

## **OVERVIEW AND SCRUTINY COMMITTEE**

**Date of Meeting:** 16<sup>th</sup> January 2024

**Title of Report:** Treasury Management Strategy Statement, Annual Investment Strategy and Capital Strategy

**Report of:** Director of Corporate Services and S151 Officer

**Portfolio Holder:** Deputy Leader and Finance

### **Purpose of Report**

1. To present the draft Treasury Management Strategy Statement for 2024/25 which incorporates the Annual Investment Strategy, Minimum Revenue Provision (MRP) Policy and Prudential and Treasury Indicators.
2. It is a legal obligation to set a Capital Strategy, which is also presented for review. This strategy provides the strategic framework for the treasury activity. The 2024/25 draft documents do not suggest any major changes as compared to the approved ones for the current year.

### **Recommendation**

3. That the Overview and Scrutiny Committee reviews this report and passes any comments to Cabinet

### **Background**

4. The Council is required by the Local Government Act 2003 and its supporting regulations to consider the Prudential Code and establish Prudential Indicators for the next three years. This ensures that the council's capital investment plans are financially feasible, cautious, and long-lasting.
5. The Act, therefore, requires the Council to set out its treasury strategy for borrowing and to prepare an Annual Investment Strategy (as required by Investment Guidance issued subsequent to the Act); these set out the council's policies for managing its investments and for giving priority to the security and liquidity of those investments.
6. The Treasury Management Strategy Statement is attached as Appendix 1. This incorporates the Annual Investment Strategy 2024/25 at section 4 and the MRP policy at section 2.5. The template for this strategy statement was provided by Hart's treasury advisor, Link, who provides treasury services to many councils. Using Link's template ensures that all statutory requirements are met, including the latest revisions to the Code of Practice which were referred to in the report to Council in February 2023. The Capital Strategy is included as Appendix 2.

**CONTACT:** Graeme Clark, Director of Corporate Services and S151 Officer,

**APPENDICES**

**Appendix 1 – Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement and Annual Investment Strategy**

**Appendix 2 – Capital Strategy**

**Appendix 3 - Interest rate forecasts and economic background from treasury advisors [Link](#)**

## TREASURY MANAGEMENT STRATEGY STATEMENT 2024/25

### 1.0 Introduction and Key Considerations

#### **2021 revised CIPFA Treasury Management Code and Prudential Code – changes which will impact on future TMSS/AIS reports and the risk management framework.**

CIPFA published the revised Codes on 20th December 2021 and stated that revisions need to be included in the reporting framework from the 2023/24 financial year. This Council, therefore, must have regard to these Codes of Practice when it prepares the Treasury Management Strategy Statement and Annual Investment Strategy, and related reports during the financial year, which are taken to Full Council for approval.

#### **The revised Treasury Management Code required all investments and investment income to 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. A council must not borrow to invest primarily for financial return.

#### **The revised Treasury Management Code requires a council to implement the following:**

- **Adopt a liability benchmark treasury indicator** to support the financing risk management of the capital financing requirement; this is to be shown in chart form for a minimum of ten years, with material differences between the liability benchmark and actual loans to be explained;
- **Long-term treasury investments**, (including pooled funds), are to be classed as commercial investments unless justified by a cash flow business case;

- **Pooled funds** are to be included in the indicator for principal sums maturing in years beyond the initial budget year;
- Amendment to the **knowledge and skills register** for officers and members involved in the treasury management function - to be proportionate to the size and complexity of the treasury management conducted by each council;
- **Reporting to members is to be done quarterly.** Specifically, the Chief Finance Officer (CFO) is required to establish procedures to monitor and report performance against all forward-looking prudential indicators at least quarterly. The CFO is expected to establish a measurement and reporting process that highlights significant actual or forecast deviations from the approved indicators. However, monitoring of prudential indicators, including forecast debt and investments, is not required to be taken to Full Council and should be reported as part of the council's integrated revenue, capital and balance sheet monitoring;
- **Environmental, Social and Governance (ESG)** issues to be addressed within a Council's treasury management policies and practices (TMP1). This is covered in the Annual Investment Strategy in section 4.1.

### **The main requirements of the Prudential Code relating to service and commercial investments are:**

- The risks associated with service and commercial investments should be proportionate to their financial capacity – i.e. that plausible losses could be absorbed in budgets or reserves without unmanageable detriment to local services;
- A council must not borrow to invest for the primary purpose of commercial return;
- It is not prudent for local authorities to make any investment or spending decision that will increase the CFR, and so may lead to new borrowing, unless directly and primarily related to the functions of the council, and where any commercial returns are either related to the financial viability of the project in question or otherwise incidental to the primary purpose;
- An annual review should be conducted to evaluate whether commercial investments should be sold to release funds to finance new capital expenditure or refinance maturing debt;
- A prudential indicator is required for the net income from commercial and service investments as a proportion of the net revenue stream;
- Create new Investment Management Practices to manage risks associated with non-treasury investments, (similar to the current Treasury Management Practices).

### **A council's Capital Strategy or Annual Investment Strategy should include: -**

- The council's approach to investments for service or commercial purposes (together referred to as non-treasury investments), including defining the

council's objectives, risk appetite and risk management in respect of these investments, and processes ensuring effective due diligence;

- An assessment of affordability, prudence and proportionality in respect of the council's overall financial capacity (i.e., whether plausible losses could be absorbed in budgets or reserves without unmanageable detriment to local services);
- Details of financial and other risks of undertaking investments for service or commercial purposes and how these are managed;
- Limits on total investments for service purposes and for commercial purposes respectively (consistent with any limits required by other statutory guidance on investments);
- Requirements for independent and expert advice and scrutiny arrangements (while business cases may provide some of this material, the information contained in them will need to be periodically re-evaluated to inform the council's overall strategy);
- State compliance with paragraph 51 of the Prudential Code in relation to investments for commercial purposes, in particular the requirement that a council must not borrow to invest primarily for financial return.

### 1.1 Background

The council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low-risk counterparties or instruments commensurate with the council's low risk appetite, providing adequate liquidity initially 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 it 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 risk or cost objectives.

The contribution the treasury management function makes to the council 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.

CIPFA defines treasury management as:

*“The management of the local council’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.”*

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

## 1.2 Reporting Requirements

### 1.2.1 Capital Strategy

The 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 strategy is to ensure that all the council’s elected members fully understand the overall long-term policy objectives and resulting Capital Strategy requirements, governance procedures and risk appetite. The draft Capital Strategy is included at Appendix 2.

### 1.2.2 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.

- a. **Prudential and treasury indicators and treasury strategy** (this report) - 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, (the parameters on how investments are to be managed)
- b. **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. In addition, this Council will receive quarterly update reports.

- c. **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 Full Council. This role is undertaken by the Overview and Scrutiny Committee.

**Quarterly reports** – In addition to the three major reports detailed above, from 2023/24 quarterly reporting (end of June/end of December) is also required. However, these additional reports do not have to be reported to Full Council/Board but do require to be adequately scrutinised. This role is undertaken by the Overview and Scrutiny Committee. (The reports, specifically, should comprise updated Treasury/Prudential Indicators.)

### **1.3 Treasury Management Strategy for 2024/25**

The strategy for 2024/25 covers two main areas:

#### **Capital issues**

- the capital expenditure plans and the associated prudential indicators
- the minimum revenue provision (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, DLUHC Investment Guidance, DLUHC MRP Guidance, the CIPFA Prudential Code and the CIPFA Treasury Management Code.

### 1.4 Training

The CIPFA Treasury Management Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny.

Furthermore, pages 47 and 48 of the Code state that they expect “all organisations to 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.

The scale and nature of this will depend on the size and complexity of the organisation’s treasury management needs. Organisations should consider how to assess whether treasury management staff and board/ council members have the required knowledge and skills to undertake their roles and whether they have been able to maintain those skills and keep them up to date.

As a minimum, authorities should carry out the following 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.”

In further support of the revised training requirements, CIPFA’s Better Governance Forum and Treasury Management Network have produced a ‘self-assessment by members responsible for the scrutiny of treasury management’, which is available from the CIPFA website to download.

The following training has been undertaken by members - Treasury Management Member Training on 12<sup>th</sup> October 2023 and further training will be arranged as required.

The training needs of treasury management officers are periodically reviewed.

A formal record of the training received by officers central to the Treasury function will be maintained. Similarly, a formal record of the treasury management/capital finance training received by members will also be maintained.



## 1.5 Treasury Management Consultants

The council uses Link Group, Link Treasury Services Limited as its external treasury management advisors.

The council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon the services of our external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisers.

It also recognises that there is value in employing external providers of treasury management services 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.

## 2. The Capital Prudential Indicators 2024/25 – 2026/27

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

### 2.1 Capital Expenditure and Financing

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

Capital Expenditure by Service	2022/23 Actual £'000	2023/24 Estimate £'000	2024/25 Estimate £'000	2025/26 Estimate £'000	2026/27 Estimate £'000
Community Services	2,278	2,566	3,954	890	890
Corporate Services	123	237	121	0	0
Place	0	80	198	0	0
<b>Total capital expenditure</b>	<b>2,401</b>	<b>2,883</b>	<b>4,272</b>	<b>890</b>	<b>890</b>

Other long-term liabilities - the above financing need excludes other long-term liabilities, such as PFI and leasing arrangements that already include borrowing instruments.

The table below summarises how these capital plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need.

Financing of capital expenditure	2022/23 Actual £'000	2023/24 Estimate £'000	2024/25 Estimate £'000	2025/26 Estimate £'000	2026/27 Estimate £'000
<b>Total capital expenditure</b>	<b>2,401</b>	<b>2,883</b>	<b>4,272</b>	<b>890</b>	<b>890</b>
Financed by:					
Capital receipts	26	10	74	0	0
Capital grants	2,106	2,371	3,230	890	890
Earmarked Reserves	0	420	218	0	0
Revenue	269	82	750	0	0
<b>Total financing need for year</b>	<b>2,401</b>	<b>2,883</b>	<b>4,272</b>	<b>890</b>	<b>890</b>
<b>Borrowing requirement</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

## 2.2 The council's Borrowing Need (the Capital Financing Requirement)

The second prudential indicator is the council's Capital Financing Requirement (CFR). The CFR is the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the council's indebtedness and so its underlying borrowing need. Any capital expenditure above, which has not immediately been paid for through a revenue or capital resource, will increase the CFR.

The CFR does not increase indefinitely, as the minimum revenue provision (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.

The council is asked to approve the CFR projections below:

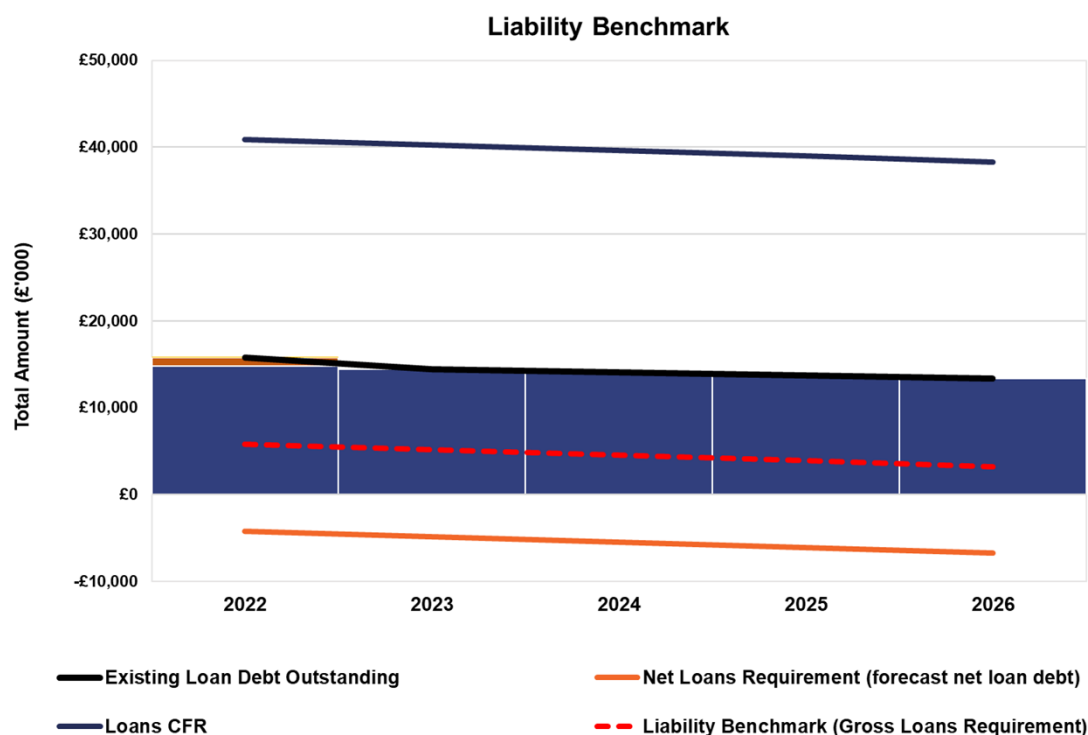
Capital Financing Requirement (CFR)	2022/23 Actual £'000	2023/24 Est £'000	2024/25 Est £'000	2025/26 Est £'000	2026/27 Est £'000
Brought Forward	41,449	40,862	40,245	39,615	38,974
Borrowing requirement	0	0	0	0	0
Less MRP and other financing movements	(587)	(617)	(630)	(641)	(644)
<b>Net movement in CFR</b>	<b>(587)</b>	<b>(617)</b>	<b>(630)</b>	<b>(641)</b>	<b>(644)</b>
<b>CFR Carried Forward</b>	<b>40,862</b>	<b>40,245</b>	<b>39,615</b>	<b>38,974</b>	<b>38,330</b>

## 2.3 Liability Benchmark

The council is required to estimate and measure the Liability Benchmark (LB) for the forthcoming financial year and the following two financial years, as a minimum.

There are four components to the LB:

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



## 2.4 Core Funds and Expected Investment Balances

The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.). Detailed below are estimates of the year-end balances for each resource and anticipated day-to-day cash flow balances.

Year End Resources	2022/23 Actual £'000	2023/24 Estimate £'000	2024/25 Estimate £'000	2025/26 Estimate £'000	2026/27 Estimate £'000
Fund balances/reserves	42,367	40,359	37,111	37,355	37,591
Capital receipts*	4,574	4,564	4,490	4,490	4,490
Provisions	549	549	549	549	549
Other	0	0	0	0	0
<b>Total core funds</b>	<b>47,490</b>	<b>45,472</b>	<b>42,150</b>	<b>42,394</b>	<b>42,630</b>
Working capital	4,023	4,023	4,023	4,023	4,023
Under/(over) borrowing	25,093	25,804	25,536	25,263	24,994
<b>Expected investments</b>	<b>26,420</b>	<b>23,691</b>	<b>20,637</b>	<b>21,154</b>	<b>21,659</b>

\* Reclassification of Balances between Grants & Contributions Unapplied & Capital Receipts

## 2.5 Minimum revenue provision (MRP) policy statement

Under Regulation 27 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, where the Authority has financed capital expenditure by borrowing it is required to make a provision each year through a revenue charge (MRP).

Regulation 28 of the Local Authorities (Capital Finance and Accounting) (England) (Amendment) regulations 2008 require the Authority to calculate a prudent provision of MRP whilst having regard to the current MRP Guidance (2018). The broad aim of prudent provision is to ensure that the outstanding debt liability is repaid over a period that is reasonably commensurate with that over which the capital expenditure provides benefits. The Guidance gives four ready-made options for calculating MRP but the Council can use any other reasonable basis that it can justify as prudent.

The MRP policy statement requires full Council approval in advance of each financial year.

It is recommended that Council approves the following MRP Policy Statement.

- Unsupported borrowing will be subject to MRP using the Asset Life Method, which will be charged over a period which is reasonably commensurate with the estimated useful life of the assets. An annuity method will be applied for the MRP calculation.
- MRP will commence in the financial year following the one in which the expenditure was incurred, or in the year after the asset becomes operational.

- The interest rate applied to the annuity calculations will reflect the market conditions at the time. For the current financial year the interest rate used will be the Authority's weighted average borrowing rate.
- MRP in respect of unsupported borrowing taken to meet expenditure, which is treated as capital expenditure by virtue of either a capitalisation direction or regulations, will be determined in accordance with the asset life method as recommended by the MRP guidance.
- MRP in respect of assets acquired under PFI or Finance Leases will be charged at a rate equal to the principal element of the annual lease rental for the year in question.
- MRP Overpayments - The MRP Guidance allows that any charges made in excess of the statutory MRP, i.e. voluntary revenue provision (VRP) or overpayments, can be reclaimed in later years if deemed necessary or prudent. In order for these sums to be reclaimed for use in the budget, this policy must disclose the cumulative overpayment made each year. The VRP overpayments up to 31st March 2023 are zero.
- On an annual basis the Section 151 officer shall review the level of MRP to be charged, to determine if this is at a level which is considered prudent based on the Council's circumstances at that time, taking into account medium / long term financial plans, current budgetary pressures, current and future capital expenditure plans. Dependant on this review the Section 151 officer will adjust the annual MRP charge by making VRP or reclaiming previous VRP. The amount of MRP charged shall not be less than zero in any financial year.

### **3. Borrowing**

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.

#### **3.1 Current Portfolio Position**

The overall treasury management portfolio as at 31.3.23 and for the position as at 30.11.2023 are shown below for both borrowing and investments.

## Treasury Investments:

Counterparty Classification	Actual £'000 at 31/03/2023	Actual % at 31/03/2023	Current £'000 at 30/11/2023	Current % at 30/11/2023
Banks	22,182	85%	27,818	69%
Local Authorities	0	0%	5,000	12%
Money Market Funds	4,000	15%	7,280	18%
<b>Total Treasury Investments</b>	<b>26,182</b>	<b>100%</b>	<b>40,098</b>	<b>100%</b>

## External Borrowing:

Counterparty Classification	Actual £'000 at 31/03/2023	Actual % at 31/03/2023	Current £'000 at 30/11/2023	Current % at 30/11/2023
Local Authorities	977	6%	977	6%
PWLB	14,792	94%	14,618	94%
<b>Total External Borrowing</b>	<b>15,769</b>	<b>100%</b>	<b>15,595</b>	<b>100%</b>

## Treasury investments less external borrowing:

Investments less borrowing	Actual £'000 at 31/03/2023	Actual % at 31/03/2023	Current £'000 at 30/11/2023	Current % at 30/11/2023
Total Treasury Investments	26,182	100%	40,098	100%
Total External Borrowing	15,769	100%	15,595	100%
<b>Total - Investments / (Borrowing)</b>	<b>10,413</b>	<b>0%</b>	<b>24,504</b>	<b>0%</b>

## Treasury investment portfolio at counterparty level:

Treasury Portfolio per Counterparty	Amount Invested £'000 31/03/2023	Amount Invested £'000 30/11/2023
Barclays Call Account	2,182	18
Barclays Green Account	5,000	5,000
<b>Barclays Total</b>	<b>7,182</b>	<b>5,018</b>
Standard Chartered Sustainable	5,000	0
National Bank of Canada	5,000	0
Lloyds Bank Corporate Markets (NRFB)	5,000	0
Goldman Sachs	0	7,000

National Bank of Kuwait	0	6,400
Qatar National Bank	0	1,900
Sumitomo Mitsui Banking Corp.	0	7,500
Derbyshire County Council	0	5,000
Aberdeen Liquidity - Standard Life	4,000	0
Bank of New York Mellon - Federated	0	7,280
<b>Total Investments</b>	<b>26,182</b>	<b>40,098</b>

The counterparty limit for Barclays is £10m. All other counterparties have a limit of £7.5m or 20% of the total portfolio (whichever is lower at the point of investment).

The council's forward projections for borrowing are summarised below. The table shows the actual external debt, against the underlying capital borrowing need, (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

Borrowing	2022/23	2023/24	2024/25	2025/26	2026/27
	Actual £'000	Estimate £'000	Estimate £'000	Estimate £'000	Estimate £'000
Borrowing	15,769	14,440	14,079	13,711	13,336
<b>Total debt at 31 March</b>	<b>15,769</b>	<b>14,440</b>	<b>14,079</b>	<b>13,711</b>	<b>13,336</b>
CFR	40,862	40,245	39,615	38,974	38,330
<b>Under / (over) borrowing</b>	<b>25,093</b>	<b>25,804</b>	<b>25,536</b>	<b>25,263</b>	<b>24,994</b>

Within the range of prudential indicators there are several key indicators to ensure that the council operates its activities within well-defined limits. One of these is that the council needs to ensure that its gross debt does not, except in the short-term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 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 or speculative purposes.

The Director of Finance reports that the council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes account of current commitments, existing plans and the proposals in this budget report.

### 3.2 Treasury Indicators: limits to borrowing activity

**The Operational Boundary.** This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt and the ability to fund under-borrowing by other cash resources.

Operational Boundary	2022/23 Actual £'000	2023/24 Estimate £'000	2024/25 Estimate £'000	2025/26 Estimate £'000	2026/27 Estimate £'000
Debt	25,000	25,000	46,000	46,000	46,000
<b>Total debt</b>	<b>25,000</b>	<b>25,000</b>	<b>46,000</b>	<b>46,000</b>	<b>46,000</b>

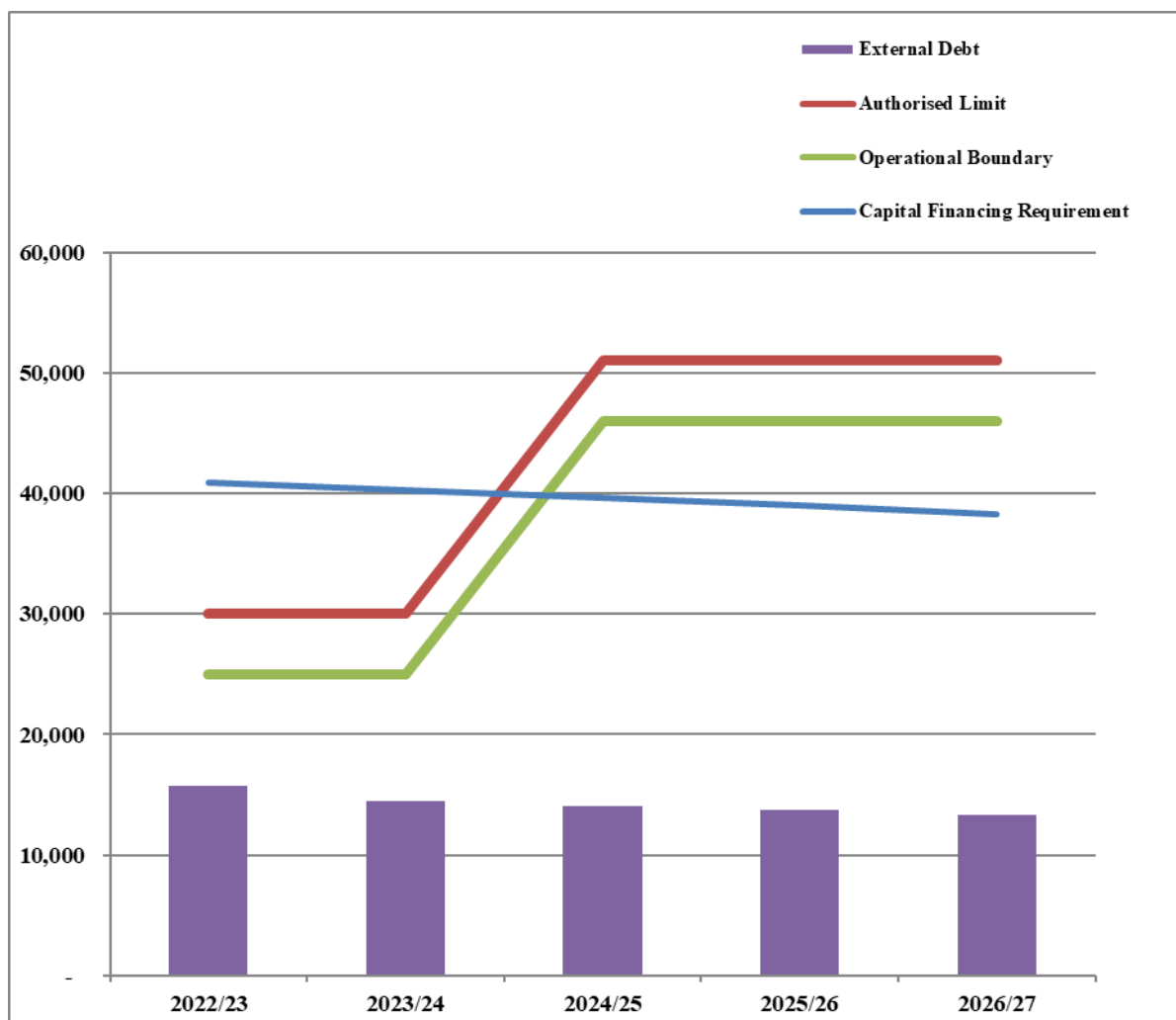
**The Authorised Limit for external debt.** This is a key prudential indicator and represents a control on the maximum level of borrowing. This represents a legal limit beyond which external debt is prohibited, and this limit needs to be set or revised by the Full Council. It reflects the level of external debt which, while not desired, could be afforded in the short-term, but is not sustainable in the longer-term.

- This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all local council plans, or those of a specific council, although this power has not yet been exercised.
- The Council is asked to approve the following Authorised Limit:

Authorised Limit	2022/23 Actual £'000	2023/24 Estimate £'000	2024/25 Estimate £'000	2025/26 Estimate £'000	2026/27 Estimate £'000
Debt	30,000	30,000	51,000	51,000	51,000
<b>Total</b>	<b>30,000</b>	<b>30,000</b>	<b>51,000</b>	<b>51,000</b>	<b>51,000</b>

Capital Financing Requirement	2022/23 Actual £'000	2023/24 Estimate £'000	2024/25 Estimate £'000	2025/26 Estimate £'000	2026/27 Estimate £'000
Authorised Limit	30,000	30,000	51,000	51,000	51,000
Operational Boundary	25,000	25,000	46,000	46,000	46,000
Capital Financing Requirement	40,862	40,245	39,615	38,974	38,330
External Debt Under / (over) borrowing	15,769	14,440	14,079	13,711	13,336
Change in External Debt	25,093	25,804	25,536	25,263	24,994
	4,235	(1,329)	(361)	(368)	(376)





### 3.3 Prospects for Interest Rates

The council has appointed Link Group as its treasury advisor and part of their service is to assist the council 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.

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

Additional notes by Link on this forecast table: -

- 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.

#### LINK GROUP FORECASTS

We now expect the MPC will keep Bank Rate at 5.25% for the remainder of 2023 and the first half of 2024 to combat on-going inflationary and wage pressures. We do not think that the MPC will increase Bank Rate above 5.25%, but it is possible.

#### Gilt yields and PWLB rates

The overall longer-run trend is for gilt yields and PWLB rates to fall back over the timeline of our forecasts, as inflation starts to fall through the remainder of 2023 and into 2024.

Our target borrowing rates are set **two years forward** (as we expect rates to fall back) and the current PWLB (certainty) borrowing rates are set out below: -

PWLB debt	Current borrowing rate as at 06.11.23 p.m.	Target borrowing rate now (end of Q3 2025)	Target borrowing rate previous (end of Q3 2025)
5 years	5.02%	3.80%	3.90%
10 years	5.15%	3.80%	3.80%
25 years	5.61%	4.20%	4.10%
50 years	5.38%	4.00%	3.90%

**Borrowing advice:** Our long-term (beyond 10 years) forecast for Bank Rate has increased from 2.75% to 3% and reflects Capital Economics' research that suggests

AI and general improvements in productivity will be supportive of a higher neutral interest rate. As all PWLB certainty rates are currently significantly above this level, borrowing strategies will need to be reviewed in that context. Overall, 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 will remain elevated for some time to come but may prove the best option whilst the market continues to wait for inflation, and therein gilt yields, to drop back later in 2024.

Our suggested budgeted earnings rates for investments up to about three months' duration in each financial year are rounded to the nearest 10bps and set out below. You will note that investment earnings have been revised somewhat higher for all years from 2025/26 as Bank Rate remains higher for longer.

Average earnings in each year	Now	Previously
2023/24 (residual)	5.30%	5.30%
2024/25	4.70%	4.70%
2025/26	3.20%	3.00%
2026/27	3.00%	2.80%
2027/28	3.25%	3.05%
Years 6 to 10	3.25%	3.05%
Years 10+	3.25%	3.05%

As there are so many variables at this time, caution must be exercised in respect of all interest rate forecasts.

Our interest rate forecast for Bank Rate is in steps of 25 bps, whereas PWLB forecasts have been rounded to the nearest 10 bps and are central forecasts within bands of + / - 25 bps. Naturally, we continue to monitor events and will update our forecasts as and when appropriate.

### **3.4 Borrowing Strategy**

The council is currently maintaining an under-borrowed position. This means that the capital borrowing need, (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the council'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 by tighter near-term monetary policy. That is, Bank Rate remains elevated through to the second half of 2024.

Against this background and the risks within the economic forecast, caution will be adopted with the 2024/25 treasury operations. The Director of Finance will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- *if it was felt that there was a significant risk of a sharp FALL in borrowing rates, then borrowing will be postponed.*
- *if it was felt that there was a significant risk of a much sharper RISE in borrowing rates than that currently forecast, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.*

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

### **3.5 Policy on borrowing in advance of need**

The council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. 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 council can ensure the security of such funds.

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.

### **3.6 Debt rescheduling**

Rescheduling of current borrowing in our debt portfolio may be considered whilst premature redemption rates remain elevated but only if there is surplus cash available to facilitate any repayment, or rebalancing of the portfolio to provide more certainty is considered appropriate.

If rescheduling is to be undertaken, it will be reported to the Council, at the earliest meeting following its action.

### **3.7 New financial institutions as a source of borrowing and / or types of borrowing**

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:

- Local authorities (primarily shorter dated maturities out to 3 years or so – generally still cheaper than the Certainty Rate).
- 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).
- Municipal Bonds Agency

Our advisors will keep us informed as to the relative merits of each of these alternative funding sources.

### 3.8 Approved Sources of Long and Short term Borrowing

On Balance Sheet	Fixed	Variable
PWLB	●	●
UK Municipal Bond Agency	●	●
Local Authorities	●	●
Banks	●	●
Pension Funds	●	●
Insurance Companies	●	●
UK Infrastructure Bank	●	●
Market (long-term)	●	●
Market (temporary)	●	●
Market (LOBOs)	●	●
Stock Issues	●	●
Local Temporary	●	●
Local Bonds	●	
Local Council Bills	●	●
Overdraft		●
Negotiable Bonds	●	●
Internal (capital receipts & revenue balances)	●	●
Commercial Paper	●	
Medium Term Notes	●	
Finance Leases	●	●

## 4 Annual Investment Strategy

### 4.1 Investment policy – management of risk

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).

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

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 and the Environmental, Social and Governance (ESG) credentials.

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.

The above guidance from the DLUHC and CIPFA places a high priority on the management of risk. This Council has adopted a prudent approach to managing risk and defines its risk appetite by the following means:

1. Minimum acceptable **credit criteria** are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short-term and long-term ratings.
2. **Other information:** ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration the council will engage with its advisors to maintain a monitor on market pricing such as “**credit default swaps**” and overlay that information on top of the credit ratings.

3. **Other information sources** used will include the financial press, share price and other such information pertaining to the financial sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.
4. This council has defined the list of **types of investment instruments** that the treasury management team are authorised to use. There are two lists in Appendix 5.4 under the categories of 'specified' and 'non-specified' investments.

**Specified investments** are those with a high level of credit quality and subject to a maturity limit of one year or have less than a year left to run to maturity, if originally they were classified as being non-specified investments solely due to the maturity period exceeding one year.

**Non-specified investments** are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use.

5. **Non-specified and loan investment limits.** The council has determined that it will set a limit to the maximum exposure of the total treasury management investment portfolio to non-specified treasury management investments of 50%.
6. **Lending limits**, (amounts and maturity), for each counterparty will be set through applying the matrix table in paragraph 4.2.
7. **Transaction limits** are set for each type of investment in 4.2.
8. This Council will set a limit for its investments which are invested for **longer than 365 days**, (see paragraph 4.4).
9. Investments will only be placed with counterparties from countries with a specified minimum **sovereign rating**, (see paragraph 4.3).
10. This Council has engaged **external consultants**, (see paragraph 1.5), to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of this Council in the context of the expected level of cash balances and need for liquidity throughout the year.
11. All investments will be denominated in **sterling**.

As a result of the change in accounting standards for 2023/24 under IFRS 9, this Council will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. (In November 2018, the MHCLG, concluded a consultation for a temporary override to allow English local authorities time to adjust their portfolio of all pooled investments by announcing a statutory override to delay implementation of IFRS 9 for five



years ending 31.3.23. More recently, a further extension to the over-ride to 31.3.25 has been agreed by Government.

However, this council will also pursue **value for money** in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance, (see paragraph 4.5). Regular monitoring of investment performance will be carried out during the year.

### Changes in risk management policy from last year

The above criteria are unchanged from last year.

### 4.2 Creditworthiness policy

This council applies the creditworthiness service provided by the Link Group. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard & Poor's. The credit ratings of counterparties are supplemented with the following overlays: -

1. "watches" and "outlooks" from credit rating agencies;
2. CDS spreads that may give early warning of changes in credit ratings;
3. sovereign ratings to select counterparties from only the most creditworthy countries.

This modelling approach combines credit ratings, and any assigned Watches and Outlooks, in a weighted scoring system which is then combined with an overlay of CDS spreads. The end-product of this is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the council to determine the suggested duration for investments. The council will, therefore, use counterparties within the following durational bands.

- 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 or semi nationalised UK Banks)
- Orange 1 year
- Red 6 months
- Green 100 days
- No colour not to be used

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

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

All credit ratings will be monitored << *state how frequently* >>. The Council is alerted to changes to ratings of all three agencies through its use of the Link creditworthiness service.

- if a downgrade results in the counterparty / investment scheme no longer meeting the council's minimum criteria, its further use as a new investment will be withdrawn immediately.
- in addition to the use of credit ratings the council will be advised of information in movements in Credit Default Swap spreads against the iTraxx European Senior Financials benchmark and other market data on a daily basis via its Passport website, provided exclusively to it by Link. Extreme market movements may result in downgrade of an institution or removal from the council's lending list.

Sole reliance will not be placed on the use of this external service. In addition, this council will also use market data and market information, as well as information on any external support for banks to help support its decision-making process.

Y	Pi1	Pi2	P	B	O	R	G	N/C
1	1.25	1.5	2	3	4	5	6	7
Up to 5yrs	Up to 5yrs	Up to 5yrs	Up to 2yrs	Up to 1yr	Up to 1yr	Up to 6mths	Up to 100days	No Colour

Investment Institution	Colour (and long-term rating where applicable)	Money Limit*	Time limit
Banks	Yellow	£7.5m	5 yrs
Banks	Purple	£7.5m	2 yrs
Banks	Orange	£7.5m	1 yr
Banks – part nationalised	Blue	£7.5m	1 yr
Banks	Red	£7.5m	6 mths
Banks	Green	£7.5m	100 days

## Appendix I

Limit 3 category – Authority’s banker (where “No Colour”)	XXX		1 day
Other institutions limit	-	£7.5m	1yr
DMADF	UK sovereign rating	unlimited	6 months
Local authorities	n/a	£7.5m	1yr
Housing associations	Colour bands	£7.5m	As per colour band

Investment Institution	Fund rating	Money Limit*	Time Limit
Money Market Funds CNAV	AAA	£7.5m	liquid
Money Market Funds LVNAV	AAA	£7.5m	liquid
Money Market Funds VNAV	AAA	£7.5m	liquid
Ultra-Short Dated Bond Funds with a credit score of 1.25	Dark Pink / AAA	£7.5m	liquid
Ultra-Short Dated Bond Funds with a credit score of 1.50	Light Pink / AAA	£7.5m	liquid

This Money Limit relates to principal amounts invested and could be exceeded with interest received but consideration will be given to keep this to a minimum and allowable under this Strategy.

The current money limits are £7.5m or 20% of the total portfolio (whichever is the lower) at the point of investment.

### Creditworthiness.

Significant levels of downgrades to Short and Long-Term credit ratings have not materialised since the crisis in March 2020. In the main, where they did change, any alterations were limited to Outlooks. Nonetheless, when setting minimum sovereign debt ratings, this council will not set a minimum rating for the UK.

### CDS prices

Although bank CDS prices, (these are market indicators of credit risk), spiked upwards during the days of the Truss/Kwarteng government in the autumn of 2022, they have returned to more average levels since then. However, sentiment can easily shift, so it will remain important to undertake continual monitoring of all aspects of risk and return in the current circumstances. Link monitor CDS prices as part of their creditworthiness service to local authorities and the council has access to this information via its Link-provided Passport portal.

### 4.3 Other limits

Due care will be taken to consider the exposure of the Council's total investment portfolio to non-specified investments, countries, groups and sectors.

- **Non-specified treasury management investment limit.**
- a. **Country limit.** The council has determined that it will only use approved counterparties from the UK and from countries with a **minimum sovereign credit rating of AA-** from Fitch. The list of countries that qualify using this credit criteria as at the date of this report are shown in Appendix 5.6. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

**Other limits.** In addition:

- limits in place above will apply to a group of companies/institutions;
- sector limits will be monitored regularly for appropriateness.
- Barclays Bank (Hart's own bank) currently have a counterparty limit of £10m due to the working capital that is held within Barclays for events such as payment runs while still providing the council with an investment return.

The security and liquidity will be assessed at the time of the transaction, as described within this Annual Investment Strategy. The Environmental, Social and Governance (ESG) assessment needs to be reliable, relevant and practical to administer when making investment decisions. Whilst it is a relatively new area, there are resources available that will help inform officers and enable them to apply the council's ESG criteria. It is proposed, wherever possible, to use this information and include within the investment transaction record. Officers have trialled the use of an online ESG info hub which gives an ESG score for potential counterparties. It is proposed that this becomes a formal stage in the investment procedure. The ESG assessment produces a score on a scale of 1-100 based on four areas; Environment, Employees, Governance, Community. It is proposed that the minimum ESG score threshold is set at 60, below which we wouldn't place an investment. Range 60-79 we would only proceed if the other criteria were met strongly. Range 80-100 would be given equal weight to yield in the overall evaluation.

#### 4.4 Investment Strategy

**In-house funds.** 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. The current shape of the yield curve suggests that is the case at present, but there is the prospect of Bank Rate having peaked in the second half of 2023 and possibly reducing as early as the second half of 2024 so an agile investment strategy would be appropriate to optimise returns.

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.

#### **Investment returns expectations.**

The current forecast shown in paragraph 3.3, includes a forecast for Bank Rate to have peaked at 5.25% in Q4 2023.

The suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year are as follows: -

Average earnings in each year	
2023/24 (residual)	5.30%
2024/25	4.70%
2025/26	3.20%
2026/27	3.00%
2027/28	3.25%
Years 6 to 10	3.25%
Years 10+	3.25%

As there are so many variables at this time, caution must be exercised in respect of all interest rate forecasts.

For its cash flow generated balances, the council will seek to utilise its business reserve instant access and notice accounts, Money Market Funds and short-dated deposits, (overnight to 100 days), in order to benefit from the compounding of interest.

**Investment treasury indicator and limit** - total principal funds invested for greater than 365 days. These limits are set with regard to the council's liquidity requirements

and to reduce the need for early sale of an investment and are based on the availability of funds after each year-end.

The Council is asked to approve the following treasury indicator and limit:

<b>Upper limit for principal sums invested for longer than 365 days £m</b>	<b>2024/25</b>	<b>2025/26</b>	<b>2026/27</b>
Principal sums invested for longer than 365 days	£10m	£10m	£10m
Current investments as at 30/11/2023 in excess of 1 year maturing in each year	£0m	£0m	£0m

For its cash flow generated balances, the council will seek to utilise its business reserve instant access, money market funds and short-dated deposits (overnight to 100 days), in order to benefit from the compounding of interest. The current limit is £7.5m or 20% of the total portfolio (whichever is the lower) at the point of investment and for a period of up to 2 years. This level reflects much higher investment cash balances, a more limited number of counterparties meeting the Council's high assessment levels including ESG criteria, and the need to generate yield to support the budget. These levels enable officers to secure high rated investment opportunities and achieve a higher interest rate fixed over a longer period.

#### **4.5 End of year investment report**

At the end of the financial year, the council will report on its investment activity as part of its Annual Treasury Report.

### **5.1 THE CAPITAL PRUDENTIAL AND TREASURY INDICATORS 2024/25 – 2026/27**

The council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

#### **5.1.1 Capital Expenditure**

Please see table in Section 2.1

### 5.1.2 Affordability prudential indicators

The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the council’s overall finances. The Council is asked to approve the following indicators:

#### Ratio of Financing Costs to Net Revenue Stream

This indicator identifies the trend in the cost of capital, (borrowing and other long-term obligation costs net of investment income), against the net revenue stream.

Ratio of financing costs to revenue stream	2022/23 Actual	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
Ratio of financing costs to revenue stream (%)	(0.51)	1.03	3.25	3.77	3.60

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

### 5.1.3 Maturity structure of borrowing

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.

The Council is asked to approve the following treasury indicators and limits:

Maturity structure of fixed interest rate borrowing 2024/25	Lower	Upper
Under 12 months	0%	100%
12 months to 2 years	0%	100%
2 years to 5 years	0%	100%
5 years to 10 years	0%	100%
10 years to 20 years	0%	100%
20 years to 30 years	0%	100%
30 years to 40 years	0%	100%
40 years to 50 years	0%	100%

Maturity structure of variable interest rate borrowing 2024/25	Lower	Upper
--	-------	-------

Under 12 months	0%	100%
12 months to 2 years	0%	100%
2 years to 5 years	0%	100%
5 years to 10 years	0%	100%
10 years to 20 years	0%	100%
20 years to 30 years	0%	100%
30 years to 40 years	0%	100%
40 years to 50 years	0%	100%

#### 5.1.4. Control of interest rate exposure

Please see paragraphs 3.3, 3.4 and 4.4.

## 5.2 TREASURY MANAGEMENT PRACTICE (TMP) – CREDIT AND COUNTERPARTY RISK MANAGEMENT

**SPECIFIED INVESTMENTS:** All such investments will be sterling denominated, with **maturities up to a maximum of 1 year**, meeting the minimum ‘high’ quality criteria where applicable. (Non-specified investments which would be specified investments apart from originally being for a period longer than 12 months, will be classified as being specified once the remaining period to maturity falls to under twelve months.)

**NON-SPECIFIED INVESTMENTS:** These are any investments which do not meet the specified investment criteria. If they do not meet the criteria solely because they have an initial period of more than one year, the Council will consider them.

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

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

Investment Type	Minimum credit criteria / colour band	Max % of total investments / £ limit per institution	Max. maturity period
DMADF – UK Government	Yellow	100%	6 months (max. is set by the DMO*)
UK Gilts	Yellow	100%	5 years
UK Treasury Bills	Yellow	100%	364 days (max. is set by the DMO*)



Bonds issued by multilateral development banks	Yellow	£5m	5 years
Money Market Funds CNAV	AAA	100%	Liquid
Money Market Funds LNAV	AAA	£5m	Liquid
Money Market Funds VNAV	AAA	£5m	Liquid
Ultra-Short Dated Bond Funds with a credit score of 1.25	AAA	100%	Liquid
Ultra-Short Dated Bond Funds with a credit score of 1.5	AAA	100%	Liquid
Local Authorities	Yellow	100%	5 years
Term Deposits with Housing Associations	Blue Orange Red Green No Colour	£7.5m**	12 months 12 months 6 months 100 days Not for use
Term Deposits with Banks and Building Societies	Blue Orange Red Green No Colour	£7.5m**	24 months 12 months 6 months 100 days Not for use
CDs or Corporate Bonds with Banks and Building Societies	Blue Orange Red Green No Colour	£7.5m**	12 months 12 months 6 months 100 days Not for use
Gilt Funds	UK sovereign rating	£5m	

\* DMO – is the Debt Management Office of HM Treasury

\*\*Or 20% of total investment balance at the time of the transaction, whichever is the lower

### 5.3 Accounting treatment of investments

The accounting treatment may differ from the underlying cash transactions arising from investment decisions made by this Council. To ensure that the council is protected from any adverse revenue impact, which may arise from these differences, we will review the accounting implications of new transactions before they are undertaken.

#### 5.4 Link list of approved countries for investments (as at 30.11.2023)

This list is based on those countries which have sovereign ratings of AA- or higher, (we show the lowest rating from Fitch, Moody's and S&P) and also, (except - at the time of writing - for Hong Kong and Luxembourg), have banks operating in sterling markets which have credit ratings of green or above in the Link creditworthiness service.

##### *Based on lowest available rating*

###### **AAA**

- Australia
- Denmark
- Germany
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland

###### **AA+**

- Canada
- Finland
- U.S.A.

###### **AA**

- Abu Dhabi (UAE)

###### **AA-**

- Belgium
- France
- Qatar
- U.K.

#### 5.3 Treasury Management Scheme of Delegation

The bodies responsible for various functions are as follows:

##### **Council**

- receiving and reviewing reports on treasury management policies, practices, and activities.
- approval of annual strategy.

### Cabinet

- approval of/amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices.
- budget consideration and approval.
- approval of the division of responsibilities.
- receiving and reviewing regular monitoring reports and acting on recommendations.
- approving the selection of external service providers and agreeing terms of appointment.

### Overview & Scrutiny Committee

- reviewing the treasury management policy and procedures and making recommendations to the responsible body.

## 5.4 The Treasury Management Role of the section 151 officer

### The S151 (responsible) officer

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance.
- submitting regular treasury management policy reports.
- submitting budgets and budget variations.
- receiving and reviewing management information reports.
- reviewing the performance of the treasury management function.
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function.
- ensuring the adequacy of internal audit, and liaising with external audit.
- recommending the appointment of external service providers.
- preparation of a Capital Strategy to include capital expenditure, capital financing, non-financial investments and treasury management, with a long-term timeframe (*say 20+ years – to be determined in accordance with local priorities.*)
- 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 council.
- ensure that the council has appropriate legal powers to undertake expenditure on non-financial assets and their financing.
- ensuring the proportionality of all investments so that the council does not undertake a level of investing which exposes the council 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 the council.
- ensuring that the council has adequate expertise, either in house or externally provided, to carry out the above
- creation of Treasury Management Practices 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;*
  - *Training and qualifications (TMP10 and schedules), including how the relevant knowledge and skills in relation to non-treasury investments will be arranged.*

### **5.5. Minimum Revenue Provision (MRP) for Debt Repayment**

In accordance with the Local Authorities (Capital Finance and Accounting) (England) regulations 2003, the council is required to pay off an element of accumulated General Fund capital expenditure financed from borrowing through an annual revenue charge known as the Minimum Revenue Provision (MRP).

The Local Authorities (Capital Finance and Accounting) (England) (Amendment) regulations 2008 require the council to determine a level of MRP it considers to be prudent, whilst having regard to the current MRP Guidance issued by MHCLG (now renamed DLUHC) in 2018. The Guidance gives four ready-made options for

determining MRP which it considers to be prudent but does not rule out alternative approaches.

The overriding requirement of the Guidance is to set a prudent provision which ensures that debt is repaid over a period that is reasonably commensurate with that over which the capital expenditure provides benefits.

The Guidance requires that before the start of each financial year the council prepares a statement of its policy on making MRP in respect of the forthcoming financial year and submits it to full Council for approval.

The Guidance allows the council to change the MRP policy at any time during the year.

The Government has recently consulted on changes to the MRP regulations with an intention to make explicit that (i) capital receipts may not be used in place of the revenue charge, and (ii) there should be no intentional exclusion of debt from the MRP determination because it relates to an investment asset or capital loan. Following the consultation, the government issued a further survey seeking views on further proposed amendments to the MRP regulations that would provide additional flexibilities with respect to capital loans.

### **5.5.1 Method for calculating MRP.**

The Council recently changed to an annuity method over the asset life, having the benefit of a reduction in MRP charges in the near term in line with the MRP guidance.

An annuity method is as prudent as the straight-line method since the asset lives used have not changed. It can be argued that the annuity method provides a fairer charge than the straight-line method since it results in a consistent charge over the asset's life, considering the time value of money.

Link have carried out extensive research on current MRP policies in England and have observed that the annuity method of calculating MRP on unsupported borrowing is used by over 50% of Authorities throughout the country.

Main advantages of the annuity in method:

- The annuity method of charging MRP can be seen as a more prudent basis for providing for capital expenditure which provides a steady flow of benefits over their useful life.
- It can provide a fairer charge than a straight-line methodology as it provides a consistent charge over an asset's life when considering the time value of money.
- It provides a charge that is better matched to how the benefits of the asset financed by borrowing are consumed over its useful life. That is, a method that reflects the fact that asset deterioration is slower in the early years of an asset and accelerates towards the latter years.

- A weighted average method of calculation is a much simpler calculation than the current method, providing for more concise and user-friendly working papers.

Main disadvantages of the annuity in method:

- The Capital Financing Requirement in the short-term reduces more slowly than under the straight-line MRP policy. The potential associated cost will depend on the council's Balance Sheet position.

The MRP guidance allows the council to review its MRP policy every year and set a policy that it considers prudent at that time. The impact of the MRP calculation methodology will be kept under regular review to ensure that the annual provision is prudent.