

Treasury Management Strategy Statement

Minimum Revenue Provision Policy Statement and Annual Investment Strategy

St Albans City & District Council
2023/24

1.Introduction

Background

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

The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning, to ensure that the Council can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans or using longer-term cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet Council risk or cost objectives.

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

CIPFA defines treasury management as:

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

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

Reporting requirements

1.1 Capital Strategy

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

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

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

The capital strategy will be reported as an appendix to the Corporate Plan and Budget report.

1.2.Treasury Management reporting

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

- a. **Prudential and treasury indicators and treasury strategy** (this report) - The first, and most important report is forward looking and covers: -
 - the capital plans, (including prudential indicators)

- a minimum revenue provision (MRP) policy, (how residual capital expenditure is charged to revenue over time)
 - the Treasury Management Strategy, (how the investments and borrowings are to be organised), including treasury indicators; and
 - an Annual Investment Strategy, (the parameters on how investments are to be managed)
- b. **A mid-year treasury management report** – This is primarily a progress report and will update members on the capital position, amending prudential indicators as necessary, and whether any policies require revision. In addition, this Authority will receive quarterly update reports.
- c. **An annual treasury report** – This is a backward-looking review document and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

Scrutiny

The above reports are required to be adequately scrutinised before being recommended to the Full Council. This role is undertaken by the Audit Committee.

Quarterly reports – In addition to the three major reports detailed above, from 2023/24 quarterly reporting (end of June/end of December) is also required. However, these additional reports do not have to be reported to Full Council but do require to be adequately scrutinised. This role is undertaken by the Audit Committee. (The reports, specifically, should comprise updated Treasury/Prudential Indicators.)

2 Treasury Management Strategy for 2023/24

The strategy for 2023/24 covers two main areas:

Capital issues

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

Treasury management issues

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

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

3 Training

The CIPFA Code requires the responsible officer to ensure that councillors with responsibility for treasury management receive adequate training in treasury management. This especially applies to councillors responsible for scrutiny. For this Council, the responsible officer is the Strategic Director – Customer, Business and Corporate Support.

The needs of the Council's treasury management staff for training in investment management are assessed every year as part of the staff appraisal process. Training needs are also assessed when the responsibilities

of individual members of staff change. Officers regularly attend training courses, seminars and conferences provided by our treasury management advisers and CIPFA.

A councillor training session for treasury management was provided by our advisors, Link Group, on the 10 January 2023. Further training will be arranged as required.

4 Treasury management consultants

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

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

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

5 The Capital Prudential Indicators 2023/24 – 2025/26

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

5.1 Capital Expenditure and Financing

Capital expenditure. The prudential indicator is a summary of the Council's capital expenditure as presented or to be presented to the four service committees in January and February 2023.

Table 1 Capital Expenditure

Capital Expenditure	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
	£'M	£'M	£'M	£'M	£'M
General Fund (GF)	32.0	21.6	10.9	9.9	13.1
Housing Investment Programme (HIP)					
Housing stock enhancements	9.9	12.7	20.2	17.5	17.5
Non-Council Dwellings	-	2.6	17.1	7.6	2.8
Total HIP	9.9	15.2	37.3	25.1	20.3
Total capital expenditure	41.9	36.8	48.2	35.0	33.4

The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need.

5.2 Capital Prudential Indicators 2023/24- 2025/26

Table 2 Capital Financing

Financing Total	2021/22 Actual £'M	2022/23 Estimate £'M	2023/24 Estimate £'M	2024/25 Estimate £'M	2025/26 Estimate £'M
Total Spend	41.9	36.8	48.2	35.0	33.4
Financed by:					
Capital Receipts	3.5	8.1	20.8	11.8	9.0
Capital Grants and contributions	2.0	4.7	10.0	6.7	5.1
Revenue/revenue reserves	6.8	9.1	9.3	9.5	9.7
Total Financed	12.3	21.9	40.2	28.0	23.8
Net funding need for the year	29.6	15.0	8.0	7.0	9.6

Capital Financing – General Fund

Financing GF	2021/22 Actual £'M	2022/23 Estimate £'M	2023/24 Estimate £'M	2024/25 Estimate £'M	2025/26 Estimate £'M
GF spend	32.0	21.6	10.9	9.9	13.1
Financed by:					
Capital Receipts	3.4	5.6	17.6	8.7	8.7
Capital Grants and contributions	0.9	1.9	1.3	1.8	0.8
Revenue/revenue reserves	-	0.0	-	-	-
GF financed	4.3	7.5	19.0	10.5	9.5
GF funding need for the year	27.7	14.1	(8.1)	(0.6)	3.6

Capital Financing – Housing Improvement Programme

Financing HIP	2021/22 Actual £'M	2022/23 Estimate £'M	2023/24 Estimate £'M	2024/25 Estimate £'M	2025/26 Estimate £'M
HIP spend	9.9	15.2	37.3	25.1	20.3
Financed by:					
Capital Receipts	0.1	2.5	3.2	3.1	0.3
Capital Grants and contributions	1.1	2.8	8.7	4.9	4.3
Revenue/revenue reserves	6.8	9.1	9.3	9.5	9.7
HIP financed	8.0	14.4	21.2	17.5	14.3
HIP funding need for the year	1.9	0.8	16.1	7.6	6.0

For the General Fund (GF) the capital receipts forecast to be received in 2023/24 and 2024/25 means that the capital programme is fully funded, and the excess funding may be used to reduce prior years prudential borrowing. However, any shortfall in capital receipts and other funding may increase the funding need and the charge to the General Fund.

The Housing capital programme (HIP) is not fully funded and therefore borrowing is required. There is an increase in the affordable housing budget for new social rented housing and investment in the current housing stock to maintain Decent Homes Standard and to meet the Council's carbon neutral target for housing.

5.3 The Council's borrowing need (the Capital Financing Requirement)

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

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

The CFR projections for 2022/23 to 2025/26 are detailed below:

*MRP/VRP: Minimum or Voluntary Revenue Provision as defined in 2.6 below

Table 3 Capital Financing requirement

Capital Financing Requirement (CFR)	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
TOTAL	£'M	£'M	£'M	£'M	£'M
Brought Forward	240.2	258.1	265.7	267.9	265.7
Funding need for the year	29.6	15.0	8.0	7.0	9.6
MRP/VRP	(11.7)	(7.4)	(5.8)	(9.1)	(9.8)
Movement in CFR	17.9	7.6	2.2	(2.1)	(0.2)
Closing CFR balance	258.1	265.7	267.9	265.7	265.6

Capital Financing Requirement (CFR)	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
GF	£'M	£'M	£'M	£'M	£'M
Brought Forward	90.8	116.8	128.5	117.6	112.9
Funding need for the year	27.7	14.1	(8.1)	(0.6)	3.6
MRP/VRP	(1.7)	(2.4)	(2.8)	(4.1)	(3.8)
Movement in CFR	26.0	11.7	(10.9)	(4.7)	(0.2)
Closing CFR balance GF	116.8	128.5	117.6	112.9	112.7

Capital Financing Requirement (CFR)	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
HRA	£'M	£'M	£'M	£'M	£'M
Brought Forward	149.4	141.3	137.1	150.2	152.8
Funding need for the year	1.9	0.8	16.1	7.6	6.0
VRP for debt repayment	(10.0)	(5.0)	(3.0)	(5.0)	(6.0)
Movement in CFR	(8.1)	(4.2)	13.1	2.6	-
Closing CFR balance HRA	141.3	137.1	150.2	152.8	152.8

The CFR includes any other long-term liabilities (e.g., PFI schemes, finance leases). Whilst these increase the CFR, and therefore the Authority's borrowing requirement, these types of schemes include a borrowing facility by the PFI, PPP lease provider and so the Authority is not required to separately borrow for these schemes. The Authority currently has no such schemes within the CFR.

For the General Fund the CFR balance is forecast to peak in 2023/24 and then fall through to 2025/26 due to major projects being partially funded by borrowing and partially funded from capital receipts generated by their sale after completion. Shorter term borrowing may be required to bridge the time between incurring the project costs and the dates the receipts are expected. In addition, any shortfall in funds raised would result in an increase in CFR and an increase in MRP charge to the GF. Prudential borrowing will be required, and as internal cash balances are used up, external borrowing will be necessary for some of the years. The impact of the increase in interest charges has been taken into account in the cash flow in section 3.1 below. MRP is discussed further in 2.6 below.

HRA: the HRA CFR is forecast to reduce by the end of 2022/23 and then increase through to 2025/26. To ensure the HRA remains in surplus, there is a requirement to refinance some of the self-financing debt to later years in the business plan. Provision is made in the HRA revenue account for the interest cost on the reprofiled and new debt.

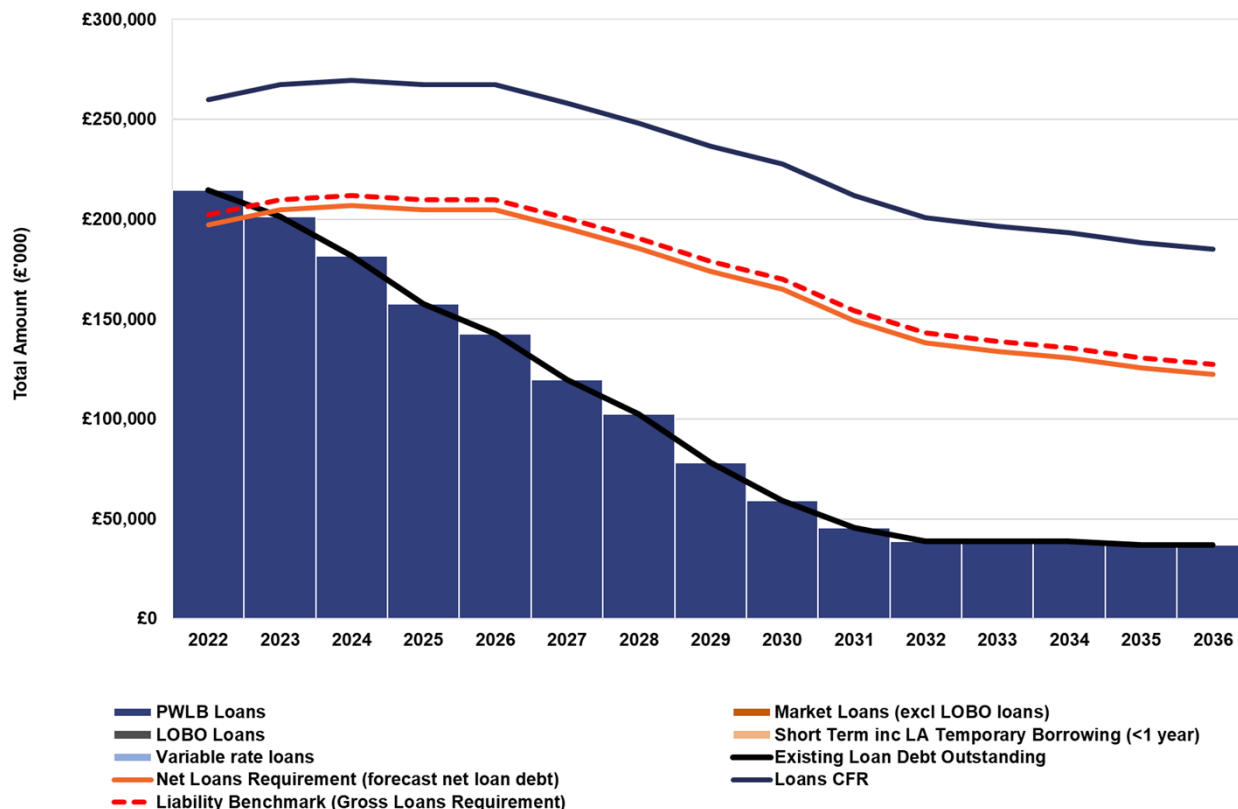
5.4 Liability Benchmark

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

There are four components to the LB: -

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

Liability Benchmark



5.5 Core Funds and Expected Investment Balances

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

Year End Resources	2021/22	2022/23	2023/24	2024/25	2025/26
£m	Actual	Estimate	Estimate	Estimate	Estimate
Fund balances / reserves	7	9	9	10	10
Capital receipts	4	8	21	12	9
Provisions	(12)	(7)	(6)	(9)	(10)
Other	2	5	10	7	5
Total core funds	1	14	34	19	14
Working capital*	(39)	(45)	(45)	(45)	(45)
Under/over borrowing	43	41	37	42	33
Expected investments	5	10	26	16	2

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

5.6 Minimum revenue provision (MRP) policy statement

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

The Council's policy is that for all unsupported borrowing, MRP will be calculated using the Asset Life Method – i.e. the MRP will be based on the estimated life of the assets. This provides for a reduction in the borrowing over approximately the assets expected useful life.

Within the asset life method there is the option of providing MRP on a straight-line basis or an annuity basis. For income producing assets where income is expected to increase over time, the asset value is high and the asset life is long, it is appropriate to use the annuity method. This takes into account the

time value of money in that the annual MRP provision increases each year in line with an estimated interest rate. Council agreed the annuity method would be used for both Westminster Lodge and Lockey House.

Capital expenditure incurred during 2022/23 will not be subject to an MRP charge until 2023/24, or in the year after the asset becomes operational (whichever is later).

Under the Housing Self Financing reform, the HRA is required to charge depreciation on its assets, which has a revenue effect. The provision for depreciation provides cash for housing capital works.

There is no requirement to provide MRP in the HRA. Nevertheless, a voluntary provision has been incorporated into the 30-year business plan to enable repayment of debt.

To ensure that the HRA general reserve does not fall into deficit in 2023/24 refinancing of self-financing loans will be necessary. The reason why refinancing of loans is now required is primarily a result of reduced income due to changes in Government rent policy and 2 years when rent increases agreed by the Council were lower than those recommended by Cabinet in 2012/13 and 2013/14.

MRP Overpayments - A change introduced by the revised DLUHC MRP Guidance was the allowance that any charges made over the statutory minimum revenue provision (MRP), voluntary revenue provision or overpayments, can, if needed, be reclaimed in later years if deemed necessary or prudent. In order for these sums to be reclaimed for use in the budget, this policy must disclose the cumulative overpayment made each year. Up until 31/3/22 the total voluntary overpayments were £0.7m.

5.7 Affordability Prudential Indicators

The previous sections show capital expenditure and borrowing prudential indicators. However, within this framework we also need prudential indicators to assess the affordability of the capital investment plans i.e. the impact on revenue. These provide an indication of the impact of the capital investment plans on the Council's overall finances.

5.7.1 Ratio of financing costs to net revenue stream

This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income). This is set against the Council's net revenue stream for the General Fund (taxation and non-specific grant income) and the HRA.

Table 4 Ratio of Financing costs to net revenue stream

	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
General Fund	6.9%	16.4%	21.3%	29.6%	25.2%
HRA	79.7%	58.1%	54.1%	60.8%	61.6%

The estimates of financing costs include current commitments and the proposals in this report but do not take account of any positive budget variations as a result of undertaking these projects, for example, income from facilities, reduced running costs or reduced contract costs.

For the GF, the ratio increases significantly over the period under review. Officers forecast that for the larger schemes increased charges will be met by an equivalent saving in costs or increased income over the life of the capital projects (these savings/incomes are not within the scope of the statistic above). The projects would then be cost neutral to the GF.

In 2019 the Audit Committee requested an additional ratio for the General Fund which is the ratio of GF debt financing costs to GF total income (total income includes: council tax, retained business rates, non-specific grant income and fees and charges).

The ratio of GF debt financing costs to GF total income is as follows:

	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
General Fund Ratio	5.9%	7.9%	10.3%	13.3%	11.0%

5.7.2 HRA ratios

The HRA 30-year plan, presented in the budget to the Housing and Inclusion Committee in January 2023, includes partial refinancing of the self-financing loan that will become due for repayment in 2023/24. See penultimate paragraph in section 2.6 above for the explanation. The cost of financing the debt is included in the HRA forward projections.

Table 6 below highlights how the debt revenue ratio increases in 2023/24 when debt increases and then reduces as income increases at a faster rate to debt.

Table 7 shows how the debt per property is expected to change over the same period.

Table 6 HRA Debt to Revenues

HRA	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
HRA debt	£146.4M	£142.4M	£155.5M	£158.1M	£158.1M
HRA revenues	£29.3M	£31.1M	£31.1M	£32.8M	£35.0M
Ratio debt to revenues	500.5%	458.0%	500.2%	481.7%	451.8%

Table 7 Debt per property

HRA	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
HRA debt	£146.4M	£142.4M	£155.5M	£158.1M	£158.1M
Number of HRA dwellings	4,943	4,900	4,906	4,911	4,901
Debt per dwelling	£29,621	£29,052	£31,687	£32,184	£32,250

5.7.3 Sensitivity of Capital Projects

In relation to capital projects which generate an income from rent or sales for the General Fund the Council is exposed to risk of the following kinds

- Cost overruns
- Delay in receiving income due to sales or rentals being slower than expected
- Lower income in absolute terms if sale or rent values are not as expected
- Higher (or lower) interest rates than expected

To give an idea of the scale of these, some figures are set out below in terms of the impact in the next two years:

- Cost overruns – 1% of additional spend would increase the cost to capital programme by £0.15m per annum
- Delay in receiving income due to sales or rentals being slower than expected – if receipts/rent income were 6 months slower than expected this would cost a one off £0.2m-£0.35m in interest in terms of sales receipts and £0.3m - £0.6m in terms of rent
- Lower income in absolute terms if sale or rent values are not as expected – if income was 10% lower than expected that would cost £0.9m to £1.8m pa in terms of sale receipts and £60k pa in terms of rent (the latter in 23/24)
- Higher (or lower) interest rates than expected – the Council can borrow at fixed rates, so the exposure is on debt not yet borrowed. In 2022/23 a 1% change in rates has an impact of £0.14m per annum but no borrowing is expected in 2023/24 for the General Fund.

This would impact on total debt and ratio of debt financing costs statistics. The points above are not all likely to happen at once.

6 Borrowing

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

6.1 External Borrowing Requirements

The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is still an issue that needs to be considered.

The Council's treasury portfolio position at 31 March 2022, with forward projections are summarised below. The table shows the actual external debt (the treasury management operations), against the underlying capital borrowing need (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

The critical assumptions include: balanced GF and HRA budgets, increase in MRP and interest payments due to capital spend is matched by revenue savings, no slippage in capital programmes and funding assumptions and no change in working capital requirements.

Table 8 External Borrowing Requirement

External Debt £m	2021/22 Actual £'m	2022/23 Estimate £'m	2023/24 Estimate £'m	2024/25 Estimate £'m	2025/26 Estimate £'m
Debt at 1 April	207	215	225	231	224
Expected change in Debt:					
Debt repayment	(10)	(13)	(20)	(24)	(15)
Increase in external borrowings	18	23	26	17	24
Actual/Estimated gross debt at 31 March	215	225	231	224	233
The Capital Financing Requirement 31 March	258	266	268	266	266
Under / (over) borrowing	43	41	37	42	33

6.2 Limits to borrowing activity

The operational boundary.

This is the limit beyond which external debt is not normally expected to exceed. This focuses on the day-to-day treasury management activity.

The Council needs to ensure that it can borrow to meet the capital plans proposed in the budget and leave some headroom. The table below shows existing (2022/23) and proposed limits. For 2023/24 onwards the operational limit has been calculated using the CFR plus 20% to allow for delays in other funding streams such as capital receipts.

Table 9 Operational Borrowing Limit

Operational Boundary for External Debt	2022/23	2023/24	2024/25	2025/26
	£'M	£'M	£'M	£'M
General Fund	155	142	136	136
HRA	165	181	184	184
Other Long Term Liabilities (Note 1)	6	6	6	6
Total	326	329	326	326

Note 1 Includes SADC potential loan exposure for West Herts Crematorium from 2022/23

The authorised limit for external debt.

This key prudential indicator represents a control on the maximum level of borrowing and represents a legal limit beyond which external debt is prohibited. This limit needs to be set or revised by the full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. It gives some headroom for unforeseen requirements or delays in capital receipts.

Table 10 Authorised Borrowing Limit

Authorised Limit for External Debt	2022/23	2023/24	2024/25	2025/26
	£'M	£'M	£'M	£'M
General Fund	160	147	141	141
HRA	170	186	189	189
Other Long Term Liabilities (note 1)	1	6	6	6
Total	331	339	336	336

Note 1 Includes SADC potential loan exposure for West Herts Crematorium from 2022/23

6.3 Prospects for interest rates

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

Table 11 Links Group's view on interest rates & PWLB borrowing rates

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

Forecast for interest rates above was updated on 19 December and reflected a view that the MPC would be keen to further demonstrate its anti-inflation credentials by delivering a succession of rate increases.

Bank Rate stands at 3.5% currently but is expected to reach a peak of 4.5% in H1 2023. The CPI measure of inflation looks to have peaked at 11.1% in Q4 2022 (currently 10.5%). Despite the cost-of-living squeeze that is still taking shape, the Bank will want to see evidence that wages are not spiralling upwards in what is evidently a very tight labour market.

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

On the positive side, consumers are still estimated to be sitting on over £160bn of excess savings left over from the pandemic so that will cushion some of the impact of the above challenges. However, most of those are held by more affluent people whereas lower income families already spend nearly all their income on essentials such as food, energy and rent/mortgage payments.

Investment and borrowing rates

- **Investment returns** have started improving in the second half of 22/23 and are expected to improve further during 23/24 as the MPC progressively increases the Bank Rate.
- **Borrowing interest rates.** The MPC through 22/23 have delivered a succession of rate increases and it is expected that these rises will continue through 23/24 as the MPC attempts to curb inflation.
- **Borrowing for capital expenditure.** The yield curve movements have become less volatile of late and PWLB 5 to 50 years Certainty Rates are, generally, in the range of 4.10% to 4.80%. Better value can generally be obtained at the shorter end of the curve and short-dated fixed LA to LA monies should be considered. Temporary borrowing rates are likely, however, to remain near Bank Rate and may also prove attractive whilst the market waits for inflation, and therein gilt yields, to drop back later in 2024.

6.4 Treasury Management Indicators within the Treasury Management Code

The purpose of these indicators is to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set too restrictively, they will impair the opportunities to reduce cost / improve performance. The indicators are:

Maturity Structure of Borrowing

This indicator is set to control the Council's exposure to risk from having to pay back significant amounts of debt all at the same time. It is proposed to increase the upper limit on short term borrowing under 12 months to 20% and between 1 and 5 years to 60%. This will enable to the Council to match new loans with the forecast delivery of capital receipts for a number of the General Fund projects. The HRA self-financing debt profile has also changed over the past few years and a larger proportion of the debt is now in the shorter-term maturity categories.

Table 12 Maturity Structure of Borrowing

	Current Upper Limit	Proposed Upper Limit	Lower Limit (no proposed change)	Estimated as at 1st April 2023
	%	%	%	%
Under 12 months	10.00	20.00	-	18.1%
12 months and within 5 years	55.00	60.00	-	35.7%
5 years and within 10 years 10 years and within 20 years	60.00	60.00	-	28.9%
Over 20 years	80.00	80.00	-	0.7%
	80.00	80.00	-	16.7%

The debt profile as at 1st April 2023 is based on the current known debt profile and an expectation of short term external borrowing between January to March 2023.

6.5 Borrowing strategy and Control of Interest Rate Exposure

The Council is currently maintaining an under-borrowed position, i.e. it is running down its investment balances rather than borrow. This strategy recognises that investment returns are low and counterparty risk is relatively high.

The Strategic Director - Customer, Business and Corporate Support will adopt a borrowing strategy which will have a range of loans with varying terms from longer term (40-50 years), medium term (20-40 years) and shorter-term loans (3-19 years) and very short loan (less than 3 years). Longer term borrowing will be considered for assets with estimated asset lives of 40-50 years and medium term loans for assets with lives between 10-40 years. Shorter term borrowing will be required, generally, for asset of lower estimated asset lives and for borrowing pending the generation of capital receipts expected from some investments.

The Council may also borrow for short periods of time (normally for up to a month) to cover unexpected cash flow shortages.

Sources of Borrowing

The approved sources of borrowing will be:

On Balance Sheet	Fixed	Variable
PWLB	●	●
UK Municipal Bond Agency	●	●
Local Authorities	●	●
Banks	●	●
Pension Funds	●	●
Insurance Companies	●	●
UK Infrastructure Bank	●	●
Market (long-term)	●	●
Market (temporary)	●	●
Overdraft		●
Internal (capital receipts & revenue balances)	●	●
Finance Leases	●	●

6.6 Policy on borrowing in advance of need

The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. However, the Council may borrow in advance of need for short periods where a review of capital spending profile and views on future interest rates makes it economically attractive. In doing so the Council would not look to borrow more than 12 months in advance of need.

6.7 Policy on charging interest to the Housing Revenue Account

The Council is free to adopt its own policy on sharing interest costs and income between the General Fund and Housing Revenue Account (HRA). This follows the reform of housing finance. The CIPFA Code recommends that authorities state their policy on this matter each year in their treasury management strategy.

On 1 April 2012, the Council assigned the long term HSF loan to the HRA pool. New long-term loans borrowed will be assigned in their entirety to either the General Fund or the HRA pool. Interest payable and other costs/income arising from long-term loans (e.g. premiums and discounts on early redemption) will be allocated in line with each specific loan.

An HRA cash flow balance is calculated each month and interest on this balance transferred between the General Fund and HRA. This is at the monthly net average rate earned by the Council on its portfolios of treasury investments and any short-term borrowing.

7 Annual Investment Strategy

7.1 Investment policy – management of risk

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

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

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

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

The Council expects institutions it deposits funds with, through its treasury management function, to comply with internationally accepted norms. These include norms for the environment, human rights, working conditions, corruption and controversial weapons. The Council will seek to avoid placing funds with institutions that do not have a similar responsible investment policy.

Investment Strategy: To minimise the risk to investments, the Council has stipulated the minimum acceptable credit quality of counterparties for inclusion on the lending list (see Appendix 1). Other information sources used will include the financial press, share price and other such banking sector information. The objective is to establish the most robust scrutiny process on the suitability of potential investment counterparties.

Investments will be made with reference to cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months).

For cash flow generated balances, the Council will seek to use its business reserve accounts, 15 and 30 day notice accounts, and short-dated deposits (overnight to three months). In this way the Council will benefit from the compounding of interest.

The Strategic Director Customer, Business, and Corporate Support will maintain a counterparty list in compliance with the following criteria. She will revise the criteria and submit them to Council for approval as necessary.

4.2 Creditworthiness policy

4.2.1 Credit Ratings

This Council applies the creditworthiness service provided by the Link Group. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard & Poor's. The credit ratings of counterparties are supplemented with the following overlays:

- "watches" and "outlooks" from credit rating agencies;
- Credit Default Spreads (CDS) spreads that may give early warning of changes in credit ratings;
- sovereign ratings to select counterparties from only the most creditworthy countries.

This modelling approach combines credit ratings, and any assigned Watches and Outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads. The end product of this is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the suggested duration for investments. The Council will, therefore, use counterparties within the following durational bands:

- Yellow 5 years
- Purple 2 years
- Blue 1 year (only applies to nationalised or semi nationalised UK Banks)
- Orange 1 year
- Red 6 months
- Green 100 days
- No colour not to be used

The Link creditworthiness service uses a wider array of information other than just primary ratings. Furthermore, by using a risk weighted scoring system, it does not give undue preponderance to just one agency's ratings.

Typically, the minimum credit ratings criteria the Council use will be a short-term rating (Fitch or equivalents) of F1 and a long-term rating of A-. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances, consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

The Council will therefore use counterparties within the durational bands shown in above and at the end of Appendix 1.

7.2.2 Country Limits

Treasury policy is that 20% of funds invested, measured at the time the investment is made, can be invested in non-UK banks. The country in which the bank operates must be a member of the Organisation for Economic Co-operation and Development (OECD) and from countries with AAA rating. A list of current members is at Appendix 2. The credit worthiness rating for institutions are the same as UK institutions.

7.2.3 List of Counterparties

The application of credit ratings, credit periods and country limits lead to an amended list of counterparties each with 3 credit assessments with associated maximum investment durations.

All credit ratings will be monitored weekly. The Council is alerted to changes to ratings of all three agencies through its use of the Link Asset Services creditworthiness service.

If a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria;

- no new investments will be made;
- any existing investments that can be recalled or sold at no cost will be; and
- full consideration will be given to recall or sale of all other existing investments with the affected counterparty.

An example list of counterparties is shown at Annex 1. Link Asset Services update the list on a weekly basis.

7.2.4 Counterparty Limits

Counterparty limits for value and period by type of counterparty are proposed by officers, in consultation with the Lead Councillor for Resources. The objective is to have a mix of investments, limiting exposure to any one counterparty and limiting exposure to long term deposits.

Officers propose one amendment to the counterparty limits, which is an increase of the limit to £8m for investments with HSBC (the Council's bank). This will enable the Council to manage cashflow requirements more efficiently. The proposed counterparty limits are shown at Annex 4.

7.2.5 Non-specified investments

The Council is required to state whether it is intending to use any of what the Government calls "Non-specified investments" (See Annex 3). The Council's policy is that the only situation where we will use these is in the case of long-term investments, (i.e. those that would meet the definition of a specific investment, but for the fact that they are due to mature 12 months or longer from the date of arrangement).

The limit for these Non-Specified investments remains at £5m.

7.2.6 Local Authority Trading Company

The Council established a wholly owned company in March 2020 (the St Albans City and District Estates Limited). The Council agrees to allow lending to the company and the loan will be no more than £100,000 to use as working capital. Thereafter further loans will be approved by the Policy Committee following consideration of business cases.

7.2.7 Principal sums invested for periods longer than 365 days

The limit for local authorities (£5m) has been removed so any loans to local authorities would be a part of the actual position measured against this indicator.

Limit on principal invested beyond 365 days	2022/23	2023/24	2024/25	2025/26
	£m	£m	£m	£m
Other	1.0	1.0	1.0	1.0

7.2.8 Environmental, Social and Governance

ESG considerations are increasingly a factor in global investors' decision making. This does tend to be for those areas that have larger and more diversified investment portfolios, including investment in corporate equities (such as Pension Funds). For the Council's Treasury investments, these are all in financial institutions. Given this, the Council's Treasury Management policy does not currently include ESG scoring or other real-time ESG criteria at an individual investment level. Our TM advisors, Link, have stated that they will 'continue to look at ways in which we can incorporate these factors into our creditworthiness assessment service.'. This is an area the Council will keep under review.

7.2.9 Investment Performance/Risk Benchmarking

This Council will use the Link SLY model to measure performance and risk benchmarking. These benchmarks are simple guides to maximum risk, so they may be breached from time to time, depending on movements in interest rates and counterparty criteria. The purpose of the benchmark is that officers will monitor the current and trend position and amend the operational strategy to manage risk as conditions change. Any breach of the benchmarks will be reported, with supporting reasons in the mid-year or Annual Report.

Security - The Authority's maximum security risk benchmark for the current portfolio, when compared to these historic default tables, is:

- 0.1% historic risk of default when compared to the whole portfolio.

Liquidity – in respect of this area the Authority seeks to maintain: -

- Bank overdraft - £0.250m
- Liquid short-term deposits of at least £5m available with a week's notice.

Yield - local measures of yield benchmarks are: -

- Investments – internal returns above the 7-day SONIA (Sterling Overnight Index Average) rate

Annexes

1. Credit and Counterparty Risk Management
2. List of OECD members
3. Treasury Management Criteria Summary
4. Counterparty Investment Limits
5. Example of month end investment report provided to Lead Councillor Resources and Chair of the Audit Committee
6. Treasury management scheme of delegation
7. The treasury management role of the section 151 officer

Annex 1 CREDIT AND COUNTERPARTY RISK MANAGEMENT

A variety of investment instruments will be used, subject to the credit quality of the institution, and depending on the type of investment made, it will fall into one of the above categories.

	Minimum credit criteria / colour band	** Max % of total investments / £ limit per institution	Max. maturity period
DMADF – UK Government	Yellow	100%	6 months (max. is set by the DMO*)
UK Gilts	Yellow		5 years
UK Treasury Bills	Yellow		364 days (max. is set by the DMO*)
Local Authorities	Yellow	£5m	3 years
Term Deposits with Housing Associations	Blue Orange Red Green No Colour		12 months 12 months 6 months 100 days Not for use
Term Deposits with Banks and Building Societies	Blue Orange Red Green No Colour		12 months 12 months 6 months 100 days Not for use
CDs or Corporate Bonds with Banks and Building Societies	Blue Orange Red Green No Colour		12 months 12 months 6 months 100 days Not for use

* DMO – is the Debt Management Office of HM Treasury

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

Annex 2

List of OECD Members

Country	Date of ratification
AUSTRALIA	7 June 1971
AUSTRIA	29 September 1961
BELGIUM	13 September 1961
CANADA	10 April 1961
CHILE	7 May 2010
COLOMBIA	28 April 2020
COSTA RICA	25 May 2021
CZECH REPUBLIC	21 December 1995
DENMARK	30 May 1961
ESTONIA	9 December 2010
FINLAND	28 January 1969
FRANCE	7 August 1961
GERMANY	27 September 1961
GREECE	27 September 1961
HUNGARY	7 May 1996
ICELAND	5 June 1961
IRELAND	17 August 1961
ISRAEL	7 September 2010
ITALY	29 March 1962
JAPAN	28 April 1964
KOREA	12 December 1996
LATVIA	1 July 2016
LITHUANIA	5 July 2018
LUXEMBOURG	7 December 1961
MEXICO	18 May 1994
NETHERLANDS	13 November 1961
NEW ZEALAND	29 May 1973
NORWAY	4 July 1961
POLAND	22 November 1996
PORTUGAL	4 August 1961
SLOVAK REPUBLIC	14 December 2000
SLOVENIA	21 July 2010
SPAIN	3 August 1961
SWEDEN	28 September 1961
SWITZERLAND	28 September 1961
TURKEY	2 August 1961
UNITED KINGDOM	2 May 1961
UNITED STATES	12 April 1961

Annex 3

Treasury Management Criteria Summary

SPECIFIED INVESTMENTS: All such investments will be sterling denominated, with maturities up to a maximum of 1 year or the suggested duration as calculated by Link Group.

NON-SPECIFIED INVESTMENTS: These are any investments which do not meet the specified investment criteria. For this Council these are qualifying investments with maturities exceeding one year. A maximum of £5m will be held in aggregate in non-specified investments.

Country Limits

UK: 100%

Non-UK: 20% (measured as at time of investment) and OECD membership countries and restricted to countries rated AAA with all three rating agencies.

Qualifying Counterparties

Counterparties appearing on the Link Asset Services list of qualifying counterparties from time to time, together with UK local authorities or supranationals.

Time and monetary limits applying to investments

The time and monetary limits for institutions on the Council's counterparty list are as follows (these will cover both Specified and Non-Specified Investments):

Annex 4

Counterparty Investment Limits

	Existing Limit	Proposed Limit	Max. maturity period
Cash deposits with DMO at the Bank of England	No limit	no change	Liquid
Cash or Term deposits with Local authorities	£5m	no change	3 years
Cash or term Deposits with HSBC (the Council's bank)	£5m	£8m	Up to 1 year
Cash or Term deposits with UK Nationalised and Part Nationalised Banks	£5m		On call
	£5m	no change	Up to 1 years
	£1m		Up to 3 years
Cash or Term deposits with banks and building societies (per Link Asset Services list as updated from time to time)	£5m		On call
	£5m		Up to 3 months
	£5m	no change	Over 3 months up to 1 year
	£1m		Over 1 year up to 3 years
	£1m		Over 1 year and up to 3 years

The local authority limit applies to the entire Local Authority sector.

A group of banks under the same ownership will be treated as a single organisation for limit purposes.

Annex 5

Example of investment list using the list in Annex 1 and the criteria in Annex 3

SUMMARY OF INVESTMENTS - 30th November 2022							
BORROWER	LIMIT	START DATE	END DATE	INT RATE	INV VALUE	Investments Previous	
	£					£	
Deposits with DMO (0 - 60mths)	Unlimited						
		04/11/2022	21/11/2022	2.600%	0	8,950,000	
		10/11/2022	25/11/2022	2.700%	0	2,500,000	
		14/11/2022	29/11/2022	2.700%	0	1,450,000	
		15/11/2022	06/12/2022	2.670%	1,200,000		
		16/11/2022	07/12/2022	2.670%	1,600,000		
		21/11/2022	14/12/2022	2.710%	5,850,000		
		23/11/2022	14/12/2022	2.750%	1,150,000		
		25/11/2022	14/12/2022	2.770%	2,800,000		
		30/11/2022	14/12/2022	2.800%	1,000,000		
DMO Total					13,600,000	12,900,000	
Deposits with Other Local Authorities (up to 1 year)	5,000,000						
					0	0	
Deposits with UK nationalised & part nationalised (up to 12mths)	5,000,000						
Royal Bank of Scotland (0 - 12mths)					0	0	
UK nationalised & part nationalised banks Total					0	0	
UK Banks and Building Societies	5,000,000						
Lloyds Banking Group (0 - 6mths)					0	0	
					0	0	
Lloyds Total					0	0	
Barclays Bank PLC (0 - 6mths)					0	0	
Barclays Total					0	0	
Nationwide B S (0 - 6mths)					0	0	
					0	0	
Nationwide Total					0	0	
Coventry B S (0 - 6mths)							
Coventry Total							
HSBC Bank PLC (0 - 12mths)		various	CALL	2.850%	4,991,946	4,991,946	
Santander UK plc (0 - 6mths)		95 day notice			0	0	
Handelsbanken (0 - 12mths)		various	CALL	2.600%	560,247	1,506,271	
UK Banks & Building Societies Total					5,552,193	6,498,217	
Non UK, Non Eurozone Banks (No more than 20%, measured at the time of investment)	5,000,000						
Non UK, Non Eurozone Total					0	0	
Overall Total			TOTAL		19,152,193	19,398,217	

01/12/2022

SUMMARY OF LOANS BEING REPAYED IN THE FINANCIAL YEAR 2022/23							
LOAN FROM	LIMIT	START DATE	END DATE	INT RATE	LOAN VALUE	Loans Previous Month	
	£				£	£	
Government Body (Short Term Fixed)	Unlimited						
PWLB		28/03/2012	28/03/2023	2.56%	13,000,000	13,000,000	
PWLB (Annuity Loan originally £17m)		11/03/2020	11/03/2023	2.25%	214,699	214,699	
						0	
Overall Total			TOTAL		13,214,699	13,214,699	

Annex 6

5.1 TREASURY MANAGEMENT SCHEME OF DELEGATION

(i) Full Council

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

(ii) The Audit Committee

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

(iii) The S151 (responsible) officer

- reviewing the treasury management policy and procedures and making recommendations to the Audit Committee.

Annex 7

THE TREASURY MANAGEMENT ROLE OF THE SECTION 151 OFFICER

The S151 (responsible) officer

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance.
- submitting regular treasury management policy reports.
- submitting budgets and budget variations.
- receiving and reviewing management information reports.
- reviewing the performance of the treasury management function.
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function.
- ensuring the adequacy of internal audit and liaising with external audit.
- recommending the appointment of external service providers.