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# Treasury Management Strategy 2022/23-2025/26

## 1. Introduction

- 1.1. The council is required to set a balanced annual revenue budget. The timing and nature of income and expenditure within the budget needs to be understood and managed so that cash is available when it is required (**Liquidity**). This is a key function of the Treasury Management operation.
- 1.2. The second key function is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council. This may involve arranging new or replacement loans or the planned use of cash balances.
- 1.3. This Treasury Management Strategy for 2022/23 – 2025/26 sets out the Council's approach to ensuring cash flows are adequately planned, with surplus money being invested in low risk counterparties (**Security**), providing access to funds when required (**Liquidity**) before considering optimising investment return (**Yield**).

### Links to other plans and strategies

- 1.4. This Treasury Management Strategy links to, and is consistent with, the following other plans and strategies:
  - Council Plan
  - Commissioning Strategy
  - Service Plans & Strategies
  - Medium Term Financial Plan
  - Capital Strategy

## 2. The principles underpinning the Treasury Strategy

### Background

- 2.1. The Council's Treasury Management Strategy has been set in line with:
  - 2.1.1. The Local Government Act 2003 (the Act)
  - 2.1.2. The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003
  - 2.1.3. The Department of Leveling Up, Housing and Communities (DLUHC) Guidance on Local Government Investments (2018)
  - 2.1.4. DLUHC Capital Finance: guidance on minimum revenue provision (2018)

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2.1.5. Chartered Institute of Public Finance and Accountancy's (CIPFA) Prudential Code (2017) and Treasury Management Code of Practice (2017) consideration has also been given to the updated versions of the codes issued in December 2021 and where practical this report includes changes made in the new version. Please note that full implementation is not expected until 2023/24.

2.2. The strategy also has regard to:

2.2.1. The Markets in Financial Instruments Directive II (MIFID II),

2.2.2. International Financial Reporting Standard (IFRS) 9 Financial Instruments

2.2.3. UK Money Markets Code 2017, as updated in 2021

## Key Requirements

2.3. The above requires the Council to set out its Treasury Management Strategy for borrowing and to prepare an annual investment strategy setting out the council's policies on managing its investments and for giving priority to the security and liquidity of those investments.

2.4. This strategy fulfills the following key requirements, setting the:

- **Prudential Indicators;** setting out the expected capital activities and managing its capital finances.
- Council's **Minimum Revenue Provision (MRP) Policy;** which sets out how the Council will pay for capital assets through revenue each year.
- **Treasury Management Strategy Statement;** which sets out how the Council's treasury service will support the capital decisions taken, the day to day treasury management and the limitations on activity through treasury prudential indicators;
- **Investment Strategy;** which sets out the Council's criteria for choosing investment counterparties and limiting exposure to the risk of loss.

This report reflects the budget proposals considered by Cabinet on 7<sup>th</sup> December 2021 for consultation.

2.5. The Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals. These reports are required to be adequately scrutinised by committee before being recommended to Council. These are as follows:

- **Treasury Management and Investment Strategy** - setting out the expectations for a minimum of three years, linked into the Council's wider budget setting process.

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- **A Mid-Year Treasury Management Report** – This will update Members with the progress of the capital position, amending prudential indicators as necessary, and whether the treasury strategy is meeting the strategy or whether any policies require revision. This report is incorporated into the Council’s quarterly corporate monitoring reports.
- **An Annual Treasury Report** – This provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

## 3. Prudential and Treasury Indicators 2022/23 – 2025/26

3.1. The Council’s Capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in prudential indicators, which are designed to assist Member’s overview and confirm capital expenditure plans

### Capital Expenditure

3.2. This indicator is a summary of the Council’s capital expenditure plans based on the current capital programme projections and potential capital expenditure. This is summarised below along with the sources of finance.

**Table 1: Capital expenditure and financing**

	2021/22 Estimate £000	2022/23 Estimate £000	2023/24 Estimate £000	2024/25 Estimate £000	2025/26 Estimate £000
<b>Capital expenditure</b>	<b>14,578.65</b>	<b>15,836.80</b>	<b>9,055.00</b>	<b>7,183.00</b>	<b>2,343.00</b>
<b>Financed by:</b>					
Capital receipts	2,815.60	2,751.20	1,045.00	1,000.00	1,000.00
Grants	6,818.65	7,751.20	1,734.00	603.00	678.00
Revenue and Reserves	1,078.80	3,504.00	530.00	145.00	190.00
<b>Increased borrowing need</b>	<b>3,865.60</b>	<b>1,830.40</b>	<b>5,746.00</b>	<b>5,435.00</b>	<b>475.00</b>

### The Council’s borrowing need

3.3. The Capital Financing Requirement (CFR) represents the Council’s underlying need to borrow for a capital purpose. This is different to any actual borrowing. If the Council generates the same amount of resources in a year to meet its capital expenditure requirements, then there is no change to the CFR. However, if the Council spends more than the resources it generates in year, the

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CFR will increase as in effect the Council has created a borrowing requirement to bridge the gap in the resources it needs and the resources it has.

- 3.4. Although the CFR does not necessarily reflect actual borrowing taken from an external source, it can reflect the use of internal cash resources, i.e. internal borrowing.
- 3.5. Where the Council has a positive CFR, i.e. an underlying need to borrow, it must make provision to repay that 'debt'. This is known as Minimum Revenue Provision (MRP). The Council's current policy is set out in the MRP Strategy in part 4 of this report (page 10).
- 3.6. The current forecast for the CFR and MRP based on the current capital programme is shown in the table below:

**Table 2: CFR projection**

Capital Financing Requirement	2021/22 Estimate £000	2022/23 Estimate £000	2023/24 Estimate £000	2024/25 Estimate £000	2025/26 Estimate £000
CFR opening	21,226.77	24,117.57	24,676.67	29,063.17	32,965.47
Add unfinanced capital	3,865.60	1,830.40	5,746.00	5,435.00	475.00
Less MRP	(974.80)	(1,271.30)	(1,359.50)	(1,532.70)	(1,783.10)
<b>CFR closing</b>	<b>24,117.57</b>	<b>24,676.67</b>	<b>29,063.17</b>	<b>32,965.47</b>	<b>31,657.37</b>

## Prudence and Sustainability

- 3.7. Prudence and sustainability year on year are addressed through the prudential indicators for external debt, which must be set and revised taking into account their affordability.
- 3.8. External borrowing must not (except in the short term to support operational cash flow) exceed the underlying level of indebtedness (the CFR) and is intended to control any 'borrowing to on-lend' or borrowing to support the revenue account.
- 3.9. Table 3 confirms that the Council expects to be compliant with this indicator and should remain under-borrowed across the period. The increase in borrowing reflects the prudent assumption that the unfinanced element of the capital programme would be funded through external debt. The revenue budget for interest cost has been prepared on this basis to ensure that these investment plans are affordable. However, the actual cash need may be met from reduced investment balances.

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**Table 3: Gross debt and the CFR**

	<b>2021/22 Estimate £000</b>	<b>2022/23 Estimate £000</b>	<b>2023/24 Estimate £000</b>	<b>2024/25 Estimate £000</b>	<b>2025/26 Estimate £000</b>
CFR at 31 March	24,117.57	24,676.67	29,063.17	32,965.47	31,657.37
Borrowing at 31 March	20,391.60	24,676.67	29,063.17	32,965.47	31,657.37
Under/over borrowing (-/+)	(3,725.97)	0.00	0.00	0.00	0.00
Investments at 31 March	(21,335.07)	(22,357.64)	(28,150.04)	(35,363.94)	(44,303.24)

## Affordability

3.10. The fundamental objective in determining the affordability of the authority's capital plans is to ensure that the total capital investment remains within sustainable limits.

3.11. The ratio of financing costs to net revenue stream identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream. The estimates are presented in the table below:

**Table 4: Ratio of financing costs to net revenue stream**

<b>2021/22 Estimate</b>	<b>2022/23 Estimate</b>	<b>2023/24 Estimate</b>	<b>2024/25 Estimate</b>	<b>2025/26 Estimate</b>
10.67%	13.85%	17.77%	19.88%	23.03%

3.12. This shows that the amount of revenue budget spent financing debt is rising over the MTFP period. The main reasons for this trend are:

- a. MRP is rising to the level required to sustain the vehicle and plant programme. Older vehicles were grant funded whereas replacement vehicles are financed through borrowing.
- b. The net revenue stream (Council Tax, retained rates and non-service grant) is forecast to reduce over the period although reductions in grant are partially offset by increases to income from local taxation. And;
- c. Increase in borrowing costs due to new property schemes within the capital programme which are likely to require funding from borrowing.

3.13. The ratio of net income from commercial and service investments to net revenue stream shows the financial exposure of the authority to the loss of income from commercial and service investments. The estimates are presented in the table below:

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**Table 5: Ratio of net commercial and service investments to net revenue stream**

	<b>2021/22 Estimate</b>	<b>2022/23 Estimate</b>	<b>2023/24 Estimate</b>	<b>2024/25 Estimate</b>	<b>2025/26 Estimate</b>
Net Commercial Investment Income	(328.49)	(335.06)	(341.76)	(348.60)	(355.57)
Net Service Investment Income	(131.90)	(134.54)	(137.23)	(139.98)	(142.78)
<b>Net Commercial &amp; Service Investment Income</b>	<b>(460.39)</b>	<b>(469.60)</b>	<b>(478.99)</b>	<b>(488.57)</b>	<b>(498.34)</b>
Net Revenue	(14,096.60)	(14,228.96)	(12,269.10)	(12,551.30)	(12,495.50)
<b>Ratio of Commercial &amp; Service investments to Net Revenue Stream</b>	<b>3.27%</b>	<b>3.30%</b>	<b>3.90%</b>	<b>3.89%</b>	<b>3.99%</b>

3.14. Commercial investments are investments in property primarily for capital appreciation or rental return. These are shown on the council's balance sheet as investment properties of which the Council had 25 worth £3.8m recognised as at 31/03/2021.

Following audit of the 2020/21 accounts we have reviewed the assets classified as investment properties and from 2021/22 only 10 properties are classed as investment properties with a value of £2.45m, this has reduced as the remaining properties are now included as service investments below

3.15. Service investments are investments in land or property for service purposes, where any rental or capital appreciation is not the primary purpose of the investment. This includes investments in properties like the Mintworks in Kendal, for economic development reasons. The Mintworks was purchased and developed to provide small office units for business at a time when it was not economically viable for the market to provide them. Another example is industrial units at Tollbar and Foxfield, which historically were developed with economic regenerations grants.

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## Estimates of the incremental impact of capital investment decisions on council tax

3.16. This indicator identifies the revenue costs associated with proposed changes to the capital programme compared to the Council's existing approved commitments and current plans. This reflects interest income foregone on the use of reserves and additional costs where schemes are funded by external borrowing.

**Table 6: Incremental impact of capital investment**

	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Council tax - band D	£4.80	-£0.73	£0.52	£1.02	£2.34

3.17. Changes in the profiling of the Capital programme in light of Local Government Reorganisation (LGR) along with changes in PWLB borrowing rates has led to a small fall in the estimated impact of capital investment on the council tax payer in 2022/23, with it rising again in future years as delayed programmes come on line.

Also reflected is the anticipated use of reserves and the impact of rising MRP as discussed in 3.12 above.

## Treasury Indicators for External Debt

3.18. Within the Prudential Code are a number of key treasury management indicators which are focused on gross debt and involve setting limits on external debt.

3.19. The Operational Boundary; is the limit beyond which external debt is not normally expected to exceed. This is set at a level consistent with the borrowing need (CFR).

3.20. The Authorised Limit; reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. This is a limit on the maximum level of debt, beyond which external debt is prohibited and the limit can only be set or revised by Full Council.

3.21. The Authorised Limit is set as the borrowing need (CFR) plus any anticipated further borrowing that may be required to manage operational cash balances. This may be required, for example, at year end when operational cash balances are at their lowest due to the timing of local taxation collection.

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**Table 7: Authorised limit and operational boundary**

	2021/22 Estimate £000	2022/23 Estimate £000	2023/24 Estimate £000	2024/25 Estimate £000	2025/26 Estimate £000
Lease Liabilities*	555.00	555.00	555.00	555.00	555.00
CFR at 31 March	24,117.57	24,676.67	29,063.17	32,965.47	31,657.37
Under borrowing 31 March	(3,725.97)	0.00	0.00	0.00	0.00
Add operational cash limit	7,016.00	7,016.00	7,016.00	7,016.00	7,016.00
<b>Operational boundary</b>	<b>24,700.00</b>	<b>25,300.00</b>	<b>29,700.00</b>	<b>33,600.00</b>	<b>32,300.00</b>
<b>Authorised limit</b>	<b>31,716.00</b>	<b>32,316.00</b>	<b>36,716.00</b>	<b>40,616.00</b>	<b>39,316.00</b>

\*Due to the change in accounting for leases as a result of the introduction of accounting standard IFRS 16 Leases, this is a new change for the Council which applied from 01/04/2022. The total in the table is currently only an estimate and officers are working on gathering the information to enable us to determine the Council's total finance lease liability and will update the total as existence of finance leases are confirmed. Therefore the above limits may change before we get to the final version to be approved by Council.

3.22. The 2022 Treasury Management Code also introduces the concept of a liability benchmark when it was issued in December 2021. Given the short notice and the work required to calculate the lease liability for the Statutory Operational Boundary and Authorised Limit calculations this will be developed during 2022/23 for inclusion in the 2023/24 strategy.

## Treasury Management Limits on Activity

3.23. In addition to the limits on external debt there are three more debt related treasury activity indicators. The purpose of these is to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. The indicators are:

- Upper limits on variable interest rate exposure. This identifies a maximum limit for variable interest rates based upon the debt position net of investments
- Upper limits on fixed interest rate exposure. This is similar to the previous indicator and covers a maximum limit on fixed interest rates
- Maturity structure of borrowing. These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.

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**Table 8: Interest rate exposure limits**

	2021/22	2022/23	2023/24	2024/25	2025/26
<b>Interest Rate Exposures</b>					
<b>£m Principal</b>	<b>Upper</b>	<b>Upper</b>	<b>Upper</b>	<b>Upper</b>	<b>Upper</b>
Limits on fixed interest rates based on net debt	Authorised limit				
Limits on variable interest rates					
Investments	£30m	£30m	£30m	£30m	£30m
Borrowing	£0m	£0m	£0m	£0m	£0m
<b>Maturity Structure of fixed interest rate borrowing 2022/23</b>					
				<b>Lower</b>	<b>Upper</b>
Under 12 months				0%	25%
12 months to 2 years				0%	25%
2 to 5 years				0%	25%
5 to 10 years				0%	100%
10 to 20 years				0%	100%
20 to 30 years				0%	100%
30 to 40 years				0%	100%
40 years and above				0%	100%

## Other indicators

3.24. The Council has adopted the CIPFA Treasury Management in the Public Services: Code of Practice and Cross Sectorial Guidance Notes.

3.25. As part of this it also adopts the following four clauses

1. The Council will create and maintain, as the cornerstones for effective treasury management:
  - A treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activity (this report)
  - Suitable treasury management practices (TMPs), setting the manner in which the Council will seek to achieve those policies and objectives, and prescribing how it will manage and control these activities.

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2. Full Council will receive reports on the treasury management policies, practices and activities, including as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close, in the form prescribed in the TMPs.
  3. The Council delegates responsibility for the implementations and regular monitoring of its treasury management policies and practices to Cabinet/Full Council and for the executing and administration of treasury management decisions to the Lead Finance Specialist and Section 151 Officer, who will act in accordance with the Councils policy statement and if they are a CIPFA member with CIPFA's Standard of Professional Practice on Treasury Management.
  4. The Council nominates Overview and Scrutiny Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.
- 3.26 The council should also have investment Management Practices (IMPs) for investments not for treasury management purposes e.g. commercial/service investments. Since these are new in the 2021 code which was only issued in December 2021, they will be developed during the year for approval as part of the quarterly corporate finance updates.
- 3.27 These IMPs will include elements previously included in part 10. Non Treasury Management Investments in previous years treasury strategies. Such as:
- A robust procedure to ensure that these investments and service loans fit in with the council's plans, and are affordable and sustainable. The principles of the procedure are:
- Ensuring the investment meets the councils risk profile
  - Ensuring the portfolio of assets is prudently balanced to minimise risk of income fluctuations and loss of capital value.
  - Ensuring the rate of return exceeds that which could be achieved through traditional sources of investments
  - Establishing a comprehensive due diligence process to minimise risks including use of specialist external advice where appropriate
  - Establishing appropriate governance arrangements to ensure decisions are made in a streamlined and efficient way.
  - Using an expected loss model to assess the impact on the balance budget requirement if the investment was at risk
  - The financial exposure of the Council is proportionate to its size.
  - All investments are agreed by the Council's Cabinet

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

- 4.1 The Council is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the minimum revenue provision - MRP).
- 4.2 DLUHC Regulations have been issued which require the full Council to approve **an MRP Statement** in advance of each year. A variety of options are provided to councils, so long as there is a prudent provision. The Council is recommended to approve the following MRP Statement.
- 4.3 For capital expenditure incurred before 1 April 2008 or which in the future will be Supported Capital Expenditure, the MRP policy will be:
- **Previous practice** - MRP will follow the practice outlined in former CLG regulations (option 1); this option provides for an approximate 4% reduction in the borrowing need (CFR) each year on eligible debt.
- 4.4 From 1 April 2008 for all unsupported borrowing (including Private Finance Initiative and finance leases) the MRP policy will be
- **Asset Life Method** – MRP will be based on the estimated life of the assets, in accordance with the proposed regulations (this option must be applied for any expenditure capitalised under a Capitalisation Direction). This option provides for a reduction in the borrowing need over approximately the asset's life.
- This method allows for annual payment to be calculated as equal instalments or set as an annuity (increasing payments) over the life of the asset. The exact repayment calculation will be determined on a case by case basis.
- **For Finance leases**, the MRP will be calculated to match the capital repayment identified within the annual lease payments.

For assets under constructions MRP will not be applied until the earlier of entering external borrowing or when the asset comes into use. However if there is expected to be a significant delay between expenditure and the asset coming into use then we will consider, on a case by case basis, applying MRP sooner.

## 5 Treasury Management Policy Statement

- 5.1 This organisation defines its treasury management activities as:
- 5.2 “The management of the authority’s borrowing, investments and cash flows, including 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”.

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- 5.3 This organisation 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.
- 5.4 This organisation 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.

## 6 Economic Background and prospects for Interest Rates

- 6.1 The Council has appointed Link Asset Services as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates.
- 6.2 It is important to note that interest rate projections are estimates at a point in time and are subject to constant revision. However, in terms of managing interest rate risk, it is important to be aware of expert opinion around the magnitude, timings and direction of travel on rates. Link Asset Services' view on rates is presented in the table below:

Link Group Interest Rate View		20.12.21													
	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	
BANK RATE	0.25	0.25	0.50	0.50	0.50	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.25	
5 yr PWLB	1.40	1.50	1.50	1.60	1.60	1.70	1.80	1.80	1.80	1.90	1.90	1.90	2.00	2.00	
10 yr PWLB	1.60	1.70	1.80	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.10	2.20	2.30	
25 yr PWLB	1.80	1.90	2.00	2.10	2.10	2.20	2.20	2.20	2.30	2.30	2.40	2.40	2.50	2.50	
50 yr PWLB	1.50	1.70	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.20	2.20	2.30	2.30	

The back ground to this forecast is as follows.

- 6.3 It had been anticipated that at its November meeting the Monetary Policy Committee (MPC) would increase the bank rate but the MPC voted to maintain the rate at 0.1% and decided it wanted further assurance that the impact of the end of furlough on 30th September would not increase unemployment sharply and therefore waited until the statistics for unemployment was ready
- 6.4 On 10th December the month on month rise in GDP came out at only 0.1% for October and there is concern that any further Covid-19 restrictions could cause the economy to contract in December.
- 6.5 On 14th December the labour market statistics were released and the monthly unemployment rate rose to 4.2% in October from 3.9% in September. However

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weekly data suggested this didn't last long as unemployment was falling again by the end of October.

- 6.6 On 15th December the November CPI inflation came in at 5.1% up from 4.2% in October confirming again that inflation pressures are building sharply across the board in producer and consumer prices and in wage rates.
- 6.7 It is against this adverse set of factors that the MPC voted 8-1 at its December meeting to increase the Bank Rate by 0.15% from 0.10% to 0.25%. The comments made at the same time as the increase indicated that the MPC is concerned that inflation is building and action to counter this by the MPC is required. This has led to markets predicting an increase to 1% by the end of 2022, with some predicting the next rate rise could be as early as February 2022.

## 7 Current Portfolio position

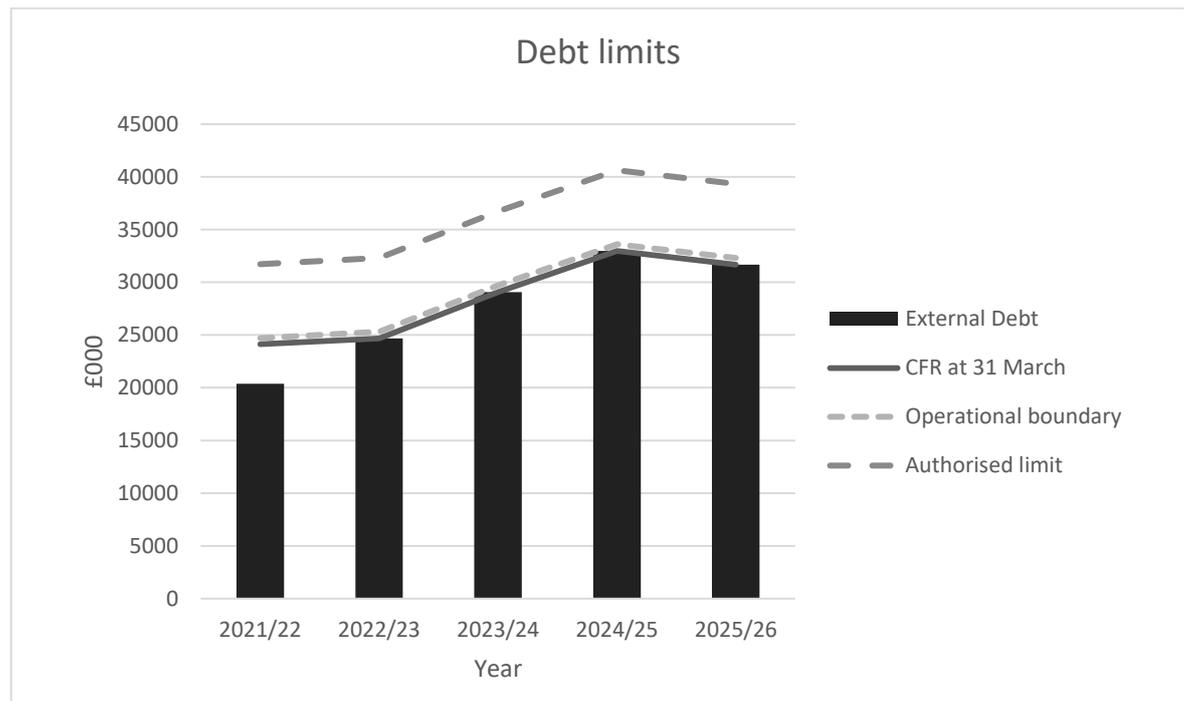
- 7.1 The Council currently has borrowings of £12.8 million from the Public Works Loans Board at an average rate of 4.3% with the first maturity not due until 2046/47.
- 7.2 As at 31/12/2021, the council had £48.3 million invested, made up of £34.3 million of operational cash balances and £14 million of core cash balances. Operational balances relate to short term cash management, whereas the core cash balances reflect longer term strategic resources (such as the General Fund balance and useable capital receipts).

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## 8 Borrowing Strategy

8.1 Chart 1 below brings to together and shows the Council's external debt position, Capital Financing Requirement and debt limits together.

**Chart 1 Borrowing v Debt limits**



- 8.2 The Council is currently maintaining an under-borrowed position, where borrowing is lower than the Capital Financing Requirement (CFR). As a result we are using internal cash balances to fund the capital program.
- 8.3 The policy of avoiding new borrowing and minimising cash balances has been a prudent strategy while investment returns are low, helping to keep borrowing costs down and minimising counterparty risk. This policy will be kept under review to manage the risk of changes to the availability of internal cash and future borrowing costs.
- 8.4 The projections include an assumption that the “under borrowing” will be reversed in 2021/22 and 2022/23. This is to ensure that the medium term projections are prudent, it does not mean that the Council will definitely borrow (up to the CFR) in that year.
- 8.5 As required by the Prudential Code, the MTFP reflects the cost of potential further borrowing and sufficient budget is available to ensure that, if required, an increased borrowing requirement is affordable.

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## Policy on Borrowing

- 8.6 The Lead Finance Specialist will continue to monitor the Councils borrowing position through out the year and will respond to changing circumstances, and any decisions taken will be reported to members at the next available opportunity.
- 8.7 When considering whether to borrow or not for capital schemes the following factors will be considered:
- 8.7.1 Is it new or significant refurbishment of property or for the vehicle and plant programme? If yes then borrow.
  - 8.7.2 Maximum duration of borrowing undertaken will not exceed useful life of asset.
  - 8.7.3 Consideration will be given to staggering maturities where amount borrowed exceeds £1 million.
  - 8.7.4 Staggered maturities will also be considered when/if reversing the under borrowed position.
  - 8.7.5 Borrowing will be in the form annuity or equal installment of principal (EIP) loans.
- 8.8 In order to access PWLB borrowing Councils need to complete an annual return splitting the capital programme for the current year and next three years between the following six categories
- 8.8.1 Service Spending
  - 8.8.2 Housing
  - 8.8.3 Economic Regeneration
  - 8.8.4 Preventative Action
  - 8.8.5 Treasury Management
  - 8.8.6 Investment assets bought primarily for yield.
- If the Council has any capital scheme which falls into the last category investment assets bought primarily for yield, then they will be unable to access PWLB funding.
- What category a scheme falls into is determined by the Council's Section 151 Officer.
- 8.9 There are strict criteria which schemes have to meet to fall into each category, with the last category being the catch all category. The capital programme on which this strategy is based has been assessed against the PWLB categories and

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the Council has no capital investments which fall within the last category and is able to borrow for the PWLB in 2022/23 if required.

- 8.10 The Council will still be able to access other forms of borrowing, listed below, but this might be at rates in excess of what it could borrow at from the PWLB.
- Local authorities (primarily shorter dated maturities)
  - Financial institutions (primarily insurance companies and pension funds but also some banks)
  - Municipal Bonds Agency

## Policy on Borrowing in Advance of Need

- 8.11 The Council will not borrow in advance of its needs in order to on lend. Any decision to borrow will be within the approved CFR estimates, and will be considered carefully to ensure that value for money can be demonstrated, and that gross long term borrowing will not exceed the CFR.
- 8.12 Borrowing in advance will be made within the constraints that:
- It will be limited to no more than 50% of the expected increase in borrowing need (CFR) over the five year planning period and then only where there is sufficient certainty that expenditure will be incurred to prevent borrowing exceeding the CFR at any year end within the planning period; and
  - The Council would not look to borrow more than 6 months in advance of need.
- 8.13 Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reports.

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## 9 Investment Strategy

- 9.1 As a holder of public funds, the Council recognises its responsibility to the prudent management of public funds, and follows relevant Government and CIPFA guidance.
- 9.2 The Council's overriding policy objective is to prudently manage council funds; ensuring risks are minimised whilst maximising returns. The Council's investment priorities, in order, are:
- **Security** of the invested capital
  - **Liquidity** of the invested capital
  - **Yield** (return on investment), which is in line with security and liquidity
- 9.3 In order to minimise the risk to investments, the Council applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of concentration risk.

### Investment Counterparty Selection Criteria

- 9.4 The Finance Lead Specialist and Section 151 Officer, will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to Council for approval as necessary. These criteria provide an overall pool of counterparties considered high quality which the Council may use.
- 9.5 This Council will apply the creditworthiness service provided by Link Asset Services. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard and Poor's. The credit ratings of counterparties are supplemented with the following overlays:
- credit watches and credit outlooks from credit rating agencies;
  - Credit Default Swaps (CDS) spreads to give early warning of likely changes in credit ratings;
  - Sovereign ratings to select counterparties from only the most creditworthy countries.
- 9.6 This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of bands which indicate the relative creditworthiness of counterparties and provide a suggested duration for investments.

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- 9.7 The Council will apply a duration overlay to banks selected under the credit worthiness service, such that the investment duration will be the lessor of 1 year for UK banks, or 190 days for non UK banks, and Links's suggested duration with the exception of part nationalised banks.
- 9.8 With the exception of the UK, the minimum sovereign rating is AAA by 2 out of 3 of the main rating agencies. The minimum counterparty credit rating criteria is a Short Term rating (Fitch or equivalents) of F1 and a Long Term rating of A-.
- 9.9 In addition the the council will also invest in;
- Building Societies
  - Multilateral Development Banks and Supranational Organisations
  - Money Market Funds
  - Other collective investment schemes
- provided they meet the criteria laid out in Table 5 Counterparty limits.
- 9.10 Sole reliance will not be placed on the use of Link's external service. In addition the Council will also use market information, economic data and information on any external support for banks to help support its decision making process.
- 9.11 The time and monetary limits for institutions on the Council's counterparty list are as follows:

9.12 **Table 8: Counterparty limits**

	<b>Criteria</b>	<b>Money Limit</b>	<b>Time Limit</b>
UK Banks	Yellow, Purple, Blue or Orange	£3m	1 year
UK Banks	Red	£3m	6 Months
UK Banks	Green	£3m	100 Days
Non UK Banks	Yellow, Purple, Blue or Orange	£3m	190 Days
Non UK Banks	Red	£3m	6 Months
Non UK Banks	Green	£3m	100 Days
Banks	No colour	£0m	n/a
Building Societies	Top 5 by Asset size and assets > £2 billion	£3m	6 months
Building Societies	Top 6-10 by Asset size and assets > £2 billion	£2m	6 months

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	Criteria	Money Limit	Time Limit
Debt Management Account Deposit Facility - DMADF	n/a	Unlimited	6 months
UK Gilts, Treasury Bills	n/a	Unlimited	5 years
Local Authorities	n/a	£5m	2 years
Money Market Funds - LVNAV - CNAV Government Funds	AAA	£10m	Liquid
Multilateral Development Banks and Supranational Organisations	AAA	£3m	2 years
Other Collective Investment Schemes e.g. Enhanced Money Market Funds & Bond Funds	AAA S1/V1	£2m	1 year

- 9.13 The Council is alerted to changes to ratings of all three agencies through its use of the Link's credit worthiness service. In addition a full review will be carried out at least monthly.
- 9.14 In the event of a downgrade resulting in a counterparty or investment scheme no longer meeting the Council's minimum criteria, its further use for new investments will be withdrawn immediately.
- 9.15 Any changes in counterparty ratings or other criteria that put the counterparty below the minimum criteria, whilst holding a deposit for the Council, will be brought to the attention of the Finance Lead Specialist and Section 151 Officer and the Portfolio Holder with responsibility for Finance. Further action will be decided on a case-by-case basis.
- 9.16 Specified investments are investments less than 1 year in duration meeting the criteria for high quality above.
- 9.17 Non specified investments are all investments with a duration of 1 year or greater and/or not meeting the definition of high credit quality. A maximum of 75% of investments can be non-specified.
- 9.18 A copy of the Council's counterparty list under the above criteria is attached as **Appendix 2**

## Other Considerations

- 9.19 In addition to the credit criteria, due care will be taken to consider the country, group and sector exposure of the Council's investments.

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- 9.20 In part the country selection will be chosen by the credit rating of the sovereign state in Banks 1 above. In addition no more than £3 million will be placed with counterparties from any one non-UK country at any one time up to a maximum of £9 million being held in non UK countries at any one time (excluding Money Market Funds, Multilateral Development Banks and Supranational Institutions and Collective Investment Schemes).
- 9.21 Limits in place above will apply to a group of companies
- 9.22 Sector limits will be monitored regularly for appropriateness, to help mitigate against concentration risk. This is the risk of having a significant proportion of your investments in one sector of the market and that sector failing
- 9.23 To ensure sufficient liquidity, detailed cash flow forecasts will be kept by the financial services team to give as accurate a picture as possible of the movement and timing of income & expenditure and the resulting daily cash balances.
- 9.24 When placing investments, officers will refer to the cash flow forecast to determine the best duration for the investment.
- 9.25 Funds invested for greater than 365 days are set with regard to the Council's security and liquidity requirements. They are based on the lowest expected availability of funds after each year-end (ie the core balances) within the five year plan. To allow longer term investment of the core balances, subject to satisfying security and liquidity, the Council is asked to approve the treasury indicator and limit:-

**Table 9 Maximum principal sums invested for more than 365days**

£m	2021/22	2022/23	2023/24	2024/25	2025/26
Principal sums invested > 365 days	£12m	£12m	£12m	£12m	£12m

- 9.26 When placing investments the Council will seek to optimise returns commensurate with the management of the associated risks, limiting its investment activities to the approved financial instruments. The financial instruments authorised for use by officers are;
- Fixed Deposits; deposits at a fixed interest rate for a fixed duration.
  - Certificate of Deposits; similar to fixed deposits but tradeable in a secondary market
  - Government Treasury Bills & Gilts; UK Government debt instruments
  - Call accounts; instant access accounts with banks at a variable interest rate,

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- e. Notice accounts; Savings accounts where by we have to give the bank/building society notice to withdraw our money.
  - f. Money Market Funds; collective investment accounts with a Low Volatility Net Asset Value) LVNAV or constant net asset value, generally these allow investors instant access and have a variable interest rate.
  - g. Other Collective Investment Schemes; similar to money market funds these are funds with a variable net asset value, which can invest in a wider range of instruments. These are generally instruments whereby the Council would invest for longer periods and receive a greater return over time, though the value of the fund can modestly fluctuate.
- 9.27 Under the Markets in Financial Derivatives 2 (MIFID II) directive the Council is classified as a retail investor with the option to opt-up to professional status, provide certain conditions are met. The Council meets these conditions and has decided to Opt-up to Professional Status to maintain the level of access to the money markets it has always had.

## 10 Knowledge and Skills

- 10.1 The Council utilises the knowledge and skills of its internal officers when considering treasury investment and borrowing decisions and where necessary it also relies on the expert knowledge of specialist external advisors.

### Staff

- 10.2 Finance staff are professionally qualified to advise the Council on all areas of finance. Included within the team is an officer with specialist knowledge of Treasury Management. All finance staff undertake Continuous Professional Development and they maintain knowledge and skills through regular technical updates from appropriate bodies and attending specialist courses.
- 10.3 Staff follow Treasury management Practices (TMP) approved by the Finance Lead Specialist and Section 151 Officer.

### Members

- 10.4 Training is given to Overview and Scrutiny Committee on treasury management, this training is offered annually and is also open to all members to assist in their understanding of the treasury management strategy

### External Advice

- 10.5 The Council has appointed Link Asset Services as it treasury advisors and part of their service is to assist the Council to formulate a view on interest rates.

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- 10.6 The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers
- 10.7 It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review

## 11 Review and monitoring of the Treasury Management Strategy

- 11.1 This Treasury Management Strategy is based on the proposed Budget and Capital Programme for 2022/23 to 2025/26 which will be approved by Council on the 22nd February 2022. The strategy will be monitored and reviewed throughout the financial year and may be updated if required.