Treasury Management Strategy & Annual Investment Strategy

2023/24

Contents

1.0 Introduction ... 3
1.1 Background ... 3
1.2 Revised Treasury Management Code and Prudential Code ... 4
1.3 Reporting Requirements ... 7
1.4 Treasury Management Strategy for 2023/24 ... 8
1.5 Training ... 9
1.6 Treasury Management Consultants ... 10
2.0 The Capital Prudential Indicators 2023/24 to 2027/28 ... 11
2.1 Capital Expenditure and Financing ... 11
2.2 The Authority's Borrowing Need (the Capital Financing Requirement) 12
2.3 Liability Benchmark ... 13
2.4 Core Funds and Expected Investment Balances ... 14
3.0 Borrowing ... 15
3.1 Current Portfolio Position ... 15
3.2 Treasury Indicators: Limits to borrowing activity ... 17
3.3 Prospects for interest rates ... 18
3.4 Borrowing Strategy ... 21
3.5 Policy on Borrowing in Advance of Need ... 21
3.6 Rescheduling ... 22
3.7 New Financial Institutions as a Source of Borrowing ... 22
3.8 Approved Sources of Long and Short Term Borrowing ... 23
4.0 Annual Investment Strategy ... 24
4.1 Investment Policy – Management of Risk ... 24
4.2 Creditworthiness Policy ... 27
4.3 Limits ... 30
4.4 Investment Strategy ... 31
4.6 End of Year Investment Report ... 33
4.7 External Fund Managers ... 33

APPENDIX 1 - INTEREST RATE FORECASTS 2022-2025 34
APPENDIX 2 - ECONOMIC BACKGROUND 35
APPENDIX 3 - TREASURY MANAGEMENT PRACTICE (TMP1) – CREDIT AND COUNTERPARTY RISK MANAGEMENT 39
APPENDIX 4 – APPROVED COUNTRIES FOR INVESTMENT 43
APPENDIX 5 – TREASURY MANAGEMENT SCHEME OF DELEGATION 44
APPENDIX 6 – THE TREASURY MANAGEMENT ROLE OF THE SECTION 151 OFFICER 45

1.0 Introduction

1.1 Background

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

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

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

The Chartered institute of Public Finance and Accountancy (CIPFA) defines treasury management as:

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

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

1.2 Revised Treasury Management Code and Prudential Code

The Chartered Institute of Public Finance and Accountancy (CIPFA) published a revised Treasury Management Code and Prudential Code on 20th December 2021 and has stated that revisions need to be included in the reporting framework from the 2023/24 financial year. This Authority, therefore, has to have regard to these Codes of Practice when it prepares the Treasury Management Strategy and Annual Investment Strategy, and also related reports during the financial year, which are taken to Full Council for approval.

The revised Treasury Management Code requires all investments and investment income to be attributed to one of the following three purposes:

i. **Treasury management -** arising from the organisation's cash flows or treasury risk management activity, this type of investment represents balances which are only held until the cash is required for use. Treasury investments may also arise from other treasury risk management activity which seeks to prudently manage the risks, costs or income relating to existing or forecast debt or treasury investments.

ii. **Service delivery - i**nvestments held primarily and directly for the delivery of public services including housing, regeneration and local infrastructure. Returns on this category of investment which are funded by borrowing are permitted only in cases where the income is "either related to the financial viability of the project in question or otherwise incidental to the primary purpose".

iii. **Commercial return** - investments held primarily for financial return with no treasury management or direct service provision purpose. Risks on such investments should be proportionate to an authority's financial capacity – i.e., that 'plausible losses' could be absorbed in budgets or reserves without unmanageable detriment to local services. An authority must not borrow to invest primarily for financial return.

The revised Treasury Management Code will require an authority to implement the following:

i. Adopt a new liability benchmark treasury indicator to support the financing risk management of the capital financing requirement; this is to be shown in chart form for a minimum of ten years, with material differences between the liability benchmark and actual loans to be explained.
ii. Long-term treasury investments, (including pooled funds), are to be classed as commercial investments unless justified by a cash flow business case.
iii. Pooled funds are to be included in the indicator for principal sums maturing in years beyond the initial budget year.
iv. Amendment to the knowledge and skills register for officers and members involved in the treasury management function - to be proportionate to the size and complexity of the treasury management conducted by each authority.
v. Reporting to members is to be done quarterly. Specifically, the Chief Finance Officer (CFO) is required to establish procedures to monitor and report performance against all forward-looking prudential indicators at least quarterly. The CFO is expected to establish a measurement and reporting process that highlights significant actual or forecast deviations from the approved indicators. However, monitoring of prudential indicators, including forecast debt and investments, is not required to be taken to Full Council and should be reported as part of the authority’s integrated revenue, capital and balance sheet monitoring.
vi. Environmental, social and governance (ESG) issues to be addressed within an authority’s treasury management policies and practices (TMP1).

The main requirements of the Prudential Code relating to service and commercial investments are:

i. The risks associated with service and commercial investments should be proportionate to their financial capacity – i.e. that plausible losses could be absorbed in budgets or reserves without unmanageable detriment to local services.
ii. An authority must not borrow to invest for the primary purpose of commercial return.
iii. It is not prudent for local authorities to make any investment or spending decision that will increase the CFR, and so may lead to new borrowing, unless directly and primarily related to the functions of the authority, and where any commercial returns are either related to the financial viability of the project in question or otherwise incidental to the primary purpose.
iv. An annual review should be conducted to evaluate whether commercial investments should be sold to release funds to finance new capital expenditure or refinance maturing debt.
v. A prudential indicator is required for the net income from commercial and service investments as a proportion of the net revenue stream.
vi. Create new Investment Management Practices to manage risks associated with non-treasury investments, (similar to the current Treasury Management Practices).

An authority's Capital Strategy or Annual Investment Strategy should include: -

i. The authority's approach to investments for service or commercial purposes (together referred to as non-treasury investments), including defining the authority's objectives, risk appetite and risk management in respect of these investments, and processes ensuring effective due diligence.
ii. An assessment of affordability, prudence and proportionality in respect of the authority's overall financial capacity (i.e. whether plausible losses could be absorbed in budgets or reserves without unmanageable detriment to local services).
iii. Details of financial and other risks of undertaking investments for service or commercial purposes and how these are managed.

iv. Limits on total investments for service purposes and for commercial purposes respectively (consistent with any limits required by other statutory guidance on investments).
v. Requirements for independent and expert advice and scrutiny arrangements (while business cases may provide some of this material, the information contained in them will need to be periodically re-evaluated to inform the authority's overall strategy).

State compliance with paragraph 51 of the Prudential Code in relation to investments for commercial purposes, in particular the requirement that an authority must not borrow to invest primarily for financial return.

1.3 Reporting Requirements

1.3.1 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:

i. a high-level long-term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services.
ii. an overview of how the associated risk is managed.
iii. 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.

1.3.2 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.

i. Prudential and treasury indicators and treasury strategy (this report) - The first, and most important report is forward looking and covers:

a. the capital plans, (including prudential indicators)
b. a minimum revenue provision (MRP) policy, (how residual capital expenditure is charged to revenue over time)
c. the Treasury Management Strategy, (how the investments and borrowings are to be organised), including treasury indicators; and
d. an Annual Investment Strategy, (the parameters on how investments are to be managed)

ii. 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.

iii. 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.

1.3.3 Scrutiny

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

1.3.4 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/Board but do require to be adequately scrutinised. This role is undertaken by the Audit and Governance Committee. The reports, specifically, should include updated Treasury/Prudential Indicators.

1.4 Treasury Management Strategy for 2023/24

The strategy for 2023/24 covers the following Treasury management issues:

i. the current treasury position
ii. treasury indicators which limit the treasury risk and activities of the Authority
iii. prospects for interest rates

iv. the borrowing strategy
v. policy on borrowing in advance of need
vi. debt rescheduling
vii. the investment strategy
viii. creditworthiness policy; and
ix. the policy on use of external service providers

1.5 Training

The CIPFA Treasury Management Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny.

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

The scale and nature of this will depend on the size and complexity of the organisation's treasury management needs. Organisations should consider how to assess whether treasury management staff and board/ council members have the required knowledge and skills to undertake their roles and whether they have been able to maintain those skills and keep them up to date.

As a minimum, authorities should carry out the following to monitor and review knowledge and skills:

i. Record attendance at training and ensure action is taken where poor attendance is identified.
ii. Prepare tailored learning plans for treasury management officers and board/council members.
iii. Require treasury management officers and board/council members to undertake self-assessment against the required competencies (as set out in the schedule that may be adopted by the organisation).
iv. Have regular communication with officers and board/council members, encouraging them to highlight training needs on an ongoing basis."

In further support of the revised training requirements, CIPFA's Better Governance Forum and Treasury Management Network have produced a 'self-assessment by members responsible for the scrutiny of treasury management', which is available from the CIPFA website to download.

Members received training at the meeting of Audit and Governance on Tuesday 9 November 2021.

The training needs of treasury management officers are periodically reviewed. A formal record of the training received by officers central to the Treasury function will be maintained by Human Resources and Organisational Development. Similarly, a formal record of the treasury management/capital finance training received by members will be maintained by the Democratic Services Manager.

1.6 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.

2.0 The Capital Prudential Indicators 2023/24 to 2027/28

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

2.1 Capital Expenditure and Financing

This prudential indicator is a summary of the Authority's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. The table below summarises the 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:

Year End Resources	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m	2027/28 Estimate £m
Services Total	**20.569**	**18.374**	**14.482**	**6.965**	**0.888**	**0.888**

Financing of capital expenditure	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m	2027/28 Estimate £m
Capital receipts	(1.600)	(3.160)	(5.140)	(250)	(250)	(250)
Capital grants and 3rd party Contributions	(3.185)	(2.276)	(83)	0	0	0
Revenue	(425)	(328)	(3.288)	(288)	(288)	(288)
Net financing need for the year	**15.359**	**12.610**	**5.971**	**6.427**	**0.350**	**0.350**

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

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

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

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

	2022/23 Estimate £m	**2023/24 Estimate £m**	**2024/25 Estimate £m**	**2025/26 Estimate £m**	**2026/27 Estimate £m**	**2027/28 Estimate £m**
Capital Financing Requirement						
Services	15.359	12.610	5.971	6.427	0.350	0.350
Total CFR	20.352	32.405	36.794	41.639	39.977	38.303
Movement in CFR	15.168	12.053	4.389	4.845	-1.662	-1.674

Movement in CFR represented by						
Net financing need for the year (above)	15.359	12.610	5.971	6.427	0.350	0.350
Less MRP/VRP and other financing movements	-0.191	-0.557	-1.582	-1.582	-2.012	-2.024
Movement in CFR	15.168	12.053	4.389	4.845	-1.662	-1.674

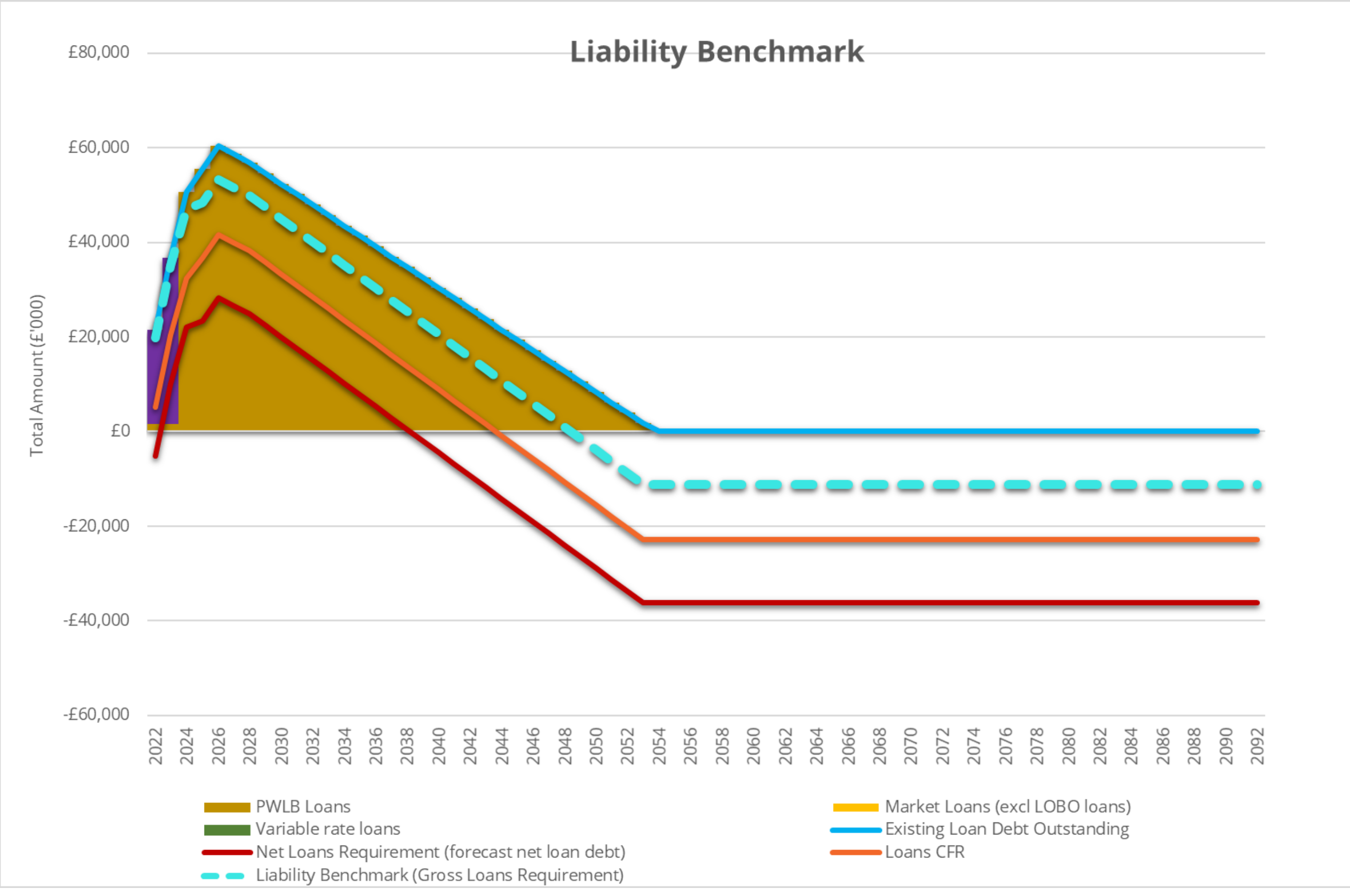
External borrowing	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Service spend	13.469	12.610		0.350	0.350	0.350
Housing	0	0	0	0	0	0
Regeneration	1.890	0	5.971	6.077	0	0
Preventative action	0	0	0	0	0	0
Projects for yield	0	0	0	0	0	0
TOTAL	**15.359**	**12.610**	**5.971**	**6.427**	**0.350**	**0.350**

2.3 Liability Benchmark

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

There are four components to the LB:

i. Existing loan debt outstanding: the Authority's existing loans that are still outstanding in future years.
ii. 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.
iii. 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.
iv. 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	**2023/24 Estimate £m**	**2024/25 Estimate £m**	**2025/26 Estimate £m**	**2026/27 Estimate £m**	**2027/28 Estimate £m**
Fund balances / reserves	31.660	28.540	21.020	21.210	21.210
Capital receipts	-	-	-	-	
Other	-	-	-	-	
Total core funds	**31.660**	**28.540**	**21.020**	**21.210**	**21.210**
Working capital*	3.000	3.000	3.000	3.000	3.000
Under/over borrowing	12.120	3.086	2.510	1.985	2.047
Expected investments	**46.780**	**34.626**	**26.530**	**26.195**	**26.257**

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

3.0 Borrowing

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

3.1 Current Portfolio Position

The overall treasury management portfolio as at 31/03/2022 and for the position as at 31/12/2022 are shown below for both borrowing and investments.

	31/03/22 £m	31/12/22 £m
Banks	13.71	13.38
Building Societies	5.4	5.4
Local authorities		
DMADF (H.M.Treasury)		
Money Market Funds	2.57	2.57
Certificates of Deposit		
Total Managed in-house	21.68	21.35
Bond Funds		
Property Funds	20	20
Total Managed Externally	20	20
Total Investments	**41.68**	**41.35**
Local Authorities	20.0	22.0
Public Works Loans Board	1.5	1.5
Market Loans		
Total External Borrowing	**21.5**	**23.5**

Net treasury investments / (borrowing)	**20.18**	**17.85**

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

	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m	2027/28 Estimate £m
Debt at 1 April	36.701	45.983	54.924	60.431	59.281
Expected change in Debt	9.282	8.971	5.477	(1,150)	(1,750)
Other long-term liabilities (OLTL)					
Expected change in OLTL					
Actual gross debt at 31 March	**45.983**	**54.924**	**60.431**	**59.281**	**57.531**
The Capital Financing Requirement	50.535	58.010	62.494	61.266	59.578
Under / (over) Borrowing	**12.121**	**3.086**	**2.510**	**1.985**	**2.047**

Within the range of prudential indicators there are several key indicators to ensure that the Authority operates its activities within well-defined limits. One of these is that the Authority needs to ensure that its gross debt does not, except in the short-term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2023/24 and the following two financial years. This allows some flexibility for limited early borrowing for future years but ensures that borrowing is not undertaken for revenue or speculative purposes.

The Head of Strategic Finance & Property reports that the Authority complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes account of current commitments, existing plans and the proposals in this budget report.

3.2 Treasury Indicators: Limits to borrowing activity

3.2.1 Operational Boundary

This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt and the ability to fund under-borrowing by other cash resources.

Operational boundary	**2023/24 Estimate £m**	**2024/25 Estimate £m**	**2025/26 Estimate £m**	**2026/27 Estimate £m**	**2027/28 Estimate £m**
Debt	80.0	80.0	80.0	80.0	80.0
Other long term liabilities	10.0	10.0	10.0	10.0	10.0
Total	**90.0**	**90.0**	**90.0**	**90.0**	**90.0**

3.2.2 Authorised Limit for external debt

This is a key prudential indicator and represents a control on the maximum level of borrowing. This represents a legal limit beyond which external debt is prohibited, and this limit needs to be set or revised by the Full Council. It reflects the level of external debt which, while not desired, could be afforded in the short-term, but is not sustainable in the longer-term.

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

Authorised Limit	**2023/24 Estimate £m**	**2024/25 Estimate £m**	**2025/26 Estimate £m**	**2026/27 Estimate £m**	**2027/28 Estimate £m**
Debt	180.0	180.0	180.0	180.0	180.0
Other long term liabilities	10.0	10.0	10.0	10.0	10.0
Total	**190.0***	**190.0**	**190.0**	**190.0**	**190.0**

3.3 Prospects for interest rates

The Authority has appointed Link Group as its treasury advisor and part of their service is to assist the Authority to formulate a view on interest rates. Link provided the following forecasts

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

Our central forecast for interest rates 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 the first half of 2023.

Further down the road, we anticipate the Bank of England will be keen to loosen monetary policy when the worst of the inflationary pressures are behind us – but that timing will be one of fine judgment: cut too soon, and inflationary pressures may well build up further; cut too late and any downturn or recession may be prolonged.

The CPI measure of inflation looks to have peaked at 11.1% in Q4 2022 (currently 10.7%). Despite the cost-of-living squeeze that is still taking shape, the Bank will want to see evidence that wages are not spiralling upwards in what is evidently a very tight labour market.

Regarding the plan to sell £10bn of gilts back into the market each quarter (Quantitative Tightening), this has started and will focus on the short, medium and longer end of the curve in equal measure, now that the short-lived effects of the Truss/Kwarteng unfunded dash for growth policy are firmly in the rear-view mirror.

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

On the positive side, consumers are still estimated to be sitting on 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.

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

The overall balance of risks to economic growth in the UK is to the Downside risks to current forecasts for UK gilt yields and PWLB rates include: -

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

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

i. The Bank of England is too slow in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to build up too strongly and for a longer period within the UK economy, which then necessitates Bank Rate staying higher for longer than we currently project or even necessitates a further series of increases in Bank Rate.

ii. The Government acts too quickly to cut taxes and/or increases expenditure in light of the cost-of-living squeeze.

iii. The pound weakens because of a lack of confidence in the UK Government's fiscal policies, resulting in investors pricing in a risk premium for holding UK sovereign debt.

iv. Longer term US treasury yields rise strongly and pull gilt yields up higher than currently forecast.

v. Projected gilt issuance, inclusive of natural maturities and QT, could be too much for the markets to comfortably digest without higher yields consequently.

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

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

Average earnings in each year	
2022/23 (remainder)	4.00%
2023/24	4.40%
2024/25	3.30%
2025/26	2.60%
2026/27	2.50%
Years 6 to 10	2.80%
Years 10+	2.80%

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

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

3.4 Borrowing Strategy

The Authority is currently maintaining an 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 Authority's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as medium and longer dated borrowing rates are expected to fall from their current levels once prevailing inflation concerns are addressed by tighter near-term monetary policy. That is, Bank Rate increases over the remainder of 2022 and the first half of 2023.

Against this background and the risks within the economic forecast, caution will be adopted with the 2023/24 treasury operations. The Head of Strategic Finance & Property will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

i. if it was felt that there was a significant risk of a sharp FALL in borrowing rates, then borrowing will be postponed.
ii. if it was felt that there was a significant risk of a much sharper RISE in borrowing rates than that currently forecast, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.

Any decisions will be reported to the Executive at the next available opportunity.

3.5 Policy on Borrowing in Advance of Need

The Authority will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates and will be considered carefully to ensure that value for money can be demonstrated and that the Authority can ensure the security of such funds.

3.6 Rescheduling

Rescheduling of current borrowing in our debt portfolio is unlikely to occur as there is still a large difference between premature redemption rates and new borrowing rates.

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

3.7 New Financial Institutions as a Source of Borrowing

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

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

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

3.8 Approved Sources of Long and Short Term Borrowing

Borrowing Source	Fixed	Variable
PWLB	✓	✓
UK Municipal Bond Agency	✓	✓
Local Authorities	✓	✓
Banks	✓	✓
Pension Funds	✓	✗
Insurance Companies	✓	✗
UK Infrastructure Bank	✓	✗
Market (long-term)	✓	✓
Market (temporary)	✓	✓
Market (LOBOs)	✗	✗
Stock Issues	✗	✗
Local Temporary	✗	✗
Local Bonds	✓	✗
Local Authority Bills	✗	✗
Overdraft	✓	✓
Negotiable Bonds	✗	✗
Internal (capital receipts & revenue balances)	✓	✓
Commercial Paper	✗	
Medium Term Notes	✗	
Finance Leases	✓	✓

4.0 Annual Investment Strategy

4.1 Investment Policy – Management of Risk

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

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

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

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

In the current economic climate, it is considered appropriate to maintain a degree of liquidity to cover cash flow needs but to also consider "laddering" investments for periods up to 12 months with high credit rated financial institutions, whilst investment rates remain elevated, as well as wider range fund options.

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

i. Minimum acceptable credit criteria are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short-term and long-term ratings.

ii. Other information: ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration the Authority will engage with its advisors to maintain a monitor on market pricing such as "credit default swaps" and overlay that information on top of the credit ratings.

iii. Other information sources used will include the financial press, share price and other such information pertaining to the financial sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

iv. This Authority has defined the list of types of investment instruments that the treasury management team are authorised to use. There are two lists in Appendix 5.4 under the categories of 'specified' and 'non-specified' investments.

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

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

v. Non-specified and loan investment limits. The Authority has determined that it will set a limit to the maximum exposure of the total treasury management investment portfolio to non-specified treasury management investments of Y%.

vi. Lending limits, (amounts and maturity), for each counterparty will be set through applying the matrix table in section 4.2.
vii. Transaction limits are set for each type of investment in section 4.2.
viii. This Authority will set a limit for its investments which are invested for longer than 365 days in section 4.4.
ix. Investments will only be placed with counterparties from countries with a specified minimum sovereign rating shown in section 4.3.
x. This Authority has engaged external consultants, (see section 1.5), to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of this Authority in the context of the expected level of cash balances and need for liquidity throughout the year.
xi. All investments will be denominated in sterling.
xii. As a result of the change in accounting standards for 2022/23 under IFRS 9, this Authority will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. (In November 2018, the MHCLG, concluded a consultation for a temporary override to allow English local authorities time to adjust their portfolio of all pooled investments by announcing a statutory override to delay implementation of IFRS 9 for five years ending 31March 2023. At the current juncture it has not been determined whether a further extension to the over-ride will be agreed by Government.

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

The above criteria are unchanged from last year.

4.2 Creditworthiness Policy

This Authority 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:

i. "watches" and "outlooks" from credit rating agencies;
ii. CDS spreads that may give early warning of changes in credit ratings;
iii. 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 Authority to determine the suggested duration for investments. The Authority will, therefore, use counterparties within the following durational bands:

Yellow	5 years *
Dark pink	5 years for Ultra-Short Dated Bond Funds with a credit score of 1.25
Light pink	5 years for Ultra-Short Dated Bond Funds with a credit score of 1.5
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 Authority uses 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.

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

i. if a downgrade results in the counterparty / investment scheme no longer meeting the Authority's minimum criteria, its further use as a new investment will be withdrawn immediately.
ii. in addition to the use of credit ratings the Authority will be advised of information in movements in Credit Default Swap spreads against the iTraxx European Senior Financials benchmark and other market data on a daily basis via its Passport website, provided exclusively to it by Link. Extreme market movements may result in downgrade of an institution or removal from the Authority's lending list.

Sole reliance will not be placed on the use of this external service. In addition, this Authority will also use market data and market information, as well as information on any external support for banks to help support its decision-making process.

Y	Pi1	Pi2	P	B	O	R	G	N/C
1	1.25	1.5	2	3	4	5	6	7
Up to 5yrs	Up to 5yrs	Up to 5yrs	Up to 2yrs	Up to 1yr	Up to 1yr	Up to 6mths	Up to 100days	No Colour

	Colour (and long-term rating where applicable)	**Money and/or % limit**	**Transaction limit**	**Time limit**
Banks *	Yellow	£10m	£10m	5yrs
Banks	Purple	£20m	£20m	2 yrs
Banks	Orange	£30m	£30m	1 yr
Banks – part nationalised	Blue	£20m	£20m	1 yr
Banks – council's own bank	Blue	£50m	£50m	1 yr
Banks	Red	£10m	£10m	6 mths
Banks	Green	£10m	£10m	100 days
Banks	No Colour	Not to be used	£Xm	
Limit 3 category – Authority's own banker (where "No Colour")	No Colour	£50m	£50m	1 day
DMADF	UK sovereign rating	unlimited	£50m	unlimited
Local authorities	n/a	£20m per local authority	£20m	unlimited
Lothbury Property Fund		£10m	£10m	Liquid within 2 months
Hermes Property Fund		£10m	£10m	Liquid within 2 months
	Fund rating**	**Money and/or % Limit**		**Time Limit**
Money Market Funds CNAV	AAA	£10m (per fund)	£10m	liquid
Money Market Funds LVNAV	AAA	£10m (per fund)	£10m	liquid
Money Market Funds VNAV	AAA	£10m (per fund)	£10m	liquid

Creditworthiness

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

CDS prices

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

4.3 Limits

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

i. Non-specified treasury management investment limit. The Authority has determined that it will limit the maximum total exposure of treasury management investments to non-specified treasury management investments as being X% of the total treasury management investment portfolio.
ii. Country limit. The Authority has determined that it will only use approved counterparties from the UK and from countries with a minimum sovereign credit rating of AA- from Fitch (or equivalent). The list of countries that qualify using this credit

criteria as at the date of this report are shown in Appendix 5.6. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

Other limits

In addition:

i. no more than 10% will be placed with any non-UK country at any time;
ii. limits in place above will apply to a group of companies / institutions;
iii. sector limits will be monitored regularly for appropriateness.

4.4 Investment Strategy

4.4.1 In-house funds

Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e., rates for investments up to 12 months). Greater returns are usually obtainable by investing for longer periods. The current shape of the yield curve suggests that is the case at present, but there is the prospect of Bank Rate peaking in the first half of 2023 and possibly reducing as early as the latter part of 2023 so an agile investment strategy would be appropriate to optimise returns.

Accordingly, while most cash balances are required in order to manage the ups and downs of cash flow, where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer-term investments will be carefully assessed.

4.4.2 Investment returns expectations

The current forecast shown in paragraph 3.3, includes a forecast for Bank Rate to reach 4.5% in Q2 2023.

The suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year are as follows:

Average earnings in each year	
2022/23 (remainder)	4.00%
2023/24	4.40%
2024/25	3.30%
2025/26	2.60%
2026/27	2.50%
Years 6 to 10	2.80%
Years 10+	2.80%

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

For its cash flow generated balances, the Authority will seek to utilise its business reserve instant access and notice accounts, Money Market Funds and short-dated deposits, (overnight to 100 days), in order to benefit from the compounding of interest.

4.4.3 Investment treasury indicator and limit - total principal funds invested for greater than 365 days

These limits are set with regard to the Authority's liquidity requirements and to reduce the need for early sale of an investment and are based on the availability of funds after each year-end.

Upper limit for principal sums invested for longer than 365 days			
£m	**2023/24**	**2024/25**	**2025/26**
Principal sums invested for longer than 365 days	£30m	£30m	£30m
Current investments as at 31/12/2022 in excess of 1 year maturing in each year	£20m	£20m	£20m

4.5 Investment Performance / Risk Benchmarking

This Authority will use an investment benchmark to assess the investment performance of its investment portfolio of overnight, 7 day, 1, 3, 6 or 12 month compounded / SONIA as appropriate.

4.6 End of Year Investment Report

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

4.7 External Fund Managers

£__m of the Authority's funds is externally managed on a discretionary / pooled basis by <<name of manager(s)>>

The Authority's external fund manager(s) will comply with the Annual Investment Strategy. The agreement(s) between the Authority and the fund manager(s) additionally stipulate guidelines on duration and other limits in order to contain and control risk.

These risk metrics are outlined below: -

Some clients may wish to just identify the fund manager contract which contains details of how investments can be made.

The Authority fully appreciates the importance of monitoring the activity and resultant performance of its appointed external fund manager. In order to aid this assessment, the Authority is provided with a suite of regular reporting from its manager. This includes: -

Outline details of reporting here… this may include monthly factsheets, quarterly / semi-annual and annual reports, statements, access to online fund reporting sites etc.

In addition to formal reports, the Authority also meets with representatives of the fund manager on an annual basis. These meetings allow for additional scrutiny of the manager's activity as well as discussions on the outlook for the fund as well as wider markets.

APPENDIX 1 - INTEREST RATE FORECASTS 2022-2025

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

APPENDIX 2 - ECONOMIC BACKGROUND

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

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

	UK	Eurozone	US
Bank Rate	3.5%	2.0%	4.25%-4.50%
GDP	-0.2%q/q Q3 (2.4%y/y)	+0.2%q/q Q3 (2.1%y/y)	2.6% Q3 Annualised
Inflation	10.7%y/y (Nov)	10.1%y/y (Nov)	7.1%y/y (Nov)
Unemployment Rate	3.7% (Oct)	6.5% (Oct)	3.7% (Nov)

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

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

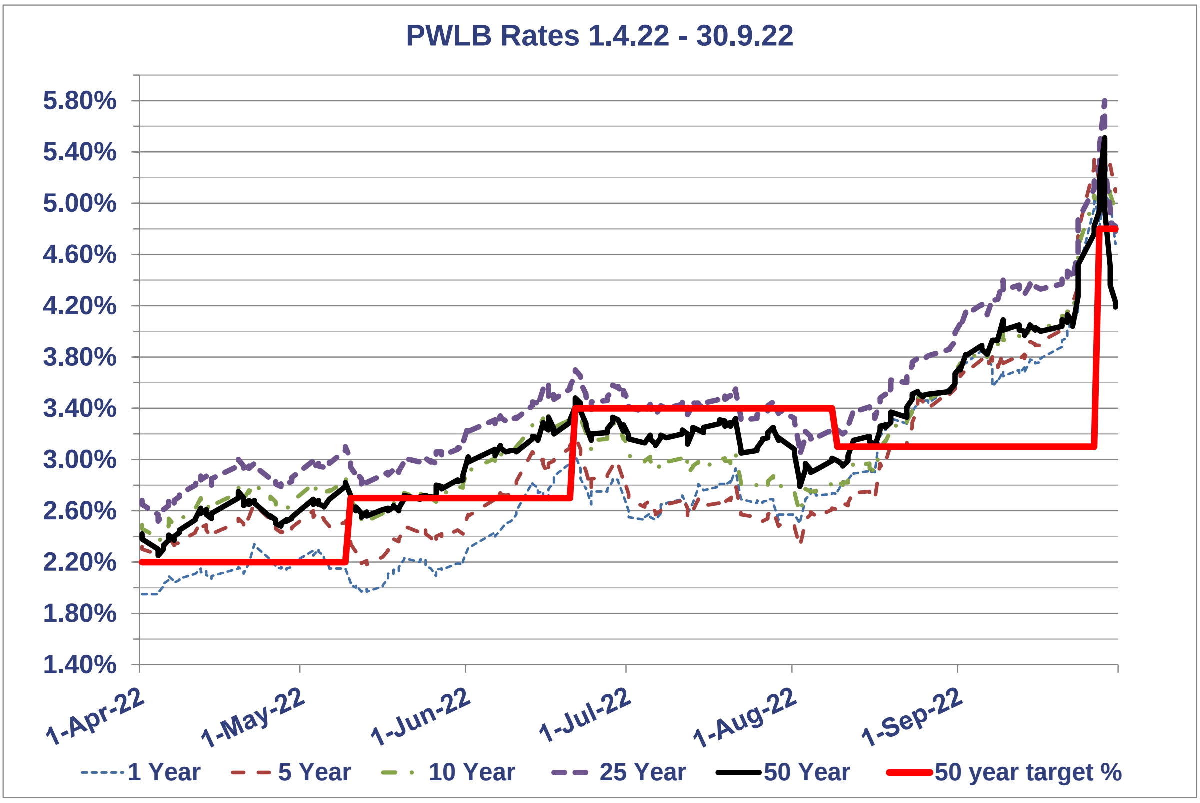
Throughout Q3 Bank Rate increased, finishing the quarter at 2.25% (an increase of 1%). Q4 has seen rates rise to 3.5% in December and the market expects Bank Rate to hit 4.5% by May 2023.

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

Globally, though, all the major economies are expected to struggle in the near term. The fall below 50 in the composite Purchasing Manager Indices for the UK, US, EZ and China all point to at least one, if not more, quarters of GDP contraction. In November, the MPC projected eight quarters of negative growth for the UK lasting throughout 2023 and 2024, but with Bank Rate set to peak at lower levels than previously priced in by the markets and the fiscal tightening deferred to some extent, it is not clear that things will be as bad as first anticipated by the Bank.

The £ has strengthened of late, recovering from a record low of $1.035, on the Monday following the Truss government's "fiscal event", to $1.22. Notwithstanding the £'s better run of late, 2023 is likely to see a housing correction of some magnitude as fixed-rate mortgages have moved above 5% and affordability has been squeezed despite proposed Stamp Duty cuts remaining in place.

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



However, the peak in rates on 28th September as illustrated in the table covering April to September 2022 below, has been followed by the whole curve shifting lower. PWLB rates at the front end of the curve are generally over 1% lower now whilst the 50 years is over 1.75% lower.

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	1.95%	2.18%	2.36%	2.52%	2.25%
Date	01/04/2022	13/05/2022	04/04/2022	04/04/2022	04/04/2022
High	5.11%	5.44%	5.35%	5.80%	5.51%
Date	28/09/2022	28/09/2022	28/09/2022	28/09/2022	28/09/2022
Average	2.81%	2.92%	3.13%	3.44%	3.17%
Spread	3.16%	3.26%	2.99%	3.28%	3.26%

After a shaky start to the year, the S&P 500 and FTSE 100 have climbed in recent weeks, albeit the former is still 17% down and the FTSE 2% up. The German DAX is 9% down for the year.

CENTRAL BANK CONCERNS – DECEMBER 2022

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

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

Regarding UK market expectations, although they now expect Bank Rate to peak within a lower range of 4.5% - 4.75%, caution is advised as the Bank of England Quarterly Monetary Policy Reports have carried a dovish message over the course of the last year, only for the Bank to have to play catch-up as the inflationary data has proven stronger than expected.

In addition, the Bank's central message that GDP will fall for eight quarters starting with Q3 2022 may prove to be a little pessimistic. Will the £160bn excess savings accumulated by households through the Covid lockdowns provide a spending buffer for the economy – at least to a degree? Ultimately, however, it will not only be inflation data but also employment data that will mostly impact the decision-making process, although any softening in the interest rate outlook in the US may also have an effect (just as, conversely, greater tightening may also).

APPENDIX 3 - TREASURY MANAGEMENT PRACTICE (TMP1) – CREDIT AND COUNTERPARTY RISK MANAGEMENT

SPECIFIED INVESTMENTS: All such investments will be sterling denominated, with maturities up to a maximum of 1 year, meeting the minimum 'high' quality criteria where applicable. (Non-specified investments which would be specified investments apart from originally being for a period longer than 12 months, will be classified as being specified once the remaining period to maturity falls to under twelve months.)

NON-SPECIFIED INVESTMENTS: These are any investments which do not meet the specified investment criteria. A maximum of ___% ** will be held in aggregate in non-specified investment.

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.

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

Specified Investments

	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*)
Bonds issued by multilateral development banks	Yellow	40%	5 years
Money Market Funds CNAV	AAA	100%	Liquid
Money Market Funds LNVAV	AAA	95%	Liquid
Money Market Funds VNAV	AAA	95%	Liquid
Ultra-Short Dated Bond Funds with a credit score of 1.25	AAA	100%	Liquid
Ultra-Short Dated Bond Funds with a credit score of 1.5	AAA	100%	Liquid
Local Authorities	Yellow	100%	5 years
Term Deposits with Banks and Building Societies	Blue Orange Red Green No Colour	100%	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	100%	12 months 12 months 6 months 100 days Not for use
Gilt Funds	UK sovereign rating	100%	

* DMO – is the Debt Management Office of HM Treasury

Non Specified Investments

Maturities of any period

	Minimum Credit Criteria	Use	Max % of total investments	Max. maturity period
Fixed term deposits with variable rate and variable maturities: - Structured deposits	Green	In-house	100%	As per Credit Criteria
Certificates of deposit issued by banks and building societies	Green	In-house	100%	As per Credit Criteria
Corporate bonds	AAA	In-house and Fund Managers	50%	5 Years
Floating rate notes	AAA	In house and Fund Managers	50%	5 Years
Collective Investment Schemes structured as Open-Ended Investment Companies (OEICs)				
Property Funds	Based on external credit assessment from the Council's Treasury Management Advisors, UK asset investment.	In house and Fund Managers	£20m at fund entry, Maximum of two funds at any one time for viability	Long Term

. Maturities in excess of 1 year

	Minimum Credit Criteria	Use	Max % of total investments	Max. maturity period
Term deposits – local authorities	N/A	In-house	75%	5 Years
Term deposits – banks and building societies	Green	In-house	75%	5 Years
Certificates of deposit issued by banks and building societies	Green	In-house	75%	5 Years
Certificates of deposit issued by banks and building societies	Green	Fund Managers	75%	5 Years
UK Government Gilts	UK sovereign rating	In-house and Fund Managers	75%	10 Years
Bonds issued by multilateral development banks	AAA	In-house and Fund Managers	10%	5 Years
Sovereign bond issues (other than the UK govt)	AAA	In-house and Fund Managers	50%	10Years
Corporate bonds	AAA	In-house and Fund Managers	10%	5 Years
Collective Investment Schemes structured as Open-Ended Investment Companies (OEICs)				
Property Funds	Based on external credit assessment from the Council's Treasury Management Advisors, UK asset investment.	In-house and Fund Managers	£20m at fund entry, Maximum of two funds at any one time for viability	Long Term

APPENDIX 4 – APPROVED COUNTRIES FOR INVESTMENT

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

Based on lowest available rating

AAA

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

AA+

- Canada
- Finland
- U.S.A.

AA

- France

AA-

- Belgium
- **U.K.**

APPENDIX 5 – TREASURY MANAGEMENT SCHEME OF DELEGATION

Full Council

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

Executive

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

Audit & Governance Committee

1. reviewing the treasury management policy and procedures and making recommendations to the responsible body.
2. receiving and reviewing reports on treasury management policies, practices and activities

APPENDIX 6 – THE TREASURY MANAGEMENT ROLE OF THE SECTION 151 OFFICER

1. recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance;
2. submitting regular treasury management policy reports;
3. submitting budgets and budget variations;
4. receiving and reviewing management information reports;
5. reviewing the performance of the treasury management function;
6. ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
7. ensuring the adequacy of internal audit, and liaising with external audit;
8. recommending the appointment of external service providers.
9. preparation of a Capital Strategy to include capital expenditure, capital financing, non-financial investments and treasury management, with a long-term timeframe (say 20+ years – to be determined in accordance with local priorities.)
10. ensuring that the Capital Strategy is prudent, sustainable, affordable and prudent in the long term and provides value for money
11. ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the authority
12. ensure that the Authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing
13. ensuring the proportionality of all investments so that the Authority does not undertake a level of investing which exposes the Authority to an excessive level of risk compared to its financial resources
14. ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long-term liabilities
15. provision to members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees
16. ensuring that members are adequately informed and understand the risk exposures taken on by the Authority

17. ensuring that the Authority has adequate expertise, either in house or externally provided, to carry out the above
18. creation of Treasury Management Practices which specifically deal with how non treasury investments will be carried out and managed, to include the following (TM Code p54): -
    a. Risk management (TMP1 and schedules), including investment and risk management criteria for any material non-treasury investment portfolios;
    b. Performance measurement and management (TMP2 and schedules), including methodology and criteria for assessing the performance and success of non-treasury investments;
    c. Decision making, governance and organisation (TMP5 and schedules), including a statement of the governance requirements for decision making in relation to non-treasury investments; and arrangements to ensure that appropriate professional due diligence is carried out to support decision making;
    d. Reporting and management information (TMP6 and schedules), including where and how often monitoring reports are taken;
    e. Training and qualifications (TMP10 and schedules), including how the relevant knowledge and skills in relation to non-treasury investments will be arranged