APPENDIX A

Treasury Management Strategy Statement

Annual Investment Strategy and Minimum Revenue Provision Policy Statement

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2022/23

1. Introduction

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 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 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 on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund balance.

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 the day-to-day treasury management activities.

1.5. Treasury Management is defined by the Chartered Institute of Public Finance and Accountancy (CIPFA) 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.” The Council’s Treasury Management Policy Statement is included at <u>Annex 1.</u>

2. Reporting Requirements

Capital Strategy

2.1. The CIPFA 2017 Prudential and Treasury Management Codes require all local authorities to prepare an additional report, known as the capital strategy report, which will provide the following:

- A high-level long term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services.
- An overview of how the associated risk is managed.
- The implications for future financial sustainability.

2.2. The aim of this capital strategy is to ensure that elected members understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite. This is a separate document presented alongside the Medium Term Financial Plan.

Treasury Management Reporting

2.3. The Council is required to receive and approve, as a minimum, three main reports each year. The three main reports are:

a. **Treasury Strategy**, which looks forward at least three years and includes:
   - Treasury Management Strategy, explaining how the investments and borrowings are to be organised, including treasury indicators;
   - The Council's capital plans, including prudential indicators;
   - Minimum Revenue Provision (MRP) policy, stating how residual capital expenditure is charged to revenue over time; and
   - Investment Strategy, stating the parameters on how investments are to be managed.

b. **Mid-Year Treasury Management Report**, which updates members on treasury activities during the financial year and provides for revisions to the Treasury Strategy and indicators as necessary.

c. **Annual Treasury Report**, which provides the outturn for the previous financial year, summarises the treasury activity for that year and includes a full listing of actual prudential and treasury indictors.

2.4. The Treasury Management Strategy Statement contained in this Appendix addresses the first of these requirements.

2.5. The Audit & Regulatory Committee has delegated responsibility for scrutinising the treasury function prior to reports being formally approved at Council.

2.6. The respective roles & responsibilities of the Council, its Audit & Regulatory Committee and the Section 151 Officer are noted in Annex 2.

3. Treasury Management Strategy Statement 2022/23

3.1. The 2022/23 Treasury Management Strategy Statement comprises the following principal elements:

Capital Programme *(section 6)*	Capital plans and the prudential indicators Minimum revenue provision (MRP) policy
Treasury Management *(section 7)*	Current treasury position Treasury indicators Prospects for interest rates The borrowing strategy Policy on borrowing in advance of need Debt rescheduling
The Annual Investment Strategy *(section 8)*	Investment policy Creditworthiness policy Investment income

3.2. The Treasury Management Strategy Statement meets the requirements of the Local Government Act 2003, the CIPFA Prudential Code, DLUHC MRP Guidance, the CIPFA Treasury Management Code, and DLUHC Investment guidance.

4. Training

4.1. The CIPFA Code requires the responsible officer (the Chief Finance Officer) to ensure that Members and Officers with responsibility for treasury management receive adequate training. Training is particularly important for the Members who are responsible for the scrutiny of the Council's treasury management.

4.2. A skills assessments is completed by Members of the Audit Committee periodically. The outcomes of these assessments will be incorporated into a training plan – including any treasury management training needs and training events organised as required.

5. Treasury Management Consultants

5.1. The Council has appointed Link Group, Treasury solutions as its external treasury management advisor - providing the Council with access to specialist skills and resources. The Council recognises that the responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisors.

5.2. It also recognises that there is a 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 appointment of treasury advisors and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

6. The Capital Programme & Prudential Indicators

Capital Expenditure

6.1. The capital expenditure prudential indicator comprises a summary of the Council's capital programme, which is a key driver of treasury management activity.

6.2. The table below summarises the Council's capital expenditure plans and how these plans are to be financed. Any shortfall of resources results in a funding borrowing need:

	2020/21 Actual £'000	**2021/22 Estimate** £'000	**2022/23 Estimate** £'000	**2023/24 Estimate** £'000	**2024/25 Estimate** £'000	**2025/26 Estimate** £'000
Capital Expenditure:	**6,549**	**11,348**	**25,895**	**10,492**	**7,087**	**9,680**
General Fund Services	2,818	4,952	19,172	4,871	2,250	4,950
Housing Revenue Account	3,731	6,396	6,723	5,621	4,837	4,730
Financed by:						
External Contributions	1,089	2,292	8,737	966	489	489
S106 Contribution	0	51	243	150	0	0
Capital Reserves	100	857	0	0	0	0
Capital Receipts	218	673	3,404	607	1,841	4,541
HRA Major Repairs Reserve	2,099	2,099	2,099	2,099	2,099	2,099
HRA Revenue Contribution	1,632	3,876	4,544	3,442	2,658	2,551
Net Financing Need for Year	**1,411**	**1,500**	**6,868**	**3,228**	**0**	**0**

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

6.3. The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is the total outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. This is essentially a measure of the Council's underlying borrowing need.

6.4. The CFR increases each time the Council procures capital expenditure that it does not immediately pay for (i.e. the CFR increases when its expenditure is financed through borrowing).

6.5. Local authorities are required each year to set aside some of their revenues as provision for debt repayment. This is known as the Minimum Revenue Provision (MRP). The CFR is reduced each year by MRP. Each year's borrowing need is divided by the life of the assets for which borrowing was undertaken, resulting in an annual charge to revenue, and reduction in the Council's CFR.

6.6. The CFR includes any other long term liabilities (e.g. leases held on the balance sheet). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility and so the Council is not required to separately borrow for these schemes. The Council had £0 of these schemes within the CFR at 1st April 2021.

6.7. A new accounting standard, IFRS16, is being implemented in the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom and therefore the Council's accounts from 2022/23. This standard relates to 'Right-of-Use' assets and effectively replaces the former accounting standard for leasing. The value of the Right-of-Use assets will similarly increase the CFR. The estimated impact of this change is expected to be immaterial, therefore is not included at this stage. Should any changes to the CFR be significant, this will be revised during the year.

6.8. The Council’s Capital Financing Requirement is shown in the table below:

	2020/21 Actual £’000	2021/22 Estimate £’000	2022/23 Estimate £’000	2023/24 Estimate £’000	2024/25 Estimate £’000	2025/26 Estimate £’000
Capital Financing Requirement						
CFR – non housing services	*28,142*	*28,806*	*34,984*	*37,385*	*36,493*	*35,601*
CFR – housing	*52,399*	*51,399*	*50,399*	*49,399*	*48,399*	*47,399*
	80,541	***80,205***	***85,383***	***86,784***	***84,892***	***83,000***
Movement in CFR	(410)	(336)	5,178	1,401	(1,892)	(1,892)
Represented by:						
Net financing need for the year	**1,411**	**1,500**	**6,868**	**3,228**	**0**	**0**
Less Minimum & Voluntary Revenue Provision	(1,821)	(1,836)	(1,690)	(1,827)	(1,892)	(1,892)
Movement in CFR	**(410)**	**(336)**	**5,178**	**1,401**	**(1,892)**	**(1,892)**

Minimum Revenue Provision (MRP) Policy Statement

6.9. The Council is required each year to set aside some of its revenues as provision for debt repayment. This essentially allows to Council to “pay off” an element of the Capital Financing Requirement annually through a revenue charge known as the Minimum Revenue Provision (MRP). The Council is also allowed to undertake additional voluntary payments if required (voluntary revenue provision, VRP).

6.10. DLUHC regulations require the full Council to approve an MRP Statement in advance of each year. A variety of options are provided to councils, so long as there is a prudent provision.

6.11. A review of the Council’s MRP policy was recently undertaken by Link. The objective of the review was to profile MRP for the repayment of its underlying debt liability in order to assist with easing current budget pressures whilst ensuring that the provision remains prudent and compliant with statutory guidance.

6.12. In the Council’s MRP policy for 2021/22, MRP for historic supported borrowing prior to 2008 is calculated on a 4% reducing balance method. An alternative option has been identified by the review whereby MRP is calculated using a straight line method over 50 years. A change to a straight line method could be seen as being more prudent than the current method because the debt liability will be repaid in full in a shorter time period; whereas under the current 4% reducing balance method, after 50 years 13% of the current outstanding debt liability would remain. More detail on the Link review is included in this report at Annex 5.

6.13. The Council is recommended to approve the following: for historic supported borrowing incurred before 1 April 2008, the Council will apply a straight line method over 50 years; and for unsupported borrowing from 1 April 2008 (including finance leases), the Council will apply the 'Asset Life Method' under which MRP is based on the estimated life of the asset for which the borrowing is undertaken. This provides a reduction in the borrowing need over the asset's life. Note, there is no change to the MRP policy from previous years on unsupported borrowing (post 1 April 2008).

6.14. The DLUHC MRP Guidance allows any charges made in excess of the statutory minimum revenue provision, i.e. voluntary revenue provision (VRP) or overpayments, to be reclaimed in later years if deemed necessary or prudent. In order for these sums to be reclaimed for use in the budget, this policy must disclose the cumulative overpayment made each year. There were no general fund VRP overpayments up to 31 March 2021.

6.15. MRP applied to the HRA capital financial requirement is on a voluntary basis. The Council currently applies VRP to HRA borrowing and is forecast to do so on an annual basis over the 30 year business plan at £1million per annum, with the option to apply any surpluses on the HRA account as an additional VRP as required. Up until 31 March 2021, the total VPR overpayments on the HRA was £10,496,200.

Use of the Council's Resources and Investment Position

6.16. The Council builds up capital and revenue reserves as necessary for future application. The application of these resources to either finance capital expenditure or to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (for example, asset sales, revenue surpluses). Reserves are invested, pending application, to earn a return which supplements the revenue budget.

6.17. An estimate of the amount available at year end for investment is shown in the table below:

	2020/21 Actual £'000	2021/22 Estimate £'000	2022/23 Estimate £'000	2023/24 Estimate £'000	2024/25 Estimate £'000	2025/26 Estimate £'000
General Fund Reserves/ Provisions	16,355	16,867	16,751	16,213	16,161	16,331
Housing Revenue Account	17,902	16,493	17,799	15,993	15,198	16,049
Total core funds	**34,257**	**33,360**	**34,550**	**32,206**	**31,359**	**32,380**
Working capital *	(7,042)	-	-	-	-	-
(Under)/over borrowing**	(13,716)	(17,128)	(15,506)	(17,907)	(16,015)	(14,123)
Expected investments	**13,499**	**16,232**	**19,044**	**14,299**	**15,344**	**18,257**

** Working capital at year end 31st March 2021 elevated related to covid grant funding reconciliation payments accrued. Shown as '0' for future year estimation purposes as dependent on the value of creditors/debtors at year end*

***subject to considerations around whether to externally / internally borrow*

Affordability Prudential Indicators

6.18. The previous sections outline the Council's capital expenditure plans and funding requirements. This section assesses the affordability of capital investment plans and the impact on the Council's overall finances.

Ratio of financing costs to net revenue stream

6.19. This indicator calculates the cost of capital (borrowing costs net of investment income) as a percentage of the Council's net revenue stream (council tax/business rates receipts - General Fund; rental income - HRA).

	2020/21 Actual	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
General Fund Services	12%	15%	14%	14%	14%	13%
HRA*	18%	18%	17%	16%	15%	15%

**includes the annual voluntary revenue provision charge*

HRA debt per dwelling

6.20. The indicator in the table below shows the level of HRA debt per dwelling:

	2020/21 Actual	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
HRA debt	£52,399,000	£51,399,000	£50,399,000	£49,399,000	£48,399,000	£47,399,000
HRA dwellings	3,889	3,869	3,849	3,829	3,809	3,789
Debt per dwelling	£13,474	£13,825	£13,094	£12,901	£12,706	£12,510

Interest payable & interest receivable

6.21. Given the capital projections above, interest payable & interest receivable budgets for the next four years are forecast as follows:

	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Borrowing Costs (General Fund)	£1,711,950	£1,911,950	£2,002,620	£2,032,730
Borrowing Costs (HRA)	£1,629,210	£1,548,870	£1,522,640	£1,493,030
Investment Income	(£103,670)	(£203,590)	(£294,000)	(£382,060)

7. Treasury Management

7.1. The treasury management function ensures that the Council's cash is organised so that sufficient cash is available to service its plans. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. This strategy covers the relevant treasury and prudential indicators, the current and projected debt and investment positions and the annual investment strategy.

Current Debt Position

7.2. The Council's debt position at 31st March 2021 and its debt forecasts going forward are summarised below. The table shows the actual external debt against the underlying borrowing need (the Capital Financing Requirement) highlighting any under or over borrowing.

	March 21 Actual £'000	March 22 Estimate £'000	March 23 Estimate £'000	March 24 Estimate £'000	March 25 Estimate £'000	March 26 Estimate £'000
External Borrowing	66,825	63,077	69,877	68,877	68,877	68,877
Other long-term liabilities*	-	-	-	-	-	-
Gross Debt at 31st March	**66,825**	**63,077**	**69,877**	**68,877**	**68,877**	**68,877**
Change in Debt position	0	(3,748)	6,800	(1,000)	0	0
Capital Financing Requirement	**80,541**	**80,205**	**85,383**	**86,784**	**84,892**	**83,000**
*(Under) / over borrowing***	(13,716)	(17,128)	(15,506)	(17,907)	(16,015)	(14,123)

* Other *long-term liabilities will include Right-of-Use assets under accounting standard IFRS16 to be adopted from 2022/23. The impact is expected to be immaterial therefore is not included at this stage. Should any changes be significant, the CFR limit and forecast will be revised during the year.*

*** Subject to considerations around whether to externally / internally borrow*

7.3. The Council is required to ensure that its Gross Debt does not, except in the short term, exceed the total of the Capital Financing Requirement (CFR) in the preceding year plus the estimates of any additional CFR for the current year and the following two financial years. This allows some flexibility for borrowing in advance of need for future years, but ensures that borrowing is not undertaken for revenue or speculative purposes.

7.4. The Council is complying with this indicator in the current year and does not envisage difficulty in complying over the life of the Medium Term Financial Plan. This view takes into account current and future proposals with regard to the capital programme.

Treasury Indicators - Limits to Borrowing Activity

7.5. The Council sets limits to ensure that the revenue consequences of the capital programme on external borrowing remain affordable.

Operational Boundary

7.6. This is the limit beyond which external debt is not normally expected to exceed. This represents the Capital Financing Requirement plus an additional allowance to cover short-term liquidity requirements.

Operational boundary	2021/22 Set £'000	2022/23 Setting £'000	2023/24 Estimate £'000	2024/25 Estimate £'000	2025/26 Estimate £'000
Capital Financing Requirement	83,027	85,383	86,784	84,892	83,000
Allowance for borrowing to cover short-term cash flow*	6,933	7,573	7,839	8,115	8,400
Total Gross Debt	**89,960**	**92,956**	**94,623**	**93,007**	**91,400**

** Amount required in short-term to cover precepts (the highest cash outflow)*

Authorised Limit for External Debt

7.7. This indicator represents a control on the maximum level of borrowing – a legal limit beyond which external debt is prohibited. This limit needs to be set or revised by the full Council. It 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.

Authorised limit	2021/22 Set £'000	2022/23 Setting £'000	2023/24 Estimate £'000	2024/25 Estimate £'000	2025/26 Estimate £'000
Operational Boundary	89,960	92,956	94,623	93,007	91,400
'Headroom'	2,500	2,500	2,500	2,500	2,500
Total Gross Debt	**92,460**	**95,456**	**97,123**	**95,507**	**93,900**

Prospects for Interest Rates

7.8. This table, provided by Link, presents forecasts for Bank of England base rate (Bank Rate) and PWLB borrowing rates:

%	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25
Bank Rate	0.25	0.50	0.50	0.50	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.25
5yr PWLB rate	1.50	1.50	1.60	1.60	1.70	1.80	1.80	1.80	1.90	1.90	1.90	2.00	2.00
10r PWLB rate	1.70	1.80	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.10	2.20	2.30

7.9. The Bank of England took emergency action in March 2020 to cut bank rate to 0.25% then 0.10%; it returned to 0.25% in December 2021 and is forecast to increase again several times over the medium term, as shown in the table above. Borrowing rates are also forecast to increase over this period.

7.10. The investment income budget therefore anticipates some increases to the return on investments which have mostly been extremely low, close to zero, over the last year.

Borrowing Strategy

7.11. The majority of the Council's capital financing requirement is currently funded by external borrowing but also maintains an under-borrowed position.

7.12. As highlighted above, the Council has an estimated total Net Financing Requirement of £10,096,000 for the four years ending March 2026, which is part offset by Minimum Revenue Provision of £7,301,000 as shown in the table below.

	2022/23 Estimate	**2023/24 Estimate**	**2024/25 Estimate**	**2025/26 Estimate**	**Total**
	£'000	£'000	£'000	£'000	£'000
Net financing need	6,868	3,228	0	0	**10,096**
Minimum Revenue Provision	(1,690)	(1,827)	(1,892)	(1,892)	**(7,301)**
	5,178	**1,401**	**(1,892)**	**(1,892)**	**2,795**

7.13. The strategy assumes there will be 'new' borrowing of £6.8million during 2022/23 with the remainder of the net financing need occurring in those years to be supported by internal borrowing.

7.14. There one long term debt instrument maturing during the four year period: £1million at the beginning of 2023/24 (original term 25 years). The strategy assumes this will be repaid without the need for refinancing.

7.15. As shown in the table at 7.2, the Council is in an 'under-borrowed' position for the life of the Medium Term Financial Plan. The capital financing requirement and interest rate forecasts will be closely monitored in order to make a decision on refinancing prior to maturity of existing loans to reduce interest charges in the long-term; and to consider converting debt from temporary internal funding to external loans.

Policy on Borrowing in Advance of Need

7.16. The Council will not borrow more than or in advance of its need purely to profit from the investment of the extra sums borrowed.

7.17. The Council however may consider borrowing in advance to protect it from higher borrowing costs within approved Capital Financing Requirement estimates to finance new capital expenditure or refinance existing loans. This will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds. Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year reporting mechanism.

Debt Rescheduling

7.18. Debt rescheduling is the reorganisation of existing debt in such a way as to amend the debt repayments, reduce the principal sum borrowed, alter the degree of volatility of debt or vary the interest payable, thus managing the risk. The treasury team, supported by the Council's treasury advisors, will monitor prospects for debt rescheduling to achieve overall financial benefit to the Council.

Maturity Structure of Borrowing

7.19. These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits. The Council is asked to approve the following treasury indictors and limits:

Maturity Structure of borrowing* 2022/23 (fixed interest rates)		
	Lower	**Upper**
Under 12 months	0%	60%
12 months to 2 years	0%	60%
2 years to 5 years	0%	60%
5 years to 10 years	0%	60%
10 years to 20 years	0%	60%
20 years and above	0%	90%

**external debt only (excludes finance leases);*
LOBOS are measured at next call date in accordance with the Treasury Management Guidance

Maturity Structure of borrowing* 2022/23 (variable interest rates)		
	Lower	**Upper**
Under 12 months	0%	100%
12 months to 2 years	0%	50%
greater than 2 years	0%	0%

**external debt only (excludes finance leases)*

Control of Interest Rate Exposure

7.20. The Council reviews and manages the interest rate exposure of both borrowing and investments through the borrowing and investment strategies included in this document. Officers will monitor the balance between variable and fixed interest rates to ensure the Council is not exposed to adverse fluctuations in fixed or variable interest rate movements.

8. Annual Investment Strategy

Investment Policy

8.1. The DLUHC (formerly MHCLG) and CIPFA have extended the meaning of 'investments' to included 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 document.

8.2. The Council's investment policy has regard to the DLUHC's Guidance on Local Government Investments ("the Guidance") and the CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral

Guidance Notes 2017 ("the CIPFA TM Code") and the CIPFA Treasury Management Guidance Notes 2018.

8.3. The Council's principal investment priorities are the security of capital and the liquidity of its investments. In addition to this, the Council will aim to achieve the optimum return on its investments commensurate with proper levels of security and liquidity.

8.4. The above guidance from the DLUHC and CIPFA place 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 and long-term ratings.
- 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.

8.5. The investment instruments identified for use in the financial year are listed in Annex 4 under the headings, 'Specified' and 'Non-Specified' Investments.

8.6. Counterparty limits will be set as part of the Treasury Strategy and maintained as part of the Council's treasury management practices.

8.7. The Council will pursue value for money in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance. Regular monitoring of investment performance will be carried out and reported on during the year and at the end of the financial year in its Annual Treasury Report.

8.8. The above criteria on risk management are unchanged from last year.

Creditworthiness Policy

8.9. This Council employs the creditworthiness service provided by Link Group. This service employs a sophisticated modelling approach utilising credit ratings from three main credit rating agencies – Fitch, Moody's and

Standard & Poor's. 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; and
- Sovereign ratings to select counterparties from only the most creditworthy countries.

8.10. Credit watches and outlooks are issued by the ratings agencies. 'Credit watches' are considered short-term actions, whereas 'outlooks' are considered over a longer term time horizon. Link includes the release of a negative or positive watch/outlook in its creditworthiness analysis.

8.11. A 'Credit Default Swap' is a contract between two counterparties in which the buyer of the contract makes quarterly payments to the seller of the contract in exchange for a payoff if there is a credit event of the reference entity. The contract essentially gives protection or 'insurance'. Therefore, CDS spreads provide perceived market sentiment regarding the credit quality of an institution and are also used in the creditworthiness analysis to determine the durational band of investment with a financial institution.

8.12. Link's creditworthiness model combines credit ratings, credit watches and outlooks in a weighted scoring system, with an overlay of CDS spreads, to produce a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are then used to determine the duration for investments.

8.13. Only counterparties that fall within a 'durational band' will be included on the Council's lending list. In conjunction with the recommended durational limits, the Council has assigned corresponding investment limits to each banding. The limits have been set separately for UK banks and International banks.

UK Banks

Category	Principal Limit	Maximum Length	Portfolio (% of highest balance**)
Yellow*	£9.25m	Up to 5 years	25%
Purple	£9.25m	Up to 2 years	25%
Orange	£7.40m	Up to 1 year	20%
Red	£6.66m	Up to 6 months	18%
Green	£5.55m	Up to 100 days	15%
No Colour	-	Not to be used	-

** UK Government debt instruments*

***assumes highest balance is £37,000,000*

International Banks

Category	Principal Limit	Maximum Length	Portfolio (% of highest balance*)
Purple	£7.40m	Up to 2 years	20%
Orange	£6.66m	Up to 1 year	18%
Red	£5.55m	Up to 6 months	15%
Green	£4.44m	Up to100 days	12%
No Colour	-	Not to be used	-

** assumes highest balance is £37,000,000*

8.14. The Council's lending list includes part- and fully-Nationalised UK banks, which have been assigned the 'blue' category as per Link's creditworthiness matrix. This category has been allocated a longer durational period and higher investment limit since it has strong Government support. The table below assigns investment limits:

Category	Principal Limit	Maximum Length	Portfolio (% of highest balance*)
Blue	£9.25m	Up to 1 year	25%
NatWest (the Council's main bank account)	£14.06m	Up to 1 year	38%

** assumes highest balance is £37,000,000*

8.15. The Council is alerted to changes in ratings and market movements through its use of the Link creditworthiness service. If a downgrade results in the counterparty no longer meeting the Council's minimum criteria, it will no longer be used for new investments. All ratings will be monitored prior to any new investments being placed.

Group Limits

8.16. To reduce its risk further the Council has set a group limit for fixed term deposits in institutions with the same parent. The group limit will increase the portfolio percentage of the colour band the institution it is rated in at the time by a further 50% where at least the additional amount is held in an instant access account:

Category	Portfolio (% of highest balance*)	Individual Principal Limit	150% of individual limit	Group Principal Limit
Blue	25%	£9.25m	38%	£14.06m
Purple	25%	£9.25m	38%	£14.06m
Orange	20%	£7.40m	30%	£11.10m
Red	18%	£6.66m	27%	£9.99m
Green	15%	£5.55m	23%	£8.51m

** assumes highest balance is £37,000,000*

Money Market Funds

8.17. The Council has access to several Money Market Funds (MMF) - all of which are ‘AAA’ rated. A ‘Money Market Fund’ is a pooled vehicle investing in a number of investment instruments with varying maturity periods in a number of different countries. Money Market Funds provide an alternative option for the Council when placing short-term funds and provide for diversification of the investment portfolio.

8.18. The Council has set investment limits in Money Market Funds as follows:

	Principal Limit	Maximum Length	Portfolio (% of highest balance*)
Individual MMF	£9.25m	Up to 1 year	25%
Total MMF investments**	£14.06m	Up to 1 year	38%

** assumes highest balance in £37,000,000*
*** maximum held in MMF’s at any one time*

Intra-local authority investing

8.19. In additional to financial investments in instant access accounts; notice accounts; money market funds; fixed term deposits and Certificates of Deposit, which are all with rated institutions (banks, building societies, money market funds), another option is to invest the Council’s funds in the intra-local authority market.

8.20. This type of investment is included in this Investment Strategy for investments for up to 12 months at the counterparty limit equivalent to ‘Yellow’ (relating to Government Debt Instruments). The cap of investing for a maximum of 12 months is in line with the Council’s current usual practices for financial investments. The counterparty limit £9.25million would be treated as a total limit for all local authority investments and the maximum to be invested in any individual authority would be £2million.

	Principal Limit	Maximum Length	Portfolio (% of highest balance*)
Individual local authority	£2.00m	Up to 1 year	-
All local authorities**	£9.25m	Up to 1 year	25%

** assumes highest balance in £37,000,000*
*** maximum held in all other Local Authorities at any one time*

8.21. Link, the Council’s advisors, don’t have a suggested duration for local authorities on their counterparty list, but as quasi UK Government and with specific regulation protection for lenders they are comfortable with deposits of up to 5 years. Furthermore, there is a general presumption of public bodies being going concerns with an acceptance that should an organisation fail financially, services provided would not be allowed to fail and would be picked up by government or a successor body.

8.22. In selecting a local authority investment, the Council would decline any counterparty under a s114 notice at the time of arranging the investment. Under the Local Government Finance Act 1988, Section 114 (3) dictates that: ‘The chief finance officer of a relevant authority shall make a report under this section if it appears that the expenditure of the authority incurred (including expenditure it proposes to incur) in a financial year is likely to exceed the resources (including sums borrowed) available to it to meet that expenditure’.

8.23. In order to make an investment, the treasury team would contact one of the Council’s brokers and make them aware of the amount of investment, duration and yield the Council would like to obtain; they then match this up with other local authority counterparts who need to borrow funds. There is no charge for this brokerage service when lending funds.

Extraordinary Limits

8.24. During 2020/21 and 2021/22 the Council has seen unprecedented levels of cash flows due to the large grant funding payments from central government which the Council was required to pay out to businesses under the various grant schemes to respond to the Covid 19 crisis. This put pressure on the counterparty limits set. In setting the Investment Strategy for 2022/23, rather than set limits at very high levels compared to the normal trend of cash flow levels in order to accommodate such events in the future, which would result in artificially high counterparty limits and potentially increase counterparty risk, counterparty limits are set at normal trend levels, with the facility to increase these by a reasonable percentage temporarily according to any situation arising during the year. Such events and their effects on cash flows would be reported at Audit Committees.

Country Limits

8.25. A sovereign credit rating is the credit rating of a sovereign entity i.e. a country. The highest sovereign rating awarded is ‘AAA’. The evolving regulatory environment, in tandem with the rating agencies’ new methodologies, means that sovereign ratings are now of lesser importance in the assessment process and the new regulatory environment is attempting to break the link between sovereign support and domestic financial institutions.

8.26. While the Council understands the changes that have taken place, it will continue to use sovereign ratings of individual counties in addition to credit ratings when making investment decisions. When investing with institutions outside the UK, only banks and building societies located in countries with a minimum sovereign rating of ‘AAA’ will be used. This is in relation to the fact that the underlying domestic and, where appropriate, international economic and wider political and social background will still have an influence on the ratings of a financial institution.

8.27. At the time of writing (January 2022), there are 9 'AAA' rated countries approved for investments under the 'International Banks' counterparty limits: Australia, Denmark, Germany, Luxembourg, Netherlands, Norway, Singapore, Sweden, and Switzerland.

Ethical investing

8.28. There is a growing interest in local authority investing around Environmental, Social and Governance (ESG) issues; this is sometimes referred to as Ethical Investing and encompasses considerations around the Climate Change agenda.

8.29. With regards to the financial investments considered in this Investment Strategy, investment guidance, both statutory and from CIPFA, makes clear that all financial investments must adopt the 'SLY' principals, whereby Security of investments is always the priority, followed by Liquidity, then Yield. Investment opportunities with positive ESG merits would not be selected if the SLY criteria were not satisfied.

8.30. The ESG market accessible to the Council for financial investments is still emerging and there are few opportunities at present. A financial investment portfolio exclusively made up of ESG linked investments would present a significant increase of Counterparty risk, concentrating the Council's funds in too few places. Therefore this cannot be pursued as a criteria at least until such time as there are more ESG linked products available to the Council. However, opportunities to invest in ESG products, where they are on a par with non-ESG linked investments in terms of the SLY criteria, will be selected as a priority.

8.31. In order to assess financial investments and entities for ESG merits, this would require expert advice regarding ESG metrics and ESG scoring systems. The Treasury team are aware that Link are engaging with providers in order to develop a system which could overlay their creditworthiness assessment service. Estimated timescales suggest this could be available in 2022/23 and is likely to be at an additional cost. Other providers (thought not necessarily specific to local authority needs) are emerging in the market and these would be assessed alongside, should such a service be procured.

8.32. An ESG scoring system could provide an overall general rating to an entity as a whole or, if possible, the Council's particular priorities around ESG could be factored in to the scoring system. If this were to become a viable option, the Council, in liaison with the Climate Change Working Group would need to determine what those priorities were. It should be noted however, that if particular criteria were set, this could mean a further reduction in the already small number of ESG linked financial investment opportunities, as many are broad at present. In addition, there is a risk of reducing the overall number of counterparties available to the Council if ESG scoring limits were set.

8.33. Wider than the financial investments considered in this Investment Strategy are non-financial investments which include activities and projects of the Council, for example 100% sustainable utilities, or electric fleet and its infrastructure. As with all Council priorities and decisions, these would need to be considered in the wider context including reference to the corporate plan, full business cases and due diligence, therefore this Investment Strategy is only concerned with cash based financial investments.

8.34. Ethical investing is a standard item of business in the Treasury Team's regular review meetings with advisors Link and the Team keeps up to date with relationship managers for various counterparties and brokers as to opportunities available. Developments in this particular area of financial investing will be reported to the Audit Committee in the regular updates.

Investment income

8.35. The Council's in-house managed funds are derived from a core balance available for capital and revenue funding and day-to-day cash flows. At 31st March 2021 the core balances including HRA available for investment were £34,257,000. Core balances are available for investment in line with the profile of capital expenditure and requirements of the revenue budget. Investments are therefore made with reference to the core balance and cash flow requirements and the outlook for interest rates.

Investment Return Expectations

8.36. Based on expectations of movements in the Bank of England base rate, average investment earnings are forecast by Link as:

Year	Average earnings
2022/23	0.50%
2023/24	0.75%
2024/25	1.00%
2025/26	1.25%

8.37. Taking into account the accounts and investments the Council has access to whilst ensuring the profile of liquidity suits the Council's needs, investment income is forecast over the medium term at:

Year	Average earnings
2022/23	£103,670
2023/24	£203,590
2024/25	£294,000
2025/26	£382,060

Long-term Investments *(greater than 365 days)*

8.38. When placing long-term investments with counterparties, the Council's liquidity requirements, availability of funds and counterparty eligibility need to be taken into consideration.

8.39. These longer-term investments could include Property Funds or Multi-Asset Funds. A full review and selection process would take place with input from the Council's advisors, Link, in advance of entering in to any commitment to fully ensure that it is appropriate for the Council.

8.40. The table below sets the limit on the total principal funds that may be invested for greater than 365 days.

Maximum principal sums invested > 365 days				
	2022/23	**2023/24**	**2024/25**	**2025/26**
Principal sums invested > 365 days	£5,000,000	£5,000,000	£5,000,000	£5,000,000

ANNEX 1

Treasury Management Policy Statement

In accordance with the CIPFA Code of Practice on Treasury Management, High Peak Borough Council defines the policies and objectives of its treasury management activities as follows:

1. The Council defines its treasury management activities as: *"The management of the 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."*

2. The 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 organisation, and any financial instruments entered into to manage these risks.

3. The 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.

ANNEX 2

Treasury Management Scheme of Delegation

(i) Full Council

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

(ii) Audit & Regulatory Committee

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

The treasury management role of the section 151 (responsible) officer

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance;
- submitting regular treasury management policy reports;
- submitting budgets and budget variations;
- receiving and reviewing management information reports;
- reviewing the performance of the treasury management function;
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
- ensuring the adequacy of internal audit, and liaising with external audit;
- recommending the appointment of external service providers.

ANNEX 3

Management Practices for Non-Treasury Investments

This Council recognises that investment in other financial assets and property primarily for financial return, taken for non-treasury management purposes, requires careful investment management. Such activity includes loans supporting service outcomes, investments in subsidiaries, and investment property portfolios.

This Council will ensure that all the Council's investments are covered in the capital strategy, investment strategy or equivalent, and will set out, where relevant, the organisation's risk appetite and specific policies and arrangements for non-treasury investments. It will be recognised that the risk appetite for these activities may differ from that for treasury management.

The Council will maintain a schedule setting out a summary of existing material investments, subsidiaries, joint venture and liabilities including financial guarantees and the organisation's risk exposure.

ANNEX 4

Specified and Non-Specified Investments

Specified Investments

All such investments will be sterling denominated, with maturities up to maximum of 1 year*, meeting the minimum 'high' quality criteria where applicable.

Investment Instrument*	Minimum 'High' Credit Criteria	Investment Limit**
Debt Management Agency Deposit Facility (DMADF)	n/a	As per lending limits Yellow UK
Term deposits – local authorities	n/a	As per lending limits Yellow UK for all authorities; max £2m per LA
Term deposits – housing associations	n/a	n/a
Third Party Loans	Decision made on individual basis per Capital Strategy	n/a
UK Government Gilts and Treasury Bills	UK Sovereign Rating	As per lending limits Yellow UK
Certificates of deposits (CDs) or corporate bonds with banks and building societies	Based on Link Creditworthiness analysis. Lowest Band – GREEN Sovereignty Rating –AAA (exc UK)	As per individual / group lending limits
Term deposits – banks and building societies	Based on Link Creditworthiness analysis. Lowest Band – GREEN Sovereignty Rating –AAA (exc UK)	As per individual / group lending limits
UK (Part-)Nationalised Banks	Based on Link Creditworthiness analysis. Lowest Band – BLUE	As per individual / group lending limits
UK Instant Access and Notice Accounts	Based on Link Creditworthiness analysis. Lowest Band – GREEN	As per individual / group lending limits

** If forward deposits are to be made, the forward period plus the deal period should not exceed one year in aggregate*

*** must conform to both institution and group limits set*

Collective Investment Schemes structured as Open Ended Investment Companies (OEICs):			
Non-specified Investments	**Minimum Credit Criteria**	**Investment Limit/ Max. % of total investments**	**Max. maturity period**
Money Market Funds (CNAV & LVNAV)	AAA rated	As per individual/ group lending limits	Liquid

Non-specified Investments

Non-specified investment instruments are assumed to take on greater risk and should therefore be subject to greater scrutiny. They include investments that are for a period of more than one year and instruments that the Council has very limited experience and expertise in dealing with. A maximum of £14,800,000 (40% of the projected highest balance) will be held in aggregate in non-specified investments.

Non-specified Investments	Minimum Credit Criteria	Investment Limit / Max. % of total investments	Max. maturity period
Term deposits – UK government (maturities in excess of 1 year)	UK Sovereign Rating	>365 day limit	5 years
Third Party Loans (maturities in excess of 1 year)	Decision made on individual basis per Capital Strategy	n/a	n/a
Term & Callable deposits – banks and building societies (maturities in excess of 1 year)	Based on Link Creditworthiness analysis. Lowest Band – PURPLE Sovereignty Rating -AAA	>365 day limit	2 years
Commercial Paper	Based on Link Creditworthiness analysis. Lowest Band – GREEN Sovereignty Rating -AAA	£3,700,000 (10% of highest balance)	1 year
UK Government Gilts – all maturities	UK Sovereign Rating	£3,700,000 (10% of highest balance)	2 years
Bonds issued by multilateral development banks - all maturities	Long term AAA	£3,700,000 (10% of highest balance)	6 months
Bonds issued by a financial institution which is guaranteed by the UK government – all maturities	UK Sovereign Rating	£3,700,000 (10% of highest balance)	2 years
Sovereign bond issues (i.e. other than the UK govt) – all maturities	Long Term AAA	£3,700,000 (10% of highest balance)	2 years
Treasury Bills – all maturities	UK Sovereign Rating	£5,550,000 (15% of highest balance)	2 years
Property Funds/ Multi-Asset Funds	Full due diligence to select appropriate fund	>365 day limit	n/a

Collective Investment Schemes structured as Open Ended Investment Companies (OEICs):			
Non-specified Investments	**Minimum Credit Criteria**	**Investment Limit/ Max. % of total investments**	**Max. maturity period**
Government Liquidity Funds – all maturities	AAA rated	£5,550,000 (15% of highest balance)	2 years
Enhanced cash funds – all maturities	AAA rated	£3,700,000 (10% of highest balance)	2 years
Gilt Funds – all maturities	AAA rated	£3,700,000 (10% of highest balance)	2 years

ANNEX 5

MRP Policy change 2022-23

1. Minimum Revenue Provision (MRP) for Debt Repayment

1.1. In accordance with the Local Government Act 2003, the Council is required to pay off an element of accumulated General Fund capital expenditure each year through a revenue charge known as the Minimum Revenue Provision (MRP).

1.2. The Council is required to determine a level of MRP it considers to be prudent, whilst having regard to the current MRP Guidance issued by MHCLG (now renamed DLUHC) in 2018. The Guidance gives four options for determining MRP which it considers to be prudent but does not rule out alternative approaches.

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

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

2. MRP Policy Review

2.1. A review of the Council's MRP policy was recently undertaken by Link Group, Treasury Solutions. The objective of the review was to profile MRP for the repayment of its underlying debt liability in order to assist with easing current budget pressures whilst ensuring that the provision remains prudent and compliant with statutory guidance.

2.2. In the Council's MRP policy for 2021/22, MRP for historic supported borrowing prior to 2008 is calculated on a 4% reducing balance method including a reduction for Adjustment A. An alternative option has been identified whereby MRP is calculated using a straight line method over 50 years. A change to a straight line method could be seen as being more prudent than the current method because the debt liability will be repaid in full in a shorter time period; whereas under the current 4% reducing balance method, after 50 years 13% of the current outstanding debt liability will remain outstanding.

2.3. Savings over the MTFP Period are shown in the table:

Year	Original charge £'000	Revised charge £'000	(Saving) £'000
2022/23	325	162	(163)
2023/24	312	162	(150)
2024/25	299	162	(137)
2025/26	287	162	(125)
Total			**(575)**

2.4. Considerations of the change in Policy:

- MRP on supported debt will be written off more quickly using a fixed 50 year period. This is in line with one of the main MRP guidance principles, whilst achieving an overall faster level of debt redemption than would be provided under the existing 4% reducing balance method.
- The straight-line method of charging MRP can be seen as a more prudent basis for providing for capital expenditure which provides a steady flow of benefits over their useful life. It can provide a fairer charge than 4% reducing balance as it provides a consistent charge over an asset's life.
- Associating all MRP charges with the approximate useful life of the underlying asset creates a fairer charge to the taxpayers who have had use of the asset. This is currently the method used for unsupported borrowing (post 1 April 2008).
- The proposed changes will lead to a higher Capital Financing Requirement in the short term and borrowing requirement than under the current MRP policy as the charges are spread out; but the associated time value of money suggest that this will result in savings for the Council in the long term.

2.5. The Link review also identified use of the annuity method on supported historic (pre-1 April 2008) and unsupported (post-1 April 2008) borrowing as an option for the Council; this method results in increasing MRP charges each year which can be viewed as a fairer charge on taxpayers as it takes account of the time value of money. Savings also result from the time value of money. This option will be considered in the future.

2.6. It is therefore recommended that the Council implement the change to a straight line method of MRP over 50 years on its historic supported (pre-1 April 2008) borrowing in its MRP policy. The regulations allow the Authority to review its policy every year and set a policy that it considers prudent at that time. The impact of a revised MRP policy will be kept under regular review in order to ensure that the annual provision is prudent.

ANNEX 6

Note: 2021 revised CIPFA Treasury Management Code and Prudential Code changes which will impact on future TMSS reports and the risk management framework

CIPFA published the revised codes on 20th December 2021 and has stated that formal adoption is not required until the 2023/24 financial year. This Council has to have regard to these codes of practice when it prepares the Treasury Management Strategy Statement and Annual Investment Strategy, and also related reports during the financial year, which are taken to Full Council for approval.

The revised codes will have the following implications:

- a requirement for the Council to adopt a new debt liability benchmark treasury indicator to support the financing risk management of the capital financing requirement;
- clarify what CIPFA expects a local authority to borrow for and what they do not view as appropriate. This will include the requirement to set a proportionate approach to commercial and service capital investment;
- address ESG issues within the Capital Strategy;
- require implementation of a policy to review commercial property, with a view to divest where appropriate;
- create new Investment Practices to manage risks associated with non-treasury investment (similar to the current Treasury Management Practices);
- ensure that any long term treasury investment is supported by a business model;
- a requirement to effectively manage liquidity and longer term cash flow requirements;
- amendment to TMP1 to address ESG policy within the treasury management risk framework;
- amendment to the knowledge and skills register for individuals involved in the treasury management function - to be proportionate to the size and complexity of the treasury management conducted by each council;

- a new requirement to clarify reporting requirements for service and commercial investment, (especially where supported by borrowing/leverage).

In addition, all investments and investment income must be attributed to one of the following three purposes:

Treasury management
Arising from the organisation's cash flows or treasury risk management activity, this type of investment represents balances which are only held until the cash is required for use. Treasury investments may also arise from other treasury risk management activity which seeks to prudently manage the risks, costs or income relating to existing or forecast debt or treasury investments.

Service delivery
Investments held primarily and directly for the delivery of public services including housing, regeneration and local infrastructure. Returns on this category of investment which are funded by borrowing are permitted only in cases where the income is "either related to the financial viability of the project in question or otherwise incidental to the primary purpose".

Commercial return
Investments held primarily for financial return with no treasury management or direct service provision purpose. Risks on such investments should be proportionate to a council's financial capacity – i.e., that 'plausible losses' could be absorbed in budgets or reserves without unmanageable detriment to local services. An authority must not borrow to invest primarily for financial return.

As this Treasury Management Strategy Statement and Annual Investment Strategy deals soley with treasury management investments, the categories of service delivery and commercial investments will be dealt with as part of the Capital Strategy report. However, as investments in commercial property have implications for cash balances managed by the treasury team, it will be for each authority to determine whether they feel it is relevant to add a high level summary of the impact that commercial investments have, or may have, if it is planned to liquidate such investments within the three year time horizon of this report, (or a longer time horizon if that is felt appropriate).

Members will be updated on how all these changes will impact our current approach and any changes required will be formally adopted within the 2023/24 TMSS report.