Oldham Council

Report to Cabinet

Treasury Management Strategy Statement 2022/23

Including the Minimum Revenue Provision Policy Statement, Annual Investment Strategy and Prudential Indicators

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Reason for Decision

To present to Cabinet, the strategy for 2022/23 Treasury Management activities including the Minimum Revenue Provision Policy Statement, the Annual Investment Strategy and Prudential Indicators together with linkages to the Capital Strategy.

Executive Summary

The report outlines the Treasury Management Strategy for 2022/23 including the Minimum Revenue Provision Policy Statement, Annual Investment Strategy and Prudential Indicators together with linkages to the Capital Strategy.

The Council is required through regulations supporting the Local Government Act 2003 to ‘have regard to’ the Prudential Code and to set Prudential Indicators for the next three years to ensure that the Council’s capital investment plans are affordable, prudent and sustainable. It is also required to produce an annual Treasury Strategy for borrowing and to prepare an Annual Investment Strategy setting out the Council’s policies for managing its investments and for giving priority to security and liquidity of those investments.

The Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management 2021 (the Code) also requires the receipt by full Council of a Treasury Management Strategy Statement.

The Strategy for 2022/23 covers two main areas.

Capital Issues:

- The Capital expenditure plans and the associated Prudential Indicators
- The Minimum Revenue Provision (MRP) Policy Statement

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
- The Policy on Borrowing in Advance of Need
- Debt Rescheduling
- The Investment Strategy
- The Creditworthiness Policy
- The Policy regarding the use of external service providers.

The report therefore outlines the implications and key factors in relation to each of the above Capital and Treasury Management issues and makes recommendations with regard to the Treasury Management Strategy for 2022/23.

The report includes an economic background commentary which reflects the position at 31 January 2021.

During 2021, there were two consultation exercises on the Prudential Code and Code of Practice on Treasury Management with a range of proposed changes being considered. These mainly related to commercial investments and the requirement for Authorities to adopt a more prudent approach. The second consultation ended on 16 November 2021 and the changes to the Codes were issued on 20 December 2021. The Council's strategy for 2022/23 has incorporated these recent changes in the Codes where information is readily available.

The Audit Committee, the body charged with the detailed scrutiny of Treasury Management activities considered the proposed 2022/23 Treasury Management Strategy report at its meeting on 17 January 2022. It was also presented to the Policy Overview and Scrutiny Committee on 27 January 2022. Both the Audit Committee and the Policy Overview and Scrutiny Committee were content to commend the report to Cabinet.

Recommendation

That Cabinet approves and commends to Council the:

1. Capital Expenditure Estimates as per paragraph 2.1.2;
2. MRP policy and method of calculation as per Appendix 1;
3. Capital Financing Requirement (CFR) Projections as per paragraph 2.2.4;
4. Projected treasury position as at 31 March 2022 as per paragraph 2.3.3;
5. Treasury Limit's as per section 2.4;
6. Borrowing Strategy for 2022/23 as per section 2.6;
7. Annual Investment Strategy as per section 2.10 including risk management and the creditworthiness policy at section 2.11; and
8. Level of investment in specified and non-specified investments detailed at Appendix 4.

Treasury Management Strategy Statement 2022/23 Including the Minimum Revenue Provision Policy Statement, Annual Investment Strategy and Prudential Indicators

1 Background

1.1 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 investment risk appetite, providing adequate liquidity initially before considering investment return.

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

1.3 The contribution that the Treasury Management function makes to the Authority is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either for 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 the Council's reserves and balances, it is essential that there is adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.

1.4 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 day-to-day treasury management activities.

1.5 Treasury management is defined as:

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

Source: The Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management in the Public Service's Code of Practice.

1.6 Reporting Requirements – Capital Strategy

1.6.1 The CIPFA Prudential and Treasury Management Codes (2021) 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; and
- the implications for future financial sustainability.

1.6.2 The Council's capital strategy (which is elsewhere on the agenda) is therefore prepared following the required Codes of Practice to ensure that all Council Members are presented

with the overall long-term capital investment policy objectives and resulting capital strategy requirements, governance procedures and risk appetite.

1.6.3 The Council's capital strategy is reported separately from the Treasury Management Strategy Statement; non-treasury investments will be reported through the former. This ensures the separation of the core treasury function under security of capital, liquidity and yield principles, and the policy around commercial investments, usually driven by expenditure on an asset. Specifically, in relation to non-treasury investments, the capital strategy includes, where appropriate:

- The corporate governance arrangements for these types of activities;
- Any service objectives relating to the investments;
- The expected income, costs and resulting contribution to support the Councils budget;
- The debt related to the activity and the associated interest costs;
- The payback period (Minimum Revenue Provision (MRP) policy);
- For non-loan type investments, the cost against the current market value;
- The risks associated with each activity.

1.6.4 Where a physical asset is being bought, details of market research, advisers used, (and their monitoring), on-going costs and investment requirements and any credit information will be disclosed, including the ability to sell the asset and realise the investment cash.

1.6.5 The Council will also follow the most recent guidance by CIPFA, the revisions to the Prudential Code and Treasury Management Code. Having regard to all relevant guidance, the Council's Capital Strategy includes the changes to the Public Works Loan Board (PWLB) lending criteria introduced in March 2021.

1.6.6 If any non-treasury investment sustains a loss during the final accounts and audit process, the strategy and revenue implications will be reported through the same procedure as the capital strategy (to date there have been no such losses).

1.6.7 To demonstrate the proportionality between the treasury and the non-treasury operations, high-level comparators are shown throughout this report.

1.7 Treasury Management Reporting

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

a. Prudential and treasury indicators and treasury strategy (this report), the first and most important report which is a forward look to the year ahead 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 investments and borrowings are to be organised), including treasury indicators; and
   - An 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.

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.

1.7.2 The above reports are required to be adequately scrutinised before being commended to Cabinet and Council. The scrutiny of Treasury Management reports is undertaken by the Audit Committee. However, the scrutiny of the Treasury Management Strategy Statement by the Policy Overview and Scrutiny Committee alongside all the other reports which are presented to the annual Budget Council meeting, is a key part of the Committee's role. The Audit Committee scrutinised the Treasury Management Strategy Statement for 2022/23 at its meeting on 17 January 2022. The Policy Overview and Scrutiny Committee considered the Strategy at its meeting on 27 January 2022. Both Committees were content to recommend the Treasury Management Strategy to Cabinet and Council.

1.8 <u>Treasury Management Strategy for 2022/23</u>

1.8.1 The strategy for 2022/23 covers two main areas:

1.8.2 Capital issues:

- The capital expenditure plans and the associated prudential indicators;
- The minimum revenue provision (MRP) policy.

1.8.3 Treasury management issues:

- The current treasury position;
- Treasury indicators which limit the treasury risk and activities of the Council;
- Prospects for interest rates;
- The borrowing strategy;
- Policy on borrowing in advance of need;
- Debt rescheduling;
- The investment strategy;
- Creditworthiness policy; and
- The policy on use of external service providers.

1.8.4 These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, Department of Levelling Up, Housing and Communities (formerly the Ministry of Housing, Communities and Local Government (MHCLG)) Minimum Revenue Provision (MRP) Guidance, the CIPFA Treasury Management Code and MHCLG/DLUHC Investment Guidance.

1.9 <u>Training</u>

1.9.1 The CIPFA Code requires the responsible officer (in Oldham the Director of Finance) to ensure that Members with responsibility for treasury management receive adequate training to enable them to discharge their duties. This especially applies to Members responsible for scrutiny. Training was provided to Audit Committee Members and Council Officers on 5 October 2021.

1.9.2 The training needs of treasury management officers are periodically reviewed. The team is staffed by professionally qualified accountants with extensive Local Government finance experience. Team members attend all relevant training courses, workshops and events to ensure that their knowledge and skills are up to date and the Council is in a position to address all new technical developments. During 2021/22 these have all been held remotely via zoom or another online platform. All staff follow a Continuous Professional Development (CPD) Plan as part of their individual accountancy body accreditation. The overall responsibility for capital and treasury activities lies with the Council's Section 151 Officer (Director of Finance) who, in accordance with statute, is professionally qualified and is suitably experienced to hold the post.

1.10 Treasury Management Consultants

1.10.1 The Council uses Link Group, Treasury Solutions as its external treasury management advisors.

1.10.2 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 external service providers. All decisions will be undertaken with regard to all available information, including, but not solely, our treasury advisers.

1.10.3 It is also recognised 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.

1.10.4 When looking at a commercial element within a particular capital scheme that has a main focus on public services, housing, regeneration, preventative objectives or treasury management investments, the Council will require specialist advice that Link Group may not provide. As part of the evaluation process and if required, appropriate external advice will be sought, and an extensive due diligence exercise will be undertaken.

2 Capital Plans & Prudential Indicators 2022/23 – 2024/25

2.1 Capital Plans

2.1.1 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 Members' overview and confirm capital expenditure plans. These indicators as per the Capital Programme include previous years' actual expenditure, forecast expenditure for this current year 2021/22 and estimates for the next three-year period, the timeframe required by CIPFA's guidance.

Capital Expenditure Estimates

2.1.2 This first 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 consider the capital expenditure forecasts included the table below presented to reflect the current Portfolio management arrangements, although this will change in 2022/23. The capital spending plans included in the Capital Strategy and Programme translate the ambition and vision for Oldham that were set out in Cabinet reports.

Table 1 - Capital Expenditure Estimates

Capital Expenditure / Portfolio	2020/21 Actual £'000	2021/22 Estimate £'000	2022/23 Estimate £'000	2023/24 Estimate £'000	2024/25 Estimate £'000
Corporate Services *	13,066	2,265	4,000	69	138
Children's Services	11,176	15,403	5,425	8,816	3,000
Communities & Reform	57	36	908	250	0
Community Health & Adult Social Care	2,433	2,017	2,547	2,543	2,543
People & Place	38,358	29,437	81,465	65,038	49,722
Funds for Emerging Priorities		1,115	2,520	2,050	836
General Fund Services	**65,090**	**50,273**	**96,865**	**78,766**	**56,239**
Housing Revenue Account (HRA)	4,397	785	3,383	8,227	8,014
HRA	**4,397**	**785**	**3,383**	**8,227**	**8,014**
Commercial Activities / Non-Financial Investments **	3,740	1,500	0	0	0
Commercial Activities / Non-Financial Investments	**3,740**	**1,500**	**0**	**0**	**0**
Total	**73,227**	**52,558**	**100,248**	**86,993**	**64,253**

* Excludes any commercial activities which were included in the Corporate Services capital programme.
** Relates to areas such as capital expenditure on investment properties, loans to third parties, purchase of equity shares etc.

2.1.3 The capital expenditure shown above excludes other long-term liabilities, such as Private Finance Initiative (PFI) and leasing arrangements which already include borrowing instruments. It should be noted that any new expenditure commitments are likely to increase the borrowing requirement.

2.1.4 Table 2 below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding need (borrowing).

2.1.5 The borrowing need for capital expenditure in 2022/23 is currently expected to be £46.990m. This will however change if there is a revision to the spending profile of the capital programme.

Table 2 - Funding of the Capital Programme

Capital Expenditure	2020/21 Actual £'000	2021/22 Estimate £'000	2022/23 Estimate £'000	2023/24 Estimate £'000	2024/25 Estimate £'000
General Fund Services	68,830	51,773	96,865	78,766	56,239
HRA	4,397	785	3,383	8,227	8,014
Commercial Activities		0	0	0	0
Total	**73,227**	**52,558**	**100,248**	**86,993**	**64,253**
Financed by:					
Capital receipts	(3,184)	(5,535)	(4,472)	(2,325)	(1,835)
Capital grants - Ringfenced	(20,820)	(8,208)	(33,787)	(15,999)	(2,100)
Capital grants – Un-ringfenced		(11,642)	(11,714)	(9,839)	(8,281)
Revenue	(147)	(93)	(2)		
HRA Resources	(2,532)	(785)	(3,283)	(8,127)	(7,914)
Net financing need for the year	**46,544**	**26,294**	**46,990**	**50,703**	**44,123**

2.1.6 All other prudential indicators included within this report are based on the above capital estimates.

2.2 The Council's Borrowing Need - the Capital Financing Requirement (CFR)

2.2.1 The second Prudential Indicator is the Council's CFR. The CFR is simply the total historic outstanding capital expenditure which has not yet been financed from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. Any capital expenditure above, which has not immediately been financed from cash backed resources, will increase the CFR.

2.2.2 The CFR does not increase indefinitely, as the Council makes 'prudent' provision for debt repayment which broadly reduces indebtedness in line with each asset's life and so charges the economic consumption of capital assets as they are used. The approach to making prudent provision is set out in the MRP Policy Statement at Appendix 1.

2.2.3 The MRP policy for 2022/23 has been amended to reflect the potential changes to the MRP Guidance which was consulted upon by the Department of Levelling Up, Housing and Communities (DLUHC). The consultation ended on 8 February 2022 and the Council provided a response to the proposed changes to the guidance. One of the proposed changes relate to Borrowing in Lieu of Capital Receipts and the Council has removed this section from its MRP policy.

2.2.4 The CFR includes other long-term liabilities (e.g., Private Finance Initiative (PFI) schemes, finance leases etc.). Whilst these arrangements increase the CFR, and therefore the Council's borrowing requirement, such schemes also include a 'loan' facility meaning the Council is not required to make separate borrowing arrangements. The Council currently estimates a net figure of £204.736m of such schemes within the CFR for 2022/23, decreasing to £182.700m by 2024/25. From 2022/23 and future years an estimated of £0.644m has been included in the CFR to reflect anticipated costs associated with the implementation of IFRS 16 (see paragraph 2.15.2).

Table 3 - Capital Financing Requirement (CFR)

	2020/21 Actual £'000	2021/22 Estimate £'000	2022/23 Estimate £'000	2023/24 Estimate £'000	2024/25 Estimate £'000
Capital Financing Requirement (CFR)					
CFR - Services	491,713	494,877	520,247	545,998	561,922
CFR - Commercial Activities	0	0	0	0	0
Total CFR	**491,713**	**494,877**	**520,247**	**545,998**	**561,922**
Movement in CFR	**19,336**	**3,164**	**25,370**	**25,751**	**15,924**
Movement in CFR represented by					
Net financing need for the year	**46,544**	**26,294**	**46,990**	**50,703**	**44,123**
PFI Repayments	(11,282)	(9,691)	(8,913)	(10,671)	(11,365)
Less MRP/VRP and other financing movements	(15,926)	(13,439)	(12,707)	(14,281)	(16,834)
Movement in CFR	**19,336**	**3,164**	**25,370**	**25,751**	**15,924**

2.2.5 A key aspect of the regulatory and professional guidance is that elected Members are aware of the size and scope of any commercial activity in relation to the Authority's overall financial position. The capital expenditure figures shown in Table 1 at paragraph 2.1.2 and the details above demonstrate the scope of this activity i.e. that there has not been any commercial activity and none is planned. Therefore, by approving these figures, the scale is considered proportionate to the Council's remaining activity.

Planned External Borrowing

2.2.6 The table below is a new for 2022/23 and conforms to the new requirements of the Department of Levelling Up, Housing and Communities (DLUHC) regarding the categorisation of planned external borrowing, given that the Government's aim has been to limit the level of commercial activity (projects for yield) in which some (a limited number) of Local Authorities have been engaged. The information in Table 4 will be submitted to accompany the Council's application for the PWLB Certainty Rate for borrowing during 2022/23.

Table 4 –Planned External Borrowing

External Borrowing	2021/22 Estimate £'000	2022/23 Estimate £'000	2023/24 Estimate £'000	2024/25 Estimate £'000
Service Expenditure	11,137	12,696	5,630	3,519
Regeneration	14,579	31,790	43,623	39,604
Preventative Action	578	2,504	1,450	1,000
Treasury Management	-	-	-	-
Projects for Yield	-	-	-	-
Total	**26,294**	**46,990**	**50,703**	**44,123**

2.3 Borrowing

2.3.1 The capital expenditure plans set out in section 2.1 to a large extent drive the borrowing estimates included in this report. 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 and Prudential Indicators, the current and projected debt positions and the Annual Investment Strategy.

Current Borrowing Portfolio Position

2.3.2 The overall treasury management portfolio as at 31 March 2021 and the position as at February 2022 are shown below for both borrowing and investments.

Table 5 - Current Treasury Position

Treasury Investments/External Borrowing	Actual 31/03/2021 £'000	Actual 31/03/2021 %	Current February 2022 £'000	Current February 2022 %
Treasury Investments				
Banks	20,000	23.94%	42,860	39.22%
Local Authorities / Public Bodies	28,000	33.52%	4,000	3.66%
Building Societies	0	0	10,000	9.15%
Money Market Funds	20,540	24.59%	37,430	34.25%
Total Managed in House	**68,540**	**82.04%**	**94,290**	**86.28%**
Property Funds	15,000	17.96%	15,000	13.72%
Total Managed Externally	**15,000**	**17.96%**	**15,000**	**13.72%**
Total Treasury Investments	**83,540**	**100.00%**	**109,290**	**100.00%**
Treasury External Borrowing				
PWLB	35,482	20.53%	35,241	21.03%
Lender Option Borrower Option (LOBO's)	85,500	49.47%	85,500	51.01%
Market	46,600	26.96%	46,600	27.80%
Temporary Borrowing	5,261	3.04%	261	0.16%
Total Treasury External Borrowing	**172,843**	**100.00%**	**167,602**	**100.00%**
Net Treasury Investments / (Borrowing)	**(89,303)**		**(58,312)**	

2.3.3 The Council's forward projections for borrowing are summarised below. The table shows the actual external debt, the Treasury Management operation against the underlying capital borrowing need and the CFR, highlighting any over or under borrowing. Table 6 shows the CFR at £494.877m, the forecast position of gross borrowing as at 31 March 2022 at £381.246m (debt at 31 March 2022 at £167.598m plus Closing Other Long Term Liabilities (OLTL) at 31 March 2022 of £213.648m) and an under borrowed position of £113.631m.

Table 6 - Current and Forecast Treasury Portfolio

	2020/21 Actual £'000	Forecast position as at 31/3/22 £'000	2022/23 Estimate £'000	2023/24 Estimate £'000	2024/25 Estimate £'000
External Debt					
Debt at 1 April	167,843	172,843	167,598	195,993	240,988
Actual/Expected change in debt	5,000	(5,245)	28,395	44,995	25,995
Debt at 31 March	172,843	167,598	195,993	240,988	266,983
Opening OLTL* at 1 April	235,687	224,405	213,648	204,736	194,064
Expected change in OLTL	(11,282)	(10,757)	(8,912)	(10,672)	(11,365)
Closing OLTL at 31 March	224,405	213,648	204,736	194,064	182,700
Actual/ Forecast gross debt (borrowing requirement) at 31 March	**397,248**	**381,246**	**400,729**	**435,052**	**449,683**
The Capital Financing Requirement	**491,713**	**494,877**	**520,247**	**545,998**	**561,922**
Under / (over) borrowing	**94,465**	**113,631**	**119,518**	**110,946**	**112,239**

* Other Long-Term Liabilities

2.3.4 Table 5 above shows the Council will need to undertake significant additional borrowing in future years if capital programme expenditure matches the anticipated spending profile. The borrowing requirement is a key driver of the borrowing strategy as set out in section 2.6. The timing of any additional borrowing given the amounts indicated in the table above will be closely monitored. Members will recall that capital spending plans have been reprofiled year on year and it is possible that the trend could be repeated in 2022/23 and future years.

2.3.5 There are a number of key Prudential Indicators to ensure that the Council operates its activities within well-defined limits. The Council must ensure that 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 2022/23 and the following two financial years. This allows some flexibility for limited early borrowing for future years but ensures that borrowing is not undertaken for revenue or speculative purposes. It is clear from the table above that the Council's gross borrowing position remains within these limits.

2.3.6 The Council has complied with this Prudential Indicator in the current year and does not envisage any difficulties with compliance in the future. This view takes into account current commitments, existing plans, and the proposals set out in this report.

2.3.7 The Council should include within the forecast gross borrowing figures in Table 6, any debt that relates to commercial activities / non-financial investment. The Council has no external debt for commercial activities/non-financial investment that is included in the gross borrowing figures in Table 6. Under the Prudential Code, there is a requirement to provide the information in the Treasury Management Strategy which shows that to date there has been a minimal impact on debt from potential investments in commercial activities compared to the Council's overall borrowing (excluding long-term liabilities).

2.4 Treasury Limits for 2022/23 to 2024/25

2.4.1 The Council is required to determine its Operational Boundary and Authorised Limit for external debt for the next three financial years.
Operational Boundary

2.4.2 The forecast Operational Boundary for 2021/22 together with the proposed operational boundaries for 2022/23 to 2024/25 are set out in Table 7 below. The boundary reflects the maximum anticipated level of external debt which is not expected to be exceeded. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on levels of actual debt and the ability to fund under-borrowing by other cash resources. This boundary will be used as a management tool for ongoing monitoring of external debt and may be breached temporarily due to unusual cash flow movements. However, a sustained or regular trend above the Operational Boundary should trigger a review of both the Operational Boundary and the Authorised Limit.

Table 7 - Operational Boundary

Operational Boundary	2021/22 Forecast £'000	2022/23 Estimate £'000	2023/24 Estimate £'000	2024/25 Estimate £'000
Borrowing	282,500	316,500	352,500	380,000
Other long term liabilities	215,500	206,500	195,500	184,500
Commercial activities / non-financial investments	0	0	0	0
Total	**498,000**	**523,000**	**548,000**	**564,500**

Authorised Limit

2.4.3 A further key Prudential Indicator, the Authorised Limit controls the maximum level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit may only be determined by full Council. It reflects the level of external debt which, while not desirable, is affordable 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 Councils' plans, or those of a specific Council, although this power has not yet been exercised.

2.4.4 Members are asked to consider the proposed Operational Boundary for each financial year from 2021/22 to 2024/25 as set out in Table 7 above and Authorised Limit as set out in Table 8 below:

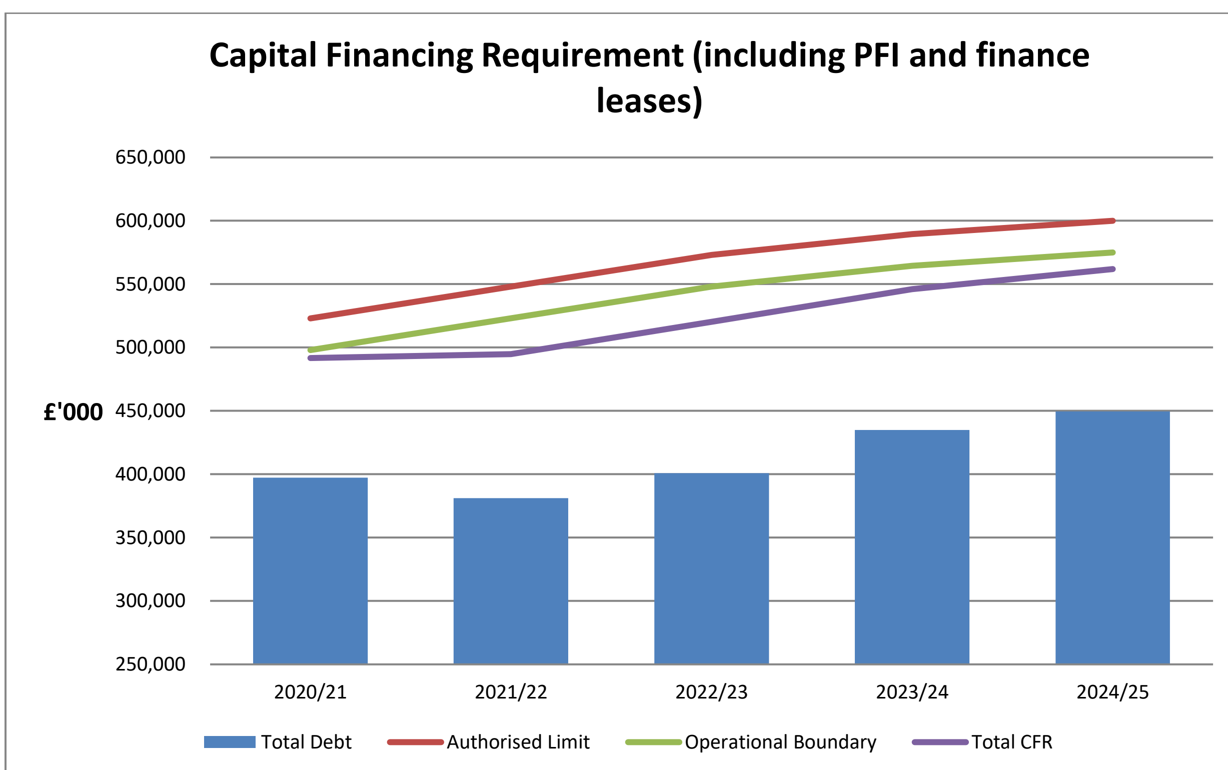
Table 8 - Authorised Limit

Authorised Limit	2021/22 Forecast £'000	2022/23 Estimate £'000	2023/24 Estimate £'000	2024/25 Estimate £'000
Borrowing	302,500	336,500	372,500	400,000
Other long term liabilities	220,500	211,500	200,500	189,500
Commercial activities / non-financial investments	0	0	0	0
Total	**523,000**	**548,000**	**573,000**	**589,500**

2.4.5 Table 9 and the graph below show how the two indicators above, the Operational Boundary and the Authorised Limit compare to actual external debt and the CFR.

Table 9 - Estimated Capital Financing Requirement, Debt and Treasury Indicators

Capital Financing Requirement (CFR) including PFI and finance leases	Actual 2020/21 £'000	2021/22 Estimate £'000	2022/23 Estimate £'000	2023/24 Estimate £'000	2024/25 Estimate £'000
General Fund CFR	491,713	494,877	520,247	545,998	561,922
Total CFR	**491,713**	**494,877**	**520,247**	**545,998**	**561,922**
External Borrowing	172,843	167,598	195,993	240,988	266,983
Other long term liabilities	224,405	213,648	204,736	194,064	182,700
Total Debt	**397,248**	**381,246**	**400,729**	**435,052**	**449,683**
Operational Boundary	512,500	498,000	523,000	548,000	564,500
Authorised Limit	537,500	523,000	548,000	573,000	589,500



2.5 <u>Prospects for Interest Rate</u>

2.5.1 The Council has appointed The Link Group as its Treasury Adviser and part of its service is to assist the Council to formulate a view on interest rates. The table below gives the Link Group's central view of interest rates from December 2021 to March 2025 provided on 3 February 2022 having been revised after the increase in the Bank Rate. The rates are based on the PWLB Certainty Rate. The Certainty Rate is 80 basis points over gilt yields, and is a reduced rate offered to Local Authorities who qualify providing their plans for long-term borrowing and associated capital spending meet the criteria. The Council has applied for and been approved for the Certainty Rate which covers the period November 2021 to October 2022.

Table 10 - Interest Rate Forecast

Period Ending	Bank Rate	PWLB Borrowing Rates %			
	%	5 year	10 year	25 year	50 year
December 2021	0.25	1.40	1.60	1.80	1.50
March 2022	0.50	1.90	2.10	2.20	1.90
June 2022	0.75	2.00	2.10	2.30	2.10
September 2022	1.00	2.10	2.20	2.41	2.20
December 2022	1.25	2.20	2.30	2.70	2.40
March 2023	1.25	2.30	2.40	2.70	2.50
June 2023	1.25	2.30	2.40	2.70	2.60
September 2023	1.50	2.40	2.50	2.80	2.70
December 2023	1.50	2.40	2.60	2.90	2.90
March 2024	1.50	2.40	2.60	2.30	2.10
June 2024	1.00	1.90	2.60	2.90	2.90
September 2024	1.50	2.40	2.60	2.90	2.90
December 2024	1.50	2.40	2.60	2.90	2.90
March 2025	1.50	2.40	2.60	2.90	2.90

2.5.2 LIBOR and LIBID rates will be cease from the end of 2021, these will be replaced with SONIA (Sterling Overnight Index Average) as explained at 2.15.6 - 2.15.8.

2.5.3 The coronavirus outbreak has done huge economic damage to the UK and economies around the world. After the Bank of England took emergency action in March 2020 to cut the Bank Rate to 0.10%, it left the Bank Rate unchanged at its subsequent meetings until raising it to 0.25% at its meeting on 16 December 2021 and then again by a further 0.25% at its meeting on 3 February 2022.

2.5.4 As shown in the forecast table above, the forecast for Bank Rate now includes a further three interest rate increases during 2022 and it is expected that the rate will be 1.25% by December 2022. The economists forecast that rates will rise to 1.5% by mid-2023 then stabilise over the life of the forecast period. However, a cautionary approach must be taken when considering future interest rate forecasts as the MPC is concerned that inflationary pressures are indeed building and concerted action by the MPC maybe required to counter such trends.

2.5.5 Significant Risks to the Forecasts

A number of significant risks to forecasts have been identified:

- **Labour and supply shortages** prove more enduring and disruptive and depress economic activity.

- **Mutations** of the virus render current vaccines ineffective, and tweaked vaccines to combat these mutations are delayed or cannot be administered fast enough to prevent further national lockdowns. A proportion of the population not being vaccinated is also a significant risk to the NHS being overwhelmed and lockdowns being the only remaining option.

- **The Monetary Policy Committee (MPC)** acts too quickly, or too far, over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than currently anticipated.

- **The MPC** tightens monetary policy too late to ward off building inflationary pressures.

- **The Government** acts too quickly to cut expenditure to balance the national budget.

- **UK / EU trade arrangements** – if there was a major impact on trade flows and financial services due to complications or lack of co-operation in sorting out significant remaining issues.

- **Longer term US treasury yields** rise strongly and pull gilt yields up higher than forecast.

- **Major stock markets** e.g., in the US, become increasingly judged as being over-valued and susceptible to major price corrections. Central banks become increasingly exposed to the "moral hazard" risks of having to buy shares and corporate bonds to reduce the impact of major financial market selloffs on the general economy.

- **Geopolitical risks,** for example in Ukraine, Iran, North Korea, but also in Europe and Middle Eastern countries; on-going global power influence struggles between Russia/China/US. These could lead to increasing safe-haven flows.

2.5.6 The balance of risks to the UK economy

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

Forecasts for Bank Rate

2.5.7 The Bank Rate is expected to increase three times during the reminder 2022 which would result in a rate of 1.25% by the end of 2022. After these rate increases during 2022, the Bank Rate is then not expected to go up fast as the supply potential of the economy is not likely to have taken a major hit during the pandemic. It should, therefore, be able to cope well with meeting demand after supply shortages subside over the next year to 18 months, without causing inflation to remain elevated in the medium-term, or to inhibit inflation from falling back towards the MPC's 2% target after the spike up to around 7.25%.

2.5.8 The forecast includes increases in Bank Rate over the three-year forecast period to March 2025, ending at 1.50%. However, it is likely that these forecasts may need changing within a relatively short timeframe for the following reasons:

- At this present time, analysts do not know how severe an impact of Omicron could have on the economy and whether there will be another lockdown or similar and, if there is, whether there would be significant fiscal support from the Government for businesses and jobs.
- There are increasing grounds for viewing the economic recovery as running out of steam. The introduction of the new variant Omicron could still pose a significant downside threat to economic activity. This could lead into stagflation or even into recession, which would then pose a dilemma for the MPC as to whether to focus on combating inflation or supporting economic growth through keeping interest rates low.
- Will some current key supply shortages spill over into causing economic activity in some sectors to take a significant hit?

- Rising gas and electricity prices in October 2021 and April 2022 and increase in other prices caused by supply shortages and increases in taxation in April 2022, are already going to deflate consumer spending power without the MPC having to take any action on Bank Rate to cool inflation.
- On the other hand, consumers are sitting on over £160bn of excess savings left over from the pandemic so when will they spend this sum, in part or in total?
- It appears the economy has coped well with the end of furlough. It is estimated that there were around 1 million people who came off furlough and there was not a huge spike in unemployment. However, vacancies have been hitting record levels so there is a continuing acute shortage in workers. This is a potential danger area if shortages drive up wages which then feed through into producer prices and the prices of services i.e., a second-round effect that he MPC would have to act against if it looked like gaining significant momentum.
- There could be further challenges on the COVID front beyond the Omicron mutation.
- If the UK invokes article 16 of the Brexit deal over the dislocation in trading arrangements with Northern Ireland, this has the potential to end up in a no deal Brexit.

2.5.9 In summary, with the high level of uncertainty prevailing on several different fronts, these forecasts will be revised again over the next few months, in line with the latest developments.

2.5.10 It should also be borne in mind that Bank Rate being cut to its lowest level of 0.10% then rising to 0.25% and then 0.50% were emergency measures to deal with the COVID crisis hitting the UK. At any time, the MPC could decide to simply take away such emergency cuts on no other grounds than it being no longer being warranted and as a step forward in the return to normalisation. In addition, any Bank Rate under 1% is both highly unusual and highly supportive of economic growth.

Forecasts for PWLB Rates and Gilt and Treasury Yields

2.5.11 As the interest forecast table for PWLB certainty rates above shows, there is forecast to be a steady, rise in both Bank Rate and gilt yields during the forecast period to March 2025, though there will doubtless be a lot of unpredictable volatility during this forecast period.

2.5.12 There is likely to be exceptional volatility and unpredictability in respect of gilt yields and PWLB rates due to the following factors:

- How strongly will changes in gilt yields be correlated to changes in US treasury yields (see below). Over the 11 years since 2011 there has been an average 75% correlation between movements in US treasury yields and gilt yields. However, from time to time these two yields can diverge. Lack of spare economic capacity and rising inflationary pressures are viewed as being much greater dangers in the US than in the UK. This could mean that central bank rates will end up rising earlier and higher in the US than in the UK if inflationary pressures were to escalate; the consequent increases in treasury yields could well spill over to cause (lesser) increases in gilt yields. There is, therefore, an upside risk to forecasts for gilt yields due to this correlation. The Link Group forecasts have included a risk of a 75% correlation between the two yields.
- Will the Federal Reserve System (Fed) take action to counter increasing treasury yields if they rise beyond a yet unspecified level?
- Would the MPC act to counter increasing gilt yields if they rise beyond a yet unspecified level?

- How strong will inflationary pressures actually turn out to be in both the US and the UK and so put upward pressure on treasury and gilt yields?
- How will central banks implement their new average or sustainable level inflation monetary policies?
- How well will central banks manage the withdrawal of Quantitative Easing (QE) purchases of their national bonds i.e., without causing a panic reaction in financial markets as happened in the US in 2013?
- Will exceptional volatility be focused on the short or long-end of the yield curve, or both?

Gilt and Treasury Yields

2.5.13 Since the start of 2021, there has been a lot of volatility in gilt yields, and hence PWLB rates. During the first part of 2021, US President Biden's, and the Democratic party's, determination to push through a $1.9trn (equivalent to 8.8% of GDP) fiscal boost for the US economy as a recovery package from the COVID pandemic was what unsettled financial markets. However, this was in addition to the $900bn support package already passed in December 2020.

2.5.14 This was then followed by additional Democratic ambition to spend $1trn on infrastructure, which was eventually passed by both Houses later in 2021, and an even larger sum on an American family plan over the next decade. It must be noted that this is still caught up in Democrat / Republican political debate and financial markets were alarmed that all this stimulus was happening at a time when:

1. A fast vaccination programme has enabled a rapid opening up of the economy.
2. The economy had been growing strongly in the first half of 2021 although it had weakened overall during the second half of 2021.
3. It started from a position of little spare capacity due to less severe lockdown measures than in many other countries.
4. The Fed was still providing stimulus through monthly QE purchases during 2021.

2.5.15 These factors could cause an excess of demand in the economy which generated strong inflationary pressures. This was eventually recognised by the Fed at its December 2021 meeting with an aggressive response to damp inflation down during 2022 and 2023.

2.5.16 At its 3 November meeting, the Fed decided to make a start on tapering its $120bn per month of QE purchases with the aim to end by June 2022. However, at its 15 December 2021 meeting, it doubled the pace of tapering so that they will end all purchases in February 2022. These purchases are currently acting as downward pressure on treasury yields and so it would be expected that Treasury yields will rise over the taper period and after the taper ends.

2.5.17 The Fed also forecast that it expected there would be three rate rises in 2022 of 0.25% from near zero currently, followed by three in 2023 and two in 2024, taking rates back above 2% to a neutral level for monetary policy.

2.5.18 As the US financial markets are, by far, the biggest financial markets in the world, any upward trend in treasury yields will invariably impact and influence financial markets in other countries. Inflationary pressures and erosion of surplus economic capacity look much stronger in the US compared to those in the UK, which would suggest that Fed rate increases eventually needed to suppress inflation, are likely to be faster and stronger than Bank Rate increases in the UK. This is likely to put upward pressure on treasury yields which could then spill over into putting upward pressure on UK gilt yields.

2.5.19 The forecasts are also predicated on an assumption that there is no break-up of the Eurozone or EU within the forecasting period, despite the major challenges that are looming, and that there is no major disruption to international relations, especially between the US and Russia, China / North Korea and Iran, which have a major impact on international trade and world GDP growth.

2.5.20 The balance of risks to medium to long term PWLB rates:

- There is a balance of upside risks to forecasts for medium to long term PWLB rates.

A New Era – a fundamental shift in central bank monetary policy

2.5.21 One of the key results of the pandemic has been a fundamental rethinking and shift in monetary policy by major central banks like the Fed, the Bank of England and the European Central Bank (ECB), to tolerate a higher level of inflation than in the previous two decades when inflation was the prime target to bear down on so as to stop it going above a target rate.

2.5.22 There is now also a greater emphasis on other targets for monetary policy than just inflation, especially on 'achieving broad and inclusive "maximum" employment in its entirety' in the US, before consideration would be given to increasing rates.

- The Fed in America has gone furthest in adopting a monetary policy based on a clear goal of allowing the inflation target to be symmetrical (rather than a ceiling to keep under), so that inflation averages out the dips down and surges above the target rate, over an unspecified period of time.
- The Bank of England has also amended its target for monetary policy so that inflation should be 'sustainably over 2%' before starting on raising Bank Rate and the ECB now has a similar policy.
- For local authorities, this means that investment interest rates and very short term PWLB rates will not be rising as quickly or as high as in previous decades when the economy recovers from a downturn and the recovery eventually runs out of spare capacity to fuel continuing expansion.
- Labour market liberalisation since the 1970s has helped to break the wage-price spirals that fuelled high levels of inflation and has now set inflation on a lower path which makes this shift in monetary policy practicable. In addition, recent changes in flexible employment practices, the rise of the gig economy and technological changes, will all help to lower inflationary pressures.
- Governments will also be concerned to see interest rates stay lower as every rise in central rates will add to the cost of vastly expanded levels of national debt; (in the UK this is £21bn for each 1% rise in rates). On the other hand, higher levels of inflation will help to erode the real value of total public debt.

Investment and Borrowing Rates

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

2.5.24 Borrowing interest rates fell to historically very low rates as a result of the COVID crisis and the quantitative easing (QE) operations of the Bank of England and still remain at historically low levels. However, on 3 February 2022, the MPC voted unanimously for the Bank of England (BoE) to begin to reduce the stock of UK government bond purchases by ceasing

to reinvest maturing assets (the QE operations) which is highly likely to result in increases in borrowing rates over the forecast timeframe to March 2025 as can be seen in table 10. The policy of avoiding new borrowing by running down spare cash balances has served the Council well over the last few years.

2.5.25 In November 2020, the Chancellor announced the conclusion to the review of margins over gilt yields for PWLB rates which had been increased by 100 basis points (bps) in October 2019. The standard and certainty margins were reduced by 100 bps but a prohibition was introduced to deny access to borrowing from the PWLB for any local authority which had purchase of assets for yield in its three-year capital programme. The current margins over gilt yields are as follows:

- PWLB Standard Rate – gilt plus 100 basis points (G+100bps)
- PWLB Certainty Rate - gilt plus 80 basis points (G+80bps)
- PWLB HRA Standard Rate - gilt plus 100 basis points (G+100bps)
- PWLB HRA Certainty Rate - gilt plus 80 basis points (G+80bps)
- Local Infrastructure Rate - gilt plus 60 basis points (G+60bps)

Borrowing for capital expenditure

2.5.26 As Link's long-term (beyond 10 years) forecast for Bank Rate is 2.00%, and as a limited number of PWLB certainty rates are currently below or around 2.00%, there remains value in considering long-term borrowing from the PWLB where appropriate.

2.5.27 Temporary borrowing rates are likely, however, to remain near Bank Rate and may also prove attractive as part of a balanced debt portfolio.

2.5.28 The Council will not be able to avoid borrowing to finance new capital expenditure with the rundown of reserves. However, due to timing of the borrowing there may be a cost of carry (the difference between higher borrowing costs and lower investment returns), to any new borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost.

2.6 Borrowing strategy

2.6.1 The factors that influence the 2022/23 strategy are:

- The movement in CFR as set out in Table 3;
- Forthcoming 'Option' dates on £49m of Lender Option Borrower Option loans (LOBO's) in 2022/23;
- The interest rate forecasts (set out in Table 10);
- Aiming to minimise revenue costs to reduce the impact on the Council Tax Requirement; and
- The impact of the Council's Capital and Property Investment Programmes.

2.6.2 The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (CFR) 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 investment returns are low and counterparty risk is still an issue that needs to be considered.

2.6.3 Against this background and the risks within the economic forecast, caution will be adopted with the 2022/23 treasury operations. The Treasury Management team will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances so that:

- if it was considered that there was a significant risk of a sharp fall in interest rates, then long term borrowing will be postponed.

- if it was considered that there was a significant risk of a much sharper rise in borrowing rates than that currently forecast, perhaps arising from an acceleration in the start date and in the rate of increase in central rates in the USA and UK, an increase in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised. The likely action would be that fixed rate funding will be drawn whilst interest rates are still lower than they will be in the next few years.

2.6.4 The forecast gross borrowing requirement in Table 6 at 2.3.3 above shows, based on current estimates, that the Council will need to drawdown a significant amount of new borrowing, to support the capital programme. Any additional borrowing will be completed with regard to the limits, indicators and interest rate forecasts set out above. As noted earlier, initial estimates of borrowing have changed in previous years due to the reprofiling of the capital programme once the financial year has begun.

2.6.5 During 2022/23, £49m of LOBO (Lender Option Borrower Option) debt will reach the option renewal date. Table 11 below, sets out the maturity structure of fixed rate debt. At the renewal date the loans will either:

- Move to the option rate of interest, which in all cases will be the same as the current rate; or
- Be offered at a rate above the option rate, in which case the Council has the option to repay. This would then require refinancing at the prevailing market rates.

Table 11 - Maturity Structure of Fixed Rate Debt

Maturity Structure of fixed interest rate debt	2022/23 Actual
Under 12 months	33.33%
12 months and within 24 months	9.84%
24 months and within 5 years	11.93%
5 years and within 10 years	9.09%
10 years to 20 years	2.98%
20 years to 30 years	2.98%
30 years to 40 years	2.98%
40 years to 50 years	14.92%
50 years to 60 years	11.93%

2.6.6 Due to the current interest rate forecast it is not anticipated that any of these LOBO loans will be called.

2.6.7 The 2022/23 Capital Programme now shows anticipated prudential borrowing of £46.990m with £50.703m in 2023/24, £44.123m in 2024/25. These figures have been reflected in this report and factored into the borrowing strategy for 2022/23 and future years.

2.6.8 Members are advised that indicators for interest rate exposure are no longer a requirement under the Treasury Management Code. However, as interest rate exposure risk is an important issue, officers will continue to monitor the balance between fixed and variable interest rates for borrowing and investments. This will aim to ensure the Council is not exposed to adverse fluctuations in fixed or variable rate interest rate movements.

2.6.9 This is likely to reflect higher fixed interest rate borrowing if the borrowing need is high or fixed interest rates are likely to increase, or a higher variable rate exposure if fixed interest rates are expected to fall. Conversely if shorter term interest rates are likely to fall, investments may be fixed earlier, or kept shorter if short term investments are expected to rise.

2.6.10 The balance between variable rate debt and variable rate investments will be monitored as part of the overall treasury function in the context of the overall financial instruments structure and any under or over borrowing positions.

2.7 Policy on Borrowing in Advance of Need

2.7.1 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 CFR 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. Any borrowing will follow the most recent guidance issued by CIPFA.

2.7.2 Borrowing in advance will be made within the constraint that the Council would not look to borrow more than 24 months in advance of need.

2.7.3 Risks associated with any borrowing in advance of activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting arrangements.

2.8 Debt Rescheduling

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

2.8.2 The reasons for any rescheduling to take place will include:

- the generation of cash savings and/ or discounted cash flow savings;
- helping to fulfil the treasury strategy;
- enhancing the balance of the portfolio (amending the maturity profile and/or the balance of volatility).

2.8.3 All re-scheduling will be reported to the Audit Committee, Cabinet and Council at the earliest meeting following its action.

2.9 New Financial Institutions as a Source of Borrowing

2.9.1 Currently the PWLB Certainty Rate is set at gilts + 80 basis points for both HRA and non-HRA borrowing. However, consideration will still be given to sourcing funding from the following:

- Local Authorities (primarily shorter dated maturities).
- Financial institutions (primarily insurance companies and pension funds but also some banks. These deals may include borrowing based on forward dates and an agreed future market rate).
- UK Municipal Bonds Agency (which has recently negotiated its first bond issue). Members will recall that the Council has invested £0.100m in the UKMBA and would seek to make use of this new source of borrowing as and when appropriate.

2.9.2 The degree which any of these options proves cheaper than the PWLB Certainty Rate is still evolving, however, all funding options will be fully evaluated, and the most appropriate option will be taken. The Link Group the Council's treasury advisors will keep the Council informed regarding different options available when borrowing is undertaken.

Approved Sources of long and short-term borrowing

2.9.3 The table below is a new requirement for 2022/23 and shows sources of borrowing that the Council may use and whether the related interest rates are fixed or variable.

Table 12 - Approved sources of long and short term borrowing

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

2.10 Annual Investment Strategy

Investment Policy – Management of Risk

2.10.1 The DLUHC and CIPFA have extended the meaning of 'investments' to include both financial and non-financial investments. This report deals solely with financial investments, (as managed by the Treasury Management Team). Non-financial investments, essentially the purchase of income yielding assets, are covered in the Capital Strategy elsewhere on the agenda.

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"); and
- CIPFA Treasury Management Guidance Notes 2018.

2.10.2 The Council's investment priorities will be:

- firstly, the security of capital;
- secondly, the liquidity of its investments;
- thirdly, the optimum return on its investments commensurate with proper levels of security and liquidity; and
- finally, ethical investments.

2.10.3 In the current economic climate it is considered appropriate to keep investments short term to cover cash flow needs. However, where appropriate (from an internal as well as external perspective), the Council will also consider the value available in periods up to 12 months with high credit rated financial institutions, as well as wider range fund options.

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

- 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.

- 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.

- Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

2.10.5 This report defines the list of types of investment instruments that the treasury management team are authorised to use. There are two lists in Appendix 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.

2.10.6 For non-specified investments, the Council has determined that it will limit the maximum total exposure to non-specified investments as being 50% of the total investment portfolio.

2.10.7 Lending limits, (amounts and maturity), for each counterparty, will be set through applying the matrix table in paragraph 2.11.3.

2.10.8 Transaction limits are set for each type of investment in 2.11.3.

2.10.9 The Council has set a limit for the amount of its investments which are invested for longer than 365 days, (see paragraph 2.13.6).

2.10.10 Investments will only be placed with counterparties from countries with a specified minimum sovereign rating, (see paragraph 2.12.3) and Appendix 5.

2.10.11 The Council has engaged external consultants, (see paragraph 1.10), to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of the Council in the context of the expected level of cash balances and need for liquidity throughout the year.

2.10.12 All investments will be denominated in sterling.

2.10.13 As a result of the change in accounting standards for 2021/22 under International Financial Reporting Standard (IFRS) 9, consideration will be given to 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 Government (then 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 commencing from April 2018, ending March 2023).

2.10.14 However, the 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 2.14). Regular monitoring of investment performance will be carried out during the year.

2.10.15 The risk management criteria are unchanged from last year.

2.11 Creditworthiness policy

2.11.1 Oldham Council utilises 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 and Poor. The credit ratings of counterparties are supplemented with the following overlays:

- credit watches and credit outlooks from credit rating agencies;
- Credit Default Swap (CDS) spreads to give early warning of likely changes in credit ratings;
- sovereign ratings to select counterparties from only the most creditworthy countries.

2.11.2 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 colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the duration and maximum investment value for each counterparty.

2.11.3 Institutions are split into colour bandings and the Council will therefore use counterparties within these colours, durational bands and investment limits. Table 13 below shows these limits.

Table 13 - Investment Criteria

Counter Party	Link Colour Band and Long Term Rating where applicable	Maximum Duration	Maximum Principal Invested per Counterparty
Banks	Yellow (Note 1)	5 Years	£10m
Banks	Dark Pink (Note 2)	5 Years	£10m
Banks	Light Pink (Note 3)	5 Years	£10m
Banks	Purple	2 Years	£20m
Banks	Blue (Note 4)	1 Year	£20m
Banks	Orange (Note 5)	1 Year	£15m
Banks	Red	6 months	£10m
Banks	Green	100 days	£10m
Banks	No Colour	Not to be used	Not to be used
Local Authorities/ Public Bodies	Internal Due Diligence	5 Years	£10m
GMCA	Internal Due Diligence (Note 6)	5 Years	£30m
Debt Management Account Deposit Facility (DMADF)	UK Sovereign rating	6 months	£40m
	Fund Rating	**Maximum Duration**	**Maximum Principal Invested per Counterparty**
Money Market Fund			
Constant	AAA	Liquid	£20m
Low Volatile	AAA	Liquid	£20m
Variable	AAA	Liquid	£20m

Note 1 – UK Government debt or equivalent

Note 2 – Enhanced money market funds (EMMF) with a credit score of 1.25

Note 3 – Enhanced money market funds (EMMF) with a credit score of 1.5

Note 4 - Blue Institutions – only applies to nationalised or semi nationalised UK Banks, which currently include the RBS Group (Royal Bank of Scotland, NatWest Bank and Ulster Bank).

Note 5 - Includes the Council's banking provider (currently Barclays), if it currently falls into a category below this colour band.

Note 6 – The higher maximum principal is to facilitate joint initiatives and activities related to the devolution agenda.

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

2.11.5 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 this instance consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

2.11.6 All credit ratings will be monitored on a weekly basis. The Council is alerted to changes to ratings of all three agencies through its use of the Link Group 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 option will be withdrawn or notice given to withdraw immediately.

- In addition to the use of credit ratings the Council will be advised of information in movements in the Credit Default Swap Index against the iTraxx benchmark and other market data on a daily basis via its Passport website, provided exclusively to it by the Link Group. Extreme market movements may result in the downgrading of an institution or its removal from the Council's lending list.

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

Creditworthiness

2.11.8 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. However, as economies are beginning to reopen, there have been some instances of previous lowering of Outlooks being reversed.

CDS Price

2.11.9 Although bank CDS prices (these are market indicators of credit risk), spiked upwards at the end of March / early April 2020 due to the heightened market uncertainty and ensuing liquidity crisis that affected financial markets, 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.

2.12 Country and Sector Limits

2.12.1 It is not proposed to restrict the Council's investment policy to only UK banks and Building Societies. In addition to the credit rating criteria set out above consideration will be given to the sovereign rating of the country before any investment is made.

2.12.2 The sovereign rating of the UK is currently AA- and may come under more pressure due to COVID-19. The Council will however continue to invest with UK Banks, providing the individual institutions still meet the relevant criteria.

2.12.3 The Council has determined that it will only use approved counterparties from the UK and from other countries with a minimum sovereign credit rating of AAA from Fitch (or equivalent). The list of countries that qualify using this credit criteria as at the date of this report are shown in Appendix 5. This list will be amended by officers should ratings change in accordance with this policy, therefore for illustrative purposes the appended list is extended to also show AA-. It is important to note that although able to, the Council has chosen not to invest overseas in recent years.

2.12.4 The Council has determined that it will limit the maximum total exposure of treasury management investments to non-specified treasury management investments as being 50% as mentioned in 2.10.6 of the total treasury management investment portfolio.

2.12.5 Investment limits in place above will apply to a group of companies and not individual institutions.

2.12.6 Sector limits will continuously be monitored to ensure appropriateness.

2.13 Investment Strategy

2.13.1 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. While most cash balances are required to manage the ups and downs of cash flow, any cash identified that could be invested for longer periods will be carefully assessed.

- If it is thought that bank rate is likely to rise significantly within the time horizon being considered, then consideration will be given to keeping most investments as short term or variable.

- Conversely, if it is thought that bank rate is likely to fall within that time period, consideration will be given to locking in higher rates currently obtainable, for longer periods.

2.13.2 The Council currently has seven investment totalling £29m which span the financial year as shown in Table 14.

Table 14 - The Investment maturing in 2022/23

Counterparty	Amount £	Maturity Date	Rate
Close Brothers	5,000,000	25/05/22	0.40%
Santander	5,000,000	23/05/22	0.38%
Close Brothers	5,000,000	29/06/22	0.40%
Nationwide	5,000,000	04/07/22	0.15%
UK Treasury Bills	2,000,000	19/04/22	0.18%
UK Treasury Bills	2,000,000	19/04/22	0.18%
Goldman Sachs	5,000,000	01/08/22	0.81%
Total	**£29,000,000**		

2.13.3 The current forecast shown in paragraph 2.5.1, includes an increase of the Bank Rate in February 2022 There are expected to be further changes during 2022.

2.13.4 The suggested budgeted investment earnings rates for returns on investments placed for periods up to 100 days during each financial year are as follows (the long-term forecast is for periods over 10 years in the future):

- 2022/23 0.50%
- 2023/24 0.75%
- 2024/25 1.00%
- 2025/26 1.25%
- Longer term later years 2.00%

2.13.5 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

2.13.6 This indicator considers total principal funds invested for greater than 365 days. These limits have regard to the Council's liquidity requirements and reduce the need for the early redemption of investments and are based on the availability of funds after each year end.

Table 15 – Maximum principal sum invested greater than 365 days

Upper Limit for principal sums invested for longer than 365 days	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
Principal sums invested for longer than 365 days	£50m	£50m	£50m	£50m
Current investments as at February 2022 in excess of 1 year	£15m	£15m	£15m	£15m

2.14 Investment Risk Benchmarking

2.14.1 These benchmarks provide simple guides to maximum risk, and may be breached from time to time, depending on movements in interest rates and counterparty criteria. These benchmarks provide officers with a baseline against which current and trend positions can be monitored. It may be necessary to amend the operational strategy to manage risk as conditions change. Any breach of the benchmarks will be reported, with supporting reasons in the mid-year or Annual Report to Members.

Liquidity – in respect of this area the Council seeks to maintain:

- A Bank overdraft facility of £0.100m;
- Liquid short term deposits of at least £10m available with a week's notice.

2.14.2 Yield - local measures of yield benchmarks have been changed for 2022/23 to refer to SONIA rather than LIBOR (see paragraph 2.15.7) are:

- Investments – internal returns above the 7 day SONIA (Sterling Overnight Index Average) rate multiplied by 5%
- Investments – internal returns above the 1 month SONIA rate multiplied by 5%
- Investments – internal returns above the 3 month SONIA rate multiplied by 5%
- Investments – internal returns above the 6 month SONIA rate multiplied by 5%
- Investments – internal returns above the 12 month SONIA rate multiplied by 5%

2.15 Other Treasury Management Issues

Brexit

2.15.1 The Council is mindful of the UK's exit from the EU and will continue to ensure that treasury activity is managed to minimise any risk to the Council.

International Financial Reporting Standard (IFRS) 16 – Leases

2.15.2 IFRS 16 is a new standard for lease accounting which came into force in January 2019. The changes apply to the accounting arrangements for lease agreements that organisations take out property, plant and equipment (PPE). It had previously been reported that the standard for the public sector would commence from 1 April 2020 and then subsequently April 2021, however this implementation date has been put back a further year and will be implemented in 2022/23. This will require implementation from 1 April 2022 to allow prior year comparison. Previously, leases were split into finance leases and operating leases however, from 1 April 2022 they will now be accounted for as finance leases. Under the current regime, operating leases were not included in Balance Sheets as assets and expenditure were charged to the Comprehensive Income and Expenditure Statement in the Council's accounts. Under IFRS 16 all leases must now be accounted for on the Balance Sheet. Work is currently on-going to assess the full impact, but an estimate has been included in the Council's CFR so that the Council's prudential indicators are not adversely affect by the implementation of IFRS 16.

Environmental, Social & Governance (ESG) Considerations

2.15.3 Environmental, Social & Governance (ESG) considerations are becoming an increasing important topic within the investment community. While around two thirds of Councils have declared a "climate emergency" to date, this has not translated into the incorporation of something more formal within their treasury-related investment strategy. The recent

changes to the CIPFA Treasury Management Code 2021 sees ESG incorporated into Treasury Management Practice (TMP) 1, with the inclusion of the wording, 'this will set out the organisation's policy and practices relating to environmental, social and governance (ESG) investment considerations."

2.15.4 The Council with advice from its treasury advisor, is looking into the impact of including ESG in TMP 1 and must ensure that there is a clear understanding of what "environmental, social and governance (ESG)" investment considerations actually mean, understanding the ESG "risks" that the Council is exposed to and evaluating how well the Council can manage these risks. Members must be note that ESG is **not** the same as Socially Responsible Investing and **not** the same as Sustainable Investing (investing in products / companies based on expected sustainable and beneficial societal impact, alongside a financial return).

2.15.5 All rating agencies are now exploring how they incorporate ESG risks alongside more traditional financial risk metrics when assessing counterparty ratings. The Council will assess the outcome of this work by the Credit Agencies and continue to review the options and will update Members. As no further information is available, it is not practicable to include ESG into the Treasury Management Strategy for 2022/23 at the current time.

London Inter-Bank Offered Rate (LIBOR) Transition

2.15.6 The publication of official LIBOR figures (and related London Inter-Bank Bid Rate (LIBID) calculations) will cease at the close of 2021. The Council's Treasury Management Strategy 2022/23 has been updated to SONIA (Sterling Overnight Index Average), which is the risk-free rate for sterling markets administered by the Bank of England.

2.15.7 SONIA is based on actual transactions and reflects the average of the interest rates that banks pay to borrow sterling overnight from other financial institutions and other institutional investors. SONIA is the Working Group on Sterling Risk Free Reference Rates' preferred benchmark for the transition to sterling risk-free rates from LIBOR.

2.15.8 To support the Risk-Free Rate transition in sterling markets the Bank of England began publishing the SONIA Compounded Index from 3 August 2020. This simplifies the calculation of compounded interest rates and in doing so provides a standardised basis through its publication as an official source. The Council will continue to monitor the move from LIBOR to SONIA on its investments and long-term borrowing linked to LIBOR and any issues will be reported to Members.

3 Options/Alternatives

3.1 In order to comply with the CIPFA Code of Practice on Treasury Management, Cabinet has no option other than to consider and approve the content of the report. Therefore, no options/alternatives have been presented.

4 Preferred Option

4.1 The preferred option is that the contents of this report are approved by Cabinet and commended to Council.

5 Consultation

5.1 There has been consultation with The Link Group, the Council's Treasury Management Advisors. The consideration of the Treasury Management Strategy for 2022/23 by the Audit Committee on 17 January 2022 (the body charged with scrutinising Treasury Management activity) and the Policy Overview and Scrutiny Committee on 27 January 2022 are key

strands in the consultation process. Members of both Committees scrutinised the content of the reports. They asked questions in relation to the content of the report and were satisfied with the responses received. Both the Audit Committee and the Policy Overview and Scrutiny Committee were content to commend the report to Cabinet and Council.

6 Financial Implications

6.1 Financial Implications are detailed within the report.

7 Legal Services Comments

7.1 There are no legal implications.

8 Co-operative Agenda

8.1 The Treasury Management strategy embraces the Council's cooperative agenda. The Council will develop its investment framework to ensure it complements the co-operative ethos of the Council.

9 Human Resources Comments

9.1 There are no Human Resource Implications.

10 Risk Assessments

10.1 There are considerable risks to the security of the Authority's resources if appropriate Treasury Management strategies and policies are not adopted and followed. The Council has established good practice in relation to Treasury Management which has previously been acknowledged in the Internal and External Auditors' reports presented to the Audit Committee. An issue dependent upon market developments which may need to be considered in the future is refinancing some of the long-term loans. This can be mitigated by effective monitoring of the market.

11 IT Implications

11.1 There are no IT Implications.

12 Property Implications

12.1 There are no Property Implications.

13 Procurement Implications

13.1 There are no Procurement Implications.

14 Environmental and Health & Safety Implications

14.1 There are no Environmental and Health & Safety Implications.

15 Equality, community cohesion and crime implications

15.1 There are no Equality, community cohesion and crime implications.

16 Equality Impact Assessment Completed?

16.1 No

17 Key Decision

17.1 Yes

18 Key Decision Reference

18.1 FLC-12-21

19 Background Papers

19.1 The following is a list of background papers on which this report is based in accordance with the requirements of Section 100(1) of the Local Government Act 1972. It does not include documents which would disclose exempt or confidential information as defined by the Act:

File Ref:	Background papers are provided in Appendices 1 - 8
Officer Name:	Lee Walsh / Talei Whitmore
Contact No:	0161 770 6608 / 4924

20 Appendices

Appendix 1	Minimum Revenue Provision (MRP) Policy Statement
Appendix 2	Prudential and Treasury Indicators 2022/23 – 2023/24
Appendix 3	Economic Background
Appendix 4	Treasury Management Practice (TMP1) – Credit and Counterparty Risk Management
Appendix 5	Approved Countries for Investments
Appendix 6	Treasury Management Scheme of Delegation
Appendix 7	Treasury Management Role of the Statutory Chief Finance Officer (Director of Finance)

Appendix 1 – Minimum Revenue Provision (MRP) Policy Statement

1.1 General Principles and Practices

1.1.1 Local Authorities are required to set aside 'prudent' provision for debt repayment where they have used borrowing or credit arrangements to finance capital expenditure. Department of Levelling Up, Housing and Communities (formerly the Ministry for Housing, Communities and Local Government (MHCLG) regulations require the full MRP Statement to be decided upon at least annually and reported to the Council Meeting. The Council has to ensure that the chosen options are prudent.

1.2 Link to Asset Life/Economic Benefit

1.2.1 Where capital expenditure on an asset is financed wholly or partly by borrowing or credit arrangements, MRP will normally be determined by reference to asset life, economic benefit or MHCLG/DLUHC Guidance.

1.2.2 To the extent that expenditure cannot be linked to the creation/enhancement of an asset and is of a type that is subject to estimated life periods that are referred to in the DLUHC/ MHCLG guidance (paragraph 24), these periods will generally be adopted by the Council.

1.2.3 Where certain types of capital expenditure incurred by the Council are not capable of being related to an individual asset, asset lives will be assessed on a basis which most reasonably reflects the anticipated period of benefit that arises from the expenditure.

1.2.4 Whatever type of expenditure is involved, it will be grouped together in a manner which reflects the nature of the main component of expenditure and will only be divided up in cases where there are two or more major components with substantially different useful economic lives.

1.3 Methods for Calculating MRP

1.3.1 Any of the methods for calculating MRP that are set out below may be used. MRP will commence in the financial year after the completion of assets rather than when expenditure is incurred. All methods, with the exception of the approach taken to Previously Supported General Fund Borrowing are based on Asset Life/Economic Benefit. These methods include but are not limited to:

The Annuity Method

1.3.2 This calculation seeks to ensure the revenue account bears an equal annual charge (for principal and interest) over the life of the asset by taking account of the time value of money. Since MRP relates only to 'principal', the amount of provision made annually gradually increases during the life of the asset. The interest rate used in annuity calculations will be referenced to either prevailing or average PWLB rates.

Equal Instalments of Principal

1.3.3 MRP is an equal annual charge calculated by dividing the original amount of borrowing by the useful life of the asset.

Previously Supported General Fund Borrowing

1.3.4 General Fund Borrowing that was previously supported through the Revenue Support Grant (RSG) system will be provided for in equal annual instalments over a 50 year period

commencing 1 April 2016. As at 1 April 2016, the value of this borrowing equalled £134,376,866 and results in an equal annual minimum revenue provision of £2,742,385; the final instalment of which will be provided for by no later than 31 March 2066. In the event of:

- transfers of Capital Financing Requirement between the General Fund element and Housing element;
- additional voluntary revenue provision being made

the annual MRP charge will be adjusted to ensure that full provision will continue to be made by no later than 31 March 2066.

Bespoke Repayment Profiles:

1.3.5 With regard to credit arrangements that are implicit in Finance Lease or PFI arrangements, any 'debt' repayment element (notional or otherwise) included in charges associated with these arrangements will be classified as MRP.

1.4 Voluntary Revenue Provision

1.4.1 The Council has the option of making additional Voluntary Revenue Provision (VRP) in addition to MRP. The Council may treat VRP as 'up-front' provision (having a similar impact to the early repayment of debt) and thus recalculate future MRP charges accordingly. Where the Council has made additional VRP's for debt repayment in previous years, in year MRP charges may be adjusted to reflect this provided it does not result in a negative MRP charge. To the extent charges are adjusted, current and future year's charges will be recalculated to ensure the Council continues to make prudent provision for debt repayment in relation to historic capital expenditure. The Council may in some circumstances apply VRP to relatively short-life assets/expenditure in order to facilitate a reduction in the future base revenue budget needed to fund capital financing costs.

1.5 Local Exceptions to the Guidance

1.5.1 The Council reserves the right to determine useful life periods and prudent MRP in certain circumstances or where the recommendations of the DLUHC/ MHCLG guidance are not appropriate to local circumstances. Examples include:

Assets Under Construction

1.5.2 No MRP charge will be made until the financial year after that in which an item of capital expenditure is fully incurred and, in the case of a new asset, comes into service use.

Local Authority Mortgage Scheme (LAMS)

1.5.3 The Council operated a Local Authority Mortgage Scheme (LAMS) using the cash backed option. The mortgage lenders require a five-year deposit from the Local Authority to match the five-year life of the indemnity. The deposit placed with the mortgage lender provides an integral part of the mortgage lending and is treated as capital expenditure and a loan to a third party. The CFR will increase by the amount of the total indemnity. The cash advance is due to be returned in full at maturity, with interest paid annually. Once the cash advance matures and funds are returned to the Local Authority, the returned funds are classed as a capital receipt, which will be applied to reduce the CFR. As this is a temporary (five years) arrangement and the funds will be returned in full, there is no need to set aside MRP to repay the debt liability in the interim period. All previous LAMS schemes are now

completed, with the deposits repaid in full. However, the option is still available should the Council see it as a corporate priority.

Loans to Third Parties

1.5.4 The Council has considered the Statutory Guidance, which recommends a 25 year repayment charge for loans to third parties and concluded that provision is not necessary. The Council considers an MRP charge is not necessary in respect of any loans made to third parties as the debt liability is covered by the existence of a debtor and the associated obligation to make repayments. Any loans given are subject to substantial due diligence process by both internal officers and were appropriate external advisors.

1.6 HRA Capital Financing Requirement (CFR)

1.6.1 MRP will equal the amount determined in accordance with the former regulations 28 and 29 of the 2003 Regulations (SI 2003/3146) as if they had not been revoked. This approach is consistent with paragraph 7 of the DLUHC/MHCLG Guidance on MRP.

1.6.2 The basic MRP charge relating to the HRA CFR is therefore nil. However, the Council may make 'Voluntary Revenue Provision' provided such an approach is prudent and appropriate in the context of financing the HRA capital programme and is consistent with the delivery of the HRA Business Plan.

Appendix 2 Prudential and Treasury Indicators 2022/23 – 2023/24

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.

Capital expenditure

Capital Expenditure / Portfolio	2020/21 Actual £'000	2021/22 Estimate £'000	2022/23 Estimate £'000	2023/24 Estimate £'000	2024/25 Estimate £'000
Corporate Services *	13,066	2,265	4,000	69	138
Children's Services	11,176	15,403	5,425	8,816	3,000
Communities & Reform	57	36	908	250	0
Community Health & Adult Social Care	2,433	2,017	2,547	2,543	2,543
People & Place	38,358	29,437	81,465	65,038	49,722
Funds for Emerging Priorities		1,115	2,520	2,050	836
General Fund Services	**65,090**	**50,273**	**96,865**	**78,766**	**56,239**
Housing Revenue Account (HRA)	4,397	785	3,383	8,227	8,014
HRA	**4,397**	**785**	**3,383**	**8,227**	**8,014**
Commercial Activities / Non-Financial Investments **	3,740	1,500	0	0	0
Commercial Activities / Non-Financial Investments	**3,740**	**1,500**	**0**	**0**	**0**
Total	**73,227**	**52,558**	**100,248**	**86,993**	**64,253**

* Excludes any commercial activities which were included in the Corporate Services capital programme.
** Relate to areas such as capital expenditure on investment properties, loans to third parties, purchase of equity shares etc.

Members are asked to consider the following indicators:

Affordability prudential indicators

The table above presents 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.

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.

	2020/21 Actual £'000	2021/22 Estimate £'000	2022/23 Estimate £'000	2023/24 Estimate £'000	2024/25 Estimate £'000
General Fund excluding DSG*	12.39%	11.68%	12.06%	12.92%	13.63%

*Dedicated Schools Grant

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

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.

Members are asked to consider the following treasury indicators and limits:

Maturity Structure of fixed interest rate debt 2022/23	Lower Limit	Upper Limit
Under 12 months	0.00%	40.00%
12 months and within 24 months	0.00%	40.00%
24 months and within 5 years	0.00%	40.00%
5 years and within 10 years	0.00%	40.00%
10 years to 20 years	0.00%	50.00%
20 years to 30 years	0.00%	50.00%
30 years to 40 years	0.00%	50.00%
40 years to 50 years	0.00%	50.00%
50 years to 60 years	0.00%	50.00%

Control of interest rate exposure

Members are advised that indicators for interest rate exposure are no longer a requirement under the new Treasury Management Code. However, as interest rate exposure risk is an important issue, officers will continue to monitor the balance between fixed and variable interest rates for borrowing and investments. This will aim to ensure the Council is not exposed to adverse fluctuations in fixed or variable rate interest rate movements.

This is likely to reflect higher fixed interest rate borrowing if the borrowing need is high or fixed interest rates are likely to increase, or a higher variable rate exposure if fixed interest rates are expected to fall. Conversely if shorter term interest rates are likely to fall, investments may be fixed earlier, or kept shorter if short term investments are expected to rise.

The balance between variable rate debt and variable rate investments will be monitored as part of the overall treasury function in the context of the overall financial instruments structure and any under or over borrowing positions.

Appendix 3: Economic Background

Set out below is a more detailed analysis of the Economic Background used to support the preparation of the 2022/23 Treasury Management Strategy Statement.

Monetary Policy Committee (MPC) Meeting 16 December 2021

- The Monetary Policy Committee (MPC) voted 8-1 to raise Bank Rate by 0.15% from 0.10% to 0.25% and unanimously decided to make no changes to its programme of quantitative easing purchases due to finish in December 2021 at a total of £895bn.
- The MPC disappointed financial markets by not raising Bank Rate at its November 2021 meeting. Until the Omicron variant, most forecasters, viewed a Bank Rate increase as being near certain at this meeting due to the way that inflationary pressures had comprehensively building in both producer and consumer prices, and in wage rates. However, at the November meeting, the MPC decided it wanted to have assurance that the labour market would get over the end of the furlough scheme on 30 September 2021 without unemployment increasing sharply. Their decision was, therefore, to wait until statistics were available to show how the economy had fared and to not increase the Bank Rate.
- On 10 December 2021, analysts learnt of the disappointing 0.1% month on month rise in GDP in October which suggested that economic growth had already slowed even before the Omicron variant was discovered in late November 2021. Evidence suggests growth in November 2021 might have been marginally better. Nonetheless, at such low rates of growth, the Government's "Plan B" COVID-19 restrictions could cause the economy to contract in December 2021 (this will be confirmed when the detail is released).
- On 14 December 2021, the labour market statistics for the three months to October and the single month of October were released. The fallout after the furlough scheme was smaller and shorter than the Bank of England had feared. The single-month data were more informative and showed that Labour Force Survey (LFS) employment fell by 240,000, unemployment increased by 75,000 and the unemployment rate rose from 3.9% in September 2021 to 4.2%. However, the weekly data suggested this didn't last long as unemployment was falling again by the end of October 2021. What's more, the 49,700 fall in the claimant count and the 257,000 rise in the PAYE measure of company payrolls suggests that the labour market strengthened again in November 2021. However, there was a further rise in the number of vacancies from 1.182m to a record 1.219m in the three months to November 2021 which suggests that the supply of labour is struggling to keep up with demand, although the single-month figure for November 2021 fell for the first time since February 2021, from 1.307m to 1.227m.
- These figures by themselves, would probably have been enough to give the MPC the assurance that it could press ahead to raise Bank Rate at the December 2021 meeting. However, the advent of Omicron variant, potentially caused uncertainty, as it could pose a major headwind to the economy which, of itself, will help to cool the economy. Based on this evidence, the financial markets, therefore, expected no change in Bank Rate.
- On 15 December 2021, the Consumer Price Index (CPI) inflation figure for November 2021 was released, which spiked up further from 4.2% to 5.1%, confirming again how inflationary pressures have been building sharply. However, the Omicron variant, also caused a sharp fall in world oil and other commodity prices; (gas and electricity inflation has generally accounted on average for about 60% of the increase in inflation in advanced western economies). On 19 January 2022, the figure for December 2021 was released which again showed a spike upwards with an increase of 0.3% to 5.4%.
- Other elements of inflation are also transitory e.g., prices of goods being forced up by supply shortages, and shortages of shipping containers due to ports being clogged have caused huge increases in shipping costs. But these issues are likely to clear during 2022, and then prices will subside back to more normal levels. Gas prices and electricity prices will also fall back once winter is passed and demand for these falls away.

- Although it is possible that the Government could step in with some fiscal support for the economy, the huge cost of such support to date is likely to pose a barrier to incurring further major economy wide expenditure unless it is very limited and targeted on narrow sectors like hospitality, (as announced in late December 2021). The Government may well, therefore, effectively leave it to the MPC, and to monetary policy, to support economic growth but at a time when the threat posed by rising inflation is near to peaking.
- Against these adverse set of factors, the MPC had to decide on Bank Rate. For the second month in a row, the MPC surprised financial markets, this time with an unexpected increase in Bank Rate from 0.10% to 0.25%. What's more, the hawkish tone of comments indicated that the MPC was now concerned that inflationary pressures were building and needed concerted action by the MPC to counter. This indicated more increases to come with financial markets predicting 1% by the end of 2022. The 8-1 vote to raise the rate showed that there was firm agreement that inflation now posed a threat, especially after the CPI figure hit a 10-year high at the end of December 2021. The MPC commented that "there has been significant upside news" and that "there were some signs of greater persistence in domestic costs and price pressures".
- The MPC, did comment that "the Omicron variant is likely to weigh on near-term activity". But it stressed that at the November 2021 meeting it had said it would raise rates if the economy evolved as it expected and that now "these conditions had been met". It also appeared more worried about the possible boost to inflation from Omicron itself. It said that "the current position of the global and UK economies was materially different compared with prior to the onset of the pandemic, including elevated levels of consumer price inflation". It also noted the possibility that renewed social distancing would boost demand for goods again, (as demand for services would fall), meaning "global price pressures might persist for longer".
- On top of that, at the meeting there were no references to inflation being expected to be below the 2% target in two years' time, which at November's meeting the MPC referenced, to suggest the markets had gone too far in expecting interest rates to rise to over 1.00% by the end of the year.
- These comments indicated that there has been a material reappraisal by the MPC of the inflationary pressures since their last meeting and the Bank also increased its forecast for inflation to peak at 6% April 2022, rather than at 5% as of the November meeting. However, as the Bank retained its guidance that only a "modest tightening" in policy would be required, it seemed that it only considered a limited increase interest rates might be required. A typical policy tightening cycle has usually involved rates rising by 0.25% four times in a year. "Modest" seemed slower than that. As such, the Bank maybe have been contemplating raising interest rates two- or three-times in 2022 to 0.75% or 1.00%.
- In as much as a considerable part of the inflationary pressures are indeed transitory, and will naturally subside, and since economic growth is likely to be weak over the next few months, this would appear to indicate a comparatively short tightening cycle.
- As for the timing of the next increase in Bank Rate, the MPC was not precise, however, once 0.50% is reached, the Bank would act to start shrinking its stock of QE, (gilts purchased by the Bank would not be replaced when they mature).

Monetary Policy Committee (MPC) Meeting 3 February 2022

- The Monetary Policy Committee (MPC) voted 5-4 to raise Bank Rate by 0.25% from 0.25% to 0.50% and the Committee also voted unanimously for the BoE to begin to reduce the stock of UK Government Bond purchases by ceasing to reinvest maturing assets. Most economists forecast rates will rise to 1.25% by the end of 2022, compared to the rise to 0.75% expected after the December 2021 meeting and are estimating that rates will rise above 1.25% in 2023. This is despite the Chancellor's recent support package, which has not changed the outlook on inflation.
- Following the meeting the BoE appears more hawkish in three ways. Firstly, the vote was 5-4 and four members in the minority wanted to raise rates to 0.75%. Secondly, not only

has the BoE decided to start unwinding QE in line with its previous guidance, but it has stated it will sell its £20bn holdings of corporate bonds. This is a quicker rundown of the balance sheet than many expected. Thirdly, the MPC revised up its CPI inflation forecast so that it peaks at 7.25% in April and is further above the 2.0% target for all of 2022 and 2023.

- The BoE also revised down its GDP growth forecasts for 2022 (from 3.75% to 3.25%) and based on the market expectations that rates will rise to 1.5% by mid-2023, it forecast that CPI inflation will be just 1.6% in three years' time. This indicates that the BoE does not think rates need to rise to 1.5%. The MPC stated that the risks to the inflation outlook are "two-sided" and it did not upgrade its comment from the December 2021 meeting, that further tightening will be "modest".
- The 54% rise in Ofgem's utility price cap and the Chancellor's rebates to households, both announced on 3 February 2022 appear to have little impact on the current forecasts. Indeed, the net result is that now many commentators think CPI inflation will rise from 5.4% in December to around 6% in February and March 2022 to a peak of 7.25% in April 2022 and be only marginally lower in 2023. This will not ease the BOE's concerns that high inflation is feeding into price and wage decisions.
- Overall, it appears that the Bank is stepping up its fight to defend its inflation target. This battle will probably last throughout 2022 with interest rates rising to 1.25% rather than the 0.75% that most economists had been expecting and it may even require rates rising above 1.25% in 2023.

The MPC's forward guidance on its intended monetary policy on raising Bank Rate versus selling (quantitative easing) holdings of bonds is as follows: -

1. Raising Bank Rate as "the active instrument in most circumstances".
2. Raising Bank Rate to 0.50% before starting on reducing its holdings.
3. Once Bank Rate is at 0.50% it would stop reinvesting maturing gilts.
4. Once Bank Rate had risen to at least 1%, it would start selling its holdings.

A Summary overview of the future path of the Bank Rate

- In December 2021, the Bank of England became the first major western central bank to put interest rates up in this upswing in the current business cycle in western economies as recovery progresses from the Covid recession of 2020.
- The December 2021 MPC meeting was more concerned with combating inflation over the medium term than supporting economic growth in the short term.
- Bank Rate increases during 2022 are difficult to forecast as inflation may drop sharply in the second half of 2022.
- However, the MPC will want to normalise Bank Rate over the next three years so that it has its main monetary policy tool ready to use in time for the next downturn; all rates under 2% are providing stimulus to economic growth.
- COVID remains a major potential downside threat as it remains highly likely that there could be further variants.
- How quickly can science come up with a variant proof vaccine, or other treatment, and for them to be widely administered around the world?
- Purchases of gilts under QE ended in December 2021.
- At the MPC meeting on 3 February 2022, the MPC raised the bank rate to 0.50%.
- The Committee updated its central projections and based on a market-implied path for the Bank Rate it forecast it could rise to around 1.5% by the middle of 2023.
- At the meeting in February 2022, the MPC revised its inflation forecast and it is now expected to peak at 7.25% in April 2022 rather than 6%.
- The Committee also voted unanimously for the BoE to begin to reduce the stock of UK Government Bond purchases by ceasing to reinvest maturing assets.

- The Council's Treasury Advisors, the Link Group, has factored in further three bank rate rises by the end of 2022. This would result in a rate of 1.25% by the end of 2022, potentially increasing to 1.5% in 2023, however, the actual timing is difficult to predict

COVID-19 vaccines.

The distribution of Covid-19 vaccines during 2021, raised high hopes that life in the UK would be able to largely return to normal in the second half of the year. However, the Omicron variant at the end of November 2021, rendered the initial two doses of all vaccines largely ineffective in preventing infection. This has therefore, reduced hope and raises the threat again that a fourth wave of the virus could overwhelm hospitals in early 2022. What is known, is that this variant is very fast spreading with the potential for total case numbers to double every two to three days, although it seems that it does not cause so much severe illness as previous variants. Rather than go for full lockdowns which heavily damage the economy, the Government's current strategy, is focusing on getting as many people as possible to have a third (booster) vaccination after three months from the previous last injection. The booster has been shown to restore a high percentage of immunity to the Omicron variant to those who have had two vaccinations. Although infection rates are still high, at the end of January 2022, the Government lifted most restrictions on activities.

With the household saving rate having been exceptionally high since the first lockdown in March 2020, there is plenty of pent-up demand and purchasing power stored up for services in sectors like restaurants, travel, tourism and hotels which had been hit hard during 2021. These could be hit hard again by either, or both, any further introduction of Government restrictions and/or consumer reluctance to leave home. The increases to the cost of living could also have an impact. Growth will also be lower due to people being ill and not working, similar to the pingdemic in July 2021. The economy, therefore, faces significant headwinds, although some sectors have learned how to cope well with COVID pandemic. The big question still remains as to whether any further variants of this virus could develop which render all current vaccines ineffective, as opposed to how quickly vaccines can be modified to deal with them and enhanced testing programmes be implemented to contain their spread until tweaked vaccines become widely available.

US.

- Shortages of goods and intermediate goods like semi-conductors, are fuelling increases in prices and reducing economic growth potential. In November 2021, CPI inflation hit a near 40-year record level of 6.8% but with energy prices then falling sharply, this is probably the peak. The biggest problem for the Fed is the mounting evidence of a strong pick-up in cyclical price pressures e.g., in rent which has hit a decade high.
- Shortages of labour have also been driving up wage rates sharply; this also poses a considerable threat to feeding back into producer prices and then into consumer prices inflation. It now also appears that there has been a sustained drop in the labour force which suggests the pandemic has had a longer-term scarring effect in reducing potential GDP. Economic growth may therefore be reduced to between 2% and 3% in 2022 and 2023 while core inflation is likely to remain elevated at around 3% in both years instead of declining back to the Fed's 2% central target.
- Inflation hitting 6.8% and the feed through into second round effects, meant that at the Fed's meeting of 15 December 2021, it took aggressive action against inflation. Accordingly, the rate of tapering of monthly $120bn QE purchases announced at its 3 November 2021 meeting was doubled so that all purchases would now finish in February 2022. In addition, Fed officials had started discussions on running down the stock of QE held by the Fed. Fed officials also expected three rate rises in 2022 of 0.25% from near zero currently, followed by three in 2023 and two in 2024, taking rates back above 2% to a neutral level for monetary policy. The first increase could come as soon as March 2022 as the chairman of the Fed

stated his view that the economy had made rapid progress to achieving the other goal of the Fed, “maximum employment”. The Fed forecast that inflation would fall from an average of 5.3% in 2021 to 2.6% in 2023, still above its target of 2% and both figures significantly up from previous forecasts. What was also significant was that in December 2021, the Fed dropped its description of the current level of inflation as being “transitory” and instead referred to “elevated levels” of inflation. The statement also dropped most of the language around the flexible average inflation target, with inflation now described as having exceeded 2 percent “for some time”. It did not see the Omicron variant as being a major impediment to the need to take action now to curtail the level of inflationary pressures that have built up, although Fed officials did note that it has the potential to exacerbate supply chain problems and add to price pressures.

European Union (EU).

- The slow role out of vaccines initially delayed economic recovery in early 2021 but the vaccination rate then picked up sharply. After a contraction of -0.3% in Quarter 1, Quarter 2 came in with strong growth of 2%. With Quarter 3 at 2.2%, the EU recovery was then within 0.5% of its pre Covid size. However, the arrival of the Omicron variant, is now a major headwind to growth in quarter 4 for 2021 and the expected downturn into weak growth could well turn negative.
- November 2021 inflation figures breakdown shows that the increase in price pressures is not simply due to high energy costs and global demand-supply imbalances for durable goods as services inflation also rose. Headline inflation reached 4.9% in November 2021, with over half of that due to energy. However, oil and gas prices are expected to fall after the winter and so energy inflation is expected to plummet in 2022. Core goods inflation rose to 2.4% in November 2021, its second highest ever level, and is likely to remain high for some time as it will take time for the inflationary impact of global imbalances in the demand and supply of durable goods to disappear. Price pressures also increased in the services sector, but wage growth remains subdued and there are no signs of a trend of faster wage growth which might lead to persistently higher services inflation, which would be a concern for the ECB. The upshot is that the Euro-Zone is set for a prolonged period of inflation being above the ECB’s target of 2% and it is likely to average 3% in 2022, in line with the ECB’s latest projection.
- ECB tapering. The ECB has joined with the Fed by also announcing at its meeting on 16 December 2021, that it will be reducing its QE purchases by half from October 2022, i.e., it will still be providing significant stimulus via QE purchases for over half of 2022. However, as inflation will fall back sharply during 2022, it is likely that it will leave its central rate below zero, (currently -0.50%), over the next two years. The main struggle that the ECB has had in recent years is that inflation has been persistently weak in sticking below the ECB’s target rate despite all its major programmes of monetary easing by cutting rates into negative territory and providing QE support.
- The ECB will now also need to consider the impact of the Omicron variant on the economy, and it stated at its December 2021 meeting that it is prepared to provide further QE support if the pandemic causes bond yield spreads of peripheral countries, (compared to the yields of northern EU countries), to rise. However, that is the only reason it will support peripheral yields, so this support is limited in its scope.
- The EU has entered into a period of political uncertainty where a new German Government formed of a coalition of three parties with Olaf Scholz replacing Angela Merkel as Chancellor in December 2021. This change will require a period of time to adjust to the new working relationship both within Germany and the EU. In France there is the Presidential Election in April 2022 followed by the Legislative Election in June 2022. During 2022, there will be a gradual running down of ECB support for the bonds of weaker countries within the EU. These political uncertainties could have repercussions on economies and on Brexit issues.

China.

- After a concerted effort to get on top of the virus outbreak in Quarter 1 2020, economic recovery was strong in the rest of 2020. This enabled China to recover all the initial contraction. During 2020, policy makers both quashed the virus and implemented a programme of monetary and fiscal support that was particularly effective at stimulating short-term growth. At the same time, China's economy benefited from the shift towards online spending by consumers in developed markets. These factors helped to explain its comparative outperformance compared to western economies during 2020 and earlier in 2021.
- However, the pace of economic growth fell back in 2021 after an initial surge of recovery from the pandemic and looks likely to be particularly weak in 2022. China has been struggling to contain the spread of the Delta variant through using sharp local lockdowns, which depress economic growth. Chinese consumers are also very wary about leaving home and therefore, spending on services. However, with the Omicron variant having spread to China, and being much more easily transmissible, this strategy of sharp local lockdowns to stop the virus may not prove as successful in future. In addition, the current pace of providing boosters at 100 million per month will leave much of the 1.4 billion population exposed to the Omicron variant, and any further variants, for a considerable time. The People's Bank of China made a start in December 2021 on cutting its key interest rate marginally to stimulate economic growth. However, after credit has already expanded by around 25% in the last two years, it will probably leave the policy making for supporting growth to fiscal stimulus by Central and Local Government.
- Supply shortages, especially of coal for power generation, were causing widespread power cuts to industry during the second half of 2021 and so a sharp disruptive impact on some sectors of the economy. In addition, recent regulatory actions motivated by a political agenda to channel activities into officially approved directions, are also likely to reduce the dynamism and long-term growth of the Chinese economy.

Japan.

The year 2021 was been an irregular year in combating COVID. However, recent business surveys indicate that the economy rebounded rapidly in 2021 as the majority of the population is double vaccinated and new virus cases have reduced. The Bank of Japan is continuing its loose monetary policy but with little prospect of getting inflation back above 1% towards its target of 2% and inflation was negative in July 2021. New Prime Minister Kishida having won the November 2021 General Election brought in a supplementary budget to boost growth, but it is unlikely to have a significant effect.

World Growth.

World growth was in recession in 2020 but recovered during 2021 until starting to lose momentum in the second half of the year, though overall growth for the year 2021 is expected to be about 6% and is forecast to be around 4-5% in 2022. Inflation has been rising due to increases in gas and electricity prices, shipping costs and supply shortages, although these should subside during 2022. While headline inflation will fall sharply, core inflation will probably not fall as quickly as central bankers would hope. It is likely that we are heading into a period where there will be a reversal of world globalisation and a decoupling of western countries from dependence on China to supply products, and vice versa. This is likely to reduce world growth rates from those in prior decades.

Supply Shortages.

The pandemic and extreme weather events, followed by a major surge in demand after lockdowns ended, have been highly disruptive of extended worldwide supply chains. Major queues of ships unable to unload their goods at ports in New York, California and China built up rapidly during quarters 2 and 3 of 2021 but then halved during quarter 4. Such issues have led to a misdistribution of shipping containers around the world and have contributed to a huge increase in the cost of shipping. Combined with a shortage of semi-conductors, these issues have had a disruptive impact on production in many countries. The latest additional disruption has been a shortage of coal in China leading to power cuts focused primarily on producers (rather than consumers), i.e., this will further aggravate shortages in meeting demand for goods. Many western countries are also hitting up against a difficulty in filling job vacancies. It is expected that these issues will be gradually reduce, but they are currently contributing to an upwards spike in inflation and shortages of materials and goods available to purchase.

Appendix 4: Treasury Management Practice (TMP1) – 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. A maximum of 50% will be held in aggregate in non-specified investment

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:

Specified Investments

	Minimum credit criteria / colour band	** Max % of total investments/ £ limit per institution	Max. maturity period
DMADF – UK Government Debt Management Account Deposit Facility	N/A	£40m	6 months
UK Government gilts	UK sovereign rating	£20m	12 months
UK Government Treasury bills	UK sovereign rating	£20m	12 months
Bonds issued by multilateral development banks	AAA	£10m	6 months
Money Market Funds Constant Net Asset Value (CNAV)	AAA	£20m	Liquid
Money Market Funds Low Volatility Net Asset Value (LVNAV)	AAA	£20m	Liquid
Money Market Funds Variable Net Asset Value (VNAV)	AAA	£20m	Liquid
Enhanced Cash Funds with a credit score of 1.25	AAA	£20m	Liquid
Enhanced Cash Funds with a credit score of 1.5	AAA	£20m	Liquid
Local Authorities	Yellow	£10m	12 months
Public Bodies	N/A	£10m	12 months
Term deposits with banks and building societies	Blue Orange Red Green No Colour	£20m £15m £10m £10m Not for use	12 months 12 months 6 months 100 days Not for use

Certificates of Deposits (CDs) or corporate bonds with banks and building societies	Blue Orange Red Green No Colour	£20m £15m £10m £10m Not for use	12 months 12 months 6 months 100 days Not for use
Gilt funds	UK sovereign rating	£10m	12 months
REPO's (Collateralised deposit)	100% Collateral	£5m	12 months
GMCA	Internal Due Diligence	£30m	12 months
GM Public Bodies	Internal Due Diligence	£30m	12 months

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

Non-specified Investments: A maximum of 50% will be held in aggregate in non-specified investments

Maturities in excess of 1 year

	* Minimum Credit Criteria	Use	£ limit per institution	Max. maturity period
Term deposits – local authorities and other public institutions	Yellow	In-house	£10m	5 years
Term deposits – banks and building societies	Yellow Purple	In-house	£10m £10m	5 years 2 years
Certificates of deposit issued by banks and building societies	Yellow Purple	In-house	£10m £10m	5 years 2 years
Certificates of deposit issued by banks and building societies	Short-term F1 Long-term AA	Fund Managers	£5m	2 years
Collateralised deposit	UK sovereign rating	In-house and Fund Managers	£5m	2 years
UK Government Gilts	UK sovereign rating	In-house and Fund Managers	£10m	5 years
Bonds issued by multilateral development banks	AAA	In-house and Fund Managers	£10m	3 years
Sovereign bond issues (other than the UK Government)	AAA	In-house and Fund Managers	£5m	2 years
Corporate bonds	Short-term F1 Long-term AA	In-house and Fund Managers	£5m	5 years
Green Energy Bonds	Internal Due Diligence	In-house and Fund Managers	£10m	10 years
Property Funds	Internal Due Diligence	In-house	£30m	10 years
Floating Rate Notes	Long Term A	In-house	£5m	5 years
REPO's (Collateralised deposit)	100% Collateral	In-house	£5m	5 years
GMCA	Internal Due Diligence	In-house	£30m	5 years
Covered Bonds	Long term A	In-house	£5m	5 years
UK Municipal Bonds Agency	Internal Due Diligence	In-house	£1m	10 years
Local Authority Fixed Income Fund	Internal Due Diligence	In-house	£5m	10 years
Unrated Bonds, backed by securitised Assets	Internal Due Diligence	In-house and fund managers	£5m	5 years
Asset Backed Pooled Investment Funds	Internal Due Diligence	In-house and fund managers	£5m	5 years
Fixed term deposits with variable rate and variable maturities	Internal Due Diligence	In-house and External Advice	£20m	50 years
Debt Financing	Internal Due Diligence & External Advice	In-house and External Advice	£30m	10 years

Appendix 5: Approved Countries for Investments (as at February 2022)

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 Norway and Luxembourg), have banks operating in sterling markets which have credit ratings of green or above in the Link credit worthiness service. The Council has traditional only dealt within the UK, however given that the soveign rating has dropped below other countries, consideration maybe given to maximaise investment returns in countries with a stronger rating, following discussion and advice with the Council's treasury advisors.

AAA

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

AA+

- Canada
- Finland
- U.S.A.

AA

- France

AA-

- Belgium
- U.K.

Appendix 6: Treasury Management Scheme of Delegation

The scheme of delegation is as follows:

Full Council is the responsible body for:

- receiving and reviewing reports on Treasury Management policies, practices and activities;
- the approval of the annual strategy, mid-year review and outturn report.
- approval of/amendments to the organisation's Treasury Management Policy Statement;
- budget consideration and approval;
- approval of the division of responsibilities;
- receiving and reviewing regular monitoring reports and acting on recommendations;

Cabinet is the responsible body for:

- considering the Treasury Management Policy and Procedures and making recommendations to the responsible body.
- considering Treasury Management reports and commending to Council.

Audit Committee is responsible for scrutiny:

- reviewing the Treasury Management Policy and Procedures and making recommendations to the responsible body.
- Reviewing Treasury Management reports and making recommendations to the responsible body.

Cabinet Member for Finance and and Low Carbon is responsible for:

- approving the selection of external service providers and agreeing terms of appointment

Note : The Policy Overview and Scrutiny Select Committee reviews and scrutinises the Annual Treasury Management Strategy report along with the suite of other budget reports (including the Capital Strategy).

Appendix 7: The Treasury Management Role of the Statutory Chief Finance Officer (Director of Finance)

The Statutory Chief Financial Officer will discharge the Treasury Management role by:

- recommending 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 Treasury 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 processes, and liaising with external audit;
- recommending the appointment of external service providers.
- preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments and treasury management, with a long term timeframe
- ensuring that the capital strategy is prudent, sustainable, affordable and prudent in the long term and provides value for money
- ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the authority
- ensuring that the authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing
- ensuring the proportionality of all investments so that the authority does not undertake a level of investing which exposes the authority to an excessive level of risk compared to its financial resources
- ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long term liabilities
- the provision to Members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees
- ensuring that Members are adequately informed and understand the risk exposures taken on by an authority
- ensuring that the authority has adequate expertise, either in house or externally provided, to carry out the above
- the 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;

- Ensuring appropriate training and qualifications (TMP10 and schedules), including how the relevant knowledge and skills in relation to non-treasury investments will be arranged.