Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement and Annual Investment Strategy for 2023-24

Council	9 February 2023
Report Author	Chris Blundell, Acting Deputy Chief Executive and Section 151 Officer
Portfolio Holder	Councillor David Saunders, Cabinet Member for Finance
Status	For Decision
Classification	Unrestricted
Previously Considered by	Governance & Audit Committee - 30 Nov 2022 Cabinet - 12 Jan 2023
Ward	Thanet Wide

Executive Summary:

This report and annexes includes the proposed Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement, Annual Investment Strategy, Capital Strategy and Non-Treasury Investments Report (TMSS) for 2023-24.

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, 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."

The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report is, therefore, important in that respect, as it provides:

- the capital plans (including prudential indicators);
- a minimum revenue provision (MRP) policy (how residual capital expenditure is charged to revenue over time);
- the treasury management strategy (how the investments and borrowings are to be organised) including treasury indicators; and
- an investment strategy (the parameters on how investments are to be managed).

Key reporting items to consider include:

- capital expenditure of £95.481m forecast over the next three years (2023-24 to 2025-26 inclusive), requiring borrowing of £25.136m.

- No change to the Minimum Revenue Provision policy (policy for paying off the accumulated borrowing requirement), although some extra wording has been added (see the last three sentences of the policy in section 2.4) for clarification purposes.

- This report is in-line with the amendments as per the Treasury Management and Annual Investment Strategy Mid Year 2022-23 Review to reflect the further deferral of International Financial Reporting Standard 16 (IFRS16) on lease accounting to April 2024 and changes to the UK Government row in the table in section 4.2 of this report.

Recommendation(s):

That Council approves this report and annexes, including each of the key elements listed below.

a. The Capital Plans, Prudential Indicators and Limits for 2023-24 to 2025-26, including the Authorised Limit Prudential Indicator;
b. The Minimum Revenue Provision (MRP) Policy;
c. The Treasury Management Strategy for 2023-24 to 2025-26 and the Treasury Indicators;
d. The Investment Strategy for 2023-24 contained in the Treasury Management Strategy, including the detailed criteria;
e. The Capital Strategy for 2023-24;
f. The Non-Treasury Investments Report for 2023-24.

Corporate Implications

Financial and Value for Money

The financial implications are highlighted in this report.

Legal

Section 151 of the 1972 Local Government Act requires a suitably qualified named officer to keep control of the council's finances. For this council, this is the Acting Deputy Chief Executive, and this report is helping to carry out that function.

Risk Management

Risk management is as per the provisions of this annual Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement and Annual Investment Strategy.

Corporate

Failure to undertake this process will impact on the council's compliance with the Treasury Management Code of Practice.

Equalities Act 2010 & Public Sector Equality Duty

There are no equity and equalities implications arising directly from this report, but the council needs to retain a strong focus and understanding on issues of diversity amongst the local community and ensure service delivery matches these.

It is important to be aware of the council's responsibility under the Public Sector Equality Duty (PSED) and show evidence that due consideration had been given to the equalities impact that may be brought upon communities by the decisions made by council.

CORPORATE PRIORITIES

This report relates to the following corporate priorities: -

- Growth
- Environment
- Communities.

1 INTRODUCTION

1.1 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.

Whilst any commercial activities 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.

CIPFA defines treasury management as:

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

1.2 Reporting requirements

1.2.1 Capital Strategy

The CIPFA 2021 Prudential and Treasury Management Codes require all local authorities to prepare reports 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 this is to ensure:

- that all elected members of the council fully understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite.
- the separation of treasury management and policy investments. The CIPFA definition of treasury management is given in section 1.1 and the key priorities are firstly security, secondly portfolio liquidity, and thirdly yield/return (in that order). Policy investments are typically projects relating to expenditure on fixed assets (such as land and buildings) for service purposes, and would be included on the capital programme.

For this council, these additional reports are the Capital Strategy (see Annex 4) and the Non-Treasury Investments Report (see Annex 5).

1.2.2 Treasury Management reporting

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

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

b. **A mid-year treasury management report** – This is primarily a progress report and will update members on the capital position, amending prudential indicators as necessary, and whether any policies require revision. In addition, this council 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 council. This role is undertaken by the Governance and Audit Committee.

Quarterly reports
In addition to the three major reports detailed above, from 2023/24 quarterly reporting (end of June/end of December) is also required. However, these additional reports do not have to be reported to full council but do require to be adequately scrutinised. This role is undertaken by the Governance and Audit Committee. (The reports, specifically, should comprise updated Treasury/Prudential Indicators). This council has already implemented quarterly reporting from 2022/23.

1.2.3 The council's 2020-21 and 2021-22 accounts have not yet been audited and hence the figures in this report are subject to change.

1.3 Treasury Management Strategy for 2023-24

The strategy for 2023-24 covers two main areas:

Capital issues

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

Treasury management issues

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

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

1.4 Training

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, the Code states that it expects “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 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:

- Record attendance at training and ensure action is taken where poor attendance is identified.
- Prepare tailored learning plans for treasury management officers and council members.
- Require treasury management officers and council members to undertake self-assessment against the required competencies.
- Have regular communication with officers and 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.

Training was last undertaken by members on 24 March 2022 and further training will be arranged as required.

The training needs of treasury management officers are periodically reviewed.

A record will be maintained of the treasury management/capital finance training received by officers central to the Treasury function and by members.

1.5 External service providers

The council uses Link Group, Treasury Solutions as its external treasury management advisors.

The council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers.

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

The council uses the Institutional Cash Distributors (ICD) Portal to invest or redeem trades in its Money Market and Bond Funds (MMBFs). The portal provides advanced reporting tools so that the authority can assess its exposure to certain banks or countries.

Most investments via the ICD portal are made via JP Morgan, who act as a clearing house for eleven of the fourteen MMBFs the council currently uses. The clearing house allows the authority to make several investments in different MMBFs but only requires one payment to the clearing house, therefore saving the authority costs in CHAPS fees.

2 THE CAPITAL PRUDENTIAL INDICATORS 2023-24 – 2025-26

The council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in 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 council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. Members are asked to approve the capital expenditure forecasts:

Capital expenditure £m	2021-22 Provisional Actual	2022-23 Budget	2023-24 Budget	2024-25 Budget	2025-26 Budget
General Fund	7.425	41.658	32.999	9.442	8.716
HRA	5.301	8.140	12.453	17.236	14.635
Total	**12.726**	**49.798**	**45.452**	**26.678**	**23.351**

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

Financing of capital expenditure £m	2021-22 Provisional Actual	2022-23 Budget	2023-24 Budget	2024-25 Budget	2025-26 Budget
Capital receipts - GF	0.760	2.844	2.850	0.350	0.350
Capital receipts - HRA	0.173	1.092	0.961	0.060	0.065
Grants and other contributions- GF	5.638	32.294	25.786	5.510	3.600
Grants and other contributions - HRA	0.022	0.343	0.050	2.940	2.940
Reserves - GF	0.400	2.584	0.000	0.000	0.000
Reserves - HRA	4.290	5.824	8.332	9.076	6.470
Revenue - GF	0.000	0	0.105	0.000	0.000
Revenue - HRA	0.288	0.300	0.300	0.300	0.300
Net financing need for the year	**1.155**	**4.517**	**7.068**	**8.442**	**9.626**

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

2.2 The council's borrowing need (the Capital Financing Requirement)

The second prudential indicator is the council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure (on buildings, vehicles etc) which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the council's indebtedness and so its underlying borrowing need. It can also be helpful to compare it to the outstanding balance that is still payable on a loan or a mortgage, in this case we are considering how much of the council's debt still needs to be paid for. Any capital expenditure above, which has not immediately been paid for, 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 includes any other long term liabilities (e.g. PFI schemes, finance leases). Whilst these increase the CFR, and therefore the council's borrowing requirement, these types of scheme include a borrowing facility from the provider and so the council is not required to separately borrow for these schemes. The council had £1.136m of long term liabilities (excluding pensions) as at 31 March 2022.

The council is asked to approve the CFR projections below:

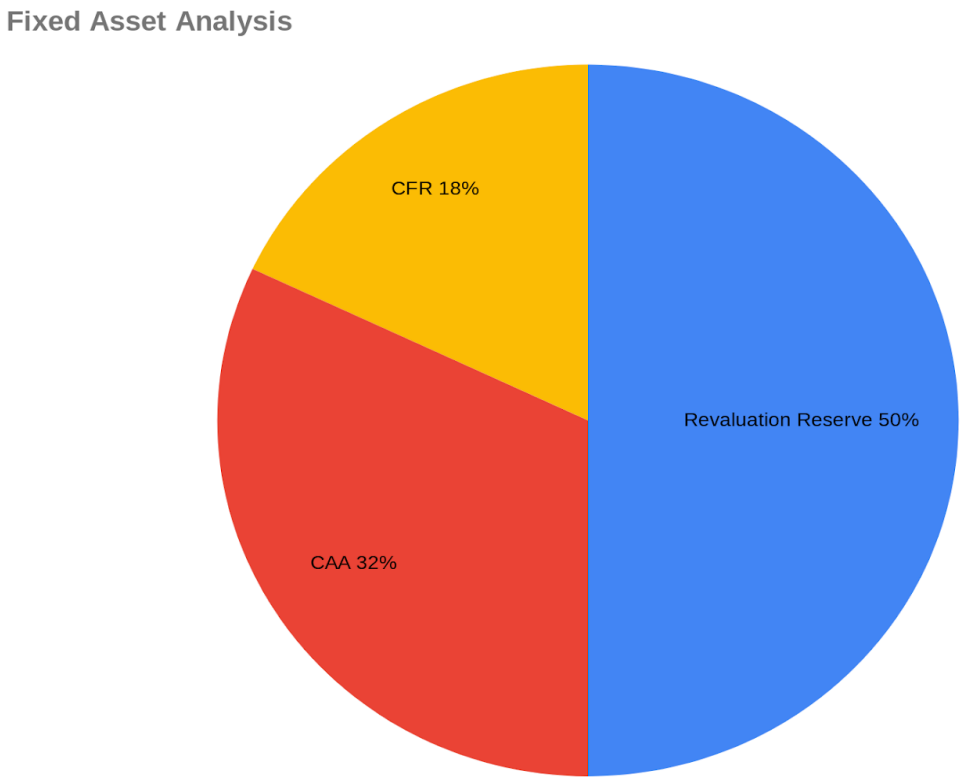
£m	2021-22 Provisional Actual	2022-23 Estimate	2023-24 Estimate	2024-25 Estimate	2025-26 Estimate
Capital Financing Requirement					
CFR – General Fund	23.165	25.991	28.877	42.687	45.411
CFR – HRA	28.514	28.809	31.331	35.878	40.379
Total CFR	**51.679**	**54.800**	**60.333**	**78.690**	**85.915**
Movement in CFR	**(5.006)**	**3.121**	**5.533**	**18.357**	**7.225**

Net financing need for the year (above)	1.155	4.517	7.068	8.442	9.626
Less loan / liability repayments	(4.721)	0.000	0.000	0.000	0.000
Less MRP/VRP and other financing movements*	(1.440)	(1.396)	(1.535)	9.915	(2.401)
Movement in CFR	**(5.006)**	**3.121**	**5.533**	**18.357**	**7.225**

**2024-25 includes an estimate for the recognition of leases under International Financial Reporting Standard 16 (IFRS 16).*

The Fixed Asset Analysis chart below shows that, using the council's draft accounts as at 31 March 2022, 18% of the council's capital / long-term assets had yet to be funded (CFR) and 32% had effectively been paid off or funded (Capital Adjustment Account). The remaining 50% represented the aggregate increase in value of these assets since acquisition by the council.

Fixed Asset Analysis	£m	%
Capital Financing Requirement (CFR)	52	18
Capital Adjustment Account (CAA)	94	32
Revaluation Reserve	149	50
Fixed Assets (total of above)	**295**	**100**



2.3 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 £m	2021-22 Provisional Actual	2022-23 Estimate	2023-24 Estimate	2024-25 Estimate	2025-26 Estimate
Fund balances / reserves	23.432	21.665	9.026	9.762	11.275
Capital receipts	7.396	5.423	5.238	1.505	0.000
Earmarked reserves	22.551	10.151	9.201	8.621	8.031
Total core funds	**53.379**	**37.239**	**23.465**	**19.888**	**19.306**
Balances incl working capital*	28.256	3.608	16.588	18.453	17.379
(Under)/over borrowing	(30.327)	(5.847)	(5.053)	(3.341)	(1.685)
Expected investments	**51.308**	**35.000**	**35.000**	**35.000**	**35.000**

Factors in the reduction of core funds after 2021-22 include the utilisation of Covid reserves and the HRA Major Repairs Reserve.

**Working capital balances shown are estimated year end; these may be different mid-year and can vary significantly depending on operational timing factors.*

2.4 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).

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

For capital expenditure incurred before 1 April 2008 or which in the future will be Supported Capital Expenditure, the MRP policy will be:

- **Existing practice** - MRP will follow the existing practice outlined in former DLUHC regulations (option 1).

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

From 1 April 2008 for all unsupported borrowing (including PFI and finance leases) the MRP policy will be:

- **Asset life method** – MRP will be based on the estimated life of the assets, in accordance with the regulations (this option must be applied for any expenditure capitalised under a Capitalisation Direction) (option 3);

This option provides for a reduction in the borrowing need over approximately the asset's life.

There is no requirement on the HRA to make a minimum revenue provision but there is a requirement for a charge for depreciation to be made.

The principal element of repayments included in annual PFI or finance leases are applied as MRP.

For capital expenditure on loans to third parties (funded from borrowing) where the principal element of the loan is being repaid in instalments, the capital receipts arising from the principal loan repayments will be used to reduce the CFR instead of MRP. MRP will be charged at a rate in line with the life of the assets funded by the loan.

MRP Overpayments - A change introduced by the revised DLUHC MRP Guidance was the allowance that any charges made over the statutory minimum MRP, VRP 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 any cumulative overpayment made each year.

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 the relevant professional codes, so that sufficient cash is available to meet this service activity and the council's capital strategy. This will involve both the organisation of the cash flow and, where capital

plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

3.1 Current portfolio position

The overall treasury management portfolio as at 31 March 2022, and the position as at 30 September 2022, are shown below for both borrowing and investments.

TREASURY PORTFOLIO (provisional)				
	Actual 31 March 2022	**Actual 31 March 2022**	**Actual 30 Sept 2022**	**Actual 30 Sept 2022**
Treasury Investments	**£m**	**%**	**£m**	**%**
Banks	4.185	8.15	4.544	8.00
Money Market Funds	46.124	89.90	51.283	90.24
Bond Funds	0.999	1.95	1.000	1.76
Total (all managed in-house)	**51.308**	**100.00**	**56.827**	**100.00**
Treasury External Borrowing				
PWLB	15.712	77.72	15.547	77.55
LOBOs	4.500	22.26	4.500	22.45
Salix	0.004	0.02	0.000	0.00
Total	**20.216**	**100.00**	**20.047**	**100.00**
Net treasury investments / (borrowing)	**31.092**		**36.780**	

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

£m	**2021-22 Provisional Actual**	**2022-23 Estimate**	**2023-24 Estimate**	**2024-25 Estimate**	**2025-26 Estimate**
External Debt					
Debt at 1 April	24.394	20.216	48.157	54.683	62.752
Expected change in Debt	(4.178)	27.941	6.526	8.069	9.227
Other long-term liabilities (OLTL) at 1 April	1.509	1.136	0.796	0.597	12.596
Expected change in OLTL*	(0.373)	(0.340)	(0.199)	12.000	(0.345)
Gross debt at 31 March	**21.352**	**48.953**	**55.280**	**75.349**	**84.230**
The Capital Financing Requirement*	51.679	54.800	60.333	78.690	85.915
Under / (over) borrowing	**30.327**	**5.847**	**5.053**	**3.341**	**1.685**

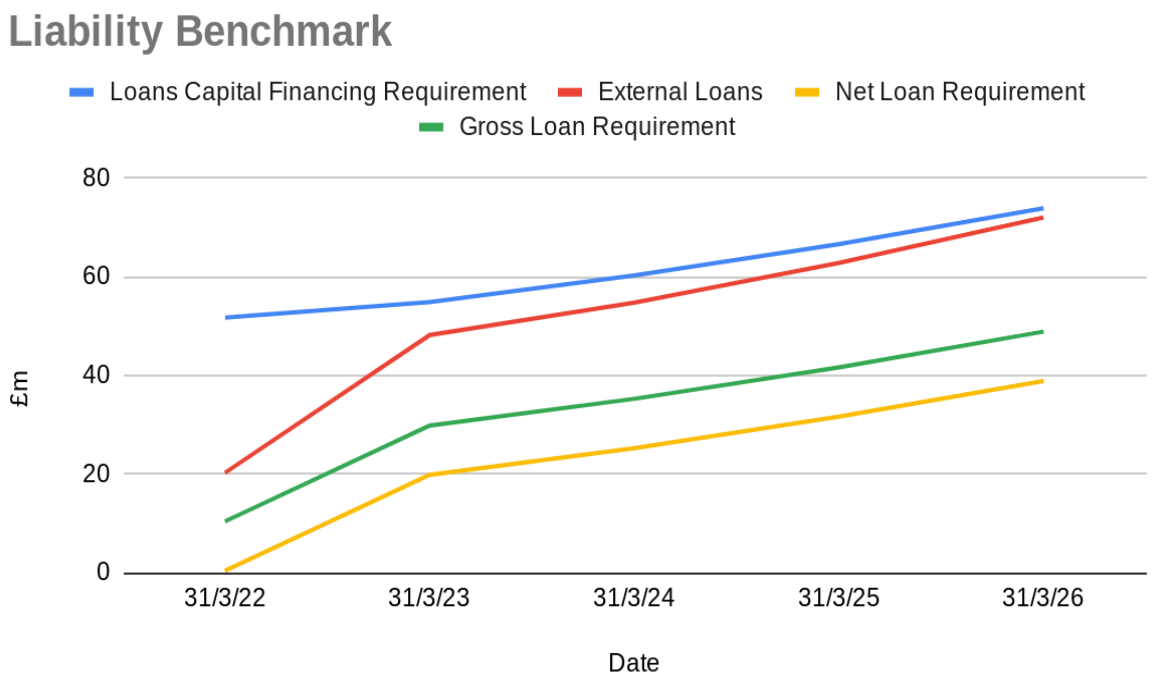
**2024-25 includes an estimate for the recognition of leases under International Financial Reporting Standard 16 (IFRS 16).*

Within the range of prudential indicators there are a number of key indicators to ensure that the council operates its activities within well defined limits. One of these is that the council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 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 Section 151 Officer reports that the council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this budget report.

3.1.1 Liability Benchmark

The chart below shows the council's maximum loan position (Loans Capital Financing Requirement), the council's budgeted loan position (External Loans), the council's projected loan position if all treasury balances were used in place of external borrowing (Net Loan Requirement) and the Net Loan Requirement with the addition of a £10m treasury balance buffer to reflect that the council seeks to maintain liquid short term deposits of at least £10m available with a week's notice as per this report (Gross Loan Requirement).



As can be seen, External Loans are projected to approach the Loans CFR in future years, ensuring that external loan balances and interest are factored into budgets.

However, the council will continue to explore and utilise internal borrowing opportunities as appropriate to reduce its net interest cost.

3.2 Treasury Indicators: limits to borrowing activity

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

Operational boundary £m	2022-23 Estimate	2023-24 Estimate	2024-25 Estimate	2025-26 Estimate
Debt	76.000	76.000	81.000	88.000
Other long term liabilities (incl leases)	10.000	10.000	35.000	35.000
Total	86.000	86.000	116.000	123.000

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

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

Authorised limit £m	2022-23 Estimate	2023-24 Estimate	2024-25 Estimate	2025-26 Estimate
Debt	81.000	81.000	86.000	93.000
Other long term liabilities (incl leases)	15.000	15.000	45.000	45.000
Total	96.000	96.000	131.000	138.000

Composition of Operational Boundary and Authorised Limit

Debt (in both the Operational Boundary and Authorised Limit above) for 2022-23 onwards includes:

a) A £4m uplift for capital expenditure being incurred in advance of generating capital receipts to fund this expenditure although, for clarity, any such expenditure is not limited to £4m. As this is anticipated to be a relatively short-term timing difference it has not been reflected elsewhere in this report. Potential examples of such projects include Office Accommodation and Public Toilet Refurbishment.

b) a £5m uplift to provide additional capacity for any non-treasury investments that the council may pursue. For clarity, any such investments are not limited to £5m and are in addition to any such amounts already included within the capital and treasury estimates. This has not been reflected elsewhere in this report, pending the formulation and approval of any such items.

Other long term liabilities (in both the Operational Boundary and Authorised Limit above) includes an estimate for the recognition of leases under International Financial Reporting Standard 16 (IFRS 16) from April 2024. Once full details are known, the Operational Boundary and/or Authorised Limit may need to be revised for approval.

3.3 Link's economic and interest rate forecast (issued by Link on 2 December 2022)

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 on 8 November 2022. These are forecasts for certainty rates, gilt yields plus 80 basis points.

Link Group Interest Rate View	08.11.22												
	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	4.30	4.30	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	4.50	4.50	4.40	4.30	4.20	4.00	3.90	3.70	3.60	3.50	3.40	3.30	3.20
25 yr PWLB	4.70	4.70	4.60	4.50	4.40	4.30	4.10	4.00	3.90	3.70	3.60	3.50	3.50
50 yr PWLB	4.30	4.40	4.30	4.20	4.10	4.00	3.80	3.70	3.60	3.40	3.30	3.20	3.20

Further details are provided in annex 6.

3.4 Borrowing strategy

The council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement) has not been fully funded with loan debt as cash supporting the council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as 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 Section 151 Officer will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- *if it was felt that there was a significant risk of a sharp FALL in borrowing rates*, then borrowing will be postponed.

- *if it was felt that there was a significant risk of a much sharper RISE in borrowing rates than those currently forecast* then the portfolio position will be re-appraised. For example, fixed rate funding could 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 appropriate decision making body at the next available opportunity.

3.5 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. 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 council can ensure the security of such funds.

Borrowing in advance will be made within the constraints that:

- The authority would not look to borrow more than 18 months in advance of need.

Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

3.6 Debt 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 were done, it will be reported to Cabinet at the earliest meeting following its action.

3.7 New financial institutions as a source of borrowing and / or types of borrowing

Currently the PWLB Certainty Rate is set at gilts + 80 basis points for both HRA and non-HRA borrowing. However, consideration may still be given to sourcing funding from the following sources:

- Local authorities
- Financial institutions (primarily insurance companies and pension funds but also some banks, including forward dates)
- Municipal Bonds Agency
- Other sources of government funding (such as the UK Infrastructure Bank and Salix Finance for example).

3.8 Approved Sources of Long and Short term Borrowing

The council may make use of borrowing from internal sources, PWLB, local authorities, financial institutions, the Municipal Bonds Agency, and/or other sources of government funding as and when appropriate.

4 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 are covered in the Capital Strategy and Non-Treasury Investments Report (separate annexed reports).

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 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: -

1. 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.

2. **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 Council 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.

3. **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.

4. 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 annex 2 under the categories of 'specified' and 'non-specified' investments.

- **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).

- **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.

5. **Non-specified investments limit.** The Council has determined that it will limit the maximum total exposure to non-specified investments at £5m (see paragraphs 4.2, 4.3 and 4.4).

6. **Lending limits** (amounts and maturity) for each counterparty will be set through applying the matrix table in paragraph 4.2.

7. This authority will set a limit for the amount of its investments which are invested for maturities **longer than 365 days** (see paragraphs 4.2 and 4.4).

8. This authority will set a limit for the amount of its investments which are invested in **longer-term instruments with no fixed maturity date** (see paragraphs 4.2 and 4.4).

9. Investments will only be placed with counterparties from foreign countries which have a specified minimum **sovereign rating**, (see paragraph 4.3). This does not apply to pooled investment vehicles.

10. This authority has engaged **external consultants**, (see paragraph 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.

11. All investments will be denominated in **sterling**.

12. As a result of the change in accounting standards 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 Ministry of Housing, Communities and Local Government (MHCLG) concluded a consultation for a temporary override to allow English local authorities time to adjust their portfolio of investments by announcing a statutory override to delay implementation of IFRS 9 for five years ending 31 March 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 paragraph 4.5). Regular monitoring of investment performance will be carried out during the year.

Changes in risk management policy from last year.

The above criteria are unchanged from last year, apart from the addition of criterion 8 above (which is now a requirement of the Prudential and Treasury Management Codes).

4.2 Creditworthiness policy

The primary principle governing the council's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. After this main principle, the council will ensure that:

- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the specified and non-specified investment sections below; and
- It has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the council's prudential indicators covering the maximum principal sums invested.

The Section 151 Officer will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to council for approval as necessary. These criteria are separate to that which determines which types of investment instrument are either specified or non-specified as it provides an overall pool of counterparties considered high quality which the council may use, rather than defining what types of investment instruments are to be used.

Credit rating information is supplied by the Link Group, our treasury advisors, on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. Any rating changes, rating watches (notification of a likely change), rating outlooks (notification of the longer term bias outside the central rating view) are provided to officers almost immediately after they occur and this information is considered before dealing. For instance, a negative rating watch applying to a counterparty at the minimum council criteria may be suspended from use, with all others being reviewed in light of market conditions.

The criteria for providing a pool of high quality investment counterparties (both specified and non-specified investments) is:

- Banks 1 - good credit quality **–** the council will only use banks which:
  i. are UK banks; and/or
  ii. are non-UK and domiciled in a country which has a minimum sovereign long term rating of AA-

  and have, as a minimum, the following credit rating from at least one of Fitch, Moody's and Standard and Poors (where rated):

  i. Short term – F1 (or equivalent)
  ii. Long term – A- (or equivalent)

- Banks 2 – Part nationalised UK bank – Royal Bank of Scotland Group ring-fenced operations. This bank can be included provided it continues to be part nationalised or it meets the above criteria.
- Banks 3 – The council's own banker for transactional purposes if the bank falls below the above criteria, although in this case balances will be minimised in both monetary size and time invested.
- Bank subsidiary and treasury operations: If separately rated, the council will use those that meet the ratings/criteria for banks outlined above. If not separately rated, the council will use these where the parent bank has the necessary ratings/criteria outlined above.
- Building societies: The council will use all societies which meet the ratings/criteria for banks outlined above.
- Money market funds, enhanced money market funds, bond funds – AAA
- UK Government (including gilts, treasury bills and the DMADF)
- Local authorities, parish councils, community councils, companies controlled by the council (either alone or with other public sector organisations) etc
- Housing associations
- Supranational institutions
- Multi-asset funds

A limit of £5m will be applied to the use of non-specified investments.

Use of additional information other than credit ratings. Additional requirements under the Code require the council to supplement credit rating information. Whilst the above criteria relies primarily on the application of credit ratings to provide a pool of appropriate counterparties for officers to use, additional operational market information will be applied before making any specific investment decision from the agreed pool of counterparties. This additional market information (for example Credit Default Swaps, rating watches/outlooks) will be applied to compare the relative security of differing investment counterparties.

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):

	Fitch Long Term Rating (or equivalent)*	Money Limit	Time Limit (settlement period)
Level 1	**AA-**	**£6m per institution**	**370 days**
Level 2	**A**	**£5m per institution**	**370 days**
Level 3	**A-**	**£4m per institution**	**185 days**
Part nationalised	**N/A**	**£7m per institution**	**370 days**
UK Government (including gilts, treasury bills and the Debt Management Account Deposit Facility)	**UK sovereign rating**	**unlimited**	**2 years**
Money market funds, enhanced money market funds, bond funds	**AAA**	**£6m per fund**	**370 days**
Local authorities, parish councils, community councils, companies controlled by the council (either alone or with other public sector organisations), housing associations, supranational institutions etc	**N/A**	**£4m per institution**	**5 years**
Multi-asset funds	**N/A**	**£5m per fund**	**370 days**

**The institution must have this minimum credit rating from at least one of Fitch, Moody's, and Standard and Poors (where rated).*

The proposed criteria for specified and non-specified investments are shown in Annex 2 for approval.

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 council 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 monitors CDS prices as part of its creditworthiness service to local authorities and the council has access to this information via its Link-provided Passport portal.

4.3 Other limits

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

a) **Non-specified investment limit.** The council has determined that it will limit the maximum total exposure to non-specified investments at £5m.

b) **Country limit.** The council has determined that it will only use approved counterparties from the UK (irrespective of the UK sovereign credit rating) or other countries with a minimum sovereign credit rating of AA- from Fitch (or equivalent). This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

c) **Other limits.** In addition:

- no more than £5m will be placed with any non-UK country at any time (this limit applies to each non-UK country individually and not to non-UK countries in total);
- limits in place above will apply to a group of companies;
- sector limits will be monitored regularly for appropriateness.

The above restrictions do not apply to pooled investment vehicles (including multi-asset funds (apart from the non-specified investment limit), money market funds, enhanced money market funds and bond funds). The council only invests in sterling denominated pooled investment vehicles.

4.4 Investment strategy

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. However, 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.

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.

- If it is thought that Bank Rate is likely to rise significantly within the time horizon being considered, then consideration will be given to keeping most investments as being short term or variable.
- Conversely, if it is thought that Bank Rate is likely to fall within that time period, consideration will be given to locking in higher rates currently obtainable, for longer periods.

Link's investment returns expectations (issued by Link on 2 December 2022):

Link's current forecast, shown in section 3.3, includes a forecast for Bank Rate to reach 4.5% in Q2 2023.

Link's 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)	3.95%
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.

Investment treasury indicator and limit - total principal funds invested for maturities greater than 365 days. These limits are set with regard to the council'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.

The council is asked to approve the following treasury indicator and limit: -

Upper limit for principal sums invested for maturities longer than 365 days			
£m	**2022-23**	**2023-24**	**2024-25**
Principal sums invested for maturities longer than 365 days	£5m	£5m	£5m

Investments as at 31 September 2022 invested for maturities longer than 365 days were £nil.

For its cash flow generated balances, the council will seek to utilise its instant access and notice accounts, pooled investment vehicles and term deposits in order to benefit from the compounding of interest.

Investment treasury indicator and limit - longer term treasury management investments. Longer term instruments with no fixed maturity date include pooled bond, equity and property funds (but not money market funds), as well as directly held equities.

The council has determined that it will limit the maximum total exposure to longer term treasury management investments at £5m.

Investments made in longer term treasury management investments as at 31 September 2022 were £1m (in a bond fund). Despite this categorization for TMSS purposes, this bond fund is still held for cash flow purposes given that it seeks to maintain liquidity with a low level of capital volatility and has a settlement period of two days.

4.5 Investment performance / risk benchmarking

These benchmarks are simple guides to maximum risk, so they may be breached from time to time, depending on movements in interest rates and counterparty criteria. The purpose of the benchmarks is that officers will monitor the current and trend position and amend the operational strategy to manage risk as conditions change. Any breach of the benchmarks will be reported, with supporting reasons in the Mid-Year or Annual Report.

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

- 0.05% historic risk of default when compared to the whole portfolio (excluding unrated investments).

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

- Liquid short term deposits of at least £10m available with a week's notice.
- Weighted average life benchmark is expected to be in the range of 0 to 1 years, with a maximum of 5 years.

Yield - local measures of yield benchmarks are:

- Investments – internal returns above the 7 day SONIA compounded rate.

And in addition that the security benchmark for each individual year is (excluding unrated investments):

	1 year	2 years	3 years	4 years	5 years
Maximum	**0.05%**	**0.05%**	**0.05%**	**0.05%**	**0.05%**

Note: This benchmark is an average risk of default measure, and would not constitute an expectation of loss against a particular investment.

4.6 End of year investment report

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

4.7 Use of external fund managers

Except for pooled funds, it is the council's policy not to use external fund managers for any part of its investment portfolio.

The council may use pooled investment vehicles and fully appreciates the importance of monitoring the activity and resultant performance of such investments. In order to aid this assessment, the council is provided with a suite of regular reporting from its providers.

4.8 Ethical treasury and capital investing

Although investment guidance, both statutory and from CIPFA, makes clear that all investing must adopt the principles of security, liquidity and yield (in that order) the council is committed to ethical high standards and declared a climate emergency on 1 July 2019; doing what is within its power to become carbon neutral by 2030 within its estates and activities. This includes establishing a Climate Emergency Cabinet Advisory Group to drive the production of an Energy and Low Emissions Strategy and action plan (linked with the Kent Energy and Low Emission Strategy) and a Council Tree and Biodiversity Strategy (to address both climate change and the ecological emergency).

Environmental, Social and Governance (ESG) metrics are incorporated into the credit rating agency assessments which the council uses in its investment strategy.

Typical ESG considerations are shown below.

Environmental: Emissions and air quality, energy and waste management, waste and hazardous material, exposure to environmental impact.

Social: Human rights, community relations, customer welfare, labour relations, employee wellbeing, exposure to social impacts.

Governance: Management structure, governance structure, group structure, financial transparency.

Through its treasury agency service provider, the council has access to Sustainable Deposits (with investments referenced against the United Nations Sustainable Development Goals) and utilises these deposits from time to time subject to its requirements for security, liquidity and yield.

The council's capital plans include the estimated cost of replacing its Operational Services diesel powered vehicles and equipment with electric equivalents, where practical to do so, on a phased basis. These capital plans also include the estimated cost of associated infrastructure requirements (such as charging points).

5 COMMERCIAL INVESTMENTS

The council's Non-Treasury Investments Report 2023-24 (Annex 5) stipulates that, for a new non-treasury investment in a new asset, the council may only purchase property, make investments and/or make loans for service purposes (i.e. not for purely/primarily commercial purposes, though it may still generate revenue).

If a local authority is planning to acquire investment assets bought primarily for yield then it is now unable to borrow from the PWLB to finance any expenditure in its capital plan.

6 OPTIONS

That Council:

a) Approves this report and annexes, including each of the key elements listed below.

- The Capital Plans, Prudential Indicators and Limits for 2023-24 to 2025-26, including the Authorised Limit Prudential Indicator.
- The Minimum Revenue Provision (MRP) Policy.
- The Treasury Management Strategy for 2023-24 to 2025-26 and the Treasury Indicators.
- The Investment Strategy for 2023-24 contained in the Treasury Management Strategy, including the detailed criteria.
- The Capital Strategy for 2023-24.
- The Non-Treasury Investments Report for 2023-24.

b) Does not approve this report and annexes (advising the reason(s) why); thereby not complying with the Treasury Management Code of Practice.

7 DISCLAIMER

This report (including its annexes) is a technical document focussing on public sector investments and borrowings and, as such, readers should not use the information contained within the report to inform personal investment or borrowing decisions. Neither Thanet District Council nor any of its officers or employees makes any representation or warranty, express or implied, as to the accuracy or completeness of the information contained herein (such information being subject to change without notice) and shall not be in any way responsible or liable for the contents hereof and no reliance should be placed on the accuracy, fairness or completeness of the information contained in this document. Any opinions, forecasts or estimates herein constitute a judgement and there can be no assurance that they will be consistent with future results or events. No person accepts any liability whatsoever for any loss howsoever arising from any use of this document or its contents or otherwise in connection therewith.

Contact Officer: Chris Blundell, Acting Deputy Chief Executive & Section 151 Officer
Reporting to: Colin Carmichael, Interim Chief Executive

Annex List

Annex 1: The Capital Prudential and Treasury Indicators 2021-22 – 2025-26
Annex 2: Treasury Management Practice (TMP1) – Credit and Counterparty Risk Management
Annex 3: Guidance on Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement and Annual Investment Strategy (TMSS)
Annex 4: Capital Strategy 2023-24
Annex 5: Non-Treasury Investments Report 2023-24
Annex 6: Link's Economic and Interest Rate Forecast (issued by Link on 2 December 2022)

Corporate Consultation Undertaken

Finance: N/A
Legal: Sameera Khan, Interim Head of Legal & Monitoring Officer