Treasury Management Strategy

2022/23 to 2031/32

Environment and Infrastructure

Resources

Adult Social Care and Health

Leisure, Tourism and Sport

Children, Education and Skills

Climate Change, Planning and Housing

Stronger and Safer Communities

Solihull Metropolitan Borough Council

Urbs in Rure

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1 Introduction

1.1.1 The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. A key objective 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, which allow adequate liquidity initially before considering investment return.

1.1.2 The treasury management service is also involved in funding the Council's capital programme. The Corporate Capital Strategy provides a guide to the borrowing needs of the Council and the longer term cash flow planning to ensure that the Council can meet its capital spending obligations. The management of longer term cash may involve arranging long or short-term loans, or utilising longer term cashflow surpluses. On occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

1.1.3 CIPFA defines treasury management as:

"The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

1.2 Reporting requirements

Corporate Capital Strategy 2022/23 – 2031/32

1.2.1 The CIPFA revised 2017 Prudential and Treasury Management Codes required all local authorities to prepare an additional report, 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.

1.2.2 The aim of this Capital Strategy is to ensure that all elected members fully understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite.

1.2.3 The Corporate Capital Strategy is reported to Full Council to ensure that all elected members fully understand the capital programme and how it is managed, including the governance procedures and risk appetite the strategy represents.

1.2.4 The Corporate Capital Strategy details capital expenditure, investments and liabilities and treasury management in sufficient detail to allow all members to understand how stewardship, value for money, prudence, sustainability and affordability will be secured.

1.2.5 The Corporate Capital Strategy includes the Council's minimum revenue provision (MRP policy) and key prudential indicators relating to the cost and affordability of the Council's capital plans which were previously reported as part of the Treasury Management Strategy. There are strong links between the two strategies, as the Council's approach to treasury management, which represents a key influence on the capital programme, is a critical component of its capital planning.

Treasury Management Strategy 2022/23– 2031/32

1.2.6 The Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals. These reports are required to be adequately scrutinised by committee before being recommended to the Full Council. This role is undertaken by the Audit Committee.

1.2.7 A Treasury Management Strategy (this report) – This will provide members with an outline of how investments and borrowings are to be organised in coming years, including an Invesment Strategy and relevant indicators.

1.2.8 A Mid-Year Treasury Management Report – This will update members with the current capital position, amend indicators as necessary, and state whether the treasury operations are meeting the strategy or whether any policies require revision.

1.2.9 An Annual Treasury Report – This provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

1.2.10 In addition to these reports Audit Committee receives quarterly monitoring reports to update on treasury activity.

1.2.11 The Treasury Management Strategy covers the following areas:

- the current treasury position and borrowing structure;
- debt and investment projections;
- limits to borrowing activity;
- prospects for interest rates;
- the borrowing and debt strategy;
- limits on treasury management activity;
- investment strategy;
- investment counterparty selection;
- treasury performance indicators;
- scheme of delegations;
- policy on use of external service providers;
- member and officer training;
- use of brokers;
- car loan scheme.

1.2.12 The Council's capital expenditure plans, minimum revenue provision (MRP) policy, and associated prudential indicators which had previously been reported as part of the Treasury Management Strategy are reported as part of the Council's Corporate Capital Strategy.

1.2.13 The elements covered within the Treasury Management and Corporate Capital Strategy meet the requirements of the Local Government Act 2003, the CIFPA Prudential Code, The Department for Levelling Up, Housing and Communities (DLUHC) MRP Guidance, the CIPFA Treasury Management Code and the DLUHC Investment Guidance.

1.3 Capital Programme 2021/22 – 2031/32

1.3.1 The Council's capital programme, which is approved through the Council's Corporate Capital Strategy, is a key driver of treasury management activity. Approved expenditure which is not financed through other means must be met via borrowing activity and must be considered within the Council's treasury and prudential indicators. The capital programme is summarised below.

	2021/22 Forecast £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 to 2031/32 Estimate £m
Non-HRA	79.170	54.109	60.982	64.196	116.880
HRA	23.834	29.318	19.098	15.324	141.127
Total	**103.004**	**83.427**	**80.080**	**79.520**	**258.007**
Financed by:					
Capital receipts	2.875	0.033	0.068	0.171	1.425
Capital grants	30.496	35.689	22.998	13.045	69.930
Contributions	2.515	3.688	0.300	1.450	3.250
Revenue	22.464	20.816	16.678	17.054	142.502
Net financing need for the year	**44.654**	**23.201**	**40.036**	**47.800**	**40.900**

2 Treasury Management Overview

2.1 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. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of borrowing facilities. The strategy covers the relevant treasury/prudential indicators, the current and projected debt positions and the Annual Investment Strategy.

2.2 Current Treasury Position and Borrowing Structure

2.2.1 The Council's current treasury position is highlighted in the following table.

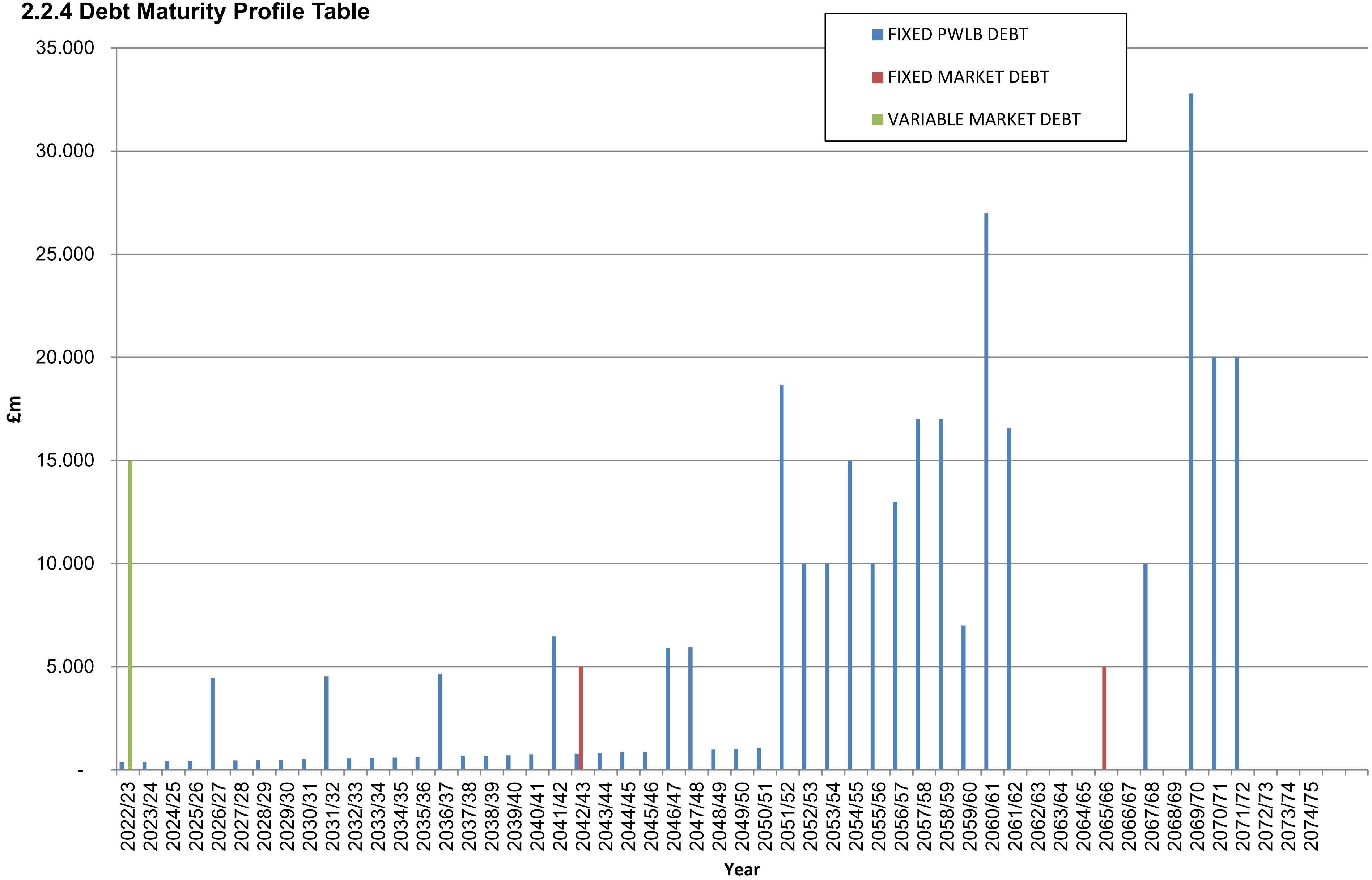
	31/3/2021 (2020/21) Actual £m	Actual Rate 2020/21 %	31/3/2022 (2021/22) Forecast £m	Forecast Rate 2021/22 %
External Borrowing				
Fixed Rate - PWLB[1]	255.315	3.870	290.948	3.668
Fixed Rate - Market	10.000	4.423	10.000	4.423
Variable Rate - Market	15.000	4.658	15.000	4.658
Total Borrowing	**280.315**	**3.932**	**315.948**	**3.699**
Investments				
Banks	(5.518)		(5.000)	
Local Authorities	(56.000)		(60.000)	
Central Government	(7.000)		(15.000)	
Money Market Funds	(3.000)		(15.000)	
Total Investments	**(71.518)**	**0.270**	**(95.000)**	**0.070**
Net Borrowing	**208.797**		**220.948**	

2.2.2 In addition, the Council is responsible for its proportion of the former West Midlands County Council (WMCC) debt that is repayable by a 10% sinking fund over 40 years (4 years still outstanding) and the interest rate is set each year by Dudley MBC based on the average cost of borrowing in the year. The estimated debt outstanding at 31 March 2022 will be £4,390 million and the average rate of interest for 2022/23 is estimated at 5.243%.

2.2.3 The maturity structure of the Public Works Loan Board (PWLB) and market debt is as shown in the table overleaf. This illustrates that the Council has spread the impact of the maturity over several financial years, to minimise refinancing problems at a later date.

[1] PWLB: Public Works Loan Board, a branch of the Debt Management Office that lends funds to Local Government.

2.2.4 Debt Maturity Profile Table



2.3 Debt Projections 2021/22 – 2031/32

2.3.1 The Council's treasury portfolio position at 31st March 2021, with forward projections, is summarised below. The table shows the actual external debt against the underlying capital borrowing need, the Capital Financing Requirement (CFR), highlighting any 'under' or 'over-borrowing'.

	2020/21 Outturn £m	2021/22 Forecast £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m
External Debt						
Debt at 1 April	280.669	286.876	323.387	336.973	366.532	402.827
Expected change in debt requirement	6.207	36.511	13.586	29.559	36.295	14.109
Debt at 31 March	286.876	323.387	336.973	366.532	402.827	416.936
Other long-term liabilities (OLTL)	58.509	54.538	50.174	47.196	44.093	40.726
Expected change in OLTL	(3.971)	(4.364)	(2.978)	(3.103)	(3.367)	(4.046)
OLTL at 31 March	54.538	50.174	47.196	44.093	40.726	36.680
Gross Debt at 31 March	**341.414**	**373.561**	**384.169**	**410.625**	**443.553**	**453.616**
Capital Financing Requirement	**439.193**	**471.340**	**481.948**	**508.404**	**541.331**	**551.394**
Under / (over) borrowing	**97.779**	**97.779**	**97.779**	**97.779**	**97.779**	**97.779**

	2026/27 Estimate £m	2027/28 Estimate £m	2028/29 Estimate £m	2029/30 Estimate £m	2030/31 Estimate £m	2031/32 Estimate £m
External Debt						
Debt at 1 April	416.936	406.539	396.122	385.720	375.277	364.802
Expected change in debt requirement	(10.397)	(10.417)	(10.402)	(10.443)	(10.475)	(10.573)
Debt at 31 March	406.539	396.122	385.720	375.277	364.802	354.229
Other long-term liabilities (OLTL)	36.680	33.751	30.799	27.821	24.783	21.312
Expected change in OLTL	(2.929)	(2.952)	(2.978)	(3.038)	(3.471)	(3.867)
OLTL at 31 March	33.751	30.799	27.821	24.783	21.312	17.445
Gross Debt at 31 March	**440.290**	**426.921**	**413.541**	**400.060**	**386.114**	**371.674**
Capital Financing Requirement	**538.069**	**524.699**	**511.320**	**497.839**	**483.893**	**469.453**
Under / (over) borrowing	**97.779**	**97.779**	**97.779**	**97.779**	**97.779**	**97.779**

2.3.2 In previous years it had been assumed that all new borrowing requirement would be met via internal borrowing (utilising Council reserves and balances), however given the significant level of borrowing anticipated over coming years, it is no longer feasible to assume this. Each borrowing decision will be reviewed as it arises and should funds allow, and it is deemed to be the most efficient and cost effective form of borrowing, then existing cash balances will replace the use of external borrowing. In these instances the annual change in debt per year (in the table above) will be reduced by the levels of internal funding used, and the underborrowing position will increase.

2.3.3 The prudential indicators set within the Corporate Capital Strategy include a number of key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2022/23 and 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 purposes.

2.3.4 The Director of Resources and Deputy Chief Executive reports that the Council has complied with this prudential indicator in the current year and that he does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this report.

2.3.5 The CFR in each year includes the PFI/PPP schemes, finance leases and transferred debt (including former WMCC debt administered by Dudley Council) which are not classified as borrowing, but are included within ‘other long term liabilities’.

2.3.6 Debt projections have been calculated to 2031/32 in line with the ten year capital programme. Based on known capital projects gross debt will peak in 2025/26 at £453.616 million before steadily reducing to £371.674 million by 2031/32. The CFR will follow the same projection path peaking at £551.394 million in 2025/26 and reducing to £469.453 million by 2031/32. The projections to 2031/32 are shown pictorially in the chart within paragraph 3.4 below.

3 Treasury and Prudential Indicators: Limits to Borrowing Activity

3.1 **The Operational Boundary** - This is the level beyond which external borrowing 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 borrowing. The projections to 2031/32 are shown pictorially in paragraph 3.4 below.

	2020/21 Outturn £m	2021/22 Forecast £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m
Borrowing at 1st April	280.669	286.876	323.387	336.973	366.532	402.827
Other long-term liabilities (PFI/PPP etc.) at 1st April	58.509	54.538	50.174	47.196	44.093	40.726
Expected change in debt + other long-term liabilities	2.236	32.147	10.608	26.456	32.927	10.063
Total	**341.414**	**373.561**	**384.169**	**410.625**	**443.553**	**453.616**
Operational Boundary	**390.000**	**420.000**	**430.000**	**460.000**	**490.000**	**500.000**

	2026/27 Estimate £m	2027/28 Estimate £m	2028/29 Estimate £m	2029/30 Estimate £m	2030/31 Estimate £m	2031/32 Estimate £m
Borrowing at 1st April	416.936	406.539	396.122	385.720	375.277	364.802
Other long-term liabilities (PFI/PPP etc.) at 1st April	36.680	33.751	30.799	27.821	24.783	21.312
Expected change in debt + other long-term liabilities	(13.326)	(13.369)	(13.380)	(13.481)	(13.946)	(14.440)
Total	**440.290**	**426.921**	**413.541**	**400.060**	**386.114**	**371.674**
Operational Boundary	**490.000**	**470.000**	**460.000**	**450.000**	**430.000**	**420.000**

3.2 **The Authorised Limit for External Debt** – A further key prudential indicator represents a control on the overall level of borrowing. This is the 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, while not desired, could be afforded in the short term, but is not sustainable in the longer term. Given the current level of underborrowing within the Council, the proposed Authorised Limit is the same as the CFR plus any headroom within the HRA debt limit for each year of the Treasury Management Strategy.

3.2.1 This 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 no such control has yet been exercised. The projections to 2031/32 are shown pictorially in paragraph 3.4 below.

3.2.2 The Council is asked to approve the following Authorised Limit:

	2020/21 Outturn £m	2021/22 Forecast £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m
Maximum Allowable Borrowing 31 March (Including HRA Headroom)	402.517	438.937	453.669	483.363	519.450	533.382
Other long-term liabilities (PFI/PPP etc.)	54.538	50.174	47.196	44.093	40.726	36.680
Authorised Limit	**457.055**	**489.111**	**500.865**	**527.456**	**560.176**	**570.062**

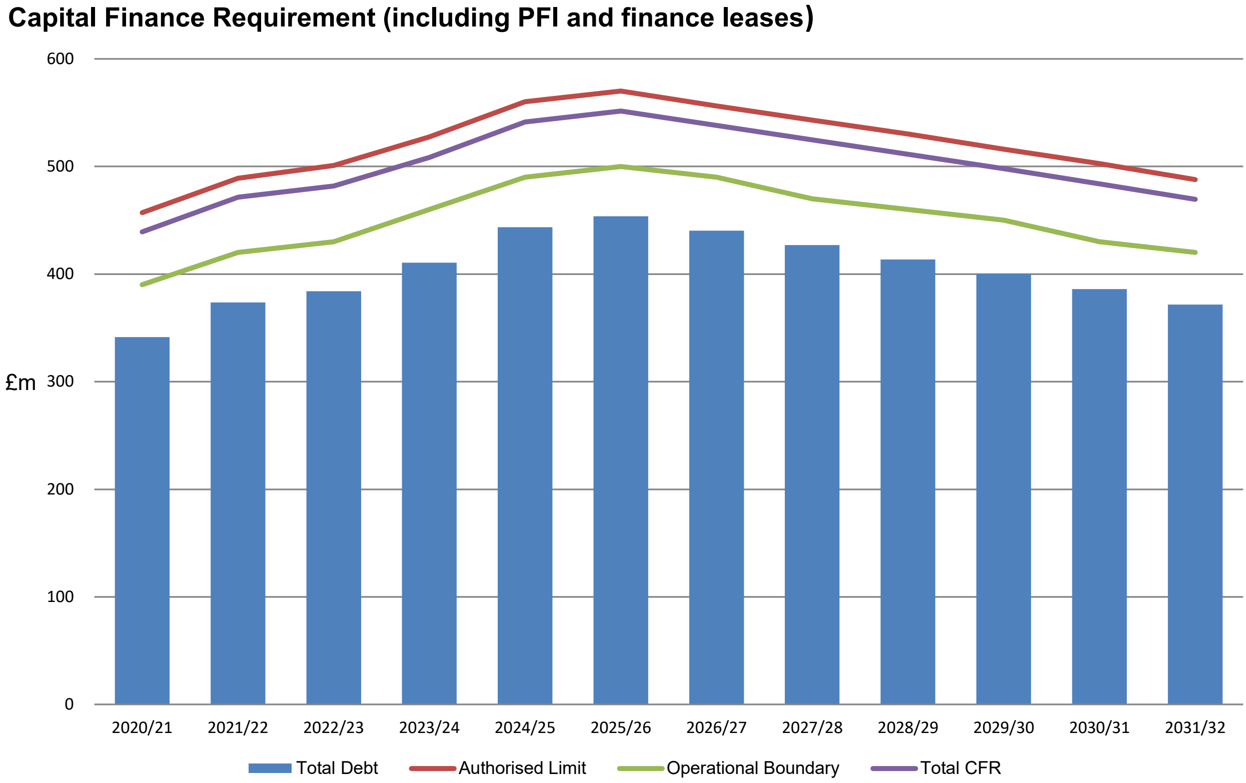
	2026/27 Estimate £m	2027/28 Estimate £m	2028/29 Estimate £m	2029/30 Estimate £m	2030/31 Estimate £m	2031/32 Estimate £m
Maximum Allowable Borrowing 31 March (Including HRA Headroom)	522.369	512.353	502.369	491.360	481.336	470.232
Other long-term liabilities (PFI/PPP etc.)	33.751	30.799	27.821	24.783	21.312	17.445
Authorised Limit	**556.120**	**543.152**	**530.190**	**516.143**	**502.648**	**487.677**

3.3 Separately, through the HRA self-financing regime, the Council is required to set a separate CFR and borrowing limit for its HRA. Historically this was based on a Government imposed HRA debt cap (this was set at £179.761 million for the Council); however this cap was removed by Government in October 2018. The revised limit is based on current HRA borrowing levels and capital expenditure plans, however any new scheme must be approved separately by members before borrowing can be undertaken.

	2020/21 Outturn £m	**2021/22 Forecast £m**	**2022/23 Estimate £m**	**2023/24 Estimate £m**	**2024/25 Estimate £m**	**2025/26 Estimate £m**
HRA CFR	172.138	173.229	181.083	181.948	181.156	180.332
HRA Debt Limit	190.000	191.000	200.000	201.000	200.000	199.000

	2026/27 Estimate £m	**2027/28 Estimate £m**	**2028/29 Estimate £m**	**2029/30 Estimate £m**	**2030/31 Estimate £m**	**2031/32 Estimate £m**
HRA CFR	179.948	179.547	179.130	178.696	178.245	177.776
HRA Debt Limit	198.000	198.000	198.000	197.000	197.000	196.000

3.4 The longer term forecast position, for the period 2020/21 – 2031/32, in respect to the total debt of the Authority and the operational and authorised limit are shown in the chart below.



3.5 **Legislation Changes – Leases (IFRS 16) –** From the 1st April 2020 new legislation was due to be brought in which will change the accounting treatment for leases entered into by the Authority. However due to the impacts of Covid-19 this has now been delayed to the 1st April 2022 at the earliest. Once implemented it will mean that all leased assets will need to be entered on the Council's balance sheet and will therefore have an offsetting debt liability. This will increase the Council's CFR and borrowing requirement, but as these types of instruments include a borrowing facility by the lease provider, it will mean the Council is not required to separately borrow for these schemes. At this time the overall impact of these changes is not known, but the intention is to increase all limits by an amount equal to this new lease liability. These changes will be reported to members as soon as the information becomes available.

4 Prospects for Interest Rates

(Source – Link Group November 2021)

4.1.1 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 following table gives the Link Group central view.

%	Bank Rate	Money Rates			PWLB Borrowing Rates		
		3 month	6 month	1 year	5 year	25 year	50 year
Current	0.10	0.20	0.30	0.40	1.35	1.75	1.50
Mar-22	0.25	0.40	0.50	0.60	1.50	2.20	2.00
Jun-22	0.50	0.50	0.60	0.70	1.60	2.30	2.10
Sep-22	0.50	0.50	0.60	0.70	1.60	2.40	2.20
Dec-22	0.50	0.50	0.70	0.80	1.70	2.40	2.20
Mar-23	0.75	0.60	0.80	0.90	1.70	2.40	2.20
Jun-23	0.75	0.80	0.90	1.00	1.70	2.50	2.30
Sep-23	0.75	0.90	1.00	1.10	1.80	2.50	2.30
Dec-23	0.75	1.00	1.10	1.20	1.80	2.60	2.40
Mar-24	1.00	1.00	1.10	1.20	1.80	2.60	2.40
Jun-24	1.00	1.00	1.10	1.20	1.90	2.60	2.40
Sep-24	1.00	1.00	1.10	1.20	1.90	2.60	2.40
Dec-24	1.00	1.00	1.10	1.20	2.00	2.70	2.50
Mar-25	1.25	1.00	1.10	1.20	2.00	2.70	2.50

4.1.2 The coronavirus outbreak has caused huge economic damage to the UK and economies around the world. The Bank of England took emergency action in March 2020 meetings to first cut the Bank Rate (from 0.75%) to first 0.25%, and then to 0.10%.

4.1.3 The current forecast includes five increases in the Bank Rate over the three-year forecast period to March 2025, ending at 1.25%. However, it is likely that these forecasts will need changing within a relatively short timeframe for the following reasons: -

- There are increasing grounds for viewing the economic recovery as running out of steam during the summer and through into the autumn. This could lead into inflationary pressures which would create a dilemma for the MPC as to whether to focus on combating inflation or supporting economic growth through keeping interest rates low.

- Some key supply shortages are currently being seen which may cause economic activity in some sectors to take a significant hit.

- Rising energy prices and increases in taxation next April, are already going to deflate consumer spending power without the MPC having to take any action on the Bank Rate to cool inflation.

- Offsetting this, consumer savings have increased by over £160bn during the pandemic, which may result in increased consumer activity, without any added stimulus.

- There is also a risk from virus mutations, on top of the flu season this winter; which could lead to renewed restrictions, and even the possibility of another lockdown, which could all depress economic activity.

4.1.4 Gilt yields / PWLB rates - Since the start of 2021, there has been a lot of volatility in gilt yields, and hence PWLB rates. As the interest forecast table for PWLB certainty rates above shows, there is likely to be a steady rise over the forecast period, with some degree of uplift due to rising treasury yields in the US. There is likely to be exceptional volatility and unpredictability in respect of gilt yields and PWLB rates over coming months and years and therefore forecasts will change in line with economic activity over this period.

4.2 Investment and Borrowing Rates

4.2.1 Investment returns have been exceptionally low during the last 18 months, but these are expected to improve over coming years in line with market expectations of increases in the Bank Rate.

4.2.2 Borrowing interest rates fell to historically very low rates as a result of the Covid-19 crisis and the quantitative easing operations of the Bank of England. While rates are likely to gradually increase over the period of this strategy it is still likely that borrowing rates will remain low for a significant period of time.

4.2.3 The Council's policy of avoiding new borrowing by running down spare cash balances has been an effective strategy to date, however, this needs to be carefully reviewed to avoid incurring higher borrowing costs at a later date, when authorities will be unable to avoid new borrowing to finance new capital expenditure and/or to refinance maturing debt.

4.2.4 There will remain a cost of carry to any new long term borrowing as investment rates continue to be lower than borrowing rates.

5 Borrowing and Debt Strategy 2022/23 – 2031/32

5.1 The Council is currently maintaining an underborrowed position. This means that the capital borrowing need (the CFR), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cashflow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is relatively high. It also avoids the Council incurring a cost on the differential between borrowing costs and investment rates.

5.2 Against this background and the risks within the economic forecast, and the potential for a borrowing rate increase, caution will be adopted with the 2022/23 treasury operations.

5.3 The Director of Resources and Deputy Chief Executive will monitor interest rates in the financial markets and adopt a pragmatic approach to changing circumstances. Any decisions will be reported at the next available opportunity.

5.4 **Borrowing in Advance of Need** - The Director of Resources and Deputy Chief Executive, under delegated powers, will take the most appropriate form of borrowing depending on the prevailing interest rates at the time, taking into account the risks shown in the forecast above whilst considering future funding requirements. This may include borrowing in advance of future year's requirements.

5.5 The Council's policy on borrowing in advance of need is that it 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.

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

5.7 The appropriate form of borrowing referred to in 5.4 considers both PWLB variable and fixed rate debt and the use of market instruments. At present non PWLB debt accounts for approximately 5.3% of the Capital Financing Requirement, excluding other long-term liabilities and the former WMCC debt administered by Dudley MBC.

5.8 Based on current borrowing, the amount of borrowing outstanding at 1st April 2022 will be £315.948 million. The total Council borrowing includes £15m of variable market debt (4.7% of total debt, 4.0% of the ultimate long-term borrowing requirement), and £10m of fixed rate market debt (3.2% of total debt, 2.7% of the ultimate long-term borrowing requirement).

5.9 In addition to the above sources of funding, the Municipal Bond Agency, which was established in recent years, has begun to issue bonds on behalf of local authorities, and could therefore be a viable source of future funding. Consideration will be given in regard of this option as required.

Debt Rescheduling

5.10 No debt rescheduling has been undertaken during 2021/22. Rescheduling of PWLB debt in future years is unlikely to occur at the present time due to the relatively high level of repayment rates associated with the early repayment of PWLB debt.

5.11 The Director of Resources and Deputy Chief Executive and the Council's treasury consultants will monitor prevailing rates for any further rescheduling opportunities in the future.

5.12 Any rescheduling will be in accordance with the strategy position outlined above. The reasons any rescheduling might take place could include:

- to generate cash savings and/or discounted cash flow savings;
- to help fulfil the treasury strategy;
- to enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

5.13 In July 2021 the Council had £4 million of PWLB debt, at a rate of 7.875%, which matured. This debt was refinanced at a rate of 2.01% generating an annual saving of £234,600 per annum in interest payment. These savings have been factored into the Treasury Management savings proposals. There is no debt due to mature in 2022/23.

5.14 All rescheduling will be reported to the Audit Committee at the earliest meeting following its action.

Budgetary Impact of Borrowing Decisions

5.15 The current base budget and forecast for 2021/22 to 2024/25 identifies further additions to the Treasury Management budget which are incorporated in the Council's Medium Term Financial Strategy and shown below. These figures exclude the savings identified for Treasury Management in the Medium Term Financial Strategy:

Treasury Management Base Budget Forecast Additions	2021/22	2022/23	2023/24	2024/25
	£m	£m	£m	£m
Prudential Borrowing to fund ICT and Corporate Capital Programme	0.689	0.577	0.632	0.497
Prudential Borrowing for other projects	2.052	1.057	2.080	2.275
Total	**2.741**	**1.634**	**2.712**	**2.772**

5.16 The overall cost outlined in the above table will require a base revenue budget allocation of £1.634 million in 2022/23 which has been reflected in the budgets proposed for the year.

5.17 The budget process includes bids for projects requiring prudential borrowing such as ICT and agile working projects. To the extent that the revenue consequences of borrowing are approved by Full Cabinet, the Treasury Management budget will be increased to enable the borrowing to be undertaken.

5.18 In summary, the estimated borrowing requirement in 2022/23 is:

	£m
Prudential Borrowing (Non HRA)	14.784
Less – Provision for loan repayment (MRP)	(9.052)
Borrowing requirement (excluding other long term liabilities)	5.732

5.19 In addition to the borrowing requirement outlined above, £8.417 million of borrowing is anticipated for the Housing Revenue Account for 2022/23.

6. Treasury Management Limits on Activity

6.1 There are three debt-related treasury activity limits. The purpose of these is to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of an adverse movement in interest rates. However, if these are set to be too restrictive they will impair the opportunities to reduce costs and/or improve performance. The indicators are:

- Upper limits on variable rate exposure – this indicator identifies a maximum limit for variable interest rate borrowing based upon the expected net debt position.
- Upper limits on fixed rate exposure – this is similar to the previous indicator and covers a maximum limit on fixed interest rates.
- Maturity structure of borrowing – 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.

6.2 **The Council is asked to approve the following limits:**

	2022/23	**2023/24**	**2024/25**	**2025/26**	**2026/27**
	Upper £m	Upper £m	Upper £m	Upper £m	Upper £m
Limits on fixed interest rates (net debt)	453.669	483.363	519.450	533.382	522.369
Limits on variable interest rates (net debt)	136.101	145.009	155.835	160.015	156.711
	2027/28	**2028/29**	**2029/30**	**2030/31**	**2031/32**
	Upper £m	Upper £m	Upper £m	Upper £m	Upper £m
Limits on fixed interest rates (net debt)	512.353	502.369	491.360	481.335	470.232
Limits on variable interest rates (net debt)	153.706	150.711	147.408	144.401	141.070
Local Indicator – Variable debt not to exceed 30% of total debt					

Maturity Structure of fixed interest rate borrowing		
All years	**Lower**	**Upper**
Under 12 months	0%	20%
12 months to 2 years	0%	20%
2 years to 5 years	0%	50%
5 years to 10 years	0%	50%
10 years to 20 years	0%	60%
20 years to 30 years	0%	60%
30 years to 40 years	0%	80%
40 years to 50 years	0%	80%
50 years and above	0%	80%

7 Investment Strategy 2022/23-2031/32

7.1 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 by the treasury management team). Non-financial investments, essentially the purchase of income yielding assets, are covered in the Councils Capital and Property Investment Strategies.

7.2 The Council's investment policy has regard to DLUHC's Guidance on Local Government Investments and the CIPFA Treasury Management in Public Services Code of Practice and Cross-Sectoral Guidance Notes 2017 (the CIPFA TM Code). The Council's investment priorities will be security first, then liquidity, and then yield.

7.3 In accordance with the above guidance from DLUHC and CIPFA, and in order to minimise the risk to investments, the Council applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus the avoidance of concentration risk.

7.4 It is recognised that ratings will not be the sole determinant of the quality of an institution and that 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 this end the Council will engage with its advisors to monitor market pricing of credit default swaps[2] and overlay that information on top of the credit ratings.

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

7.6 The key objectives of the Council's investment strategy are primarily to safeguard the repayment of the principal and interest on its investments on time and secondly to ensure adequate liquidity. Investment return is the tertiary objective.

7.7 Investment risk benchmarks are simple guides to the maximum risk and so may be breached from time to time, depending on movements in interest rates and counterparty criteria. The purpose of the benchmark is that officers will monitor the current and trend position and amend the operational strategy to manage risk as conditions change.

[2] Credit default swap: this is a form of 'insurance' taken out by investors to protect themselves if a borrower fails to make repayments when they fall due.

7.8 Ratings agencies provide details of historic defaults by financial institutions. The historic default tables are shown below, and indicate the average risk of default for each type of institution. Highlighted figures indicate those institutions with a rating and investment period that would meet the Council's investment criteria. The subsequent table indicates the maximum expected risk that the Council would likely to be exposed to for each investment duration. The highlighted sections indicate the acceptable investment periods within this Strategy for each type of credit rating. It should be noted that these benchmarks are an indication of average default, and would not constitute an expectation of loss against a particular investment.

	Length of Investment (Years)	
Rating Type	1	2
AAA	0.01%	0.02%
AA	0.02%	0.04%
A	0.05%	0.14%
BBB	0.14%	0.38%
BB	0.64%	1.79%
B	2.81%	6.83%
CCC	19.89%	27.52%

	1 year	2 years
Maximum	0.05%	0.04%

7.9 Security: The Council's maximum security risk benchmark for the current portfolio, when compared to these historic default tables, is:

- 0.05% historic risk of default when compared to the whole portfolio. Note this benchmark is an average risk default measure and would not constitute an expectation of loss against a particular investment.

7.10 Liquidity – In respect of this area the Council seeks to maintain:

- Adequate liquid short term deposits available with a week's notice.
- Weighted Average Life (WAL, average life of all investments held by the Council) benchmark is expected to be 0.25 years, with a maximum WAL of 0.75 years.

7.11 Yield - Local measures of yield benchmarks are:

- Investments – Returns above the annual average SONIA rate (Sterling Overnight Interbank Average rate). SONIA is the weighted average deposit rate for overnight trades of counterparties with very high creditworthiness.

7.12 The initial budget for 2021/22 assumed a return for in-house investments of 0.10% in line with interest rate forecasts at the time. The ability to deliver this rate of return will largely depend on the economic recovery in coming months. Current forecasts and performance to date suggest that the rate of return will be in the region of 0.07% and 0.10% for 2021/22. Any shortfall against the budget will be met from treasury reserves.

7.13 For 2022/23, the target rate for the investment return is 0.25% for the Council's investments. This rate takes account of the current forecast interest rates and an expected period of uncertainty while the UK navigates through the impact of its exit from the European Union and the ongoing impact of the Covid-19 pandemic. The risk that interest rates do not remain at the level predicted is acknowledged and will be monitored throughout the year and any significant variance to the estimate reported.

8 Investment Counterparty Selection Criteria

8.1 The main 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:

- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and the monitoring of these counterparties.

- It has sufficient liquidity in its investments. For this purpose, it will set out procedures for determining the maximum periods for which funds may be prudently committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested.

8.2 Credit rating information is supplied by the Council's treasury consultants (Link Asset Services) 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 a possible longer term change) are provided to officers almost immediately after they occur and this information is considered before dealing.

8.3 The criteria for providing a pool of high quality investment counterparties is:

- Banks – Good credit quality**.** The Council will only use banks which are

i. UK banks; and/or

ii. Non-UK and domiciled in a country which has a minimum Sovereign long term rating of AAA

and have, as a minimum, the following credit ratings:

	Rating Agency		
	Fitch	**Moody's**	**Standard & Poor's**
Long-Term	A-	A3	A-
Short-Term	F1	P1	A1

- The Council's own banker (currently Barclays) – for transactional purposes if the Council's bank falls below the criteria detailed above, balances will be restricted to no more than £4 million, and invested on an overnight basis only. Otherwise, the same criteria will apply as those to other banks.

- Bank subsidiary and treasury operations – the Council will use these where the parent bank has provided an appropriate guarantee or has the necessary ratings outlined above. Where a bank has a group structure, limits set will relate to the group in its entirety rather than separately to the individual institutions within it.

- Building Societies – the Council will continue to consider all societies that meet the ratings for banks outlined above.

- Money Market Funds (CNAV and LVNAV) – AAA (rated AAA by at least two credit rating agencies).

- Local authorities (including police and fire authorities) – Excluding those who have issued a Section 114 notice.

- UK Government (including gilts, Treasury Bills and the Debt Management Office).

- Supranational institutions. These are multilateral banks (i.e. European Investment Bank).

8.4 **Housing Revenue Account (HRA) Self-Financing** – Following the introduction of the HRA Self-Financing regime in April 2012 local authorities are required to recharge the interest on balances between the HRA and General Fund. This is due to differences between the HRA borrowing and the HRA CFR (underlying need to borrow). Interest on the unfunded or overfunded element will be charged at the average rate of debt. Given the expected cashflow this will be broadly neutral to both the General Fund and HRA over time.

8.5 **Country and sector considerations** - Due care will be taken to consider the country, group and sector exposure of the Council's investments. In addition to an acceptable bank and sovereign rating:

- no more than £3m per non-UK country will be invested at any time;
- limits in place above will apply to group companies;
- limits will be monitored regularly for appropriateness.

8.6 Additional requirements under the Code of Practice require the Council to use supplementary information in addition to credit ratings. Whilst the above criteria relies 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 list. This additional market information (e.g. credit default swaps, negative rating watches/outlooks) will be applied to compare the relative security of differing investment counterparties.

8.7 The time and monetary limits for institutions on the Council's counterparty list are as follows:

	Fitch	Moody's	Standard & Poor's	Money Limit	Time Limit
	Minimum acceptable criteria				
UK Banks	F1/AA-	P1/Aa3	A1/AA-	£8m	2 yrs
	F1/A-	P1/A3	A1/A-	£6m	1 yr
Foreign Banks (AAA sovereign rating)	F1/A-	P1/A3	A1/A-	£3m	1 yr
Building Societies	F1/A-	P1/A3	A1/A-	£4m	9 Months
Money Market Funds (CNAV & LVNAV)	AAAmmf	Aaa-mf	AAAm	£8m	Variable
Treasury Bills & Gilts, Debt Management Office	F1/AA-	P1 /Aa3	A1/AA	Unlimited	Variable
Local Authorities	-	-	-	£10m	2 yrs

8.8 All limits are per institution, except for foreign banks, where the limit is per AAA-rated sovereign nation.

8.9 On occasions the Council may consider investment opportunities, which are in line with the Council's plans and objectives but which do not meet the criteria outlined above. Where this is the case prior consideration must be given to the criteria outlined above, and approval sought from the Director of Resources and Deputy Chief Executive and Full Council. Where these investments take place they will be reported to Audit Committee at the earliest meeting following their completion.

8.10 **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 repayment of an investment, and are based on the availability of funds after each year-end.

The Council is asked to approve the treasury indicator and limit:

Maximum principal sums invested > 365 days	
	2021/22 to 2030/31 £m
Principal sums invested > 365 days	15

8.11 **Economic Investment Considerations** – It is expected that the Bank Rate will rise gradually over the coming years. The Council's investment decisions are based on comparisons between the rises priced into market rates against the Council's and adviser's own forecasts.

8.12 The criteria for choosing counterparties set out above provide a sound approach to investment in "normal" market circumstances. Whilst Members are asked to approve this base criteria above, under exceptional current market conditions the Director of Resources and Deputy Chief Executive may temporarily restrict further investment activity to those counterparties considered of higher credit quality than the minimum criteria set out for approval. These restrictions will remain in place until the banking system returns to "normal" conditions. Similarly, the time periods for investments will be restricted.

8.13 **Property Investment Strategy –** The Council has a separately approved Property Investment Strategy. The Strategy seeks to ensure that the Council's property related investment is carried out in accordance with an approved process and complies with published guidance on local government capital, treasury management and investments. A significantly revised Strategy was approved by Cabinet in November 2020 and will subsequently be refreshed each February.

9 Treasury Management Scheme of Delegations

9.1 The following outlines the key responsibilities relating to treasury management:

<u>Full Council</u>

- receiving and reviewing reports on treasury management policies, practices and activities;
- approval of annual and mid-year strategy;
- full powers in relation to all borrowing and investment matters.

<u>Audit Committee</u>

- receiving and reviewing reports on treasury management policies, practices and activities and making recommendations to Full Council;
- considers amendments to the authority's adopted clauses, treasury management strategy statement and treasury management practices;
- receiving periodic monitoring reports and an annual outturn report;
- budget consideration and approval;
- considers the division of responsibilities;
- considers the selection of external service providers and agreeing terms of appointment.

<u>The S151 (responsible) officer</u>

- 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;
- 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 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 on-going risk management of all non-financial investments and long term liabilities;
- provision of information to members on 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.

<u>The Treasury Accountant</u>

- execution of transactions;
- adherence to agreed policies and practices on a day to day basis;
- maintaining relationships with counterparties and external service providers;
- supervising treasury management staff;
- monitoring performance on a day to day basis;
- submitting management information reports to the responsible officer;
- identifying and recommending opportunities for improved practices.

10 Policy on the use of External Service Providers

10.1 The Council uses Link Group, Treasury solutions as its external treasury management advisors. The company provides a range of services which include:

- Technical support on treasury matters and capital finance issues;
- Economic and interest rate analysis;
- Debt services which includes advice on the timing of borrowing;
- Debt rescheduling advice surrounding the existing portfolio;
- Generic investment advice on interest rates, timing and investment instruments;
- Credit ratings/market information service from the three main credit rating agencies.

10.2 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 our external service providers.

10.3 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 the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

11 Member and Officer Training

11.1 The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. The Council has addressed this important issue by providing annual training, delivered by Link Asset Services, to all members of Audit Committee in addition to ad hoc member seminars as required.

11.2 The training requirements of members and treasury management officers are regularly reviewed.

12 Use of Brokers

12.1 The Council uses a number of brokers on a regular basis, as well as dealing directly with leading institutions. Wherever possible, the Council tends to spread its business amongst them but it must be emphasised that this will not always be possible.

12.2 Brokers currently being used are:-

- BGC Brokers
- ICAP
- Imperial Treasury Services
- King & Shaxson
- RP Martins
- Tradition
- Tullet Prebon

12.3 The limited function performed by brokers is acknowledged, however, the Council would expect to be informed if a broker had any doubts about an organisation we were dealing with.

13 Car Loan Scheme

13.1 The Council offers a car loan scheme to essential and approved casual users. The scheme is intended to offer competitive, but not subsidised, rates to members of staff who require a car for work.

13.2 The flat rate at present is 1.01% which equates to an APR of 1.95%.

13.3 The rate is reviewed annually as part of the Treasury Management Strategy and agreed based on annuity rate offered by the Public Works Loans Board (PWLB). The five year rate issued in PWLB notice 473/21 was 1.44% which would result in a car loan rate of 2.44%. The car loan scheme operates on a flat rate calculation that equates to 1.26% in order to achieve a 2.44% APR.

13.4 For illustration, the monthly payment (interest and principal) on a £5,000 5 year loan would reduce to £88.60 compared to the current £87.53.

13.5 It is recommended that the scheme rate be amended to a flat rate of 1.26% (2.44% APR) to reflect the Council’s current costs of borrowing.

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