APPENDIX B

Treasury Management Strategy Statement 2022/23

1. Introduction

1.1 Background

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

1.1.2 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.

1.1.3 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.

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

1.1.5 CIPFA defines treasury management as:

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

1.2 **Reporting Requirements**

Capital Strategy

1.2.1 The CIPFA 2017 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

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

1.2.3 This capital strategy is reported separately from the Treasury Management Strategy Statement; non-treasury investments will be reported through the former. This ensures 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. The capital strategy will show:

- The corporate governance arrangements for these types of activities;
- Any service objectives relating to the investments;
- The expected income, costs and resulting contribution;
- The debt related to the activity and the associated interest costs;
- The payback period (MRP policy – Minimum Revenue Provision);
- For non-loan type investments, the cost against the current market value;
- The risks associated with each activity.

1.2.4 Where a physical asset is being bought, details of market research, advisers used, (and their monitoring), ongoing costs and investment requirements and any credit information will be disclosed, including the ability to sell the asset and realise the investment cash.

1.2.5 The Capital Strategy sets out details of the Council's Investment Strategy, which included multiple objectives: (a) to support regeneration and the economic activity of the Council (b) to enhance economic benefit (c) to grow business rate income (d) to assist with the financial sustainability of the Council as an ancillary benefit and (e) to help continue deliver and/or improve frontline services in keeping with its adopted strategy and objectives.

1.2.6 If any non-treasury investment sustains a loss during the final accounts and audit process, the strategy and revenue implications will be reported through the same procedure as the capital strategy.

1.2.7 To demonstrate the proportionality between the treasury operations and the non-treasury operation, high-level comparators are shown throughout this report.

Treasury Management Reporting

1.2.8 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. **Prudential and treasury indicators and treasury strategy** (this report) - The first, and most important report is forward looking and covers:
   - the capital plans, (including prudential indicators);
   - a minimum revenue provision (MRP) policy, (how residual capital expenditure is charged to revenue over time);
   - the treasury management strategy, (how the investments and borrowings are to be organised), including treasury indicators; and
   - an investment strategy, (the parameters on how investments are to be managed).

b. **A mid-year treasury management report** – This is primarily a progress report and will update Members on the capital position, amending treasury and prudential indicators as necessary, and whether any policies require revision.

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

Scrutiny

1.2.9 The above reports are required to be adequately scrutinised before being approved by Council. Periodic Treasury Management reports are reported to the Audit Committee for this purpose. Prior to the annual strategies being recommended to Council on 31.3.2022, the strategies are presented to the Council's Audit Committee for scrutiny.

1.3 Treasury Management Strategy for 2022/23

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

Capital issues

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

Treasury management issues

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

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

1.4 **Training**

1.4.1 The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to Members responsible for scrutiny. The Members will receive every two years and the next training session will be arranged for March 2022. The training needs of treasury management officers are periodically reviewed.

1.5 **Treasury Management Consultants**

1.5.1 The Council uses Link Group, Treasury solutions as its external treasury management advisors.

1.5.2 The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon 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.

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

1.5.4 The scope of investments within the Council's operations now includes both conventional treasury investments (the placing of residual cash from the Council's functions), and other types of investment, such as investment properties. The Council currently has two investment properties in Dartmouth and Ivybridge (Lee Mill). The Council's negotiating team includes the Strategic Director of Place and Enterprise and the S.151 Officer, who are both members of the Senior Leadership Team. Both Officers are aware of the core principles of the prudential framework and of the regulatory regime within which Local Authorities operate. The S.151 Officer has attended specific treasury management training courses around the new DLUHC Guidelines on investments and the accounting treatment.

1.5.5 Investments require specialist advisors and the appropriate expertise is always resourced in relation to these activities. The specialist advisors used by the Council are:

- Link Group – Treasury Management Advice
- Savills – Property Agents
- JLL – Property and Technical Consultants
- CCD Properties Limited – Development Specialists
- Arcadis – Building Surveyors and Engineers
- Womble Bond Dickinson – Solicitors

2. The Capital Prudential Indicators 2022/23 – 2024/25

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

2.2 Capital Expenditure

2.2.1 This prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. Members are asked to approve the capital expenditure forecasts:

Capital expenditure	2020/21 Actual	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
Services	5,645,000	3,397,000	16,549,000	6,155,000	1,180,000
Housing	0	0	2,100,000	2,100,000	0
Ivybridge Regeneration*	0	300,000	6,525,000	2,175,000	0
Total	**5,645,000**	**3,697,000**	**25,174,000**	**10,430,000**	**1,180,000**

* £54,657 was spent on the Ivybridge Regeneration project in 2020/21 on feasibility work, which was revenue expenditure

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

2.2.3 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	2020/21 Actual	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
Capital Expenditure	**5,645,000**	**3,697,000**	**25,174,000**	**10,430,000**	**1,180,000**
Financed by:					
External sources (Capital grants, NHB, S106)	1,400,000	851,000	3,198,000	1,180,000	1,180,000
Own resources (Capital receipts, Earmarked reserves)	2,393,000	1,835,000	3,857,000	4,090,000	0
Net financing need for the year (This is the prudential borrowing requirement)	**1,852,000**	**1,011,000**	**18,119,000**	**5,160,000**	**0**

2.3 The Council's Borrowing Need (the Capital Financing Requirement)

2.3.1 The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources (e.g. capital receipts). It is essentially a measure of the Council's indebtedness and so its underlying borrowing need. Any capital expenditure above, which has not immediately been paid for through a revenue or capital resource, will increase the CFR, if it is funded by borrowing.

2.3.2 The CFR does not increase indefinitely, as the minimum revenue provision (MRP – capital repayment of the borrowing) is a statutory annual revenue charge which broadly reduces the indebtedness in line with each assets life, and so charges the economic consumption of capital assets as they are used.

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

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

	2020/21 Actual	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
Capital Financing Requirement					
CFR – services	8,050,000	8,320,000	17,995,000	18,194,000	17,481,000
Housing	0	0	1,478,000	3,578,000	2,178,000
Ivybridge Regeneration	0	300,000	6,825,000	9,000,000	9,000,000
CFR - Non-financial investments	4,952,000	4,907,000	4,861,000	4,813,000	4,655,000
Total CFR	**13,002,000**	**13,527,000**	**31,159,000**	**35,585,000**	**33,314,000**
Movement in CFR	**1,508,000**	**525,000**	**17,632,000**	**4,426,000**	**(2,271,000)**

Movement in CFR represented by					
Net financing need for the year (above)	1,852,000	1,011,000	18,119,000	5,160,000	0
Less MRP/VRP and other financing movements	(344,000)	(486,000)	(487,000)	(734,000)	(2,271,000)
Movement in CFR	**1,508,000**	**525,000**	**17,632,000**	**4,426,000**	**(2,271,000)**

2.4 Core Funds and Expected Investment Balances

2.4.1 The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.). Detailed below are estimates of the year-end balances for each resource and anticipated day-to-day cash flow balances.

Year End Resources	**2020/21 Actual**	**2021/22 Estimate**	**2022/23 Estimate**	**2023/24 Estimate**	**2024/25 Estimate**
Fund balances / reserves	23,616,000	15,366,000	14,366,000	13,366,000	12,366,000
Capital receipts	2,848,000	2,483,000	2,230,000	2,210,000	2,190,000
Provisions	1,636,000	1,636,000	1,700,000	1,700,000	1,700,000
Other	(6,816,000)	423,000	500,000	500,000	500,000
Total core funds	**21,284,000**	**19,908,000**	**18,796,000**	**17,776,000**	**16,756,000**
Working capital*	19,963,000	19,963,000	19,963,000	19,963,000	19,963,000
(Under)/over borrowing	1,472,000	854,000	(297,000)	(4,862,000)	(4,772,000)
Expected cash position	**42,719,000**	**40,725,000**	**38,462,000**	**32,877,000**	**31,947,000**

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

2.5 Minimum Revenue Provision (MRP) Policy Statement

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

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

2.5.3 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.

2.5.4 This option provides for an approximate 4% reduction in the borrowing need (CFR) each year.

2.5.5 From 1 April 2008 for all unsupported borrowing (including finance leases, excluding the Community Housing Programme – see 2.5.10) the MRP policy will be:

- **Asset life (equal instalment) method** – MRP will be based on the estimated life of the assets, in accordance with the regulations (this option must be applied for any expenditure capitalised under a Capitalisation Direction);
- **Asset life (annuity) method** – MRP will be based on the estimated life of the assets, in accordance with the regulations (this option must be applied for any expenditure capitalised under a Capitalisation Direction);

2.5.6 These options provide for a reduction in the borrowing need over the asset's life.

2.5.7 The asset life methods are simple to operate and gives certainty in each year as to the level of charge applied. The other advantage is that they make business cases and scheme appraisals easier to compile. The annuity method is intended to have the advantage of linking MRP to the flow of benefits from an asset where these are expected to increase in later years. The annuity method gives rise to a lower charge in the early years, which steadily increases over the asset life. This approach means that the MRP for repayment of the debt liability will increase each year over the life of the asset, as the proportion of the interest calculated each year reduces and the principal repayment increases.

2.5.8 With all options, MRP should normally commence in the financial year following the one in which expenditure was incurred. Regulation 28 does not define 'prudent'. However, MRP guidance has been issued, which makes recommendations to Councils on the interpretation of that term. Councils are legally obliged to 'have regard' to the guidance. The Council's policy will be that MRP will not normally commence until the start of the financial year following the one in which the expenditure was incurred and the asset became operational. The Council will postpone making MRP until the financial year following the one in which the asset becomes operational.

2.5.9 **MRP Overpayments** - A change introduced by the revised DLUHC 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. Up until the 31 March 2021 the Council had no VRP overpayments.

2.5.10 **Housing projects** – For the Council's housing programme the majority of the assets to be developed will be sold within a short timeframe after they have been built. The Council's MRP policy for these housing assets will be that capital receipts generated on the sale of assets will be set aside and used to reduce the Council's CFR and also the amount that would otherwise be chargeable as MRP in that period. The Council will also defer the provision of MRP that would otherwise be chargeable in a period, in anticipation of capital receipts arising from future sales which have yet to be materialised. If the capital receipts from the sale of assets were insufficient to provide for the CFR relating to the scheme, the Council would commence MRP to recover any sums that were not covered by future capital receipts.

3. Borrowing

3.1 The capital expenditure plans set out in Section 2 provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity and the Council's capital strategy. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

3.2 Current Portfolio Position

3.2.1 The overall treasury management portfolio as at 31 March 2021 and for the position as at 31 January 2022 are shown below for both borrowing and investments.

Treasury Portfolio	31 March 2021 Actual		31 January 2022 Current	
Treasury Investments:				
Short term – fixed	15,600,000	0.01%	50,200,000	0.04
Money Market Funds	23,200,000	0.00%	22,350,000	0.01
Heritable Bank	11,000		11,000	
CCLA – Local Authority Property Fund	1,338,000	4.30%	1,338,000	4.30%
CCLA – Diversified Income Fund	1,942,000	3.10%	1,942,000	3.10%
Total treasury investments	**42,091,000**		**75,841,000 ***	
Treasury External Borrowing				
PWLB (average rate)	14,474,000	2.43%	14,405,000	2.43%
Total external borrowing	**14,474,000**		**14,405,000**	
Net treasury investments / (borrowing)	**27,617,000**		**61,436,000**	

**The Council's investments mid way through the year are always higher than at the year end due to the cashflow advantage that the Council benefits from part way through the year from the collection of Council Tax, before these are paid out to precepting authorities.*

3.2.2 In December 2019 (Minute 53/19) the Council approved an updated Investment Strategy, which included multiple objectives: (a) to support regeneration and the economic activity of the Council (b) to enhance economic benefit (c) to grow business rate income (d) to assist with the financial sustainability of the Council as an ancillary benefit and (e) to help continue deliver and/or improve frontline services in keeping with its adopted strategy and objectives.

3.2.3 The Council's current Non-Treasury Investment portfolio position is shown below.

Asset	**Purchase Price (£)**	**Year Purchased**	**Asset life for the calculation of MRP (Years)**	**Value at 31 March 2021* (£)**
Lee Mill Tesco	4,400,000		50	13,860,000
Dartmouth M&S	5,029,000	2019/20	50	4,700,000
TOTAL	**9,429,000**			**18,560,000**

*following fair value adjustments

3.2.4 During 2017/18, officers undertook a review of existing assets which resulted in the Council reclassifying the site at Lee Mill as an investment property with effect from 31 December 2017. The Council receives rental income from this property and there is no borrowing associated with this non-treasury investment.

3.2.5 Indicators for the Council's Non-Treasury Investment portfolio are shown below.

Non-Treasury Investment Indicators	**Actual 2020/21**	**Estimate as at 31 Mar 22**
Total investment income as a proportion of the Council's Net Budget	6.44%	6.74%
Borrowing for Non-Treasury investments as a proportion of the Council's Net Budget	53.73%	51.79%
Investment income from Investment Properties compared to the interest expense incurred by them	434.54%	566.89%

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

	2020/21 Actual	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
External Debt					
Debt at 1 April	14,566,000	14,474,000	14,381,000	31,862,000	30,723,000
Expected change in Debt	(92,000)	(93,000)	16,481,000	(1,139,000)	(2,181,000)
Other long-term liabilities (OLTL)	0	0	0	0	0
Expected change in OLTL	0	0	0	0	0
Actual gross debt at 31 March	14,474,000	14,381,000	30,862,000	30,723,000	28,542,000
The Capital Financing Requirement	13,002,000	13,527,000	31,159,000	35,585,000	33,314,000
Under / (over) borrowing	(1,472,000)	(854,000)	297,000	4,862,000	4,772,000

3.2.7 Within the above figures the level of debt relating to investment activities / non-financial investment is:

	2020/21 Actual	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
External Debt for investment activities / non-financial investments					
Actual debt at 31 March	5,056,000	5,011,000	12,965,000	13,797,000	13,628,000
Percentage of total external debt %	35%	35%	42%	45%	48%

3.2.8 Within the range of prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2022/22 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.

3.2.9 The Corporate Director for Strategic Finance (S151 Officer) reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in the budget report for 2022/23.

3.3 Treasury Indicators: Limits to Borrowing Activity

3.3.1 In September 2019, Council approved an overall Borrowing Limit (for all Council Services) of £75 million. The Operational Boundary is recommended to be set at £50 million to reflect the current projected levels of borrowing. Council are asked to re-affirm the total Authorised Borrowing Limit of £75 million.

3.3.2 **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	**2021/22 Estimate**	**2022/23 Estimate**	**2023/24 Estimate**	**2024/25 Estimate**
Total external debt	70,000,000	50,000,000	50,000,000	50,000,000

3.3.3 **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.

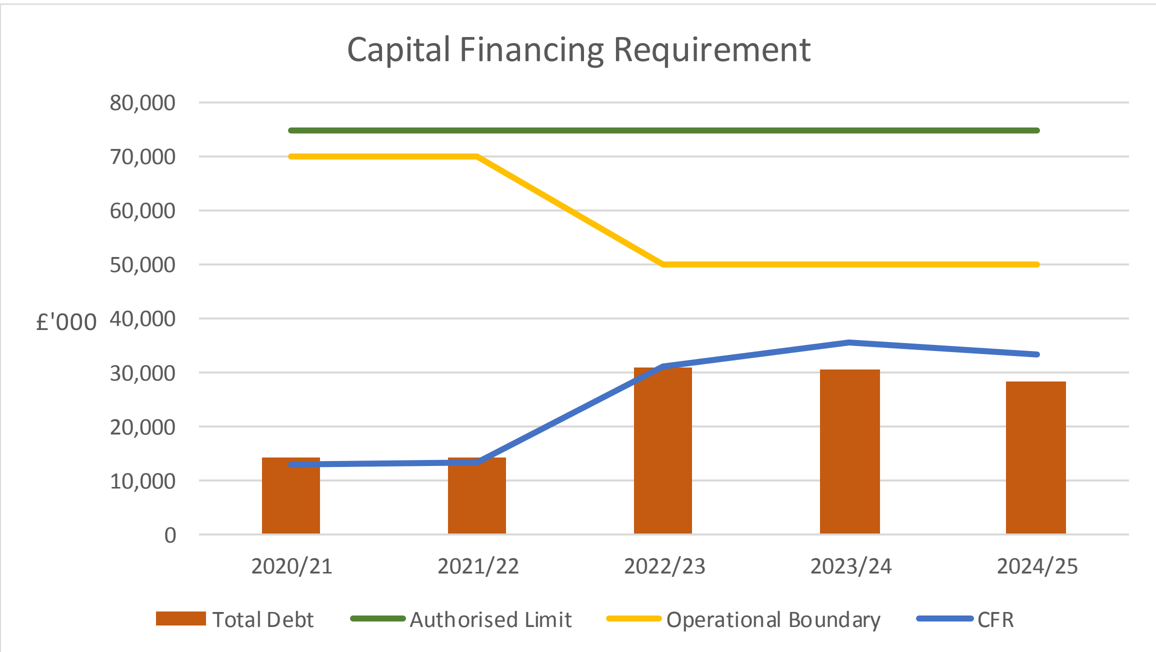
1. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.

2. The Council is asked to approve the following authorised limit of £75 million:

Authorised limit	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
Total external debt	75,000,000	75,000,000	75,000,000	75,000,000

3.3.4 The graph below shows the CFR and borrowing projections.

	Actual 2020/21	Estimate 2021/22	Estimate 2022/23	Estimate 2023/24	Estimate 2024/25
General Fund	8,050,000	8,320,000	17,995,000	18,194,000	17,481,000
Housing	0	0	1,478,000	3,578,000	2,178,000
Ivybridge Regeneration	0	300,000	6,825,000	9,000,000	9,000,000
Investment activities / non-financial investments	4,952,000	4,907,000	4,861,000	4,813,000	4,655,000
Total CFR	**13,002,000**	**13,527,000**	**31,159,000**	**35,585,000**	**33,314,000**
External Borrowing	**14,474,000**	**14,381,000**	**30,862,000**	**30,723,000**	**28,542,000**
Authorised Limit	**75,000,000**	**75,000,000**	**75,000,000**	**75,000,000**	**75,000,000**
Operational Boundary	**70,000,000**	**70,000,000**	**50,000,000**	**50,000,000**	**50,000,000**



3.4 Prospects for Interest Rates

3.4.1 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. These are forecasts for certainty rates, gilt yields plus 80 bps.

Link Group Interest Rate View	7.2.22												
	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25
BANK RATE	0.75	1.00	1.00	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25
3 month av. earnings	0.80	1.00	1.00	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20
6 month av. earnings	1.00	1.10	1.20	1.30	1.30	1.30	1.30	1.30	1.30	1.30	1.30	1.30	1.30
12 month av. earnings	1.40	1.50	1.60	1.70	1.70	1.60	1.60	1.50	1.40	1.40	1.40	1.40	1.40
5 yr PWLB	2.20	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30
10 yr PWLB	2.30	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40
25 yr PWLB	2.40	2.50	2.50	2.60	2.60	2.60	2.60	2.60	2.60	2.60	2.60	2.60	2.60
50 yr PWLB	2.20	2.30	2.30	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40

3.4.2 Over the last two years, the coronavirus outbreak has done huge economic damage to the UK and to economies around the world. After the Bank of England took emergency action in March 2020 to cut Bank Rate to 0.10%, it left Bank Rate unchanged at its subsequent meetings until raising it to 0.25% at its meeting on 16th December 2021 and then to 0.50% at its meeting of 4th February 2022.

3.4.3 As shown in the forecast table above, the forecast for Bank Rate now includes a further three increases of 0.25% in March, May and November 2022 to end at 1.25%.

3.4.4 The Monetary Policy Committee is now very concerned at the way that forecasts for inflation have had to be repeatedly increased within a matter of just a few months. Combating this rising tide of inflation is now its number one priority and the 5-4 vote marginally approving only a 0.25% increase on 4th February rather than a 0.50% increase, indicates it is now determined to push up Bank Rate quickly. A further increase of 0.25% is therefore probable for March, and again in May, followed possibly by a final one in November. However, data between now and November could shift these timings or add to or subtract from the number of increases. However, it is likely that these forecasts will need changing within a relatively short timeframe.

3.5 Borrowing Strategy

3.5.1 The Council will continue to assess the opportunities to borrow and look to use a mix of external loans to finance any increase in the Capital Financing Requirement (CFR). Any opportunities to reduce interest costs by maintaining an under-borrowed position will be considered. This means that the capital borrowing need (the CFR), will not be fully funded with external loans as cash supporting the Council's reserves, balances and cash flow will be used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is still an issue that needs to be considered.

3.5.2 Against this background and the risks within the economic forecast, caution will be adopted with the 2022/23 treasury operations. The Corporate Director for Strategic Finance will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- *if it was felt that there was a significant risk of a sharp FALL in borrowing rates,* (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then external borrowing will be postponed.

- *if it was felt that there was a significant risk of a much sharper RISE in borrowing rates than that currently forecast*, perhaps arising from an acceleration in the rate of increase in central rates in the USA and UK, an increase in world economic activity, or a sudden increase in inflation risks, then the external loan portfolio position will be re-appraised. Most likely, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.

3.5.3 Any decisions will be reported to the appropriate decision making body at the next available opportunity.

3.6 Policy on Borrowing in Advance of Need

3.6.1 Any decisions to borrow in advance will be secured on a case by case basis on the most advantageous terms available, predominantly through borrowing or any other unallocated or available Council reserve, or capital receipt.

3.6.2 Borrowing in advance will be made within the constraints that:

- It will be limited to no more than 100% of the expected increase in borrowing need (CFR) over the three year planning period; and
- The authority would not look to borrow more than 36 months in advance of need.

3.6.3 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.

3.6.4 The Council will not borrow more than, or in advance of need as part of the funding for investments of developments so as to benefit from the investment of the extra sums borrowed (para 46 & 47 SGLGI). There are no circumstances in which the Council would seek to disregard the prohibition on borrowing ahead of need, purely for profit.

3.6.5 The Council's policies in investing the money borrowed, including management of the risks, for example, of not achieving the desired rental income or borrowing costs increasing are explained in the section on Risk Assessment within the Capital Strategy.

3.6.6 Latest guidance issued by the Secretary of State makes clear that borrowing to finance the acquisition of non-financial investments (e.g. commercial property investment) made purely for profit shall be considered 'borrowing in advance of need'.

3.6.7 Such investment would most likely be considered capital and determined under the guiding principles outlined separately in the Capital Strategy and outside the scope of this Treasury Management Strategy. However, and to be clear, the Council will not borrow for capital investment made solely for yield generating opportunities.

3.7 Debt Rescheduling

3.7.1 Rescheduling of current borrowing in our debt portfolio is unlikely to occur as there is still a very large difference between premature redemption rates and new borrowing rates, even though the general margin of PWLB rates over gilt yields was reduced by 100 bps in November 2020.

3.7.2 If rescheduling was recommended, it will be presented and reported to the Council, at the earliest meeting available.

3.8 New Financial Institutions as a Source of Borrowing

3.8.1 Currently the PWLB Certainty Rate is set at gilts + 80 basis points for both HRA and non-HRA borrowing. 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 – 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)

- Municipal Bonds Agency (possibly still a viable alternative depending on market circumstances prevailing at the time and minimum amounts of borrowing).

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

3.9 Maturity Structure of Borrowing

3.9.1 These gross limits are set to reduce the Council’s exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.

Maturity structure of fixed interest rate borrowing 2022/23		
	Lower	**Upper**
Less than 1 year	0%	10%
Between 1 and 2 years	0%	10%
Between 2 years to 5 years	0%	50%
Between 5 years to 10 years	0%	50%
Between 10 years to 20 years	0%	50%
20 years and above	0%	100%

3.10 Approved Sources of Long and Short Term Borrowing

3.10.1 Approved sources of borrowing are as follows:

On Balance Sheet	Fixed	Variable
PWLB	●	●
Municipal bond agency	●	●
Local authorities	●	●
Banks	●	●
Pension funds	●	●
Insurance companies	●	●
Market (long-term)	●	●
Market (temporary)	●	●
Stock issues	●	●
Local temporary	●	●
Local Bonds	●	
Local authority bills	●	●
Overdraft		●
Negotiable Bonds	●	●
Internal (capital receipts & revenue balances)	●	●
Medium Term Notes	●	
Finance leases	●	●

APPENDIX B1

TREASURY MANAGEMENT SCHEME OF DELEGATION

(i) Full Council

- receiving and reviewing reports on treasury management policies, practices and activities;
- approval of annual strategy.

(ii) Executive

- approval of/amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices;
- budget consideration and approval;
- approval of the division of responsibilities;
- receiving and reviewing regular monitoring reports and acting on recommendations;
- approving the selection of external service providers and agreeing terms of appointment.

(iii) Audit Committee

- reviewing the treasury management policy and procedures and making recommendations to the responsible body.

(iv) Delegation from the Director of Strategic Finance (S151) to the nominated posts for the taking of investment decisions

- Head of Finance (Deputy S151)
- Finance Business Partners

APPENDIX B2

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 for example 25+ years.
- 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 an 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.