APPENDIX 6

TREASURY MANAGEMENT STRATEGY STATEMENT 2022/23 TO 2024/25

1. Introduction

Treasury management is the management of the Council's cash flows, borrowing and investments, and the associated risks. The Council has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of financial risk are therefore central to the Council's prudent financial management.

Treasury risk management at the Council is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2017 Edition* (the CIPFA Code) which requires the Council to approve a treasury management strategy before the start of each financial year. This report fulfils the legal obligation under the *Local Government Act 2003* to have regard to the CIPFA Code.

Investments are addressed separately in the Investments Strategy 2022/23 to 2024/25 as set out in appendix 7 of this report.

For the purpose of setting the 2022/23 budget, it has been assumed that new treasury management investments will be made at an average rate of 0.15%, and that new borrowing will be long-term loans at an average rate of 2.00%.

2. Current Debt and Investment Position

The Council's current debt and investment position is as follows:

	Actual at 31 December 2021 £000	Estimate at 31 March 2022 £000
Fixed Rate Debt		
PWLB	80,896	86,396
Market	3,000	3,000
Variable Rate Debt		
PWLB	5,600	4,500
Market	-	5,000
Crematorium	540	500
Total Debt	**90,036**	**99,396**
Total Investments	**(24,418)**	**(10,533)**
Net Borrowing	**65,618**	**88,863**

The fixed rate debt shown above consists of fixed rate loans totalling £86.4 million from the PWLB that are due to be re-paid in at least one years' time and a loan of £3.0 million at 4.19% from Barclays Bank that is due to mature on 4 February 2073.

The table also includes the potential need to borrow up to £10 million before 31 March 2022 for the purpose of re-financing internal borrowing previously used to fund the capital programme. If this action is required, it is anticipated that long-term PWLB borrowing will be increased by £5 million with the remainder being taken as short-term loans.

The variable rate debt shown above relates to fixed rate loans from the PWLB, other public sector bodies or other institutions that are due to mature within one year and therefore likely to be replaced by further loans but at a different rate of interest from the current rate.

The crematorium debt relates to surplus cash balances of the Bramcote Crematorium that the Council invests on its behalf to generate a suitable return. This fluctuates in accordance with the Bramcote Crematorium's cash inflows and outflows. There is no other variable rate debt.

The Council's existing debt portfolio (including Bramcote Crematorium) is estimated to total £99.4 million at 31 March 2022 as shown above. The optimum debt level for the Council as defined by the CFR is estimated at £112.5 million at 31 March 2022 and therefore the estimated level of borrowing is below the optimum level.

As set out in section 4 below, the Council is permitted to borrow in advance of need given that certain criteria are met. The Council has loans totalling £4.5 million that are due to mature within the next 12 months. These loans may not necessarily be replaced with loans of a similar value when they mature and whether or not they are replaced will in part depend upon the Council's cashflow position at the time.

The majority of the investments should be regarded as the investment of the Council's revenue reserves, including the General Fund balance and the HRA balance, provisions and unapplied capital contributions.

3. Capital Financing Requirement

The Capital Financing Requirement (CFR) represents the Council's underlying need to borrow for capital purposes. It is the total outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. The CFR will change each year in accordance with the value of the approved capital programme and the financing available. The capital expenditure above which has not been financed from available internal resources or from grants or third party contributions will increase the CFR.

	2021/22 Revised £000	2022/23 Estimate £000	2023/24 Estimate £000	2024/25 Estimate £000
Capital Financing Requirement				
CFR – General Fund	29,660	29,480	29,539	28,743
CFR – HRA	82,881	86,174	93,022	95,497
Total CFR – 31 March	**112,541**	**115,654**	**122,561**	**124,240**
Movement in CFR represented by:				
Borrowing need for the year	7,543	4,437	8,327	3,287
MRP/VRP/other financing movements	(1,125)	(1,324)	(1,420)	(1,608)
Movement in CFR	**6,418**	**3,113**	**6,907**	**1,679**

The Council has an increasing CFR over the period shown due to the capital programme. The Council's current strategy is to maintain borrowing and investments below their underlying levels. This is sometimes referred to as 'internal borrowing'.

CIPFA's *Prudential Code for Capital Finance in Local Authorities* recommends that the Council's total debt should be lower than its highest forecast CFR over the next three years. The table below shows that the Council met this requirement in 2020/21 and is also expected to comply with this requirement in the following three years.

	2021/22 Revised £000	2022/23 Estimate £000	2023/24 Estimate £000	2024/25 Estimate £000
Gross Borrowing				
- PWLB and Market	98,896	108,896	112,096	122,161
- Bramcote Crematorium	500	400	400	400
Net Borrowing – 31 March	**99,396**	**109,296**	**112,496**	**122,561**
Capital Financing Requirement				
CFR – General Fund	29,660	29,480	29,539	28,743
CFR – HRA	82,881	86,174	93,022	95,497
Total CFR – 31 March	**112,541**	**115,654**	**122,561**	**124,240**

4. Borrowing Strategy

The Council currently holds £90 million of loans, a decrease of £12 million on the previous year, as part of the strategy for funding previous years' capital programmes. During 2021/22, eight short-term loans totalling £20 million have been repaid, whilst two long-term PWLB loans totalling £7 million have been added to the Council's debt portfolio, along with an increase in borrowing from the Bramcote Crematorium.

The Council plans additional borrowing of up to £20 million during the remainder of 2021/22 and throughout 2022/23, although it is expected that some of this will be repaid before 31 March 2023. The Council may also borrow additional sums to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing of £138.9 million in 2022/23.

i) Objectives

The Councils primary objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should the Council's long-term plans change is a secondary objective.

ii) Strategy

Given the significant cuts to public expenditure and in particular to local government funding, the Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. In recent years the Council has focused on short-term borrowing for its debt financed expenditure. However, a shift towards long-term borrowing, through the PWLB, began in 2021/22 and is set to continue into 2022/23 and beyond. This is primarily due to two factors. Firstly, a large proportion of the Council's capital expenditure is on long-life assets, such as the new build housing developments planned or in progress, and long-term borrowing better aligns to the revenue income generated by these assets. In addition, the PWLB certainly rate is low when compared to previous years, making it more competitive with short-term rates.

Where possible internal resources will be used to fund capital expenditure as this allows the Council to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. However, given the Council's extensive capital programme, it is inevitable that substantial borrowing will need to take place. The benefits of using long-term borrowing will be monitored regularly and the Council's treasury management advisors will assist the Council with this 'cost of carry' and breakeven analysis. The output may determine whether the Council borrows additional sums at long-term fixed rates in 2022/23 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

The Council has previously raised the majority of its long-term borrowing from the PWLB but will consider long-term loans from other sources including banks, pensions and local authorities in order to lower interest costs and reduce over-reliance on one source of funding in line with the CIPFA Code. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield but as the Council does not have such plans then the PWLB should continue to be a potential source of long-term borrowing for the Council.

Alternatively, the Council may arrange forward starting loans where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.

The Council may also borrow further short-term loans to cover unplanned cash flow shortages.

iii) Sources of Borrowing

The approved sources of long-term and short-term borrowing are:

- Public Works Loan Board (PWLB) and any successor body
- any institution approved for investments (see below)
- any other bank or building society authorised to operate in the UK
- any other UK public sector body
- UK public and private sector pension funds
- capital market bond investors
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues

iv) Other Sources of Debt Finance

Capital finance may also be raised by the following methods which, whilst they are not borrowing, may be classed as other debt liabilities:

- Leasing
- Hire purchase
- Private Finance Initiative
- Sale and leaseback.

v) Municipal Bonds Agency

UK Municipal Bonds Agency plc was established in 2014 by the Local Government Association as an alternative to the PWLB. It plans to issue bonds on the capital markets and lend the proceeds to local authorities. This will be a more complicated source of finance than the PWLB for the following reasons:

- borrowing authorities will be required to provide bond investors with a guarantee to refund their investment in the event that the agency is unable to for any reason
- there will be a lead time of several months between committing to borrow and knowing the interest rate payable

Any decision to borrow from the Municipal Bonds Agency will therefore be the subject of a separate report to the Finance and Resources Committee (or equivalent).

vi) Short-Term and Variable Rate Loans

These loans leave the Council exposed to the risk of short-term interest rate rises and are therefore subject to the interest rate exposure limits in the treasury management indicators below. Financial derivatives may be used to manage this interest rate risk (see section below).

vii) Debt Rescheduling

The PWLB allows local authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The Council may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk.

5. Investment Strategy

The Council holds significant investments, representing income received in advance of expenditure plus balances and reserves held. Since April 2021, the Council's investment balance has ranged between £10 million and £25 million and similar levels are expected to be maintained in the forthcoming year.

i) Objectives

The CIPFA Code requires the Council to invest its funds prudently and to have regard to the security and liquidity of its investments before seeking the highest rate of return (or yield). The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the Council will aim to achieve a total return that is equal or higher than the prevailing rate of inflation in order to maintain the spending power of the sum invested.

The Council will also consider the environmental, social and governance (ESG) aspects in its investing and banking which have come into prominence over recent years. Counterparties which are highly rated for ESG will be prioritised for investing, subject to the primary objectives of security and liquidity being achieved. Any significant impact on yield when compared to other investment options, equivalent to £5,000 per annum, will require the prior approval of the Deputy Chief Executive and Section 151 Officer, in conjunction with the Chair of the Finance and Resources Committee (or equivalent). All transactions with counterparties that are highly rated for ESG where the yield is lower than the market optimisation will be reported in the treasury management update reports to the Finance and Resources Committee (or equivalent).

ii) Negative Interest Rates

If the United Kingdom was to enter into a recession, there is a small chance that the Bank of England could set its Bank Rate at or below zero, which is likely to feed through to negative interest rates on all low risk, short-term investment options. This situation has occurred in other European countries. In this event, security will be measured as receiving the contractually agreed amount at maturity, even though this may be less than the amount originally invested.

iii) Strategy

Given the increasing risk and low returns from short-term unsecured bank investments, the Council continues to diversify into more secure and/or higher yielding asset classes. This is especially the case for the £8.0 million that is available for longer-term investment. The remainder of the Council's surplus cash is currently invested in short-term unsecured bank deposits and money market funds. This diversification will represent a continuation of the strategy followed in 2021/22.

iv) Business Models

Under the IFRS 9 standard, the accounting for certain investments depends on the Council's 'business model' for managing them. The Council aims to achieve value from its internally managed treasury investments by a business model of collecting the contractual cash flows and therefore, where other criteria are also met, these investments will continue to be accounted for at amortised cost.

v) Approved Counterparties

The Council may invest its surplus funds with any of the counterparty types in the table below, subject to the cash limits per counterparty and time limits shown:

Credit Rating	**Banks Unsecured**	**Banks Secured**	**Government**	**Corporates**	**Registered Providers**
UK Government	n/a	n/a	Unlimited 50 Years	n/a	n/a
AAA	£5m 2 Years	£5m 5 Years	£5m 2 Years	£5m 2 Years	£5m 2 Years
AA+	£5m 2 Years	£5m 5 Years	£5m 2 Years	£5m 2 Years	£5m 2 Years
AA	£5m 2 Years	£5m 5 Years	£5m 2 Years	£5m 2 Years	£5m 2 Years
AA-	£5m 2 Years	£5m 5 Years	£5m 2 Years	£5m 2 Years	£5m 2 Years
A+	£5m 2 Years	£5m 5 Years	£5m 2 Years	£5m 2 Years	£5m 2 Years
A	£5m 13 Months	£5m 2 Years	£5m 5 Years	£5m 2 Years	£5m 5 Years
A-	£5m 6 Months	£5m 13 Months	£5m 13 Months	£5m 13 Months	£5m 13 Months
Unrated (UK Local Authorities)	n/a	n/a	£5m 2 Years	n/a	n/a
Pooled Funds and REITS			£5m per Fund		

vi) Credit Rating

Investment limits are set by reference to the lowest published long-term credit rating from a selection of external rating agencies. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings and all other relevant factors, including external advice, will be taken into account.

vii) Counterparty Types

The counterparty types are defined as follows:

a. Banks Unsecured – These are accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies (other than multilateral development banks). These investments are subject to the risk of credit loss via a ‘bail-in’ should the regulator determine that the bank is failing or likely to fail. Arrangements relating to operational bank accounts are set out below.

b. Banks Secured – These are covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank’s assets, which limits the potential losses in the unlikely event of insolvency and means that they are exempt from bail-in. Where there is no investment specific credit rating but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

c. Government – This includes loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in arrangements and, whilst there is generally a lower risk of insolvency, they are not zero risk. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years. Investments with UK local authorities are limited per authority to £5m and 2 years.

d. Corporates – These are loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in but are exposed to the risk of the company going insolvent. Loans to unrated companies will only be made as part of a diversified pool in order to spread the risk more widely.

e. Registered Providers – These are loans and bonds issued by, guaranteed by or secured on the assets of registered providers of social housing and registered social landlords, formerly known as housing associations. These bodies are tightly regulated by the Regulator of Social Housing and, as providers of public services, they retain the likelihood of receiving government support if needed.

f. Pooled Funds – These are shares or units in diversified investment vehicles consisting of the any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Short-term money market funds that offer same-day liquidity and very low or no volatility will be used as an alternative to instant access bank accounts while pooled funds whose value changes with market prices and/or have a notice period will be used for longer investment periods. Bond, equity and property funds offer enhanced returns over the longer term but are more volatile in the short term. These allow the Council to diversify into asset classes other than cash without the need to own and manage the underlying investments. Since these funds have no defined maturity date but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Council's investment objectives will be monitored regularly.

g. Real Estate Investment Trusts (REITs) – These are shares in companies that invest mainly in real estate and pay the majority of their rental income to investors in a similar manner to pooled property funds. As with property funds, REITs offer enhanced returns over the longer term but are more volatile, especially as the share price reflects changing demand for the shares as well as changes in the value of the underlying properties. Investments in REIT shares cannot be withdrawn but can be sold on the stock market to another investor.

viii) Operational Bank Accounts

The Council may incur operational exposures, for example, though current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments, but are still subject to the risk of a bank 'bail-in' and balances will therefore be kept below £10 million per bank. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be 'bailed-in' than made insolvent, increasing the chance of the Council maintaining operational continuity.

ix) Risk Assessment and Credit Ratings

Credit ratings are obtained and monitored by the Council's treasury management advisors who will notify the Council if changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made
- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as 'rating watch negative' or 'credit watch negative') so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

x) Other Information on the Security of Investments

The Council understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support, reports in the quality financial press and analysis and advice from the Council's treasury management advisor. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may otherwise meet the above criteria.

When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2011, this is not generally reflected in credit ratings but can be seen in other market measures. In these circumstances, the Council will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Council's cash balances, the surplus will be deposited with the UK Government via the Debt Management Office or invested in government treasury bills or with other local authorities. This will cause a reduction in the level of investment income earned but will protect the principal sum invested.

xi) Investment Limits

The Council's General Fund revenue reserves would have to cover any investment losses. In order to ensure that available revenue reserves are not put at risk in the case of a single default, the maximum that will be lent to any one organisation (other than the UK Government) will be £5.0 million. A group of banks under the same ownership will be treated as a single organisation for limit purposes. Limits will also be placed on fund managers, investments in brokers' nominee accounts, foreign countries and industry sectors as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

	Cash limit
Any single organisation, except UK Central Government	£5.0m each
UK Central Government	Unlimited
Any group of organisations under the same ownership	£5.0m per group
Any group of pooled funds under the same management	£5.0m per manager
Registered providers and registered social landlords	£5.0m in total
Unsecured investments with building societies	£10.0m in total
Money Market Funds	£20.0m in total
Real Estate Investment Trusts	£5.0m in total

xii) Liquidity Management

The Council uses purpose-built cash flow forecasting software to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the Council being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Council's medium-term financial strategy and cash flow forecast.

6. Treasury Management Indicators

The Council measures and manages its exposures to treasury management risks using the following indicators:

i) Security

The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

Credit Risk Indicator	Target
Portfolio Average Credit Rating	A-

ii) Liquidity

The Council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three-month period, without additional borrowing.

Liquidity Risk Indicator	Target
Total cash available within 3 months	£10.0m

iii) Interest Rate Exposures

This indicator is set to control the Council's exposure to interest rate risk. The [upper limits on the one-year revenue impact of a 1% rise or fall in interest rates] will be:

Interest rate risk indicator	Limit
Upper limit on one-year revenue impact of a 1% rise in interest rates	£1.0m
Upper limit on one-year revenue impact of a 1% fall in interest rates	£1.0m

The impact of a change in interest rates is calculated on the assumption that maturing loans and investments will be replaced at current rates.

iv) Maturity Structure of Borrowing

This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of borrowing will be:

Refinancing Rate Risk Indicator	Upper limit	Lower limit
Under 12 months	50%	0%
12 months to 2 years	50%	0%
2 years to 5 years	50%	0%
5 years to 10 years	75%	0%
10 years to 20 years	100%	0%
20 years to 30 years	100%	0%
30 years to 40 years	100%	0%
40 years to 50 years	100%	0%
Over 50 years	100%	0%

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

v) Principal Sums Invested for Periods Longer than a Year

The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end will be:

Price Risk Indicator	2022/23 £m	2023/24 £m	2024/25 £m
Limit on principal invested beyond year end	£8.0m	£8.0m	£8.0m

7. Related Matters

The CIPFA Code requires the Council to include the following in its Treasury Management Strategy.

i) Financial Derivatives

Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. callable deposits). The general power of competence in Section 1 of the *Localism Act 2011* removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).

The Council will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Council is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit.

ii) Housing Revenue Account (HRA)

The reforms of the HRA subsidy system mean that the Council has not had to pay an annual subsidy from the HRA to the government since 2011/12. However, the Council is required to recharge interest expenditure and income attributable to the HRA in accordance with Determinations issued by the Department for Communities and Local Government (DCLG).

The Determinations do not set out a methodology for calculating the interest rate to use. The Council is therefore required to adopt a policy that will set out how interest charges attributable to the HRA will be determined. The CIPFA Treasury Management Code recommends that the Council set out their policy in the Treasury Management Strategy Statement.

Whilst there are a number of different approaches for the apportionment of interest expenditure and income between the HRA and General Fund, the Council adopted the 'one-pool' approach upon the commencement of HRA self-financing on 1 April 2012 and will continue to follow this approach in 2022/23. This involves having a single pool for all debt irrespective as to whether it arose pre or post HRA self-financing and whether or not debt can be explicitly attributed to either the HRA or the General Fund.

The one-pool approach is considered to be the easiest for the Council to manage from an administrative perspective and enables treasury risk to be managed for the Council as a whole.

Whilst the one-pool approach carries an element of interest rate risk as and when maturing debt needs to be replaced, given that HRA debt vastly exceeds General Fund debt and that no major debt replacement is anticipated for the new HRA debt within the first ten years, this risk is not considered to be significant.

Under the one-pool approach, interest on loans will be calculated in accordance with proper accounting practice. This will require interest to be apportioned between the HRA and the General Fund by applying the average interest rate on external debt to the relative HRA and General Fund Capital Financing Requirements (CFR).

Investment income will be apportioned to the HRA based upon the opening and closing HRA balances for the year and the interest rate used for calculating interest on loans.

iii) Markets in Financial Instruments Directive (MiFID)

The Council has opted up to professional client status with its providers of financial services (including advisors, banks, brokers and fund managers) allowing it access to a greater range of services but without the greater regulatory protections afforded to individuals and small companies. Given the size and range of the Council's treasury management activities, the Deputy Chief Executive and Section 151 Officer believes this to be the most appropriate status.

8. Financial Implications

The budget for investment income in 2022/23 is £250,000 and includes both short and long-term investments. The budget for debt interest paid in 2022/23 is £2,885,000 based on a debt portfolio of short and long-term borrowing. If actual levels of investments and borrowing and/or actual interest rates differ from those forecast, performance against budget will be correspondingly different.

9. Other Options Considered

The CIPFA Code does not prescribe any particular treasury management strategy for local authorities to adopt. The Deputy Chief Executive and Section 151 Officer, having consulted the Chair of the Finance and Resources Committee, believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed as follows:

Alternative	Impact on income and expenditure	Impact on risk management
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses may be greater
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses may be smaller
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs may be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium

		term, but long-term costs may be less certain
Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs may be less certain

10. Minimum Revenue Provision Statement 2022/23

The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 place a duty upon local authorities to make a prudent provision for debt repayment. This is known as Minimum Revenue Provision (MRP). The Council is also allowed to undertake additional Voluntary Revenue Provision (VRP) should it wish to do so. There is no requirement to charge MRP in respect of HRA capital expenditure funded from borrowing but the Council may also choose to do this should it wish to.

Guidance on MRP has been issued by the Secretary of State and local authorities are required to 'have regard' to this guidance under section 21 (1A) of the Local Government Act 2003.

The four MRP options available are:

- Option 1 – Regulatory Method
- Option 2 – Capital Financing Requirement (CFR) Method
- Option 3 – Asset Life Method
- Option 4 – Depreciation Method

MHCLG regulations require full council to approve an MRP Statement in advance of each year. Any subsequent changes in year also require full council approval. The proposed policy for 2022/23 is set out below:

MRP Policy 2022/23

For capital expenditure incurred before 1 April 2008, the General Fund MRP will continue to follow the CFR method (option 2) and be based upon 4% of the CFR at that date.

For all unsupported borrowing incurred from 1 April 2008, the General Fund MRP will be based upon the estimated life of the assets which this borrowing is intended to finance (option 3). This will be done on an annuity basis equal to the average relevant PWLB rate for the year of expenditure starting in the year after the asset becomes operational. MRP on purchases of freehold land will be charged over 50 years. MRP on expenditure not related to fixed assets but which has been capitalised by regulation or direction will be charged over 20 years.

No voluntary MRP is to be charged to the HRA in 2022/23. It is anticipated that the updated 30 year HRA Business Plan to be presented to Cabinet later in 2022 will allow the £66.4 million debt taken as part of the move to HRA self-financing to be fully re-paid by 2049/50.

11. Local Performance Indicators

The CIPFA Treasury Management Code requires the Council to set local indicators to assess the performance of the treasury function over the year. These are distinct historic indicators, as opposed to the prudential indicators which are predominantly forward looking. Indicators should be considered within set risk parameters. Examples of performance indicators often used for the treasury function are:

- Borrowing – average rate of borrowing for the year compared with the average available
- Borrowing – average rate movement year on year
- Investments – average credit risk score of counterparties with whom interim investments have been placed
- Investments – average days to maturity of investments
- Investments – internal interest returns above the 7-day London Interbank Bid Rate (LIBID) or equivalent.

Further details will be included in monitoring statements presented to the Finance and Resources Committee (or equivalent) and in the mid-year and annual treasury management reports.

12. Conduct of Operations

All treasury management operations will be conducted in accordance with the Council's Treasury Policy Statement, Treasury Management Practice Notices and associated systems documentation. Monitoring reports will be included in the mid-year and annual treasury management reports.

13. Money Market Brokers

In accordance with the Council's Treasury Management Practice Notices, the majority of investments are made primarily via direct dealing with counterparties.

The external money market brokers to be used from 10 February 2022 are:

- Tradition (UK) Ltd,
  Beaufort House, 15 St Botolph Street, London EC3A 7QX

- Sterling International Brokers
  1 Churchill Place, Canary Wharf, London. E14 5RD

- Martins Brokers (UK) Ltd
  20th Floor, 1 Churchill Place, Canary Wharf, London E14 5RD

- King and Shaxson Ltd
  6th Floor, 120 Cannon Street, London. EC4N 6AS

- Imperial Treasury Services
  25 St Andrew Street, Hertford. SG14 1HZ

Whilst the treasury management advisors provide support to the internal treasury function, the current market rules and the CIPFA Treasury Management Code confirms that the final decision on treasury management matters rests with the Council. The service provided by the Council's treasury management advisors is subject to regular review.

14. <u>Member and Officer Training and Corporate Governance</u>

In order to ensure that appropriate governance arrangements are in place and followed, along with the increased Member scrutiny of treasury management matters and the need to ensure that officers dealing with treasury management are trained and kept up to date, a suitable training process is required. The Council will address this important issue by:

- Facilitating workshops for Members on finance issues as part of the Member Development Programme
- Identifying officer training needs on treasury management related issues through the Performance Appraisal process
- Officer attendance at training events, seminars and workshops
- Support from the Council's treasury management advisors

In addition, to ensure corporate governance arrangements are followed the Council's day-to-day treasury activities are reviewed by appropriately qualified senior officers to ensure correct governance procedures are followed and the decisions taken conform to the relevant frameworks and guidance. Annual and mid-year reports regarding treasury management performance, strategy and the prudential framework are also prepared for review by Members. The relevant officers also meet regularly with the treasury management advisors to gain their input into the Council's activities.

15. <u>Online Banking</u>

As technology advances, the range of facilities available for undertaking financial transactions increases. These facilities include on line banking and other internet based systems. These will continue to be examined carefully to assess whether they would be suitable for some of the Council's banking and treasury management transactions.

APPENDIX 6a

TREASURY MANAGEMENT POLICY STATEMENT

1. This Council defines its treasury management activities as “The management of the Council’s investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks”.

2. This Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the Council.

3. This Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

4. The Council will adopt a flexible approach to any borrowing that it may need to undertake in consultation with its treasury management advisors. All borrowing decisions will give appropriate consideration to:

   - affordability
   - maturity profile of existing debt
   - interest rate and refinancing risk
   - source of borrowing

5. All investment decisions made by the Council will seek to ensure that sums invested remain secure and that there is sufficient liquidity of investments to provide the Council with the necessary cash resources to allow the Council to carry out its functions at all times. Only after fulfilling the security and liquidity objectives will the Council seek to achieve the maximum return on these investments.

6. The Council will also consider the environmental, social and governance (ESG) aspects in its investing. Counterparties which are highly rated for ESG will be prioritised for investing, subject to the primary objectives of security and liquidity being achieved. Any significant impact on yield when compared to other investment options, equivalent to £5,000 per annum, will require the prior approval of the Deputy Chief Executive and Section 151 Officer, in conjunction with the Chair of the Finance and Resources Committee (or equivalent). All transactions with counterparties that are highly rated for ESG where the yield is lower than the market optimisation will be reported in the treasury management update reports to the Finance and Resources Committee (or equivalent).

APPENDIX 6b

LIST OF CURRENTLY APPROVED COUNTERPARTIES FOR LENDING (as at 25 January 2022)

UK BANKS	Short term	Long term	Short term	Long term	Short term	Long term	Individual	Group
BANCO SANTANDER GROUP - Santander UK Plc	F1	A+	P-1	A1	A-1	A	£5m	
HSBC GROUP - HSBC Bank Plc - HSBC UK Bank PLC	. F1+ F1+	AA- AA-	P-1 P-1	A1 Aa3	A-1 A-1	A+ A+	£5m	£7.5m
LLOYDS BANKING GROUP - Bank of Scotland Plc - Lloyds Bank	F1 F1	A+ A+	P-1 P-1	A1 A1	A-1 A-1	A+ A+	£5m £5m	£7.5m
Barclays Bank - Barclays Bank Plc - Barclays UK Bank PLC	F1 F1	A+ A+	P-1 P-1	A1 A1	A-1 A-1	A A	£5m	£7.5m
Standard Chartered Bank	F1	A+	P-1	A1	A-1	A	£5m	
RBS GROUP - Royal Bank of Scotland - National Westminster Bank	F1 F1	A+ A+	P-1 P-1	A1 A1	A-1 A-1	A A	£5m £5m	£7.5m
UK BUILDING SOCIETIES								
Coventry Building Society	F1	A-	P-1	A2			£5m	
Leeds Building Society	F1	A-	P-2	A3			£5m	
Nationwide Building Society	F1	A+	P-1	A1	A-1	A	£5m	
OTHERS								
Debt Management Office (UK sovereign ratings)	F1+	AA		Aa2	A-1+u	AAu		
CCLA								£7.5m
Local authorities							£5m (each)	
Money Market Funds (AAA– rated)							£5m (each)	
Variable Net Asset Value (VNAV) pooled funds							£5m (each)	