APPENDIX H1

Chorley Borough Council
Treasury Management Strategy Statement 2023/24 to 2025/26

1. PURPOSE OF THE REPORT

1.1 To present for approval the Prudential and Treasury Indicators and Treasury Management and Investment Strategies for 2023/24 to 2025/26, and the Minimum Revenue Provision Policy Statement for 2023/24.

2. RECOMMENDATION(S)

2.1 That Council approve:

- The capital expenditure Prudential Indicators for 2023/24 to 2025/26 in Tables 1 to 3.
- The revised annual Minimum Revenue Provision (MRP) Policy statement at paragraph 6.3.
- The Treasury Management Strategy and treasury management Prudential Indicators for 2022/23 to 2025/26, in Tables 4 to 8.
- The Annual Investment Strategy 2023/24 including Investment Counterparties starting at paragraph 8.2, including the investment benchmark as set out in paragraph 8.5.

3. BACKGROUND TO THE REPORT

3.1 For each financial year the Council sets a balanced budget so that cash income raised during the year is sufficient to meet all of its cash expenditure commitments. One of the key functions of the Council's treasury management activity is to ensure that these cash flows are effectively managed, so that cash is available when it is needed. Surplus cash is invested having regard to **risk, liquidity and yield**.

3.2 A further key function of the treasury management activity is to ensure that the Council has sufficient funds to pay for its capital and other investment plans. These capital plans, which are set out in the Capital Programme, identify the borrowing needs of the Council over a longer time horizon than the current year. In managing its longer-term cash flow requirements for capital expenditure the Council will take out loans or alternatively use its cash flow surpluses in lieu of external borrowing. This latter practice is referred to as "internal borrowing". In managing its loans, it may at times be advantageous for the Council to repay or restructure its borrowings to optimise interest payments or achieve a balanced debt portfolio.

3.3 Having regard to these activities, the Chartered Institute of Public Finance and Accountancy (CIPFA) defines treasury management as:

"The management of the Council'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."

3.4 As treasury management decisions involve borrowing and investing substantial sums of money, the Council is exposed to potentially large financial risks, including the loss of invested funds and the revenue effect of changing interest rates. The identification, control and monitoring of risk are therefore integral elements of treasury management activity.

3.5 The Treasury Management Policy Statement for 2023/24 is based upon the Director of Finance and Treasury Officers' views on interest rates supplemented by leading market forecasts. The policy statement covers:

a) The policy for managing capital borrowing and debt management
b) The annual investment strategy for treasury management investments
c) Reporting arrangements
d) Training arrangements
e) Performance indicators
f) Minimum Revenue Provision (MRP) Policy
g) Use of treasury management advisors

3.6 Council of 22 February 2022 approved the Treasury Management Strategy for 2022/23, including Prudential and Treasury Indicators, the Treasury Management and Investment Strategies, and the annual Minimum Revenue Provision (MRP) Policy Statement for 2022/23 and proposed changes to be applied from 2022/23. Treasury Management activities during the year have been overseen by the Governance Committee.

3.7 This report updates Prudential and Treasury Indicators for financial years 2023/24 to 2025/26. It presents updated Treasury Management and Investment Strategies and proposes the Minimum Revenue Provision Policy Statement for 2023/24.

4. TREASURY MANAGEMENT STRATEGY 2023/24

4.1 The strategy for 2023/24 covers two main areas:

Capital issues
- the capital plans and the 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; and
- the policy on use of external service providers.

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

4.3 The Statutory Guidance on Minimum Revenue Provision remains that issued by the Ministry of Housing, Communities & Local Government on 2 February 2019 and effective from 1 April 2019.

5. TREASURY MANAGEMENT CONSULTANTS

5.1 The Council uses Link Asset Services, Treasury Solutions as its external treasury management advisors. The advisors provide access to specialist skills and resources including

- 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 comprising the three main credit rating agencies.

5.2 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.

5.3 The Council will ensure that the terms of their appointment and the methods by which their value will be assessed and subjected to regular review.

6. CAPITAL PRUDENTIAL INDICATORS 2022/23 – 2025/26 AND MRP POLICY STATEMENT

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

6.2 **Capital expenditure**

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.

Table 1 - Capital Expenditure	**2022/23 Revised £'000**	**2023/24 Estimate £'000**	**2024/25 Estimate £'000**	**2025/26 Estimate £'000**
A strong local economy	4,225	11,415	300	0
An ambitious council that does more to meet the needs of residents and the local area	1,278	2,189	0	0
Clean, safe and healthy homes and communities	9,169	7,499	875	775
Involving residents in improving their local area and equality of access for all	1,176	0	0	0
Total	**15,848**	**21,103**	**1,175**	**775**

Note – the Corporate Priorities listed above were revised in November 2022 as follows;

- *Housing where residents can live well*
- *A green and sustainable borough*
- *An enterprising economy with vibrant local centres in urban and rural areas*
- *Healthy, safe and engaged communities*

Monitoring reports for 2023/24 will present figures against these new priorities.

The table below summarises the above capital expenditure plans identified in the Capital & Investment Strategy and the Capital Programme and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a borrowing requirement.

Table 2 - Capital Financing	**2022/23 Revised £'000**	**2023/24 Estimate £'000**	**2024/25 Estimate £'000**	**2025/26 Estimate £'000**
Capital Expenditure from Table 1	15,848	21,103	1,175	775
Grants & Contributions	-8,290	-5,481	-775	-775
Capital Receipts	0	0	0	0
Revenue & Reserves	-1,511	-554	0	0
Net Financing Needed for Year	**6,047**	**15,067**	**400**	**0**

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

The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply 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 so its underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, 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 assets life, and so charges the economic consumption of capital assets as they are used.

The CFR includes any other long-term liabilities (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:

Table 3 - Capital Financing Requirement	2022/23 Revised £'000	2023/24 Estimate £'000	2024/25 Estimate £'000	2025/26 Estimate £'000
Opening CFR	98,349	102,755	116,292	114,395
Net Financing Need for Year (Table 2)	6,047	15,067	400	0
Less MRP / VRP	-1,641	-1,530	-2,297	-2,381
Closing CFR	**102,755**	**116,292**	**114,395**	**112,015**

6.3 **Minimum Revenue Provision (MRP)**

The Council is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the Minimum Revenue Provision - MRP), although it is also allowed to undertake additional voluntary payments if required (voluntary revenue provision - VRP).

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

In setting the 2022/23 Budget, the Council reviewed its approach to MRP, and approved the following approach to be applied from 2022/23 onwards;

	Previous Approach	Revised Approach
Pre 2008 Debt	The Council has charged the MRP on pre-2008 debt on a “reducing balance” basis at a rate of 4% of the balance at the end of the preceding financial year. This method is no longer considered **prudent** as the total value of debt is never actually written off – a residual balance always remains using the reducing balance method.	MRP will be charged in “equal annual instalments” over asset lives; this is a **prudent** approach as it ensures debt is fully cleared.
Post 2008 Debt	The Council has previously charged MRP in equal instalments over the life of an asset. .	MRP will be calculated using an “annuity basis” over the life of the asset for <u>all</u> post 2008 debt. Using an annuity basis recognises the “real terms” value of money over time (£1 now being worth less in future years); this is considered more **equitable**

The Council is recommended to approve the following MRP Policy Statement:

Annual Statement of MRP Policy 2023/24

The aim of the policy is to ensure that MRP is charged over a period that is reasonably commensurate with the period over which the capital expenditure which gave rise to the debt provides benefits.

MRP shall commence in the financial year following that in which the capital expenditure is incurred, or in the year following that in which the relevant asset becomes operational.

In respect of the proportion of the Capital Financing Requirement which relates to debt incurred prior to 2008/09, MRP shall be charged in equal annual instalments over the life of assets (Equal instalment method). This generates a series of equal annual amounts over the life of each asset that is financed by borrowing, with the life determined upon acquisition. This means that the charge to revenue closely matches the period of economic benefit of the asset. This method is considered prudent as it ensures the debt is cleared in full over the life of the asset.

The MRP liability on debt incurred from 2008/09 onwards shall be based on the estimated useful life of the asset. The MRP shall be calculated using the annuity basis where the principal repayments increase over the life of the asset to reflect the “real terms” value of money over time.

Estimated life periods shall be determined under delegated powers, with reference to the guidance and advice of appropriate professional advisers, in the year that MRP commences. As some types of capital expenditure are not capable of being related to an individual asset, the MRP shall be assessed on a basis which most reasonably reflects the anticipated period of benefit arising from the expenditure.

The MRP policy will be kept under continual review to ensure the Council maintains a prudent approach.

The Government (DLUHC) has introduced additional MRP regulations as follows;

- Capital receipts may not be used in place of the revenue charge. The intent is to prevent authorities avoiding, in whole or part, a prudent charge to revenue. It is not the intention to prevent authorities using capital receipts to reduce their overall debt position, which may have the effect of reducing the MRP made with respect to the remaining debt balance.

- Prudent MRP must be determined with respect to the authority’s total capital financing requirement. The intent is to stop the intentional exclusion of debt from the MRP determination because it relates to an investment asset or capital loan.

The Council’s MRP Policy is compliant with these changes.

6.4 Affordability prudential indicators

The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council’s overall finances. The Council is asked to approve the following indicator:

Ratio of financing costs to net revenue stream

This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

Table 4 - Ratio of Borrowing Costs : Net Revenue Stream	2022/23 Revised £'000	2023/24 Estimate £'000	2024/25 Estimate £'000	2025/26 Estimate £'000
Ratio	**18.45%**	**17.43%**	**21.01%**	**21.10%**

This ratio is based upon Borrowing Costs as a proportion of income from;

- Local Taxation (Council Tax and Business Rates)
- Government grants
- Income generating assets.

Table 4A below compares the income derived from these assets against the total financing cost incurred by the Council. It is emphasised that the comparison is against the total financing cost and not only that which relates to the assets themselves. Further detail is contained in the Capital Strategy.

Table 4a - Investment Income in Excess of Borrowing	2022/23 Revised £'000	2023/24 Estimate £'000	2024/25 Estimate £'000	2025/26 Estimate £'000
Total Borrowing Costs	*3,586*	*3,727*	*4,623*	*4,665*
Net Income from Non-Financial Investments	-4,950	-5,787	-5,753	-5,739
Investment Income in Excess of Borrowing Costs	-1,364	-2,060	-1,130	-1,074

The estimates of financing costs include current capital commitments and the proposals in the Budget and Capital and Capital Strategy reports. The increasing ratio for the remainder of the budget period reflects the level of borrowing potentially required to finance the Council's planned Capital Programme. However, the Council will seek to utilise its own resources and "borrow internally" wherever possible without recourse to external debt. The intention for schemes funded through borrowing is that they will, where possible, deliver a financial return and therefore contribute to the sustainability of debt financing costs.

6.5 **Core funds and expected investment balances**

The application of resources (capital receipts, reserves etc.) 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 (asset sales etc.).

Table 5 - Year End Resources	2022/23 Revised £'000	2023/24 Estimate £'000	2024/25 Estimate £'000	2025/26 Estimate £'000
Core Funds / Working Balances	-30,917	-27,817	-24,505	-22,110
Under / (over) borrowing (table 6)	26,428	24,882	22,570	20,175
Expected Investments	**-4,489**	**-2,935**	**-1,935**	**-1,935**

The projected reduction in investments is driven by the use of reserves / internal borrowing in financing the capital programme (see Table 2).

7. BORROWING

7.1 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 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.

7.2 Current portfolio position

The Council's treasury portfolio position at 31 March 2023, with forward projections, is summarised below. The table shows the actual external debt (the treasury management operations), against the underlying capital borrowing need (the Capital Financing Requirement - CFR), highlighting the Council's "under borrowed" position.

Table 6 - Portfolio Position	2022/23 Revised £'000	2023/24 Estimate £'000	2024/25 Estimate £'000	2025/26 Estimate £'000
Debt at 1st April	70,265	76,327	91,410	91,825
Other Long Term Liabilities (OLTL)	15	15	15	15
Total Gross Debt 1st April	70,280	76,342	91,425	91,840
Expected Change in Debt	6,047	15,067	400	0
Expected Change in OLTL	0	0	0	0
Expected Change in Gross Debt	6,047	15,067	400	0
Gross Debt 31st March	76,327	91,410	91,825	91,840
Capital Financing Requirement (Table 3)	102,755	116,292	114,395	112,015
Under / (over) Borrowing	**26,428**	**24,882**	**22,570**	**20,175**

The figures for long-term liabilities in the above table relate to leases which the Council has entered into, based on current accounting requirements. Currently, a new accounting standard for leasing, IFRS 16, is due to be introduced for application in the Council's 2023/24 financial statements. The impact of this on those statements will be fully assessed during the year and implemented accordingly.

Treasury Indicators: limits to borrowing activity

7.3 Within the prudential indicators there are two key indicators to ensure that the Council operates its activities within well-defined limits. These are the Operational Boundary and the Authorised Limit. The principal aim is to ensure that borrowing is only undertaken in respect of previous and approved future capital spending and not for revenue or speculative purposes. This is achieved by setting limits which restrict the amount of borrowing which can be undertaken to that required to finance the current underlying borrowing requirement (ie the CFR), plus the impacts of approved capital schemes for each of the coming three financial years. This is the Operational Boundary. To allow for some operational flexibility in the timing of borrowing, scope is provided for some headroom above this, but this is only to be used on a short-term basis and is subject to a maximum limit which may not be exceeded. This is the Authorised Limit. Further detail of both indicators is set out below.

7.4 The S151 Officer 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.

7.5 **Treasury Indicators: limits to borrowing activity**

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.

Table 7 - Operational Boundary	2022/23 Revised £'000	2023/24 Estimate £'000	2024/25 Estimate £'000	2025/26 Estimate £'000
Debt	79,230	94,235	94,704	94,774
Other Long Term Liabilities	15	15	15	15
Operational Boundary	**79,245**	**94,250**	**94,719**	**94,789**

To allow for operational flexibility, this table allows for a margin for potential day to day cash flow requirements; equivalent to 20% of the Net Cost of Services – over and above anticipated long term debt.

The Authorised Limit for external debt. A further key prudential indicator represents a control on the maximum level of borrowing. This represents a 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 indicator is based upon the Operational Boundary, with a margin of 10%.

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.

Table 8 - Authorised Limit	2022/23 Revised £'000	2023/24 Estimate £'000	2024/25 Estimate £'000	2025/26 Estimate £'000
Debt	87,153	103,658	104,175	104,251
Other Long Term Liabilities	15	15	15	15
Authorised Limit	**87,168**	**103,673**	**104,190**	**104,266**

7.6 **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.

Table 9 - Maturity Structure of Borrowing		
Maturity structure of fixed interest rate borrowing 2022/23		
	Lower	**Upper**
Under 12 months	0%	20%
12 months to 2 years	0%	20%
2 years to 5 years	0%	30%
5 years to 10 years	0%	50%
Over 10 years	0%	100%

It is not anticipated that any borrowing will be taken at variable interest rates.

7.7 **Prospects for borrowing interest rates**

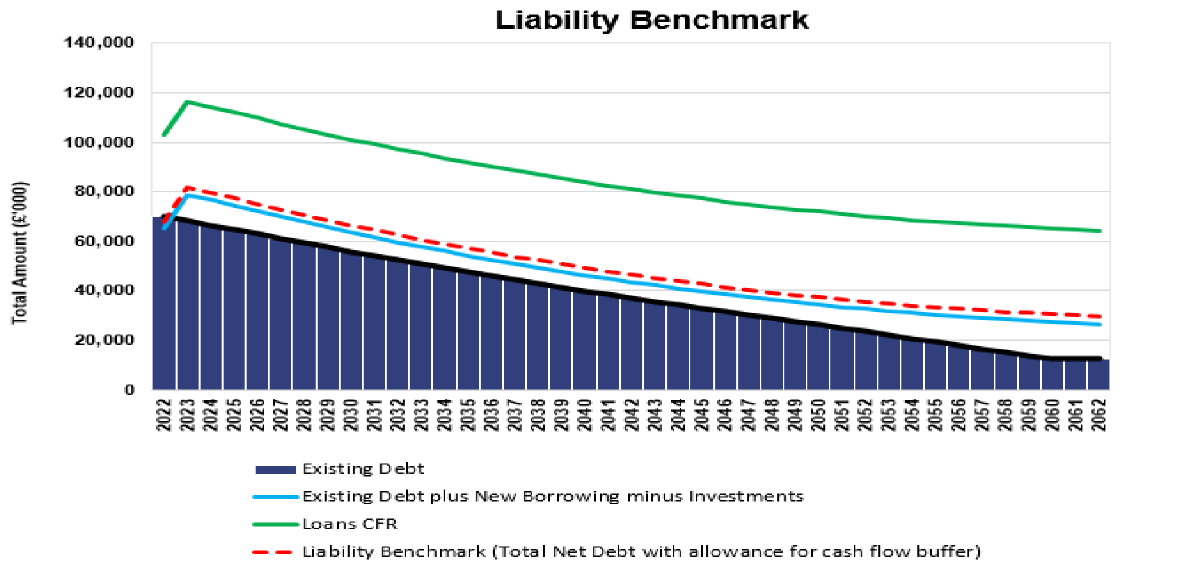
After a long period of historically low and static interest rates, The Bank of England's Monetary Policy Committee (MPC) has recently instigated a number of interest rate rises; this trend is expected to continue to December 2023 before rates begin to fall again.

A full commentary is provided at Appendix H2

Appendix H2 outlines the latest market estimates, however the volatility of financial markets and influence of external factors must be stressed and the position will be continually monitored.

7.8 **Liability Benchmark**

Under the Prudential Code there is a new requirement (wef 2023/24) for Authorities to show a long-term projection of external debt and the capital financing requirement (CFR). This projection should enable review of how the level of underlying borrowing for capital purposes (the CFR) is offset by other cash flows and balances. This indicator is known as the “Liability Benchmark”.



7.9 **Borrowing strategy**

The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (ie the Capital Financing Requirement) has not been fully funded with loan debt as cash supporting the Council’s reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and will be continued where possible.

Against this background and the risks within the economic forecast, caution will be adopted with the 2023/24 treasury operations. The Section 151 Officer will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- if it was felt that there was a significant risk of a sharp FALL in borrowing rates, then borrowing will be postponed.
- if it was felt that there was a significant risk of a much sharper RISE in borrowing rates than that currently forecast, perhaps arising from an acceleration in the rate of increase in central rates in the USA and UK, 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.

Any decisions will be reported at the next available opportunity.

7.10 **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.

Similarly, borrowing purely for the purpose of generating yield is no longer permissible.

8. ANNUAL INVESTMENT STRATEGY

8.1 **Investment Policy**

The Council’s investment policy has regard to the DLUHC’s Guidance on Local Government Investments (“the Guidance”) and the CIPFA Treasury Management in the Public Services: Guidance Notes for Local Authorities incl Police and Fire Authorities (2021) (“the CIPFA TM

Code”). The Council’s investment priorities will be **S**ecurity first, portfolio **L**iquidity second, and only then return (**Y**ield).

In accordance with the above guidance from the 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 which also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the Short Term and Long Term ratings.

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

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.

Treasury Management Practice 1 (TMP1) deals with credit and counterparty risk management. In applying this practice, the following limits are relevant:

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

NON-SPECIFIED INVESTMENTS: These are any investments which do not meet the specified investment criteria. A maximum of £6m will be held in aggregate in non-specified investments, specifically term deposits with UK local authorities.

8.2 **Creditworthiness policy**

The Council applies the creditworthiness service provided by Link Asset Services. 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;
- CDS spreads to give early warning of likely changes in credit ratings;
- sovereign ratings to select counterparties from only the most creditworthy countries.

This modelling approach combines credit ratings, credit Watches and credit Outlooks 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 coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the suggested duration for investments. 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

The yellow colour category is for UK Government debt, or its equivalent, money market funds and collateralised deposits where the collateral is UK Government debt.

The Link Asset Services' 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.

Typically, the minimum credit ratings criteria the Council use will be a Short-Term rating (Fitch or equivalents) of F1 and a LongTerm 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.

All credit ratings will be monitored weekly and will be checked at the time of placing investments. The Council is alerted to changes to ratings of all three agencies through its use of the Link Asset Services' creditworthiness service, and has access to the websites of Fitch, Moody's and Standard & Poor's.

- if a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment 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 benchmark and other market data on a daily basis via its Passport website, provided exclusively to it by Link Asset Services. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

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

Investment Counterparties 2023/24

Category	Institutions	LAS Colour Code	Maximum Period	Limit per Institution
Banks & Building Societies: Call Accounts /Term Deposits / Certificates of Deposit (CDs)				
Government related/guaranteed entities	DMADF (DMO) UK Local Authority	Yellow Yellow	6 months 1 year 2 years	Unlimited £3m per LA £2m per LA; £4m in total
UK part-nationalised institutions	Royal Bank of Scotland group	Blue	1 year	£4m per group
UK-incorporated Institutions	UK banks and building societies of high credit quality	Orange Red Green	1 year 6 months 3 months	£5m per group (or institution if independent)
Money Market Funds				
Money Market Funds	MMFs of high credit quality - AAA rated		Instant access	£5m per fund

This list is unchanged from that for 2022/23.

8.3 **Country limits**

In addition to the detailed UK counterparties, the above list includes non-UK banks from countries which have a minimum sovereign credit rating of AA- from Fitch. To this are added the requirement for the individual institution to itself have a high credit rating and a limit of £4m per institution/group and £8m in total in this category of investment.

The list of eligible countries (as at 31st December 2022) would then be as shown below. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

AAA

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

AA+

- Canada
- Finland
- U.S.A.

AA

- Abu Dhabi (UAE)
- France

AA-

- Belgium
- Qatar

8.4 **Investment strategy**

In-house funds

Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months).

Investment returns expectations

Appendix H2 sets out forecasts for bank interest rates; these are reviewed and updated on a regular basis.

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.

Table 10 - Maximum Principal Sums Invested > 365 Days	**2022/23 Revised £'000**	**2023/24 Estimate £'000**	**2024/25 Estimate £'000**	**2025/26 Estimate £'000**
UK Government	0	0	0	0
UK Local Authorities **	4,000	4,000	4,000	4,000
UK Banks & Building Societies	0	0	0	0
Non-UK Banks	0	0	0	0
Total	4,000	4,000	4,000	4,000

** Maximum of £2m per Local Authority

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

8.5 **Investment Risk Benchmarking**

The Council will benchmark its investment performance against target rates provided by our Treasury advisors (LINK) – these are based upon the SONIA (Sterling Overnight Index Average), which is the risk-free rate for sterling markets administered by the Bank of England. 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.

8.6 **Accounting treatment of investments**

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

8.7 **Reporting Arrangements**

As a minimum the following reports will be prepared;

- Annual Treasury Management Strategy (Full Council – Feb / Mar)
- Mid Year Treasury Management Review (Governance Committee – Nov)
- Treasury Management Outturn Report (Governance Committee – July)

These are the minimum reporting requirements; updates on debt interest / investment income will also be included in quarterly budget monitoring reports.

Further reports will also be presented to Members in the event of any significant Economic / Fiscal events that impact upon the Council.

8.8 **Training / Staff Skills & Competencies**

It is essential that staff involved in Treasury Management are suitably qualified and experienced.

The table below lists the staff and their qualifications / experience; and sources of external advice / training.

Officer	**Initials**	**Qualification**	**Experience (yrs)**
<u>Overall Treasury Strategy</u>			
Director of Finance	LM	Institute of Chartered Accountants England & Wales (ICAEW)	35
Interim Deputy Director of Finance	SK	Chartered Institute of Public Finance & Accountancy (CIPFA)	35
Principal Financial Accountant	JW	Association of Chartered Certified Accountants (ACCA) Chartered Institute of Public Finance & Accountancy (CIPFA)	21

Day to Day Cash Flow Management			
Exchequer Support Officer	SN	Association of Accounting Technicians (AAT)	2
Financial Accountant	HK	Association of Accounting Technicians (AAT)	4
Financial Accountant	CM	Association of Accounting Technicians (AAT)	4
Long Term Debt / Investment Decisions			
Director of Finance	LM	Institute of Chartered Accountants England & Wales (ICAEW)	35
Interim Deputy Director of Finance	SK	Chartered Institute of Public Finance & Accountancy (CIPFA)	35
Principal Financial Accountant	JW	Association of Chartered Certified Accountants (ACCA) Chartered Institute of Public Finance & Accountancy (CIPFA)	21
Independent (External) Treasury Advice			
Link Treasury Advisory Service	Overall strategy advice Review of debt / investment portfolio Daily Bulletins / Economic Updates Provision of Training		
Tradition (UK) Ltd	Investment Broker		
Chartered Institute of Public Finance & Accountancy (CIPFA)	Provision of Training Technical updates		

All staff receive regular bulletins and updates throughout the year, and formal training is available where required.

Similarly training will be arranged for elected Members as required.

9. BACKGROUND DOCUMENTS

CIPFA Treasury Management in the Public Services: Code of Practice & Cross-Sectoral Guidance Notes (2021 edition)

CIPFA Treasury Management in the Public Services: Guidance Notes for Local Authorities (2021 edition)

CIPFA Prudential Code for Capital Finance in Local Authorities (2021 edition)

CIPFA Standards of Professional Practice: Treasury Management

DLUHC Guidance on Local Government Investments

DLUHC Guidance on Minimum Revenue Provision

APPENDIX H2 – Link Advisory Service – Commentary on Economic Background / Interest Rate Forecasts