

Treasury Management Strategy Statement

Minimum Revenue Provision Policy Statement and Annual Investment Strategy

St Albans City & District Council
2024/25

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 Councillors 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 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 councillors 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.

1.3 Treasury Management Strategy for 2024/25

The strategy for 2024/25 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.

1.4 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 29 January 2024. The session was recorded and is available for all Councillors to view. Further training will be arranged as required.

1.5 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 always remains with the organisation 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.

2 The Capital Prudential Indicators 2024/25 – 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 are prudent, affordable and sustainable.

2.1 Capital Expenditure and Financing

This prudential indicator is a summary of the Council's capital expenditure plans presented or to be presented to the four service committees in January and February 2024.

Table 1 Capital Expenditure

Capital Expenditure	2022/23 Actual £'M	2023/24 Estimate £'M	2024/25 Estimate £'M	2025/26 Estimate £'M	2026/27 Estimate £'M
General Fund (GF)	18.8	7.1	13.9	2.8	4.3
Housing Investment Programme (HIP)					
Housing stock enhancements	11.2	21.1	19.3	18.0	18.1
New Social Housing	-	7.3	13.0	5.5	0.4
Total HIP	11.2	28.4	32.3	23.5	18.5
Total capital expenditure	30.0	35.5	46.2	26.3	22.8

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.

Table 2 Capital Financing

Capital Financing	2022/23 Actual £'M	2023/24 Estimate £'M	2024/25 Estimate £'M	2025/26 Estimate £'M	2026/27 Estimate £'M
Total Spend	30.0	35.5	46.2	26.4	22.8
Financed by:					
Capital Receipts	2.0	3.4	34.3	1.7	0.2
Capital Grants and contributions	3.2	8.5	7.9	5.6	5.1
Revenue/revenue reserves	2.3	9.1	9.4	9.1	9.2
Total Financed	7.5	21.0	51.6	16.4	14.5
Net funding need for the year	22.5	14.5	(5.4)	10.00	8.3

Capital Financing – General Fund

Financing General Fund	2022/23 Actual £'M	2023/24 Estimate £'M	2024/25 Estimate £'M	2025/26 Estimate £'M	2026/27 Estimate £'M
Total Spend	18.8	7.1	13.9	2.8	4.3
Financed by:					
Capital Receipts	0.5	-	29.4	0.8	-
Capital Grants and contributions	1.6	1.6	2.3	0.8	0.8
Revenue/revenue reserves	0.1	-	0.0	-	-
Total Financed	2.2	1.6	31.7	1.6	1.1
Net funding need for the year	16.6	5.5	(17.8)	1.2	3.5

Capital Financing – Housing Improvement Programme

Financing HIP	2022/23 Actual £'M	2023/24 Estimate £'M	2024/25 Estimate £'M	2025/26 Estimate £'M	2026/27 Estimate £'M
Total Spend	11.2	28.4	32.3	23.5	18.5
Financed by:					
Capital Receipts	1.5	3.4	4.9	0.9	0.2
Capital Grants and contributions	1.6	6.9	5.6	4.8	4.3
Revenue/revenue reserves	2.2	9.1	9.4	9.1	9.2
Total HIP Financed	5.3	19.4	19.9	14.8	13.7
Net HIP funding need for the year	5.9	9.0	12.4	8.7	4.8

For the General Fund (GF) the capital receipts forecast to be received in 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.

2.2 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 2024/25 to 2025/26 are detailed below:

*MRP/VRP: Minimum or Voluntary Revenue Provision as defined in 2.5 below

Table 3 Capital Financing requirement

Capital Financing Requirement (CFR)	2022/23 Actual	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
	£'M	£'M	£'M	£'M	£'M
Brought Forward	258.1	271.1	271.0	248.7	239.9
Funding need for the year	22.6	14.5	(5.3)	10.0	8.0
MRP/VRP	(9.6)	(14.7)	(17.0)	(18.9)	(14.0)
Movement in CFR	13.0	(0.2)	(22.3)	(8.8)	(5.9)
Closing CFR balance	271.1	270.9	248.5	239.7	234.00

General Fund Capital Financing Requirement (CFR)	2022/23 Actual	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
	£'M	£'M	£'M	£'M	£'M
Brought Forward	116.8	128.9	131.7	110.9	108.4
Funding need for the year	16.7	5.5	(17.8)	1.3	3.5
MRP/VRP	(4.6)	(2.7)	(3.0)	(3.9)	(4.0)
Movement in CFR	12.1	2.8	(20.8)	(2.6)	(0.5)
Closing CFR balance GF	128.9	131.7	110.9	108.4	107.8

Capital Financing Requirement (CFR)	2022/23 Actual	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
HRA	£'M	£'M	£'M	£'M	£'M
Brought Forward	141.3	142.2	139.2	137.6	131.4
Funding need for the year	5.9	9.0	12.4	8.8	4.8
VRP for debt repayment	(5.0)	(12.0)	(14.0)	(15.0)	(10.0)
Movement in CFR	0.9	(3.0)	(1.6)	(6.2)	(5.2)
Closing CFR balance HRA	142.2	139.2	137.6	131.4	126.2

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 at the end of 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 2.5 below.

HRA: the HRA CFR is forecast to reduce by the end of 2026/27. Whilst there is a funding requirement for capital spend, voluntary debt repayments are forecast to reduce the overall CFR. 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.

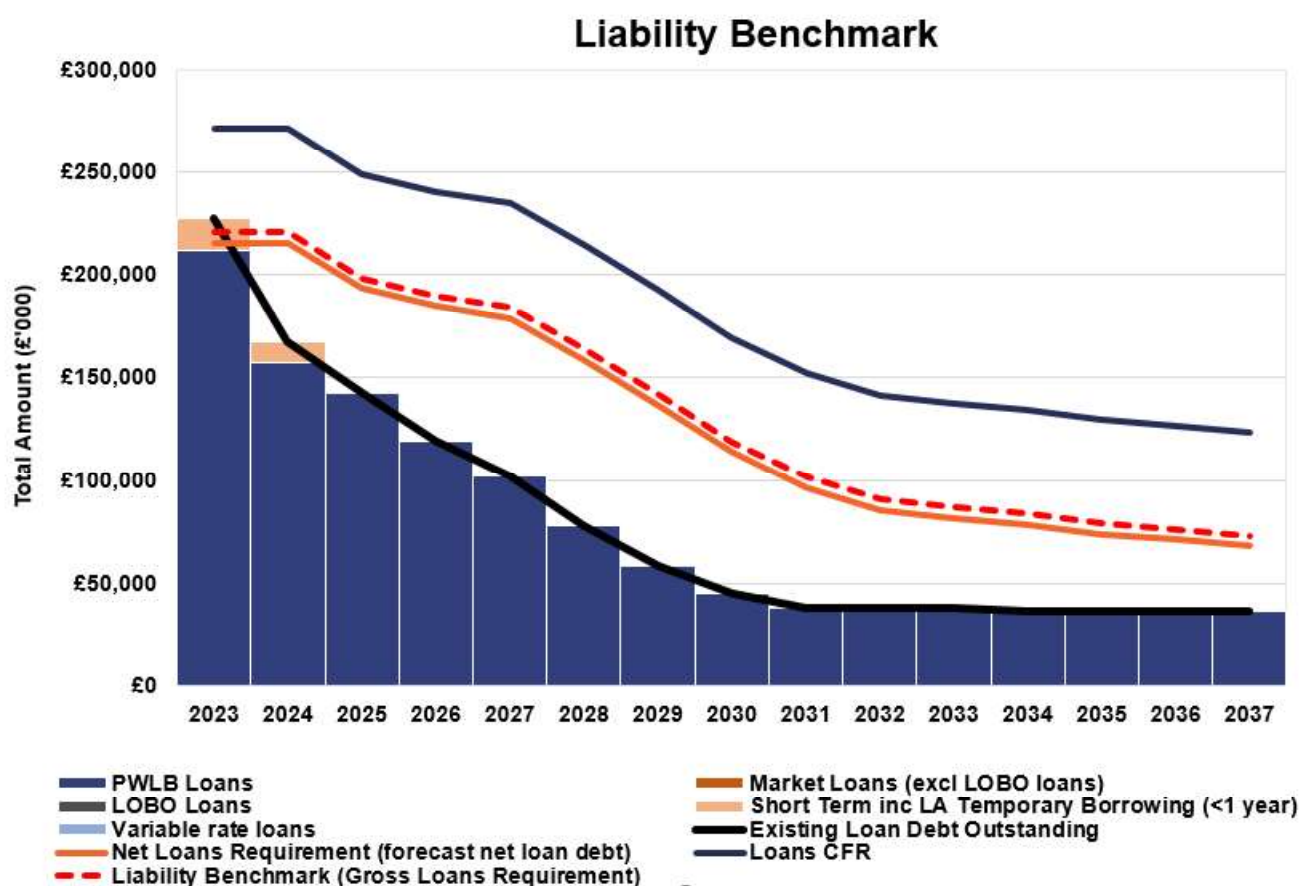
2.3 Liability Benchmark

The Authority is required to estimate and measure the Liability Benchmark (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 flow forecast.

4. **Liability benchmark** (or gross loans requirement): this equals net loans requirement plus short-term liquidity allowance.



2.4 Core Funds and Expected Investment Balances

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

Year End Resources	2022/23	2023/24	2024/25	2025/26	2026/27
£m	Actual	Estimate	Estimate	Estimate	Estimate
Fund balances / reserves	2	9	9	9	9
Capital receipts	2	3	34	2	0
Provisions	(10)	(15)	(17)	(19)	(14)
Other	3	8	8	6	5
Total core funds	(2)	6	35	(3)	1
Working capital*	(39)	(34)	(39)	(34)	(34)
Under/over borrowing	43	33	30	40	43
Expected investments	2	5	25	3	10

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

2.5 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 2023/24 will not be subject to an MRP charge until 2024/25, or in the year after the asset becomes operational (whichever is later).

The Council will apply the asset life method for any expenditure capitalised under a Capitalisation Direction.

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 2024/25 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 31/3/23 the total voluntary overpayments were £1.1M.

2.6 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.

2.6.1 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

	2022/23 Actual	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
General Fund	17.8%	20.2%	24.0%	28.4%	27.9%
HRA	60.3%	53.5%	50.5%	62.3%	59.5%

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:

	2022/23 Actual	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
General Fund Ratio	12.8%	8.6%	10.2%	11.6%	11.4%

2.6.2 HRA ratios

The HRA 30-year plan, presented in the budget to the Housing and Inclusion Committee in January 2024, includes partial refinancing of the self-financing loan that will become due for repayment in 2024/25. 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 reduces in 2024/25 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	2022/23 Actual	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
HRA debt	£143.4M	£140.6M	£139.2M	£119.1M	£114.0M
HRA revenues	£30.2M	£32.9M	£34.8M	£35.7M	£35.9M
Ratio debt to revenues	475.7%	428.0%	399.5%	333.2%	317.5%

Table 7 Debt per property

HRA	2022/23 Actual	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
HRA debt	£143.4M	£140.6M	£139.2M	£119.1M	£114.0M
Number of HRA dwellings	4,893	4,887	4,846	4,842	4,820
Debt per dwelling	£29,310	£28,771	£28,722	£24,599	£23,651

2.6.3 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 £0.1m 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 £0.7M in interest in terms of sales receipts. However, excluding Jubilee Square, the potential loss would be £0.1M. and £0.3M 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 £2.9M in 2024/25 terms of sale receipts and £0.07M pa in terms of rent (the latter in 24/25)
- Higher (or lower) interest rates than expected – the Council can borrow at fixed rates, so the exposure is on debt not yet borrowed. In 2024/25 a 1% change in rates has an impact of £0.5M per annum.

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

3 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.

3.1 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 taking into account a sustainable level of treasury investments.

The Council's treasury portfolio position on 31 March 2023, 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	2022/23 Actual £'m	2023/24 Estimate £'m	2024/25 Estimate £'m	2025/26 Estimate £'m	2026/27 Estimate £'m
Debt at 1 April	215	228	238	219	200
Expected change in Debt:					
Debt repayment	(13)	(46)	(34)	(29)	(23)
Increase in external borrowings	26	56	15	10	14
Actual/Estimated gross debt at 31 March	228	238	219	200	191
The Capital Financing Requirement 31 March	271	271	249	240	234
Under / (over) borrowing	43	33	30	40	43

3.2 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 (2023/24) and proposed limits. For 2024/25 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	2023/24	2024/25	2025/26	2026/27
	£'M	£'M	£'M	£'M
General Fund	142	134	131	130
HRA	181	166	158	152
Other Long Term Liabilities (Note 1)	6	6	6	6
Total	329	306	295	288

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

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

Authorised Limit for External Debt	2023/24	2024/25	2025/26	2026/27
	£'M	£'M	£'M	£'M
General Fund	147	139	136	135
HRA	186	171	163	157
Other Long Term Liabilities (note 1)	6	6	6	6
Total	339	316	305	298

3.3 Prospects for interest rates

The Council has appointed Link Group as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. Link provided the following forecasts 8 January 2024. 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 08.01.24													
	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27
BANK RATE	5.25	5.25	4.75	4.25	3.75	3.25	3.00	3.00	3.00	3.00	3.00	3.00	3.00
3 month ave earnings	5.30	5.30	4.80	4.30	3.80	3.30	3.00	3.00	3.00	3.00	3.00	3.00	3.00
6 month ave earnings	5.20	5.10	4.60	4.10	3.70	3.30	3.10	3.10	3.10	3.10	3.10	3.10	3.10
12 month ave earnings	5.00	4.90	4.40	3.90	3.60	3.20	3.10	3.10	3.10	3.10	3.10	3.20	3.20
5 yr PWLB	4.50	4.40	4.30	4.20	4.10	4.00	3.80	3.70	3.60	3.60	3.50	3.50	3.50
10 yr PWLB	4.70	4.50	4.40	4.30	4.20	4.10	4.00	3.90	3.80	3.70	3.70	3.70	3.70
25 yr PWLB	5.20	5.10	4.90	4.80	4.60	4.40	4.30	4.20	4.20	4.10	4.10	4.10	4.10
50 yr PWLB	5.00	4.90	4.70	4.60	4.40	4.20	4.10	4.00	4.00	3.90	3.90	3.90	3.90

Links view is that the MPC would be keen to further demonstrate its anti-inflation credentials by keeping the Bank Rate at 5.25% until at least H2 2024. They expect rate cuts to start when both the CPI inflation and wage/employment data are supportive of such a move, and that there is a likelihood of the overall economy enduring at least a mild recession over the coming months.

Naturally, timing on this matter will remain one of fine judgment: cut too soon, and inflationary pressures may well build up further; cut too late and any downturn or recession may be prolonged.

In the upcoming months, the 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 also international factors such as policy development in the US and Europe, the provision of fresh support packages to support the faltering recovery in China as well as the on-going conflict between Russia and Ukraine, and Gaza and Israel.

Investment and borrowing rates

- **Investment returns.** Links forecast average earnings on investments at 5.3% but are expected to reduce steadily to 3.25% by 2027/28.
- **Borrowing interest rates.** Links predicts that the MPC will keep the Bank Rate at 5.25% until the second half of 2024, to combat on-going inflationary and wage pressures, even if they have dampened somewhat of late. Link do not expect that the MPC will increase the Bank Rate above 5.25%.
- **Borrowing for capital expenditure.** Links long-term (beyond 10 years) forecast for the Bank Rate has increased from 2.75% to 3% and reflects Capital Economics' research that suggests AI and general improvements in productivity will be supportive of a higher neutral interest rate. As all PWLB certainty rates are currently significantly above this level, borrowing strategies will need to be reviewed in that context. Overall, 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 will remain elevated for some time to come but may prove the best option whilst the market continues to wait for inflation, and therein gilt yields, to drop back later in 2024.

3.4 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 35%. 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 2024
	%	%	%	%
Under 12 months	20.00	35.00	-	34%
12 months and within 5 years	60.00	60.00	-	34%
5 years and within 10 years	60.00	60.00	-	17%
10 years and within 20 years	80.00	80.00	-	1%
Over 20 years	80.00	80.00	-	16%

The debt profile as at 1st April 2024 is based on the current known debt profile and an expectation of short term external borrowing between January to March 2024.

3.5 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 assets of lower estimated asset life 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	•	•

3.6 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.

3.7 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.

4 Annual Investment Strategy

4.1 Investment policy – management of risk

The Department of Levelling Up, Housing and Communities (DLUHC) and CIPFA has 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.

4.2.2 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 is the same as UK institutions.

4.2.3 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 Group 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 Group update the list on a weekly basis.

4.2.4 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.

There are no proposed amendments to the counterparty limits and the current limits are shown at Annex 4.

4.2.5 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.

4.2.6 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	2023/24	2024/25	2025/26	2026/27
	£m	£m	£m	£m
Total	1.0	1.0	1.0	1.0

4.2.7 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 realtime 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.

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	100%	5 years
UK Treasury Bills	Yellow	100%	364 days (max. is set by the DMO*)
Local Authorities	Yellow	£5m £1m	up to 1 year 1-3 years
Term Deposits with Housing Associations	Blue Orange Red Green No Colour	£5m	12 months 12 months 6 months 100 days Not for use
Term Deposits with Banks and Building Societies	Blue Orange Red Green No Colour	£5m	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	£5m	12 months 12 months 6 months 100 days Not for use

* DMO – is the Debt Management Office of HM Treasury

Note- Maximum term deposit with the Council's bank (currently HSBC) is £8M.

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:

An investment is a specified investment if all the following apply:

- The investment is denominated in sterling and any payments or repayments in the respect of the investment are payable only in sterling.
- The investment is not a long term investment. This means that the local authority has a contractual right to repayment within 12 months, either because that is the expiry term of the investment or through a nonconditional option.
- The making of the investment is not defined as capital expenditure by virtue of Regulation 25(1)(d) of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 [as amended].
- The investment is made with a body or in an investment scheme described as high quality (for this Council we will use the suggested duration of Link Group) or with one of the following bodies:
 - i. The United Kingdom Government;
 - ii. A local authority in England or Wales (as defined in section 23 of the 2003 Act) or a similar body in Scotland or Northern Ireland;
 - or iii. A parish council or community council.

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 Group 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

	Limit	Max. maturity period
Cash deposits with DMO at the Bank of England	No limit	Liquid
Cash or Term deposits with Local authorities	£5m	Up to 1 year
	£1m	Up to 3 years
Cash or Term deposits with UK Nationalised and Part Nationalised Banks	£5m	On call
	£5m	Up to 1 year
	£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	Over 3 months up to 1 year
	£1m	Over 1 year 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 - 31st December 2023

<u>Investments</u>	<u>LIMIT</u> £	<u>START</u> <u>DATE</u>	<u>END DATE</u>	<u>INT RATE</u>	<u>INV VALUE</u> £	<u>Investments</u> <u>Previous Week</u> £
Deposits with DMO (0 - 60mths)	Unlimited					
		05/12/2023	12/12/2023	5.190%	0	1,300,000
		07/12/2023	12/12/2023	5.190%	0	1,000,000
		15/12/2023	19/12/2023	5.190%	0	4,200,000
		21/12/2023	09/01/2024	5.190%	2,450,000	
DMO Total					2,450,000	6,500,000
UK Banks and Building Societies	5,000,000					
Handelsbanken (0 - 12mths)		various	Call Account		2,136,494	2,136,494
UK Banks & Building Societies Total					2,136,494	2,136,494
SADC Bank	8,000,000					
HSBC Bank PLC (0 - 12mths)		various	Call account		4,049,257	6,849,257
Overall Total					8,635,751	15,485,751

<u>Loans to be repaid in Financial Year 2023/24</u>						
<u>Loaning Body and Designation (General Fund or Housing Revenue Account)</u>	<u>LIMIT</u> £	<u>START</u> <u>DATE</u>	<u>END DATE</u>	<u>INT RATE</u>	<u>LOAN VALUE</u> £	<u>Loans Previous</u> <u>Month</u> £
	Unlimited					
PWLB - HRA		28/03/2012	28/03/2024	2.70%	13,000,000	13,000,000
PWLB - General Fund		11/03/2020	11/03/2024	2.25%	219,557	219,557
Watford Borough Council - General Fund REPAID IN FULL		27/03/2023	30/06/2023	4.60%	5,000,000	5,000,000
Watford Borough Council - General Fund REPAID IN FULL		27/03/2023	26/06/2023	4.60%	1,000,000	1,000,000
Norfolk County Council - HRA REPAID IN FULL		27/03/2023	27/09/2023	4.60%	10,000,000	10,000,000
Total					29,219,557	29,219,557

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 and Governance 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.