Oldham Council

Report to Policy Overview and Scrutiny Committee

Treasury Management Strategy Statement 2023/24

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

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Reason for Decision

To present to Policy Overview and Scrutiny Committee, the strategy for 2023/24 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 2023/24 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 2023/24 covers two main areas.

1) Capital Issues:

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

2) 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 2023/24.

The report includes the most recently available economic background commentary which reflects the position at 22 December 2022.

The Treasury Management Strategy was considered by the Audit Committee on 16 January 2023 as it is the body charged with reviewing Treasury Management reports and making recommendations to the responsible body (i.e., Council). The Audit Committee was content to recommend the report to Cabinet and Council for approval.

The proposed Treasury Management Strategy is presented to the Policy Overview and Scrutiny Committee to enable scrutiny of the report so that any comments may be incorporated into the report before it is considered by Cabinet on 13 February 2023 and Council on 1 March 2023.

Recommendation

That the Policy Overview and Scrutiny Committee considers and commends to Cabinet as appropriate, 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 2.2.3;
4. Projected treasury position as at 31 March 2023 as per paragraph 2.4.3;
5. Treasury Limits as per section 2.5;
6. Borrowing Strategy for 2023/24 as per section 2.7;
7. Annual Investment Strategy as per section 2.11 including risk management and the creditworthiness policy at section 2.12; and
8. Level of investment in specified and non-specified investments detailed at Appendix 5.

Treasury Management Strategy Statement 2023/24 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 <u>Reporting Requirements – Capital Strategy</u>

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 is being 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.

1.7 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 Select Committee's role. The Audit Committee has already scrutinised the Treasury Management Strategy Statement for 2022/23 at its meeting on 16 January 2023.

1.8 Treasury Management Strategy for 2023/24

1.8.1 The strategy for 2023/24 covers two main areas:

1) Capital issues:

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

2) 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; and
- The policy regarding the use of external service providers.

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

1.9 Training

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.

1.9.2 Furthermore, a new introduction within the Code for 2023/24 states that they expect “all organisations to have a formal and comprehensive knowledge and skills or training policy for the effective acquisition and retention of treasury management knowledge and skills for those responsible for management, delivery, governance and decision making.

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

1.9.4 As a minimum, Authorities should carry out the following to monitor and review knowledge and skills:

a) Record attendance at training and ensure action is taken where poor attendance is identified.

b) Prepare tailored learning plans for treasury management officers and Council Members.

c) Require treasury management officers and Council Members to undertake self-assessment against the required competencies (as set out in the schedule that may be adopted by the organisation).

d) Have regular communication with officers and Council Members, encouraging them to highlight training needs on an ongoing basis.

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

1.9.6 The Council provided a training session for Audit Committee Members on 5 October 2021 which was led by and external trainer. Also, during 2022/23 externally facilitated general financial skills training was provided for Members on 22 June 2022 and also on 28

September 2022. To continue to meet these new requirements an assessment will be made as described in 1.9.5 above and training will be arranged to meet any training requirement identified during 2023/24.

1.9.7 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 2022/23 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 The 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, the Council's 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 the 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 2023/24 – 2025/26

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 2022/23 and estimates for the next three-year period, the timeframe required by CIPFA's guidance.

Capital Expenditure and Financing

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. 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	2021/22 Actual £'000	2022/23 Estimate £'000	2023/24 Estimate £'000	2024/25 Estimate £'000	2025/26 Estimate £'000
Corporate Services	2,003	2,500	4,238	2,738	234
Corporate / Information Technology	4,424	3,701	5,957	3,960	2,650
Children's Services	45,436	6,711	9,930	4,522	1,691
Communities & Reform	179	196	400	100	0
Community Health & Adult Social Care	2,439	2,365	2,343	2,343	1,826
Place and Economic Growth	21,828	43,640	71,148	69,051	24,540
Funds for Emerging Priorities	0	0	1,493	15,624	13,836
General Fund Services	**76,309**	**59,113**	**95,509**	**98,338**	**44,777**
Housing Revenue Account (HRA)	680	0	1,000	500	95
HRA	**680**	**0**	**1,000**	**500**	**95**
Commercial Activities / Non-Financial Investments	**0**	0	0	0	0
Commercial Activities / Non-Financial Investments	**0**	**0**	**0**	**0**	**0**
Total	**76,989**	**59,113**	**96,509**	**98,838**	**44,872**

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 2023/24 is currently expected to be £59.041m. 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	2021/22 Actual £'000	2022/23 Estimate £'000	2023/24 Estimate £'000	2024/25 Estimate £'000	2025/26 Estimate £'000
General Fund Services	76,309	59,113	95,509	98,338	44,777
HRA	680	0	1,000	500	95
Commercial Activities	0	0	0	0	0
Total	**76,989**	**59,113**	**96,509**	**98,838**	**44,872**
Financed by:					
Capital receipts	(11,861)	(6,163)	(6,946)	(3,488)	(1,056)
Capital grants - Ringfenced	(64,162)	(23,931)	(18,669)	(21,696)	(133)
Capital grants – Un-ringfenced		(13,396)	(10,853)	(9,433)	(3,580)
Revenue	(54)	(90)	0	0	0
HRA Resources	(912)	0	(1,000)	(500)	(95)
Net financing need for the year	**0**	**15,533**	**59,041**	**63,721**	**40,008**

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. The MRP Policy Statement is unchanged from that approved for 2022/23.

2.2.3 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 £193.864m of such schemes within the CFR for 2023/24, decreasing to £170.421m by 2025/26.

Table 3 - Capital Financing Requirement (CFR)

	2021/22 Actual £'000	2022/23 Estimate £'000	2023/24 Estimate £'000	2024/25 Estimate £'000	2025/26 Estimate £'000
Capital Financing Requirement (CFR)					
CFR - Services	468,895	464,182	501,132	539,674	551,420
CFR - Commercial Activities	0	0	0	0	0
Total CFR	**468,895**	**464,182**	**501,132**	**539,684**	**551,420**
Movement in CFR	**(22,818)**	**(4,713)**	**36,950**	**38,552**	**11,736**
Movement in CFR represented by					
Net financing need for the year	**0**	**15,533**	**59,041**	**63,721**	**40,008**
PFI Repayments	(20,449)	(8,912)	(10,672)	(11,365)	(12,078)
Less MRP/VRP and other financing movements	(2,369)	(11,334)	(11,419)	(13,876)	(16,194)
Movement in CFR	**(22,818)**	**(4,713)**	**36,950**	**38,552**	**11,736**

2.2.4 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 Council'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 in 2021/22 and 2022/23 an no investment in projects for yield is planned. Therefore, by approving these figures, the scale is considered proportionate to the Council's remaining activity.

Planned External Borrowing

2.2.5 The table below 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 2023/24.

Table 4 – Planned External Borrowing

External Borrowing	2022/23 Estimate £'000	2023/24 Estimate £'000	2024/25 Estimate £'000	2025/26 Estimate £'000
Service Expenditure	5,377	8,250	19,275	17,262
Regeneration	7,793	48,064	42,981	20,956
Preventative Action	2,363	2,727	1,465	1,790
Treasury Management	-	-	-	-
Projects for Yield	-	-	-	-
Total	**15,533**	**59,041**	**63,721**	**40,008**

2.3 Liability Benchmark

2.3.1 Another prudential indicator for 2023/24 is the Liability Benchmark (LB). The Council is required to estimate and measure the LB for the forthcoming financial year and the following two financial years, as a minimum, however CIPFA strongly recommends that this should be completed for a longer period as possible providing relevant accurate estimates on future capital schemes are available. The Liability Benchmark can be found at Appendix 2 and has been prepared to align to the five year capital strategy period.

2.3.2 There are four components to the LB:

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

2.3.3 The Liability Benchmark is effectively the Net Borrowing Requirement of a Local Authority plus a liquidity allowance. In its simplest form, it is calculated by deducting the amount of investable resources available on the balance sheet (reserves and cash flow balances) from the amount of outstanding external debt and then adding the minimum level of investments required to manage day-to-day cash flow.

2.3.4 CIPFA recommends that the optimum position for external borrowing should be at the level of the Liability Benchmark (i.e., all balance sheet resources should be used to maximise internal borrowing). If the outputs show future periods where external loans are less than the Liability Benchmark, then this indicates a borrowing requirement thus identifying where the Authority is exposed to interest rate, liquidity and refinancing risks. Conversely where external loans exceed the Liability Benchmark then this will highlight an overborrowed position which will result in excess cash in the organisation requiring investment thus exposing the Authority to credit and reinvestment risks and a potential cost of carry. As can be seen in Appendix 2, the Council's external loans are less than the Liability Benchmark, therefore shows a borrowing requirement which is in line with the Council's current strategy and financial planning.

2.4 Borrowing

2.4.1 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

2.4.2 The overall treasury management portfolio as at 31 March 2022 and the position as at January 2023 is shown below for both borrowing and investments.

Table 5 - Current Treasury Position

Treasury Investments/External Borrowing	Actual 31/03/2022 £'000	Actual 31/03/2022 %	Current January 2023 £'000	Current January 2023 %
Treasury Investments				
Banks	25,000	23.74%	35,000	39.11%
Local Authorities / Public Bodies	14,000	13.30%	15,000	16.76%
Building Societies	5,000	4.75%	0	0.00%
Money Market Funds	46,300	43.97%	24,500	27.37%
Total Managed in House	**90,300**	**85.75%**	**74,500**	**83.24%**
Property Funds	15,000	14.25%	15,000	16.76%
Total Managed Externally	**15,000**	**14.25%**	**15,000**	**16.76%**
Total Treasury Investments	**105,300**	**100.00%**	**89,500**	**100.00%**
Treasury External Borrowing				
PWLB	35,241	21.03%	35,241	21.89%
Lender Option Borrower Option (LOBO's)	85,500	51.02%	85,500	53.11%
Market	46,600	27.80%	40,000	24.85%
Temporary Borrowing	256	0.15%	256	0.16%
Total Treasury External Borrowing	**167,597**	**100.00%**	**160,997**	**100.00%**
Net Treasury Investments / (Borrowing)	**(62,297)**		**(71,497)**	

2.4.3 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 at 31 March 2023 and anticipated CFR at £464.182m, the forecast position of gross borrowing at £365.528m (debt at 31 March 2023 at £160.992m plus Closing Other Long Term Liabilities (OLTL) at 31 March 2023 of £204.536m) and an under borrowed position of £98.654m.

Table 6 - Current and Forecast Treasury Portfolio

	2021/22 Actual £'000	Forecast position as at 31/3/23 £'000	2023/24 Estimate £'000	2024/25 Estimate £'000	2025/26 Estimate £'000
External Debt					
Debt at 1 April	172,843	167,597	160,992	200,987	235,982
Actual/Expected change in debt	(5,246)	(6,605)	39,995	34,995	14,995
Debt at 31 March	167,597	160,992	200,987	235,982	250,977
Opening OLTL* at 1 April	224,405	213,448	204,536	193,864	182,499
Actual/ Expected change in OLTL	(10,957)	(8,912)	(10,672)	(11,365)	(12,078)
Closing OLTL at 31 March	213,448	204,536	193,864	182,499	170,421
Actual/ Forecast gross debt (borrowing requirement) at 31 March	**381,045**	**365,528**	**394,851**	**418,481**	**421,398**
The Capital Financing Requirement	**468,895**	**464,182**	**501,132**	**539,684**	**551,420**
Under / (over) borrowing	**87,850**	**98,654**	**106,281**	**121,203**	**130,022**

* Other Long-Term Liabilities

2.4.4 Table 6 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 2.7. 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 2023/24 and future years.

2.4.5 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 2023/24 and the following two financial years. This allows some flexibility for limited early borrowing for future years but ensures that borrowing is not undertaken for revenue or speculative purposes. It is clear from the table above that the Council's gross borrowing position remains within these limits.

2.4.6 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.

2.4.7 The Council should include within the forecast gross borrowing figures in Table 6, any debt that relates to commercial activities / non-financial investments. The Council has no external debt for commercial activities/non-financial investments 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).

2.5 Treasury Limits for 2023/24 to 2025/26

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

Operational Boundary

2.5.2 The forecast Operational Boundary for 2022/23 together with the proposed operational boundaries for 2023/24 to 2025/26 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	2022/23 Forecast £'000	2023/24 Estimate £'000	2024/25 Estimate £'000	2025/26 Estimate £'000
Borrowing	265,000	312,000	362,000	385,000
Other long term liabilities	207,500	196,500	185,500	173,500
Commercial activities / non-financial investments	0	0	0	0
Total	**472,500**	**508,500**	**547,500**	**558,500**

Authorised Limit

2.5.3 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.

2.5.4 Members are asked to consider the proposed Operational Boundary for each financial year from 2022/23 to 2025/26 as set out in Table 7 above and Authorised Limit as set out in Table 8 below:

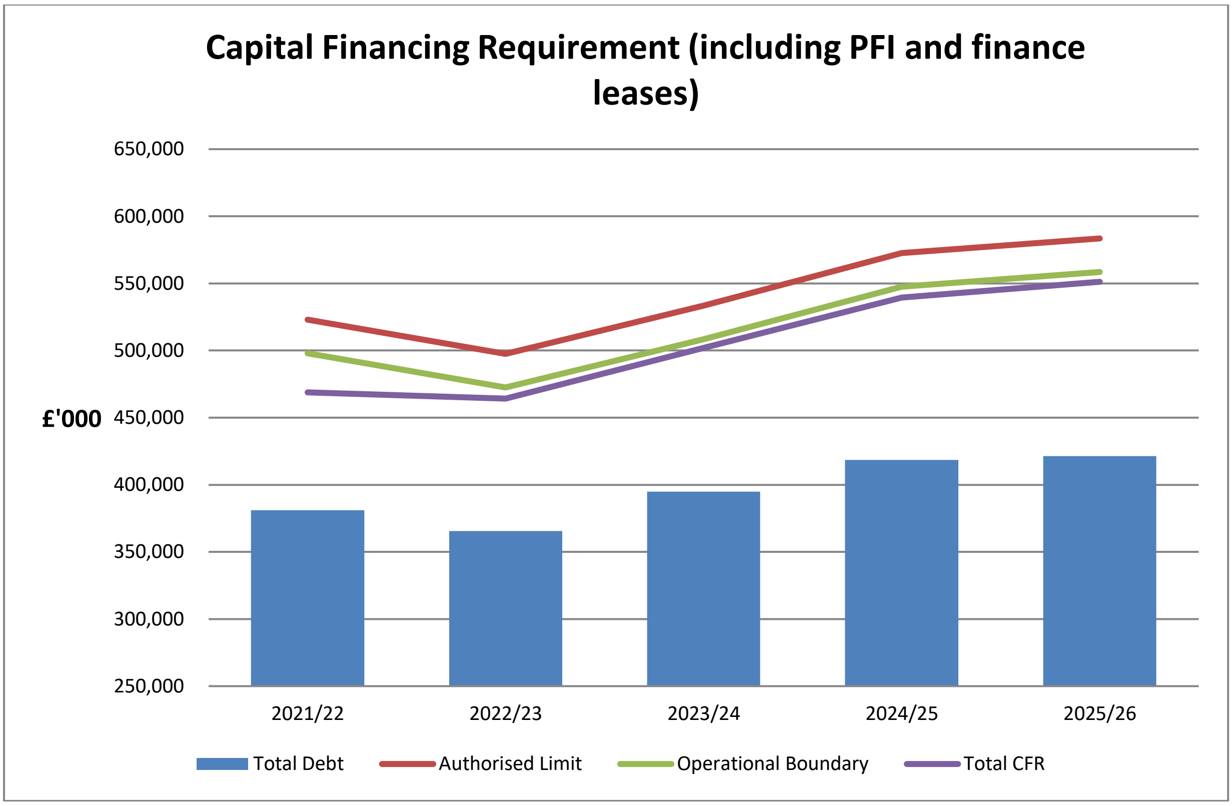
Table 8 - Authorised Limit

Authorised Limit	2022/23 Forecast £'000	2023/24 Estimate £'000	2024/25 Estimate £'000	2025/26 Estimate £'000
Borrowing	285,000	332,000	382,000	405,000
Other long term liabilities	212,500	201,500	190,500	178,500
Commercial activities / non-financial investments	0	0	0	0
Total	**497,500**	**533,500**	**572,500**	**583,500**

2.5.5 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 2021/22 £'000	2022/23 Estimate £'000	2023/24 Estimate £'000	2024/25 Estimate £'000	2025/26 Estimate £'000
General Fund CFR	468,895	464,182	501,132	539,684	551,420
Total CFR	**468,895**	**464,182**	**501,132**	**539,684**	**551,420**
External Borrowing	167,597	160,992	200,987	235,982	250,977
Other long term liabilities	213,448	204,536	193,864	182,499	170,421
Total Debt	**381,045**	**365,528**	**394,851**	**418,481**	**421,398**
Operational Boundary	498,000	472,500	508,500	547,500	558,500
Authorised Limit	523,000	497,500	533,500	572,500	583,500



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

2.6.1 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 looking forward from December 2022 to March 2026 as provided on 8 November 2022. 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 2022 to October 2023.

Table 10 - Interest Rate Forecast

Period Ending	Bank Rate	PWLB Borrowing Rates %			
	%	5 year	10 year	25 year	50 year
December 2022	3.50	4.30	4.50	4.70	4.30
March 2023	4.25	4.30	4.50	4.70	4.40
June 2023	4.50	4.20	4.40	4.60	4.30
September 2023	4.50	4.10	4.30	4.50	4.20
December 2023	4.50	4.00	4.20	4.40	4.10
March 2024	4.00	3.90	4.00	4.30	4.00
June 2024	3.75	3.80	3.90	4.10	3.80
September 2024	3.50	3.60	3.90	4.00	3.70
December 2024	3.25	3.50	3.60	3.90	3.60
March 2025	3.00	3.40	3.50	3.70	3.40
June 2025	2.75	3.30	3.40	3.60	3.30
September 2025	2.50	3.20	3.30	3.50	3.20
December 2025	2.50	3.10	3.20	3.50	3.20
March 2026	2.50	3.10	3.20	3.50	3.20

2.6.2 The Link central forecast reflects a view that the Monetary Policy Committee (MPC) will be keen to demonstrate its anti-inflation credentials by delivering a succession of rate increases. This has happened throughout 2022, but the new Government's policy of emphasising fiscal rectitude will probably mean Bank Rate does not now need to increase to further than 4.5%.

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

2.6.4 The Consumer Price Index (CPI) measure of inflation will peak at close to 11% in Quarter 4 2022. Despite the cost-of-living squeeze that is still taking shape, the Bank will want to see evidence that wages are not spiralling upwards in what is evidently a very tight labour market. Wage increases, excluding bonuses, are currently running at 5.7%.

2.6.5 Regarding the plan to sell £10bn of gilts back into the market each quarter (Quantitative Tightening), this has started but will focus on the short to medium end of the curve for the present. This approach will prevent any further disruption to the longer end of the curve following on from the short-lived effects of the Truss/Kwarteng unfunded dash for growth policy.

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

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

PWLB Rates

2.6.8 Yield curve movements have become less volatile under the Sunak/Hunt Government. PWLB 5 to 50 years Certainty Rates are, generally, in the range of 3.75% to 4.50%. The medium to longer part of the yield curve is currently inverted (yields are lower at the longer end of the yield curve compared to the short to medium end).

2.6.9 Link view the markets as having built in, already, nearly all the effects on gilt yields of the likely increases in Bank Rate and the poor inflation outlook but markets are volatile and further whipsawing of gilt yields across the whole spectrum of the curve is possible.

The Balance of Risks to the UK Economy

2.6.10 The overall balance of risks to economic growth in the UK is to the downside. Indeed, the Bank of England projected two years of negative growth in their November Quarterly Monetary Policy Report.

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

1. **Labour and supply shortages** prove more enduring and disruptive and depress economic activity (accepting that in the near-term this is also an upside risk to inflation and, thus, rising gilt yields).
2. **The Bank of England** acts too quickly, or too far, over the next two years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
3. **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.
4. **Geopolitical risks,** for example in Ukraine/Russia, China/Taiwan/US, Iran, North Korea and Middle Eastern countries, which could lead to increasing safe-haven flows.

Upside risks to current forecasts for UK gilt yields and PWLB rates include:

1. **The Bank of England is too slow** in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to build up too strongly and for a longer period within the UK economy, which then necessitates an even more rapid series of increases in Bank Rate faster than we currently expect.
2. **The Government** acts too slowly to increase taxes and/or cut expenditure to balance the public finances, in the light of the cost-of-living squeeze.
3. **The pound weakens** because of a lack of confidence in the UK Government's fiscal policies, resulting in investors pricing in a risk premium for holding UK sovereign debt.
4. Longer term **US treasury yields** rise strongly, if inflation numbers disappoint on the upside, and pull gilt yields up higher than currently forecast.

Borrowing advice

2.6.11 The Link long-term (beyond 10 years) forecast for Bank Rate stands at 2.5%. As all PWLB certainty rates are now above this level, borrowing strategies will need to be reviewed in that context. Better value can generally be obtained at the shorter end of the curve and short-dated fixed Local Authority to Local Authority monies should be considered. Temporary borrowing rates are likely, however, to remain near Bank Rate and may also prove attractive whilst the market waits for inflation, and therein gilt yields, to drop back later in 2023.

2.7 Borrowing strategy

2.7.1 The factors that influence the 2023/24 strategy are:

- The movement in CFR as set out in Table 3;
- Forthcoming ‘Option’ dates on £60.5m of Lender Option Borrower Option loans (LOBO’s) in 2023/24;
- 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 Programme.

2.7.2 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 medium and longer dated borrowing rates are expected to fall from their current levels once prevailing inflation concerns are addressed by tighter near-term monetary policy. That is, Bank Rate increases over the remainder of 2022 and the first half of 2023.

2.7.3 Against this background and the risks within the economic forecast, caution will be adopted with 2023/24 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, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.

2.7.4 The forecast gross borrowing requirement in Table 6 at 2.4.3 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.

2.7.5 During 2023/24, £60.5m 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	2023/24 Actual
Under 12 months	37.74%
12 months and within 24 months	0.00%
24 months and within 5 years	20.19%
5 years and within 10 years	4.81%
10 years to 20 years	3.11%
20 years to 30 years	3.11%
30 years to 40 years	3.11%
40 years to 50 years	15.53%
50 years to 60 years	12.42%

2.7.6 Due to the current interest rate forecast there is a possibility that some of these LOBO loans will be called.

2.7.7 The 2023/24 Capital Programme now shows anticipated prudential borrowing of £59.041m with £63.721m in 2024/25, £40.008m in 2025/26. These figures have been reflected in this report and factored into the borrowing strategy for 2023/24 and future years.

2.7.8 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.

2.7.9 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.

2.7.10 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.

2.8 <u>Policy on Borrowing in Advance of Need</u>

2.8.1 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.

2.8.2 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.

2.8.3 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.

2.9 Debt Rescheduling

2.9.1 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.

2.9.2 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).

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

2.10 New Financial Institutions as a Source of Borrowing

2.10.1 Currently the PWLB Certainty Rate is set at gilts + 80 basis points. 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, out of forward dates where the objectives is to avoid a "cost of carry" or to achieve refinancing certainty over the next few years).
- UK Municipal Bonds Agency. Members will recall that the Council has invested £0.100m in the UKMBA and would seek to make use of this source of borrowing as and when appropriate.

2.10.2 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

2.10.3 The table below is a new requirement for 2023/24 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	✔	✔

2.11 Annual Investment Strategy

Investment Policy – Management of Risk

2.11.1 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.

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 2021.

2.11.2 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.

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

2.11.4 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.

2.11.5 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 5 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.

2.11.6 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.

2.11.7 Lending limits, (amounts and maturity), for each counterparty, will be set through applying the matrix table in paragraph 2.12.3.

2.11.8 Transaction limits are set for each type of investment in 2.12.3.

2.11.9 The Council has set a limit for the amount of its investments which are invested for longer than 365 days, (see paragraph 2.14.8).

2.11.10 Investments will only be placed with counterparties from countries with a specified minimum sovereign rating, (see paragraph 2.13.2) and Appendix 6.

2.11.11 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.

2.11.12 All investments will be denominated in sterling.

2.11.13 As a result of the change in accounting standards for 2022/23 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 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. This has been extended for a further 2 years until 31 March 2025. (See paragraph 2.16.5).

2.11.14 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 2.15). Regular monitoring of investment performance will be carried out during the year.

2.11.15 The risk management criteria are unchanged from 2022/23.

2.12 Creditworthiness policy

2.12.1 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.

2.12.2 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.

2.12.3 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.

2.12.4 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.

2.12.5 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.

2.12.6 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.

2.12.7 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

2.12.8 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, more recently the UK sovereign debt rating has been placed on Negative Outlook by the three major rating agencies in the wake of the Truss/Kwarteng unfunded tax-cuts policy. Although the Sunak/Hunt Government has calmed markets, the outcome of the rating agency reviews is unknown at present, but it is possible the UK sovereign debt rating will be downgraded. Accordingly, when setting minimum sovereign debt ratings, this Authority will not set a minimum rating for the UK.

CDS Price

2.12.9 Although bank CDS prices (these are market indicators of credit risk), spiked upwards during the days of the Truss/Kwarteng Government, 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 monitors CDS prices as part of their creditworthiness service to Local Authorities and the Authority has access to this information via its Link-provided Passport portal.

2.13 Country and Sector Limits

2.13.1 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.

2.13.2 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 6. 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.

2.13.3 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 2.11.6) of the total treasury management investment portfolio.

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

2.13.5 Sector limits will continuously be monitored to ensure appropriateness.

2.14 Investment Strategy

2.14.1 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. The current shape of the yield curve suggests that is the case at present, but there is the prospect of Bank Rate peaking in the first half of 2023 and possibly reducing as early as the latter part of 2023 so an agile investment strategy would be appropriate to optimise returns.

2.14.2 Accordingly, while most cash balances are required in order to manage the ups and downs of cash flow, where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer-term investments will be carefully assessed.

2.14.3 The Council currently has four investments totalling £20m which span the financial years 2022/23 and 2023/24 as shown in Table 14.

Table 14 - The Investment maturing in 2023/24

Counterparty	Amount £	Maturity Date	Rate
Stirling Council	5,000,000	22/05/23	3.40%
Close Brothers	5,000,000	25/05/23	4.00%
Wrexham BC	5,000,000	22/06/23	3.50%
Close Brothers	5,000,000	29/06/23	4.10%
Total	**£20,000,000**		

2.14.4 The current forecast shown in paragraph 2.6.1, includes a further increase of the Bank Rate in March 2023. There are expected to be further changes during 2023 with Bank Rate reaching 4.50% in Q2 2023.

2.14.5 The suggested budgeted investment earnings rates for returns on investments placed for periods up to 100 days during each financial year are as follows:

- 2022/23 (remainder) 3.95%
- 2023/24 4.40%
- 2024/25 3.30%
- 2025/26 2.60%
- 2025/26 2.50%
- Years 6 to 10 2.80%
- Year 10 and over 2.80%

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

2.14.7 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

2.14.8 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	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Principal sums invested for longer than 365 days	£50m	£50m	£50m	£50m
Current investments as at January 2023 in excess of 1 year	£15m	£15m	£15m	£15m

2.15 Investment Risk Benchmarking

2.15.1 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:

- Liquid short term deposits of at least £10m available with a week's notice.

2.15.2 Yield - local measures of yield benchmarks above SONIA (Sterling Overnight Index Average):

- Investments – internal returns above the 7 day SONIA 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%

2.16 Other Treasury Management Issues

Environmental, Social & Governance (ESG) Considerations

2.16.1 Environmental, Social & Governance (ESG) considerations are becoming an increasingly important topic within the investment community. Whilst 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 2021 changes to the CIPFA Treasury Management Code sees ESG incorporated into Treasury Management Practice (TMP) 1, with the inclusion of the wording, 'the organisation's credit and counterparty policies should set out its policy and practices relating to environmental, social and governance (ESG) investment considerations. This is a developing area, and it is not implied that the organisation’s ESG policy will currently include ESG scoring or other real-time ESG criteria at individual investment level”.

2.16.2 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 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).

2.16.3 Due to the increasing significance of ESG, the Council’s treasury advisors are looking at ways of incorporating these factors into the creditworthiness assessment criteria. Other 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 Council’s treasury advisors and Credit Agencies and continue to review the options and will update Members accordingly. As no further information is available, it is not practicable to include ESG in the Treasury Management Strategy for 2023/24.

IFRS 9 – English Local Authorities

2.16.4 The former MHCLG now the DLUHC, enacted a statutory over-ride from 1 April 2018 for a five-year period until 31 March 2023 following the introduction of International Financial Reporting Standard (IFRS) 9. The override related to the requirement for any unrealised capital gains or losses on marketable pooled funds to be chargeable in year. This has the effect of allowing any unrealised capital gains or losses arising from qualifying investments to be held on the balance sheet until 31 March 2023. The intension was to allow Authorities to initiate an orderly withdrawal of funds if required, to mitigate any potential impact following the introduction of IFRS 9.

2.16.5 DLUHC launched an 8-week consultation on the future of the IFRS 9 statutory override from 11 August 2022 to 7 October 2022. The aim of this consultation was to collect the views of Authorities and other stakeholders, and to collect additional information needed to understand the financial risks associated with both continuing the statutory override or allowing reversion to the Code of Practice on Local Authority Accounting. The responses to the consultation have now been considered and Ministers have decided to extend the existing IFRS 9 statutory accounting override for a further 2 years until 31 March 2025. DLUHC will publish the Government’s full response to the consultation early 2023.

3 Options/Alternatives

3.1 In order to comply with the CIPFA Code of Practice on Treasury Management, the Policy Overview and Scrutiny Committee is requested to scrutinise and comment upon the content of this report. Therefore, no options/alternatives have been presented.

4 Preferred Option

4.1 The preferred option is that the Policy Overview and Scrutiny Committee considers the report and advises of any comments.

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 2023/24 by the Policy

Overview and Scrutiny Committee is a key strand in the consultation process. The report has also been scrutinised by the Audit Committee at its meeting on 16 January 2023. The Audit Committee was content to recommend the report to Cabinet and Council for approval.

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-26-22

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 2023/24 – 2024/25
Appendix 3	Link Group – Interest Rate Forecasts 2022 – 2025
Appendix 4	Economic Background
Appendix 5	Treasury Management Practice (TMP1) – Credit and Counterparty Risk Management
Appendix 6	Approved Countries for Investments
Appendix 7	Treasury Management Scheme of Delegation
Appendix 8	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 (DLUHC) (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 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 2023/24 – 2025/26

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	2021/22 Actual £'000	2022/23 Estimate £'000	2023/24 Estimate £'000	2024/25 Estimate £'000	2025/26 Estimate £'000
Corporate Services	2,003	2,500	4,238	2,738	234
Corporate / Information Technology	4,424	3,701	5,957	3,960	2,650
Children's Services	45,436	6,711	9,930	4,522	1,691
Communities & Reform	179	196	400	100	0
Community Health & Adult Social Care	2,439	2,365	2,343	2,343	1,826
Place and Economic Growth	21,828	43,640	71,148	69,051	24,540
Funding for Emerging Priorities	0	0	1,493	15,624	13,836
General Fund Services	**76,309**	**59,113**	**95,509**	**98,338**	**44,755**
Housing Revenue Account (HRA)	680	0	1,000	500	95
HRA	680	**0**	**1,000**	**500**	**95**
Commercial Activities / Non-Financial Investments *	0	0	0	0	0
Commercial Activities / Non-Financial Investments	**0**	**0**	**0**	**0**	**0**
Total	**76,989**	**59,113**	**96,509**	**98,838**	**44,850**

* 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.

	2021/22 Actual £'000	2022/23 Estimate £'000	2023/24 Estimate £'000	2024/25 Estimate £'000	2025/26 Estimate £'000
General Fund excluding DSG*	9.65%	9.63%	11.19%	12.27%	12.89%

*Dedicated Schools Grant

The estimates of financing costs include anticipated current commitments

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 2023/24	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%

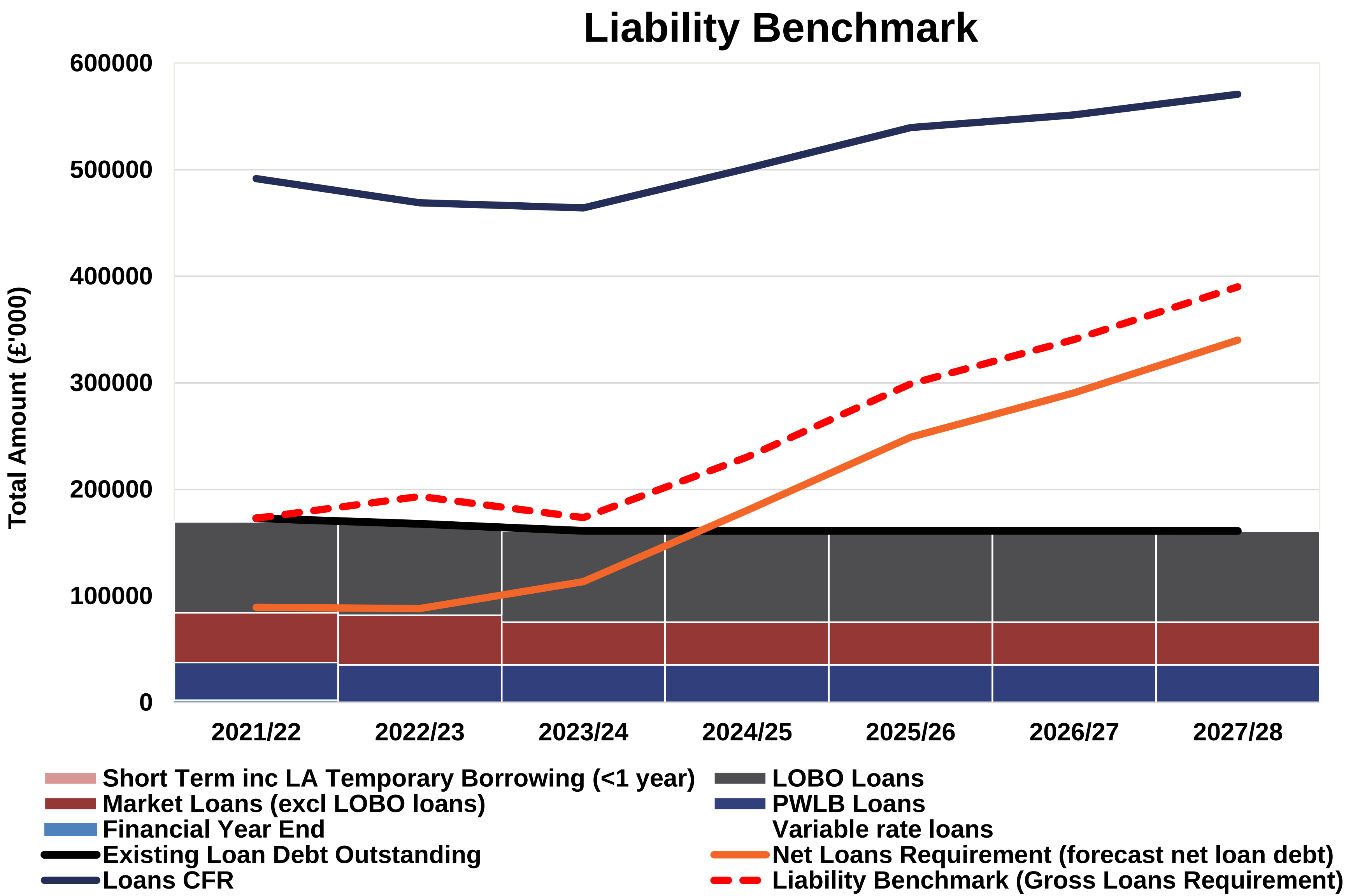
Control of interest rate exposure

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.

Liabilty Benchmark



Appendix 3 - Interest Rate Forecasts 2022 – 2025

PWLB forecasts shown below have taken into account the 20 basis point certainty rate reduction effective as of the 1st November 2022.

Link Group Interest Rate View	08.11.22												
	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
BANK RATE	3.50	4.25	4.50	4.50	4.50	4.00	3.75	3.50	3.25	3.00	2.75	2.50	2.50
3 month ave earnings	3.60	4.30	4.50	4.50	4.50	4.00	3.80	3.30	3.00	3.00	2.80	2.50	2.50
6 month ave earnings	4.20	4.50	4.60	4.50	4.20	4.10	3.90	3.40	3.10	3.00	2.90	2.60	2.60
12 month ave earnings	4.70	4.70	4.70	4.50	4.30	4.20	4.00	3.50	3.20	3.10	3.00	2.70	2.70
5 yr PWLB	4.30	4.30	4.20	4.10	4.00	3.90	3.80	3.60	3.50	3.40	3.30	3.20	3.10
10 yr PWLB	4.50	4.50	4.40	4.30	4.20	4.00	3.90	3.70	3.60	3.50	3.40	3.30	3.20
25 yr PWLB	4.70	4.70	4.60	4.50	4.40	4.30	4.10	4.00	3.90	3.70	3.60	3.50	3.50
50 yr PWLB	4.30	4.40	4.30	4.20	4.10	4.00	3.80	3.70	3.60	3.40	3.30	3.20	3.20

Appendix 4: Economic Background

Set out below is a more detailed analysis of the Economic Background used to support the preparation of the 2023/24 Treasury Management Strategy Statement.

Against a backdrop of stubborn inflationary pressures, the easing of COVID restrictions in most developed economies, the Russian invasion of Ukraine, and a range of different UK Government policies, it is no surprise that UK interest rates have been volatile right across the curve, from Bank Rate through to 50-year gilt yields, for all of 2022.

Market commentators' misplaced optimism around inflation has been the root cause of the rout in the bond markets with, for example, UK, Eurozone (EZ) and US 10-year yields all rising by over 200 basis points (bps) since the turn of the year. The table below provides a snapshot of the conundrum facing central banks: inflation is elevated but labour markets are extra-ordinarily tight, making it an issue of fine judgment as to how far monetary policy needs to tighten.

	UK	Eurozone	US
Bank Rate	3.0%	1.5%	3.75%-4.00%
GDP	-0.2%q/q Q3 (2.4%y/y)	+0.2%q/q Q3 (2.1%y/y)	2.6% Q3 Annualised
Inflation	11.1%y/y (Oct)	10.0%y/y (Nov)	7.7%y/y (Oct)
Unemployment Rate	3.6% (Sep)	6.6% (Sep)	3.7% (Aug)

Quarter 2 (Q2) of 2022 saw UK Gross Domestic Product (GDP) revised upwards to +0.2% quarter on quarter (q/q), but this was quickly reversed in the third quarter, albeit some of the fall in GDP can be attributed to the extra Bank Holiday in the wake of the Queen's passing. Nevertheless, Consumer Price Index (CPI) inflation has picked up to what should be a peak reading of 11.1% in October 2022, although with further increases in the gas and electricity price caps pencilled in for April 2023, and the cap potentially rising from an average of £2,500 to £3,000 per household, there is still a possibility that inflation will spike higher again before dropping back slowly through 2023.

The UK unemployment rate fell to a 48-year low of 3.6%, and this despite a net migration increase of c500k. The fact is that with many economic participants registered as long-term sick, the UK labour force actually reduced by c500k in the year to June. Without an increase in the labour force participation rate, it is hard to see how the UK economy will be able to grow its way to prosperity, and with average wage increases running at 5.5% - 6% the MPC will be concerned that wage inflation will prove just as sticky as major supply-side shocks to food and energy that have endured since Russia's invasion of Ukraine on 22 February 2022.

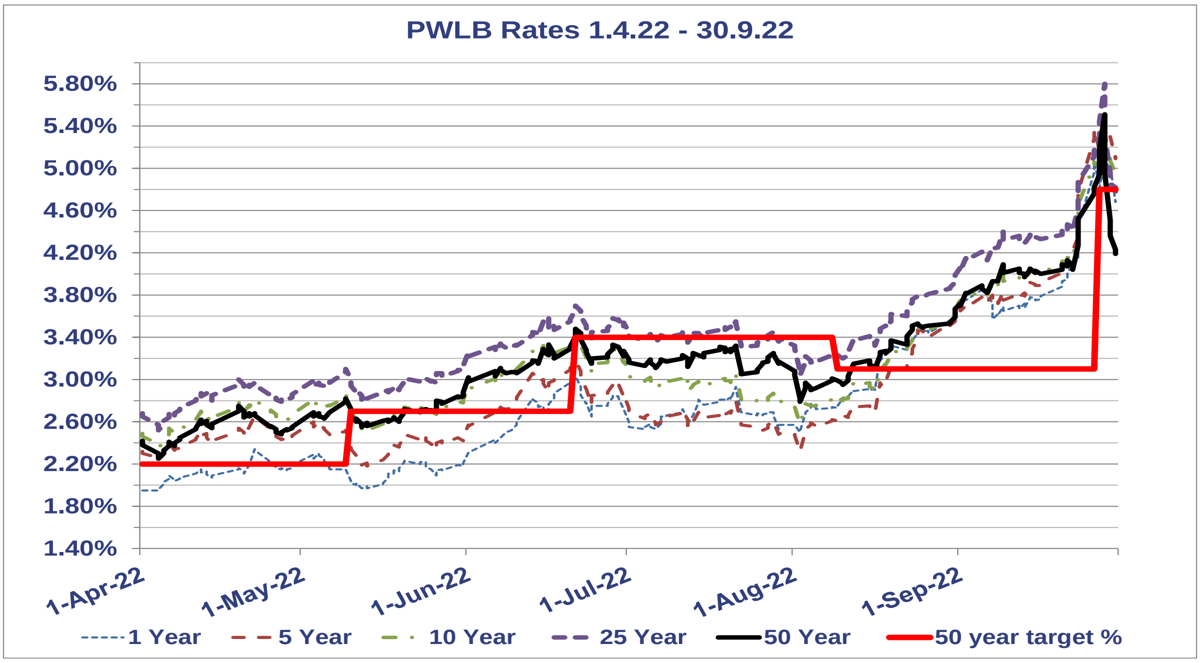
Throughout Quarter 3 (Q3) Bank Rate increased, finishing the quarter at 2.25% (an increase of 1%). Quarter 4 (Q4) has seen rates rise to 3% in November and the market expects Bank Rate to hit 4.5% by May 2023.

Following a Conservative Party leadership contest, Liz Truss became Prime Minister for a tumultuous seven weeks that ran through September and October 2022. Put simply, the markets did not like the unfunded tax-cutting and heavy spending policies put forward by her Chancellor Kwasi Kwarteng, and their reign lasted barely seven weeks before being replaced by Prime Minister Rishi Sunak and Chancellor Jeremy Hunt. Their Autumn Statement of 17th November gave rise to a net £55bn fiscal tightening, although much of the "heavy lifting" has been left for the next Parliament to deliver. However, the markets liked what they heard, and UK gilt yields have completely reversed the increases seen under the previous tenants of No10/11 Downing Street.

Globally, though, all the major economies are expected to struggle in the near term. The fall below 50 in the composite Purchasing Manager Indices for the UK, US, EZ and China all point to at least one if not more quarters of GDP contraction. In November, the MPC projected eight quarters of negative growth for the UK lasting throughout 2023 and 2024, but with Bank Rate set to peak at lower levels than previously priced in by the markets and the fiscal tightening deferred to some extent, it is not clear that things will be as bad as first anticipated by the Bank.

Sterling has strengthened of late, recovering from a record low of $1.035, on the Monday following the Truss government's "fiscal event", to $1.20. Notwithstanding the £'s better run of late, 2023 is likely to see a housing correction of some magnitude as fixed-rate mortgages have moved above 5% and affordability has been squeezed despite proposed Stamp Duty cuts remaining in place.

In the table below, the rise in gilt yields, and therein PWLB rates, through the first half of 2022/23 is clear to see.



However, the peak in rates on 28 September 2022 as illustrated in the table covering April to September 2022 below, has been followed by the whole curve shifting ever lower. PWLB rates at the front end of the curve are generally over 1% lower now whilst the 50 years is over 1.75% lower.

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	1.95%	2.18%	2.36%	2.52%	2.25%
Date	01/04/2022	13/05/2022	04/04/2022	04/04/2022	04/04/2022
High	5.11%	5.44%	5.35%	5.80%	5.51%
Date	28/09/2022	28/09/2022	28/09/2022	28/09/2022	28/09/2022
Average	2.81%	2.92%	3.13%	3.44%	3.17%
Spread	3.16%	3.26%	2.99%	3.28%	3.26%

After a shaky start to the year, the Standard & Poor (S&P) 500 and Financial Times Stock Exchange Group (FTSE) 100 have climbed in recent weeks, albeit the former is still 17% down and the FTSE 2% up. The German DAX is 9% down for the year.

CENTRAL BANK CONCERNS – NOVEMBER 2022

At the start of November, the US Federal Reserve (Fed) decided to push up US rates by 0.75% to a range of 3.75% - 4%, whilst the MPC followed a day later by raising Bank Rate from 2.25% to 3%, in line with market expectations. EZ rates have also increased to 1.5% with further tightening in the pipeline.

Having said that, the press conferences in the US and the UK were very different. In the US, Fed Chair, Jerome Powell, stated that rates will be elevated and stay higher for longer than markets had expected. Governor Bailey, here in the UK, said the opposite and explained that the two economies are positioned very differently so you should not, therefore, expect the same policy or messaging.

Regarding UK market expectations, although they now expect Bank Rate to peak within a lower range of 4.5% - 4.75%, caution is advised as the Bank of England Quarterly Monetary Policy Reports have carried a dovish message over the course of the last year, only for the Bank to have to play catch-up as the inflationary data has proven stronger than expected.

In addition, the Bank's central message that GDP will fall for eight quarters starting with Q3 2022 may prove to be a little pessimistic. Will the £160bn excess savings accumulated by households through the COVID lockdowns provide a spending buffer for the economy – at least to a degree? Ultimately, however, it will not only be inflation data but also employment data that will mostly impact the decision-making process, although any softening in the interest rate outlook in the US may also have an effect (just as, conversely, greater tightening may also).

Appendix 5: 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 6: Approved Countries for Investments (as at December 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
- Netherlands
- Norway
- Sweden
- Switzerland

AA+

- Canada
- Finland
- U.S.A.

AA

- France

AA-

- Belgium
- U.K.

Appendix 7: 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 8: 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;
- the 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 the 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.