Leeds CITY COUNCIL

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TREASURY MANAGEMENT STRATEGY 2023/24

Date: 22nd February 2023

Report of: Chief Officer Financial Services

Report to: Full Council

Will the decision be open for call in? Except recommendations 2.2 to 2.5 ☒Yes ☐No

Does the report contain confidential or exempt information? ☐Yes ☒No

Brief Summary

1.1 This report sets out for Members' approval the Treasury Management Strategy for 2023/24 and provides an update on the implementation of the 2022/23 strategy.

1.2 The Council's level of net external debt is anticipated to be £2,402m by 31/03/2023, £35m below expectations in November 2022. This is as a result of £36m forecast slippage in the capital programme 2022/23 and £1m lower MRP for 2022/23 than was forecast in the 2021/22 capital borrowing requirement.

1.3 The period of exceptionally low interest rates seen in recent years has now come to an end. The first rise in the bank base rate occurred on 16th December 2021 when the base rate was increased from 0.10% to 0.25%. Since that point the base rate has increased steadily during the year to now stand at 3.5% with an expectation of a peak at 4.50%. The cost of debt is forecast to increase by £11.2m in 2023/24. This is principally due to the increasing borrowing requirement to fund the capital programme coupled with increasing long- and short-term interest rates. Provision has also been made to enhance financial sustainability by reducing the reliance on capital receipts to fund an element of PFI liabilities, anticipating potential changes to MRP regulations. Within the overall increase in the budget, external interest costs for the General Fund are budgeted to increase by £5.3m, MRP set aside to fund borrowing is projected to increase by £3.9m, and MRP to fund PFI liabilities is projected to increase by £2.4m. These increases are partially offset by projected increases in interest income of £0.4m from investing cash balances and from service loans made. The proposed budget for gross external interest costs for the general fund is £59.6m and the proposed budget for MRP is £64.9m.

1.4 The Authorised Limits for both External Debt and Other Long-Term Liabilities have been reviewed and it is proposed to change them as detailed in Section 8.6.4. The Operational Boundaries have also been reviewed and likewise are proposed to be changed as detailed in Section 8.6.5. The Council's Authorised Limit is set above the Capital Financing Requirement to provide for short term cash flow needs.

1.5 In the medium term the strategy is to take longer term fixed rate funding as market opportunities arise however with a forecast peak in long term and short term interest rates during 2023/24 the strategy will be to keep any borrowing short term pending opportunities

to lock into lower longer term rates. Against this the Council has a stable long-term loan portfolio forecast at 31/03/2023 of £2.279bn that has an average maturity of just over 35 years and is funded at an average rate of 3.27%. An increase in the short-term funding costs of 0.25% over the base assumptions (Table 5) would add £0.7m to the interest costs in 2023/24.

1.6 CIPFA has issued new versions of the Treasury Management Code and the Prudential Code for Capital Finance in Local Authorities which will apply from 2023/24. The new Codes have required some changes to the Council's Treasury Management Policy Statement, and the revised policy is attached at Appendix E.

Recommendations

That full Council note that the Executive Board have:

2.1 Approved the treasury strategy for 2023/24 as set out in Section 8.5 and noted the review of the 2022/23 strategy and operations set out in Sections 8.3 and 8.4.

That full Council agree that:

2.2 The borrowing limits for the Authorised Limit and Operational Boundary for 2022/23, 2023/24 and 2024/25 be confirmed as set in February 2022 and new limits for 2025/26 be approved at £3,200m for Borrowing and £530m for other Long term liabilities for the Authorised Limit. For 2025/26 the Operational Boundary is recommended to be approved at £2,950m for Borrowing and £510m for Other Long-term Liabilities. These are explained in detail in Section 8.6 of the report.

2.3 The treasury management indicator for the maturity structure of the Council's borrowing is recommended to be approved as detailed in Section 8.7 and Appendix B. The only change to this Indicator is to increase the maximum percentage of debt maturing within 12 months from the previous 15% to 25% in response to the change required to the underlying calculation of this indicator, from being based on fixed rate debt only to being based on all debt including short term and variable rate debt.

2.4 The investment limits for periods greater than 364 days for 2022/23, 2023/24, 2024/25 is recommended to be confirmed at £150m and a new limit is recommended to be set for 2025/26 at £150m. It is also recommended that the limit of £15m that can be placed with the Debt Management Account Deposit Facility (an arm of the Debt Management Office of HM Treasury) be removed, and that all other Investment limits remain as set in February 2022. These are explained in Section 8.8.9 of the report.

2.5 The Treasury Management Policy Statement be updated in line with the revised Codes of practice as shown at Appendix E. Council is requested to note that updated Treasury Management Practices and new Investment Management Practices (a new requirement, relating to non-treasury management investments), which are detailed operational documents, will be approved before the start of the 2023/24 financial year by the Chief Officer Financial Services as required under the CIPFA Codes.

What is this report about?

3.1 This report sets out for approval by Members the Treasury Management Strategy for 2023/24 and the revised affordable borrowing limits under the prudential framework. It also provides Members with a review of strategy and operations in 2022/23.

What impact will this proposal have?

4.1 Borrowing Limits for 2022/23, 2023/24, 2024/25 and 2025/26

4.1.1 The Council is required to set various borrowing limits for 2022/23, 2023/24, 2024/25 and 2025/26 in accordance with the Local Government Act 2003, having regard for CIPFA's prudential code. These limits including prudential indicators are detailed in Appendix B.

4.1.2 It is anticipated that the Council will continue to remain within the existing Authorised Limit for 2022/23. Both the Authorised Limit and Operational Boundary are made up of a limit for borrowing and a limit for other long-term liabilities.

4.1.3 The Chief Officer Financial Services has delegated authority to adjust between the two separate limits for borrowing and other long-term liabilities, provided that the overall limit remains unchanged. No adjustments between the limits have been made, and any such adjustments would be reported to the next available Council meeting following the change.

4.1.4 Borrowing limits for 2022/23 were approved by Council on 9th February 2022 and remain unchanged.

How Does This Proposal Impact the Three Pillars of the Best City Ambition?

☒Health and Wellbeing ☒Inclusive Growth ☒Zero Carbon

5.1 The Best City Ambition, underpinned by the three pillars, is the council's strategic plan which sets out the ambitions, outcomes and priorities for the city of Leeds and for the local authority. These, and the internal ambition for the council to be an Efficient, Enterprising, Healthy and Inclusive Organisation, can only be delivered if the council maintains a sustainable financial position both now, and in the longer-term. The Treasury Management Strategy contributes to this financial sustainability, and also secures the borrowing required to deliver the authority's Capital Programme (which is itself framed around the council's strategic priorities).

What consultation and engagement has taken place?

Wards Affected:

Have ward members been consulted? ☐Yes ☒No

6.1 This report sets the treasury management strategy and as such there is no need to consult the public. In establishing this strategy, consultation with the Council's treasury advisors has taken place.

6.2 The borrowing requirement is an outcome of the capital programme which has been the subject of consultation and engagement as outlined in the capital programme report elsewhere on this agenda.

What are the resource implications?

7.1 This treasury strategy recognises the borrowing necessary to fund the capital programme requirements of both General Fund and HRA. The revenue costs of borrowing are included within the revenue budgets of the general fund and HRA.

7.2 The updated strategy 2022/23 is forecast to deliver a saving of £3.6m at period 9.

What are the key risks and how are they being managed?

8.1 This report sets out the framework for the treasury strategy for the year ahead. The execution of strategy and associated risks are kept under regular review through:

- Monthly reports to the Finance Performance Group.
- Quarterly strategy meetings with the Chief Officer Financial Services and the Council's treasury advisors and
- Quarterly Reporting of the Prudential Indicators as part of the Council's financial health monitoring process.
- Regular market, economic and financial instrument updates, and access to real time market information.

8.2 The above monitoring mitigates the directorate level risk of "Failure to recover money invested in other financial institutions" and in addition the Treasury Management Strategy is linked to the corporate risk on 'Financial Forecasting'.

8.3 Review of Strategy and Borrowing Limits 2022/23

8.3.1 The Council's level of net external debt is anticipated to be £2,402m by 31/03/2023, £35m below expectations in November 2022. This is as a result of £36m forecast slippage in the capital programme 2022/23 offset by £1m lower MRP for 2022/23 than was previously forecast. This is detailed in Table 1 below:

Table 1

ANALYSIS OF BORROWING 2022/23		2022/23 Feb 22 Report £m	2022/23 Nov 22 Report £m	2022/23 This This Report £m
Net Borrowing at 1 April		2,366	2,165	**2,165**
New Borrowing for the Capital Programme – General Fund		178	152	**123**
New Borrowing for the Capital Programme – HRA		46	43	**36**
Debt redemption costs charged to Revenue (Incl HRA)		(63)	(61)	**(60)**
Reduced/(Increased) level of Revenue Balances		68	138	**138**
Net Borrowing at 31 March*		2,595	2,437	**2,402**
Capital Financing Requirement				**2,794**
* Comprised as follows				
Long term borrowing	Fixed	2,209	2,259	2,279
	Variable (less than 1 Year)	45	20	0
New Borrowing		229	182	147
Short term Borrowing		152	16	16
Total External Borrowing		2,635	2,477	2,442
Less Investments		40	40	40
Net External Borrowing		**2,595**	**2,437**	**2,402**
% gross borrowing exposed to interest rate risk		16%	9%	7%

Note: The Capital Financing Requirement (CFR) is the maximum level of debt (i.e. borrowing and finance leasing) that the Council can hold for its current year capital purposes. The Council is also allowed to borrow in advance for up to two future years capital programmes.

8.3.2 The Bank of England's Monetary Policy Committee (MPC) has raised rates consistently and dramatically in response to the emerging global and domestic pressures such as the Russia/Ukraine conflict and the economic impact of the COVID pandemic which have emerged during the year. The bank base rate started 2022/23 at 0.75% and has increased to its current level of 3.50% following the Bank of England's December meeting, with further increases expected. The markets now expect the base rate to peak at approximately 4.50% which would be the highest level since the financial crash of 2008 ending a decade or more of highly accommodative base rates.

8.3.3 The combined impacts of the Russia/Ukraine conflict, associated sanctions on Russia, Brexit and the relaxation of COVID measures continues to be a source of uncertainty to markets in forecasting GDP growth and inflation. UK GDP Growth was negative in Q3 2022 at -0.20% quarter on quarter, and a recession in the UK is widely expected by the markets in 2023. In the labour market October figures showed unemployment increased to 3.7% from a low point of 3.6%, highlighting that the labour market remains tight. CPI Inflation for November fell back from the peak of 11.1% to stand at 10.7% and is expected to fall back further as the shocks seen in 2022 begin to fall out of the inflation calculation. As experienced by other Western economies, the main drivers of this increase are energy prices, supply shortages and shipping costs. The MPC remains concerned about inflation and particularly signs of greater persistence in domestic costs and price pressures and average wage settlements of over 6% currently point to this concern. 2023 may also see a housing market correction and falls in house prices are already being reported by Halifax/Nationwide as affordability becomes an issue with fixed rate mortgages moving above 5%.

8.3.4 In the Eurozone Q3 growth was slightly positive at +0.2% although the adverse factors affecting UK growth highlighted above also apply globally in most cases and will impact the Eurozone. Headline inflation reached 10.1% however the ECB are watching wage growth figures which could lead to persistently higher service inflation. Eurozone base rate is current 2% which is below the UK /US base rates, however they started the tightening cycle later than those regions and began from a position of negative rates.

8.3.5 In the United States CPI inflation is currently 7.1% but has fallen back from a peak of 9.1% in June 2022 and is expected to fall further. It is also noted that labour shortages are driving up wage settlements which will be of concern to the Federal Open Markets Committee (FOMC) due to the potential for second round inflation effects that this may bring. Unemployment stood at 3.50% in December which points to a tight labour market. The FOMC has led the global tightening cycle with US rates now in a target range of 4.25% to 4.50% which is expected to be near its peak. US Growth posted a figure of 2.60% annualised in Q3 of 2022 however as with the trend globally this is expected to fall heading into 2023.

8.3.6 In Asia, China has recently relaxed its policy in relation to COVID outbreaks which had resulted in entire regions being locked down for periods of time. GDP at 3.9% is lower than has been seen from China generally but still positive, however long-standing economic issues regarding house building and infrastructure remain. In Japan GDP growth has turned negative at -0.2% in Q3 although annually it remained positive at 1.5%. Inflation has risen to 3.8% in November however the bank rate remains negative at -0.1.

8.3.7 The Council's treasury advisors' latest forecasts for Quarter 1, 2023 are that PWLB rates for 50-year borrowing will be around 4.30%, 10 year borrowing around 4.40% and 5 Year at 4.20%. Yields are expected to rise modestly during the early part of 2023/24 before falling back during 2024/25 and beyond. It should be noted that rates are not expected to fall back to the ultra-low levels seen over the previous decade. Please see Table 3 in paragraph 8.4.3 below for the latest rates and forecasts.

8.3.8 During 2022/23 the Council continued the strategy of funding the borrowing requirement from low short-term interest rates, balances and reserves whilst taking advantage of longer-term funding opportunities when they arise. At period 9 the debt budget outturn for 2022/23 is projected to deliver a saving of £3.6m. The ability to take longer term funding is discussed in the strategy for 2023/24 however Table 2 below details the new borrowing and repayment of long-term external debt so far during 2022/23. This shows that to date £38.9m has been repaid and £23.4m of new borrowing has been undertaken.

Table 2

Loan repayments and borrowing 2022/23							
Loan Repayments				**New Borrowing**			
Date	**Amount (£m)**	**Original Rate (%)**	**Notes**	**Date**	**Amount (£m)**	**Term (Years)**	**Interest Rate (%)**
PWLB Loans				PWLB			
11/05/2022	10.000	2.95%	n/a	09/08/2022	20.000	48 years	2.79%
17/05/2022	8.812	3.26%	n/a				
21/05/2022	10.000	2.90%	n/a				
04/03/2023	8.812	3.74%	* n/a				
Sub Total	**37.624**				**20.000**		
Non PWLB Loans				Non PWLB Loans			
01/04/2022	0.315	0.00%	Salix	Salix	1.709	8 year	0.00%
01/09/2022	0.024	0.00%	Salix	Salix **	1.709	8 year	0.00%
03/10/2022	0.315	0.00%	Salix				
03/10/2022	0.618	0.00%	Salix				
01/03/2023	0.024	0.00%	Salix *				
Sub Total	**1.296**				**3.418**		
Total	**38.920**			**Total**	**23.418**		

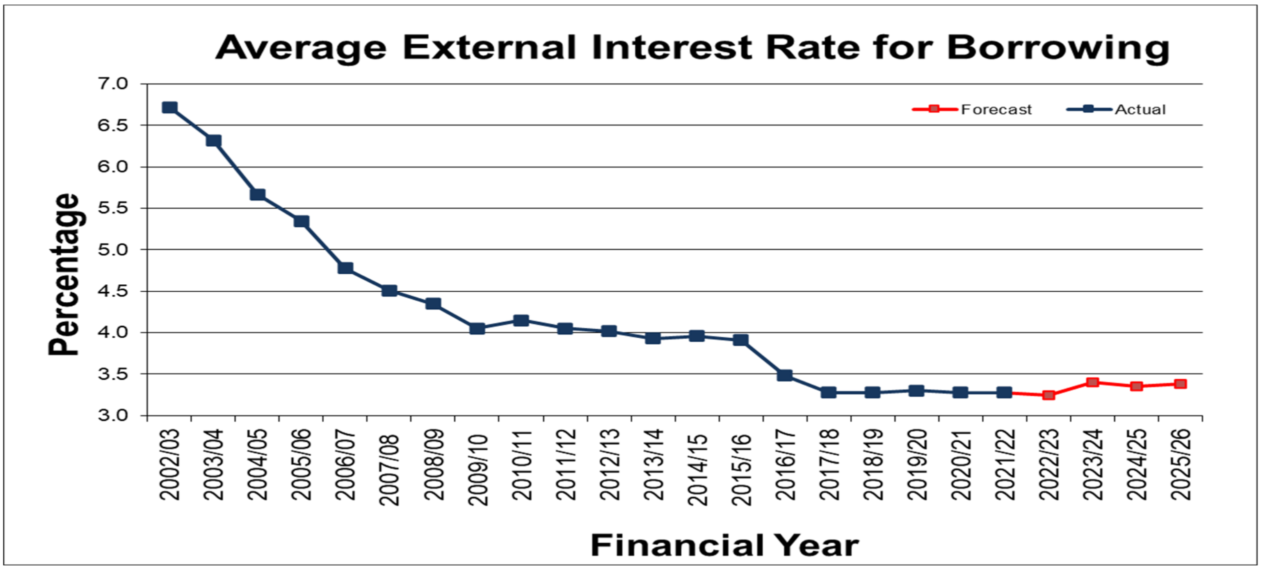
* known maturities that are yet to occur

** Facility Committed not Drawndown at this time

8.4 Interest Rate Review

8.4.1 The average rate of interest paid on the Council's external debt for 2021/22 was 3.28% as reported in the Annual Treasury Management report 2021/22 to Executive Board on 26th June 2022. This rate is forecast to fall slightly to 3.25% for 2022/23 mainly due to running the borrowing need on short term or from internal funding sources. Chart 1 shows how the average external borrowing rate has fallen from 6.72% in 2002/03. The longer-term expectation is that the Council's average cost of borrowing will begin to rise as the cost of new borrowing increases and short-term funding is potentially switched to more expensive longer-term funding. Taking longer term fixed rate borrowing will however reduce the Council's future exposure to potential interest rate increases at the point of switching and as such continues the prudent and sustainable management of the Council's borrowing need. The average rate may fall further if the rates do fall as forecast.

Chart 1



8.4.2 The projections for the next increase in the bank rate are now for Q1 2023 with further increases expected in Q2 2023, with a peak of short-term rates being 4.50%. This year has seen a significant, rapid, and largely unpredicted increase in rates due to several domestic and international factors such as the war in the Ukraine and supply side constraints. Table 3 below shows the projected PWLB interest rates over the next two years for a range of maturities.

8.4.3 As agreed with our Treasury advisors the current strategy is to take longer term fixed rate funding at the most opportune time to lock out interest rate exposure. However, given the short to medium term forecast for both short- and long-term interest rates, longer term borrowing will only be taken when rates fall from what is considered to be temporary elevated rates. The low level of existing short-term borrowing means that this can be done without introducing an excessive level of risk into the overall borrowing portfolio. At the point of acquiring longer term funding consideration will be given to:

- Whether the forecast capital borrowing requirement has reduced or slipped into the following year
- The forecast changes to levels of reserves/balances, including whether the Council has received funding in advance of spending for capital schemes.

Table 3

	Bank Rate	PWLB Borrowing Rates (including certainty rate adjustment)			
		5 year	10 Year	25 year	50 year
Now	3.50	4.06	4.20	4.53	4.20
March 2023	4.25	4.20	4.40	4.60	4.30
June 2023	4.50	4.20	4.40	4.60	4.30
Sept 2023	4.50	4.10	4.30	4.50	4.20
Dec 2023	4.50	4.00	4.10	4.40	4.10
Mar 2024	4.00	3.90	4.00	4.20	3.90
June 2024	3.75	3.80	3.90	4.10	3.80
Sept 2024	3.50	3.60	3.80	4.00	3.70
Dec 2024	3.25	3.50	3.60	3.90	3.60
Mar 2025	3.00	3.40	3.50	3.70	3.50
June 2025	2.75	3.30	3.40	3.60	3.30
Sept 2025	2.50	3.20	3.30	3.50	3.20
Dec 2025	2.50	3.10	3.30	3.50	3.20

8.5 Strategy for 2023/24

8.5.1 Table 4 below shows that net borrowing is expected to rise by £174m to £2,576m during 2023/24. This is a result of new borrowing to fund the capital programme net of MRP and an anticipated fall in internal resources available to fund the capital programme. The Capital Programme report is presented elsewhere on this agenda.

Table 4

ANALYSIS OF BORROWING 2022/23 – 2025/26		2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m
Net Borrowing at 1 April		2,165	2,402	2,576	2,740
New Borrowing for the Capital Programme – GF		123	134	125	79
New Borrowing for the Capital Programme - HRA		36	40	40	13
Debt redemption costs charged to Revenue (Incl HRA)		(60)	(65)	(67)	(68)
Reduced/(Increased) level of Revenue Balances		138	65	66	13
Net Borrowing at 31 March		2,402	2,576	2,740	2,777
* Comprised as follows					
Long term borrowing	Existing Fixed	2,279	2,141	2,184	2,146
	Existing Variable (Less than 1yr)	0	95	25	60
	Net New Borrowing	147	174	164	37
Short term Borrowing		16	206	407	574
Total External Borrowing		2,442	2,616	2,780	2,817
Less Investments		40	40	40	40
Net External Borrowing		2,402	2,576	2,740	2,777
% Exposure after planned LT Borrowing		7%	18%	21%	24%

Note: Borrowing exposed to interest rate risk in any one year is made up of short term borrowing, new long term borrowing and existing variable loans (i.e. LOBOs with an option falling within the year).

8.5.2 Table 4 above shows that over the 4-year time horizon the proportion of the Council's forecast borrowing portfolio which is exposed to interest rate risk is expected to rise to a maximum of 24% in 2025/26. The Variable Interest Rate Exposure Indicator previously required under the Code of Practice has been removed from the revised 2021 version of the Code. This was previously set in relation to the net external borrowing position at a level of 40%. It is now expected that a more nuanced discussion will be maintained around the interest rate risk contained within treasury management. This will be achieved within the Council through the setting of the annual strategy (this report) and the periodic review of the strategy by Executive Board, Financial Performance Group, Financial Health monitoring and meetings with the Council's Treasury Advisors as well as ongoing monitoring of the TM operation and markets by senior management. Included within the net external borrowing exposure are two elements that are variable, these are short term loans and Lenders Option Borrowers Option (LOBO) loans with an option which falls within 12 months. No LOBO options are expected to be exercised during 2023/24.

8.5.3 Alongside the Prudential Code structure, the Council's current policy of using its balance sheet strength, reserves, provisions etc. to defray external borrowing presents an exposure to a potential increase in external borrowing should the use of internal balances reduce unexpectedly. The strategy of acquiring long-term borrowing as outlined in 8.4.3 above will mitigate against this risk. The Council has a forecast need to borrow, its borrowing Capital Financing Requirement (CFR) which at 31/03/2023 is expected to be £2,794m and of which net external funding is expected to be £2,402m. The difference of £392m is the use of internal balance sheet strength to finance this borrowing need. The long-term funding element of the external debt is forecast to be £2,279m by 31/03/2023 and therefore, accepting that in current conditions LOBO options are unlikely to be exercised, the

Council's gross exposure to this risk is the difference between its CFR and its current stock of long-term external funding or £515m.

8.5.4 This potential exposure will be managed by the strategy outlined in 8.4.3 above of taking longer term borrowing when opportunities arise. This exposure should also be viewed against the context of historical capital programme slippage, the continued strength of the Council's balance sheet and the market for supplying short term funds remaining strong.

8.5.5 If the Council continued to fund its borrowing need from short term and internal sources only then this exposure is forecast to be £938m by the end of 2025/26. This would present several risks around continued balance sheet strength, the capacity to continue to supply the market with low-cost borrowing at relatively low rates, sharper than anticipated increases in rates and improved economic outlook. However, the strategy which the Council proposes to adopt (see 8.4.3 above) will ensure that longer term borrowing is taken at appropriate points during this period, so that the total exposure to new borrowing risk does not reach these levels.

8.5.6 The strategy outlined in 8.4.3 is to take longer term fixed rate borrowing when opportunities arise in combination with the temporary use of short-term borrowing as required. This strategy is considered prudent as base rate rises are expected to peak during the first half of 2023 before beginning to fall back as inflation falls.

8.5.7 The current economic outlook and the structure of market interest rates and government debt yields have several key treasury management implications:

- It is possible over the next few years that levels of government debt to GDP ratios could continue to rise to levels that could result in a loss of investor confidence in the financial viability of such countries. This could mean that sovereign debt concerns have not disappeared but, rather, have only been postponed. Counterparty risks therefore remain an ongoing concern.
- The effects of any change in US economic direction and performance.
- The evolving impact in the UK of Brexit and its implications for trade, growth, and inflation.
- The continuing impact of the COVID pandemic
- Investment returns have substantially increased recently back towards historic norms but are likely to begin to fall during 2023/24 and beyond.
- Borrowing interest rates have also substantially increased but likewise are expected to begin to fall during 2023/24 and
- If longer term borrowing is acquired before it is needed the result could be an increase in investments resulting in a revenue loss between borrowing costs and investment returns.

8.5.8 The Council's projected long-term debt as at 31/03/2023 of £2.279bn has an average maturity of just over 35 years if all of its debt runs to maturity. Approximately 10% of the Council's long-term debt portfolio has options for repayment. In the unlikely event that all these options were exercised at the next option date then the average maturity would be lowered to a little under 31 years. This compares favourably with the average maturity of the UK Government gross debt portfolio of 14.93 years. The existing profile of the Council's debt provides considerable certainty of funding costs. The Prudential Indicator for the maturity structure of the Council's borrowing in Appendix B shows the maturity profile of the Council's debt both long and short term and highlights that 73% or £1,788m matures in periods greater than 10 years.

8.5.9 The cost of debt is forecast to increase by £11.2m in 2023/24 principally due to the increasing borrowing requirement to fund the capital programme coupled with increasing long- and short-term interest rates. Provision has also been made to enhance financial sustainability by reducing the reliance on capital receipts to fund an element of PFI liabilities, anticipating potential changes to MRP regulations. Within the overall increase in the budget, external interest costs for the General Fund are budgeted to increase by £5.3m, MRP set aside to fund borrowing is projected to increase by £3.9m, and MRP to fund PFI liabilities is projected to increase by £2.4m. These increases are partially offset by projected increases in interest income of £0.4m from investing cash balances and from service loans made. Forecasts for the debt budget beyond 2023/24 are dependent upon the interest rate assumptions, the likely level of capital spend, and the Council's cash balances. The debt budget is currently forecast to increase by a further £3m in 2024/25 with a net increase in 2025/26 of £6.6m including MRP costs, based upon the assumptions on funding rates in Table 5 as well as a significant movement in capital receipt usage to fund PFI liabilities. The interest rate assumptions and the borrowing requirement arising from the capital programme will be kept under review throughout 2023/24, before establishing the 2024/25 debt budget.

Table 5

Assumed average funding rates	
Year	**Average Interest Rate**
2023/24	4.25%
2024/25	3.50%
2025/26	3.00%

8.5.10 Table 6 below shows the projected gross MRP and External Interest Payable by the General Fund included within the MTFS but does not include any interest or voluntary set aside payable by the HRA

Table 6

Heading	**2023/24 £m**	**2024/25 £m**	**2025/26 £m**
Gross MRP	64.91	66.98	68.17
External interest – General Fund	59.60	64.34	68.09

8.5.11 These assumptions on borrowing rates have associated risks. For example, in 2023/24, if the cost of borrowing was 0.25% higher than assumed, full year debt costs would increase by circa £0.7m. The debt budget now contains sufficient scope to fully switch from short term to long term as opportunities arise.

8.6 Borrowing Limits for 2022/23, 2023/24, 2024/25 and 2025/26

8.6.1 The authorised limit represents the legislative limit on the Council's external debt under the Local Government Act 2003. It should be set with sufficient headroom above the operational boundary to allow flexibility for planned borrowing to be undertaken, for prudent treasury management decisions to be taken and temporary cash flow fluctuations to be managed. The operational boundary should reflect the maximum anticipated level of external debt consistent with budgets and cash flow forecasts. It should be a management tool for on-going monitoring of external debt and may be breached temporarily due to unusual cash flow movements.

8.6.2 Appendix D shows that the Council has kept within the operational boundary and authorised limit in 2022/23.

8.6.3 The Chief Officer - Financial Services has delegated responsibility to adjust between the two separate limits for borrowing and other long-term liabilities, provided that the overall limit remains unchanged. Any such adjustments will be reported to the next available Council meeting following the change. It is recommended that Council approve the following authorised limits for its gross external debt and other long-term liabilities for the next three years.

8.6.4 After reviewing the forecast debt and borrowing position together with the forecast for revenue balances and MRP, the Limit for borrowing is recommended to remain the same for 2022/23, 2023/24 and 2024/25 as shown in table 7 below. For 2025/26 a new limit should be set at £3,200m. The limit for Other Long-Term Liabilities is recommended to remain the same for the years 2022/23 to 2024/25. This accommodates new lease accounting arrangements which have been delayed but are now optional from 2022/23 and expected to be mandatory from 2024/25. It is further recommended that a new limit be set for the year 2025/26 of £530m to reflect the forecast amortisation of PFI liabilities and finance leases.

Table 7

Authorised Limit	**2022/23 £m**	**2023/24 £m**	**2024/25 £m**	**2025/26 £m**
Borrowing	3,150	3,200	3,200	3,200
Other Long-Term Liabilities	630	600	570	530
Total	**3,780**	**3,800**	**3,770**	**3,730**

Recommended: Authorised Limits as above

8.6.5 In line with the review of the authorised limits above it is proposed to amend the Operational Boundaries as shown in Table 8 below. This limit will retain sufficient headroom to accommodate anticipated cash flow variances. The limit for borrowing is recommended to remain the same for the years 2022/23, 2023/24 and 2024/25. For 2025/26, a new limit should be set at £2,950m. The limit for Other Long-Term Liabilities is recommended to remain the same for the years 2022/23 to 2024/25 to accommodate further inclusions because of anticipated lease accounting changes. It is further recommended that a new limit be set for the year 2025/26 of £510m to reflect the forecast amortisation of PFI liabilities and finance leases.

Table 8

Operational Boundary	**2022/23 £m**	**2023/24 £m**	**2024/25 £m**	**2025/26 £m**
Borrowing	2,850	2,850	2,900	2,950
Other Long-Term Liabilities	610	580	550	510
Total	**3,460**	**3,430**	**3,450**	**3,460**

Recommended: Operational Boundaries as above

8.6.6 Table 9 below details separately the borrowing and Other Long-Term Liabilities element of the Authorised limit and compares this to the projected CFR. The revised Authorised limit and the Operational boundary remain in line with the projected CFR. The CFR is the Council's actual need to borrow based on its historic capital programme and forecast future capital programme. The limits reflect the significant level of balances being used internally to fund the borrowing need. These limits therefore leave headroom for future injections into the programme or external investment of Council balances. The full impact of the lease changes has not been fully examined and are therefore not included within the CFR projection for other long-term liabilities in table 9 below.

Table 9

year	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m	
External Borrowing					
CFR Projection.	2,794	2,923	3,042	3,084	
Authorised Limit					
Current	3,150	3,200	3,200	-	
Proposed	3,150	3,200	3,200	3,200	
Increase / (Decrease)	-	-	-	3,200	a
Operational boundary					
Current	2,850	2,850	2,900	-	
Proposed	2,850	2,850	2,900	2,950	
Increase / (Decrease)	-	-	-	2,950	a
Other Long Term Liabilities					
CFR Projection.	519	486	450	418	
Authorised Limit					
Current	630	600	570	-	
Proposed	630	600	570	530	
Increase / (Decrease)	-	-	-	530	a/b
Operational boundary					
Current	610	580	550	-	
Proposed	610	580	550	510	
Increase / (Decrease)	-	-	-	510	a/b

a) Note 2025/26 has not been set previously as these limits are only set for the current +3 year time horizon
b) The limits for Other long term liabilities OLTL includes an allowance for anticiapted lease accounting changes

8.7 Treasury Management Indicators

8.7.1 Appendix A provides a summary of the changes to recommended Prudential Indicators contained within the codes of practice and guidance notes. Appendix B details the borrowing limits and other prudential indicators and provides forecasts and limits based on the current Treasury Management projections.

8.7.2 The Council has adopted the CIPFA Code of Practice for Treasury Management in the Public Services 2021. This report now fully complies with this updated code of practice Under the new Code, several of the Treasury management indicators previously employed have been either amended or removed as a direct indicator see Appendix A.

8.7.3 New Indicators can broadly be described as limits for Non-Treasury management Investments and a liability benchmark for Borrowing. Other changes involved a move to a gross debt basis (all debt including temporary borrowing) for the maturity profile indicator and the removal of Treasury Management investment income from the financing cost to net revenue stream Indicators. These are explained in detail at Appendix A.

8.7.4 Three Indicators have also been retired from the new codes and these are likewise detailed in Appendix A.

8.7.5 The Council is required to set upper and lower limits for the maturity structure of its borrowings. This is designed to limit the risk of exposure to high interest rates by restricting the level of maturing debt in any given year. The limits represent the amount of projected borrowing that is maturing in each period as a percentage of total projected borrowing. Previously this was limited to fixed rate debt only but has now been amended to encompass all debt including variable and short term. As a result, it is proposed to increase the limit for debt maturing in the period under 12 months to accommodate the impact of including short term debt within this indicator. It is therefore proposed to increase this upper limit for borrowing maturing under 12 months to 25% from its previous limit of 15%. This is detailed in Table 10 below:

Table 10

<table>
<tr><th>Maturity structure of borrowing</th><th>Lower Limit</th><th>Current Upper Limit Fixed only</th><th>Proposed Upper limit All debt</th></tr>
<tr><td>under 12 months</td><td>0%</td><td>15%</td><td>25%</td></tr>
<tr><td>12 months and within 24 months</td><td>0%</td><td>20%</td><td>20%</td></tr>
<tr><td>24 months and within 5 years</td><td>0%</td><td>35%</td><td>35%</td></tr>
<tr><td>5 years and within 10 years</td><td>0%</td><td>40%</td><td>40%</td></tr>
<tr><td>10 years and within 20 years</td><td rowspan="5">25%</td><td rowspan="5">90%</td><td rowspan="5">90%</td></tr>
<tr><td>20 years and within 30 years</td></tr>
<tr><td>30 years and within 40 years</td></tr>
<tr><td>40 years and within 50 years</td></tr>
<tr><td>50 years and above</td></tr>
</table>

Recommended: Lower limits on maturity structure remain unchanged and Upper Limits be increased for the period under 12 months from 15% to 25%.

8.8 Treasury Management Investment Strategy and Limits

8.8.1 The CIPFA Codes and Guidance require Local Authorities to report on and monitor Non-Treasury Investments, service loans, guarantees and commercial investments. These are outside the scope of the Treasury Management function due to the differing risk profile and complexity of these transactions. Strategic considerations and reporting requirements for non-treasury investments are therefore included within the Capital and Investment Strategy, which is attached as an appendix to the Capital Programme Report which is elsewhere on this Executive Board agenda.

8.8.2 The Council's actual external borrowing need is reduced by the availability of revenue balances. The Treasury policy allows for the external investment of these balances at advantageous rates but with due regard for security of capital invested. Investment of surplus balances in general will be limited to cash flow and liquidity management although the interest rate outlook will be kept under review to identify any opportunities for longer term investment.

8.8.3 The approved lending list is based upon the assessment of the financial standing of counterparties as determined by international credit rating agencies and further refined and updated by the Council's advisors on a continual basis. The lending list is often further restricted based upon the Council's own view of the credit worthiness of counterparties.

8.8.4 The investment strategy allows for the Council to invest in the most highly rated financial institutions around the world. The Council will only lend up to a maximum of £15m to financial institutions that are rated as excellent. There is also a limit of £5m for financial institutions that are rated as very good.

8.8.5 Any changes in the investment environment are being monitored closely as is the effect on the credit list supplied by the Council's treasury advisors. Other factors are also used in determining potential counterparties for the investment of funds over and above credit ratings.

8.8.6 The Council under its existing Treasury Management Policy Statement has the authorisation to use Money Market Funds, although it has not utilised these to date. The rates offered on notice accounts by both the Council's bankers and by other banks offering similar products continues to be at low levels. As a result, the levels on offer are at or below rates available from Money Market Funds which carry a higher credit worthiness rating. A review of the possible benefits of these funds is being undertaken for depositing short term cash balances and any decision to utilise these accounts will be made under delegations already in place to the Chief Officer Financial Services.

8.8.7 The Prudential code requires that Councils set limits on Treasury Management investments for periods longer than 364 days. It is proposed to maintain the limits as outlined below in Table 11 and roll the limit forward into 2025/26

Table 11

Total principal sum invested for a period longer than 364 days	**2022/23** **£m**	**2023/24** **£m**	**2024/25** **£m**	**2025/26** **£m**
Upper limit	150	150	150	150

Recommended: Upper limit on sums invested for periods longer than 364 days to remain unchanged

8.8.8 Currently the Council has several limits in place for Treasury management investments as detailed under Appendix E paragraph 7.6, which can be summarised as £15m for excellent rated counterparties including Local Authorities and governmental bodies, £5m for counterparties rated as good and no limit for non-investment grade counterparties. Further a Group limit of £30m exists as a maximum that can be lent to one group comprising several banking licenses such as the Lloyds or RBS groups. The Council has no limit for deposits with its bankers as part of its banking arrangements. In order to provide additional capacity for securely investing surplus cash balances, it is proposed to remove the £15m limit for deposits made with HM Treasury's Debt Management Office. The Debt Management Account Deposit Facility is a facility provided to local authorities by the Debt Management Office of HM Treasury to provide them with a secure and flexible facility to supplement their existing range of investment options. The DMO is an arm of HM Treasury and therefore can be regarded as being credit rated at the sovereign rating of the UK itself.

8.8.9 These limits have been in place for a number of years and Table 12 below details the proposed change to the Treasury Management investments limits. The change is recommended to provide additional flexibility to Treasury Management in the management of cash resources within an acceptable level of individual counterparty risk.

Table 12

Investment Class	**Maximum Period**	**Current limit £m**	**New limit £m**

Banking Arrangements with NatWest	Call Account	Unlimited	Unlimited
DMADF	6 month maximum	15	Unlimited
Excellent Rated Counterparties (as detailed in Appendix E colour coding) Red Blue (UK Part nationalised banks) Orange Purple Yellow (Includes Local Authorities)	 6 Months 1 Year 1 Year 2 Years 5 years	 15 15 15 15 15	 15 15 15 15 15
Good Rated Counterparties (as detailed in Appendix E colour coding) Green	100 Days	5	5

Recommended: The period limits remain the same for each class of Counterparty, however the maximum limit relating to the Debt Management Office be removed as outlined above.

8.9 <u>Non-Treasury Management Investments</u>

8.9.1 As noted above, the revised CIPFA Codes include new limits and prudential indicators in relation to non-Treasury Management investments. These are addressed within the Capital and Investment Strategy, which is included elsewhere on this agenda. However, the proposed limits and indicators are included within Appendix B of this report for completeness.

What are the legal implications?

9.1 In accordance with the Council's Budget and Policy Framework, decisions on borrowing limits, treasury management indicators, investment limits and the Treasury Management Policy Statement are approved by Council. As such, recommendations 2.2 to 2.5 are not subject to call in.

9.2 The operation of the Treasury Management function is governed by provisions set out under part 1 of the Local Government Act 2003 whereby the Council is required to have regard to the Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code for Capital Finance in Local Authorities. In particular:

- The Prudential Code requires that full Council set certain limits on the level and type of borrowing before the start of the financial year together with a number of Prudential Indicators.
- Any in year revision of these limits must be set by Council.
- Policy statements are prepared for approval by the Council at least two times a year.

9.3 Updated versions of both the Prudential Code for Capital Finance in Local Authorities and the Treasury Management in the Public Services Code of Practice were published in December 2021 with the associated and complementary guidance notes being published soon thereafter. Although the new codes applied immediately, the Prudential Code states that the changes to reporting requirements that they introduced could be deferred until the 2023/24 financial year and this has now been implemented during 2022/23. These new reporting requirements include changes to the capital strategy, prudential indicators, investment reporting and requirements in regard to skills and knowledge.

9.4 The borrowing to deliver the Capital Programme is executed through the Treasury Strategy. Equality, diversity, cohesion, and integration requirements are addressed as part of individual capital scheme and programme approvals through the Capital Programme processes.

Options, timescales and measuring success

a) What other options were considered?

This report provides an update to the 2022/23 strategy and outlines the proposed strategy for 2023/24 including retiring, setting or amending prudential indicators where appropriate. This update and strategy are provided to Executive Board and Full Council regarding Treasury Management operation and activity. As such other options are not considered in this report.

b) How will success be measured?

Treasury Management continues to adhere to its governance framework including the CIPFA Code of Practice, the Prudential Codes 2021 and revised CIPFA guidance notes issued in 2022. In accordance with the Treasury Management Code, the Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the Council and any financial instruments entered into to manage these risks. All borrowing and investments undertaken during 2022/23 have been compliant with the governance framework with one exception when a sum of £15m was placed with a new counterparty who only had a £5m limit under the Council's accepted investment policy at the time of dealing. Upon being identified this was immediately reported to senior management. The investment funds were repaid on time and in full upon expiry of the investment term.

Progress against this 2023/24 strategy will be reported to Executive Board via an update report during the year and a final outturn report. The revenue cost of debt will continue to be monitored within Council's the overall monthly budget monitoring process. In addition, an update on the prudential indicators will be included within financial health reports to Executive Board.

Other measures of success will include remaining within any limits set as part of the Prudential Indicators such as the Authorised limit, Operational Boundary, the Limit on Treasury management Investments greater than 364 days and the Maturity Structure of External borrowing. A further measure of success will be remaining within the revenue budget for Debt approved by Full Council as part of the budget setting process.

Benchmarking of Treasury Management activity is only undertaken on an ad-hoc basis as the structure of debt portfolios and balance sheets of similar authorities often reflect the timing of past spending and financing decisions and therefore can lead to anomalies. The CIPFA Prudential Code makes it clear that prudential indicators should not be used for benchmarking purposes for this reason

c) What is the timetable for implementation?

This report is to confirm the successful operation of the Treasury Management strategy within the established legal and operational framework and is a continuous and on-going process.

Appendices

1.	Appendix A	Table of changes to Prudential Indicators under the 2021 Codes
2.	Appendix B	Prudential indicators 2022/23 to 2025/26
3.	Appendix C	Liability benchmark 2021/22 to 2031/32
4.	Appendix D	Prudential Code Monitoring 2022/23 – Debt
5.	Appendix E	Updated Treasury Management Policy Statement

Background papers

None

Appendix A

Table of Changes to the Prudential Indicators under the 2021 Codes of practice

The Prudential Indicators have been updated in light of the 2021 Code revision and are now provided in compliance with the Code. Changes to the Prudential indicators are detailed below.

PI	Name	Change
1	Estimate of Capital Expenditure	No Change
2	Capital Financing Requirement	No Change
3	Capital Financing Requirement	No Change
4	Operational Boundary	No Change
5	Authorised Limit	No Change
6	Actual External Debt (year-end Forecast)	No Change
7	Gross Debt and the CFR	No Change
8	Estimate of Financing Cost to Net revenue Stream – External Borrowing General Fund	Not required by Code but provided to show true external borrowing impact. External Investment income now excluded from calculation of financing cost
9	Estimate of Financing Cost to Net revenue Stream – General Fund including Other Long-Term Liabilities Including	External Investment income now excluded from calculation of financing cost
10	Estimate of Financing Cost to Net revenue Stream - External Borrowing Housing Revenue Account	Not required by Code but provided to show true external borrowing impact. External Investment income now excluded from calculation of financing cost
11	Estimate of Financing Cost to Net revenue Stream – Housing Revenue Account including Other Long-Term Liabilities Including	External Investment income now excluded from calculation of financing cost
12	Limit on non-Treasury Investments	New Indicator
13	Estimate of Net Income from Investments for Commercial and Service Purposes	New Indicator
14	Net Income from Investments for Commercial and Service Purposes as a Proportion of usable Reserves	New Indicator suggested but not required
15	Liability Benchmark for Borrowing	New Indicator
16	Maturity Structure of Borrowing	Indicator now relates to all borrowing and is no longer limited to fixed long-term maturity debt. This will require the limits to be reset when establishing the limits for 2023/24 due to impact of the inclusion of short term and variable rate debt
17	Upper limit for long term Treasury Investments to mature in following years	No Change
The Following indicators have been retired		
	Upper limit for fixed interest rate exposure	Previously PI14
	Upper Limit for variable interest rate exposure	Previously PI15
	Net debt as a Percentage of Gross debt	Previously PI18

Appendix B - TMSS PI's

DM10e

	Notes		Current year 2022.23	Year+1 2023.24	Year+2 2024.25	Year+3 2025.26
PRUDENTIAL CODE INDICATORS						
CAPITAL EXPENDITURE						
Estimate of Capital Expenditure	a					
General Fund		£k	288,634	362,601	304,387	162,047
Housing Revenue Account		£k	154,501	156,153	152,903	107,202
Total		£k	443,135	518,754	457,290	269,249
Capital Financing Requirement	b					
Borrowing - General Fund		£k	2,040,050	2,129,023	2,208,401	2,237,524
Borrowing - Housing Revenue Account		£k	754,299	793,847	834,093	846,918
Sub Total Borrowing		£k	2,794,349	2,922,870	3,042,494	3,084,442
Other Long Term Liabilities - GF		£k	411,381	386,110	359,397	335,375
Other Long Term Liabilities - HRA		£k	107,623	99,376	90,579	82,336
Sub Total Other Long Term Liabilities		£k	519,004	485,486	449,976	417,711
Total Capital Financing Requirement		£k	3,313,353	3,408,356	3,492,470	3,502,153
EXTERNAL DEBT						
Operational Boundary	c					
External Borrowing		£k	2,850,000	2,850,000	2,900,000	2,950,000
Other Long Term Liabilities		£k	650,000	650,000	650,000	650,000
Total			3,500,000	3,500,000	3,550,000	3,600,000
Authorised Limit	c					
External Borrowing		£k	3,150,000	3,200,000	3,200,000	3,200,000
Other Long Term Liabilities		£k	630,000	600,000	570,000	530,000
Total		£k	3,780,000	3,800,000	3,770,000	3,730,000
Actual External Debt (year end Forecast)	d					
PWLB		£k	1,805,172	1,763,737	1,738,737	1,738,737
Market (Inc LOBO)		£k	474,319	472,084	469,529	466,973
Short term (Actual)		£k	0	0	0	0
Short term (Forecast)		£k	162,500	380,171	571,726	611,281
Total Gross External Debt		£k	2,441,991	2,615,992	2,779,992	2,816,991
Other Long Term Liabilities		£k	519,004	485,486	449,976	417,711
Total Including OLTL		£k	2,960,995	3,101,478	3,229,968	3,234,702
Gross Debt and the CFR	e					
External Borrowing			ok	ok	ok	ok
Other Long term Liabilities			ok	ok	ok	ok
Total Gross Debt and the CFR			ok	ok	ok	ok
AFFORDABILITY						
Estimate of Financing Cost to Net revenue Stream	f					
External Borrowing Only - General Fund						
Financing Cost		£k	111,425	123,089	129,024	133,196
Net Revenue Stream		£k	521,942	573,357	615,012	633,817
Ratio		%	21.35%	21.47%	20.98%	21.01%
Including Other Long Term Liabilities - GF	f					
Financing Cost		£k	159,844	171,321	176,979	176,599
Net Revenue Stream		£k	521,942	573,357	615,012	633,817
Ratio		%	30.62%	29.88%	28.78%	27.86%
External Borrowing Only - Housing Revenue Account	f					
Financing Cost		£k	27,786	30,006	30,578	31,380
Net Revenue Stream		£k	16,527	16,390	16,221	14,992
Ratio		%	11.08%	11.24%	11.01%	11.09%
Including Other Long Term Liabilities - HRA	f					
Financing Cost		£k	44,313	46,396	46,799	46,372
Net Revenue Stream		£k	16,527	16,527	16,527	16,527
Ratio		%	17.67%	17.37%	16.85%	16.39%

INVESTMENTS						
Non Treasury Loans			80,000	80,000	80,000	80,000
Non Treasury Investments			250,000	250,000	250,000	250,000
Limit on non-Treasury Investments and loans	g		330,000	330,000	330,000	330,000
Estimate of Net Income from Investments for Commercial and Service Purposes	g					
Income		£k	6,799	6,710	7,030	6,992
Ratio of Income from Commerical and Service Puposes to Net revenue Stream		%	1.30%	1.17%	1.14%	1.10%

TREASURY MANAGEMENT CODE INDICATORS

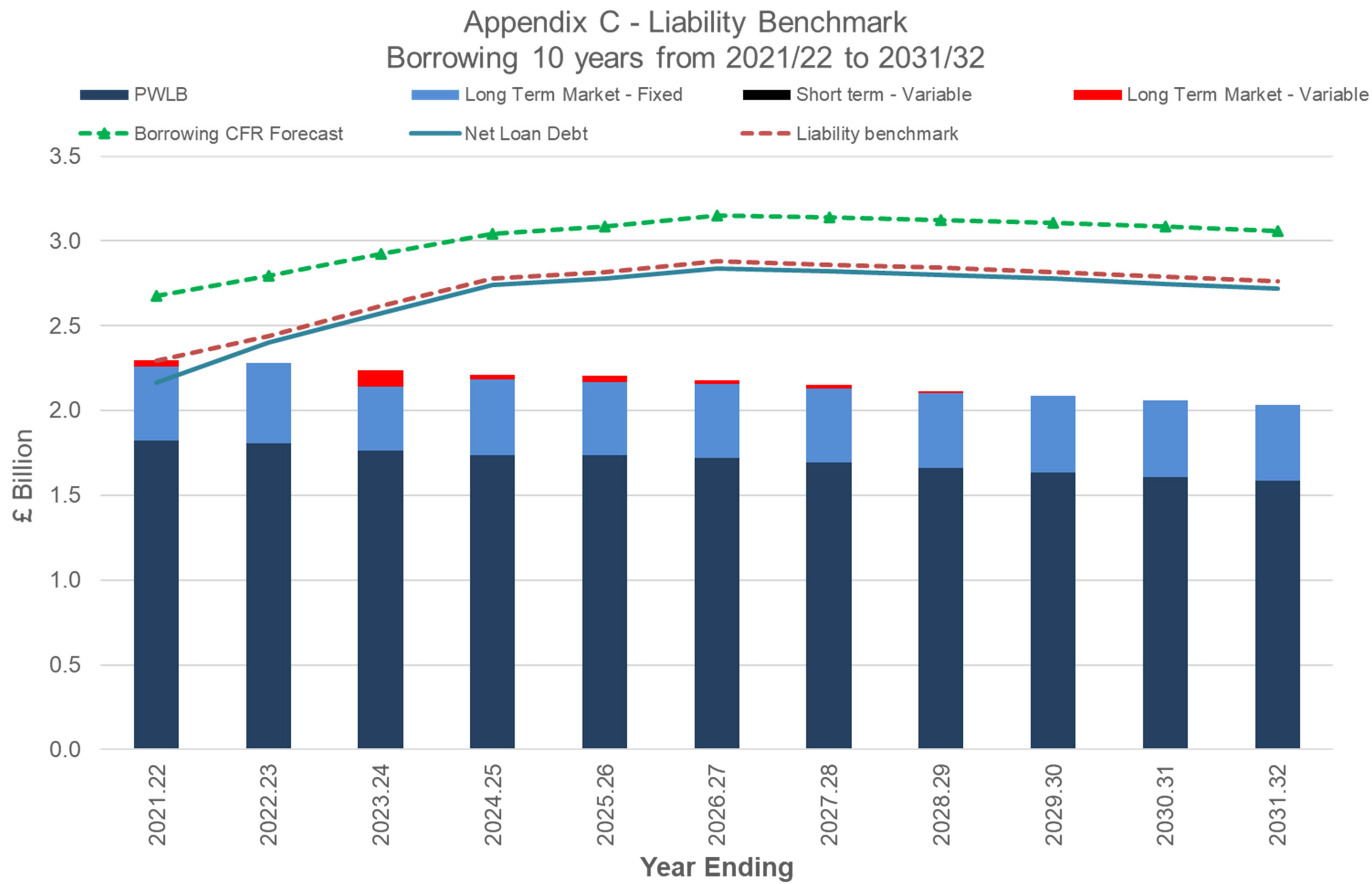
Liability Benchmark for Borrowing	See attached
Liability Benchmark for Investments	Not Applicable

Maturity Structure of Borrowing 2023/24	h	Lower	Upper	Projected 31/03/2023	%
under 12 mths		**0%**	**25%**	314,171	13%
12 mths and within 24 mths		**0%**	**20%**	52,556	2%
24 mths and within 5 years		**0%**	**35%**	157,060	6%
5 years and within 10 years		**0%**	**40%**	142,782	6%
10 years and within 20 years				95,000	
20 years and within 30 years				174,123	
30 years and within 40 years		**25%**	**90%**	679,302	73%
40 years and within 50 years				715,000	
50 years and above				125,000	
				2,454,994	100%

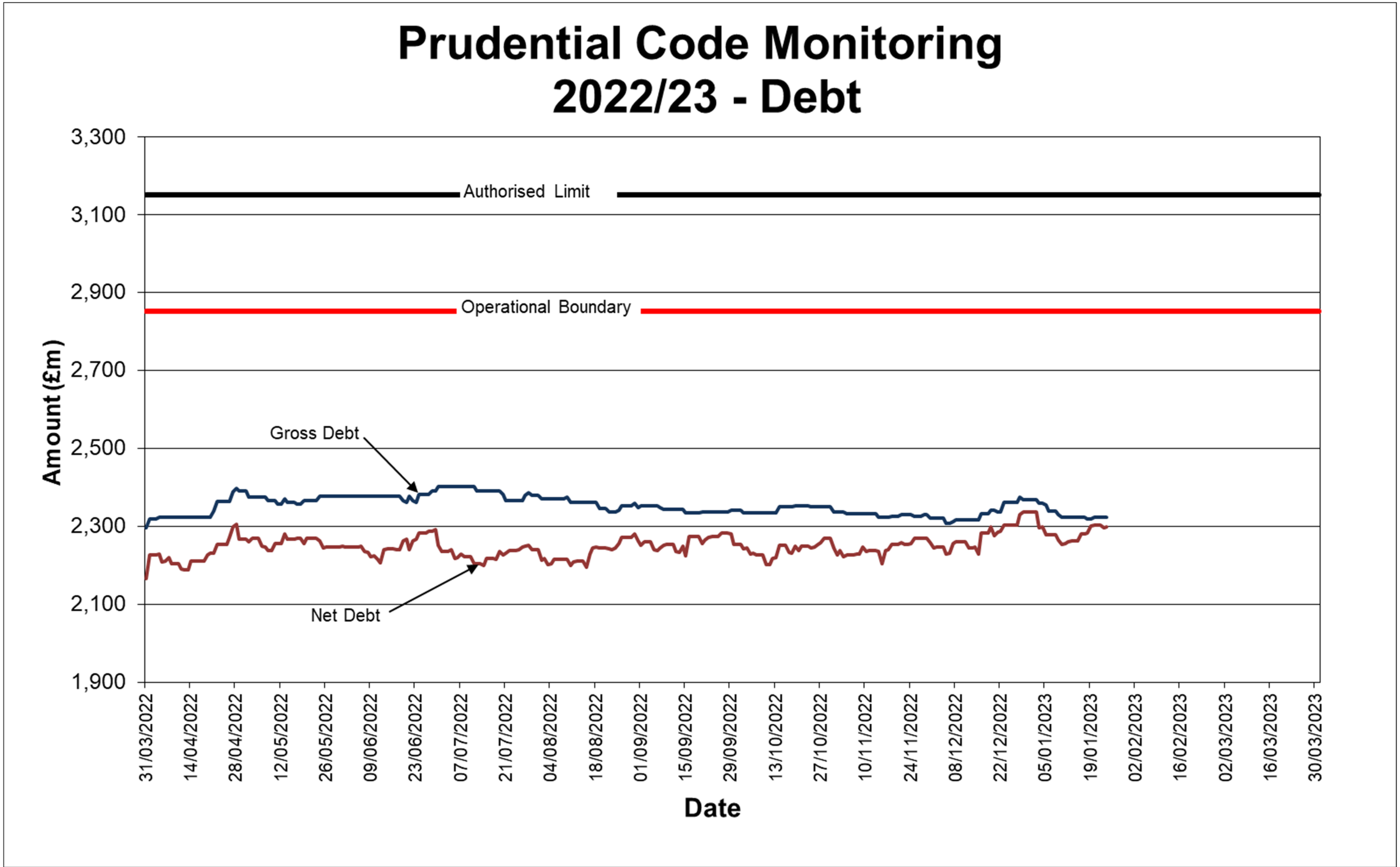
Upper limit for long term Teasury Investments to mature in following years	i	
Year +1		150,000
Year +2		150,000
Year +3		150,000

Notes

- a Forecast of capital expenditure for year at period end, actual at year end outturn
- b Forecast of CFR for year end at period end, actual at year end outturn
- c Authorised limit and Operational Boudary as set at the Budget setting time should only change in exceptional circumstances
- d This is the year end forecast for DEBT and OLTL with Short term being the balancing figure
- e In order to ensure that over the medium term debt will only be for a capital purpose, the local authority should ensure that total gross debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years. If in any of these years there is a reduction in the capital financing requirement, this reduction is ignored in estimating the cumulative increase in the capital financing requirement, which is used for comparison with gross external debt. This is a key indicator of prudence. (This is shown as "OK" or "Breach" depending on the result of the above comparison)
- f Code only requires full comparison of debt costs including OLTL to Net revenue Streams however the Council have always reported the external borrowing metrics which are more informative.
- g This is all investments under the code for Service or Commercial purposes and excludes Investments for Treasury Management purposes
- h This now includes all external debt including variable and short term external debt
- i This is non specified Treasury Management investments typically with a duration of greater than 364 days


Appendix C - Liability Benchmark
Borrowing 10 years from 2021/22 to 2031/32
PWLB
Long Term Market - Fixed
Short term - Variable
Long Term Market - Variable
Borrowing CFR Forecast
Net Loan Debt
Liability benchmark
£ Billion
3.5
3.0
2.5
2.0
1.5
1.0
0.5
0.0
2021.22
2022.23
2023.24
2024.25
2025.26
2026.27
2027.28
2028.29
2029.30
2030.31
2031.32
Year Ending

Appendix D


Prudential Code Monitoring
2022/23 - Debt
Authorised Limit
Operational Boundary
Gross Debt
Net Debt
Amount (£m)
3,300
3,100
2,900
2,700
2,500
2,300
2,100
1,900
31/03/2022
14/04/2022
28/04/2022
12/05/2022
26/05/2022
09/06/2022
23/06/2022
07/07/2022
21/07/2022
04/08/2022
18/08/2022
01/09/2022
15/09/2022
29/09/2022
13/10/2022
27/10/2022
10/11/2022
24/11/2022
08/12/2022
22/12/2022
05/01/2023
19/01/2023
02/02/2023
16/02/2023
02/03/2023
16/03/2023
30/03/2023
Date

Appendix E

Treasury Management Policy Statement

1 Introduction

1.1 The following document sets out the Treasury Management Policy Statement (TMPS) for the Authority, which fully complies with the requirements of the CIPFA Prudential Code and Code of Practice.

2 Background

2.1 CIPFA first published its Code of Practice on Treasury Management in May 1992. There have been subsequent revisions over the years culminating in the latest version of the code, the fully revised Fifth Edition 2021, which recommends that all public service organisations adopt, as part of their standing orders and financial procedures, the following four clauses.

a) This Council will create and maintain, as the cornerstones of effective treasury management:

- A Treasury Management Policy Statement (TMPS), stating the policies and approach to risk management of its treasury management activities
- Suitable Treasury Management Practices (TMP's), setting out the manner in which the organisation will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities. A full set of TMP's are maintained in Treasury Management.
- Investment Management Practices (IMP's) (for investments that are not for treasury management purposes.

b) The Executive Board will receive reports on its treasury management policies, practices and activities, including, as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close, in the form prescribed in its TMP's.

c) This Council delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to the Executive Board, and for the execution and administration of treasury management decisions to the Chief Officer Financial services, who will act in accordance with the organisation's Treasury Management Policy Statement and Treasury Management Practices and, if they are a CIPFA member, CIPFA's *Standard of Professional Practice on Treasury Management.*

d) This Council nominates the Corporate Governance and Audit committee to be responsible for ensuring the effective scrutiny of the treasury management strategy and Policies.

2.2 CIPFA recommends that an organisation's TMPS adopts the following forms of words to define the policies and objectives of its treasury management activities:

- This Council defines its treasury management activities as: "The management of the Council'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."
- This Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and

reporting of treasury management activities will focus on their risk implications for the Council and any financial instruments entered into to manage these risks.

- This Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving best value for money in treasury management, and to employing suitable performance measurement techniques, within the context of effective risk management.

2.3 These key recommendations and form of words as specified above were first adopted by the Executive Board on the 12th March 2003 and re-affirmed subsequently.

2.4 The operation of the Treasury Management function is governed by provisions set out under part 1 of the Local Government Act 2003 whereby the Council is required to have regard to the Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code for Capital Finance in Local Authorities.

2.5 The Prudential Code requires that full Council set certain limits on the level and type of borrowing before the start of the financial year together with a number of Prudential Indicators. Any in year revision of these limits must similarly be set by full Council.

3 Objectives of Treasury Management

3.1 The primary objective is to reduce the cost of debt management with which the other objectives are deemed to be consistent. Varying degrees of emphasis will be placed upon the “secondary objectives” at different times contingent upon prevailing market conditions.

3.2 The objectives are identified as follows:

a) To reduce the cost of debt management.

b) To ensure that the management of the HRA and general fund is treated equally, and new accounting principles are examined to provide benefits where possible.

c) To effect funding at the lowest point of the interest rate cycle.

d) To maintain a flexible approach regarding any financial matters that may affect the Council.

e) To keep under constant review advice on investment/repayment of debt policy.

f) To maintain a prudent level of volatility dependent upon interest rates.

g) To set upper and lower limits for the maturity structure of its borrowings and to maintain a reasonable debt maturity profile.

h) To specifically ensure that Leeds City Council does not breach Prudential Limits set by the Council.

i) To ensure that the TMPS is fully adhered to in every aspect.

4 Approved Activities of the Treasury Management Operation

4.1 The approved activities of the Treasury Management operation cover:

a. Borrowing (Including borrowing on a forward start basis).

b. Investment for Treasury Management purposes.

c. Debt repayment and rescheduling.

d. Financial instruments new to the authority (including financial derivatives).

e. Risk exposure and

f. Cash flow.

4.2 It is the Council's responsibility to approve the TMPS. The Executive Board will receive and consider as a minimum:

a) an annual Treasury Management Strategy before the commencement of the new financial year (which sets out the likely operations for the forthcoming year);

b) a mid-year update on treasury strategy.

c) an annual report on the treasury management activity after the end of the year to which it relates.

4.3 The Chief Officer Financial Services will:

a) implement and monitor the TMPS, revising and resubmitting it for consideration to the Executive Board and the Council, periodically if changes are required.

b) draft and submit a Treasury Management Strategy to the Executive Board, in advance of each financial year including recommendations to full Council.

c) draft and submit an update report on Treasury Management activity to the Executive Board

d) draft and submit an annual report on Treasury Management activity to the Executive Board and.

e) implement and monitor the Strategy, reporting to the Executive Board any material divergence or necessary revisions as and when required.

f) Submit as part of the financial health monitoring report to Executive Board a statement of performance against the approved prudential indicators adopted as part of the annual strategy.

5 Formulation of Treasury Management Strategy

5.1 Whilst this TMPS outlines the procedures and considerations for the treasury function as a whole, requiring revision occasionally, the Treasury Management Strategy sets out the specific expected treasury activities for the forthcoming financial year. This strategy will be submitted to the Executive Board for approval before the commencement of each financial year.

5.2 The formulation of the annual Treasury Management Strategy 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, the Council may postpone borrowing if fixed interest rates are falling).

5.3 The Treasury Management Strategy is also concerned with the following elements:

a) the prospects for interest rates.

b) the limits placed by Council on treasury activities (per this TMPS).

c) the expected borrowing strategy (including forward start borrowing).

d) the Treasury Management investment strategy.

e) the expectations for debt rescheduling.

5.4 The Treasury Management Strategy will establish the expected move in interest rates against alternatives (using published forecasts where applicable) and highlight sensitivities to different scenarios.

6 Approved Methods and Sources of Raising Capital Finance

6.1 Under the Local Government Act 2003 a local authority may borrow money for:

a) for any purpose relevant to its functions under any enactment, or
b) for the purposes of the prudent management of its financial affairs.

A local authority may not, without the consent of the Treasury, borrow otherwise than in sterling.

6.2 Local authorities have in the past only been able to raise finance in accordance with the Local Government Act 2003, and within this limit The Council has a number of approved methods and sources of raising capital finance. These are:

		Fixed	Variable
	Public Works Loans Board (PWLB)	•	•
	European Investment Bank (EIB)	•	•
*	Stock Issues	•	•
	Market Long-Term	•	•
	Market Temporary	•	•
	Local Temporary	•	•
*	Local Bonds	•	
*	Crowd Funding Platforms	•	
*	Municipal Bond Agency	•	•
	Overdraft		•
*	Negotiable Bonds	•	•
	Internal (capital receipts & revenue balances)	•	•
*	Commercial Paper	•	
*	Medium Term Notes	•	
*	Leasing	•	•

* (Not used at present by this Council)

6.3 The revised treasury management code of practice (2021), through the Localism Act 2011, gave local authorities the power to use derivatives for interest rate risk Management. These instruments will only be used after a review of their appropriateness for interest rate risk management is undertaken.

6.4 Where borrowing for a forward start is considered (other than for near start temporary borrowing) this will be subject to appropriate VFM analysis and subject to interest rate sensitivity analysis but it is acknowledged that forecast for interest rate movements may not occur as forecast. This activity will therefore only be undertaken after careful security and be part of a wider risk mitigation strategy taking into account:

- Forecast temporary borrowing exposure.
- Forecast base and long-term interest rate projections.
- Impact on revenue budgets.
- Sensitivity to interest rate variations.
- Comparison to current borrowing costs and risks arising on counterparty investments risk and budgetary impact (see 7 below).

7 Approved Instruments and Organisations for Investments

7.1 With effect from the 1st April 2004, to coincide with the introduction of the prudential code, legislation has been issued to deal with the issue of Local Government Investments. This legislation lifts the restrictions on Councils with external debt to not hold investments for more than 364 days. Further freedoms are also provided which will give Councils greater flexibility and hence access to higher returns, provided that any investment strategy is consistent with the new prudential framework.

7.2 The Council will have regard to the MHCLG Guidance on Local Government Investments (Third Edition) issued in December 2017 and CIPFAs Treasury Management in Public Services Code of Practice and Cross Sectoral Guide. The Council's Treasury Management investment priorities are:

a) The security of capital

b) The liquidity of investments

c) and finally, the yield of the investment

7.3 The Council will also aim to achieve the optimum return on its investments commensurate with proper levels of security and liquidity. The Council does not have the authority to undertake borrowing purely to invest or lend and make a return as this is unlawful and will not engage in such activity. 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 of need 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.

7.4 The Chief Officer Financial Services will formulate suitable criteria for assessing and monitoring the credit risk of investment counterparties and shall construct a lending list comprising time, type and specific counterparty limits as detailed in the TMP's. This criterion is outlined below. Should any revisions occur to the criteria, they will be submitted to the Executive Board for approval. Where individual counterparties newly obtain the required criteria, they will be added to the list. Similarly, those ceasing to meet the criteria will be immediately removed. The criteria use ratings from the three rating agencies and those relating to Fitch are explained in Annexe A.

7.5 The Council's approved Treasury Policy is to use the recommended lending list provided by the Council's treasury advisers. This list is compiled on a matrix approach using data from recognised international credit rating agencies as well as information on individual counterparties drawn from Credit Default Swaps (CDS) levels, which provide ratings of institutions across four categories. The rankings of institutions regarded as excellent is split into eight colours (yellow, dark pink, light pink, purple, blue, orange, red and green) to reflect the length of time over three months that amounts can be placed with them and to reflect the explicit support level given to UK part nationalised banks (Blue), and the special category for investment in UK gilts, UK Locals, supranational and collateralised deposits (Yellow). Regular updates are made to this list, as institutions' credit ratings change. The use of the list was introduced and reported to Executive Board in the Treasury Strategy and Policy report of February 2002 with updates since.

The following investment limits are applied by the Council's Treasury policy:

Advisor Ranking	**Meaning**	**Limit on Amount Lent**	**Current Limits on Duration**
Green	Good	£5m	100 Days
Red	Excellent	£15m	6 Months
Orange	Excellent	£15m	1 Year
Purple	Excellent	£15m	2 Years
Other			
Blue	Excellent	£15m	1 Year
Yellow	Excellent	£15m	5 Years
No Colour	Not to be used		

The CDS subjective overlay is then applied to the general banks and further reduces the suggested limits of duration as shown in the following table:

Initial Duration (Months)	Suggested Duration (watch/ outlook)	CDS Status	Suggested Adjusted Colour	Adjusted Duration (Months)
0	N/C	In Range	N/C	0
0	N/C	Monitoring	N/C	0
0	N/C	Out of Range	N/C	0
3	G	In Range	G	3
3	G	Monitoring	N/C	0
3	G	Out of Range	N/C	0
6	R	In Range	R	6
6	R	Monitoring	G	3
6	R	Out of Range	N/C	0
12	O	In Range	O	12
12	O	Monitoring	R	6
12	O	Out of Range	N/C	0
24	P	In Range	P	24
24	P	Monitoring	O	12
24	P	Out of Range	N/C	0

7.6 The Council will lend up to £15 million to an institution ranked as 'excellent' and up to £5 million for up to 100 days to an institution ranked as 'good'. A number of these institutions exist within the same group of companies as parents or subsidiaries. A limit to the risk exposure of the Council for groups of banks borrowing limit has also been set of £30m. These limits do not apply to the Councils' banker where we have an unlimited deposit facility as part of our banking arrangements and to deposits placed with the DMADF. The DMADF is the Debt Management Account Deposit Facility of HM Treasury through the Debt Management Office DMO and is provided to Councils to enable them to place deposits in a secure and flexible facility to supplement their existing range of Investment options. The DMO being an arm of HM treasury can be regarded as being the same credit rating as the UK itself. The Council's banking arrangements are the subject of a separate contract, and as such volumes and levels of transactions are not subject to the counterparty ratings and limits that are in place generally on external investments. Other local authorities are classified with an excellent rating and as such attract a £15 million investment limit for a maximum of 5 years (Yellow classification).

7.7 Within the investment limits outlined above the Council has access to a number of investment instruments. These are listed below as specified and non-specified investment categories. Specified investments are defined as "minimal procedural formalities" under the revised 2018 MHCLG guidance.

a) **<u>Specified Investments</u>**

(All such investments will be sterling denominated, with **maturities of any period meeting** the minimum 'high' rating criteria where applicable)

Fixed Term Deposits with fixed rates	**Use**
Debt Management Agency Deposit Facility	In-house
Term deposits – local authorities	In-house
Term deposits – banks and building societies	In-house and fund managers

In the following table the determination as to whether the following are specified or non-specified is at the discretion of the Authority depending on the element of the return that is fixed, **provided that the maturity of the investment falls within 1 year.**

Fixed term deposits with variable rate and variable maturities: -	
Callable deposits	In-house and fund managers
Range trade	In-house and fund managers
Snowballs	In-house and fund managers
Certificates of deposit issued by banks and building societies	In-house buy and hold and fund managers
UK Government Gilts	In-house buy and hold and Fund Managers
Bonds issued by multilateral development banks	In-house on a "buy-and-hold" basis. Also, for use by fund managers
Bonds issued by a financial institution which is guaranteed by the UK government	In-house on a "buy-and-hold" basis. Also, for use by fund managers
Sovereign bond issues (i.e. other than the UK government)	In house on a "buy and hold basis" and Fund Managers

Treasury Bills	Fund Managers
Local Authority Treasury Bills	In-house and fund managers
Collective Investment Schemes structured as Open-Ended Investment Companies (OEICs):	
1. Money Market Funds CNAV	In-house and fund managers
2. Money Market Funds LVNAV	In-house and fund managers
3. Money Market Funds VNAV	In-house and fund managers
4. Enhanced cash funds	In-house and fund managers
5. Short term funds	In-house and fund managers
6. Ultra-Short Dated Bond Funds with a credit score of 1.25	In-house and Fund Managers
7. Ultra-Short Dated Bond Funds with a credit score of 1.50	In-house and Fund Managers
8. Gilt Funds	In-house and Fund Managers

Note: If forward deposits are to be made, the forward period plus the deal period should not exceed one year in aggregate.

b) **<u>Non-Specified Investments</u>**:

Non-specified investments are those where the return is uncertain.

Maturities of ANY period.

	Use
Corporate Bonds: ***the use of these investments would constitute capital expenditure***	In house on a "buy and hold basis" and Fund Managers
Floating Rate Notes: ***the use of these investments would constitute capital expenditure unless they are issued by a multi-lateral development bank***	Fund managers

All the investments in the following table are non-specified as returns could be uncertain and **the maturity of the investment is greater than 1 year.**

Fixed term deposits with variable rate and variable maturities	
1. Callable deposits	In-house and fund managers
2. Range trade	In-house and fund managers
3. Snowballs	In-house and fund managers
Certificates of deposits issued by banks and building societies	In house on a "buy and hold basis" and Fund managers
UK Government Gilts	In house on a "buy and hold basis" and Fund Managers
Bonds issued by multilateral development banks	In-house on a "buy-and-hold' basis". Also, for use by fund managers
Bonds issued by a financial institution which is guaranteed by the UK government	In-house on a "buy-and-hold" basis. Also, for use by fund managers
Sovereign bond issues (i.e. other than the UK govt)	In house on a "buy and hold basis" and Fund Managers
Collateralised deposits	In house and fund managers

Property fund: ***the use of these investments would constitute capital expenditure***	Fund manager
1. Bond Funds	In-house and Fund Managers
2. Gilt Funds	In-house and Fund Managers
Collective Investment Schemes structured as Open-Ended Investment Schemes	
1.Bond Funds	In-house and Fund Managers
2. Gilt Funds	In-house and Fund Managers

7.8 The Chief Officer Financial Services will continue to monitor the range of investment instruments available and make changes to the list as appropriate.

8 Investments on Behalf of Council Managed Charities and Trusts

8.1 The Council currently invests surplus balances on behalf of trust funds and Charities in the name of the Council and investments are within the overall counterparty limits identified in 7.6 above.

8.2 To provide the Council and Charities/Trusts with a greater degree of flexibility the Council will have the option to invest monies on behalf of charities and trusts over and above the Council's own investment limits. This additional investment will be subject to individual Charity/Trust fund Board approval.

8.3 The Council will only invest in those counterparties that are on the approved list as per the investment criteria outline in 7.5 above. Investments made on behalf of Charities/Trust funds are subject to the same criteria unless there is specific Charity/Trust fund approval in place to invest in other counterparties.

9 Policy on Interest Rate Exposure

9.1 As required by the Prudential Code, the Council must approve before the beginning of each financial year the following treasury limits:

a) the overall borrowing limit;

9.2 The maximum proportion of interest on borrowing which is subject to variable rate interest is no longer required to be reported although the level of exposure to variable rates is detailed within the Strategy report along with mitigations and risk management strategies.

9.3 The Chief Officer Financial Services is responsible for incorporating these limits into the Annual Treasury Management Strategy, and for ensuring compliance with the limits. Should it prove necessary to amend these limits, the Chief Finance Officer shall submit the changes for approval to the Executive Board before submission to the full Council for approval.

10 Policy on External Managers

10.1 The Council has taken the view that the appointment of external fund managers would not provide an enhanced return over what could be achieved by managing investment in house.

10.2 However, the fact that a fund manager's expertise allows for a wider investment portfolio than would be operated by Council officers may give opportunities for capital gains to supplement interest earned on investment of revenue balances.

10.3 It is felt appropriate therefore that the Policy allows for the use of external fund managers and although none are being used at present, this situation will be kept under review. Appointment of a fund manager would take place following a tender exercise and submissions on target performance.

11 Policy on Delegation and Review Requirements and Reporting Arrangements

11.1 The Council is responsible for determining the borrowing limits detailed in section 8 above. Other responsibilities and duties are delegated as follows.

11.2 The Executive Board has responsibility for determining and reviewing treasury strategy and performance. (See section 5 above).

11.3 The Chief Officer Financial Services and through them to their staff has delegated power for all Treasury Management borrowing and lending decisions. This delegation is required in order that the authority can react immediately to market interest rate movements and therefore achieve the best possible terms. The Chief Officer Financial Services and their staff will operate in accordance with the Code of Practice for Treasury Management in Local Authorities.

11.4 The treasury management governance framework and the delegations within the Resources Directorate and specifically to the Chief Officer Financial Services shall operate on the following basis and is summarised in Annexe B:

a) The practical organisation within the Resources Directorate is that all aspects of borrowing/lending strategy over the year are determined or reported to regular monthly meetings of the Finance Performance Group attended by the Chief Officer Financial Services and Heads of Finance. Quarterly, treasury strategy review meetings take place with the Chief Officer Financial Services, Deputy Chief Officer Financial Services, the Head of Finance - Technical and the Senior Finance Manager (Treasury Management).

b) Implementation of decisions at such meetings and the day to day management of the Treasury Operations are delegated without limit to the Chief Officer Financial Services or in their absence and through them to the Deputy Chief Officer Financial Services, Head of Finance - Technical or the Senior Finance Manager (Treasury Management) and to the Finance Managers authorised within Treasury Management.

c) Consultations will be made by the Chief Officer Financial Services on Treasury Management matters with:

- The Chief Executive: so that they can ensure proper Treasury Systems are in place and are properly resourced.

- External Treasury Advisers: so that they can advise and monitor the process of fixing strategy and policy on Treasury matters and advise on the economic outlook, prospects for interest rates and credit worthiness

FITCH CREDIT RATING DEFINITIONS
Source: Fitch Ratings

Fitch Ratings publishes credit ratings that are forward-looking opinions on the relative ability of an entity or obligation to meet financial commitments. Issuer default ratings (IDRs) are assigned to corporations, sovereign entities, financial institutions such as banks, leasing companies and insurers, and public finance entities (local and regional governments). Issue level ratings are also assigned, often include an expectation of recovery and may be notched above or below the issuer level rating. Issue ratings are assigned to secured and unsecured debt securities, loans, preferred stock and other instruments, Structured finance ratings are issue ratings to securities backed by receivables or other financial assets that consider the obligations' relative vulnerability to default.

Credit ratings are indications of the likelihood of repayment in accordance with the terms of the issuance. In limited cases, Fitch may include additional considerations (i.e., rate to a higher or lower standard than that implied in the obligation's documentation). Please see the section Specific Limitations Relating to Credit Rating Scales for details.

Fitch Ratings also publishes other ratings, scores and opinions. For example, Fitch provides specialized ratings of servicers of residential and commercial mortgages, asset managers and funds. In each case, users should refer to the definitions of each individual scale for guidance on the dimensions of risk covered in each assessment.

Fitch's credit rating scale for issuers and issues is expressed using the categories 'AAA' to 'BBB' (investment grade) and 'BB' to 'D' (speculative grade) with an additional +/- for AA through CCC levels indicating relative differences of probability of default or recovery for issues. The terms "investment grade" and "speculative grade" are market conventions and do not imply any recommendation or endorsement of a specific security for investment purposes. Investment grade categories indicate relatively low to moderate credit risk, while ratings in the speculative categories signal either a higher level of credit risk or that a default has already occurred.

Fitch may also disclose issues relating to a rated issuer that are not and have not been rated. Such issues are also denoted as 'NR' on its web page.

Credit ratings express risk in relative rank order, which is to say they are ordinal measures of credit risk and are not predictive of a specific frequency of default or loss. For information about the historical performance of ratings, please refer to Fitch's Ratings Transition and Default studies, which detail the historical default rates. The European Securities and Markets Authority also maintains a central repository of historical default rates.

Fitch's credit ratings do not directly address any risk other than credit risk. Credit ratings do not deal with the risk of market value loss due to changes in interest rates, liquidity and/or other market considerations. However, market risk may be considered to the extent that it influences the ability of an issuer to pay or refinance a financial commitment. Ratings nonetheless do not reflect market risk to the extent that they influence the size or other conditionality of the obligation to pay upon a commitment (for example, in the case of payments linked to performance of an equity index).

Fitch will use credit rating scales to provide ratings to privately issued obligations or certain note issuance programs, or for private ratings using the same public scale and criteria. Private ratings are not published and are only provided to the issuer or its agents in the form of a rating letter.

The primary credit rating scales may also be used to provide ratings for a narrower scope, including interest strips and return of principal or in other forms of opinions such as Credit Opinions or Rating Assessment Services.

Credit Opinions are either a notch- or category-specific view using the primary rating scale and omit one or more characteristics of a full rating or meet them to a different standard. Credit Opinions will be indicated using a lower-case letter symbol combined with either an '*' (e.g. 'bbb+*') or (cat) suffix to denote the opinion status. Credit Opinions will be typically point-in-time but may be monitored if the analytical group believes information will be sufficiently available.

Rating Assessment Services are a notch-specific view using the primary rating scale of how an existing or potential rating may be changed by a given set of hypothetical circumstances. While Credit Opinions and Rating Assessment Services are point-in-time and are not monitored, they may have a directional Watch or Outlook assigned, which can signify the trajectory of the credit profile.

Ratings assigned by Fitch are opinions based on established, approved and published criteria. A variation to criteria may be applied but will be explicitly cited in our rating action commentaries (RACs), which are used to publish credit ratings when established and upon annual or periodic reviews.

Ratings are the collective work product of Fitch, and no individual, or group of individuals, is solely responsible for a rating. Ratings are not facts and, therefore, cannot be described as being "accurate" or "inaccurate." Users should refer to the definition of each individual rating for guidance on the dimensions of risk covered by the rating.

Issuer Default Ratings

AAA Highest Credit Quality

AAA' ratings denote the lowest expectation of default risk. They are assigned only in cases of exceptionally strong capacity for payment of financial commitments. This capacity is highly unlikely to be adversely affected by foreseeable events.

AA Very High Credit Quality

AA' ratings denote expectations of very low default risk. They indicate very strong capacity for payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.

A High credit quality

A' ratings denote expectations of low default risk. The capacity for payment of financial commitments is considered strong. This capacity may, nevertheless, be more vulnerable to adverse business or economic conditions than is the case for higher ratings.

BBB Good credit quality

BBB' ratings indicate that expectations of default risk are currently low. The capacity for payment of financial commitments is considered adequate, but adverse business or economic conditions are more likely to impair this capacity.

BB Speculative

BB' ratings indicate an elevated vulnerability to default risk, particularly in the event of adverse changes in business or economic conditions over time; however, business or financial flexibility exists that supports the servicing of financial commitments.

B Highly speculative

B' ratings indicate that material default risk is present, but a limited margin of safety remains. Financial commitments are currently being met; however, capacity for continued payment is vulnerable to deterioration in the business and economic environment.

Further ratings are CCC, CC, C, RD and D are all significantly below the Council's investment criteria threshold.

National Short-Term Credit Ratings

A short-term rating has a time horizon of less than 12 months for most obligations, or up to three years for US public finance securities, and thus places greater emphasis on the liquidity necessary to meet financial commitments in a timely manner.

FI

Indicates the strongest capacity for timely payment of financial commitments relative to other issuers or obligations in the same country. Under the agency's National Rating scale, this rating is assigned to the lowest default risk relative to others in the same country or monetary union. Where the liquidity profile is particularly strong, a "+" is added to the assigned rating.

F2

Indicates a good capacity for timely payment of financial commitments relative to other issuers or obligations in the same country or monetary union. However, the margin of safety is not as great as in the case of the higher ratings.

F3.

Indicates an adequate capacity for timely payment of financial commitments relative to other issuers or obligations in the same country or monetary union.

B
Indicates an uncertain capacity for timely payment of financial commitments relative to other issuers or obligations in the same country or monetary union.

C
Indicates a highly uncertain capacity for timely payment of financial commitments relative to other issuers or obligations in the same country or monetary union.

RD
Indicates an entity that has defaulted on one or more of its financial commitments, although it continues to meet other financial obligations. Applicable to entity ratings only.

D
Indicates a broad-based default event for an entity, or the default of a short-term obligation.

National Long-Term Credit Ratings
AAA
AAA' National Ratings denote the highest rating assigned by the agency in its National Rating scale for that country. This rating is assigned to issuers or obligations with the lowest expectation of default risk relative to all other issuers or obligations in the same country or monetary union.

AA
'AA' National Ratings denote expectations of a very low level of default risk relative to other issuers or obligations in the same country or monetary union. The default risk inherent differs only slightly from that of the country's highest rated issuers or obligations.

A
A' National Ratings denote expectations of a low level of default risk relative to other issuers or obligations in the same country or monetary union.

BBB
BBB' National Ratings denote a moderate level of default risk relative to other issuers or obligations in the same country or monetary union.

BB
'BB' National Ratings denote an elevated default risk relative to other issuers or obligations in the same country or monetary union.

B
'B' National Ratings denote a significantly elevated level of default risk relative to other issuers or obligations in the same country or monetary union.

CCC, CC, C RD and D
Are all below the Councils minimum thresholds however continue to express increasing levels of exposure risk.

Financial Institutions Viability Ratings

AAA   Highest Fundamental Credit Quality
'aaa' ratings denote the best prospects for ongoing viability and lowest expectation of failure risk. They are assigned only to financial institutions with extremely strong and stable fundamental characteristics, such that they are most unlikely to have to rely on extraordinary support to avoid default. This capacity is highly unlikely to be adversely affected by foreseeable events.

AA Very High Fundamental Credit Quality

'aa' ratings denote very strong prospects for ongoing viability. Fundamental characteristics are very strong and stable, such that it is considered highly unlikely that the financial institution would have to rely on extraordinary support to avoid default. This capacity is not significantly vulnerable to foreseeable events.

A High Fundamental Credit Quality

'a' ratings denote strong prospects for ongoing viability. Fundamental characteristics are strong and stable, such that it is unlikely that the financial institution would have to rely on extraordinary support to avoid default. This capacity may, nevertheless, be more vulnerable to adverse business or economic conditions than is the case for higher ratings.

BBB Good Fundamental Credit Quality

'bbb' ratings denote good prospects for ongoing viability. The financial institution's fundamentals are adequate, such that there is a low risk that it would have to rely on extraordinary support to avoid default. However, adverse business or economic conditions are more likely to impair this capacity.

BB Speculative Fundamental Credit Quality

'bb' ratings denote moderate prospects for ongoing viability. A moderate degree of fundamental financial strength exists, which would have to be eroded before the financial institution would have to rely on extraordinary support to avoid default. However, an elevated vulnerability exists to adverse changes in business or economic conditions over time.

B Highly speculative Fundamental Credit Quality

'b' ratings denote weak prospects for ongoing viability. Material failure risk is present, but a limited margin of safety remains. The financial institution's capacity for continued unsupported operation is vulnerable to deterioration in the business and economic environment.

CCC, CC, C, F Substantial Fundamental Credit Risk or worse

Annex B

Statement of Markets in Financial Instruments Directive II registered Counterparties

Under the above EU directive which came into force on 03/01/2018 all Local Authorities were re-classified as “retail” counterparties but with the option to opt-up to “professional” status. The list below details those counterparties with which the Council has elected to opt-up with.

Name	Sector	From
Link Asset Services	Treasury advisors	19/12/2017
BGC Sterling	Broker	28/12/2017
Intercapital (Covers trading names of ICAP and Tullett Prebon)	Broker	12/01/2018
Imperial Treasury Services Ltd	Broker	13/11/2019
King and Shaxson	Broker	13/12/2017
RP Martin Refreshed	Broker	06/12/2017 TBC
Tradition	Broker	06/12/2017
Australia and New Zealand Banking Group	Bank	12/08/2021
Bank of Montreal	Bank	03/11/2017
Barclays	Bank	28/03/2018
BNY Mellon	Bank	30/11/2017
Commonwealth Bank of Australia	Bank	11/01/2018
DZ Bank	Bank	11/07/2019
Goldman Sachs International bank	Bank	02/02/2022
Landesbank Hessen Thüringen Girozentrale	Bank	05/08/2021
National Bank of Canada	Bank	22/06/2021
National bank of Kuwait	Bank	22/07/2021
National Westminster Bank (Council’s bankers)	Bank	03/01/2018
RaboBank	Bank	18/07/2018
Toronto Dominion Bank	Bank	26/09/2017

Annexe C

Treasury Management Governance Framework

FULL COUNCIL	EXECUTIVE BOARD	CORPORATE GOVERNANCE & AUDIT COMMITTEE	RESOURCES AND COUNCIL SERVICES SCRUTINY BOARD
Setting Borrowing limits	Treasury Management Strategy	Adequacy of Treasury Management policies and practices	Review / scrutinise any aspects of the Treasury management function
Changes to borrowing limits	Monitoring reports in year	Compliance with statutory guidance	
Treasury Management Policy	Performance of the treasury function		

↓DELEGATIONS TO OFFICERS

DELEGATION SCHEME	TO WHOM	FUNCTION DELEGATED
Part 3 Section 3E(d) Officer Delegation Scheme	To Chief Officer Financial Services	to discharge the following functions 1) Ensuring effective financial management and controls, including:- b) managing the Council's borrowing and investment requirements;
Chief Officer Financial Services Sub Scheme of Delegation. Miscellaneous Functions - Financial Regulation 23: Treasury Management Page 35	Delegated to Deputy Chief Officer Financial Services Head of Finance – Technical. The approved signatories as authorised by the Chief Officer.	In relation to Matters within their remit.

↓OPERATIONAL AUTHORITY OF OFFICERS/CONTROL FRAMEWORK		
POLICY DOCUMENT	**TO WHOM**	**OPERATIONAL AUTHORITY**
Treasury Management Policy Statement (section 11) Policy on Delegation and Review Requirements and Reporting Arrangements	Chief Officer. Financial Services Deputy COFS Head of Finance - Technical Senior Finance Manager (TM) Finance Managers (TM)	Implementation of decisions taken at Treasury strategy review meetings and day to day management of treasury operations
CIPFA: Code of Practice Prudential Code MHCLG Investment Guidance Notes	Head of Finance - Technical Senior Finance Manager (TM) Finance Managers (TM)	Ensure compliance and that any changes are reflected in the operating framework.