

## APPENDIX 6

**TREASURY MANAGEMENT STRATEGY STATEMENT 2023/24 to 2025/26**
**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 as set out in appendix 7 of this report.

For the purpose of setting the 2023/24 budget, it has been assumed that new treasury management investments will be made at an average rate of 3.00%, and that new borrowing will be long-term loans at an average rate of 4.00%.

**2. Current Debt and Investment Position**

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

	Actual at 31 Dec 2022 £000	Estimate at 31 Mar 2023 £000
Fixed Rate Debt		
PWLB/Market	85,396	79,596
Variable Rate Debt		
PWLB/Market	6,500	5,800
Crematorium	540	505
<b>Total Debt</b>	<b>92,436</b>	<b>85,901</b>
<b>Total Investments</b>	<b>(34,139)</b>	<b>(13,844)</b>
<b>Net Borrowing</b>	<b>58,297</b>	<b>72,057</b>

The fixed rate debt shown consists of fixed rate loans totalling £76.5m from the PWLB that are due to be repaid in at least one years' time and a loan of £3.0m from Barclays Bank that is due to mature on 4 February 2073.

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 £85.9m at 31 March 2023. The optimum debt level for the Council as defined by the CFR is estimated at £117.5m at 31 March 2023 and therefore the estimated level of borrowing is below the optimum level.

As set out in section 4, the Council is permitted to borrow in advance of need given that certain criteria are met. The Council has loans totalling £5.8m 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. Capital expenditure which has not been financed from available internal resources or from grants or third party contributions will increase the CFR.

	2022/23 Revised Estimate £000	2023/24 Estimate £000	2024/25 Estimate £000	2025/26 Estimate £000
<b>Capital Financing Requirement</b>				
CFR – General Fund	30,428	30,677	29,927	29,236
CFR – HRA	87,158	95,099	100,970	106,228
<b>Total CFR – 31 March</b>	<b>117,586</b>	<b>125,776</b>	<b>130,897</b>	<b>135,464</b>
Movement in CFR represented by:				
Borrowing need for the year	8,170	9,610	6,793	6,298
MRP/VRP/other financing movements	(1,166)	(1,420)	(1,672)	(1,731)
<b>Movement in CFR</b>	<b>7,004</b>	<b>8,190</b>	<b>5,121</b>	<b>4,567</b>

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 2021/22 and is also expected to comply with this requirement in the following three years.

	2022/23 Revised £000	2023/24 Estimate £000	2024/25 Estimate £000	2025/26 Estimate £000
<b>Gross Borrowing</b>				
- PWLB and Market	85,396	94,596	93,946	92,446
- Bramcote Crematorium	505	400	400	400
<b>Gross Borrowing – 31 March</b>	<b>85,901</b>	<b>94,996</b>	<b>94,346</b>	<b>92,846</b>
Capital Financing Requirement				
CFR – General Fund	30,428	30,677	29,927	29,236
CFR – HRA	87,158	95,099	100,970	106,228
<b>Total CFR – 31 March</b>	<b>117,586</b>	<b>125,776</b>	<b>130,897</b>	<b>135,464</b>

#### 4. Borrowing Strategy

As per the forecast, by 31 March 2023, the Council is expected to hold £85.9m of loans, a decrease of £9.8m when compared to 31 March 2022 as part of the strategy for funding previous years' capital programmes.

During 2022/23, three short-term loans totalling £5.0m have been repaid, whilst one long-term PWLB loan totalling £4.5m will be repaid, along with reduction in borrowing from the Bramcote Crematorium.

The Council is due to repay £7.4m of PWLB loans in 2023/24. It is forecast that it may be necessary to secure additional borrowing of up to £9.3m in additional debt in 2023/24. The majority of this, around £6m, is to finance the Capital Programme, particularly the Housing Delivery Programme (new builds) and decarbonisation works. A further £3.3m of potential borrowing is to temporarily refinance the existing PWLB loans if required. On the advice of the Treasury Management consultants, Arlingclose, it is expected that these will be short-term loans as a preference rather than locking the Council into long-term loans at the present time due to high interest rates.

i) Objectives

The Council's 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 continued into 2022/23. This shift was due to the increasingly competitive Certainty Rates offered by the PWLB and a desire to match loan length to asset life in order to match the benefits from the assets to the payment of loan interest.

The economic disruption that has occurred in the current financial year has caused the Council to once again reevaluate its borrowing strategy. Interest rates have risen sharply in the past 12 months and are forecast to remain high for the next 12 to 18 months before gradually returning to previous levels. Due to this, Arlingclose are advising against entering into long-term borrowing, if possible, in order to avoid being locked into high interest debt over the long-term. Instead, it is proposed to utilise short-term loans until such a time when long-term rates return to more acceptable levels.

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. Interest rates are relatively high at the moment, in comparison to recent years, and it is expected that this will remain the case throughout 2023 and potentially into future years.

Arlingclose has advised of the impact of locking into long-term borrowing at high rates and therefore is suggesting that any borrowing that is required should be taken as short-term borrowing (typically between six and 24 months). Interest rates will be monitored throughout the year in order to ensure that this strategy remains the best option for the Council.

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.

The Council does have the option of arranging 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. However, given the current high interest rates it may not be the ideal time to arrange this type of borrowing.

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 Cabinet.

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 2022, the Council's investment balance has ranged between £10m and £25m 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 Portfolio Holder for Resources and Personnel Policy (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 Portfolio Holder for Resources and Personnel Policy and/or Cabinet.

ii) Negative Interest Rates

If the UK 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

The current high interest economic climate (when compared to recent years) has led to a significant increase in short-term investment yields. Due to this and the low-risk and highly liquid nature of Money Market Funds and unsecured bank deposits, the Council continues to use these as its primary investment class for day-to-day treasury management activities. In addition, the Council continues to diversify into more long-term assets classes. These typically offer a high degree of security and often higher yields than shorter-term classes but do not offer the same degree of liquidity, usually requiring a notice period for withdrawal or the sale of shares on to the market. This is especially the case for the £8.0 million that is available for longer-term investment. This diversification of investments is to continue into 2023/24. The Council, along with its treasury management advisors, will also be monitoring the markets closely to ensure it can address any risks or take advantage of new opportunities appropriately.

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. As at the date this report was submitted, a statutory override for IFRS 9 is in place that allows the Council to recognise gain/losses in the value of its investment in an unusable reserve instead of gain/losses impacting revenue (via the Comprehensive Income and Expenditure Statement and Revenue budgets). This is a positive for the Council as it means revenue budgets (and year-end outturn) are not negatively impacted by temporary reduction in the value of investments and revenue budget in particular are not artificially immolated by temporary and unrealised increases in the value of investments, that will have to be written off as a loss in future years' budgets. Arlingclose, advise us that this statutory override is expected to be extended for at least two financial years.

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, through 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
- 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 £5.0m. 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 an in-house developed Excel cash flow forecasting tool 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/fall in interest rates is:

Interest rate risk indicator	Limit
Upper limit on one-year revenue impact of a 1% <u>rise</u> in interest rates	£1.0m
Upper limit on one-year revenue impact of a 1% <u>fall</u> 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 then 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 2023/24. 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 was 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 average balances for the HRA and General Fund for the year. For example, if the average General Fund balance is £3m and the average HRA balance is £1m, the HRA will receive 25% of the investment income as this is its proportion of the total average balance.

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 2023/24 is £365k and includes both short and long-term investments. The budget for debt interest paid in 2023/24 is £2.915m 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 Portfolio Holder for Resources and Personnel Policy, 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:

<b>Alternative</b>	<b>Impact on income and expenditure</b>	<b>Impact on risk management</b>
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

Alternative	Impact on income and expenditure	Impact on risk management
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

DLUHC 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 2023/24 is set out below:

#### i. MRP Policy 2023/24

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). At present 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. However, the Council intends to perform a review of its current MRP policy during 2023/24 in order to ensure the current method is the best option for the Council. Any proposed changes to the MRP policy will be separately presented to Cabinet for review and approval.

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 2023/24. It is anticipated that the updated 30 year HRA Business Plan to be presented to Cabinet later in 2023 will allow the £66.4m 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 above the SONIA (Sterling Overnight Index Average) 1-day interest rate and the 1-month LIBOR (London Interbank Offered Rate) average rate over the period 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 07 February 2023 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  
20<sup>th</sup> Floor, 1 Churchill Place, Canary Wharf, London E14 5RD
- King and Shaxson Ltd  
6<sup>th</sup> 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. Member and Officer Training and Corporate Governance

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. Online Banking**

The Council currently takes advantage of the various online banking functions offered by its banking provided, Barclays. The Council will monitor developments in digital banking and treasury management technology and will take advantage of developments that will support it in its strategy.

## 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 Portfolio Holder for Resources and Personnel Policy (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 Portfolio Holder for Resources and Personnel Policy.

## APPENDIX 6b

**LIST OF CURRENTLY APPROVED COUNTERPARTIES FOR LENDING (as at 30 December 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 A1	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	(P)P-1 A+	P-1 P-1	A1 A1	A-1 A-2	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+u	AA-u		Aa3	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)	