

Pendle Borough Council

Treasury Management Strategy Statement

Minimum Revenue Provision Policy Statement and
Annual Investment Strategy

2023/24

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1.1 Background

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 Authority's low risk appetite, providing adequate liquidity initially before considering investment return.

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 it 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 risk or cost objectives.

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.

CIPFA defines treasury management as:

"The management of the local authority's borrowing, investments and cash flows, including 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."

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

1.2 Reporting Requirements

1.2.1 Capital Strategy

The CIPFA 2021 Prudential and Treasury Management Codes require all local authorities to prepare a Capital Strategy report which will provide the following: -

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

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

The Council's Capital programme was revised and approved by Council at its meeting on 23rd February 2023 (and is still considered fit for purpose). For clarity, this Council has not engaged any commercial investments to date.

1.2.2 Treasury Management Reporting

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

- a. **Treasury strategy (including Prudential and treasury indicators – (this report)**
 - The first, and most important report is forward looking and covers:
 - the capital plans, (including prudential indicators);
 - a minimum revenue provision (MRP) policy, (how residual capital expenditure is charged to revenue over time);
 - the treasury management strategy, (how the investments and borrowings are to be organised), including treasury indicators; and
 - an investment strategy, (the parameters on how investments are to be managed).
- b. **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. **Annual treasury (out-turn) 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. **Quarterly update reports** – In addition to the three major reports detailed above, quarterly reporting (end of June/end of December) are also submitted for consideration by the Accounts and Audit Committee.

1.3 Treasury Management Strategy for 2023-24

1. The Treasury Management Strategy Statement (TMSS) sets out the specific expected treasury activities for the forthcoming financial year. This strategy will be submitted to the Executive and then to the full Council for approval before the commencement of each financial year.
2. The formulation of the annual TMSS involves determining the appropriate borrowing and investment decisions in the light of the anticipated movement in both fixed and shorter-term variable interest rates. For instance, this Council may decide to postpone borrowing if fixed interest rates are expected to fall or borrow early if fixed interest rates are expected to rise.
3. The TMSS is concerned with both capital and treasury management issues. The following elements are considered:

Capital issues

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

Treasury management issues

- c) the current treasury position
- d) treasury indicators which limit the treasury risk and activities of the Council
- e) prospects for interest rates
- f) borrowing requirement

- g) borrowing strategy
 - h) policy on borrowing in advance of need
 - i) debt rescheduling
 - j) the investment strategy
 - k) creditworthiness policy
 - l) policy on the use of external service providers; and
 - m) any extraordinary treasury issues
4. The Treasury Management Strategy Statement will establish the expected move in interest rates against alternatives (using all available information such as published interest rate forecasts where applicable), and highlight sensitivities to different scenarios.
 5. 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.

1.4 Training

The CIPFA Treasury Management Code requires the responsible officer (in Pendle's case, this is the Director of Resource) to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to Councillors responsible for scrutiny (in the Council's case, this is the Accounts and Audit Committee). The training needs of Councillors is continually assessed during the year and training will be arranged as required.

Furthermore, pages 47 and 48 of the Code state that they expect "all organisations to have a formal and comprehensive knowledge and skills or training policy for the effective acquisition and retention of treasury management knowledge and skills for those responsible for management, delivery, governance and decision making.

To monitor and review knowledge and skills, the following will be carried out:

- Record attendance at training and ensure action is taken where poor attendance is identified.
- Prepare tailored learning plans for treasury management officers and Councilors.
- Require treasury management officers and Councilors to undertake self-assessment against the required competencies.
- Have regular communication with treasury management officers and Councilors, encouraging them to highlight training needs on an ongoing basis.

Councillors received training on 6th December 2022 which was delivered by the Council's treasury management advisors. Further training will be arranged as required.

The training needs of treasury management officers are periodically reviewed as part of the Council's annual Performance Management Review (appraisal) process.

A formal record of the training received by officers central to the treasury function will be maintained by the Financial Services Manager. Similarly, a formal record of the treasury management/capital finance training received by Councillors will also be maintained by the Financial Services Manager.

1.5 Treasury Management Consultants

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

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

It also recognises that there is value in employing external providers of treasury management services to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented and subjected to regular review.

At this stage, the scope of the Council's investments will include only conventional treasury investments (the placing of residual cash from the Council's functions). It is unlikely that in the near term that the Council will make commercial type investments, such as commercial investment properties. In the event that does happen, there may be a requirement for the Council to retain the services of specialist advisors. Should that be necessary, any decision to do so will be reported to the Executive.

2. THE CAPITAL PRUDENTIAL INDICATORS 2023/24 – 2025/26

The Authority'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.

2.1 Capital Expenditure and Financing

This prudential indicator is a summary of the Authority's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. 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
Housing	795	879	1,207	1,105	1,105
Regeneration		3,232	4,301	14,760	8,793
Council Assets	138	245	428	300	100
Resources	3,029		251		
Environmental Services	772	1,109	445	75	75
Planning			177		
Other	971				
Total	5,705	5,465	6,810	16,240	10,073

Other long-term liabilities - the above financing need excludes other long-term liabilities, such as PFI and leasing arrangements that already include borrowing instruments.

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
Total Expenditure	5,705	4,465	6,810	16,240	10,073
Financed by:					
Capital receipts	-218		-1,301		
Capital grants	-3,316	-3,971	-4,978	-15,615	-9,026
Section 106 receipts			-177		
Loan repayment			-200	-200	
Capital reserves					
Third party contributions		-15			
Revenue	-771	-47			
Net financing need for the year	1,400	1,432	154	425	1,048

2.2 The Authority's Borrowing Need (the Capital Financing Requirement)

The second prudential indicator is the Authority'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 Authority'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.

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.

The CFR includes any other long-term liabilities (e.g., PFI schemes, finance leases). Whilst these increase the CFR, and therefore the Authority's borrowing requirement, these types of schemes include a borrowing facility by the PFI, PPP lease provider and so the Authority is not required to separately borrow for these schemes. The Authority currently has £XXm of such schemes within the CFR.

The Authority is asked to approve the CFR projections below:

£000s	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Capital Financing Requirement					
CFR - Services	20,662	21,547	21,154	21,032	21,532
CFR – Commercial Investments	0	0	0	0	0
Total CFR	20,662	21,547	21,448	21,473	21,920
Movement in CFR		-115	-393	-122	501

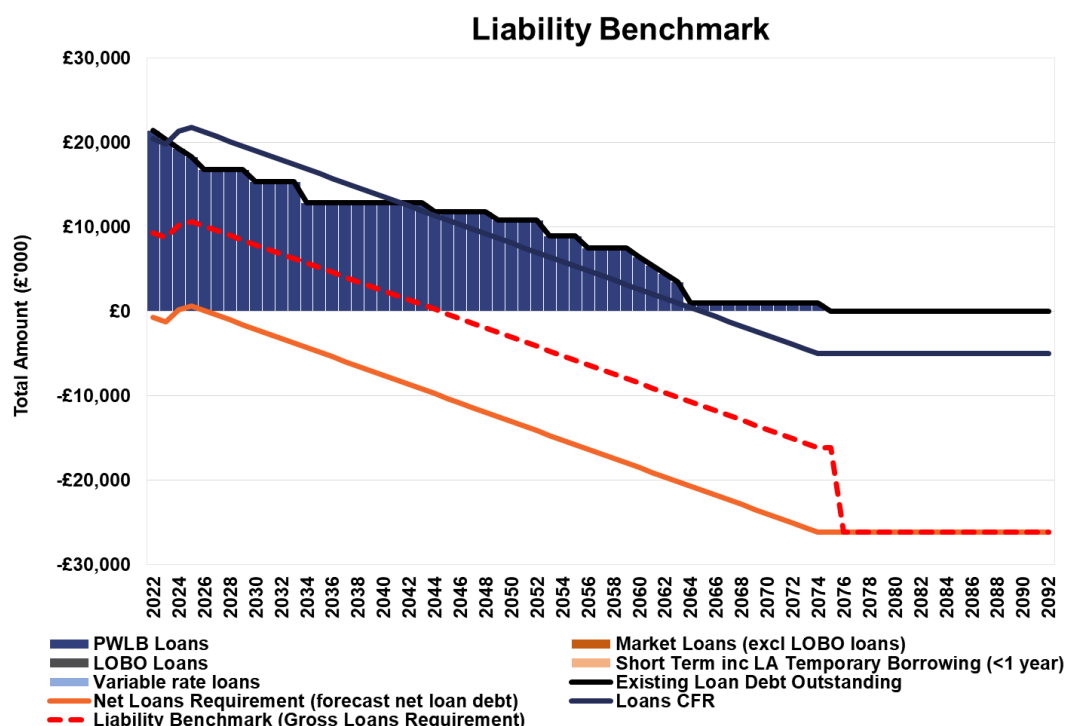
Movement in CFR represented by					
Net financing need for the year (above)		1,432	154	425	1,048
Less MRP/VRP and other financing movements		-547	-547	-547	-547
Movement in CFR	0	855	-393	-122	501

2.3 Liability Benchmark

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

There are four components to the LB: -

1. **Existing loan debt outstanding:** the Authority's existing loans that are still outstanding in future years.
2. **Loans CFR:** this is calculated in accordance with the loans CFR definition in the Prudential Code and projected into the future based on approved prudential borrowing and planned MRP.
3. **Net loans requirement:** this will show the Authority's gross loan debt less treasury management investments at the last financial year-end, projected into the future and based on its approved prudential borrowing, planned MRP and any other major cash flows forecast.
4. **Liability benchmark** (or gross loans requirement): this equals net loans requirement plus short-term liquidity allowance.



The liability benchmark (red dotted line) shows the optimum position for external borrowing (i.e., all balance sheet resources should be used to maximise internal borrowing). The graph shows that Pendle's external loans exceed the liability benchmark, highlights an over-borrowed position which results in excess cash in the organisation requiring investment thus exposing the authority to credit and reinvestment risks and a potential cost of carry.

The Authority is looking to mitigate this risk over the medium term future by not replacing some £4.5m of loans which are due for repayment and also maximising the use of grant funded capital schemes.

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

Year End Resources £000s	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Fund balances / reserves	14,171	18,600	13,500	10,000	8,000
Capital receipts	218		1,301		
Provisions	2,289	2,338	2,338	2,338	2,338
Working capital*	14,838	7,500	2,500	2,500	2,500
Total core funds	31,516	28,438	19,639	14,838	12,838

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

2.5 Minimum Revenue Provision (MRP) Policy Statement

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

The Authority 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. The MRP Guidance (2018) gives four ready-made options for calculating MRP, but the Authority can use any other reasonable basis that it can justify as prudent.

The MRP policy statement requires full council approval (or closest equivalent level) in advance of each financial year.

For capital expenditure incurred before 1 April 2008 or which in the future will be Supported Capital Expenditure, the MRP policy will be:

- Based on CFR – MRP will be based on the CFR (option 2) but adopting a charge of 2.5% per annum (40 year asset life) on a straight line basis rather than 4% (25 year asset life) as assumed in the guidance on a reducing balance; under the latter, the debt is never fully repaid unlike the former which results in debt being repaid within 40 years;

For capital expenditure from 1 April 2008 for all unsupported borrowing (including PFI and finance leases) the MRP policy will be:

- Asset life method – MRP will be based on the estimated life of the assets, in accordance with the regulations (option 3 per MHCLG regulations) using the annuity method under which annual payments gradually increase during the life of the asset. Option 3 must be applied for any expenditure capitalised under Capitalisation Direction. ;

Repayments included in annual PFI or finance leases are applied as MRP.

MRP Overpayments - A change introduced by the revised MHCLG MRP Guidance was the allowance that any charges made over the statutory minimum revenue provision (MRP), voluntary revenue provision or overpayments, can, if needed, be reclaimed in later years if deemed necessary or prudent. In order for these sums to be reclaimed for use in the budget, this policy must disclose the cumulative overpayment made each year.

Exceptions to the MRP Policy – There are currently the following exceptions to the MRP policy stated above:

- Any borrowing to finance housing projects using the Brownfield Regeneration Fund will also be excluded from the requirement to for an MRP charge. If such borrowing is undertaken, the intention is to repay this borrowing from the capital receipts generated by the sale of properties over a period of up to 5 years.
- A similar approach may be taken on other 'regeneration' type schemes where it is the intention to repay any debt financing from the subsequent disposal proceeds over a 'short' period (usually limited to 5 years).

3. BORROWING

The capital expenditure plans set out in Section 2 provide details of the service activity of the Authority. The treasury management function ensures that the Authority's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity and the Authority'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.

3.1 Current Portfolio Position

The overall treasury management portfolio as at 31.3.22 and for the position as at 31.1.23 are shown below for both borrowing and investments.

TREASURY PORTFOLIO				
	actual	actual	current	current
	31.3.22	31.3.22	31.1.23	31.1.23
Treasury investments	£000	%	£000	%
Banks	0	0%	7,000	19%
Building societies - unrated	0	0%		0%
Building societies - rated	7,500	28%	15,000	41%
Local authorities	6,000	23%	3,000	8%
DMADF (H.M.Treasury)	13,000	49%	9,000	24%
Money Market Funds	0	0%	3,000	8%
Certificates of Deposit	0	0%		0%
Total managed in house	26,500	100%	37,000	100%
Bond Funds	0	0%		0%
Property Funds	0	0%		0%
Total managed externally	0	0%	0	0%
Total treasury investments	26,500	100%	37,000	100%
Treasury external borrowing				
Local Authorities	0	0%	0	0%
PWLB	21,359	100%	21,359	100%
LOBOs	0	0%	0	0%
Total external borrowing	21,359	100%	21,359	100%
Net treasury investments / (borrowing)	5,141	0	15,641	0

The Authority'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	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
External Debt					
Debt at 1 April	22,455	21,455	20,455	19,455	20,455
Expected Debt Repayments	-1,000	-1,000	-1,000	-1,000	-1,500
Expected Replacement Debt	0	0	0	0	0
Expected New Debt					
• Non-Commercial	0	0	0	2,000	1,500
• Commercial					
Other long-term liabilities (OLTL)					
Expected change in OLTL					
Actual gross debt at 31 March	21,455	20,455	19,455	20,455	20,455
Capital Financing Requirement	20,662	20,547	20,954	21,032	21,532
Under / (over) borrowing	(793)	1,092	1,699	577	1,077

Within the range of prudential indicators there are several key indicators to ensure that the Authority operates its activities within well-defined limits. One of these is that the Authority 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.

The Director of Resources reports that the Authority 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.

3.2 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.

Operational Boundary £m	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Debt				
• None Commercial	28,000	28,000	28,000	28,000
• Commercial				
Other long-term liabilities	500	500	500	500
Total	28,500	28,500	28,500	28,500

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 Authority is asked to approve the following Authorised Limit:

Authorised Limit £m	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Debt				
• None Commercial	30,000	31,000	31,000	31,000
• Commercial				
Other long-term liabilities	500	500	500	500
Total	30,500	31,500	31,500	31,500

3.3 Prospects for Interest Rates

The Council has appointed Link Group as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. Link provided the following forecasts on 08.11.22. These are forecasts for certainty rates, gilt yields plus 80 bps.

Link Group Interest Rate View	07.02.23												
	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26
BANK RATE	4.25	4.50	4.50	4.25	4.00	3.75	3.25	3.00	2.75	2.75	2.50	2.50	2.50
3 month ave earnings	4.30	4.50	4.50	4.30	4.00	3.80	3.30	3.00	2.80	2.80	2.50	2.50	2.50
6 month ave earnings	4.40	4.50	4.40	4.20	3.90	3.70	3.20	2.90	2.80	2.80	2.60	2.60	2.60
12 month ave earnings	4.50	4.50	4.40	4.20	3.80	3.60	3.10	2.70	2.70	2.70	2.70	2.70	2.70
5 yr PWLB	4.00	4.00	3.90	3.80	3.70	3.60	3.50	3.40	3.30	3.20	3.10	3.10	3.10
10 yr PWLB	4.20	4.20	4.10	4.00	3.90	3.80	3.60	3.50	3.50	3.40	3.30	3.30	3.20
25 yr PWLB	4.60	4.60	4.40	4.30	4.20	4.10	3.90	3.80	3.70	3.60	3.50	3.40	3.40
50 yr PWLB	4.30	4.30	4.20	4.10	3.90	3.80	3.60	3.60	3.40	3.30	3.20	3.20	3.10

Additional notes by Link on this forecast table: -

Our central forecast for interest rates was previously updated on 19 December and reflected a view that the MPC would be keen to further demonstrate its anti-inflation credentials by delivering a succession of rate increases. This has happened but the Government's continued policy of emphasising fiscal rectitude will probably mean Bank Rate will not need to increase to further than 4.5%.

Further down the road, we anticipate the Bank of England will be keen to loosen monetary policy when the worst of the inflationary pressures are behind us – but that timing will be one of fine judgment: cut too soon, and inflationary pressures may well build up further; cut too late and any downturn or recession may be prolonged. Our best judgment is that there will be scope for an early Christmas present for households with a December rate cut priced in, ahead of further reductions in 2024 and 2025.

The CPI measure of inflation looks to have peaked at 11.1% in Q4 2022 (currently 10.1%). Despite the cost-of-living squeeze that is still taking shape, the Bank will want to see evidence that wages are not spiralling upwards in what is evidently a very tight labour market.

Regarding the plan to sell £10bn of gilts back into the market each quarter (Quantitative Tightening), this has started and will focus on the short, medium and longer end of the curve in equal measure.

In the upcoming months, our forecasts will be guided not only by economic data releases and clarifications from the MPC over its monetary policies and the Government over its fiscal policies, but the on-going conflict between Russia and Ukraine. (More recently, the heightened tensions between China/Taiwan/US also have the potential to have a wider and negative economic impact.)

On the positive side, consumers are still estimated to be sitting on significant excess savings left over from the pandemic so that will cushion some of the impact of the above challenges. However, most of those are held by more affluent people whereas lower income families already spend nearly all their income on essentials such as food, energy and rent/mortgage payments.

PWLB RATES

Yield curve movements have become more elevated of late and PWLB 5 to 50 years Certainty Rates are, generally, in the range of 4.25% to 5.00% (1.3.23).

We view the markets as having built in, already, nearly all the effects on gilt yields of the likely increases in Bank Rate and the elevated inflation outlook.

The balance of risks to the UK economy: -

- The overall balance of risks to economic growth in the UK is to the downside.

Downside risks to current forecasts for UK gilt yields and PWLB rates include: -

- **Labour and supply shortages** prove more enduring and disruptive and depress economic activity (accepting that in the near-term this is also an upside risk to inflation and, thus, rising gilt yields).
- **The Bank of England** acts too quickly, or too far, over the coming year to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- **UK / EU trade arrangements** – if there was a major impact on trade flows and financial services due to complications or lack of co-operation in sorting out significant remaining issues.
- **Geopolitical risks**, for example in Ukraine/Russia, China/Taiwan/US, Iran, North Korea and Middle Eastern countries, which could lead to increasing safe-haven flows.

Upside risks to current forecasts for UK gilt yields and PWLB rates: -

- The **Bank of England is too slow** in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to remain elevated for a longer period within the UK economy, which then necessitates Bank Rate staying higher for longer than we currently project or even necessitates a further series of increases in Bank Rate later in the year or in 2024.
- **The pound weakens** because of a lack of confidence in the UK Government's fiscal policies, resulting in investors pricing in a risk premium for holding UK sovereign debt.
- Longer-term **US treasury yields** rise strongly if inflation remains more stubborn than the market currently anticipates, pulling gilt yields up higher consequently.
- Projected **gilt issuance, inclusive of natural maturities and QT**, could be too much for the markets to comfortably digest without higher yields compensating.

Borrowing advice: Our long-term (beyond 10 years) forecast for Bank Rate stands at 2.5%. As all PWLB certainty rates are currently above this level, borrowing strategies will need to be reviewed in that context. Better value can generally be obtained at the shorter end of the curve and short-dated fixed LA to LA monies should be considered. Temporary borrowing rates are likely, however, to remain near Bank Rate and may also prove attractive whilst the market waits for inflation, and therein gilt yields, to drop back later in 2023.

Our suggested budgeted earnings rates for investments up to about three months' duration in each financial year are rounded to the nearest 10bps as follows: -

Average earnings in each year	
2022/23 (remainder)	4.30%
2023/24	4.30%
2024/25	3.20%
2025/26	2.60%
2026/27	2.50%
Years 6 to 10	2.80%
Years 10+	2.80%

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

Our interest rate forecast for Bank Rate is in steps of 25 bps, whereas PWLB forecasts have been rounded to the nearest 10 bps and are central forecasts within bands of + / - 25 bps. Naturally, we continue to monitor events and will update our forecasts as and when appropriate.

3.4 Borrowing Strategy

The Authority is currently maintaining an over-borrowed position. This means that the capital borrowing need, (the Capital Financing Requirement), has been fully funded with loan debt. The Council's strategy is therefore reduce this over-borrowed position in to the medium term and to not replace debt as it is repaid.

3.5 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. 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.

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

3.6 Debt rescheduling

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.

If rescheduling is to be undertaken, it will be reported to the Council at the earliest meeting following its action.

3.7 New Financial Institutions as a Source of Borrowing and / or Types of Borrowing

Currently the PWLB Certainty Rate is set at gilts + 80 basis points. However, consideration may still need to be given to sourcing funding from the following sources for the following reasons:

- Local authorities (primarily shorter dated maturities out to 3 years or so – generally still cheaper than the Certainty Rate).
- Financial institutions (primarily insurance companies and pension funds but also some banks, out of forward dates where the objective is to avoid a “cost of carry” or to achieve refinancing certainty over the next few years).

Our advisors will keep us informed as to the relative merits of each of these alternative funding sources.

4 ANNUAL INVESTMENT STRATEGY

4.1 Investment Policy – Management of Risk

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).

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

- DLUHC’s Guidance on Local Government Investments (“the Guidance”)
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2021 (“the Code”)
- CIPFA Treasury Management Guidance Notes 2021

The Council’s investment priorities will be security first, portfolio liquidity second and then yield (return). The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and with regard to the Council’s risk appetite.

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

1. Minimum acceptable **credit criteria** are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short-term and long-term ratings.
2. **Other information:** ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration the council will engage with its advisors to maintain a monitor on market pricing such as “**credit default swaps**” and overlay that information on top of the credit ratings.
3. **Other information sources** used will include the financial press, share price and other such information pertaining to the financial sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.
4. This Authority has defined the list of **types of investment instruments** that the treasury management team are authorised to use. There are two lists in section 5 under the categories of ‘specified’ and ‘non-specified’ investments.

Specified investments are those with a high level of credit quality and subject to a maturity limit of one year or have less than a year left to run to maturity, if originally they were classified as being non-specified investments solely due to the maturity period exceeding one year.

Non-specified investments are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use.

5. **Non-specified and loan investment limits.** The Council has determined that it will set a limit to the maximum exposure of the total treasury management investment portfolio to non-specified treasury management investments.
6. **Lending limits**, (amounts and maturity), for each counterparty will be set through applying the matrix table in paragraph 4.2.
7. **Transaction limits** are set for each type of investment in paragraph 4.2.
8. This Council will set a limit for its investments which are invested for **longer than 365 days**, (see paragraph 4.4).
9. Investments will only be placed with counterparties from countries with a specified minimum **sovereign rating**, (see paragraph 4.3).
10. This Council has engaged **external consultants**, (see paragraph 1.5), to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of this Council in the context of the expected level of cash balances and need for liquidity throughout the year.
11. All investments will be denominated in **sterling**.
12. As a result of the change in accounting standards for 2022/23 under IFRS 9, this Council will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. (In November 2018, the MHCLG, concluded a consultation for a temporary override to allow English local authorities time to adjust their portfolio of all pooled investments by announcing a statutory override to delay implementation of IFRS 9 for five years ending 31.3.23.

However, this Authority will also pursue **value for money** in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance, (see paragraph 4.5). Regular monitoring of investment performance will be carried out during the year.

4.2 Creditworthiness Policy

The primary principle governing the Council's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. After this main principle, the Council will ensure that: -

- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the specified and non-specified investment sections below; and
- It has sufficient liquidity in its investments. For this purpose, it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested.

The Director of Resources will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to Council for approval as necessary. These criteria are separate to that which determines which types of investment instrument are either specified or non-specified as it provides an overall pool of counterparties considered high quality which the Council may use, rather than defining what types of investment instruments are to be used.

The Council applies the creditworthiness service provided by the Link Group. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies – Fitch, Moody's and Standard and 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 counter-parties from only the most creditworthy countries.

Use of additional information other than credit ratings. Additional requirements under the Code require the Council to supplement credit rating information. Whilst the above criteria rely primarily on the application of credit ratings to provide a pool of appropriate counterparties for officers to use, additional operational market information will be applied before making any specific investment decision from the agreed pool of counterparties. This additional market information (for example Credit Default Swaps, rating Watches/Outlooks) will be applied to compare the relative security of differing investment opportunities.

Time and monetary limits applying to investments. The time and monetary limits for institutions on the Council's counterparty list are as shown at section 5.2 for approval (these will cover both specified and non-specified investments).

UK banks – ring fencing. The largest UK banks, (those with more than £25bn of retail / Small and Medium-sized Enterprise (SME deposits), are required, by UK law, to separate core retail banking services from their investment and international banking activities by 1st January 2019. This is known as "ring-fencing". Whilst smaller banks with less than £25bn in deposits are exempt, they can choose to opt out. Several banks are very close to the threshold already and so may come into scope in the future regardless.

The criteria for providing a pool of high-quality investment counterparties, (both specified and non-specified investments) is:

- Banks 1 - good credit quality – the Council will only use banks which:
 - i. are UK banks; and/or
 - ii. are non-UK and domiciled in a country which has a minimum sovereign Long-Term rating of AA-

and have, as a minimum, the following Fitch, Moody's and Standard & Poor's credit ratings (where rated):

- i. Short Term – P1/A1 + /A1
 - ii. Long Term – A2/A
- Banks 2 – Part nationalised UK bank – The Royal Bank of Scotland and National Westminster Bank (NatWest) ring-fenced operations. These banks can be included provided they continue to be part nationalised or meet the ratings in Banks 1 above.
- Banks 3 – The Council's own banker for transactional purposes if the bank falls below the above criteria, although in this case balances will be minimised in both monetary size and time invested.

The proposed criteria for specified and non-specified investments are shown in Appendix 5.4 for approval.

Creditworthiness

Significant levels of downgrades to Short and Long-Term credit ratings have not materialised since the crisis in March 2020. In the main, where they did change, any alterations were limited to Outlooks. However, more recently the UK sovereign debt rating has been placed on Negative Outlook by the three major rating agencies in the wake of the Truss/Kwarteng unfunded tax-cuts policy. Although the Sunak/Hunt government has calmed markets, the outcome of the rating agency reviews is unknown at present, but it is possible the UK sovereign debt rating will be downgraded. Accordingly, when setting minimum sovereign debt ratings, this Authority will not set a minimum rating for the UK.

CDS prices

Although bank CDS prices, (these are market indicators of credit risk), spiked upwards during the days of the Truss/Kwarteng government, they have returned to more average levels since then. However, sentiment can easily shift, so it will remain important to undertake continual monitoring of all aspects of risk and return in the current circumstances. Link monitor CDS prices as part of their creditworthiness service to local authorities and the Authority has access to this information via its Link-provided Passport portal.

4.3 Other Limits

Due care will be taken to consider the exposure of the Council's total investment portfolio to non-specified investments, countries, groups and sectors.

- a. **Non-specified treasury management investment limit.** The Council has determined that it will not use non-specified investments.
- b. **Country limit.** The Council has determined that it will only use approved counterparties from the UK. In 2016, the Council agreed to exclude the UK sovereign rating from its minimum sovereign rating criteria and this is still considered appropriate.
- c. **Other limits.** In addition:
 - Despite the exclusion of the UK rating, the Council will only invest with UK institutions that meet the approved minimum lending criteria.

4.4 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). Greater returns are usually obtainable by investing for longer periods. The current shape of the yield curve suggests that is the case at present, but there is the prospect of Bank Rate peaking in the first half of 2023 and possibly reducing as early as the latter part of 2023 so an agile investment strategy would be appropriate to optimise returns. Accordingly, while most cash balances are required in order to manage the ups and downs of cash flow where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer-term investments will be carefully assessed.

- If it is thought that the Bank Rate is likely to rise significantly within the time horizon being considered, then consideration will be given to keeping most investments as short term or variable.

- Conversely, if it is thought that the Bank Rate is likely to fall within that time period, consideration will be given to locking in higher rates currently obtainable, for longer periods.

Investment returns expectations.

The current forecast shown in paragraph 3.3, includes a forecast for the 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)	4.30%
2023/24	4.30%
2024/25	3.20%
2025/26	2.60%
2026/27	2.50%
Years 6 to 10	2.80%
Years 10+	2.80%

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

4.5 Investment Performance / Risk Benchmarking

This Council will use an investment benchmark to assess the investment performance of its investment portfolio of overnight, 7 day, 1, 3, 6 or 12 month compounded / SONIA Sterling Overnight Index Average.

4.6 End of Year Investment Report

At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Report.

4.6 Environmental, Social and Governance (ESG) policy

The Council is committed to being a responsible investor at all times. Responsible investment means to recognise the importance of the long-term health and stability of the financial markets, and to understand that this depends on key external and non-financial factors such as environmental, social stability and strong governance. These factors are often referred to under the umbrella of ESG (Environmental, Social and Governance).

5 APPENDICES

(These can be appended to the report or omitted as required)

1. Prudential and treasury indicators
2. Interest rate forecasts
3. Economic background
4. Treasury management practice 1 – credit and counterparty risk management
5. Treasury management practice 1 – credit and counterparty risk management (Contd)
6. Approved countries for investments
7. Treasury management scheme of delegation
8. The treasury management role of the section 151 officer

5.1 THE CAPITAL PRUDENTIAL AND TREASURY INDICATORS 2023/24 – 2025/26

The Authority'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.

5.1.2 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 Authority's overall finances. The Authority is asked to approve the following indicators: -

Ratio of Financing Costs to Net Revenue Stream %	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
Total	8.45%	7.88%	7.82%	7.48%

The estimates of financing costs include current commitments and the proposals in this budget report.

Net income from Commercial and Service Investment Income to Net Revenue Stream %	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
Total	0.95%	4.56%	2.05%	2.03%

5.1.3 Maturity Structure of Borrowing

Maturity structure of borrowing. These gross limits are set to reduce the Authority's exposure to large, fixed rate sums falling due for refinancing, and are required for upper and lower limits.

The Authority is asked to approve the following treasury indicators and limits: -

Maturity structure of fixed interest rate borrowing 2023/24		
	Lower	Upper
Under 12 months	0%	20%
12 months to 2 years	0%	30%
2 years to 5 years	0%	40%
5 years to 10 years	0%	60%
10 years and above	0%	100%
Maturity structure of variable interest rate borrowing 2023/24		
	Lower	Upper
Under 12 months	0%	25%
12 months to 2 years	0%	25%
2 years to 5 years	0%	25%
5 years to 10 years	0%	0%
10 years and above	0%	0%

5.1.4. Control of Interest Rate Exposure

Please see paragraphs 3.3, 3.4 and 4.4.

5.2 INTEREST RATE FORECASTS 2022-2025

Link Group Interest Rate View	07.02.23												
	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26
BANK RATE	4.25	4.50	4.50	4.25	4.00	3.75	3.25	3.00	2.75	2.75	2.50	2.50	2.50
3 month ave earnings	4.30	4.50	4.50	4.30	4.00	3.80	3.30	3.00	2.80	2.80	2.50	2.50	2.50
6 month ave earnings	4.40	4.50	4.40	4.20	3.90	3.70	3.20	2.90	2.80	2.80	2.60	2.60	2.60
12 month ave earnings	4.50	4.50	4.40	4.20	3.80	3.60	3.10	2.70	2.70	2.70	2.70	2.70	2.70
5 yr PWLB	4.00	4.00	3.90	3.80	3.70	3.60	3.50	3.40	3.30	3.20	3.10	3.10	3.10
10 yr PWLB	4.20	4.20	4.10	4.00	3.90	3.80	3.60	3.50	3.50	3.40	3.30	3.30	3.20
25 yr PWLB	4.60	4.60	4.40	4.30	4.20	4.10	3.90	3.80	3.70	3.60	3.50	3.40	3.40
50 yr PWLB	4.30	4.30	4.20	4.10	3.90	3.80	3.60	3.60	3.40	3.30	3.20	3.20	3.10

PWLB forecasts are based on PWLB certainty rates.

5.3 ECONOMIC BACKGROUND

Against a backdrop of stubborn inflationary pressures, the easing of Covid restrictions in most developed economies, the Russian invasion of Ukraine, and a range of different UK Government policies, it is no surprise that UK interest rates have been volatile right across the curve, from Bank Rate through to 50-year gilt yields, for all of 2022.

Market commentators' misplaced optimism around inflation has been the root cause of the rout in the bond markets with, for example, UK, EZ and US 10-year yields all rising by over 200bps in 2022. The table below provides a snapshot of the conundrum facing central banks: inflation is elevated but labour markets are extra-ordinarily tight, making it an issue of fine judgment as to how far monetary policy needs to tighten.

	UK	Eurozone	US
Bank Rate	4.0%	2.5%	4.5%-4.75%
GDP	0.0%q/q Q4 (4.0%y/y)	+0.1%q/q Q4 (1.9%y/y)	2.9% Q4 Annualised
Inflation	10.1%y/y (Jan)	8.5%y/y (Jan)	6.5%y/y (Dec)
Unemployment Rate	3.7% (Dec)	6.6% (Dec)	3.4% (Jan)

Q2 of 2022 saw UK GDP revised upwards to +0.2% q/q, but this was quickly reversed in the third quarter, albeit some of the fall in GDP can be placed at the foot of the extra Bank Holiday in the wake of the Queen's passing. Q4 GDP was 0.0% q/q. Nevertheless, CPI inflation picked up to what should be a peak reading of 11.1% in October, although with further increases in the gas and electricity price caps pencilled in for April 2023, and the cap potentially rising from an average of £2,500 to £3,000 per household, there is still a possibility that inflation will face some further upward pressures before dropping back slowly through 2023 to finish the year in the range of 4% - 5%. At January 2023, CPI was 10.1%.

The UK unemployment rate fell to a 48-year low of 3.6%, and this despite a net migration increase of c500k. The fact is that with many economic participants registered as long-term sick, the UK labour force actually shrunk by c500k in the year to June. Without an increase in the labour force participation rate, it is hard to see how the UK economy will be able to grow its way to prosperity, and with average wage increases running at over 6% the MPC will be concerned that wage inflation will prove just as sticky as major supply-side shocks to food and energy that have endured since Russia's invasion of Ukraine on 22 February 2022.

Throughout Q3 Bank Rate increased, finishing the quarter at 2.25% (an increase of 1%). Since then, rates rose to 3.5% in December and 4% in February and the market currently expects Bank Rate to hit 4.5% by June 2023.

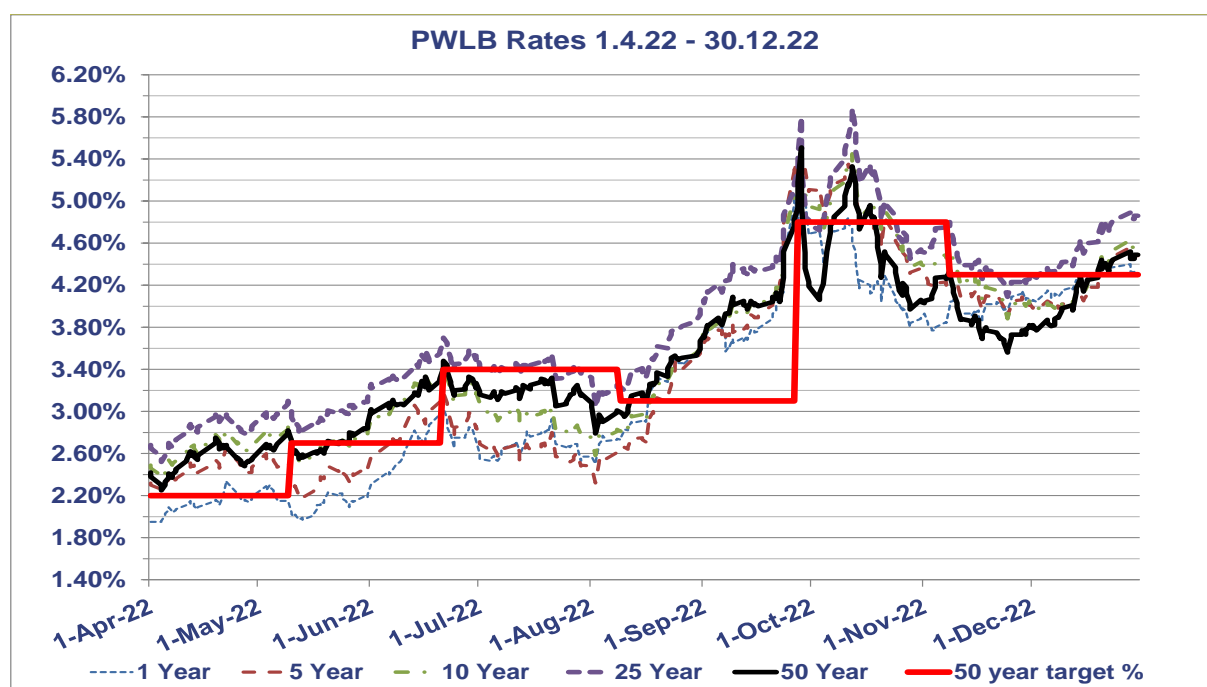
Following a Conservative Party leadership contest, Liz Truss became Prime Minister for a tumultuous seven weeks that ran through September and October. Put simply, the markets

did not like the unfunded tax-cutting and heavy spending policies put forward by her Chancellor, Kwasi Kwarteng, and their reign lasted barely seven weeks before being replaced by Prime Minister Rishi Sunak and Chancellor Jeremy Hunt. Their Autumn Statement of the 17th November gave rise to a net £55bn fiscal tightening, although much of the “heavy lifting” has been left for the next Parliament to deliver. However, the markets liked what they heard, and UK gilt yields have completely reversed the increases seen under the previous tenants of No10/11 Downing Street.

Globally, though, all the major economies are expected to struggle in the near term despite the recent rise above 50 in the composite Purchasing Manager Indices for the UK, US, EZ and China. Whether that means a shallow recession or worse is still unclear. As recently as November, the MPC projected eight quarters of negative growth for the UK lasting throughout 2023 and 2024, but with Bank Rate set to peak at lower levels than previously priced in by the markets and the fiscal tightening deferred to some extent, it is not clear that things will be as bad as first anticipated by the Bank. Indeed, their February Monetary Policy Report suggests five quarters of negative growth, albeit a shallow recession with GDP expected to shrink 0.5% in 2023 and 0.25% in 2024.

The £ has remained resilient of late, recovering from a record low of \$1.035, on the Monday following the Truss government’s “fiscal event”, to \$1.21. Notwithstanding the £’s better run of late, 2023 is likely to see a housing correction of some magnitude as fixed-rate mortgages have moved above 5% and affordability has been squeezed despite proposed Stamp Duty cuts remaining in place.

In the table below, the rise in gilt yields, and therein PWLB rates, through the first nine months of 2022/23 is clear to see.



The peak in rates on 28th September, as illustrated in the table covering April to December 2022 below, has been followed by the whole curve shifting lower. PWLB rates at the front end of the curve are generally around 1% lower now whilst the 50 years is just under 1% lower.

HIGH/LOW/AVERAGE PWLB RATES FOR 01.04.22 – 30.12.22

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	1.95%	2.18%	2.36%	2.52%	2.25%
Date	01/04/2022	13/05/2022	04/04/2022	04/04/2022	04/04/2022
High	5.11%	5.44%	5.45%	5.88%	5.51%
Date	28/09/2022	28/09/2022	12/10/2022	12/10/2022	28/09/2022
Average	3.26%	3.41%	3.57%	3.85%	3.51%
Spread	3.16%	3.26%	3.09%	3.36%	3.26%

The S&P 500 and FTSE 100 have climbed in the early weeks of 2023, albeit the former finished 19% down in 2022 whilst the latter finished up 1%.

CENTRAL BANK CONCERNS – DECEMBER 2022 & FEBRUARY 2023

In December, the Fed decided to push up US rates by 0.5% to a range of 4.25% to 4.5%, whilst the MPC followed by raising Bank Rate from 3% to 3.5%, in line with market expectations. EZ rates have also increased to 2% with further tightening in the pipeline.

Having said that, the sentiment expressed in the press conferences in the US and the UK were very different. In the US, Fed Chair, Jerome Powell, stated that rates will be elevated and stay higher for longer than markets had expected. Governor Bailey, here in the UK, said the opposite and explained that the two economies are positioned very differently so you should not, therefore, expect the same policy or messaging.

At the start of February, US rates have further increased by 0.25% to a range of 4.5% - 4.75%, whilst UK Bank Rate increased 0.5% to 4%.

Regarding UK market expectations, although they now expect Bank Rate to peak within a lower range of 4.25% - 4.5%, caution is advised as the Bank of England Quarterly Monetary Policy Reports have carried a dovish message over the course of the last year, only for the Bank to have to play catch-up as the inflationary data and labour market have proven stronger than expected.

In addition, the Bank's central message that GDP will fall for five quarters starting with Q1 2023 may prove to be a little pessimistic. Will the excess savings accumulated by households through the Covid lockdowns provide a spending buffer for the economy – at least to a degree? Ultimately, however, it will not only be inflation data but also employment data that will mostly impact the decision-making process, although any softening in the interest rate outlook in the US may also have an effect (just as, conversely, greater tightening may also).

5.4 TREASURY MANAGEMENT PRACTICE – CREDIT AND COUNTERPARTY RISK MANAGEMENT

SPECIFIED INVESTMENTS: All such investments will be sterling denominated, with **maturities up to a maximum of 364 days**, meeting the minimum 'high' quality criteria where applicable.

NON-SPECIFIED INVESTMENTS: The Council will not invest in Non-Specified Investments. These are any investments which do not meet the specified investment criteria.

The criteria, time limits and monetary limits applying to institutions or investment vehicles are:

	Minimum credit criteria / colour band	** Max % of total investments / £ limit per institution	Max. maturity period
DMADF (*DMO) – UK Government	UK Government	Unlimited	6 months (max. is set by the DMO*)
UK Government Treasury Bills	Yellow		364 days (max. is set by the DMO*)
Money Market Funds (CCLA Public Sector Deposit Fund)	AAA	£3m	Liquid
Principal Local Authorities	Government	£3m (£6m for Lancashire County Council)	364 days (LCC – Liquid)
Term Deposits with Banks and Building Societies	Blue Orange Red Green No Colour	Maximum of £5m with each institution/Group. (£10m is restricted to Lloyds Group as Banker to the Council.	Up to 364 days Up to 364 days 6 months 100 days Not for use
CDs or Corporate Bonds with Banks and Building Societies	Blue Orange Red Green No Colour	Maximum of £5m with each institution/Group. (£10m is restricted to Lloyds Group as Banker to the Council.	Up to 364 days Up to 364 days 6 months 100 days Not for use
Gilt Funds	UK sovereign rating		

* DMO – is the Debt Management Office of HM Treasury

The Council's minimum ratings criteria relating to the above, as per Fitch, Standard & Poor's and Moody's Ratings Agencies, are summarised below:

Rating Category	Fitch	Standard & Poor's	Moody's
Short term	F1	A1	P1
Long term	A	A1	A2

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

5.5 TREASURY MANAGEMENT PRACTICE – CREDIT AND COUNTERPARTY RISK MANAGEMENT (CONT).

The DLUHC issued Investment Guidance in 2018, and this forms the structure of the Authority's policy below. These guidelines do not apply to either trust funds or pension funds which operate under a different regulatory regime.

The key intention of the Guidance is to maintain the current requirement for local authorities to invest prudently, and that priority is given to security and liquidity before yield. In order to facilitate this objective, the Guidance requires this Authority to have regard to the CIPFA publication Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes. This Council has adopted the Code and will apply its principles to all investment activity. In accordance with the Code, the Corporate Director (Resource) has produced its treasury management practices (TMPs). This part, TMP 1(1), covering investment counterparty policy requires approval each year.

Annual Investment Strategy - The key requirements of both the Code and the investment guidance are for the Authority to set an Annual Investment Strategy, as part of its annual treasury strategy for the following year, covering the identification and approval of the following:

- The strategy guidelines for choosing and placing investments, particularly non-specified investments.
- The principles to be used to determine the maximum periods for which funds can be committed.
- Specified investments that the Authority will use. These are high security, and high liquidity investments in sterling and with a maturity of no more than 364 days.

The investment policy proposed for the Authority is:

Strategy guidelines – The main strategy guidelines are contained in the body of the Treasury Management Strategy Statement.

Specified investments – These investments are sterling investments of not more than one-year maturity, or those which could be for a longer period but where the Council has the right to be repaid within 12 months if it wishes. These are considered low risk assets where the possibility of loss of principal or investment income is small. These would include sterling investments which would not be defined as capital expenditure with: -

- The UK Government (such as the Debt Management Account deposit facility, UK Treasury Bills with less than one year to maturity).
- Supranational Bonds of less than one year's duration.
- A Local Authority, Housing Association, Parish Council or Community Council.
- Pooled investment vehicles (such as Money Market Funds currently CCLA Public Sector Deposit Fund only) that have been awarded a high credit rating by a credit rating agency.
- A body that is considered of a high credit quality (such as a bank or building society).

5.6 APPROVED COUNTRIES FOR INVESTMENTS

This list is based on those countries which have sovereign ratings of AA- or higher, (we show the lowest rating from Fitch, Moody's and S&P) and also, (except - at the time of writing - for Hong Kong and Luxembourg), have banks operating in sterling markets which have credit ratings of green or above in the Link creditworthiness service.

Based on lowest available rating

AAA

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

AA+

- Canada
- Finland
- U.S.A.

AA

- Abu Dhabi (UAE)
- France

AA-

- Belgium
- Qatar
- U.K.

COUNTERPARTY LENDING LIST

	Counterparty	Type of Institution	Sovereign Rating	Long Term	Short Term	Group Limit £M	Individual Limit £M	Maximum Duration (Mths / Days)
	Pendle BC's Minimum Ratings Criteria	(per Fitch)		A-	F1			
1	UK Banks	Bank		A-	F1	5.000	5.000	up to 364 days
	<u>Royal Bank of Scotland Group</u>					5.000		
2	NatWest Bank PLC	Bank	(AA)	A+	F1		5.000	up to 364 days
3	The RBS PLC	Bank	(AA)	A+	F1		5.000	up to 364 days
	<u>Lloyds Banking Group PLC</u>					10.000		
4	Lloyds Bank PLC	Bank	(AA)	A+	F1		10.000	Liquid Funds
5	UK Local Authorities	All UK Principal Councils	(AA)	n/a	n/a		3.000	up to 6 months
6	Lancashire County Council	LCC Call-Account	(AA)	n/a	n/a		6.000	Liquid Funds
7	Debt Management Facility	UK Government	(AA)	n/a	n/a		Unlimited	up to 6 months
8	CCLA - PSDF	Money Market Fund	(AA)	AAA mmf			3.000	Liquid Funds
	<u>Building Societies</u>							
9	Nationwide	Building Society	(AA)	A	F1		5.000	up to 6 months
10	Coventry	Building Society	(AA)	A-	F1		5.000	up to 6 months
11	Skipton Building Society	Building Society	(AA)	A-	F1		5.000	up to 6 months
12	Leeds	Building Society	(AA)	A-	F1		5.000	up to 100 days
13	Yorkshire Building Society	Building Society	(AA)	A-	F1		5.000	up to 100 days

Additional Investments in UK Banks, Building Societies may be made providing that they meet the qualifying criteria as set out in Section 5.4.

5.7 TREASURY MANAGEMENT SCHEME OF DELEGATION

(i) Full Council

- Initial approval and adoption of the Treasury Management Policy Statement (TMPS) and subsequent revisions (as and when required).
- Approval of the Annual Treasury Management Strategy (TMS)/Annual Investment Strategy (AIS) and Policy on the Minimum Revenue Provision (MRP) and consideration and approval of any in year changes (in March each year for the forthcoming financial year);
- Approval of the Council's Capital Strategy and related Capital Programme.

(ii) Policy and Resources Committee / Executive

- Annual Treasury Management outturn report (by July each year for the previous financial year).
- Mid-Year Treasury Management report (by October of each year for the year in question;

(iii) Accounts and Audit Committee

- Approval of/amendments to the Council's adopted treasury management practices (TMPs);
- Receiving and reviewing regular (quarterly) monitoring reports and acting on recommendations;
- Scrutiny of treasury management performance and strategy.

(iv) List of documents to be made available for public inspection

- The Council is committed to the principle of openness and transparency in its treasury management function and in all its functions;
- It has adopted the CIPFA Code of Practice on Treasury Management and implemented key recommendations on developing Treasury Management Practices, formulating a Treasury Management Policy Statement (TMPS) and implementing the other principles of the Code;
- The following documents are available for public inspection:
 - Treasury Management Policy Statement
 - Treasury Management Strategy Statement
 - Annual Investment Strategy
 - Minimum Revenue Provision Policy Statement
 - Annual Treasury Management Outturn Report
 - Treasury Management Monitoring Reports (e.g. half-yearly and quarterly)
 - Annual accounts and financial instruments disclosure notes
 - Annual budget
 - Annual Capital Programme
 - Capital Strategy
 - Minutes of Council / Policy & Resource Committee meetings

- Schedule of all external funds managed by the Council on behalf of others and the basis of attributing earned interest and costs of these investments.

5.8 THE TREASURY MANAGEMENT ROLE OF THE SECTION 151 OFFICER

The S151 (responsible) officer

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance;
- submitting regular treasury management policy reports;
- submitting budgets and budget variations;
- receiving and reviewing management information reports;
- reviewing the performance of the treasury management function;
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
- ensuring the adequacy of internal audit, and liaising with external audit;
- recommending the appointment of external service providers.
- preparation of a Capital Strategy to include capital expenditure, capital financing, non-financial investments and treasury management, with a long-term timeframe (say 20+ years – *to be determined in accordance with local priorities.*)
- ensuring that the Capital Strategy is prudent, sustainable, affordable and prudent in the long term and provides value for money
- ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the authority
- ensure that the Authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing
- ensuring the proportionality of all investments so that the Authority does not undertake a level of investing which exposes the Authority to an excessive level of risk compared to its financial resources
- ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long-term liabilities
- provision to members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees
- ensuring that members are adequately informed and understand the risk exposures taken on by the Authority
- ensuring that the Authority has adequate expertise, either in house or externally provided, to carry out the above
- creation of Treasury Management Practices which specifically deal with how non treasury investments will be carried out and managed, to include the following (TM Code p54): -
 - *Risk management (TMP1 and schedules), including investment and risk management criteria for any material non-treasury investment portfolios;*
 - *Performance measurement and management (TMP2 and schedules), including methodology and criteria for assessing the performance and success of non-treasury investments;*
 - *Decision making, governance and organisation (TMP5 and schedules), including a statement of the governance requirements for decision making in*

relation to non-treasury investments; and arrangements to ensure that appropriate professional due diligence is carried out to support decision making;

- *Reporting and management information (TMP6 and schedules), including where and how often monitoring reports are taken;*
- *Training and qualifications (TMP10 and schedules), including how the relevant knowledge and skills in relation to non-treasury investments will be arranged.*