

# Treasury Management Strategy 2023/24 to 2025/26

Including:

Minimum Revenue Provision (MRP)  
Policy 2022/23 & 2023/24

## **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 2021 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 2023/24**

1.4.1. The strategy for 2023/24 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 2024. IFRS 16 defines a lease as a contract or part of a contract, which conveys the right to use an 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 2024/25 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 2024/25 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 20<sup>th</sup> December 2021 and has since 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.

## **1.8. 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 2021 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.

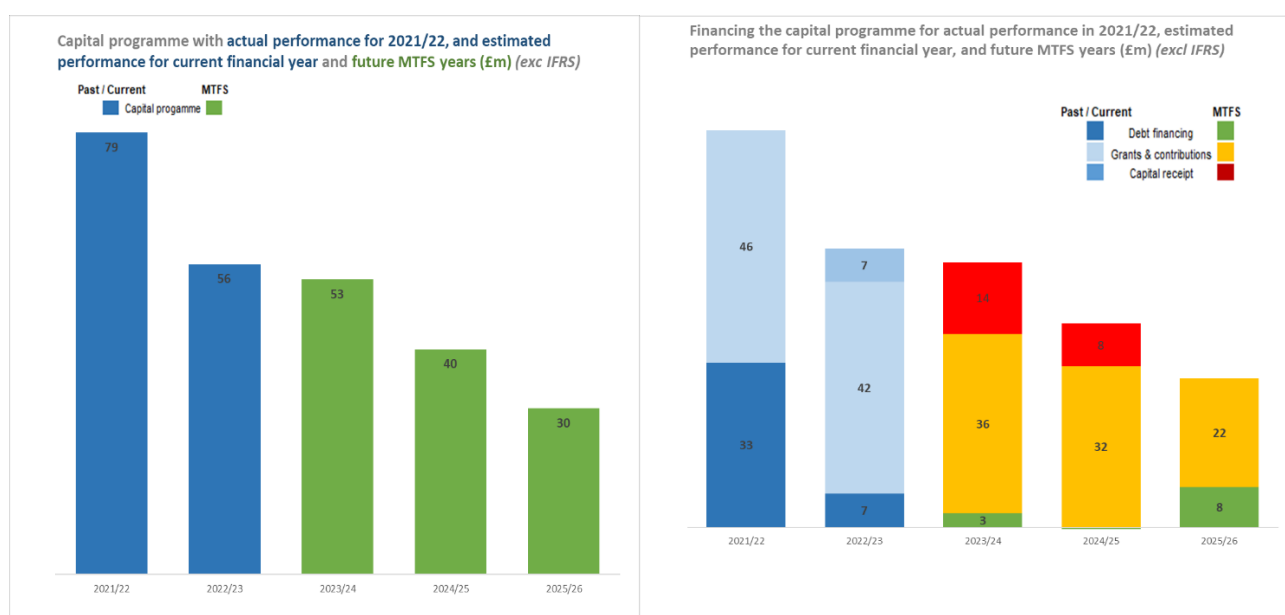
## 2. Capital Prudential Indicators 2023/24 to 2025/26

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	2021/22 Actual £m	2022/23 Est £m	2023/24 Est £m	2024/25 Est £m	2025/26 Est £m
Capital Bids	70.8	52.1	47.3	40.1	29.6
Transformation/Invest to Save	8.5	3.6	5.6	0.3	0.2
<b>Total</b>	<b>79.3</b>	<b>55.7</b>	<b>52.9</b>	<b>40.4</b>	<b>29.8</b>
<b>Financed by:</b>					
Capital receipts (used to fund capital programme)	-	5.8	14.4	8.5	-
Capital grants & contributions	46.4	42.3	35.8	32.2	21.7
Transformation/Invest to Save	8.5	3.6	5.6	0.3	0.2
Net Financing Requirement	24.4	4.0	(2.9)	(0.8)	7.9
<b>Total</b>	<b>79.3</b>	<b>55.7</b>	<b>52.9</b>	<b>40.2</b>	<b>29.8</b>
IFRS16 Transition				22.0	

2.3 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.





- 2.4 **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.
- 2.5 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.
- 2.6 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	2021/22 Actual £m	2022/23 Est £m	2023/24 Est £m	2024/25 Est £m	2025/26 Est £m
CFR brought forward	598.8	614.1	586.8	570.5	573.1
Borrowing / Repayment	6.8	(30.9)	(16.3)	(19.4)	(10.7)
Invest to Save	8.5	3.6	-	-	-
IFRS16 Transition adjustment	-	-	-	22.0	(0.8)
CFR carried forward	614.1	586.8	570.5	573.1	562.5
<b>Movement in CFR</b>	<b>15.2</b>	<b>(27.3)</b>	<b>(16.3)</b>	<b>2.6</b>	<b>(10.6)</b>
Net financing requirement	32.9	(7.7)	2.7	0.4	8.1
Lease Liability (Est IFRS16 adj)	-	-	-	22.0	0.9
Less MRP & other financing	(17.7)	(19.6)	(19.0)	(19.8)	(19.6)
<b>Movement in CFR</b>	<b>15.2</b>	<b>(27.3)</b>	<b>(16.3)</b>	<b>2.6</b>	<b>(10.6)</b>

- 2.7 **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	2021/22 Actual	2022/23 Est	2023/24 Est	2024/25 Est	2025/26 Est
Total Ratio	14.4%	14.3%	17.2%	16.9%	16.3%
Ratio with gross MRP charge (capital receipts to redeem debt not factored into financing)	16.1%	17.2%	15.7%	16.9%	16.3%

### 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 Repayments for the PFI scheme and finance leases are applied as MRP, and the associated amounts are included in these Prudential Indicators.
- 3.4 The following table summarises the MRP Policy.

Capital Expenditure Incurred	MRP Policy Update 2022/23 & 2023/24
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.
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 2022 and for the position as at 5<sup>th</sup> December 2022 are shown in the following table for both borrowing and investment.

Treasury Portfolio	Actual 31.03.22 £'000	Actual 31.03.22 %	Current 13.01.23 £'000	Current 13.01.23 %
<b>Treasury Investments</b>				
Banks	10,429	34	37,099	65
DMADF (HM Treasury)	10,000	33	-	-
Money Market Funds	10,000	33	20,000	35
<b>Total Treasury Investments</b>	<b>30,429</b>	<b>100</b>	<b>57,099</b>	<b>100</b>
<b>Treasury External Borrowing</b>				
Local Authorities	(65,000)	14	(60,000)	14
PWLB	(365,087)	82	(363,959)	82
LOBOs	(17,500)	4	(17,500)	4
<b>Total External Borrowing</b>	<b>(447,587)</b>	<b>100</b>	<b>(441,459)</b>	<b>100</b>
<b>Net Treasury Investment / (Borrowing)</b>	<b>(417,158)</b>		<b>(384,360)</b>	

- 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	2021/22 Actual £m	2022/23 Est £m	2023/24 Est £m	2024/25 Est £m	2025/26 Est £m
<b>External Borrowing</b>					
Market Borrowing	469.6	447.6	420.5	404.2	384.9
Repayment of borrowing	(82.0)	(67.1)	(50.1)	(19.3)	(10.7)
Expected change in borrowing	60.0	40.1	33.7	-	-
Other long-term liabilities	48.0	47.2	46.3	67.3	43.6
<b>Gross Debt at 31 March</b>	<b>495.6</b>	<b>467.8</b>	<b>450.4</b>	<b>452.2</b>	<b>417.8</b>
CFR	614.1	586.8	570.5	573.1	562.5
<b>% of Gross Debt to CFR</b>	<b>80.7%</b>	<b>79.7%</b>	<b>78.9%</b>	<b>78.9%</b>	<b>74.3%</b>

- 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 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 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).

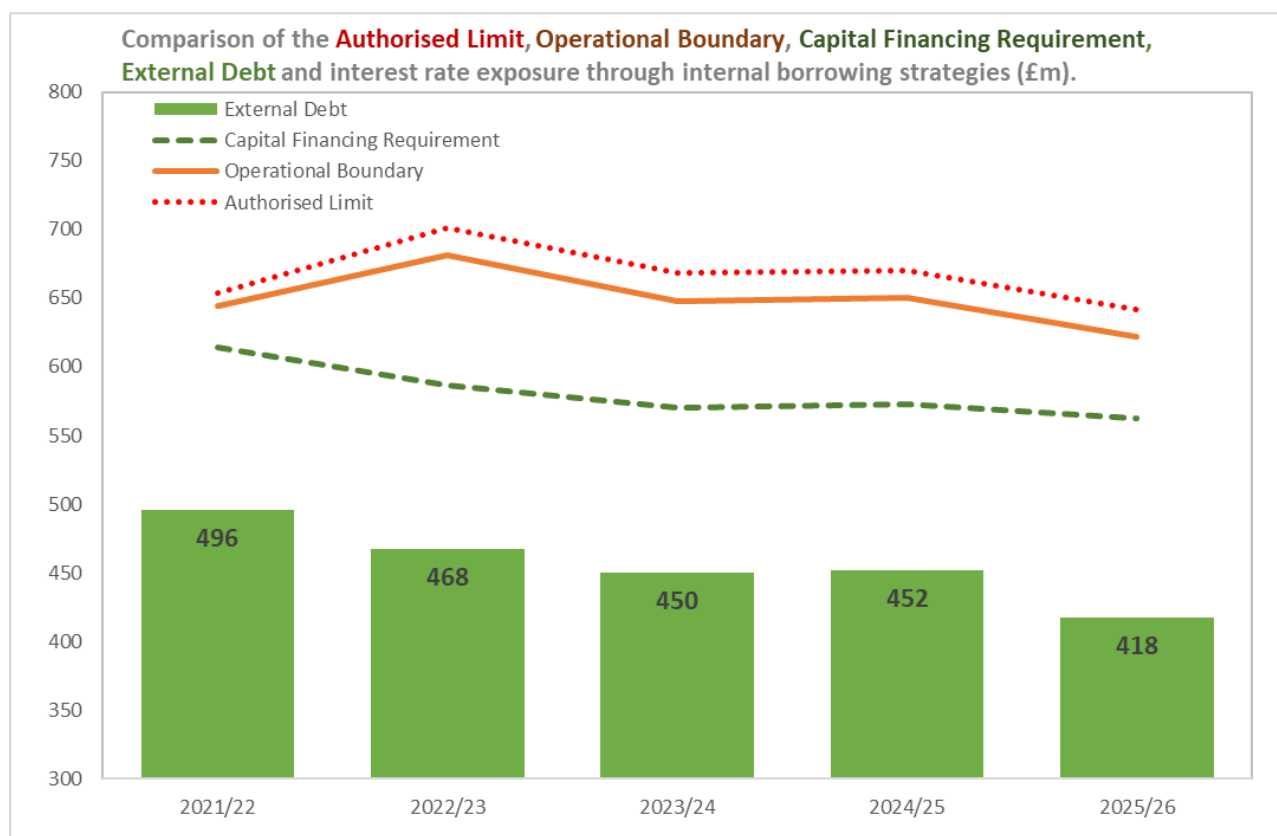
4.6 **Indicator 5** - The Operational Boundary - external borrowing is not normally expected to exceed this limit. If the operational boundary was exceeded this would be reported immediately to the members of the Audit Committee with a full report taken to the next committee meeting. In the current year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

Operational Boundary	2021/22 Actual £m	2022/23 Est £m	2023/24 Est £m	2024/25 Est £m	2025/26 Est £m
Borrowing	447.6	634.1	601.8	583.1	578.1
Other long-term liabilities	48.0	47.2	46.3	67.3	43.6
<b>Total</b>	<b>495.6</b>	<b>681.3</b>	<b>648.1</b>	<b>650.4</b>	<b>621.7</b>

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	2021/22 Actual £m	2022/23 Est £m	2023/24 Est £m	2024/25 Est £m	2025/26 Est £m
Borrowing	447.6	701.3	668.1	670.4	641.7
Other long-term liabilities	48.0	47.2	46.3	67.3	43.6
<b>Total</b>	<b>495.6</b>	<b>748.5</b>	<b>714.4</b>	<b>737.7</b>	<b>685.3</b>

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 19.12.22) and PWLB new borrowing as at 19.12.2022 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
<b>Dec-22</b>	3.50	4.20	4.30	4.60	4.30	4.30
<b>Mar-23</b>	4.25	4.20	4.40	4.60	4.30	4.13
<b>Jun-23</b>	4.50	4.20	4.40	4.60	4.30	
<b>Sep-23</b>	4.50	4.10	4.30	4.50	4.20	
<b>Dec-23</b>	4.50	4.00	4.10	4.40	4.10	
<b>Mar-24</b>	4.00	3.90	4.00	4.20	3.90	3.65
<b>Jun-24</b>	3.75	3.80	3.90	4.10	3.80	
<b>Sep-24</b>	3.50	3.60	3.80	4.00	3.70	
<b>Dec-24</b>	3.25	3.50	3.60	3.90	3.60	
<b>Mar-25</b>	3.00	3.40	3.50	3.70	3.50	3.23
<b>Jun-25</b>	2.75	3.30	3.40	3.60	3.20	
<b>Sep-25</b>	2.50	3.20	3.30	3.50	3.20	
<b>Dec-25</b>	2.50	3.10	3.30	3.50	3.20	

- 4.11 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.
- 4.12 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:

Our central forecast reflects a view that the MPC will be keen to further demonstrate its anti-inflation credentials by delivering a succession of rate increases. Bank Rate stands at 3.5% currently but is expected to reach a peak of 4.5% in H1 2023.

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

The CPI measure of inflation looks to have peaked at 11.1% in Q4 2022 (currently 10.7%). Despite the cost-of-living squeeze that is still taking shape, the Bank will want to see evidence that wages are not spiralling upwards in what is evidently a very tight labour market.

Regarding the plan to sell £10bn of gilts back into the market each quarter (Quantitative Tightening), this has started and will focus on the short, medium and longer end of the curve in equal measure, now that the short-lived effects of the Truss/Kwarteng unfunded dash for growth policy are firmly in the rear-view mirror.

In the upcoming months, our forecasts will be guided not only by economic data releases and clarifications from the MPC over its monetary policies and the Government over its fiscal policies, but the on-going conflict between Russia and Ukraine. (More recently, the heightened tensions between China/Taiwan/US also have the potential to have a wider and negative economic impact.)

On the positive side, consumers are still estimated to be sitting on over £160bn of excess savings left over from the pandemic so that will cushion some of the impact of the above challenges. However, most of those are held by more affluent people whereas lower income families already spend nearly all their income on essentials such as food, energy and rent/mortgage payments.

### **PWLB RATES**

The yield curve movements have become less volatile of late and PWLB 5 to 50 years Certainty Rates are, generally, in the range of 4.10% to 4.80%.

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

### **The balance of risks to the UK economy: -**

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

### **Downside risks to current forecasts for UK gilt yields and PWLB rates include: -**

- Labour and supply shortages prove more enduring and disruptive and depress economic activity (accepting that in the near-term this is also an upside risk to inflation and, thus, rising gilt yields).
- The Bank of England acts too quickly, or too far, over the next year to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- UK / EU trade arrangements – if there was a major impact on trade flows and financial services due to complications or lack of co-operation in sorting out significant remaining issues.
- Geopolitical risks, for example in Ukraine/Russia, China/Taiwan/US, Iran, North Korea and Middle Eastern countries, which could lead to increasing safe-haven flows.

### **Upside risks to current forecasts for UK gilt yields and PWLB rates: -**

- The Bank of England is too slow in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to build up too strongly and for a longer period within the UK economy, which then necessitates Bank Rate staying higher for longer than we currently project or even necessitates a further series of increases in Bank Rate.
- The Government acts too quickly to cut taxes and/or increases expenditure in the light of the cost-of-living squeeze.
- The pound weakens because of a lack of confidence in the UK Government's fiscal policies, resulting in investors pricing in a risk premium for holding UK sovereign debt.

- Longer term US treasury yields rise strongly, and pull gilt yields up higher than currently forecast.
- Projected gilt issuance, inclusive of natural maturities and QT, could be too much for the markets to comfortably digest without higher yields consequently.

## 5 Investment and Borrowing Rates

- 5.1 Investment returns are expected to continue into early 2023. 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 The long-term (beyond 10 years) forecast for Bank Rate stands at 2.5% and all PWLB certainty rates are currently above this level.
- 5.3 Borrowing for capital expenditure - Better value can generally be obtained at the shorter end of the curve and short-dated fixed LA to LA monies should be considered. Temporary borrowing rates are likely, however, to remain near Bank Rate and may also prove attractive whilst the market waits for inflation, and therein gilt yields, to drop back later in 2023. 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
- 5.4 Against this background and the risks within the economic forecast, caution will be adopted with the 2023/24 treasury operations. The Chief Finance Officer (S151) will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances.
- 5.5 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.
- 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 2023/24 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. However, consideration may still need to be given to sourcing funding from the following sources for the following reasons:
  - a) Local authorities (primarily shorter dated maturities out to 3 years or so – generally still cheaper than the Certainty Rate)
  - b) Financial institutions (primarily insurance companies and pension funds but also some banks, out of forward dates where the objective is to avoid a “cost of carry” or to achieve refinancing certainty over the next few years).
  - c) The UK Municipal Bonds Agency and UK Infrastructure Bank.

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 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.
- 7.5 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.
- 7.6 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.



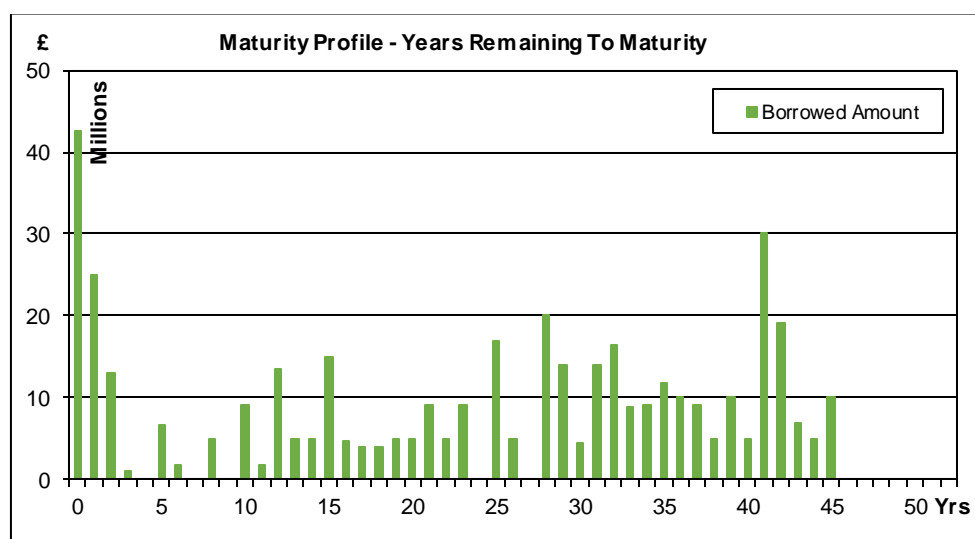
8.3 **Indicator 8** - Upper limit on variable rate exposure. This identifies a maximum limit for variable interest rates based upon the debt position net of investments. This has been set at 25% of the borrowing requirement.

Interest Rate Exposure (Upper Limits)	2021/22 Actual £m	2022/23 Est £m	2023/24 Est £m	2024/25 Est £m	2025/26 Est £m
(7) Limits on fixed interest rate net debt	447.6	654.1	624.4	603.1	598.1
% of fixed interest rate exposure	100%	100%	100%	100%	100%
(8) Limits on variable interest rate on net debt	-	163.5	156.1	150.8	149.5
% 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 13 <sup>th</sup> January 2023
Under 12 months	40%	18.70%
12 months to 2 years	40%	4.00%
2 years to 5 years	80%	1.30%
5 years to 10 years	80%	3.00%
10 years and above	100%	72.90%

8.5 The following chart shows the Council's debt maturity profile by financial year as at 13<sup>th</sup> January 2023:



## **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.
- 9.2 Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates and will be considered carefully to ensure that value for money can be demonstrated and that the Authority can ensure the security of such funds
- 9.3 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.
- 9.4 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.
- 9.5 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.
- 9.6 Consideration will be given to the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use.
- 9.7 Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

## **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.

## **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 2021 ("the Code")
  - CIPFA Treasury Management Guidance Notes 2021
- 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.

- 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 Council's 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.

<b>Minimum Credit Ratings for Group 2 Banks</b>		
<b>Agency</b>	<b>Short-Term</b>	<b>Long-Term</b>
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 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 Barclays 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	2021/22 Actual £m	2022/23 Est £m	2023/24 Est £m	2024/25 Est £m	2025/26 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 31<sup>st</sup> March 2022, 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:

#### Full Council / Audit Committee

- Receiving and reviewing reports on treasury management policies, practices and activities.

- Approval of the Annual Strategy.

Audit Committee / S151 Officer (Chief Finance Officer (S151))

- 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.

Section 151 Officer (Chief Finance Officer (S151)) / Deputy Section 151 Officer

- 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

<b>Investment Type</b>	<b>Maximum Maturity Period</b>	<b>Minimum Credit Criteria</b>	<b>Collective Limit £m</b>	<b>Individual Limit £m</b>
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.

This page is intentionally left blank