Part I – Release to Press

Agenda item: ##

Meeting Audit/ Executive/ Council

Portfolio Area Resources

Date 08 February/ 09 February/ 24 February 2022

ANNUAL TREASURY MANAGEMENT STRATEGY INCLUDING PRUDENTIAL CODE INDICATORS 2022/23

NON KEY DECISION

Author –Belinda White Ext 2430
Contributors – Lee Busby Ext.2933
Lead Officer – Clare Fletcher
Contact Officer – Clare Fletcher

1 PURPOSE

1.1 To recommend to Council the approval of the Treasury Management Strategy 2022/23, including its Annual Investment Strategy, Prudential Indicators and Minimum Revenue Provision (MRP) policy following considerations from Audit and Executive committees.

2 RECOMMENDATIONS

It is recommended that:

2.1 Subject to any comments from Audit Committee and Executive, the Treasury Management Strategy is recommended to Council for approval.

2.2 Members approve the Prudential Indicators for 2022/23.

2.3 Members approve the Minimum Revenue Provision (MRP) policy.

3 BACKGROUND

3.1 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 initially before considering investment return.

3.2 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.

3.3 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.

3.4 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."

3.5 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.

3.6 Reporting

3.6.1 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:

- Treasury Management Strategy
- Investment Strategy
- Capital Plans and Prudential Indicators
- Minimum Revenue Provision (MRP) policy

3.6.2 The second is the 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.

3.6.3 The third is the 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.

3.6.4 Before being recommended to Council the reports are required to be adequately scrutinised, and this is undertaken by the Audit Committee and Executive.

3.7 Treasury Management Strategy for 2022/23

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

Capital issues

i) the capital programme and the associated Prudential Indicators;

ii) the Minimum Revenue Provision (MRP) policy.

Treasury management issues

i) the current treasury position;

ii) treasury indicators which limit the treasury risk and activities of the Council;

iii) prospects for interest rates;

iv) the borrowing strategy;

v) policy on borrowing in advance of need;

vi) the investment strategy;

vii) creditworthiness policy; and

viii) the policy on use of external service providers.

These elements cover the requirements of: the Local Government Act 2003; the CIPFA Prudential Code; the Department for Levelling Up, Housing and Communities (DLUHC, formerly the MHCLG) MRP Guidance; the CIPFA Treasury Management Code; and DLUHC Investment Guidance.

3.7.2 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.

3.7.3 The contribution of Treasury Management to the Council 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. 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.

3.7.4 The returns achievable on the Council's investments are currently modest based on the low Bank of England base rate and the risk appetite of the TM Strategy, which is compliant with the advice from the Council's treasury advisors, Link Asset Management. The Monetary Policy Committee (MPC) raised the Bank of England base rate (Bank Rate) on 16 December 2021 to 0.25%, the first increase since it was cut to 0.10% on 19 March 2020 in response to the Coronavirus pandemic. In 2021/22 investment returns of 0.35% are forecast with a target of 0.58% for 2022/23.

3.7.5 The UK left the European Union on 31 January 2020 and an exit deal was agreed between the UK and the EU just before the end of the transition period on 31 December 2020. The initial agreement with the EU only covered trade, so further work remains on the services sector. However if the UK invokes article 16 of the Brexit deal over the dislocation in trading arrangements with Northern Ireland, this has the potential to result in a no-deal Brexit. Trade agreements are also still to be agreed with other countries. Brexit is likely to lead to a long-term structural change in the UK economy, impacting areas such as trade, investment and immigration. The HRA and General Fund capital strategies both have significant borrowing requirements over the next few years and officers continue to monitor movements in the borrowing rates.

4 REASONS FOR RECOMMENDED COURSE OF ACTION AND OTHER OPTIONS

4.1 Legislative and other changes impacting on the Treasury management strategy

4.1.1 Revised Treasury Management and Prudential Codes were issued by CIPFA on 20 December 2021. CIPFA has stated that there will be a soft introduction of the codes with local authorities not being expected to have to change their current draft TMSS/AIS reports for 2022/23 unless they wish to do that. Full implementation will be required for 2023/24. The revised codes will have the following implications:

- a requirement for the Council to adopt a new debt liability benchmark treasury indicator to support the financing risk management of the capital financing requirement

- clarify what CIPFA expects a local authority to borrow for and what they do not view as appropriate. This will include the requirement to set a proportionate approach to commercial and service capital investment

- address ESG issues within the Capital Strategy

- require implementation of a policy to review commercial property, with a view to divest where appropriate

- create new Investment Practices to manage risks associated with non-treasury investment (similar to the current Treasury Management Practices)

- ensure that any long term treasury investment is supported by a business model

- a requirement to effectively manage liquidity and longer term cash flow requirements

- amendment to TMP1 to address ESG policy within the treasury management risk framework

- amendment to the knowledge and skills register for individuals involved in the treasury management function - to be proportionate to the size and complexity of the treasury management conducted by each council

- a new requirement to clarify reporting requirements for service and commercial investment, (especially where supported by borrowing/leverage)

In addition, all investments and investment income must 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 a council'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.

As this Treasury Management Strategy Statement and Annual Investment Strategy deals solely with treasury management investments, the categories of service delivery and commercial investments are dealt with as part of the Capital Strategy report. Members will be updated on how all the Code changes will impact our current approach and any changes required will be formally adopted within the 2023/24 TMSS report.

4.1.2 The Department for Levelling Up, Housing and Communities (DLUHC, formerly MHCLG) is proposing to tighten up regulations around local authorities financing capital expenditure on investments in commercial projects for yield and has already closed access to all PWLB borrowing if such schemes are included in an authority's capital programme, under the revised lending terms published in November 2020. The new CIPFA codes have also adopted a similar set of restrictions to discourage further capital expenditure on commercial investments for yield. However, this does not mean that local authorities may not currently have the legal powers to undertake such capital expenditure despite such guidance and regulation.

4.1.3 The DLUHC is also conducting a consultation on amending MRP rules for England. Details of the proposals are set out in paragraph 4.7.1.

4.1.4 Each Local Authority is asked to submit a high-level description of their capital spending and financing plans for the following three years, including their expected use of the PWLB. As part of this, the PWLB will ask the CFO to confirm that there is no intention to buy investment assets primarily for yield at any point in the next three years. This assessment is based on the CFO's professional interpretation of guidance issued alongside the PWLB lending terms. Local Authorities cannot have any scheme in the Capital Strategy where the investment is primarily for financial gain, regardless of whether the transaction would notionally be financed from a source other than the PWLB. If they have such a scheme then the Council will not be eligible to borrow from the PWLB meaning they will no longer be able to access borrowing at favourable rates.

4.2 Comments from the Audit Committee and Executive

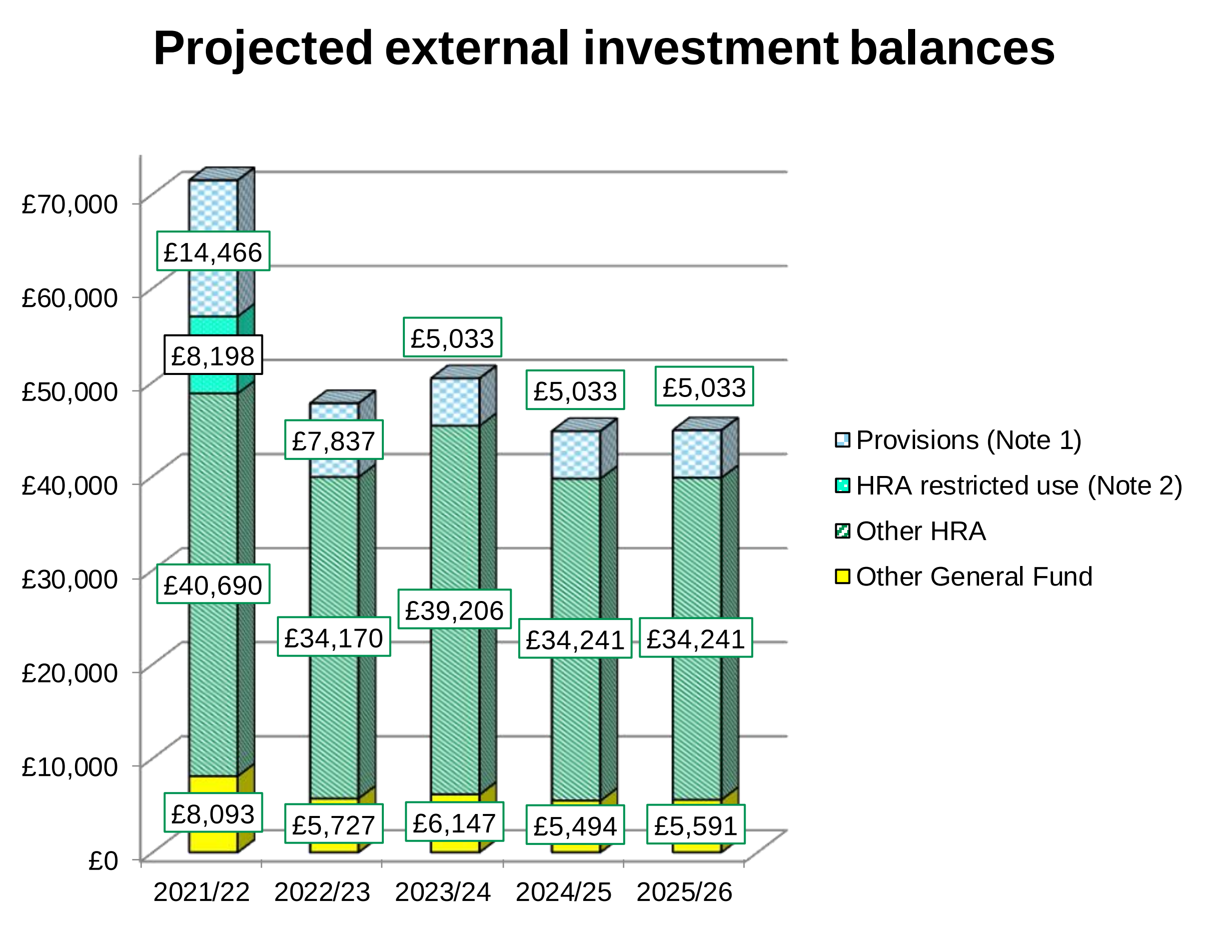
4.2.1 The report will be updated with any considerations from the Audit Committee meeting of 8 February and presentation at the Executive meeting of 9 February. The Council's cashflow will also been updated if needed in line with the latest General Fund Budget and Capital Strategy reports.

4.3 Performance of Current Treasury Strategy

4.3.1 For the financial year 2021/22 to 31 December 2021 returns on investments have averaged 0.34% and total interest earned was £201,159 contributing to General Fund and Housing Revenue Account revenue income.

4.3.2 Cash balances as at 31 December 2021 were £79.93Million and are forecast to be £71.4Million as at 31 March 2022. The Council's balances are made up of cash reserves e.g. HRA and General Fund balances, restricted use receipts e.g. right to buy one for one receipts and balances held for provisions such as business rate appeals. The cash balances figure available for investment of £71.4Million is less than the total forecast Reserves and Balances figure of £82.0Million because the HRA and the General Fund have used balances totalling £10.5Million in lieu of external borrowing due to low interest rates leading to a poor return on investments (see also paragraph 4.6.8).

4.3.3 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 5 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. This means that the Council's cash for investment purposes of £71.4Million as at 31 March 2022 is going to be used for revenue and capital plans approved by Members. This impact on cash available to invest is shown in the chart below.

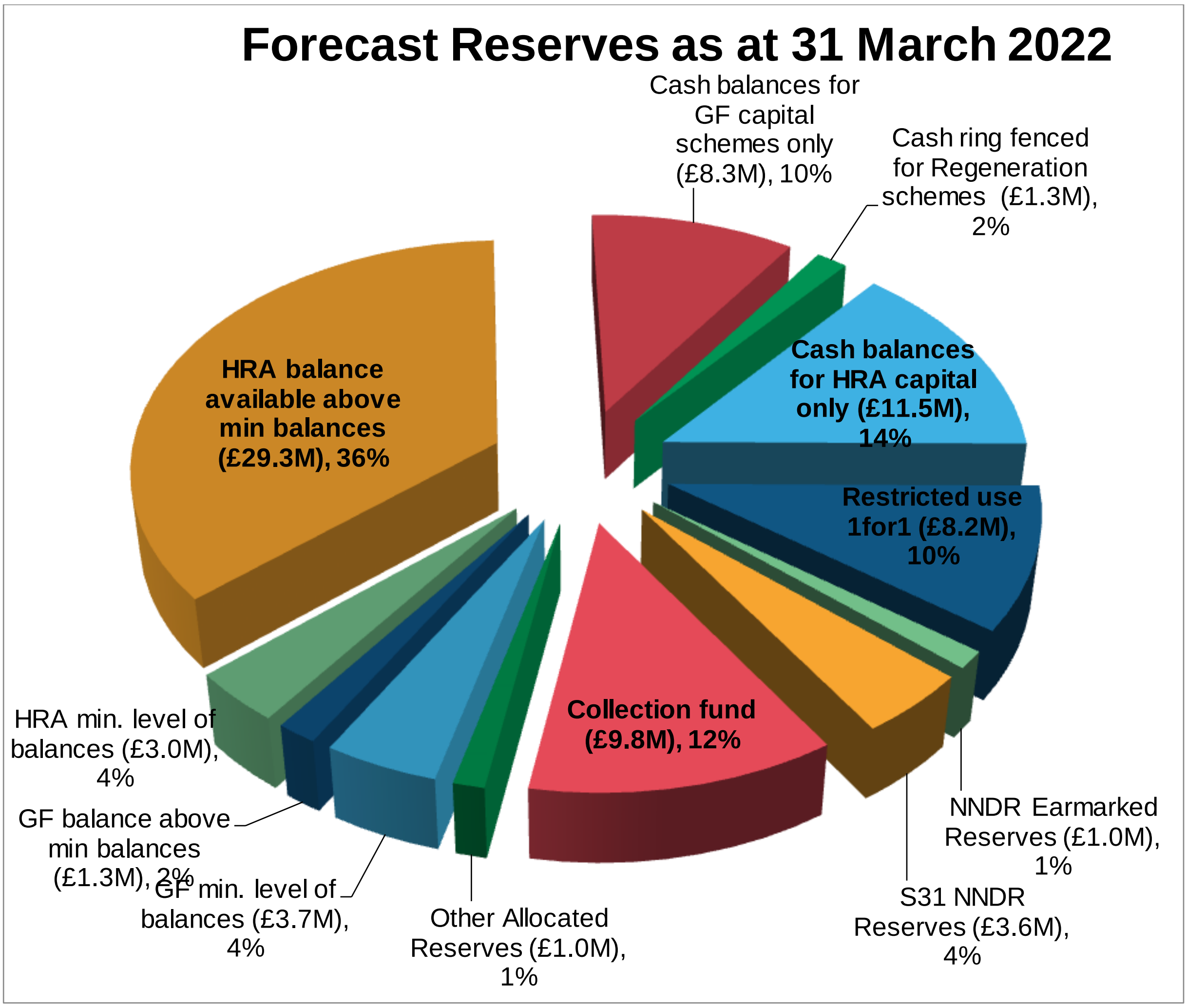


Note 1: Council Tax & NNDR (Business Rates) held for bad debts and appeals

Note 2: Right to buy (RTB) new build receipts

4.3.4 The balances projected to be held as at 31 March 2022 include balances invested that cannot be used to run services. These include balances related to restricted RTB receipts which in 2021/22 total £8.2Million. There are also balances held for future events such as business rate appeals yet to be realised and again these balances cannot be used to fund services.

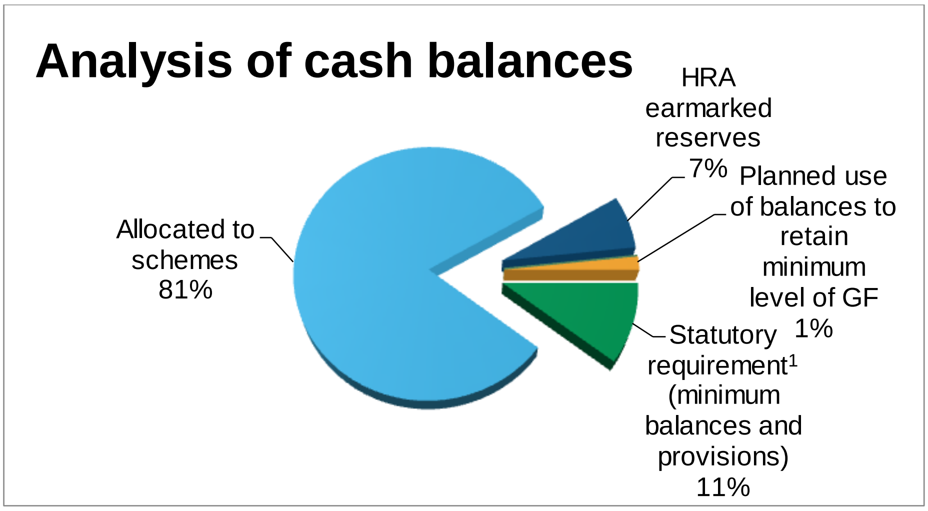
4.3.5 The majority of balances are provisions for the repayment of HRA debt and other liabilities (35.8%) and to fund the Council's capital programme (34.1%, which includes 10.0% restricted RTB receipts for new builds). Despite these sums held for the capital programme, external borrowing is still required as detailed in the 2022/23 capital strategy report. The forecast balances are summarised in the following chart.



Note 1: balances include internal borrowing of £10.5Million

Note 2: £9.8Million Collection Fund includes £3.1Million relating to Section 31 Business rates relief

4.3.6 These cash balances can be further analysed between allocated, held for statutory requirements and held for third parties. This identifies that all cash balances have been allocated, so unless allocated reserves are no longer needed in the future, there are currently no cash resources available for new projects. In addition the capital strategy identifies the need for external borrowing and a number of capital schemes have not been approved due to the lack of funding resources.



Note 1: Statutory requirement includes the £3.1m relating to Section 31 Business rates relief to be repaid in 2022/23

4.3.7 The Council's current investment portfolio 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).

4.3.8 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 2021/22 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 2021/22 and 2022/23 will be placed in the DMO temporarily, if PWLB borrowing rates are advantageous and cash balances due to the timing of taking out new loans would breach other counterparty limits.

4.4 Review of the Treasury Management Strategy and Proposed changes

4.4.1 During the last TM Strategy review, counterparty limits for short term investments (invested for up to one year) were increased from £8Million to £10Million when cash balances are higher than £30Million. This was in order to remain flexible in managing large increases in cash balances, predominantly due to Government grant funding to local authorities to help deal with the COVID crisis. This has worked well, and no further changes are proposed at this time.

4.5 Prudential Indicators

4.5.1 It is a requirement of the Local Government Act 2003 that Councils must 'have regard to the Prudential Code and set Prudential Indicators to ensure capital investment plans are affordable, prudent and sustainable'.

4.5.2 This Strategy's Prudential Indicators are included in Appendix C and are based on the Final Capital Strategy report to the Executive on 9 February 2022 to be approved at Council on 24 February 2022.

4.5.3 **The Operational boundary** is the limit beyond which external debt is not normally expected to exceed and is most cases will be similar to the Council's Capital Financing Requirement (CFR). The proposed limit for 2022/23 is £352.821Million. Officers recommend that the operational borrowing limit is revised to reflect:

- To accommodate uncertainty regarding the timing of significant land sales.
- To reflect the identified borrowing requirement in the capital strategy.
- To reflect the capital programme financing requirement includes capital receipts and the uncertainty of when these receipts may materialise.
- To reflect the valuation of the finance lease for the residential phase of the Queensway development in the town centre.
- The Housing Wholly Owned Company (WOC) Model (report to Council in February 2021) was for development schemes totalling £7.765 Million, and this was included in the Capital Strategy funded by borrowing. The WOC report requested a maximum investment of up to £15Million which is included in the borrowing limits.

Operational Boundary	**2021/22**	**2022/23**	**2023/24**	**2024/25**	**2025/26**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
General Fund	50,155	58,037	59,353	58,559	57,754
Queensway residential	15,000	15,000	15,000	15,000	15,000
HRA	264,144	279,784	291,764	291,764	291,764
TOTAL	**329,299**	**352,821**	**366,117**	**365,322**	**364,518**
Previous Operational Boundary	324,371	345,843	359,180	358,426	

4.5.4 The **Authorised limit** for external debt represents a control on the maximum level of borrowing. This represents the legal limit to which the Council's external debt cannot exceed. The proposed limit for 2022/23 is £360.821Million.

4.5.5 The Council is asked to approve the following authorised limit.

Authorised Limit for external debt	**2021/22**	**2022/23**	**2023/24**	**2024/25**	**2025/26**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
General Fund Finance lease (accounted for as borrowing)	15,000	15,000	15,000	15,000	15,000

Authorised Limit for external debt	2021/22	2022/23	2023/24	2024/25	2025/26
	£'000	£'000	£'000	£'000	£'000
General Fund additional borrowing facility available to the Housing WOC Wholly Owned Company	7,235	7,235	7,235	7,235	7,235
General Fund Borrowing for capital expenditure	44,920	52,802	54,118	53,324	52,519
Total Borrowing - General Fund	67,155	75,037	76,353	75,559	74,754
Borrowing - HRA	270,144	285,784	297,764	297,764	297,764
TOTAL	337,299	360,821	374,117	373,322	372,518
Previous Authorised Limit	**332,371**	**353,843**	**367,180**	**366,426**	

4.6 The Council's Borrowing Position

4.6.1 The Council had external debt of £218.835Million as at 31 December 2021 and is broken down as follows:

Purpose of Loan	PWLB Loan £'000
General Fund Regeneration Assets	**2,151**
HRA	
Decent Homes	21,773
Self Financing	194,911
Total HRA Loans	**216,684**
Total Debt at 31st December 2021	**218,835**

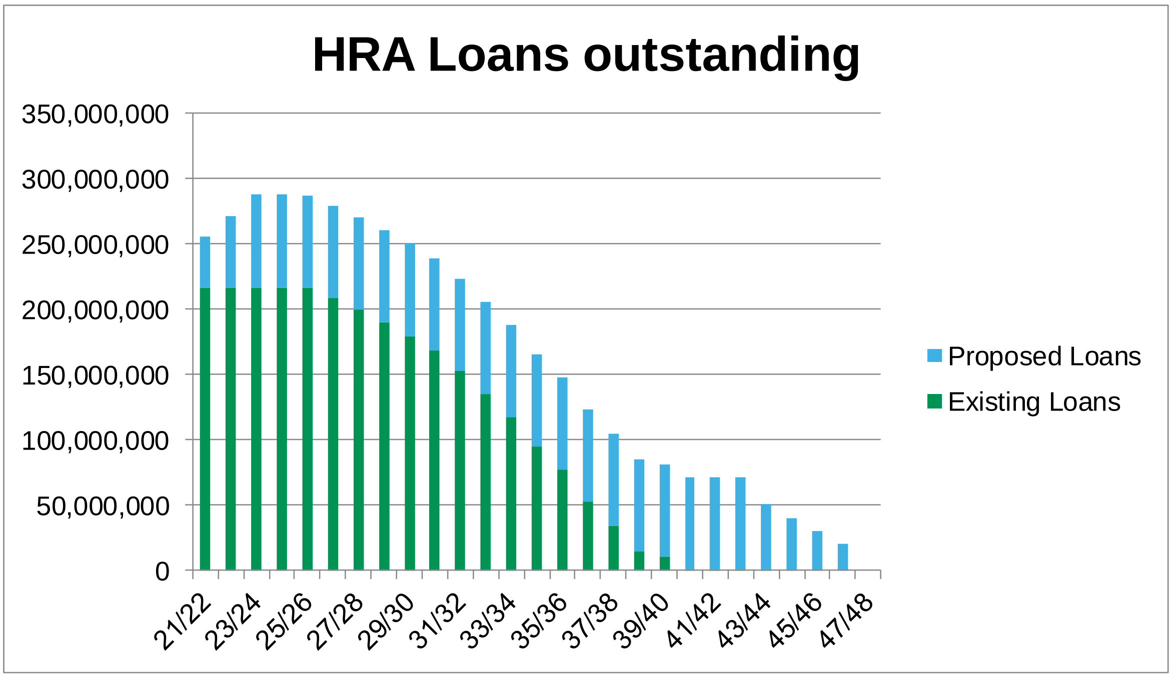
4.6.2 A proportion of the HRA borrowing included in the HRA Business Plan and used to finance the capital programme has not been taken externally to date. The capital expenditure financed by borrowing for 2019/20 was £7.057Million, of which £4.010Million external borrowing was taken. There was further slippage of external borrowing in 2020/21, as external borrowing of £10.0Million was taken compared to financing of £20.857Million. The borrowing of £9.047Million, to catch up on borrowing not taken in prior years. None of the £29.547Million planned borrowing for financing the 2021/22 HRA capital programme has been taken externally to date, but is still planned to be taken before the end of the financial year. This external borrowing has not been taken, partly due to slippage in the HRA Capital Programme and partly because internal reserves and balances have been used instead. The timing of taking external borrowing is dependent on the level of cash balances held and forecast borrowing rates.

4.6.3 The following table shows the forecast borrowing for the HRA, along with the total interest payable by the HRA over the next 5 years if all the borrowing in the current HRA capital programme is taken out externally.

HRA Borrowing and Interest			
Financial Year	**Forecast New Borrowing**	**Total Borrowing**	**Interest Payable**
	£'000	**£'000**	**£'000**
2021/22	£38,594	£255,278	£7,261
2022/23	£15,640	£270,918	£8,279
2023/24	£16,837	£287,756	£8,650
2024/25	£NIL	£287,756	£8,650
2025/26	£NIL	£287,256*	£8,649

*the first Self Financing loan maturity is £500K in 2025/26

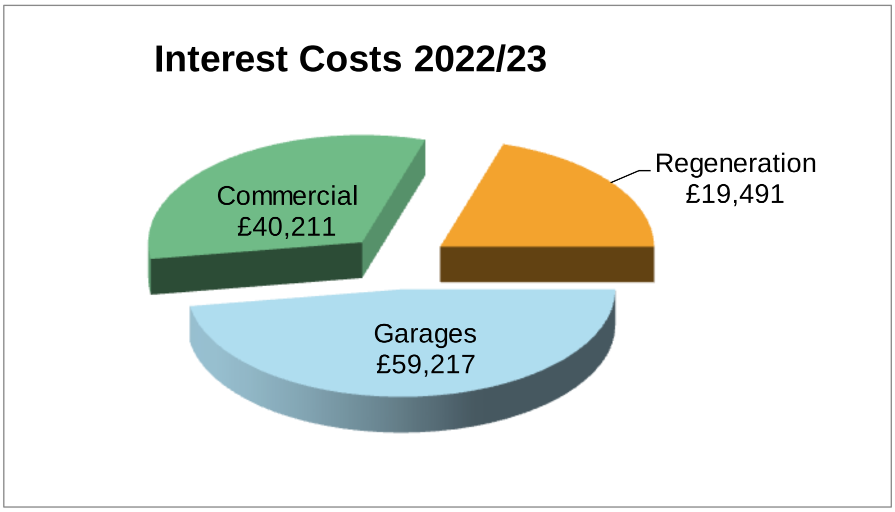
4.6.4 The following graph shows the loan outstanding over the life of the HRA BP. This shows that taking additional debt early in the life of the plan will lead to higher levels of loans over the 30 years. However, this will enable significantly needed investment in the existing stock and the ability to build and purchase new housing within the next 10 years. The maximum debt in the plan is now £288Million.



4.6.5 The 30 year business plan for the HRA budgets for debt repayments based on current and new borrowing (detailed above), taking into account assumptions on rent income, associated expenditure and estimates on interest rates. The HRA is balanced across the 30 years, with significant reserves in place to repay the self-financing debt.

4.6.6 In 2021/22 there has been a General Fund loan repayment of £131,579 in August 2021, and a further £131,579 is due to be repaid in February 2022. In addition approved prudential borrowing for the Garage strategy is due to be taken, the timing of which is dependent on when the expenditure is incurred. There is also planned borrowing for the Housing WOC in 2021/22 to 2023/24. The primary aim of the Housing WOC is for housing rather than yield so borrowing from the PWLB is still permitted as set out in paragraph 4.1.2. To optimise the cash benefits to the General Fund revenue account it may be beneficial to fund the investment from other capital receipts rather than borrowing. To that extent funding will be a treasury management decisions and Members are asked to note that the final financing arrangements for the Housing WOC investment will be considered by the S151 officer.

4.6.7 The majority of the interest payable on General Fund borrowing is funded by the assets associated with the expenditure. This includes the Town Square and Town Plaza Regeneration assets and the Commercial Property Essex House. The Housing WOC will pay interest on borrowing taken in relation to any loans made to the Housing WOC, as does Queensway Properties (Stevenage) LLP. The 2022/23 projected interest costs on borrowing is estimated to be £118,919 (2021/22 £107,243).



4.6.8 Cash and investment balances have been used in preference to external borrowing as the costs of internal debt (investment interest foregone at 0.34%) is lower than external borrowing (2.22% based on 25 year loan). It is the view of the Chief Financial Officer that this approach will continue to be considered while interest rates remain low.

4.7 Minimum Revenue Provision

4.7.1 DLUHC issued “Consultation on changes to the capital framework: Minimum Revenue Provision” on 30th November 2021 to last for 10 weeks until 8th February 2022. The paper primarily covers the concerns that the government has in respect of compliance with the duty to make a prudent revenue provision, which may result in an underpayment of MRP. The consultation document states that the DLUHC are not intending to change the statutory MRP guidance, but to clearly set out in legislation the practices that authorities should already be following. The scope of the consultation includes the statement that local authorities have flexibility in how they calculate MRP, providing it is ‘prudent’. DLUHC has worked with the sector, CIPFA and other stakeholders to identify problematic practices and is now proposing changes to regulations to make sure authority practices are consistent and fully compliant with the intent of the Framework. The proposed change to the regulation is set out below.

4.7.1.1 The government is proposing additional text to be added to the 2003 Regulations to make explicit that:

1. 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.

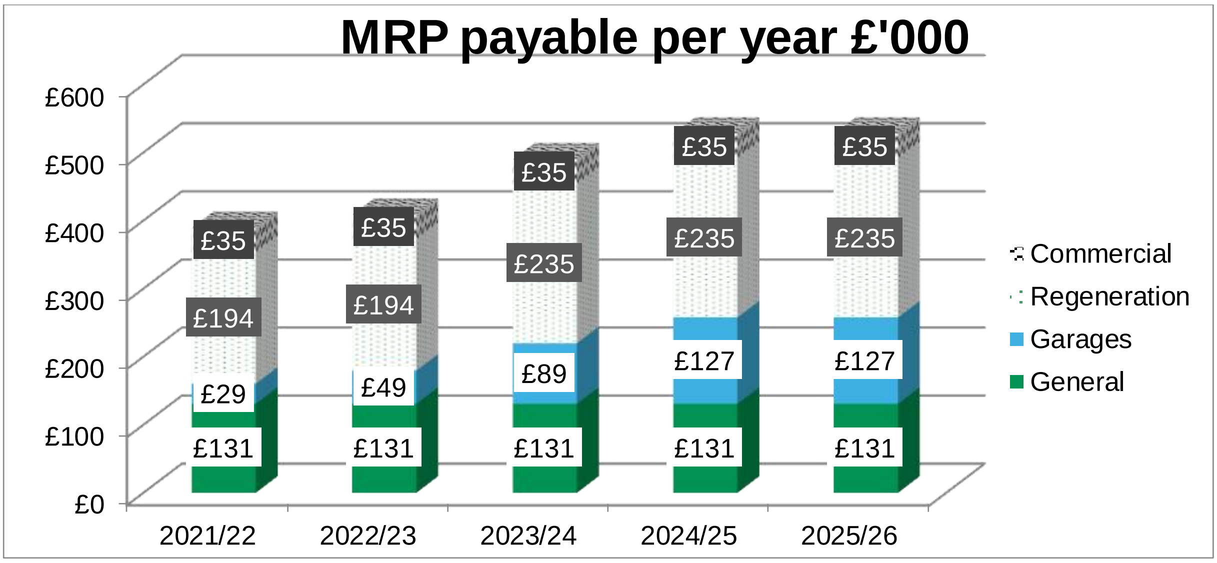
2. Prudent MRP must be determined with respect to the authority’s total capital financing requirement. The intent is to stop the intentional exclusion of debt from the MRP determination because it relates to an investment asset or capital loan. Authorities should still be able to charge MRP over the period in which their capital expenditure provides benefits and begin charging MRP in the year following capital expenditure, in accordance with proper accounting practices set out in the government’s statutory guidance on Minimum Revenue Provision.

4.7.1.2 These changes are not intended to have any impact on the Housing Revenue Account, or on treasury management activities that do not score as capital spend. The government wants authorities to still be able to exercise judgement in determining a prudent amount and does not want to move back to a prescriptive method.

4.7.1.3 Officers have been reviewing the potential impact the changes may make to the MRP charged to revenue and are taking this into account when making borrowing decisions. This is set out in Appendix B. In the meantime the MRP calculations set out below and in Appendix B are made on the current basis.

4.7.2 Where General Fund capital expenditure has been funded from borrowing, whether this be actual external borrowing or internal borrowing the Council is required to set aside a MRP. This amount is calculated based on the approved MRP policy (Appendix B) based on the life of the asset.

4.7.3 Borrowing decisions and subsequent MRP payments impact on the affordability of capital schemes. Current projections of MRP payments based on the updated policy are detailed in the following chart. This excludes the technical requirement to charge MRP on loans to other companies in the accounts, as these borrowing costs are recharged.



4.8 Future borrowing requirements

4.8.1 The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded by taking loans out with PWLB. Instead the Council's reserves, balances and cash flow have been used (as set out in paragraphs 4.3.2 and 4.6.8). This strategy is prudent as investment returns are low and counterparty risk is still an issue that needs to be considered.

4.8.2 Against this background and the risks within the economic forecast, caution will be adopted with the 2022/23 treasury operations. The Assistant Director (Finance and Estates) will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances.

4.8.3 It is the Council's intention not to borrow in advance of need. However, should this happen as part of the optimising treasury management position of the Council and minimising borrowing risks, the transaction will be accounted for in accordance with proper practices.

4.8.4 The Council's treasury advisors forecast four increases to the Bank Rate from the current rate of 0.25%, one in quarter 2 of 2022 to 0.50%, then quarter 1 of 2023 to 0.75%, quarter 1 of 2024 to 1.00% and, finally, one in quarter 1 of 2025 to 1.25%. Base rate and borrowing rate forecasts are shown in the table below. However there is volatility and uncertainty, over the impact of Covid on the economy in particular, and rates are monitored regularly.

Link Group Interest Rate View	20.12.21									
	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
BANK RATE	0.25	0.25	0.50	0.50	0.50	0.75	0.75	0.75	0.75	1.00
3 month ave earnings	0.20	0.30	0.50	0.50	0.60	0.70	0.80	0.90	0.90	1.00
6 month ave earnings	0.40	0.50	0.60	0.60	0.70	0.80	0.90	1.00	1.00	1.10
12 month ave earnings	0.70	0.70	0.70	0.70	0.80	0.90	1.00	1.10	1.10	1.20
5 yr PWLB	1.40	1.50	1.50	1.60	1.60	1.70	1.80	1.80	1.80	1.90
10 yr PWLB	1.60	1.70	1.80	1.80	1.90	1.90	2.00	2.00	2.00	2.10
25 yr PWLB	1.80	1.90	2.00	2.10	2.10	2.20	2.20	2.20	2.30	2.30
50 yr PWLB	1.50	1.70	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10

Source: Link Asset Services 20 December 2021

4.8.5 The Treasury's Certainty Rate for borrowing remains available and enables the Council to take PWLB loans at 20 basis points (0.2%) below the standard PWLB rate. The rates shown in the table above include that adjustment. The PWLB Certainty Rate margin remains set at gilts +80 basis points. There are also other potential sources of borrowing for Local Authorities, such as the Municipal Bond Agency, public listed bonds and forward starting private placements where a rate is agreed at the time they are entered into and the money drawdown at an agreed future date. The public listed bond issues and private placements can include those where proceeds of borrowing are used for a green or sustainable format (ESG principles).

4.8.6 The HRA BP existing loans have an average interest rate of 3.2% based on £216.684Million of borrowing. As set out in the table in paragraph 4.6.3, the current forecast includes allowance for new loans totalling £38,594,452 in 2021/22, £15,640,000 in 2022/23 and £16,837,066 in 2023/24. The decision when to take the new borrowing will be reviewed, weighing up the cost of carry and the prevailing borrowing rate. The interest payable in 2021/22 and 2022/23 is estimated to be £7,260,813 and £8,279,258 respectively.

4.8.7 The HRA BP continues to include borrowing based on affordability as identified in the BP action plan. This has resulted in lower levels of revenue contributions to capital than before the lifting of the HRA Debt Cap.

4.9 Investments

4.9.1 As set out in paragraph 4.1.1, Revised Treasury Management and Prudential Codes were issued by CIPFA on 20 December 2021, however CIPFA has stated that there will be a soft introduction of the codes with local authorities not being expected to have to change their current draft TMSS/AIS reports for 2022/23 unless they wish to do that. Full implementation will be required for 2023/24. The Council complies fully with CIPFA Treasury Management Code 2017 and will fully implement the 2021 Code from 2023/24. The Council also complies with guidance on self-financing and the investment guidance issued by DLUHC.

4.9.2 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 14th 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 2022/23

4.9.3 The 2021/22 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.

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

4.9.5 The TM limits for 2022/23 (Appendix D) have been reviewed. No changes are considered necessary since that agreed as part of the Mid-Year Review of 2021/22 (the limit for each counterparty was increased for investments of up to one year including Money Market Funds, from £8Million to £10Million, when cash balances are higher than £30Million. If cash balances are less than £30Million the limit remained at £5Million per counterparty).

4.9.6 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.

4.10 Non Treasury Investments

4.10.1 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

4.10.2 The Government issued revised investment guidance on 2 February 2018, which strengthens the management and reporting framework relating to commercial and service investments and further guidance on 26 November 2020 as a response to the consultation on the future lending terms of the PWLB. The 2022/23 Capital Strategy includes more details on the Councils non treasury investments.

4.11 Other Treasury issues

4.11.1 **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.

4.11.2 **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, however to date no investment activities have been undertaken on their behalf.

4.11.3 **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.

4.11.4 **Housing WOC:** as set out in paragraphs 4.5.3 and 4.6.6, the Housing Wholly Owned Company (WOC) report seeks approval for up to £15Million of investment from the Council, which would be in the form of a mix of equity funding and loans. The proof of concept included in the Housing WOC Model is for development schemes totalling £7.765 Million, and the Council's funding of this investment has been included in the Final Capital Strategy as all funded by borrowing. As individual schemes are agreed the Capital Strategy will be updated. £7.235 Million, the balance of the £15Million potential investment in the Housing WOC is included in the borrowing limits. However as set out in paragraph 4.6.6, it may be beneficial to fund the Council's investment from other capital receipts rather than borrowing.

4.11.5 **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 in December 2020 the 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 2022/23 financial year.

5. IMPLICATIONS

5.1 Financial Implications

5.1.1 This report is of a financial nature and reviews the treasury management function for 2021/22 to date. Any consequential financial impacts of the Strategy will be incorporated into the Capital Strategy updates and subsequent quarterly budget monitoring reports.

5.1.2 During the financial year to date officers have 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 Indicators 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 is ongoing consultation on changes to the MRP rules for England. 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. Should 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 impact of exiting the EU on 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 counterparties. These are designed to take into account the relative risk of investments and also to preclude certain grades of investments and counterparties to prevent loss of income to the Council.

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

5.5.1 The council's investment portfolio is sterling investments and not directly in companies. However the treasury management team will 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 will align with the Councils ambition to attempt to be carbon neutral by 2030.

Background documents

BD1 Annual Treasury management Review of 2020/21 (13 October 2021 Council)

BD2 2021/22 Mid-Year Treasury Management Review (15 December 2021 Council)

BD3 Final Capital Strategy 2021/22 – 2025/26 (Executive 9 February 2022 and Council 24 February 2022)

Appendices

A Treasury Management Strategy

B Minimum Revenue Provision Policy

C Prudential Indicators

D Specified and Non-Specified Investment Criteria

E Approved Countries for investment