

# Treasury Management Strategy 2024/25 to 2026/27

Including:

Minimum Revenue Provision (MRP)  
Policy 2023/24 & 2024/25

## 1. Introduction

### 1.1. Background

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.

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.

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.

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.

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.

This TMS reflects the key objectives of the council's Improvement Plan, where appropriate. 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.

The Chartered Institute of Public Finance Accountants (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

#### Capital Strategy

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

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

The aim of the 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.

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

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.

**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 annual investment strategy (AIS), (the parameters on how investments are to be managed).

**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.

**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.

#### Scrutiny

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

Quarterly reports – In addition to the three major reports detailed above, from 2023/24 quarterly reporting is also required. However, these additional reports do not have to be reported to Full Council but do require to be adequately scrutinised. This role is undertaken by the Audit Committee.

#### 1.4. **Treasury Management Strategy for 2024/25**

The strategy for 2024/25 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.

These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, the Department for Levelling Up, Housing and Communities (DLUHC) MRP Guidance, the CIPFA Treasury Management Code, and the DLUHC Investment Guidance.

#### 1.5. **IFRS16 - Leases**

The CIPFA LAASAC Local Authority Accounting Code Board (LASAAC is the Local Authority (Scotland) Accounts Advisory Committee) has deferred implementation of IFRS16 until 1 April 2024, the 2024/25 financial year. 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.

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 deminimus items).

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. The implications of IFRS16 have not yet been calculated, therefore an update will be provided to the members during 2024/25 once the full impact is known.

#### 1.6. **IFRS9 Financial Instruments**

The Ministry of Housing, Communities and Local Government (MHCLG), which is now DLUHC, enacted a statutory over-ride from 1 April 2018 for a five-year period until 31 March 2023 following the introduction of IFRS 9 in respect of the requirement for any unrealised capital gains or losses on marketable pooled funds to be chargeable in year. This has the effect of allowing any unrealised capital gains or losses arising from qualifying investments

to be held on the balance sheet until 31 March 2023: this was intended to allow authorities to initiate an orderly withdrawal of funds if required. In addition, IFRS9 impacts the write-down in the valuation of impaired loans. On 5 January 2023, the Department for Levelling Up, Housing and Communities has announced that the IFRS 9 statutory override in local government will be extended for another two years until 31 March 2025.

### 1.7. **Training**

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.

There is an expectation that authorities should have a formal and comprehensive knowledge and skills or training policy for the effective acquisition and retention of treasury management knowledge and skills for those responsible for management, delivery, governance, and decision making.

As a minimum, the following should be carried out to monitor and review knowledge and skills:

- Record attendance at training and ensure action is taken where poor attendance is identified.
- Prepare tailored learning plans for treasury management officers and board/council members.
- Require treasury management officers and board/council members to undertake self-assessment against the required competencies (as set out in the schedule that may be adopted by the organisation).
- Have regular communication with officers and board/council members, encouraging them to highlight training needs on an ongoing basis.”

### 1.8. **Changes to the Treasury Management Code and Prudential Code**

CIPFA published the updated Treasury Management and Prudential Codes on 20<sup>th</sup> December 2021. CIPFA has stated that after a soft introduction of the Codes, Local Authorities are expected to fully implement the required reporting changes within their TMSS/AIS reports from 2023/24. The main objective of the 2021 Codes was to respond to the major expansion of local authority investment activity over the past few years into the purchase of non-financial investments, particularly property. 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 Codes require an authority to ensure that: -

- It adopts a new debt liability benchmark treasury indicator to support the financing risk management of the capital financing requirement.
- it sets out, at a high level, its investment policy in relation to environmental, social and governance (ESG) aspects within the Capital Strategy.
- it does not borrow to finance capital expenditure to invest primarily for commercial return.
- increases in the CFR and borrowing are undertaken solely for purposes directly and primarily related to the functions of the authority. Where any financial returns are

related to the financial viability of the project in question, they should be incidental to its primary purpose.

- an annual review is conducted to evaluate whether commercial investments should be sold to release funds to finance new capital expenditure or refinance maturing debt.
- its capital plans and investment plans are affordable and proportionate.
- all borrowing/other long-term liabilities are within prudent and sustainable levels.
- risks associated with commercial investments are proportionate to overall financial capacity to sustain losses.
- treasury management decisions are in accordance with good professional practice.
- reporting to members is done quarterly, including updates of prudential indicators.
- it should assess the risks and rewards of significant investments over the long term, as opposed to the usual three to five years that most local authority financial planning has been conducted over, to ensure the long-term financial sustainability of the authority. (CIPFA has not defined what longer-term means, but it is likely to infer 20-30 years in line with the financing time horizon and the expected life of the assets, while medium-term financial planning, at a higher level of detail, is probably aimed at around a 10-year timeframe and focuses on affordability in particular.)
- it has access to the appropriate level of expertise to be able to operate safely in all areas of investment and capital expenditure, and to involve members adequately in making properly informed decisions on such investments.

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.

## **1.9. Treasury Management Advisors**

The council uses Link Group as its external treasury management advisors. Following a successful tender process, the contract has been awarded to Link Group for another 3 years with an option to extend for further 2 years to September 2028.

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.

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.

#### 1.10. **Treasury Management Policy Statement**

The Treasury Management Policy Statement sets out the policies and objectives of Treasury Management Activities which is revised annually. It reflects December 2021 guidance.

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.

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.

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.

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.

#### 1.11. **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 courses 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 2024/25 to 2026/27

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 both those agreed previously, and those forming part of this budget cycle for the forthcoming financial year and the following two financial years, showing how it will be funded either from grants, contributions, or capital receipts with the remaining being the 'net financing requirement'.



| <b>Capital Expenditure</b>     | <b>2022/23<br/>Actual<br/>£m</b> | <b>2023/24<br/>Est.<br/>£m</b> | <b>2024/25<br/>Est.<br/>£m</b> | <b>2025/26<br/>Est.<br/>£m</b> | <b>2026/27<br/>Est.<br/>£m</b> |
|--------------------------------|----------------------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|
| People & Communities           | 18.3                             | 9.0                            | 0.0                            | 0.0                            | 0.0                            |
| Place & Economy                | 19.4                             | 63.4                           | 59.9                           | 53.7                           | 25.0                           |
| Resources (Corporate Services) | 5.8                              | 57.7                           | 31.1                           | 2.0                            | 1.8                            |
| Children Services              | 0.0                              | 0.0                            | 26.4                           | 17.6                           | 0.0                            |
| Adult Services                 | 0.0                              | 0.0                            | 3.0                            | 0.0                            | 0.0                            |
| <b>Total</b>                   | <b>43.5</b>                      | <b>130.1</b>                   | <b>120.4</b>                   | <b>73.2</b>                    | <b>26.8</b>                    |

| <b>Financed by:</b>                                   |             |              |              |             |             |
|---|-------------|--------------|--------------|-------------|-------------|
| Capital receipts to be used to fund capital programme | 2.7         | 13.4         | 0.0          | 0.0         | 0.0         |
| Capital grants & contributions                        | 26.8        | 65.0         | 60.4         | 60.8        | 22.0        |
| Revenue contributions                                 | 0.0         | 0.0          | 0.8          | 0.0         | 0.0         |
| Transformation/invest to Save                         | 0.0         | 5.6          | 22.2         | 3.0         | 3.0         |
| Net Financing Requirement                             | 14.0        | 46.1         | 36.9         | 9.4         | 1.8         |
| <b>Total</b>  | <b>43.5</b> | <b>130.1</b> | <b>120.4</b> | <b>73.2</b> | <b>26.8</b> |

- 2.3 The Transformation/Invest to Save schemes are included in total capital expenditure and the funding resources to be used. However, these schemes will generate either income or 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 outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is a measure of the council's indebtedness and its underlying borrowing requirement. Any capital expenditure above 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:

| <b>Capital Financing Requirement</b> | <b>2022/23<br/>Actual<br/>£m</b> | <b>2023/24<br/>Est.<br/>£m</b> | <b>2024/25<br/>Est.<br/>£m</b> | <b>2025/26<br/>Est.<br/>£m</b> | <b>2026/27<br/>Est.<br/>£m</b> |
|--------------------------------------|----------------------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|
| CFR B/fwd                            | 613.9                            | 608.4                          | 635.1                          | 653.8                          | 645.6                          |
| Net financing requirement            | 14.0                             | 46.1                           | 36.9                           | 9.4                            | 1.8                            |
| Less MRP & Other financing           | (19.5)                           | (19.4)                         | (18.1)                         | (17.6)                         | (17.8)                         |
| CFR C/fwd                            | <b>608.4</b>                     | <b>635.1</b>                   | <b>653.8</b>                   | <b>645.6</b>                   | <b>629.5</b>                   |

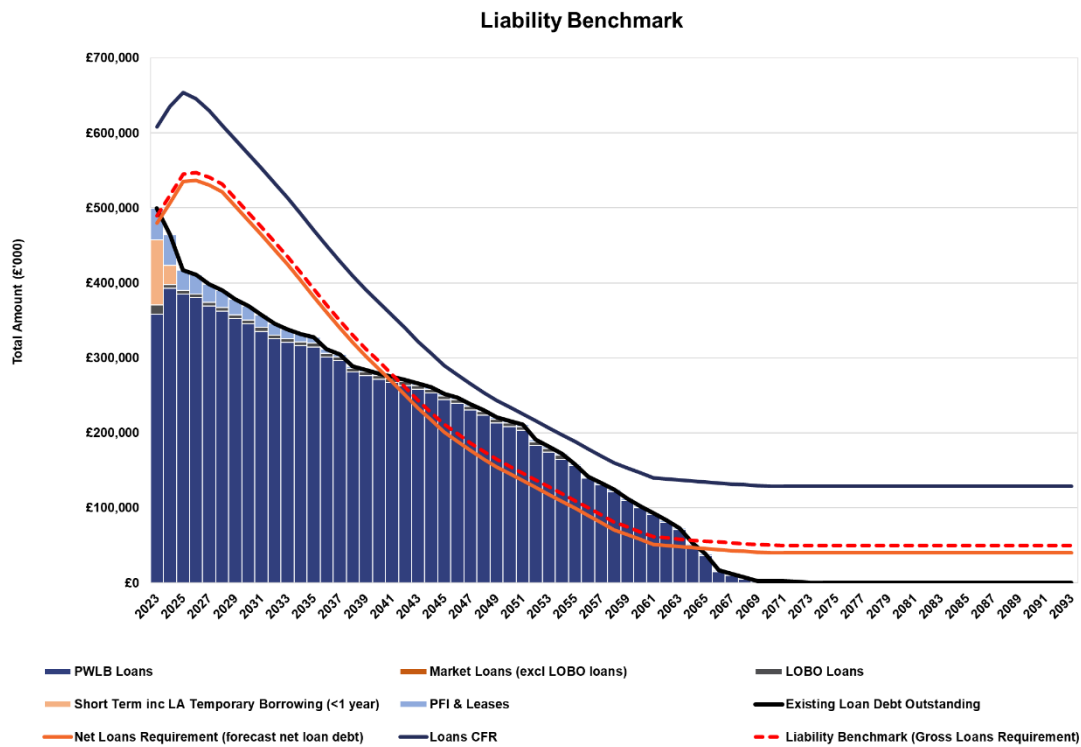
2.7 **Indicator 3** – Actual and estimates of the ratio of financing costs to net revenue budget. This indicator identifies the proportion of the revenue budget which is taken up in financing capital expenditure i.e., the net interest cost and the provision to repay debt.

| <b>Ratio of gross financing costs to net revenue budget</b> | <b>2022/23<br/>Actual<br/>£000</b> | <b>2023/24<br/>Est.<br/>£000</b> | <b>2024/25<br/>Est.<br/>£000</b> | <b>2025/26<br/>Est.<br/>£000</b> | <b>2026/27<br/>Est.<br/>£000</b> |
|---|------------------------------------|----------------------------------|----------------------------------|----------------------------------|----------------------------------|
| Net Cap Fin Budget - Model                                  | 29,871                             | 33,126                           | 35,928                           | 38,566                           | 38,566                           |
| Total Net Expenditure                                       | 174,385                            | 202,634                          | 218,579                          | 228,710                          | 238,921                          |
| <b>Ratio - Capital Programme</b>                            | <b>17.1%</b>                       | <b>16.3%</b>                     | <b>16.4%</b>                     | <b>16.9%</b>                     | <b>16.1%</b>                     |

2.8 **Indicator 4 - Liability Benchmark** - A new prudential indicator for 2023/24 was the Liability Benchmark (LB). The council is required to estimate and measure the LB for the forthcoming financial year and the following two financial years, as a minimum.

2.9 There are four components to the LB: -

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



- 3 **Minimum Revenue Provision (MRP) Policy Statement** Under Regulation 27 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, where the council has financed capital expenditure by borrowing it is required to make a provision each year through a revenue charge (MRP).
- 3.2 The council is required to calculate a prudent provision of MRP which ensures that the outstanding debt liability is repaid over a period that is reasonably commensurate with that over which the capital expenditure provides benefits.
- 3.3 Capital expenditure incurred during 2023/24 will not be subject to an MRP charge until 2024/25, or in the year after the asset becomes operational.
- 3.4 Repayments for the PFI scheme and finance leases are applied as MRP, and the associated amounts are included in these Prudential Indicators.
- 3.5 The council is recommended to approve the following MRP Statement

|                                     |  |
|-------------------------------------|--|
| <b>Capital Expenditure Incurred</b> | <b>MRP Policy Update 2023/24 &amp; 2024/25</b> |
|-------------------------------------|--|

|   |  |
|---|--|
| 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.<br>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. From 2024/25 this approach will not be acceptable.  |
| 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. |

### 3.6 MRP Consultation

DLUHC has conducted a consultation on amending MRP regulations/guidance for England. The latest consultation issued in December 2023 will not have a significant impact on the MRP Policy for this Council, as the changes are mostly aimed at commercial investment opportunities, which have not been undertaken by this Council. There are changes planned in relation to the application of capital receipts for MRP purposes, which this Council has undertaken previously in order to reduce its annual MRP charge to revenue, but new proposals included in the consultation will prevent this going forwards.

## 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 2023 and for the position as at 19 December 2023 are shown in the following table for both borrowing and investment.

|  | Actual<br>31.03.23 | Actual<br>31.03.23 | Current<br>19.12.23 | Current<br>19.12.23 |
|--|--------------------|--------------------|---------------------|---------------------|
| <b>Treasury Investments</b>                  |                    |                    |                     |                     |
| Banks  | 11,170             | 55%                | 0                   | 0                   |
| DMADF (HM Treasury)                          | 0                  | 0%                 |                     | 0                   |
| Money Market Funds                           | 9,000              | 45%                | 19,480              | 100                 |
| <b>Total Treasury Investments</b>            | <b>20,170</b>      | <b>100%</b>        | <b>19,480</b>       | <b>100</b>          |
| <b>Treasury External Borrowing</b>           |                    |                    |                     |                     |
| Local Authorities                            | -87,000            | 19%                | -65,000             | 14                  |
| PWLB   | -357,959           | 78%                | -392,959            | 85                  |
| LOBOs  | -12,500            | 3%                 | -5,000              | 1                   |
| <b>Total External Borrowing</b>              | <b>-457,459</b>    | <b>100%</b>        | <b>-462,959</b>     | <b>100</b>          |
| <b>Net Treasury Investment / (Borrowing)</b> | <b>-437,289</b>    |                    | <b>-443,479</b>     |                     |

4.3 **Indicator 5** - The council's treasury position as at 31 March 2023, 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 | 2022/23      | 2023/24      | 2024/25      | 2025/26      | 2026/27      |
|--|--------------|--------------|--------------|--------------|--------------|
|  | Actual<br>£m | Est.<br>£m   | Est.<br>£m   | Est.<br>£m   | Est.<br>£m   |
| <b>External Borrowing</b>                  |              |              |              |              |              |
| Market Borrowing                           | 447.6        | 457.5        | 500.0        | 518.7        | 510.4        |
| Repayment of borrowing                     | -72.1        | -146.0       | -33.0        | -5.0         | -11.0        |
| Expected change in borrowing               | 82.0         | 188.5        | 51.7         | -3.2         | -5.0         |
| Other long-term liabilities                | 42.3         | 28.5         | 27.2         | 25.9         | 24.5         |
| <b>Gross Debt 31 March 2023</b>            | <b>499.8</b> | <b>528.5</b> | <b>545.9</b> | <b>536.4</b> | <b>518.9</b> |
| CFR  | 608.4        | 635.1        | 653.8        | 645.6        | 629.5        |
| <b>% Of Gross Debt to CFR</b>              | <b>82.1%</b> | <b>83.2%</b> | <b>83.5%</b> | <b>83.1%</b> | <b>82.4%</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 gross debt does not, except in the short-term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2024/25 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).

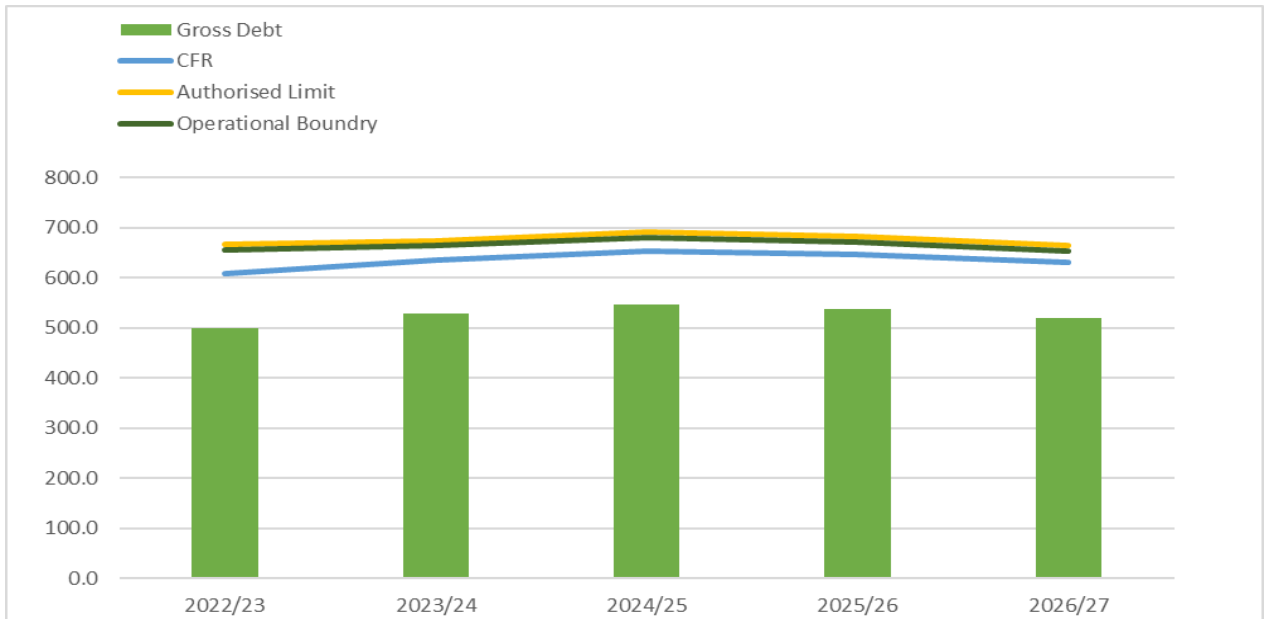
4.6 **Indicator 6** - The Operational Boundary - external borrowing is not normally expected to exceed this limit. If the operational boundary was exceeded this would be reported immediately to the members of the Audit Committee with a full report taken to the next committee meeting. In the current year it has not been exceeded. The Operational Boundary is set out below:

| <b>Operational Boundary</b> | <b>2022/23<br/>Actual<br/>£m</b> | <b>2023/24<br/>Est.<br/>£m</b> | <b>2024/25<br/>Est.<br/>£m</b> | <b>2025/26<br/>Est.<br/>£m</b> | <b>2026/27<br/>Est.<br/>£m</b> |
|-----------------------------|----------------------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|
| Borrowing                   | 613.9                            | 635.1                          | 653.8                          | 645.6                          | 629.5                          |
| Other long-term liabilities | 42.3                             | 28.5                           | 27.2                           | 25.9                           | 24.5                           |
| <b>Total</b>                | <b>656.2</b>                     | <b>663.6</b>                   | <b>681.1</b>                   | <b>671.5</b>                   | <b>654.1</b>                   |

4.7 **Indicator 7** - 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.

| <b>Authorised Limit</b>       | <b>2022/23</b>       | <b>2023/24</b>     | <b>2024/25</b>     | <b>2025/26</b>     | <b>2026/27</b>     |
|-------------------------------|----------------------|--------------------|--------------------|--------------------|--------------------|
|                               | <b>Actual<br/>£m</b> | <b>Est.<br/>£m</b> | <b>Est.<br/>£m</b> | <b>Est.<br/>£m</b> | <b>Est.<br/>£m</b> |
| Borrowing                     | 623.9                | 645.1              | 663.8              | 655.6              | 639.5              |
| Other Liabilities             | 42.3                 | 28.5               | 27.2               | 25.9               | 24.5               |
| <b>Total Authorised Limit</b> | <b>666.2</b>         | <b>673.64</b>      | <b>691.1</b>       | <b>681.5</b>       | <b>664.1</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 Authority has appointed Link Group as its treasury advisor and part of their service is to assist the Authority to formulate a view on interest rates. Link provided the following forecasts on 07 November 2023. These are forecasts for Bank Rate, average earnings and PWLB certainty rates, gilt yields plus 80 bps. ns.

| Link Group Interest Rate View | 07.11.23 |        |        |        |        |        |        |        |        |        |        |        |        |
|-------------------------------|----------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
|                               | Dec-23   | Mar-24 | Jun-24 | Sep-24 | Dec-24 | Mar-25 | Jun-25 | Sep-25 | Dec-25 | Mar-26 | Jun-26 | Sep-26 | Dec-26 |
| BANK RATE                     | 5.25     | 5.25   | 5.25   | 5.00   | 4.50   | 4.00   | 3.50   | 3.25   | 3.00   | 3.00   | 3.00   | 3.00   | 3.00   |
| 3 month ave earnings          | 5.30     | 5.30   | 5.30   | 5.00   | 4.50   | 4.00   | 3.50   | 3.30   | 3.00   | 3.00   | 3.00   | 3.00   | 3.00   |
| 6 month ave earnings          | 5.60     | 5.50   | 5.40   | 5.10   | 4.60   | 4.10   | 3.60   | 3.40   | 3.10   | 3.10   | 3.10   | 3.10   | 3.10   |
| 12 month ave earnings         | 5.80     | 5.70   | 5.50   | 5.20   | 4.70   | 4.20   | 3.70   | 3.50   | 3.30   | 3.30   | 3.30   | 3.30   | 3.30   |
| 5 yr PWLB                     | 5.00     | 4.90   | 4.80   | 4.70   | 4.40   | 4.20   | 4.00   | 3.80   | 3.70   | 3.60   | 3.50   | 3.50   | 3.50   |
| 10 yr PWLB                    | 5.10     | 5.00   | 4.80   | 4.70   | 4.40   | 4.20   | 4.00   | 3.80   | 3.70   | 3.70   | 3.60   | 3.60   | 3.50   |
| 25 yr PWLB                    | 5.50     | 5.30   | 5.10   | 4.90   | 4.70   | 4.50   | 4.30   | 4.20   | 4.10   | 4.10   | 4.00   | 4.00   | 4.00   |
| 50 yr PWLB                    | 5.30     | 5.10   | 4.90   | 4.70   | 4.50   | 4.30   | 4.10   | 4.00   | 3.90   | 3.90   | 3.80   | 3.80   | 3.80   |

4.10 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.

4.11 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 for interest rates was previously updated on 25 September and reflected a view that the MPC would be keen to further demonstrate its anti-inflation credentials by keeping Bank Rate at 5.25% until at least H2 2024. We expect rate cuts to start when both the CPI inflation and wage/employment data are supportive of such a move, and that there is a likelihood of the overall economy enduring at least a mild

recession over the coming months, although most recent GDP releases have surprised with their on-going robustness.

- Naturally, timing on this matter will remain 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.
- 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 also international factors such as policy development in the US and Europe, the provision of fresh support packages to support the faltering recovery in China as well as the on-going conflict between Russia and Ukraine, and Gaza and Israel.
- On the positive side, consumers are still anticipated to be sitting on some excess savings left over from the pandemic, which could cushion some of the impact of the above challenges and may be the reason why the economy is performing somewhat better at this stage of the economic cycle than may have been expected. However, as noted previously, most of those excess savings are held by more affluent households whereas lower income families already spend nearly all their income on essentials such as food, energy and rent/mortgage payments.

## **PWLB RATES**

- Gilt yield curve movements have broadened since our last Newsflash. The short part of the curve has not moved far but the longer-end continues to reflect inflation concerns. At the time of writing there is 60 basis points difference between the 5 and 50 year parts of the curve.

### **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, could keep gilt yields high for longer).
- The Bank of England has increased Bank Rate too fast and too far over recent months, and subsequently brings about a deeper and longer UK recession 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, the Middle East, China/Taiwan/US, Iran and North Korea, which could lead to increasing safe-haven flows.



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

- Despite the recent tightening to 5.25%, the Bank of England proves too timid in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to remain elevated for a longer period within the UK economy, which then necessitates Bank Rate staying higher for longer than we currently project.
- The pound weakens because of a lack of confidence in the UK Government's pre-election fiscal policies, resulting in investors pricing in a risk premium for holding UK sovereign debt.
- Longer-term US treasury yields rise strongly if inflation remains more stubborn there than the market currently anticipates, consequently pulling gilt yields up higher. (We saw some movements of this type through October although generally reversed in the last week or so.)
- Projected gilt issuance, inclusive of natural maturities and QT, could be too much for the markets to comfortably digest without higher yields compensating.

## **5 Investment and Borrowing Rates**

- 5.1 Investment returns are expected to continue into early 2024.
- 5.2 The long-term (beyond 10 years) forecast for Bank Rate stands at 3.0% 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 2024. 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 2024/25 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 internal borrowing position. This means that the capital borrowing need, (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Authority's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as medium and longer dated borrowing rates are expected to fall from their current levels once prevailing inflation concerns are addressed. This is also 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 MTF5 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 2024/25 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 a mix of shorter-term Local Authority Loans to manage cashflow whilst at the same time locking into long term PWLB borrowing if and when rates begin to fall. 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.

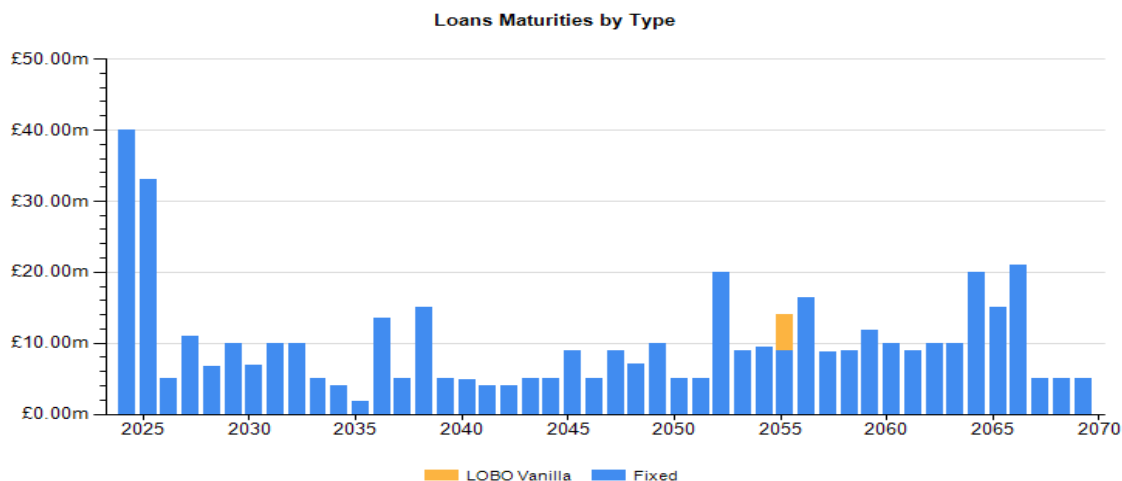
7.5 The Treasury Management Strategy uses the planned Capital Programme to calculate the borrowing requirement. Typically, the council does not spend at the planned level in any financial year.

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 –

8. **Indicator 8** - 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.

| <b>Maturity Structure of borrowing</b> | <b>Upper Limit</b> | <b>As of 13 December 2023<br/>£m</b> | <b>As of 13 December 2023<br/>%</b> |
|--|--------------------|--------------------------------------|-------------------------------------|
| Under 12 months                        | 40%                | 65.0                                 | 14%                                 |
| 12 months to 2 years                   | 20%                | 24.0                                 | 5%                                  |
| 2 years to 5 years                     | 30%                | 23.5                                 | 5%                                  |
| 5 years to 10 years                    | 80%                | 30.8                                 | 7%                                  |
| 10 years and above                     | 100%               | 319.6                                | 69%                                 |

8.1 The following chart shows the council's debt maturity profile by financial year as at 13<sup>th</sup> December 2023:



## 9.0 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.

## 10.0 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 large difference between premature redemption rates and new borrowing rates. However, if the opportunity does come available where it is advantageous for the Council to repay /reschedule then these options will be carefully considered and executed.

## 11.0 Investment Strategy Principles

11.1 The Department of Levelling Up, Housing and Communities (DLUHC - this was formerly the Ministry of Housing, Communities and Local Government (MHCLG)) and CIPFA have extended the meaning of 'investments' to include both financial and non-financial investments. This report deals solely with treasury (financial) investments, (as managed by the treasury management team). Non-financial investments, essentially the purchase of income yielding assets and service investments, are covered in the Capital Strategy, (a separate report).

11.2 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 regard to the council's risk appetite. In the current economic climate, it is considered appropriate to maintain a degree of liquidity to cover cash flow needs but to also consider "laddering" investments for periods up to 12 months with high credit rated financial institutions, whilst investment rates remain elevated, as well as wider range fund options.

11.3 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

11.4 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).

## 11.5 Investment Management Practices

For non-treasury management investments, the Council should ensure that effective risk and performance management arrangements are in place. These should include:

- Investment objectives.
- Investment criteria.
- Risk management, including risk identification, controls, management and

monitoring for any material non-treasury investment portfolios.

- Performance measurement and management, including methodology and criteria for assessing the performance and success of non-treasury investments.
- Decision making, governance and organisation, 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, including where and how often monitoring reports are taken.
- Training and qualifications, including how the relevant knowledge and skills in relation to non-treasury investments will be arranged.

The above issues should be addressed by the service areas concerned in relation to any financial investments undertaken in support of their service priorities. A summary will be provided in the annual treasury management strategy.

## **12.0 Non-financial Investments**

- 12.1** The revised Treasury Management Code also requires the authority to report on investments in financial assets and property that are not part of treasury management activity. This includes commercial investments, which are made primarily to achieve a financial return, and service investments which are made to support the provision of services to the community.

### **Commercial Investments**

The Council's policy is not to make commercial investments outside of its treasury management activity for mainly financial reasons. All capital investments outside of treasury management activities are held explicitly for the purposes of operational services, including regeneration, and are monitored through existing control frameworks. This will be important if at any stage the council decides to take out new external borrowing to fund its capital programme. The Government has been concerned for some time about the risk involved in local authorities taking out external debt to fund investments in commercial property to generate income. In November 2020, they announced a change in the PWLB's lending terms. This introduced a prohibition 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. Given the Council's policy, this should have no impact on our treasury management strategy.

### **Service Investments**

The council does not currently hold any non-financial investments whose purpose is to generate revenue to support core services. For further information see the [Acquisitions Policy](#).

### **Further investments**

Any further financial investments will be subject to the approval of Cabinet. Reports to Cabinet will be required to set out the investment objectives, investment criteria, and the risk management, decision-making, reporting, performance measurement and management arrangements.

### **13.0 Investment Counterparty Selection Criteria and Financial Investment Strategy**

- 13.1** 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.
- 13.2** Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months). Greater returns are usually obtainable by investing for longer periods. Accordingly, while most cash balances are required in order to manage the ups and downs of cash flow, where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer-term investments will be carefully assessed.
- 13.3** Where investments are 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.
- 13.4** The Chief Finance Officer (S151) will maintain a counterparty list in compliance with the table set out below in 13.6. Any revision of the criteria will be submitted to council for approval as necessary.
- 13.5** 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 13.6. 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 2021.
- 13.6** 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                | A-               |
| Moody's   | P-1               | A-               |
| Standard & Poor's                               | A-1               | A-               |

- 13.7** All credit ratings will be monitored weekly. The council is alerted to changes to ratings of all three rating agencies by Link creditworthiness service.
- 13.8** 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.
- 13.9** 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 Banks
  - UK Local Authorities.
  - Bank of Scotland call account (part of the Lloyds Banking Group).
  - UK Government (including gilts and the Debt Management Account Deposit Facility (DMADF)).
  - Non-UK banks with a long term credit rating of AA or better.
- The council also uses Barclays Bank, the council's own banker. If Barclays fall below the criterion in 13.6 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 13.63.7 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 Treasury Management Advisers.
- 13.10** 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 13.7. 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 - 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 13.7.
- 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.

**13.11** 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.

**13.12** 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:

| <b>Link Asset Services Banding</b> | <b>Description</b>   |
|------------------------------------|--|
| Yellow                             | 5 years*   |
| Dark Pink                          | 5 years for Ultra Short Dated bond funds with a credit score of 1.25 |
| Light Pink                         | 5 years for Ultra Short Dated bond funds with a credit score of 1.5  |
| Purple                             | 2 years  |
| 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                  |

*\*UK Government debt, or its equivalent, money market funds and collateralised deposits where the collateral is UK Government debt*

### 13.14 Environmental, Social and Governance (ESG) considerations in Treasury Management

The Council has declared a Climate Emergency, and we will consider ESG factors as part of a selection process when considering investment options. However, specific assessment is restricted by the fact there is no consistent rating framework to measure and benchmark all specific counterparty ESG metrics. Until this market data gap is resolved we continue to prioritise Security, Liquidity and Yield (in that order) as required by CIPFA's Treasury Management Code of Practice and they will remain our primary drivers.

The Council will not knowingly invest directly in businesses whose activities and practices pose a risk of serious harm to individuals or groups, or whose activities are inconsistent with the Council's mission and values. However, the Council does not have long-term surplus balances with which to consider specific 'sustainable' investments, but rather invests primarily in the short-term money markets. In this market the Council is a passive investor due to the nature of the investment. Money market funds include funds with companies of varying ESG quality due to the requirement to hold all securities in the target index or to meet other investment criteria such as the credit quality of the investment type.

|   | 2022/23 | 2023/24 | 2024/25 | 2025/26 | 2026/27 |
|---|---------|---------|---------|---------|---------|
| Overall limit for sums invested over 365 days | Actual  | Est.    | Est.    | Est.    | Est.    |
|   | £m      | £m      | £m      | £m      | £m      |
| Principal sums invested over 365 days         | 0.0     | 0.0     | 10.0    | 10.0    | 10.0    |

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

**13.14 Indicator 10** - Authorities can invest for longer than 365 days excluding loans. While most cash balances are required in order to manage the ups and downs of cash flow, where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer-term investments will be carefully assessed. The Council is exploring options to invest longer term in other types of financial instruments, for example, property funds in 2024/25.

### 14.0 Loans Made to Third Parties

**14.1** The council makes secured loans to third parties to advance the council's strategic interests.

**14.2** 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).

**14.3** 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.

**14.4** Non treasury investments are disclosed in the Capital Strategy.

- 14.5 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.
- 14.6 Further unsecured loans to council owned Local Authority Trading Companies (LATCo's) and the balance as of 31 December 2023 is £0.78m.
- 14.7 A £15.0m loan facility has been agreed for a hotel development of which £14.7m has been drawn down to date.

## 15.0 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

- Approval of the Annual Treasury Management Strategy as part of the Councils budget setting process.
- Approval of / amendments to the council's adopted clauses, Treasury Management Policy Statement and Treasury Management Practices
- Approval of the division of responsibilities as outlined in the constitution.

### Joint Scrutiny Committee

- Reviewing the Annual Treasury Management Strategy as part of the Councils budget setting process.

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

- Reviewing Treasury Management Policy and quarterly performance 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.

## 16.0 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, but the strategic direction is not to pursue with the HRA at this time.
- 16.2 If in the future 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, with and without notice | Link Asset Services Banding Green to Yellow          | 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 yellow | 100                        | 20                         |
| Term Deposits & Certificates of Deposit Banks Group 1              | Maturities of up to 1 year                 | Link Asset Services Banding Green to Yellow          | 100                        | 75                         |
| Term deposits & Certificates of Deposit Banks Group 2              | Maturities of up to 1 year                 | Link Asset Services Banding Green to Yellow          | 50                         | 10                         |
|  |  |  |                            |                            |

## 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.
- Also, if the Council wishes to use foreign counterparties then it should put in a minimum sovereign rating (excluding UK). Link suggest a minimum of AA-

| 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 yellow         | 20                  | 20                  |
| Term deposits & Certificates of Deposit with Banks Group 1  | 1-5 years (tradable)    | Link Asset Services Banding Green to Purple                  | 10                  | 10                  |
| Term deposits & Certificates of Deposit with Banks Group 2  | 1-5 years (tradable)    | Link Asset Services Banding Green to Purple                  | 20                  | 10                  |
| Deposit accounts with regulated UK building societies       | 1 – 5 years             | Link Asset Services Banding Green to Purple                  | 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                   |
| Property Fund   | 5+ years                | Not rated. Fund selection will be undertaken                 | 10                  | 5                   |
| Multi Asset Income Fund                                     | 3+ years                | Not rated. Fund selection will be undertaken                 | 10                  | 5                   |

This page is intentionally left blank