling
- Have maturity dates of no more than 1 year
- For an institution scheme to qualify as a 'Specified Investment' it must have a minimum rating

Investment Type	Maximum Maturity Period	Minimum Credit Criteria	Collective Limit £m	Individual Limit £m
Deposit accounts with regulated UK Banks and UK Building Societies	Repayable on call, without notice	Minimum of two short-term rating criteria	100	15
Money Market Funds repayable on call, no notice	Call	Minimum rating – AAA (Fitch)	50	10
Debt Management Agency Deposit Facility	6 months currently	UK Government backed	N/A	75
Term Deposits UK Government & Local Authorities	Maturities of up to 1 year	Sovereign risk high security not credit rated	100	20
Term Deposits & Certificates of Deposit Banks Group 1	Maturities of up to 1 year	Minimum of three short-term rating criteria	100	75
UK Government & Local Authority Stock Issues	Maturities of up to 1 year	Sovereign risk high security not credit rated	100	20
Term deposits & Certificates of Deposit Banks Group 2	6 months	Minimum of three short-term rating criteria	50	10
Forward Term Deposits with Regulated UK Banks	Maturities of up to 1 year	Minimum of three short-term rating criteria	100	15

Non-specified Investment Credit Criteria and Limits

- With the same institutions classified as "specified" investments but have maturity dates in excess of one year – 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 -, or
- Are offered by organisations that are not credit rated or the credit rating does not meet the criteria set out above
- In the current economic climate, the Council has run down its cash balances as an alternative to borrowing and investments have been made short-term and the Council would not consider using investments that fall under the 'Non-Specified' Investments category at this time
- If the Council decide to use these investments then Indicator 11 will need to be revised

Investment Type	Maximum Maturity Period	Minimum Credit Criteria	Collective Limit £m	Individual Limit £m
Term deposits with UK Government & Local Authorities	1-5 years	Sovereign risk high security not credit rated	20	20
Term deposits & Certificates of Deposit with Banks Group 1	1-5 years (tradable)	F1(Fitch – short-term) AAA (long-term)	10	10
UK Government & Local Authority Stock Issues	1-10 years (tradable)	Sovereign risk high security not credit rated	10	10
Term deposits & Certificates of Deposit with Banks Group 2	1-5 years (tradable)	F1 (Fitch-short-term) A (long--term)	20	10
Deposit accounts with regulated UK building societies	1 – 5 years	F1 (Fitch short-term) A (long-term)	5	5
Term deposits UK building societies no formal credit rating	Up to 1 year	Financial position assessed by Chief Finance Officer (S151).	5	5
Bonds issued by financial institution guaranteed by UK Govt	1-10 years (tradable)	UK Govt backed AAA (Fitch, S&P etc.)	5	5

In the current economic climate, the Council has run down its cash balances as an alternative to borrowing and investments have been made short-term and the Council would not consider using investments that fall under the 'Non-Specified' Investments category at this time.

Explanation of Credit Ratings

Agency	Short-Term	Long-Term
Fitch	F1-Highest short-term credit quality. Indicates the strongest intrinsic capacity for timely payment of financial commitments; a "+" may be added to denote any exceptionally strong credit feature.	AA' ratings denote expectations of very low default risk. They indicate very strong capacity for payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
Moody's	P-1- Ratings of Prime-1 reflect a superior ability to repay short-term obligations.	Aa- Obligations rated Aa are judged to be of high quality and are subject to very low credit risk.
Standard & Poor's	A-1-The obligor's capacity to meet its financial commitment on the obligation is strong. Within this category, certain obligations are designated with a plus sign (+). This indicates that the obligor's/issuer's capacity to meet its financial commitment on these obligations is extremely strong.	AA-more susceptible to the adverse effects of changes in circumstances and economic conditions. However, the obligor's capacity to meet its financial commitment on the obligation is still strong.