APPENDIX C

Report to Cabinet – 23 February 2022

Treasury Management Strategy Statement and Annual Investment Strategy 2022/23

Report of the Finance and Resources Portfolio Holder

Recommended:

1. **That the Treasury Management Strategy Statement and the Annual Investment Strategy for 2022/23 as set out in the report be approved.**
2. **That the Minimum Revenue Provision (MRP) policy, as shown in paragraph 4.4 of the report be approved.**
3. **That the Prudential Indicators as set out in Annex 1 to the report be approved.**

Recommendation to Council

SUMMARY:

- This report presents the Treasury Management and Annual Investment Strategies of the Council which have been produced in accordance with the latest statutory requirements and relevant codes of practice.

- Borrowing costs are currently limited to the interest payable on long-term borrowing on PWLB loans, which have been used to fund various initiatives as defined in this strategy. There is no additional borrowing expected in this strategy.

- The major objectives of the Treasury Management Strategy for 2022/23 are:
  - To manage effectively and control the risks associated with treasury management activities.
  - To invest prudently having regard to the security and liquidity of investments and the predictability of returns.
  - To aim to achieve the optimum return on investments commensurate with the proper levels of security, liquidity and protection of capital.

1 Background

1.1 The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity before considering investment return.

1.2 Another function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning, to ensure that the Council can meet its capital spending obligations, which may involve arranging long or short term loans, or using longer term cash flow surpluses. On occasion, when prudent and economic, any debt previously drawn may be restructured to meet Council risk or cost objectives.

1.3 The contribution the treasury management function makes to the authority is critical, as the balance of debt and investment operations ensure the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. Treasury operations manage the balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund balance.

1.4 Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activities, (arising usually from capital expenditure), and are separate from the day-to day treasury management activities.

1.5 The Chartered Institute of Public Finance and Accountancy (CIPFA) defines treasury management as:

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

2 Reporting Requirements

2.1 Capital Strategy

2.1.1 CIPFA published a revised Prudential Code on 20th December 2021, though formal adoption is not required until the 2023/24 financial year. This TMSS has therefore been produced in compliance with the 2017 Prudential Code. A summary of the key changes to the code is included within Annex 3.

2.1.2 The CIPFA revised 2017 Prudential and Treasury Management Codes require all local authorities to approve a Capital Strategy, which provides the following:

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

2.1.3 The aim of the capital strategy is to ensure that all Councillors fully understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite.

2.1.4 This capital strategy is reported separately from the Treasury Management Strategy Statement (TMSS) and is the subject of a report elsewhere on this agenda.

2.2 Treasury Management Reporting

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

(a) **Prudential and treasury indicators and treasury strategy** (this report) – The first, and most important report is forward looking and covers:

- the capital plans (including prudential indicators);
- a minimum revenue provision (MRP) policy (how residual capital expenditure is charged to revenue over time);
- the treasury management strategy (how the investments and borrowings are to be organised) including treasury indicators;
- and an investment strategy (the parameters on how investments are to be managed).

(b) **A mid-year treasury management report** – this is primarily a progress report and will update Councillors with the progress of the capital programme, amending prudential indicators as necessary, and whether any policies require revision. This report is usually presented to Audit Panel.

(c) **An annual treasury report** – this is a backward looking review document and provides details of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

2.3 Treasury Management Strategy for 2022/23

2.3.1 The strategy for 2022/23 covers two main areas:

(a) Capital issues

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

(b) 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; and
- the policy on use of external service providers.

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

2.4 Treasury Management Consultants

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

2.4.2 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 the services of the external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisers.

2.4.3 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 method by which their value will be assessed are properly agreed and documented, and are subject to regular review.

2.4.4 The scope of investments within the Council's operations now includes both conventional treasury investments (the placing of residual cash from the Council's functions), and more commercial type investments, such as investment properties. The commercial type investments require specialist advisors, and the Council uses appropriate external advisors in relation to this activity.

3 Breaches of the Treasury Management Strategy

3.1 During the year there were no breaches of the Treasury Management Strategy.

3.2 This Strategy has been updated during the year to reduce the Counterparty limit to £20M. The limit was previously increased to £30M in 2020/21 due to the expectation that the Council would receive additional grant funding as a result of the Coronavirus Pandemic.

4 Prudential Indicators, Treasury Limits and MRP Statement

The Capital Prudential Indicators 2022/23 – 2024/25

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

4.2 Capital Expenditure

4.2.1 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.

Capital expenditure £000	2020/21 Actuals	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
Services	7,364.3	8,113.4	8,541.3	2,227.0
Commercial Activities/non-financial investments	430.0	6,354.6	20,802.0	3,000.0
Total	**7,794.3**	**14,468.0**	**29,343.3**	**5,227.0**

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

Financing of capital expenditure £000	2020/21 Actuals	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
Capital Expenditure	**7,794.3**	**14,468.0**	**29,343.3**	**5,227.0**
Financed by:				
Capital receipts	633.7	6,656.2	1,206.0	50.0
Capital receipts reserve	987.4	-727.4	1,929.5	2,603.2
Government grants	662.3	679.0	1,150.0	1,150.0
External Contributions	1,103.0	1,556.2	2,552.4	327.0
Internal Contributions	1,471.0	1,114.8	1,114.8	846.8
External financing				
Reserves (NHB and Specific	2,936.9	4,189.2	3,588.6	250.0
Net financing need for the year	**0**	**1,000.0**	**-1,000.0**	**0**

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

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

4.3.2 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 as they are used.

4.3.3 The CFR includes any other long-term liabilities (e.g. finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility by the lease provider and so the Council is not required to separately borrow for these schemes. The Council currently has no such schemes within the CFR.

4.3.4 It is recommended that the CFR projections shown in Annex 1 are approved.

4.3.5 A key aspect of the regulatory and professional guidance is that elected members are aware of the size and scope of any commercial activity in relation to the authority's overall financial position. The capital expenditure figures shown in 4.2.1 and the details above demonstrate the scope of this activity.

4.4 Minimum Revenue Provision (MRP) Policy Statement

4.4.1 MRP is the statutory requirement to make a charge to the Council's General Fund providing for the repayment of the Council's past capital debt and other credit liabilities.

4.4.2 The key principle of this system and accompanying guidance is that an authority's debt liability should be repaid over a similar period to that which the asset associated with the capital expenditure provides benefits. Local authorities are asked by the Secretary of State "to prepare an annual statement of their policy on making MRP for submission to their full Council".

4.4.3 The type of approach intended by the MRP guidance is clearly to enable local circumstances and discretion to play a part, as the guidance in general contains a set of recommendations rather than representing a prescriptive process. The guidance makes it clear that councils can follow an alternative approach, provided they still make a prudent provision.

4.4.4 The Council borrowed £5.9M in 2018/19, to fund the construction of the new Andover Leisure Centre. In 2019/20 further borrowing was taken to purchase property in Andover Town Centre. Where borrowing is taken out, the principles established in the Prudential Code of prudence, affordability and sustainability will be followed.

4.4.5 It is recommended that Members approve the following MRP policy to be applied from 2022/23:

- In respect of capital expenditure incurred in 2022/23 and subsequent financial years the MRP policy will be to use the Asset Life Method. MRP will be charged based on the estimated life of the associated assets, calculated on an annuity basis.
- Repayments included in any finance leases will be applied as MRP in accordance with the terms of the agreement.

5 BORROWING

5.1 The capital expenditure plans set out in paragraph 4.2.1 provide 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 / prudential indicators, the current and projected debt positions and the annual investment strategy.

5.2 Portfolio position as at 31st December 2021

Treasury Portfolio	
Treasury Investments	**£'000**
Callable on Demand	10,622
Callable Deposits (10 to 100 days' notice)	30,364
Investments maturing on or before 31 March 2022	22,000
Investments maturing between 1 April 2022 and 31 March 2023	30,000
Investments maturing after 31 March 2023	10,000
Total Investment Portfolio	**102,986**
Treasury External Borrowing	
Public Works Loan Board (PWLB)	6,877
Total External Borrowing	**6,877**
Net Treasury investments	**96,109**

5.3 Within the range of prudential indicators there are 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 or speculative purposes.

5.4 The Head of Finance and Revenues reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this budget report.

5.5 Treasury Indicators: limits to borrowing activity

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

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

- 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 this power has not yet been exercised.
- It is recommended that Council approves the authorised limit stated in Annex1.

5.6 Prospects for interest rates

5.6.1 The Council has appointed Link Asset Services as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. Annex 2 draws together a number of current forecasts together with the Link central view, for short term bank rate and longer fixed interest rates.[1]

5.7 Investment and borrowing rates

- **Investment returns** are expected to improve in 2022/23. However, while markets are pricing in a series of Bank Rate increases, actual economic circumstances may see the Monetary Policy Committee (MPC) fall short of these elevated expectations.

- **Borrowing interest rates** fell to historically very low rates as a result of the COVID crisis and the quantitative easing operations of the Bank of England and still remain at historically low levels. Forecasts in Annex 2 suggest that interest rates for fixed-term borrowing may increase by approximately 10 basis points (0.1%) each quarter over the short-medium term.

- PWLB interest rates are set based on a margins over gilt yields. They are currently as follows:

  - **PWLB Standard Rate** is gilt plus 100 basis points (G+100bps)
  - **PWLB Certainty Rate** is gilt plus 80 basis points (G+80bps)
  - **PWLB HRA Standard Rate** is gilt plus 100 basis points (G+100bps)
  - **PWLB HRA Certainty Rate** is gilt plus 80bps (G+80bps)
  - **Local Infrastructure Rate** is gilt plus 60bps (G+60bps)

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[1] Annex 2 is based on Link's view of interest rates prior to the rate rise on 3rd February 2022. At the time of writing this report a revised forecast had not yet been produced by Link.

5.8 **Borrowing Strategy**

5.8.1 The Council is currently maintaining an over-borrowed position and reflects the decision to borrow for capital purchases in prior years. This means that the capital borrowing need (the Capital Financing Requirement), is fully funded.

5.8.2 When borrowing, the Head of Finance and Revenues will;

- ensure the ongoing revenue liabilities to be created, and the implications for future plans and budgets have been considered.
- evaluate the economic and market factors that might influence the manner and timing of any decision to borrow.
- consider the merits and demerits of alternative forms of funding and consider the alternative interest rate bases available, the most appropriate periods to fund and the repayment profiles to use.

5.8.3 In normal circumstances the main sensitivities of the economic forecast are likely to be the two scenarios noted below. Council officers, in conjunction with the treasury advisers, will continually monitor both the prevailing interest rates and the market forecasts, adopting the following responses to a change of interest rate forecast:

- *if it was felt that there was a significant risk of a sharp FALL in long and short term rates,* (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.
- *if it was felt that there was a significant risk of a much sharper RISE in long and short term rates than that currently forecast,* for example due to an increase in world economic activity, or a sudden increase in inflation risks, then the portfolio position will be re-appraised. Most likely, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.

5.8.4 Against this background and the risks within the economic forecast, caution will be adopted with the 2022/23 treasury operations. The Head of Finance and Revenues will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances, reporting any decisions at the next available opportunity.

5.9 **Policy on borrowing in advance of need**

5.9.1 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.

5.9.2 In determining whether borrowing will be undertaken in advance of need the Council will ensure that there is a clear link between the capital programme and maturity profile of the debt portfolio which supports the need to take funding in advance of need.

5.9.3 **Debt rescheduling**

5.10 Rescheduling of current borrowing in our debt portfolio is unlikely to occur in the near term.

5.11 **Municipal Bond Agency**

5.11.1 It is possible that the Municipal Bond Agency will be offering loans to local authorities in the future. The Agency hopes that the borrowing rates will be lower than those offered by the Public Works Loan Board (PWLB). This Authority intends to make use of this new source of borrowing as and when appropriate.

6 ANNUAL INVESTMENT STRATEGY

Investment Policy – management of risk

6.1 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 Capital Strategy.

6.2 The Council's investment policy has regard to the following: -

- DLUHC's Guidance on Local Government Investments ("the Guidance")
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017 ("the Code")
- CIPFA Treasury Management Guidance Notes 2018

6.3 The Council's investment priorities will be security first, portfolio liquidity second and then yield.

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

- Minimum acceptable **credit criteria** are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short term and long-term credit ratings.
- **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 such as “credit default swaps” and overlay that information on top of the credit ratings.

- **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.
- This authority has defined the list of **types of investment instruments** that the treasury management team are authorised to use. There are two lists below 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 they were originally classified as 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.

6.5 Specified Investments

6.5.1 All such investments will be sterling denominated, with maturities up to maximum of 1 year, meeting the minimum rating criteria where applicable.

	Minimum Credit Criteria(para 6.8)	**Limits**
Debt Management Agency Deposit Facility	--	No Limit
Term deposits – local authorities	--	£20M total investment per Counterparty
Term deposits / bonds – banks and building societies *	Per Link colour code (see 6.8.2)	£20M total investment per Counterparty
Term deposits – banks backed by UK Government Guarantees **	--	£20M total investment
Money Market Funds	Long term AAA	£20M total investment per fund
UK Government Gilts / Treasury Bills	UK Sovereign Rating	£20M total investment
Ultra Short dated bond fund	Per Link colour code (see 6.8.2)	£20M total investment per fund
Bonds issued by multilateral development banks	Long term AAA	£20M total investment
Bonds issued by a financial institution which is guaranteed by the UK government*	UK Sovereign Rating	£20M total investment

- If forward deposits are to be made, the forward period plus the deal period will not exceed one year in aggregate.

*Subject to the maximum of any guarantee period in issue by the Government on the date the investment was made.

6.5.2 Whilst these requirements are in place to ensure the safety of the Council's investments it does present an operational difficulty for managing short term (up to one week) funds as these types of accounts are only available from major banks. The following criteria are proposed for investment accounts for balances held for up to seven days.

	Minimum 'High' Credit Criteria	**Limits**
On Call accounts	Short-term F1, Long-term A Individual C, Support 1	£20M total investment per Counterparty
Term deposits – maximum of 7 days	Short-term F1, Long-term A Individual C, Support 1	£20M total investment per Counterparty

6.6 Accounting treatment of investments

The accounting treatment may differ from the underlying cash transactions arising from investment decisions made by the Council. To ensure that the Council is protected from any adverse revenue impact which may arise from these differences, the accounting implications of new transactions will be reviewed before they are committed.

6.7 Non-Specified Investments

6.7.1 These are investments which do not meet the Specified Investment criteria. A maximum of 50% will be held in aggregate in non-specified investments with no more than £5M to be held with any one counterparty (excluding other local authorities).

Maturities in excess of 1 year.

	Minimum Credit Criteria (para.6.8)	**Max. maturity period**
Term deposits – local authorities	--	60 months
Term deposits - Banks	Per Link colour code	24 months
Fixed term callable deposits with variable rate and variable maturities	Per Link colour code (see para.6.8.2)	24 months
Certificates of deposits issued by banks	Short-term F1+, Long-term AA- Individual B, Support 2	24 months
UK Government Gilts	UK Sovereign Rating	60 months
Bonds issued by multilateral development banks	AAA	60 months
Bonds issued by a financial institution which is guaranteed by the UK government	AAA	60 months
Sovereign bond issues (i.e. other than the UK govt)	AAA	60 months
Short dated bond fund	--	No maximum
Multi asset Income fund	--	No maximum
Property fund	--	No maximum

6.7.2 There may be occasions when the counterparty limit will be exceeded as a result of credit interest being applied to deposit balances. Where this occurs, it will be permitted without the need to immediately withdraw the amount by which the gross balance exceeds the counterparty limit.

6.8 Creditworthiness Policy

6.8.1 The Council applies the creditworthiness service provided by the Link Group. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard & Poor's. The credit ratings of counterparties are supplemented with the following overlays: -

- Credit watches and credit outlooks from credit rating agencies;
- Credit default swap (CDS) spreads to give early warning of likely changes in credit ratings;
- Sovereign ratings to select counterparties from only the most creditworthy countries.

6.8.2 This modelling approach combines credit ratings, credit watches, credit outlooks and CDS spreads in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour code bands which indicate the relative creditworthiness of counterparties. These colour codes are also used by the Council to determine the duration for investments and are referred to as durational bands. The Council will therefore use counterparties within the following durational bands.

- Yellow 5 years
- Purple 2 years
- Blue 1 year (only applies to nationalised or semi-nationalised UK banks)
- Orange 1 year
- Red 6 months
- Green 100 days
- No colour not to be used

6.8.3 The Link creditworthiness service uses a wider array of information other than just primary ratings. Furthermore, by using a risk weighted scoring system, it does not give undue preponderance to just one agency's ratings.

6.8.4 Typically, the minimum credit ratings criteria the Council use will be a Short Term rating (Fitch or equivalents) of F1 and a Long Term rating of A-. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances, consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

6.8.5 All credit ratings will be monitored daily**.** The Council is alerted to changes to ratings of all three agencies through its use of the Link creditworthiness service.

- If a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use for new investments will be withdrawn immediately.
- In addition to the use of Credit Ratings, the Council will be advised of information in movements in Credit Default Swap spreads against the iTraxx European Financials benchmark and other market data on a daily basis. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

6.8.6 Sole reliance will not be placed on the use of this external service. In addition the Council will also use market data and market information, information on government support for banks and the credit ratings of that government support.

6.8.7 **Country risk**

The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA- from Fitch Ratings (or equivalent from other agencies if Fitch does not provide).

7 Investment Strategy

7.1 The Council will continue to manage its investment portfolio using internal resources.

7.2 A mid-year report on investment performance will be presented to Audit Panel and at the end of the financial year a report summarising investment activity will be presented to Cabinet as part of the Treasury Management Outturn.

7.3 The Council will avoid locking into longer term deals while investment rates are at historically low levels unless exceptionally attractive rates are available which make longer term deals worthwhile.

Investment returns expectations.

7.4 The current Interest Rate forecast is shown in Annex 2.

7.5 The current suggested budgeted investment earnings rates for returns on investments placed for periods up to three months during each financial year are as follows.

- 2022/23 0.50%
- 2023/24 0.75%
- 2024/25 1.00%
- 2025/26 1.25%
- Later years 2.00%

8 Investment performance / risk benchmarking

8.1 The Council will use an investment benchmark to assess the performance of its investment portfolio using the 12 month compounded SONIA (Sterling Overnight Index Average). SONIA is based on actual transactions and reflects the average of the interest rates that banks pay to borrow sterling overnight from other financial institutions and other institutional investors.

8.2 Previously the Council had used the published official LIBOR figures (and related LIBID calculations) which ceased at the end of 2021.

Role of the Section 151 Officer

8.3 The S151 officer is responsible for:

- Recommending 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.
- 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
- 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

9 Risk Management

9.1 Whilst the protection of the authority's capital and the pursuit of reasonable returns are two vital features of effective treasury management, there is also a need to address other treasury risks. The main treasury management risks have been identified as;

- Liquidity Risk – the risk that cash will not be available when it is needed.
- Interest Rate risk – the risk that changes in the rates of interest create an unexpected or unbudgeted burden on the Council's finances.
- Inflation Risk – the risk that growth in the authority's investment income, does not keep pace with the effects of inflation on its expenditure.
- Credit Risk – the risk that a counterparty defaults on its obligations.
- Operational Risk – the risk of loss through fraud, error, corruption, system failure or other eventualities in treasury management dealings, and failure to maintain effective contingency management arrangements.

9.2 Techniques and procedures to manage these risks are in place and include:

- Reliable cash flow forecasting and monitoring;

- Access to reliable and informed sources of information concerning both economic developments and the likely future course of interest rates;
- Managing exposure to interest rates;
- A sound diversification policy for investments;
- Rigorous assessment of credit-worthiness of counterparties;
- Fidelity insurance;
- Suitable treasury management policies, including back-up measures for system failures and staff absences.

9.3 Despite these measures, there is a risk of a financial institution collapsing and not repaying a loan to the authority. The current arrangements are designed to reflect this level of risk and reduce the authority's exposure. However, a residual risk remains, which cannot be fully mitigated, as the authority must undertake a level of Treasury Management activity with its cash surpluses.

10 Resource Implications

There are no direct resource implications arising from this report. However, the restrictions on the types of investment that can be used identified in this report will have an effect on the return on investments that the Council can expect to achieve in the year.

11 Equality Issues

There are no equality matters arising from this report.

12 Consultation

The Council's treasury advisors, Link Asset Services, have been consulted in the preparation of this report.

13 Conclusion and reasons for recommendation

13.1 This report presents the Council's Treasury Management strategy for 2022/23. Whilst largely unchanged from the 2021/22 strategy, it sets out the criteria within which cash surpluses can be invested and how external borrowing will be managed should the Council choose to take on debt in the year.

13.2 The report and annexes show how the Council plans to minimise its risks to the current economic climate by stipulating creditworthiness requirements on lenders and limiting the maximum amount available to be invested at any one time.

APPENDIX C

<u>Background Papers (Local Government Act 1972 Section 100D)</u> None			
<u>Confidentiality</u> It is considered that this report does not contain exempt information within the meaning of Schedule 12A of the Local Government Act 1972, as amended, and can be made public.			
No of Annexes:	3	File Ref:	n/a
(Portfolio: Finance and Resources) Councillor M Flood			
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Report to:	Cabinet	Date:	23 February 2022