Tunbridge Wells Borough Council

Treasury Management Policy and Strategy 2023/24

Contents

1. Introduction

1.1 Background

The Treasury Management Policy and Strategy is one of the Council's key financial strategy documents and sets out the Council's approach to the management of its treasury management activities.

The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of treasury management 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.

The second main function of the treasury management service is the funding of the Council's capital programme. The capital programme provides 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, when it is prudent and economic, any debt previously drawn may be restructured to meet Council risk or cost objectives.

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.

The Chartered Institute of Public Finance and Accountancy (CIPFA) defines treasury management 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'*

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. This Council has one investment property and one investment with the Churches, Charities and Local Authorities (CCLA) Property Fund.

1.2 Reporting Requirements

Capital Strategy

The CIPFA 2021 Prudential and Treasury Management Codes require all local authorities to prepare a Capital Strategy report which will provide the following:

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

The aim of the strategy is to ensure that all the Council's elected members fully understand the overall long-term policy objectives and resulting Capital Strategy requirements, governance procedures and risk appetite. The Capital Strategy is presented as an accompanying paper to this report.

Treasury Management Reporting

The Council is currently required to receive and approve, as a minimum, three main treasury reports each year, which incorporate a variety of policies, estimates and actuals.

1 - Prudential and treasury indicators and treasury strategy (this report) is forward looking and covers:

- the capital plans (including prudential indicators)
- a minimum revenue provision policy (MRP) showing how capital expenditure is charged to revenue over time
- the Treasury Management Strategy showing how investments and borrowings are to be organised, including treasury indicators
- an Annual Investment Strategy showing the parameters on how investments are to be managed

2 – A mid-year management report – this is primarily a progress report and will update Members on the capital position, amending any prudential indicators as necessary and whether any policies require revision. This Council additionally provides quarterly report updates.

3 – An annual treasury report – this is a backward looking review document and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy. This Council produces this as the fourth quarter monitoring report.

1.3 Treasury Management Strategy for 2023/24

The strategy for 2023/24 covers two main areas:

Capital Issues

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

Treasury Management Issues

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

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

1.4 Training

The CIPFA Code requires the responsible officer to ensure that Members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny.

The Code states that they expect ‘all organisations to have a formal and comprehensive knowledge and skills or training policy for the effective acquisition and retention of treasury management knowledge and skills for those responsible for management, delivery, governance and decision making’.

Staff regularly attend training courses, seminars and conferences provided by the Council’s treasury consultants and CIPFA. Relevant staff are also encouraged to study professional qualifications delivered by CIPFA and other appropriate organisations. Staff training needs are assessed regularly as part of the appraisal process and when the responsibilities of individual members of staff change.

1.5 Treasury Management Consultants

The Council uses Link Treasury Services Limited as its external treasury management advisors.

The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon the services of our external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisers.

It also recognises that there is value in employing external providers of treasury management services to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented and subjected to regular review.

2 The Capital Prudential Indicators 2023/24 to 2025/26

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

2.1 Capital Expenditure and Financing

This prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle.

	2021/22 Actual £000	2022/23 Estimate £000	2023/24 Estimate £000	2024/25 Estimate £000	2025/26 Estimate £000
Capital Expenditure	9,935	10,556	10,715	2,915	1,280

The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall results in a funding borrowing need.

	2021/22 Actual £000	2022/23 Estimate £000	2023/24 Estimate £000	2024/25 Estimate £000	2025/26 Estimate £000
Capital Receipts	1,338	1,200	0	0	0
External Contributions	6,264	4,578	3,760	1,250	1,250
Earmarked Reserves	333	4,327	6,155	1,665	30
Net Financing Need	2,000	451	800	0	0
Total	**9,935**	**10,556**	**10,715**	**2,915**	**1,280**

2.2 The Council's Borrowing Need

This prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is the total historic outstanding capital expenditure which has not yet been paid for either from revenue or capital resources. It is essentially a measure of the Council's indebtedness and so its underlying borrowing need. Any capital expenditure above, which has not immediately been paid for through a revenue or capital resource, will increase the CFR.

The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the indebtedness in line with each asset's life, and so charges the economic consumption of capital assets to income and expenditure accounts as they are used.

	2021/22 Actual £000	2022/23 Estimate £000	2023/24 Estimate £000	2024/25 Estimate £000	2025/26 Estimate £000
Capital Financing Requirement					
Opening CFR	5,604	6,162	6,416	6,922	6,595
Movement in CFR	558	254	506	(327)	(327)
Closing CFR	6,162	6,416	6,922	6,595	6,268
Movement in CFR represented by					
Net financing for year	2,000	451	800	0	0
Less MRP	(1,442)	(197)	(294)	(327)	(327)

Movement in CFR	**558**	**254**	**506**	**(327)**	**(327)**

2.3 Liability Benchmark

A new prudential indicator for 2023/24 is the Liability Benchmark. The Council is required to estimate and measure the Liability Benchmark for the forthcoming financial year and the following two financial years, as a minimum.

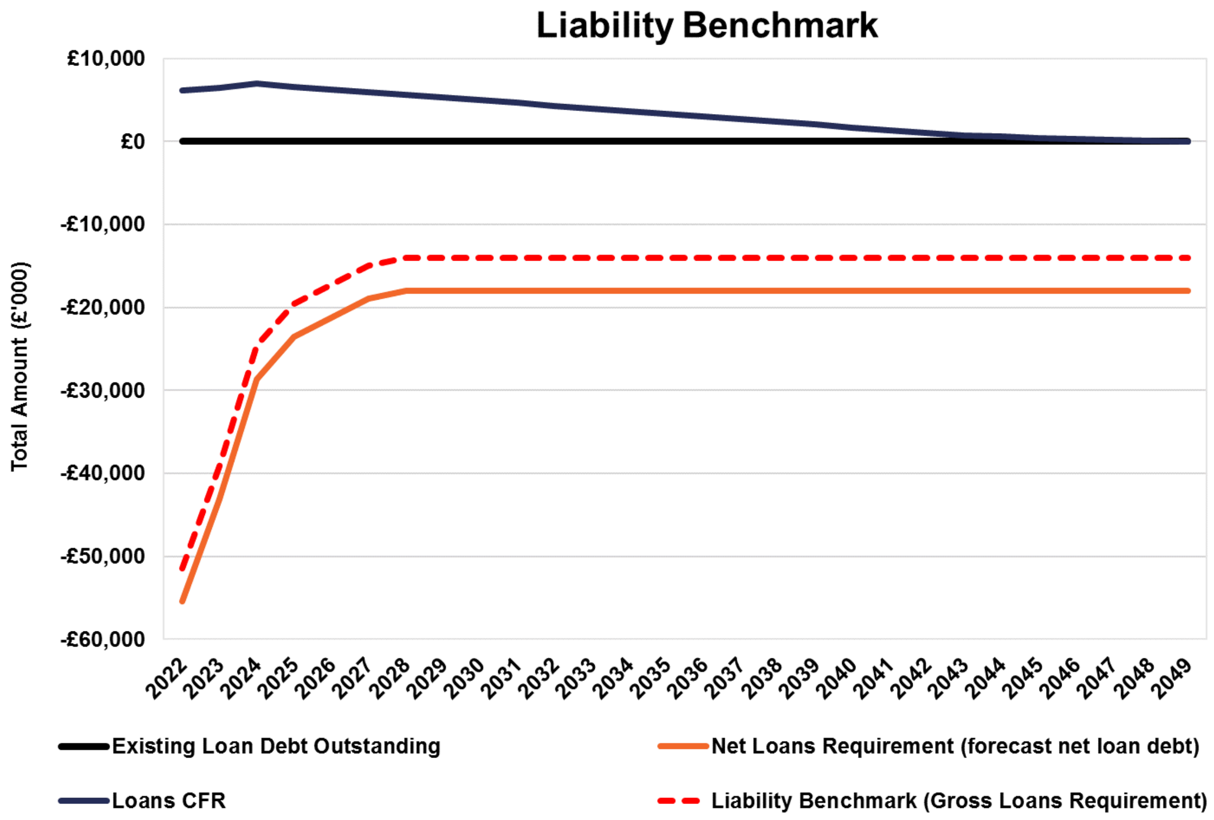
There are four components to the Liability Benchmark which should be represented in a chart. These are:

Existing loan debt outstanding this is the Council's existing loans that are outstanding into future years. This Council currently has no external loans, so this will not need to be shown.

Loans Capital Financing Requirement this is calculated in accordance with the Prudential Code and projected into the future based on approved borrowing and planned Minimum Revenue Provision. Currently the Council's CFR is planned to be zero by 2048/49 and therefore the chart is plotted up to this financial year.

Net loans requirement this will show the Council's gross loan debt less treasury management investments, projected into the future and based on its borrowing, planned MRP and other major cash flow forecasts. As the Council plans to not undertake external borrowing the net loan requirement is shown as a negative and plots the expected cash balances across the years.

Liability benchmark (or gross loans requirement) this equals net loans requirement plus a short-term liquidity allowance to allow for a level of excess cash to provide liquidity if needed.



2.4 Core Funds and Expected Investment Balances

The application of resources to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources. Detailed below are estimates of the year end balances for each resource and anticipated day-to-day cash flow balances.

	2021/22 Actual £000	**2022/23 Estimate £000**	**2023/24 Estimate £000**	**2024/25 Estimate £000**	**2025/26 Estimate £000**
General fund	4,336	4,336	4,211	1,740	1,009
Reserve balances	22,677	11,218	0	0	0
Capital receipts	2,200	1,000	0	0	0
Other	3,280	3,280	3,280	3,280	3,280
Total Usable Reserves	**32,493**	**19,837**	**7,491**	**5,020**	**4,289**

Working Capital	22,940	23,380	21,152	18,578	16,964
Investments Estimate	**55,433**	**43,214**	**28,643**	**23,598**	**21,253**

2.5 Minimum Revenue Provision

Under Regulation 27 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, where the Council has financed capital expenditure through borrowing it is required to make a provision each year through a revenue charge, known as Minimum Revenue Provision (MRP).

The Council is required to calculate a prudent provision of MRP which ensures that the outstanding debt facility is repaid over a period that is reasonably commensurate with that over which the capital expenditure provides benefits.

DLUHC regulations have been issued which require the Full Council to approve an MRP statement in advance of each year. The Council can choose its method for calculating MRP long as there is a prudent provision.

Minimum Revenue Provision Policy Statement

From 1 April 2008 for all unsupported borrowing (not supported by the Revenue Support Grant) there are two options for calculating MRP. They are:

- Asset Life Method – MRP will be based on the estimated life of the assets, in accordance with the regulations
- Depreciation Method – MRP will follow standard depreciation accounting procedures

For capital expenditure financed from borrowing or credit arrangements, the MRP for this Council will be Asset Life Method, with the asset life determined from the outset and MRP charged in the year following the one in which the expenditure occurred. Where expenditure is incurred over more than one year, then the MRP shall commence in the year following the year in which the asset becomes operational. If no life can be reasonably attributed to an asset, such as freehold land, the life should be taken to be a maximum of 50 years.

It is thought that this is the most appropriate method as this provides for the Council to make revenue provision over the estimated life of the asset for which the borrowing is undertaken. In effect, the charge to the Comprehensive Income and Expenditure account will be the amount borrowed in respect of the asset, divided by the number of years of estimated life of the asset, and will result in an equal annual amount being charged as MRP.

The regulations require Full Council approval in advance of the year to which the MRP applies. The Council can change the method of calculating MRP on an annual basis but once a method has been approved for a particular year, any assets purchased through borrowing that year must continue to have MRP charged in the same way. The Council cannot change the method of calculating MRP on individual assets.

MRP Overpayments

Under the MRP guidance, any charges made in excess of the statutory MRP can be made, known as voluntary revenue provision (VRP). VRP can 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.

The amount of MRP overpaid by this Council has been as follows:

	MRP Overpaid (VRP) £	**MRP Overpaid (VRP) Cumulative £**
2018/19 Actual	89,071	89,071
2021/22 Actual	1,146,336	1,235,407

The MRP overpayment in 2018/19 relates to Dowding House. This asset was expected to become operational during 2017/18 and therefore an MRP budget was set for 2018/19 (the year following the year in which the asset was to become operational). The opening was delayed until 2018/19 so therefore there was no requirement to set aside MRP during 2018/19. The Council chose to make a VRP payment in 2018/19 instead as the budget was available to do so.

The MRP overpayment in 2021/22 was £524,780 for the Council's investment property purchased in 2017, £531,784 for waste bins, which were purchased as part of the new waste contract, and £89,772 for civic development works. The Council had budgeted to transfer an amount equivalent to the New Homes Bonus for 2021/22 into reserves. Instead of making this transfer the Council chose to overpay its MRP in order to reduce its debt.

3 Borrowing

The capital expenditure plans details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity and the Council's Capital Strategy. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury and prudential indicators, the current and projected debt positions, and the Annual Investment Strategy.

3.1 Current Position

The Council currently has no external borrowing and is maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement) has not been fully funded as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure.

There is approval for £1.3 million of projects in the capital programme to be funded through borrowing but to date this has been managed through internal borrowing using surplus working capital.

Against this background, and the risks within the economic forecast, caution will be adopted with the 2023/24 treasury operations. The Director of Finance, Policy & Development will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances.

3.2 Treasury Indicators and Prudential Indicators

The Operational Boundary

The operational boundary 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 by other cash resources.

	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000
Debt	20,000	20,000	20,000	20,000
Other long-term liabilities	5,000	10,000	10,000	10,000
Total	**25,000**	**30,000**	**30,000**	**30,000**

The Authorised Limit for External Debt

The authorised limit for external debt represents a control on the maximum level of borrowing. It represents a legal limit beyond which external debt is prohibited, and this limit needs to be set or revised by Full Council. It reflects the level of external debt which, whilst not desired, could be afforded in the short term, but is not sustainable in the longer term.

	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000
Debt	20,000	20,000	20,000	20,000
Other long-term liabilities	5,000	10,000	10,000	10,000
Total	**25,000**	**30,000**	**30,000**	**30,000**

Ratio of Financing Costs to Net Revenue Stream

This indicator identifies the trend in the cost of capital, borrowing and long-term obligation costs against net revenue stream. The Council's budget does not include borrowing costs for 2022/23 onwards and a budget will only be added in future years if the Council enters into external borrowing. This indicator therefore remains at zero.

Maturity Structure of Borrowing

This indicator sets limits to reduce the Council's exposure to large, fixed sums falling due for refinancing, with upper and lower limits required. As the Council has no external borrowing it is not required to set these limits.

3.3 Prospects for Interest Rates

The bank interest rate was cut to 0.10% in March 2020 when it became clear that the coronavirus pandemic would pose a huge threat to the economy. It remained unchanged until December 2021 when it was increased by 0.15% to 0.25%. At each subsequent meeting the Bank of England has increased the rate again, by 0.25% in February, March, May and June, by 0.50% in August and September, by 0.75% in November and by 0.50% in December. This results in a current base rate of 3.50%.

Link Treasury Services, the Council's treasury advisor, assists the Council to formulate a view on interest rates which are shown in the table below:

	Base Rate	5 year PWLB	10 year PWLB	25 year PWLB	50 year PWLB
Dec 22	3.50%	4.30%	4.50%	4.70%	4.30%
Mar 23	4.25%	4.30%	4.50%	4.70%	4.40%
Jun 23	4.50%	4.20%	4.40%	4.60%	4.30%
Sep 23	4.50%	4.10%	4.30%	4.50%	4.20%

Dec 23	4.50%	4.00%	4.20%	4.40%	4.10%
Mar 24	4.00%	3.90%	4.00%	4.30%	4.00%
Jun 24	3.75%	3.80%	3.90%	4.10%	3.80%
Sep 24	3.50%	3.60%	3.70%	4.00%	3.70%
Dec 24	3.25%	3.50%	3.60%	3.90%	3.60%
Mar 25	3.00%	3.40%	3.50%	3.70%	3.40%
Jun 25	2.75%	3.30%	3.40%	3.60%	3.30%
Sep 25	2.50%	3.20%	3.30%	3.50%	3.20%
Dec 25	2.50%	3.10%	3.20%	3.50%	3.20%

3.4 Borrowing Strategy

The Council is maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement) has not been fully funded as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as medium and longer dated borrowing rates are expected to fall from their current levels once prevailing inflation concerns are addressed by tighter near-term monetary policy.

Against this background and the risks within the economic forecast, caution will be adopted with the 2023/24 treasury operations. The Director of Finance, Policy and Development will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

The Council will consider borrowing from the following:

- Temporary Borrowing from the money markets or other local authorities
- Public Works Loans Board (PWLB)
- Long term fixed rate market loans at rates significantly below PWLB rates
- Other financial institutions including banks, insurance and pension funds.
- Municipal Bonds Agency

The Council will continue to take a flexible approach with regards to the funding of capital acquisitions. These schemes may involve the use of borrowing where it is considered to be advantageous and such decisions will be taken by the Director of Finance, Policy and Development in accordance with market conditions at that time.

3.5 Policy on Borrowing in Advance of Need

The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds. In accordance with the Prudential and Treasury Management Codes the Council will not borrow to invest primarily for financial return.

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.

4 Annual Investment Strategy

4.1 Current Position

As at 31 December 2022 the Council had £72.3 million within its investments and bank account monies. The forecast equated principal (average funds throughout the year) for 2022/23 is estimated to be £66.8 million. The forecast average interest rate to be earned in 2022/23 is estimated at 1.79% and will earn the Council approximately £1,195,000 in interest.

The cash profile during 2022/23 has followed a different pattern from previous years due to the continuing impact of monies relating to various Government schemes administered by the Council. These have resulted in the Council holding surplus cash balances as a temporary measure.

Throughout the coronavirus pandemic the Council has been administering business grants schemes provided by the Government to support small business, and businesses in the retail, hospitality and leisure sectors, and during 2022/23 the Council has also administered the Energy Rebate Scheme. The Government provided the funding for these schemes up front and therefore, until the sums were able to be passed on to businesses and resident, or returned to Government, the Council held additional funds.

The Council was compensated for a loss in business rates income during 2021/22 as the Government provided eligible retail, hospitality and leisure properties with 100% business rates relief. The compensation was through the payment of Section 31 grants. The Council, as the billing authority, suffered the full loss of the business rates income in terms of cashflow, rather than just its 40% share, and was compensated for this by receiving 100% of the Section 31 grants due. It needs to repay government the 60% relating to the other preceptors, which is a sum of £14.5

million, but this will not be paid until March 2023. This has therefore increased the average funds available throughout the year.

All the Council's investments are held within the United Kingdom.

4.2 Investment Policy

The Department of Levelling Up, Housing and Communities (DLUHC) and CIPFA have extended the meaning of investments to include both financial and non-financial investments. This report deals solely with treasury (financial) investments. Non-financial investments, essentially the purchase of income yielding assets and service investments, are covered in the Capital Strategy.

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

The Council's investment priorities will be:

- the security of capital first
- the liquidity of its investments second
- and then return

The Council aims to achieve the optimum return on its investments commensurate with proper levels of security and liquidity. The risk appetite of this Council is low in order to give priority to the security of its investments.

The above guidance from the DLUHC and CIPFA places a high priority on the management of risk. This Council has adopted a prudent approach to managing risk and defines its risk appetite by the following means:

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

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

3. **Other information sources** used will include the financial press, share price and other such information pertaining to the financial sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

4. This Council has defined the list of **types of investment instruments** that the treasury management team are authorised to use. There are two lists in Appendix 5.1 under the categories of 'specified' and 'non-specified' investments.

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

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

5. **Lending limits** (amounts and maturity), for each counterparty will be set through applying the limits in paragraph 4.3.

6. **Transaction limits** are set for each type of investment in paragraph 4.3.

7. The Council will set a limit for its investments which are invested for **longer than 365 days**, paragraph 4.5.

8. Investments will only be placed with counterparties from countries with a specified minimum **sovereign rating**, paragraph 4.4.

9. This Council has engaged **external consultants** to provide expert advice on how to optimise an appropriate balances of security, liquidity and yield, given the risk appetite of this Council in the context of the expected level of cash balances and need for liquidity throughout the year.

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

11. As a result of the change in accounting standards for 2022/23 under IFRS 9, this Council will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund.

This Council will also 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 during the year.

4.3 Creditworthiness Policy

The primary principle governing the Council's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. After this main principle the Council will ensure that:

- It maintains a policy covering the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security.
- It has sufficient liquidity in its investments. For this purpose, it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested.

The Director of Finance, Policy and Development will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to Cabinet for approval as necessary. These criteria are separate to that which determines which types of investment instrument are either specified or non-specified as it provides an overall pool of counterparties considered high quality which the Council may use, rather than defining what types of investment instruments are to be used.

Credit rating information is supplied by Link Treasury Services, our treasury advisors, on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty list. Any rating changes, rating Watches (notification of a likely change), rating Outlooks (notification of the longer-term bias outside the central rating view) are provided to officers almost immediately after they occur, and this information is considered before investing.

This Council will use Fitch as its main agency but also monitor ratings from the other agencies, Moody's and Standard and Poor's.

The criteria for providing a pool of high-quality investment counterparties are as follows:

- Banks – the Council will only use banks which are UK banks and/or are non-UK and domiciled in a country which has a minimum sovereign long-term rating of AA- and have, as a minimum, the following Fitch credit rating:

Long Term	Short Term	Maximum Investment	Maximum Duration
AA+ AA AA-	F1+	£20 million	5 years
A+ A A-	F1	£10 million	3 years

- The Council's own banker – Lloyds Banking Group

The Council has its bank account with Lloyds who as well as providing banking services accept Treasury Management Deposits. Having accepted that Lloyds is sufficiently secure to undertake our banking arrangements it is proposed to include them within the same top rating as banks. This will ensure that deposits and overnight current balances do not breach the current Treasury Management Policy.

Maximum Investment	Maximum Duration
£20 million	5 years

It is proposed that the limit applies to investment deposits and is in addition to the amount held in the Lloyds current account. This is because the Council has negotiated an advantageous rate of interest paid by Lloyds for its current account balances which is often more favourable than placing a longer-term investment.

- Part nationalised UK bank – Royal Bank of Scotland Group ring-fenced operations. This bank can be included provided it continues to be part nationalised or it meets the above criteria.

- Bank subsidiary and treasury operation - the Council will use these where the parent bank has provided an appropriate guarantee or has the necessary ratings outlined above.

- Building Societies – the Council will use all societies which meet the ratings for banks outlined above.

- Money Market Funds (rated AAA) – a maximum investment per body of £5 million up to a maximum duration of 5 years.

- Local Authorities, Parish Councils, Community Councils, Housing Associations, companies controlled by the Council - a maximum investment per body of £5 million up to a maximum duration of 5 years.

- UK Government DMADF account – a maximum investment of £30 million up to a maximum duration of 5 years.

- UK Government Gilts and treasury bills – a maximum investment of £10 million up to a maximum duration of 5 years.

- Bonds issued by multilateral development banks (AAA rated) – a maximum investment of £5 million up to a maximum duration of 1 year.

- Collective Investment Schemes (Pooled Funds) – on advice from Link Treasury Services up to a maximum of £10 million.

- Investment in organisations for the purposes of improving the Council's Assets – following a satisfactory external credit report. A maximum investment of £5 million per body up to a maximum duration of 5 years.

Use of additional information other than credit ratings. 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 decision from the agreed pool of counterparties. This additional market information (for example Credit Default Swaps, rating Watches/Outlooks) will be applied to compare the relative security of differing investment opportunities.

4.4 Limits

Due care will be taken to consider the exposure of the Council's total investment portfolio to non-specified investments, countries, groups and sectors.

> **Non-specified treasury management investment limit** The Council has determined that it will limit the maximum total exposure of treasury management investments to non-specified treasury management investments as being 50% of the total treasury management investment portfolio.
>
> **Country limit** The Council has determined that it will only use approved counterparties from the UK and from countries with a minimum sovereign credit rating of AA- from Fitch. The list of countries that qualify using this credit criteria as at the date of this report are shown in Appendix 5.2. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.
>
> **Other limits**. In addition no more than £5 million will be placed with any non-UK country at any time. Limits in place above will apply to a group of companies and sector limits will be monitored regularly for appropriateness.

4.5 Investment Strategy

Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates. Greater returns are usually obtainable by investing for longer periods. The current shape of the yield curve suggests that is the case at present, but there is the prospect of the bank rate peaking in the first half of 2023, and possibly reducing as early as the latter part of 2023, so an agile investment strategy would be appropriate to optimise returns.

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

The current forecast shown in paragraph 3.3, includes a forecast for Bank Rate to reach 4.50% in Quarter 2 2023. As there are so many variables at this time caution must be exercised in respect of all interest rate forecasts.

Investment Treasury Indicator and Limit

Total principal funds invested for greater than 365 days. These limits are set with regard to 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.

	2023/24 £000	**2024/25 £000**	**2025/26 £000**
Principal sums invested for longer than 365 days (investments)	15,000	10,000	5,000
Principal sums invested for longer than 365 days (property funds)	10,000	10,000	10,000
Total	**25,000**	**20,000**	**15,000**

4.6 Interest Budget 2023/24

The interest income included in the 2022/23 budget was £445,000. The forecast has increased to £1,195,000 as at Quarter 2, which is due to the significant increases in the rates available and an increase in the amount of funds available to invest.

The estimated average funds available for investment in 2023/24 are £46.24 million. This includes money that it is expected to be kept in the Council's bank account throughout the year as well as that invested. This forecast takes into account the draft budget, in which a gap of £0.943 million is proposed to be balanced through the reallocation of existing reserves.

The Council currently has £9 million worth of units in The Local Authorities' Property Fund which pays a dividend to the Council on a quarterly basis. It is expected that the Council will keep the £9 million of units with the Fund during 2023/24. An estimated rate, net of fees, of 4.00% has been applied which results in interest of £360,000.

It is estimated that, on average, a rate of 2.85% will be achieved on the remaining funds of £37.24 million resulting in interest of £1,060,000. The rate reflects the fact that much of this money will need to be kept short term to meet the Council's cash flow requirements, particularly the capital programme. This, along with the £360,000 from the Property Fund, brings the total interest budget to £1,420,000, an overall average rate of interest of 3.07%.

An average rate of 3.07% for the year seems low when viewed in the context of the base rate reaching a peak of 4.50%, as is expected in 2023/24. However, as UK interest rates and markets continue to be volatile it is deemed prudent to set the interest budget at this level. Should better investment opportunities than forecast be available this will give scope to increase the forecast budget throughout the year.

5 Appendices

5.1 Credit and Counterparty Risk (Treasury Management Practice 1)

DLUHC issued Investment Guidance in 2018, and this forms the structure of the Council's policy below.

The key intention of the Guidance is to maintain the current requirement for local authorities to invest prudently, and that priority is given to security and liquidity before yield. In order to facilitate this objective, the Guidance requires this Council to have regard to the CIPFA publication Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes. This Council adopts the Code and will apply its principles to all investment activity. In accordance with the Code, the Director of Finance, Policy and Development has produced its treasury management practices (TMPs). This part, TMP 1, covers investment counterparty policy and is approved as part of this strategy.

Annual Investment Strategy

The key requirements of both the Code and the investment guidance are for the Council to set an Annual Investment Strategy, as part of its annual treasury strategy for the following year, covering the identification and approval of the following:

- The strategy guidelines for choosing and placing investments, particularly non-specified investments.
- The principles to be used to determine the maximum periods for which funds can be committed.
- Specified investments that the Council will use. These are high security (i.e., high credit rating, although this is defined by the Council, and no guidelines are given), and high liquidity investments in sterling and with a maturity of no more than a year.

- Non-specified investments, clarifying the greater risk implications, identifying the general types of investment that may be used and a limit to the overall amount of various categories that can be held at any time.

The investment policy proposed for the Council is:

Strategy guidelines – The main strategy guidelines are contained in the body of the Treasury Management Strategy Statement.

Specified investments – These investments are sterling investments of not more than one-year maturity, or those which could be for a longer period but where the Council has the right to be repaid within 12 months if it wishes. They also include investments which were originally classed as being non-specified investments, but which would have been classified as specified investments apart from originally being for a period longer than 12 months once the remaining period to maturity falls to under 12 months.

These are considered low risk assets where the possibility of loss of principal or investment income is small. These would include sterling investments which would not be defined as capital expenditure with:

- The UK Government (such as the Debt Management Account deposit facility, UK Treasury Bills or a Gilt with less than one year to maturity).
- Supranational Bonds of less than one year's duration.
- A Local Authority, Housing Association, Parish Council or Community Council.
- Pooled investment vehicles (such as Money Market Funds) that have been awarded a high credit rating by a credit rating agency.
- A body that is considered of a high credit quality (such as a bank or building society, although non-rated subsidiaries and non-rated building societies will need to be non-specified investments). This category covers bodies with a minimum Short-Term rating of A- (or the equivalent).

In accordance with the Code, the Council has set out additional criteria to limit the time and the amount of monies which will be invested in these bodies, as set out in the annual investment strategy.

Non-specified investments – are any other type of investment (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.

5.2 Approved Countries for Investment

This list is based on those countries which have sovereign ratings of AA- or higher, and also have banks operating in sterling markets which have credit ratings of green or above in the Link Treasury Services creditworthiness service.

AAA

- Australia

- Denmark
- Germany
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland

AA+
- Canada
- Finland
- USA

AA
- Abu Dhabi (UAE)
- France

AA-
- Belgium
- Qatar
- United Kingdom

5.3 The Treasury Management Role of the Section 151 Officer

The Section 151 officer has the following role in treasury management:

- 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
- 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, either in house or externally provided, to carry out the above
- Creation of Treasury Management Practices which specifically deal with how non treasury investments will be carried out and managed including the following:
    - Risk management, including investment and risk management criteria for any material non-treasury portfolios
    - Performance measurement and management, including methodology and criteria for assessing the performance and success of non-treasury investments
    - Decision making, governance and organisation, including a statement of the governance requirements for decision making in relation to non-treasury investments and arrangement to ensure that appropriate professional due diligence is carried out to support decision making
    - Reporting and management information, including where and how often monitoring reports are taken
    - Training and qualifications, including how the relevant knowledge and skills in relation to non-treasury investments will be arranged