Part I
Release to Press

AUDIT COMMITTEE/ EXECUTIVE / COUNCIL

Portfolio Area: Resources

Date: **7 February 2023 / 8 February 2023 / 23 February 2023**

ANNUAL TREASURY MANAGEMENT STRATEGY INCLUDING PRUDENTIAL INDICATORS 2023/24

NON-KEY DECISION

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1 PURPOSE

1.1 To recommend to Council the approval of the Treasury Management Strategy 2023/24, including its Annual Investment Strategy, Prudential Indicators and Minimum Revenue Provision (MRP) policy following considerations from Audit and Executive committees.

2 RECOMMENDATIONS

2.1 Audit Committee

That subject to any comments by the Audit Committee to the Executive, the 2023/24 Treasury Management Strategy is recommended to Council for approval.

2.2 Executive

That subject to any comments made by the Executive, in addition to those made by the Audit Committee, the 2023/24 Treasury Management Strategy is recommended to Council for approval.

2.3 Council

That subject to any comments from the Audit Committee and the Executive, the 2023/24 Treasury Management Strategy be approved by Council.

3 BACKGROUND

3.1.1 CIPFA published the updated Treasury Management and Prudential Codes on 20 December 2021 for implementation from 2023/24. The implications were detailed, in the Treasury Management Strategy 2022/23 approved by full council in February 2022. The changes have now been implemented in this report and are identified by reference to the “New code”.

3.1.2 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 initially before considering investment return.

3.1.3 The second main 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. This management of longer-term cash may involve arranging long or short-term loans or using longer-term cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet Council risk or cost objectives.

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

3.1.5 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.”

3.1.6 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.

3.2 Reporting requirements

3.2.1 Capital Strategy

The Capital Strategy will be brought before members as a separate report. The aim of that strategy is to ensure that all Members of the Council fully understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite.

3.2.2 Treasury Management reporting

The Council is required to receive and approve (as a minimum) three main treasury reports each year. The annual treasury management strategy including the Prudential Indicators (this report) is forward looking, it is the first and most important of the three and includes:

a. **Prudential and treasury indicators and treasury strategy** (this report) -
   - 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 Annual 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 members on the capital position, amending prudential indicators as necessary, and whether any policies require revision.

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

d. The new code requires - **Quarterly reports** in addition to the three major reports detailed above from 2023/24 (end of June/end of December). However, these additional reports do not have to be reported to Council and should comprise updated Treasury / Prudential Indicators only.

3.2.3 These reports are required to be adequately scrutinised, and this is undertaken by the Audit Committee and Executive.

4 REASONS FOR RECOMMENDED COURSE OF ACTION AND OTHER OPTIONS

4.1 Performance of Current Treasury Strategy

4.1.1 For the financial year to 31 December 2022 returns on investments have averaged 1.57% and total interest earned was £830,746 contributing to General Fund and Housing Revenue Account income.

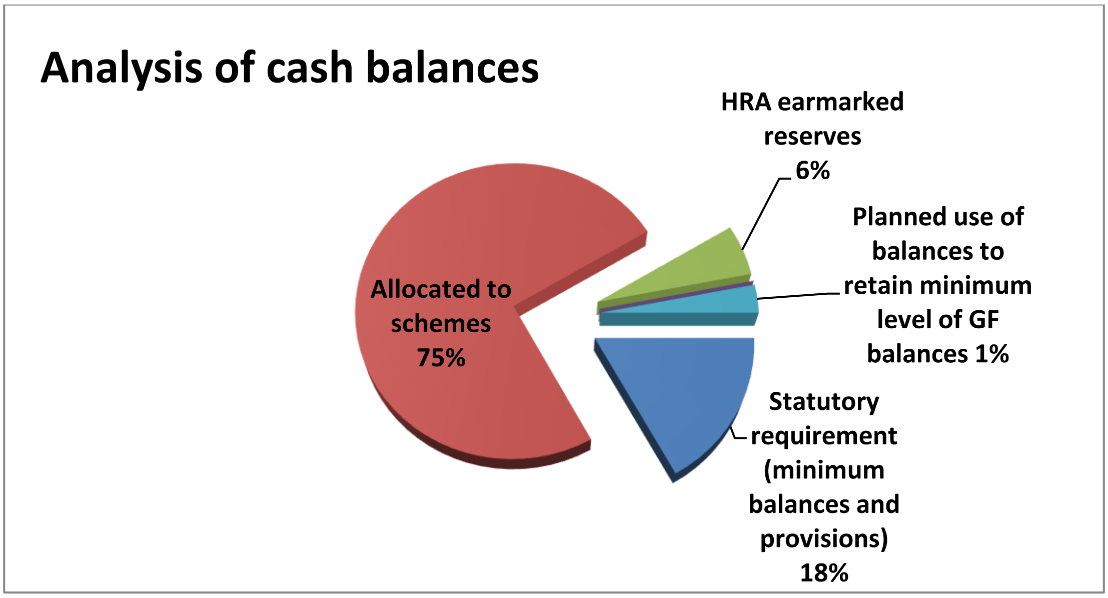
4.1.2 Cash balances as of 31 December 2022 were £58Million and are forecast to be £48Million as of 31 March 2023. The Council's balances are made up of cash reserves e.g., HRA and General Fund balances, restricted use receipts such as right to buy one for one receipts and balances held for provisions such as business rate appeals, reduced by internal borrowing.

4.1.3 In considering the Council's level of cash balances, Members should note that the General Fund MTFS and Capital Strategy have a planned use of resources over a minimum of five years and the HRA Business Plan (HRA BP) a planned use of resources over a 30-year period, which means, while not committed in the current year; they are required in future years.

4.1.4 The Council's current investment portfolio is held for Treasury management purposes only and consists of "conventional" cash investments: deposits with banks and building societies, Money Market Funds and loans to other Local Authorities. Currently no investments have been made with any of the other approved instruments within the Specified and Non-specified Investment Criteria (see Appendix D).

4.1.5 There have been **no breaches** of treasury **counter party limits,** with the investment activity during the year conforming to the approved strategy. Any breach would be notified to the Chief Finance Officer. The Council has had no liquidity difficulties and no funds have been placed with the Debt Management Office (DMO) during 2022/23 to date, demonstrating that counterparty limits and availability for placing funds approved in the TM Strategy were working effectively. It is possible that surplus funds borrowed during the year may be placed in the DMO temporarily if cash balances, due to the timing of taking out new loans would breach other counterparty limits.

4.1.6 The following chart shows the planned use of cash balances at 31 December 2022.



4.1.7 The restrictive use of a proportion of the cash balances set out above, plus the planned use of resources in line with the Council's capital and revenue strategies mean that the investment balance of £58Million as of 31 December 2022 is not available to fund new expenditure.

4.2 Treasury Management Strategy for 2023/24

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

Capital issues

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

Treasury management issues

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

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

4.2.3 The Council's Treasury Management Policy Statement can be found at **Appendix A.**

4.2.4 The Council's Capital Strategy is reported separately from the Treasury Management Strategy. Non-treasury investments are reported through the former, ensuring the separation of the core treasury function under security, liquidity and yield principles, and the policy and commercialism investments usually driven by expenditure on an asset.

4.2.5 The revised Treasury Management Code requires all investments and investment income to be attributed to one of the following three purposes: -

- **Treasury management**
  Arising from the organisation's cash flows or treasury risk management activity, this type of investment represents balances which are only held until the cash is required for use. Treasury investments may also arise from other treasury risk management activity which seeks to prudently manage the risks, costs or income relating to existing or forecast debt or treasury investments.

- **Service delivery**
  Investments held primarily and directly for the delivery of public services including housing, regeneration and local infrastructure. Returns on this

category of investment which are funded by borrowing are permitted only in cases where the income is “either related to the financial viability of the project in question or otherwise incidental to the primary purpose”.

- **Commercial return**
  Investments held primarily for financial return with no treasury management or direct service provision purpose. Risks on such investments should be proportionate to an authority’s financial capacity – i.e., that ‘plausible losses’ could be absorbed in budgets or reserves without unmanageable detriment to local services. An authority must not borrow to invest primarily for financial return.

4.2.6 The Council’s current investment portfolio is held for Treasury management purposes only.

4.2.7 The new code requires the council’s credit and counterparty policies should set out its policy and practices relating to **environmental, social and governance (ESG)** investment considerations. Investment considerations here means understanding the ESG “risks” that the council is exposed to and evaluating how well it manages these risks. It is NOT the same as Socially Responsible Investing.

4.2.8 Managing the ESG risk is already part of the current Treasury Investment Strategy, as the council uses mainstream rating agencies to assess counterparty creditworthiness – they now incorporate ESG risks alongside more traditional financial risk metrics when assessing counterparty ratings.

4.3 Training

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

4.3.2 The last training arranged for members took place in October 2021 and further training will be arranged as required.

4.3.3 The training needs of treasury management officers are periodically reviewed.

4.3.4 A formal record of the training received by officers central to the Treasury function will be maintained by the Head of Technical Accounting. Similarly, a formal record of the treasury management training received by members will also be maintained by the Head of Technical Accounting.

4.4 Treasury Management Consultants

4.4.1 The Authority uses Link Group, Link Treasury Services Limited as its external treasury management advisors.

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

4.4.3 It also recognises that there is value in employing external providers of treasury management services to acquire access to specialist skills and resources. The Authority 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.

4.5 THE CAPITAL PRUDENTIAL INDICATORS 2023/24-2025-26

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.

4.6 Capital Expenditure and Financing – this prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of the Capital Strategy 2023/24. Members are asked to approve the capital expenditure forecasts: -

Capital expenditure £000	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Non-HRA	24,121	26,185	34,017	18,357	7,681
HRA	37,221	49,086	62,420	33,806	34,912
Total	**61,342**	**75,271**	**96,437**	**52,163**	**42,593**

4.6.1 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	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Capital receipts	9,493	18,614	21,115	7,048	6,784
Capital grants and contributions	8,308	20,817	22,546	12,634	8,502
Capital reserves	0	848	375	379	0
Revenue	1,862	2,449	591	6,725	9,437
Major Repairs Reserve	3,828	17,983	20,755	19,705	17,870
Net financing need for the year	**23,491**	**60,711**	**65,382**	**46,491**	**42,593**
Capital Expenditure requiring borrowing	**37,851**	**14,560**	**31,055**	**5,672**	**0**

4.7 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 through a revenue or capital resource, will increase the CFR.

4.7.1 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.

4.7.2 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 schemes 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 £20Million of such schemes within the CFR.

4.7.3 The Council is asked to approve the CFR projections below:

£000	**2021/22 Actual**	**2022/23 Estimate**	**2023/24 Estimate**	**2024/25 Estimate**	**2025/26 Estimate**
Capital Financing Requirement					
General Fund excluding Finance Lease	35,182	39,319	43,536	46,006	41,422
Finance Lease	11,669	11,592	11,499	11,397	11,285
Total General Fund	46,851	50,911	55,035	57,403	52,707
Housing	258,581	267,877	292,842	293,016	292,516
Total CFR	**305,432**	**318,788**	**347,877**	**350,419**	**345,223**
Movement in CFR		**13,356**	**29,089**	**2,542**	**(5,196)**

Movement in CFR represented by				
Net financing need for the year (above)	14,560	31,055	5,671	(500)
Less MRP/VRP and other financing movements	(1,204)	(1,966)	(3,129)	(4,696)
Movement in CFR	**13,356**	**29,089**	**2,542**	**(5,196)**

4.8 Liability Benchmark (New Code)

4.8.1 A third and new prudential indicator for 2023/24 is the Liability Benchmark (LB). The Council is required to estimate and measure the LB for the forthcoming financial year and the following two financial years.

Financial Year End	**2023 £'000**	**2024 £'000**	**2025 £'000**
(Over)/Under Liability Benchmark	(21,388)	(1,846)	29,020

4.8.2 This benchmark compares actual loan debt outstanding and the liability benchmark (net loans requirement plus a liquidity buffer). Years where actual loans are less than the benchmark indicate a future borrowing requirement; any years where actual loans outstanding exceed the benchmark represent a technically overborrowed position.

4.8.3 The table above shows a trend from a forecast overborrowed position, moving towards an under borrowed position. Showing that in 2023, there are theoretical investment balances that if unallocated, could be used to pay off debt. Investment balances held by the council are already allocated and are not available for repayment of debt or additional capital expenditure. As a result, the Council will need to externally borrow to replace internal borrowing in the medium term.

4.8.4 Cashflow is monitored on an ongoing basis to ensure that the timing of external borrowing to support the Capital Strategy and Treasury function is undertaken in a timely and prudent manner.

4.9 Core Funds and Expected Investment Balances

4.9.1 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.). Detailed below are estimates of the year-end balances for each resource and anticipated day-to-day cash flow balances.

Year End Resources £000	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Fund balances / reserves	80,887	61,665	51,827	49,725
Capital receipts	17,329	3,266	10,603	5,854
Provisions	3,022	2,290	2,290	2,290
Total core funds	**101,238**	**67,221**	**64,720**	**57,869**
Working capital*	3,237	(9,393)	(21,131)	(15,323)
Under/over borrowing**	(56,476)	(42,737)	(30,792)	(21,182)
Expected investments	**47,999**	**15,091**	**12,767**	**21,364**

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

4.10 Minimum Revenue Provision (MRP) Policy Statement

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

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

4.10.3 The MRP policy statement requires full council approval in advance of each financial year. The Council is recommended to approve the MRP Statement at **Appendix B** to this report.

4.11 Borrowing

4.12 The capital expenditure plans set out in paragraph 4.6 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.

4.12.1 **Current Portfolio Position**

The overall treasury management portfolio as at 31 March 2022 and as at 31 December 2022 are shown below for both borrowing and investments.

TREASURY PORTFOLIO		
£000	actual **31.3.22**	current **31.12.22**
Total treasury investments	68,750	57,800
Treasury external borrowing:		
PWLB	227,750	227,619
Finance Leases and other external borrowing	19,230	20,580
Total external borrowing	**(246,980)**	**(248,199)**
Net treasury investments / (borrowing)	**(178,230)**	**(190,399)**

4.12.2 Details of Investments and PWLB borrowing can be found at **Appendix G.**

4.12.3 The Council's forward projections for borrowing are summarised below. The table shows the actual external debt, against the underlying capital borrowing need, (the Capital Financing Requirement – CFR), highlighting any over or under borrowing.

£000	**2022/23 Estimate**	**2023/24 Estimate**	**2024/25 Estimate**	**2025/26 Estimate**
External Debt				
Debt at 1 April	246,980	262,313	292,120	296,680
Expected change in Debt	14,559	31,055	5,671	0
Other long-term liabilities (OLTL)	1,350	0	0	0
Expected change in OLTL	(577)	(1,247)	(1,112)	(2,996)
Actual gross debt at 31 March	**262,312**	**292,121**	**296,679**	**293,684**
The Capital Financing Requirement	**318,788**	**347,877**	**350,419**	**345,223**
Under / (over) borrowing	**(56,476)**	**(55,756)**	**(53,740)**	**(51,539)**

4.12.4 Within the range of prudential indicators there are several 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 2023/24 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.

4.12.5 Based on the capital programme 2023/24 (February 2023 Update) resourcing projections, the Council has the following borrowing requirements in 2023/24:

- General Fund £6,090,720 (£1,890,720 in relation to the 10-year plan for the garages estates approved by Council on 20 July 2016, £3Million in relation to the wholly owned housing development company and £1.2Million supporting the new Leisure contract with income generating investment).

- HRA £24,964,256 (£24,692,891 on housing development).

4.12.6 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 account of current commitments, existing plans and the proposals in this budget report.

4.13 Treasury Indicators: Limits to Borrowing Activity

4.13.1 **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.

Operational Boundary £000	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
General Fund	51,537	55,035	58,603	55,107
General Fund additional borrowing facility available to the Housing WOC Wholly Owned Company	15,000	15,000	15,000	15,000
Total - General Fund	**66,537**	**70,035**	**73,603**	**70,107**
HRA	267,877	292,841	293,016	292,516
Total	**334,414**	**362,876**	**366,619**	**362,623**
Previous Operational Boundary	354,821	366,117	365,322	364,518

4.13.2 **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 local authority plans, or those of a specific authority, although this power has not yet been exercised.

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

Authorised Limit £000	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
General Fund Finance lease	15,000	15,000	15,000	15,000
General Fund Borrowing for capital expenditure including WOC	66,911	71,035	73,403	68,707

Authorised Limit £000	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Total Borrowing - General Fund	81,911	86,035	88,403	83,707
Borrowing - HRA	279,877	304,841	305,016	304,516
Total	361,788	390,876	393,419	388,223
Previous Authorised Limit	360,821	374,117	373,322	372,518

4.14 Prospects for Interest Rates

4.14.1 The Council retains Link Group as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. Link provided the following forecasts on 19 December 2022. These are forecasts for certainty rates, gilt yields plus 80 bps.

Link Group Interest Rate View	19.12.22												
	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
BANK RATE	3.50	4.25	4.50	4.50	4.50	4.00	3.75	3.50	3.25	3.00	2.75	2.50	2.50
3 month ave earnings	3.60	4.30	4.50	4.50	4.50	4.00	3.80	3.30	3.00	3.00	2.80	2.50	2.50
6 month ave earnings	4.20	4.50	4.60	4.50	4.20	4.10	3.90	3.40	3.10	3.00	2.90	2.60	2.60
12 month ave earnings	4.70	4.70	4.70	4.50	4.30	4.20	4.00	3.50	3.20	3.10	3.00	2.70	2.70
5 yr PWLB	4.20	4.20	4.20	4.10	4.00	3.90	3.80	3.60	3.50	3.40	3.30	3.20	3.10
10 yr PWLB	4.30	4.40	4.40	4.30	4.10	4.00	3.90	3.80	3.60	3.50	3.40	3.30	3.30
25 yr PWLB	4.60	4.60	4.60	4.50	4.40	4.20	4.10	4.00	3.90	3.70	3.60	3.50	3.50
50 yr PWLB	4.30	4.30	4.30	4.20	4.10	3.90	3.80	3.70	3.60	3.50	3.30	3.20	3.20

4.14.2 The **Bank of England base rate** stands at 3.5% currently and is expected to reach a peak of 4.5% in June 2023, before gradually reducing over the next 24 months.

4.14.3 The CPI measure of inflation (a key bank of England KPI driving decisions on interest rates) looks to have peaked at 11.1% at the end of 2022 (currently 10.7%). Despite the cost-of-living squeeze, the Bank will want to see evidence that wages are not spiralling upwards in what is still a very tight labour market, before making any decisions to stop increasing rates I the short term.

4.14.4 The markets will already have built in the effects on gilt yields because of interest rate forecasts and the elevated inflation outlook, resulting in less volatile **PWLB** 5 to 50 years Certainty rates – these are generally, in the range of 4.10% to 4.80%

4.14.5 More detailed analysis of the prospect for interest rates can be found at **Appendix F**

4.15 Current Borrowing Position

4.15.1 The estimated Council's capital financing requirement (CFR) for 2022/23 is £319Million. The CFR denotes the Council's underlying need to borrow for capital purposes. If the CFR is positive the Council may borrow from the PWLB or the market (external borrowing), or from internal balances on a temporary basis (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions. The Council had £248Million in external debt at 31 December 2022, of which PWLB debt and its purpose is detailed in the table below.

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Purpose of Loan	PWLB Loan £'000
General Fund Regeneration Assets	**1,888**
HRA	
Decent Homes	30,820
Self-Financing	194,911
Total HRA Loans	**225,731**
Total PWLB Debt at 31st December 2022	**227,619**

4.15.2 The Council is forecast to utilise (short term) £71Million of cash flow funds in lieu of borrowing. This is a prudent and cost-effective approach in the current economic climate but will require ongoing monitoring if any upside risk to gilt yields prevails.

4.15.3 No new external borrowing has been taken to date during 2022/23 The capital programme is being kept under regular review because of inflationary pressures, shortages of materials and labour. Our borrowing strategy will, therefore, also be regularly reviewed and then revised, if necessary, to achieve optimum value and risk exposure in the long-term.

4.15.4 PWLB maturity certainty rates (gilts plus 80bps) have continued to rise, reverting to the gradual increases seem before the mini budget in the Autumn. The 50-year PWLB 5 to 50 years Certainty rates are, generally, in the range of 4.10% to 4.8%.

4.15.5 The General Fund has PWLB external borrowing of £1.9Million and other external borrowing of £7.5Milion (Local Enterprise Partnership - LEP) and a finance lease of £12Million (Aviva). Discussions took place with the LEP regarding making these re-investible loans for further regeneration of the town, rather than needing to be repaid on the dates originally agreed. As indicated in the table, the current position is that only £209K of the £7.779Million received to date has been repaid. The remaining balance is repayable - £6.57Million in 2030 and £1Million in 2025. The loans are at zero interest.

Table 5: LEP Loans

Loan Received	Site Assembly	Land Assembly	SG1	Repaid	Total
2015/16	762,488			(208,795)	553,693
2018/19	416,306				416,306
2019/20		4,108,709			4,108,709
2020/21		1,491,291	500,000		1,991,291
2022/23			500,000		500,000
Total	**1,178,794**	**5,600,000**	**1,000,000**	**(208,795)**	**7,569,999**

4.15.6 The Aviva finance lease entered in 2018/19 for 37 years was immediately sublet to Queensway Properties (Stevenage) LLP for 37 years.

4.15.7 The HRA has external borrowing from PWLB of £225.731Million

- £7.763Million from pre-2012,
- £4.010Million taken out in 2019/20,
- £10.0 Million taken out in 2020/21 and
- £9.047Million taken out in 2021/22.

The remainder of £194.911 Million relates to HRA self-financing payment made to central government in 2012.

4.15.8 The target average borrowing rate in the latest HRA Business Plan last updated 2019 (HRA BP) was 1.6% for 2020, rising to 1.72% in 2021 and 1.74% in 2022. Recent interest rate rises have led to current forecast rates exceeding the original BP forecasts.

4.15.9 The table 6 below shows current PWLB borrowing rates compared to rates secured for the HRA borrowing in prior years.

Rates[1]* as at:	Mar-21	Feb-22	17 Jan 23
Years	Actual Rate %	Actual Rate %	PWLB Rate %
5			4.18
10			4.32
15			4.55
20	2.06		4.64
21		2.24	4.64
25.5		2.22	4.62

4.15.10 Finance leases entered between the HRA and Marshgate Ltd, the Council's wholly Owned Housing Company relating to 10 residential dwellings, leased for 25 years amounted to £1.3Million.

4.16 Borrowing Strategy

4.16.1 The Council is currently maintaining a non-fully funded position. This means that the capital borrowing need, (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 medium and longer dated borrowing rates are expected to fall

[1] Rates include a 0.2% Certainty Rate reduction

from their current levels once prevailing inflation concerns are addressed by tighter near-term monetary policy. That is, Bank Rate increases over the remainder of 2022 and the first half of 2023.

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

4.16.3 Borrowing may be taken to facilitate investment in regeneration and/or economic improvements for the town. This may include investment in special purpose vehicles owned by the Council to facilitate regeneration aspirations. Any such investments will be presented to Members.

4.17 Policy on Borrowing in advance of Need

4.17.1 It is the Council's intention not to borrow more than or in advance of its needs purely 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.

4.17.2 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 existing debt portfolio which supports the need to take funding in advance of need
- ensure the ongoing revenue liabilities created, and the implications for the future 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
- consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use.

4.18 Rescheduling

4.18.1 Rescheduling of current borrowing in our debt portfolio is unlikely to occur as there is still a large difference between premature redemption rates and new borrowing rates.

4.19 ANNUAL INVESTMENT STRATEGY

4.20 The Department of Levelling Up, Housing and Communities (DLUHC - this was formerly the Ministry of Housing, Communities and Local Government (MHCLG)) and CIPFA have extended the meaning of 'investments' to include both financial and non-financial investments. This report deals solely with treasury (financial) investments, (as managed by the treasury management team). Non-financial investments, essentially the purchase of income yielding assets and service investments, are covered in the Capital Strategy, (a separate report).

4.20.1 In managing the TM function other areas kept under review include:

- Training opportunities available to Members and officers (the most recent training for Members took place on 14 October 2021)
- That those charged with governance are also personally responsible for ensuring they have the necessary skills and training
- A full mid-year review of the TMS will be reported in 2023/24

4.20.2 The 2023/24 Strategy uses the credit worthiness service provided by Link Asset Services (formerly known as Capita Treasury Solutions) the Council's treasury advisors. This service uses a sophisticated modelling approach which utilises credit ratings from the three main credit rating agencies and is compliant with CIPFA code of practice.

4.20.3 While Link Asset Services may advise the Council, the responsibility for treasury management decisions always remains with the Council and officers do not place undue reliance on the external service advice.

4.20.4 The TM limits for 2023/24 (Appendix D) have been reviewed. No changes are considered necessary since that agreed as part of the Mid-Year Review of 2022/23.

4.20.5 The latest list of "Approved Countries for Investment" is detailed in Appendix E. This lists the countries that the Council may invest with providing they meet the minimum credit rating of AA- . The Council retains the discretion not to invest in countries that meet the minimum rating but where there are concerns over human rights issues.

4.21 Non-Treasury Investments

4.21.1 The CIPFA Prudential and Treasury Codes recommend that authorities' capital strategies should include a policy and risk management framework for all investments. The Codes identify three types of local authority investment:

- Treasury management investments, which are taken to manage cashflows and as part of the Council's debt and financing activity
- Commercial investments (including investment properties), which are taken mainly to earn a positive net financial return (previously purchased commercial investments only as Council's are no longer permitted to access PWLB rates if they invest in commercial investments primarily for gain.
- Service investments, which are taken mainly to support service outcomes

4.21.2 Details of the Annual Investment Strategy can be found in Appendix A.

4.22 Investment returns expectations

4.22.1 The current forecast shown in paragraph 4.14.2, includes a forecast for Bank Rate to reach 4.5% in Q2 2023. The suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year are as follows: -

Average earnings in each year	
2022/23 (remainder)	4.00%
2023/24	4.40%
2024/25	3.30%
2025/26	2.60%
2026/27	2.50%
Years 6 to 10	2.80%
Years 10+	2.80%

4.22.2 As there are so many variables at this time, caution must be exercised in respect of all interest rate forecasts.

4.22.3 Against this view the forecast of interest earned on Treasury investments in 2023/24 is £1.8Million, based on 4% interest earned on average balances of £45million.

4.22.4 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, to benefit from the compounding of interest.

4.23 Changes of investment strategy

4.23.1 There are no proposed changes to the Strategy for 2023/24.

4.24 OTHER ISSUES

4.25 UK Sovereign rating and investment criteria: The UK sovereign rating is currently on the lowest acceptable level suggested for approved countries as set out in Appendix E. In October 2020, Moody's downgraded the rating to Aa3 (AA- equivalent), the same as Fitch, while Standard & Poor's has it rated at AA. The UK sovereign rating could come under pressure from the impact of COVID and / or following the UK's exit from the EU. The Council's investment criteria only use countries with a rating of AA- or above. The UK rating will be exempt from the sovereign rating investment criteria so in this event if it were to result in the UK being downgraded below AA- it would not impact on the Council's ability to invest with UK institutions. Other investment criteria will be considered in this event to ensure security of funds for the Council.

4.26 Queensway Properties (Stevenage) LLP: In December 2018 the Council entered into a 37-year agreement with Aviva to facilitate the regeneration of Queensway in the town centre. A separate legal entity, Queensway Properties (Stevenage) LLP, was incorporated to manage the rental streams and costs associated with the scheme. The Council's treasury management team offered its services to the LLP, to manage and invest its surplus cash flows through a service level agreement. To date no investment activities have been undertaken on their behalf.

4.27 **Queensway Properties (Stevenage) LLP 2nd phase:** the first phase of the head lease was recognised on the Council's balance sheet and the operational borrowing limit was increased to reflect the valuation. When the second phase of residential properties becomes available to let the Council's lease payments will increase to reflect this. As such the balance sheet valuation of the finance lease will increase and the operational and authorised borrowing limits for the General Fund have been increased accordingly. This has been reflected in the TM indicators.

4.28 **IFRS16 – Leasing:** As reported previously, some currently off-balance sheet leased assets may need to be brought onto the balance sheet under IFRS 16, however CIPFA LASAAC Local Authority Accounting Code Board announced the deferral of the implementation of IFRS 16 Leases in the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) until the 2023/24 financial year. It is unlikely that this change will have a significant impact for Stevenage.

5 IMPLICATIONS

5.1 Financial Implications

5.1.1 This report is of a financial nature and reviews the treasury management function for 2022/23 to date. Any consequential financial impacts identified in the Capital strategy and Revenue budget monitoring reports have been incorporated into this report.

5.1.2 During the financial year Officers operated within the treasury and prudential indicators set out in the Council's Treasury Management Strategy Statement and in compliance with the Council's Treasury management practices.

5.2 Legal Implications

5.2.1 Approval of the Prudential Code Indicators and the Treasury Management Strategy are intended to ensure that the Council complies with relevant legislation and best practice.

5.2.2 There have been no changes to PWLB borrowing arrangements since the last Treasury report, however there are changes to the Prudential and Treasury Management codes from 2023/24. Officers will ensure that any changes are reflected in treasury operations and reporting requirements**.**

5.3 Risk Implications

5.3.1 The current policy of minimising external borrowing only remains financially viable while cash balances are high and the differentials between investment income and borrowing rates remain. As these conditions change the Council may need to take borrowing at higher rates which would increase revenue costs.

5.3.2 There remains uncertainty on the long-term implications of exiting the EU on the UK economy and borrowing rates. Officers monitor interest rate forecasts to inform the timing of borrowing decisions.

5.3.3 The Council's Treasury Management Strategy is based on limits for counterparties to reduce risk of investing with only a small number of institutions.

5.3.4 The thresholds and time limits set for investments in the Strategy are based on the relative ratings of investment vehicles and counter parties. These are designed to consider the relative risk of investments and to preclude certain grades of investments and counterparties to prevent loss of income to the Council.

5.3.5 There is a risk to the HRA BP's ability to fund the approved 30-year spending plans if interest rates continue to rise, this will be included in the revision to the BP later in the year.

5.4 Equalities and Diversity Implications

5.4.1 This report is technical in nature and there are no implications associated with equalities and diversity within this report. In addition to remaining within agreed counterparty rules, the council retains the discretion not to invest in countries that meet the minimum rating but where there are concerns over human rights issues. Counterparty rules will also be overlaid by any other ethical considerations from time to time as appropriate.

5.4.2 The Treasury Management Policy does not have the potential to discriminate against people on grounds of age; disability; gender; ethnicity; sexual orientation; religion/belief; or by way of financial exclusion. As such a detailed Equality Impact Assessment has not been undertaken.

5.5 Climate Change Implications

5.5.1 The Council's investment portfolio is invested in sterling investments and not directly in companies. However, the TM team continue to review the use of Money Market funds to ensure, where possible, money market funds that invest in environmentally sustainable companies are used. In this way the TM team aligns with the Council's ambition to attempt to be carbon neutral by 2030.

BACKGROUND PAPERS

- BD1 Treasury Management Strategy including Prudential Code Indicators 2022/23 (Council 24 February 2022).

APPENDICES

- Appendix A - Treasury Management Strategy
- Appendix B - Minimum Revenue Provision Policy
- Appendix C - Prudential Indicators
- Appendix D - Specified and Non-Specified Investment Criteria

Part I
Release to Press

- Appendix E - Approved Countries for investment
- Appendix F - Link Interest Rates forecasts