Rother District Council

Report to:	Cabinet
Date:	28 February 2022
Title:	Treasury Management Strategy Statement and Annual Investment Strategy
Report of:	Chief Finance Officer
Cabinet Member:	Councillor Dixon
Ward(s):	All
Purpose of Report:	To present the Treasury Management Strategy Statement and Annual Investment Strategy for approval
Decision Type:	Key
Officer Recommendation(s):	**Recommendation to COUNCIL:** That the:

1) Treasury Management Strategy as set out at Appendix A be approved and adopted;
2) Annual Investment Strategy as set out at Appendix B be approved and adopted;
3) Minimum Revenue Provision Policy Statement 2022/23 be approved;
4) Prudential and Treasury Indicators as set out in Appendix A be approved; and
5) authorised limits in this report be approved

Reasons for Recommendations:	To agree the Treasury Management Strategy Statement and Annual Investment Strategy for approval

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Introduction

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 in line with the Council's low risk appetite, providing adequate liquidity before investment return.

2. Another key function of the treasury management service to manage the funding of the Council's capital programme. It determines borrowing needs in respect of longer-term cash flow planning so that the Council can deliver its capital plans. This involves arranging long and short-term loans as well as the use of cash flow surpluses. It can also involve restructuring existing debt if this reduces costs or risk exposure to interest rate increases.

3. The Treasury Management function looks to optimize interest income and reduce debt interest payments whilst ensuring that the Council has enough liquidity to meet all its spending commitments. Since cash balances generally

consist of reserves and balances, it is paramount that investments are placed as securely as possible as any loss will result in a hit on the General Fund.

4. CIPFA defines treasury management 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."

5. This report reflects relevant guidance from the Department for Levelling Up, Housing and Communities (DLUHC) and CIPFA codes in respect of borrowing and Treasury Management.

Reporting requirements to Members

Capital Strategy

6. The revised CIPFA Prudential and Treasury Management Codes 2017 require local authorities to prepare a capital strategy report. This was reported to and approved by Cabinet on the 7 February 2022.

Treasury Management Reporting

7. The Council is required to receive and approve at least three main treasury reports each year. These are detailed below:

   a. **Prudential and treasury indicators and treasury strategy** – This is included in this report and is forward looking. It covers:
      - the capital plans, (including prudential indicators);
      - the Minimum Revenue Provision (MRP) policy, (the statutory revenue charge to repay loan debt used to finance capital expenditure);
      - the Treasury Management Strategy, (how investments and borrowings are to be organised), including treasury indicators; and
      - an Investment Strategy, (how Investments will be managed).

   b. **A mid-year treasury management report** – This is a progress report that updates Members on the capital position, and reviews prudential indicators and policies.

   c. **An annual treasury report** – This report reviews performance over the past financial year of performance indicators and treasury operations against the estimates in the strategy.

8. The reports are scrutinised by the Audit and Standards Committee before being recommended to Cabinet and full Council.

Expected Investment Returns 2022/23

9. The 2022/23 draft Revenue Budget reported to Cabinet on the 7 February 2022 assumes income of £342,000 from treasury activities. This assumes a return of 0.64% from deposit type investments and 3.60% return from property fund investments. The forecast for the next five years continues to see low returns, based on the forecast use of cash reserves to support the Revenue Budget.

Future Changes

10. On the 20 December 2021 CIPFA published its updated Treasury Management and Prudential Borrowing codes. Local authorities are not required to embed the changes in their 2022/23 Treasury Management and Annual Investment Strategies, but full implementation is required from 2023/24.

11. Members will also note that the DLUHC is proposing to tighten regulations around local authorities financing capital expenditure on investments in commercial projects for yield. To this end, it has already closed access to all PWLB borrowing if such schemes are included in an authority's capital programme. The new CIPFA codes have also adopted a similar set of restrictions to discourage further such expenditure.

12. The DLUHC has also conducted a consultation on amending MRP rules for English local authorities. The proposals will come into effect from the 1 April 2023 and will not be applied retrospectively. They are not expected to have any impact on the Council's proposed MRP policy however, they may have implications for any borrowing that the Council provides to a third party, such as its own housing company. The impact of the changes will be reviewed during 2022/23 and reported to Members.

Conclusion

13. The expectation is that 2022/23 will see a return to some sort of stability in the investment environment but uncertainty around the pandemic will undoubtedly remain. The strategies proposed in this report, together with the interest rates forecast, are in line with the assumptions made when preparing the 2022/23 Revenue Budget. The costs of treasury operations are contained within the 2022/23 draft Revenue Budget.

Other Implications	Applies?	Other Implications	Applies?
Human Rights	No	Equalities and Diversity	No
Crime and Disorder	No	Consultation	No
Environmental	No	Access to Information	No
Sustainability	No	Exempt from publication	No
Risk Management	No		

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Appendices:	Appendix A – Treasury Management Strategy Appendix B – Annual Investment Strategy
Relevant Previous Minutes:	None
Background Papers:	Capital Strategy approved by Cabinet, 7 February 2022
Reference Documents:	None

Treasury Management Strategy for 2022/23

1. The strategy covers two main areas:

   a. Capital
   - the capital expenditure plans and the associated prudential indicators;
   - the Minimum Revenue Provision policy.

   b. Treasury Management
   - the current treasury position;
   - treasury indicators which limit the treasury risk and activities of the Council;
   - prospects for interest rates;
   - the borrowing strategy;
   - policy on borrowing in advance of need;
   - debt rescheduling;
   - the investment strategy;
   - creditworthiness policy; and
   - the policy on use of external service providers.

2. These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, MRP Guidance (DLUHC), the CIPFA Treasury Management Code and the DLUHC Investment Guidance.

Training

3. The CIPFA Code requires that Members with responsibility for treasury management scrutiny receive adequate and relevant training. A training event will be developed and delivered by the Chief Finance Officer after Full Council has met on the 16 May 2022 and agreed membership of the Audit and Standards Committee for 2022/23. The training needs of treasury management officers are reviewed on an ongoing basis. To this end, the Council purchases a subscription from CIPFA's Finance Advisory Network, which entitles its officers to a number of free courses over the financial year.

Treasury management consultants

4. The Council uses Link Asset Services, Treasury Solutions as its external treasury management advisors.

5. Responsibility for treasury management decisions always remains with the Council, which ensures that undue reliance is not placed upon its advisors. Decisions will be undertaken with regards to all available information, including that of the advisors.

6. There is a value in employing external advisors in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed, documented and subjected to regular review.

7. The scope of investments within the Council's operations includes conventional treasury investments, (placing cash) and investments in property to support the Property Investment Strategy. The latter requires specialist advisors and the Council uses appropriately qualified companies in relation to this activity.

The Capital Prudential Indicators

8. The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist Members' overview and confirm capital expenditure plans.

Capital expenditure

9. This prudential indicator is a summary of the Council's capital expenditure plans approved by Members. A key aspect of the regulatory and professional guidance is that elected Members are aware of the size and scope of any commercial activity. The capital expenditure figures shown in the two tables below demonstrate the scope of this activity.

	2021/22 forecast	**2022/23 budget**	**2023/24 budget**	**2024/25 budget**	**2025/26 budget**	**2026/27 budget**
	£'000	£'000	£'000	£'000	£'000	£'000
General Fund Services	10,828	76,720	21,786	1,937	1,880	1,880
Regeneration Investments	4,520	8,718	3,313	0	0	0
TOTAL	**15,348**	**85,438**	**25,099**	**1,937**	**1,880**	**1,880**

10. The table below summarises the above capital expenditure plans and how they will be financed. Any shortfall in resources is funded from borrowing.

	2021/22 forecast	**2022/23 budget**	**2023/24 budget**	**2024/25 budget**	**2025/26 budget**	**2026/27 budget**
	£'000	£'000	£'000	£'000	£'000	£'000
Own Resources	732	1,916	186	187	130	130
External Resources	6,381	7,646	1,625	1,625	1,625	1,625
Debt	6,727	15,384	5,288	125	125	125
Unfunded	1,508	60,492	18,000	0	0	0
TOTAL	**15,348**	**85,383**	**25,099**	**1,937**	**1,880**	**1,880**

The Council's borrowing need (the Capital Financing Requirement)

11. The Council's Capital Financing Requirement (CFR) is the total historic capital expenditure, which has not yet been paid for from either revenue or capital resources. It is a measure of the Council's indebtedness and thus its underlying borrowing need. Any capital expenditure not been financed by revenue, grants or capital receipts will increase the CFR. It does not increase indefinitely because it is reduced by the statutory annual MRP charge to the revenue budget. It broadly reduces indebtedness in line with each assets' life. The CFR includes long-term liabilities such as Private Finance Initiatives and finance leases. The Council currently does not have any such arrangements.

12. The CFR forecasts are shown below:

	2021/22 forecast	**2022/23 budget**	**2023/24 budget**	**2024/25 budget**	**2025/26 budget**	**2026/27 budget**
	£'000	£'000	£'000	£'000	£'000	£'000
Opening Balance	18,168	24,659	38,990	43,206	42,240	41,253
General Fund Services	2,802	**4,667**	1,975	125	125	125
Regeneration Investments	3,925	**10,717**	3,313	0	0	0
Less MRP	(235)	(1,053	(1,072)	(1,092)	(1,111)	(1,110)
Closing Balance	**24,659**	**38,990**	**43,206**	**42,240**	**41,253**	**40,269**

Affordability Prudential Indicator

13. Prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances. The **Ratio of Financing Costs to Net Revenue Stream** indicator below shows the trend in the level of financing costs, (net of investment income), against the net revenue stream.

	2021/22 forecast	2022/23 budget	2023/24 budget	2024/25 budget	2025/26 budget	2026/27 budget
Net Financing costs (£000)	278	1,542	1,550	1,558	1,566	1,552
Proportion of net revenue stream (%)	2.07	11.48	12.60	12.31	11.92	11.50

14. The table shows that the proportion of the Council's net revenue stream (council tax, share of business rates and grants) peaks at 12.6% in 2023/24, which is largely due to the investments made under the Property Investment Strategy.

Incremental Impact of Capital Investment Decisions on Band D Council Tax

15. This indicator identifies the revenue costs associated with the capital programme, net of treasury investment returns. The assumptions are based on the budget, but will invariably include some estimates, such as the level of Government support, which are not published over a five-year period.

2021/22 forecast	2022/23 budget	2023/24 budget	2024/25 budget	2025/26 budget	2026/27 budget
£29.27	**£40.35**	£39.64	£39.19	£38.78	£37.89

Core Funds and Expected Investment Balances

16. The application of resources either to finance capital expenditure or other support the Revenue Budget will have an ongoing impact on investments unless resources are increased by, for example, the sale of assets. Detailed below are estimates of the year-end balances for each resource:

Year End Resources	**2021/22 Budget £ (000)**	**2022/23 Budget £ (000)**	**2023/24 Budget £ (000)**	**2024/25 Budget £ (000)**	**2025/26 Budget £ (000)**	**2026/27 Budget £ (000)**
Funds balances/reserves	9,962	6,942	5,527	5,198	5,739	6,699
Capital Receipts	3,415	3,430	2,730	2,930	3,130	3,330
Less Capital Receipts used to fund Capital	(185)	(900)	0	0	0	0
Provisions	905	905	905	905	905	905
Total Core Funds	**14,097**	**10,377**	**9,162**	**9,033**	**9,774**	**10,934**
Working Capital	10,906	10,906	10,906	10,906	10,906	10,906
Expected Investments	**25,003**	**21,283**	**20,068**	**19,939**	**20,680**	**21,840**

**Working capital balances shown are estimated year-end; these may be higher mid-year*

	Actual £'000 31.12.21	Share % 31.12.21	Actual £'000 31.03.21	Share % 31.03.21
Treasury investments				
Lloyds - General	34,754,313	65.89	14,054,021	43.85
Bank of Scotland	46	0.00	11	0.00
Barclays - Call Account	4,996,066	9.47	4,996,066	15.59
Santander – Call Account	2,995,000	5.68	2,995,000	9.35
Santander – 31 Day Notice Account	2,001,866	3.80	2,001,866	6.25
Total managed funds in house	**44,747,292**	**84.83**	**24,046,759**	**75.04**
Property Funds				
CCLA Local Authority	5,000,000	9.48	5,000,000	15.60
HERMES	2,999,998	5.69	2,999,998	9.36
Total managed externally	**7,999,998**	**15.17**	**7,999,998**	**24.96**
Total treasury investments	**52,747,289**	**100.00**	**51,773,369**	**100.00**

Minimum Revenue Provision (MRP) Policy Statement

17. The Council pays off an element of the capital expenditure financed through loan debt (the CFR) each year through the statutory revenue charge known as the MRP. It may also make additional voluntary payments if desired (Voluntary Revenue Provision - VRP).

18. DLUHC regulations require the full Council to approve an MRP Statement in advance of each financial year. A variety of calculation methods are available, and the Council can choose whichever one suits it best, so long as it is deemed to be prudent. The Council is recommended to approve the following MRP policy statement:

    Asset life method – MRP will be based on the estimated life of the assets, in accordance with the regulations. This provides for a reduction in the borrowing need over the assets' life. Note that for investments supporting the Council's Property Investment Strategy, the MRP will be based on an annuity-based method over the asset's life. For schemes which provide capital expenditure for the acquisition of share capital to third parties, repayment(s) of the loans using the asset life method or return(s) received from the share capital for 20 years will be set aside in lieu of MRP.

    MRP Overpayments – DLUHC guidance allows for any VRP charges to be reclaimed in later years and used in the revenue budget if deemed necessary or prudent. The policy must disclose annually any such charges made. Up until the 31 March 2021 the total VRP overpayments were nil.

Borrowing

19. The treasury management function ensures the Council's cash is managed in accordance with the relevant professional codes and that sufficient cash is available to meet the requirements of its revenue budget and capital strategy. This involves both the organisation of the cash flow and appropriate borrowing facilities. The strategy covers the relevant treasury and prudential indicators, current and projected debt positions and the annual investment strategy.

20. The prudential indicators include those that ensure the Council operates its activities within certain limits. One of these is to ensure that the Council gross debt does not exceed, (except in the short term), the total of its CFR in the preceding year plus its estimated CFR for the following two financial years. This allows some flexibility for limited early borrowing for future years but ensures that borrowing is not undertaken for revenue or speculative purposes

21. The Council's forward projections for borrowing are summarised below. The table shows the actual external debt, against the underlying capital borrowing need, (the Capital Financing Requirement - CFR).

	31.3.22 forecast	31.3.23 budget	31.3.24 budget	31.3.25 budget	31.3.26 budget	31.3.27 budget
Gross Debt	18,110	32,442	36,657	35,691	34,705	33,720
Capital Financing Requirement (CFR)	24,659	38,990	43,206	42,240	41,253	40,269

22. The Chief Finance Officer reports that the Council has complied with this prudential indicator in 2021/22 and does not envisage difficulties in future years. This view takes account of current commitments, existing plans, and the budget proposals.

Treasury Indicators: limits to borrowing activity

23. **The operational boundary.** This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt and the ability to fund under-borrowing from cash resources.

24. **The authorised limit for external debt**. This prudential indicator is a control on the maximum level of borrowing. It is a legal limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. It effectively gives the Council some limited headroom over its operational boundary limit.

25. Section 3 (1) of the Local Government Act 2003 allows the Government to retain the option to control either the total of all council's plans, or those of a specific council, although this power has not yet been exercised.

26. Members are asked to approve the following limits:

	2021/22 limit £'000	2022/23 limit £'000	2023/24 limit £'000	2024/25 limit £'000	2025/26 limit £'000	2026/27 limit £'000
Authorised limit – total external debt	98,629	169,012	192,833	194,770	196,050	196,050
Operational boundary – total external debt	93,629	164,012	187,833	189,770	191,650	191,650

Prospects for interest rates

27. The Council has appointed Link Group as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. The table below gives their view, as at 11 February 2022, of rates at the 31 March.

	31 March 22	31 March 23	31 March 24	31 March 25
	%	%	%	%
Bank Rate	0.75	1.25	1.25	1.25
3 Month average earnings	0.80	1.20	1.20	1.20
6 Month average earnings	1.00	1.30	1.30	1.30
12 Month average earnings	1.40	1.70	1.40	1.40
5 Year PWLB	2.20	2.30	2.30	2.30
10 Year PWLB	2.30	2.40	2.40	2.40
25 Year PWLB	2.40	2.60	2.60	2.60
50 Year PWLB	2.20	2.40	2.40	2.40

Investment and borrowing rates

28. Investment returns have started improving in the second half of 21/22 and are expected to improve further during 2022/23 as the Bank of England's Monetary Policy Committee (MPC) progressively increases the Bank Rate. Borrowing interest rates fell to historically very low rates as a result of the COVID crisis and the quantitative easing operations of the Bank of England and remain at very low levels although they have recently begun to increase again. The policy of avoiding new borrowing by using cash balances has served the Council well in recent years but further borrowing will be unavoidable if the Council is to deliver the Capital Strategy.

Borrowing Strategy

29. The Council is currently maintaining an under-borrowed position in that its CFR has not been fully funded by loans because the Council has been able to use cash reserves and balances as a temporary measure. This is a prudent strategy because investment returns have been low and counterparty risk is still an issue due to the fallout from the pandemic.

30. Against this background and the risks within the economic forecast, caution will continue to be adopted with the 2022/23 treasury operations. The CFO will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances, for example:

- if there is a significant risk of a sharp FALL in long and short-term rates, long term borrowing plans may be postponed;

- if there is a significant risk of a sharp RISE in long and short-term rates fixed rate borrowing may be drawn whilst interest rates are lower than forecasted.

31. Any decisions will be reported to Cabinet and the Audit and Standards Committee at the soonest available opportunity.

Policy on borrowing in advance of need

32. The Prudential Code and CIPFA guidance says that the Council must not borrow more than or in advance of their needs purely to profit from the investment of the extra sums borrowed. This does not apply to its PIS investments, which are essentially focused on the delivery of economic sustainability and regeneration in the Rother district.

33. However, the Council has some flexibility to borrow funds in advance of need for use in future years. The CFO may do this under delegated power whereby, for instance, a sharp rise in interest rates is expected, and so borrowing early at fixed interest rates will be economically beneficial or meet budgetary constraints. Whilst the CFO will adopt a cautious approach, where there is a clear business case for doing so, borrowing may be undertaken to fund the approved Capital Programme.

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

Debt rescheduling

35. The main reasons for debt rescheduling are to generate cash savings or to rebalance the debt portfolio maturity.

36. Rescheduling of the current borrowing in the Council's debt portfolio is unlikely to occur as there is still a very large difference between premature redemption rates and new borrowing rates. Any rescheduling will be reported to the Audit & Standards Committee and Cabinet at the earliest opportunity.

Proportionality

37. The Council will consider proportionality alongside affordability needs when analysing funding projects through borrowing. The costs and risks associated with borrowing will be reviewed with reference to the overall financial position so that the Council does not undertake a level of borrowing, which exposes the it to an excessive level of risk.

ANNUAL INVESTMENT STRATEGY

Investment policy – management of risk

1. The DLUHC and CIPFA have extended the meaning of ‘investments’ to include both financial and non-financial investments. This report deals solely with financial investments, (as managed under treasury management). Non-financial investments, the purchase of income yielding assets, are covered in the Capital Strategy, which was reported to Cabinet on the 7 February 2022.

2. The Council’s investment policy has regard to the following:

   - DLUHC’s Guidance on Local Government Investments
   - CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2021
   - CIPFA Treasury Management Guidance Notes 2021

3. The Council’s investment priorities will be security first, portfolio liquidity second and then return.

4. The above guidance documents 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: -

   a. Minimum acceptable **credit criteria** are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and avoids a concentration risk. The key ratings used to monitor counterparties are the short term and long-term ratings.

   b. **Other information -** ratings will not be the sole determinant of the quality of an institution. It is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this, the Council will engage with its advisors to monitor market pricing and consider that information in addition to credit ratings.

   c. **Other information sources** used will include the financial press, share prices and other relevant information in order to establish a robust scrutiny process on the suitability of potential investment counterparties.

   d. This authority has defined the list of **types of investment instruments** that the treasury management team are authorised to use. There are two lists in Appendix 1, namely, ‘specified’ and ‘non-specified’ investments.

      - **Specified investments** are those with a high level of credit quality and subject to a maturity limit of one year, or have less than a year left to run to maturity if originally they were classified as being non-specified investments solely due to the maturity period exceeding one year.

      - **Non-specified investments** are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments, which require greater consideration by Members and officers before being authorised for use.

e. **Non-specified investments limit.** The Council has determined that it will limit the maximum total exposure to non-specified investments as shown in Appendix 1,

f. **Lending limits**, (amounts and maturity), for each counterparty will be set through applying the matrix table in paragraph 7 below.

g. **Transaction limits** are set for each type of investment.

h. This authority will set a limit for its investments which are invested for **longer than 365 days**.

i. Investments will only be placed with counterparties from countries with a specified minimum **sovereign rating**.

j. This authority has engaged **external consultants**, to provide expert advice on how to achieve an appropriate balance of security, liquidity and return, given the risk appetite of the Council in the context of the level of cash balances and need for liquidity throughout the year.

k. All investments will be denominated in **sterling**.

l. As a result of a change in accounting standards for 2022/23 (IFRS 9), the Council will consider the implications on its investments that could result in an adverse change in their value and a charge to the General Fund at the end of the financial year, (in November 2018, the DLUHC, concluded a consultation for a temporary override to allow English local authorities time to adjust their investments portfolio by announcing a delay to the implementation of IFRS 9 until the 31 March 2023. Any such changes would not impact on the revenue budget.

5. 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 reported to the Audit & Standards Committee during the financial year.

Creditworthiness policy

6. The Council uses the creditworthiness service provided by the Link Group. This is a sophisticated model, which utilises credit ratings from the three main credit rating agencies, namely Fitch, Moody’s and Standard & Poor’s. The credit ratings of counterparties are supplemented with the following information:

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

7. This approach combines the above to produce a weighted score, which is combined with CDS data to produce a series of colour coded bands indicating the creditworthiness of counterparties. The Council uses the colour codes to

determine the suggested duration for investments. It will therefore use counterparties within the following durational bands:

- Yellow 5 years
- Dark pink 5 years for Ultra-Short Dated Bond Funds with a credit score of 1.25
- Light pink 5 years for Ultra-Short Dated Bond Funds with a credit score of 1.5
- Purple 2 years
- Blue 1 year (only applies to nationalised or semi nationalised UK Banks)
- Orange 1 year
- Red 6 months
- Green 100 days
- No colour not to be used

8. Typically, the minimum credit ratings criteria the Council use will be short-term (Fitch or equivalents) of F1 and a long-term rating of A-. Counterparty ratings can marginally vary between agencies but may still be used. In these instances, the whole range of ratings, or other market information will be used.

9. Credit ratings are monitored weekly and reported to the Chief Executive. The Council is alerted to changes of all three agencies through its use of the Link creditworthiness service. If a downgrade means the counterparty/investment scheme no longer meeting the minimum criteria, its use as a new investment will be withdrawn. In addition to the use of credit ratings the Council will be advised each day of movements in CDS spreads against the iTraxx European Financials benchmark and other market data the ‘Passport’ website, (a portal provided exclusively by Link to its customers). Extreme market movements may result in downgrade of an institution or removal from the Council’s lending list.

10. Sole reliance will not be placed on the use of this external service. The Council will also use market data and market information as well as information on any external support for banks to help support its decision-making process.

11. The time and monetary limits for institutions on the Council’s counterparty list are as follows, (these will cover both specified and non-specified investments)

	Colour	£limit or % of Fund Limit	Time Limit
Banks and Building Societies – part nationalised	Blue	30%	1 yr
Banks and Building Societies	Red	50%	6 months
Banks and Building Societies	Green	50%	100 days
Banks and Building Societies	No colour	Not to be used	N/A
Council’s banker	Not applicable	Unlimited/ 100%	1 day

Country limits

12. The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA-. The list of countries

that qualify using this credit criteria as at the date of this report are shown in Appendix 2. This list will be amended by officers should ratings change in accordance with this policy.

Use of additional information other than credit ratings

13. Additional requirements under the Code require the Council to supplement credit rating information. Whilst the above criteria rely primarily on the application of credit ratings to provide a pool of appropriate counterparties for officers to use, additional operational market information will be applied before making any specific investment decisions. This information will be applied to compare the relative security of different investment opportunities.

Investment Strategy

14. Investments will be made with reference to cash flow requirements and the outlook for short-term interest rates. Greater returns are usually obtainable by investing for longer periods. While cash balances are required to manage the ups and downs of cash flow, where cash sums can be invested for longer periods, the value to be obtained from longer term investments will be carefully assessed. If it is thought that bank rate is likely to rise significantly within the time horizon being considered, most investments will be short term or variable. Conversely, if it is thought that bank rate is likely to fall, consideration will be given to locking in higher rates currently obtainable, for longer periods.

Investment returns expectations

15. The bank rate is forecast to reach 1.25% by November 2022. The suggested rates for returns on investments placed for periods up to about three months during each financial year are as follows:

    2022/23 - 1.00% (previously 0.50%);
    2023/24 – 1.25% (previously 0.75%);
    2024/25 – 1.25% (previously 1.00%);
    2025/26 – 1.25% (previously 1.25%);
    Years 6 to 10 – 1.50% (previously 1.50%);
    Years 10+ - 2.00% (previously 2.00%);

16. **Investment treasury indicator and limit -** total principal funds invested for greater than 365 days. These limits are set regarding the Council's liquidity requirements and to reduce the need for early sale of an investment and are based on the availability of funds after each year-end. The Council is asked to approve the following treasury indicator and limit:

Maximum principal sums invested > 365 days			
	2022/23	**2023/24**	**2024/25**
Principal sums invested > 365 days	£10,000,000	£10,000,000	£10,000,000

17. For its cash balances, the Council will seek to utilise its instant access and notice accounts, money market funds and short-dated deposits, (overnight to 100 days), in order to benefit from the compounding of interest.

Investment risk benchmarking

18. The Council will use an investment benchmark to performance of its cash deposit investments with a maturity date of up to one year.

End of year investment report

19. At the end of the financial year, the Council will report to Audit & Standards Committee on its investment activity as part of its Annual Treasury Report.

Policy on the use of external service providers

20. The Council uses the Link Group as its external treasury management advisors.

21. It recognises that 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.

22. It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and assessment of their value are properly agreed and documented.

Scheme of delegation

23. Please see Appendix 3.

Role of the Chief Finance Officer

24. Please see Appendix 4.

Appendix 1

TREASURY MANAGEMENT PRACTICE – CREDIT AND COUNTERPARTY RISK

Specified Investments:

1. All such investments will be in sterling, with maturities up to maximum of one year, meeting the minimum ‘high’ quality criteria where applicable.

2. A variety of investment instruments will be used, subject to the credit quality of the institution, and depending on the type of investment made, it will fall into one of the following categories shown below:

	Minimum credit criteria / colour band	**** Max % of total investments/ £ limit per institution**	**Max. maturity period**
DMADF – UK Government	N/A	**100%**	**6 months**
UK Government gilts	UK sovereign rating	50%	1 year subject to guidance
UK Government Treasury bills	UK sovereign rating	20%	1 year subject to guidance
Bonds issued by multilateral development banks	AAA	20%	1 year subject to guidance
Money Market Funds CNAV	AAA	20%	Liquid
Money Market Funds LVAV	AAA	20%	Liquid
Money Market Funds VNAV	AAA	20%	Liquid
Ultra-Short Dated Bond Funds, credit score of 1.25	AAA	20%	Liquid
Ultra-Short Dated Bond Funds, credit score of 1.5	AAA	20%	Liquid
Local authorities	N/A	50%/ £2M	12 months
UK Banks and building societies	Refer to Creditworthiness Policy	100%, Unlimited with Council’s own banker, £5m limit in UK banks and building societies other than the Council’s subsidiaries where is £10m	1 year
Term deposits with banks and building societies	Refer to Creditworthiness Policy	100%, £5m limit in UK banks and building societies other than the Council’s own banker. £10 m in the Council’s own bank and its subsidiaries, £2m in foreign banks	1 year
CDs or corporate bonds with banks and building societies	Refer to Creditworthiness Policy	20%	1 year

Non-specified investments – these are any other type of investment (i.e. not defined as specified above). The identification and rationale supporting the selection of these other investments and the maximum limits to be applied are set out below. Non-specified investments would include any sterling investments with:

	Non Specified Investment Category	**Limit (£ or %)**
a.	Supranational bonds greater than 1 year to maturity (i) Multilateral development bank bonds – these are bonds defined as an international financial institution having as one of its objectives economic development, either generally or in any region of the world (e.g. the European Reconstruction and Development Bank etc.). (ii) A financial institution that is guaranteed by the United Kingdom Government (e.g. National Rail) The security of interest and principal on maturity is on a par with the Government and so very secure. These bonds usually provide returns above equivalent gilt edged securities. However the value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity.	AAA long term ratings
b.	**Gilt edged securities** with a maturity of greater than one year. These are Government bonds and so provide the highest security of interest and the repayment of principal on maturity. As with category (a) above, the value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity.	
c.	The Council's own banker if it fails to meet the basic credit criteria. In this instance balances will be minimised as far as is possible.	
d.	Certificates of deposit issued by banks and building societies. Refer to Creditworthiness Policy	£3m – 10% of fund
e.	Property funds – the use of these instruments can be deemed to be capital expenditure, and as such will be an application (spending) of capital resources. This Authority will seek guidance on the status of any fund it may consider using.	Specific authorisation required from Members
f.	Property purchases. The criteria for any purchase of property for investment purposes will meet the following broad criteria in the approved Property Investment Strategy (PIS). Appropriate due diligence will also be undertaken before investment of this type is undertaken.	In accordance with the PIS governance arrangements

NOTE 1: The Council will seek further advice on the appropriateness and associated risks with investments in these categories.

Appendix 2

APPROVED COUNTRIES FOR INVESTMENTS

This list is based on those countries which have sovereign ratings of AA- or higher, and also, (except at the time of writing for Hong Kong, Norway and Luxembourg), have banks operating in sterling markets which have credit ratings of green or above in the Link credit worthiness service.

Based on lowest available rating from Fitch, Moody's and S&P

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

AA+
- Canada
- Finland
- U.S.A.

AA
- Abu Dhabi (UAE)
- France

AA-
- Hong Kong
- Belgium
- Qatar
- U.K

As at 9 February 2022

Treasury Management Scheme of Delegation

1. **Full Council**

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

2. **Cabinet**

- approval of/amendments to the organization's adopted clauses, treasury management policy statement and treasury management practices;
- budget consideration and approval;
- approval of the division of responsibilities; and
- approving the selection of external service providers and agreeing terms of appointment.

3. **Audit and Standards Committee**

- reviewing the treasury management policy and procedures and making recommendations to the responsible body; and
- receiving and reviewing regular monitoring reports and acting on recommendations.

4. **Chief Executive and the Chief Finance Officer (as Section 151 Officer)**

- In the event that a counterparty, subsequent to an investment being made, falls below the minimum ratings required, the following action is delegated to the Chief Executive or in their absence the Chief Finance Officer;
    - Fixed term deposits – allow the investment to mature and not withdraw its funding unless advised otherwise by the Council's treasury advisors;
    - In all situations the Chief Executive and Chief Finance Officer will take the best course of action to protect the value of the investment based on advice received from the Council's treasury advisors.

The Treasury Management role of the Chief Finance Officer

The Chief Finance Officer's duties include:

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

    - Risk management (TMP1 and schedules), including investment and risk management criteria for any material non-treasury investment portfolios;
    - Performance measurement and management (TMP2 and schedules), including methodology and criteria for assessing the performance and success of non-treasury investments;
    - Decision making, governance and organisation (TMP5 and schedules), including a statement of the governance requirements for decision making in relation to non-treasury investments; and arrangements to ensure that appropriate professional due diligence is carried out to support decision making;
    - Reporting and management information (TMP6 and schedules), including where and how often monitoring reports are taken;
    - Training and qualifications (TMP10 and schedules), including how the relevant knowledge and skills in relation to non-treasury investments will be arranged.