



SPECIAL COUNCIL – 24TH FEBRUARY 2022

SUBJECT: TREASURY MANAGEMENT ANNUAL STRATEGY, CAPITAL FINANCE PRUDENTIAL INDICATORS AND MINIMUM REVENUE PROVISION POLICY FOR 2022/2023

REPORT BY: CORPORATE DIRECTOR FOR EDUCATION AND CORPORATE SERVICES

1. PURPOSE OF REPORT

- 1.1 To submit for approval the Authority's Annual Strategy for Treasury Management.
- 1.2 To submit for approval a dataset of Prudential Indicators relevant to Treasury Management and Capital Finance. The report also cross-references to the report by the Corporate Director of Education and Corporate Services on Revenue and Capital Budgets ["the budget report"] also considered in this meeting.
- 1.3 To seek approval of the Minimum Revenue Provision (MRP) policy to be adopted by the Authority for 2022/2023.

2. SUMMARY

- 2.1 The revised (2017) "Code of Practice for Treasury Management in the Public Services" provides that an Annual Strategy be submitted to Members on or before the start of a financial year to outline the activities planned within the parameters of the Treasury Management Policy Statement and the Treasury Management Practices.
- 2.2 The Local Government Act 2003 (the '2003 Act') also requires the Authority to set out its Treasury Management Strategy for borrowing for the forthcoming year and to prepare an Annual Investment Strategy, which sets out the policies for managing its investments, giving priority to the security and liquidity of those investments.
- 2.3 Under Section 15 of the '2003 Act', the Welsh Government (WG) issued guidance on local government investments which is incorporated within the report. Definitions of Local Government investments are given in **Appendix 1**.
- 2.4 Under the provisions of the Local Government Act 2003, The Local Authorities (Capital Finance and Accounting) (Wales) Regulations 2003 and subsequent amendments [The Capital Regulations], and the CIPFA's "The Prudential Code for Capital Finance in Local Authorities"

[the Code], the Authority is obliged to approve and publish a number of indicators relevant to Capital Finance and Treasury Management.

- 2.5 With effect from 1st April 2008, WG introduced the Local Authorities (Capital Finance and Accounting) (Wales) (Amendment) Regulations 2008 [the “Amendment Regulations”] which requires the Authority to prepare an Annual Minimum Revenue Provision Policy Statement. This report sets out what the Authority needs to do in order to comply with this requirement.

3. RECOMMENDATIONS

- 3.1 That the Annual Strategy for Treasury Management 2022/23 be approved.
- 3.2 That the strategy be reviewed quarterly within the Treasury Management monitoring reports presented to Policy & Resources Scrutiny Committee and any changes recommended be referred to Cabinet, in the first instance, and to Council for a decision. The Authority will also prepare a half-yearly report on Treasury Management activities
- 3.3 That the Prudential Indicators for Treasury Management be approved as per Appendix 5.
- 3.4 That the Prudential Indicators for Capital Financing be approved as per Appendices 6 & 7.
- 3.5 That Members adopt the MRP policy as set out in Appendix 8.
- 3.6 The continuation of the 2021/22 investment strategy and the lending to financial institutions and Corporates in accordance with the minimum credit rating criteria disclosed within this report.
- 3.7 That the Authority borrows £42.0m for the General Fund to support the 2022/23 capital programme and £17.7m for the HRA WHQS and Affordable Homes programme.
- 3.8 That the Authority continues to adopt the investment grade scale as a minimum credit rating criterion to assess the credit worthiness of suitable counterparties when placing investments.
- 3.9 That the Authority adopts the monetary and investment duration limits as set in Appendix 3 of the report.

4. REASONS FOR THE RECOMMENDATIONS

- 4.1 The Annual Strategy report is a requirement of the CIPFA “Code of Practice for Treasury Management in the Public Services”.
- 4.2 The Investment Strategy is a requirement of the Local Government Act 2003.
- 4.3 To comply with the legislative framework and requirements as indicated in paragraphs 2.1 to 2.5.

5. THE TREASURY MANAGEMENT REPORT

5.1 Interest Rate Prospects- Short-term

- 5.1.1 The Authority uses Arlingclose Limited as its Treasury Management Adviser and part of their service is to assist the Authority to formulate a view on interest rates.
- 5.1.2 The Monetary Policy Committee [MPC] increased Bank Rate in December 21 to 0.25% to maintain the total Quantitative Easing programme at £895 billion.
- 5.1.3 The ongoing impact on the UK from coronavirus, together with higher inflation and the likelihood of higher interest rates will be major influences on the Authority's treasury management strategy for 2022-23.
- 5.1.4 Consumer price inflation was registered as 5.1% year on year in November 2021, continuing the trend of recent increases. The most recent labour market data for the three months to August 2021 showed the unemployment rate fell to 4.5% while the employment rate rose to 75.3%. Both measures were helped by the extension of the government's furlough scheme, but this ended in September 2021 and while this may put some pressure on the jobs market, it is not expected to be material, with the BoE forecasting unemployment will only increase modestly in Q4 2021 according to its November 2021 Monetary Policy Report but remain low overall.
- 5.1.5 GDP growth grew by 5.5% in the second quarter of 2021, compared to a fall of -1.6% quarter on quarter in the previous 3 months. Monthly GDP estimates have shown the economy is recovering with the economy now just 0.8% below its pre-pandemic level. Looking ahead, the BoE's November Monetary Policy Report forecast economic growth will rise by 1.0% in Q4 2021 with the economy expected to get back to its pre-pandemic level in Q1 2022. GDP growth is now expected to be around 5% in 2022. GDP growth in the eurozone increased by 2.2% in Q3 following a gain of 2.1% in the second quarter. Headline inflation has been strong, with CPI registering 4.1% year on year in October. The fourth successive month of inflation.
- 5.1.6 The Authority's treasury management adviser Arlingclose is forecasting that the Bank Rate will rise in Q2 2022. The risk to this forecast is to the upside over the new few months, shifting to the downside in the medium term.

5.2 Interest Rate Prospects- Long-term

- 5.2.1 Gilt yields are expected to remain broadly at the current levels over the medium-term with the 5, 10 and 20 year gilt yields expected to average around 0.60%, 1.0% and 1.35% respectively. The risks around the gilt yield forecasts are judged to be broadly balanced in the near-term and to the downside over the remainder of the forecast horizon, but there will almost certainly be short-term volatility due to economic and political uncertainty and events.
- 5.2.2 Arlingclose interest rate forecasts are shown in **Appendix 2**.

5.3 Credit Outlook

- 5.3.1 Since the start of 2021, relatively benign credit conditions have led to credit default swap (CDS) prices for the larger UK banks to remain low and have steadily edged down throughout the year to almost pre-pandemic levels. The improved economic outlook during 2021 helped bank profitability and reduced the level of impairments many had made as provisions for bad loans. However, the relatively recent removal of coronavirus-related business support measures by the government means the full impact on bank balance sheets may not be known for some time.
- 5.3.2 The improved economic picture during 2021 led the credit rating agencies to reflect this in their assessment of the outlook for the UK sovereign as well as several financial institutions, revising them from negative to stable.
- 5.3.3 Looking ahead, while there is still the chance of bank losses from bad loans as government and central bank support is removed, the institutions on the Authority's counterparty list are well-capitalised and general credit conditions across the sector are expected to remain benign. Duration limits for counterparties on the Authority's lending list are under regular review and will continue to reflect economic conditions and the credit outlook.

5.4 External Debt - Capital Borrowings and Borrowing Portfolio Strategy

- 5.4.1 The Authority's primary objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should the Authority's long-term plans change is a secondary objective.
- 5.4.2 Given the significant cuts to public expenditure and in particular to local government funding, the Authority's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead. By doing so, the Authority is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk.
- 5.4.3 The difference between current long-term borrowing rates and short-term investment rates has resulted in a "cost of carry" scenario, indicating that it is more advantageous to use internal funding in lieu of borrowing. The cost of carry is likely to remain an issue until the Bank Rate and short-term market rates increase in the future. The Authority, having adopted the policy of internal borrowing from the latter half of 2008/09, has an internal borrowing position of £72m (as at 31st March 2021) from which capital expenditure has been funded. Unless the policy is prudent, the Authority will no longer adopt the policy of internal borrowing. The benefits of internal / short-term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly.
- 5.4.4 It is anticipated that the borrowing requirement of £42.0m will need to be taken up in 2022/23 for the General Fund to support the capital programme and provision has been made in the budget to fund this level of borrowing. Much of this borrowing has been deferred from previous financial years. The HRA will borrow £17.7m in 2022/23, though some of the HRA borrowing may be deferred to future years subject to the Business Plan revisions.

5.4.5 Therefore, the total 2022/23 borrowing requirement will be £59.7m comprising of

- 2022/23 supported borrowing approvals - £4.8m
- 2021/22 supported borrowing approvals - £4.9m
- 2020/21 supported borrowing approvals - £4.9m
- 2019/20 supported borrowing approvals - £4.9m
- 2018/19 supported borrowing approvals - £4.9m
- 2017/18 supported borrowing approvals - £5.0m
- 2016/17 supported borrowing approvals - £5.0m
- 21st Century Schools LGBI- £4.2m
- 21st Century Schools prudential borrowing (Band A) - £3.4m
- HRA - £17.7m

The LGBI borrowing is funded by WG contributions to support the 21st Century Schools Band A capital programme. The borrowing approvals relate to previous financial years whereby the borrowing had been deferred and subsequently these are now being rolled forward until the Authority raises such loans. Capital expenditure in the relevant financial year that would have been funded by the borrowing approvals was subsequently funded from internal borrowing. Retrospectively borrowing these approvals will replenish the internal borrowing.

5.4.6 Whilst PWLB interest rates have been included in Appendix 2, it is possible that loans may be taken from other sources if interest rates are more advantageous. It is suggested that the target rate for new borrowing be set at 2.80% for a 25-year period loan. However, other periods will be considered if the rates are favourable.

5.4.7 Current PWLB forecasts suggest interest rates are likely to rise during 2022/23. The use of internal borrowing to fund the 2022/23 capital programme or the decision to defer borrowing as set out in paragraph 5.4.4 could expose the Authority to rising interest rates thus making it expensive to borrow at a later date. A budget to cover the cost of raising £42.0m new debt finance will remain in place irrespective of the decision to borrow internally or externally.

5.4.8 Any short-term funding would need to be in line with the 'Upper Limit for Variable Rates' as defined in the prudential indicators in **Appendix 5** (30% of Net Debt Outstanding) within the CIPFA "Prudential Code for Capital Expenditure in Local Government".

5.4.9 Officers, in conjunction with the Treasury Management Adviser, will continue to monitor both the prevailing rates and the market forecasts, responding to changes when necessary. The following borrowing sources will be considered by the Authority to fund short-term and long-term borrowing (and in no particular order):

- Internal reserves
- Public Works Loan Board (PWLB)
- UK Infrastructure Bank
- Local Authorities
- European Investment Bank (NB the EIB will only lend up to 50% towards the funding of a specific project and needs to meet the EIB's specific criteria. The project cost must also be at least €10m)

- Leasing
- Capital market bond investors
- Other commercial and not for profit sources
- Any other bank or building society authorised to operate in the UK
- UK public and private sector pension funds
- UK Municipal Bonds Agency and other special purpose companies created to enable local authority bond issues
- Any counterparty approved for investments

5.4.10 In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- operating and finance leases
- hire purchase
- Private Finance Initiative
- sale and leaseback

5.4.11 The Authority may borrow short-term loans (up to twelve months) to cover unexpected cashflow shortages.

5.4.12 The Authority may arrange forward starting loans during 2022/23, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period as well as mitigate against the risk of rising borrowing interest rates.

5.4.13 **Municipal Bond Agency:** The UK Municipal Bonds Agency plc was established in 2014 by the Local Government Association as an alternative to the PWLB. It plans to issue bonds on the capital markets and lend the proceeds to local authorities. This will be a more complicated source of finance than the PWLB for two reasons: borrowing authorities may be required to provide bond investors with a guarantee over the very small risk that other local authority borrowers default on their loans; and there will be a lead time of several months between committing to borrow and knowing the interest rate payable. Any decision to borrow from the Agency will therefore be the subject of a separate report to Cabinet.

5.5 Authorised Limit for External Debt (The Authorised Limit)

5.5.1 As a consequence of 5.4.1 to 5.4.13 above, the Authorised Limit will be the upper limit of the Authority's borrowing, based on a realistic assessment of risks. It will be established at a level that will allow the Authority to borrow sums, in excess of those needed for normal capital expenditure purposes in the event that an exceptional situation arises and would allow for take-up of supported borrowing. It is not a limit that the Authority would expect to borrow up to on a regular basis.

5.5.2 The limit will include borrowing and other long-term liabilities such as leases, private finance schemes and deferred purchase schemes.

5.6 The Operational Boundary

- 5.6.1 This is based on the maximum level of external debt anticipated to be outstanding at any time in each year. It will be consistent with the assumptions made in calculating the borrowing requirements of the capital programme, but will also include an estimate of any borrowing for short term purposes, such as temporary shortfalls in incomes or to support active treasury management which would seek to take advantage of beneficial interest rate movements. It also allows for other long-term liabilities such as leases, private finance schemes and deferred purchase schemes.
- 5.6.2 The Operational Boundary should be set at a level which allows some flexibility but should be sufficiently below the Authorised Limit so that any breach of the operational boundary provides an early warning indicator of a potential breach of the Authorised Limit, allowing corrective action to be taken.

5.7 Interest Rate Exposure

- 5.7.1 The Authority's borrowing policy makes use of both fixed and variable rate opportunities. Whilst fixed rate borrowing and investment provides certainty with regard to future interest rate fluctuations, the flexibility gained by the use of variable interest rate instruments can aid performance. It allows the Treasury Manager to respond more quickly to changes in the market and to short term fluctuations in cash flow without incurring the penalties that would result from the recall of fixed rate investments.

5.8 Maturity Structure of Borrowing

- 5.8.1 Whilst the periods of loans are dictated by the interest rates prevalent at the time, it is important to be mindful of the maturity profile of outstanding debt. Large 'peaks' are to be avoided, as it is possible for substantial loans to reach maturity at times when prevailing interest rates are high, and conversely, when interest rates are low, windows of opportunity may be lost.
- 5.8.2 As a result, it is necessary to determine both an upper and lower limit for borrowings which will mature in any one year.
- 5.8.3 Over the course of the medium-term financial plan and future years, a number of high interest rate PWLB loans will mature resulting in a saving to the Authority as the interest rate on replacement loans are likely to be lower in comparison.
- 5.8.4 Historically, the Authority has favoured PWLB loans with a twenty-five year loan maturity profile, but in the current climate of low interest rates (including Bank Rate); the Authority will also consider shorter dated loans (including local authority borrowing) to fund capital expenditure. Periods in excess of 25 years should also be considered in the event interest rates become advantageous.
- 5.8.5 The Authority has £30m of LOBO loans (Lender's Option Borrower's option). A LOBO is called at its contract review date when the Lender is able to amend the interest rate on the loan at which point the Borrower can accept the new terms or reject and repay the loan. Any LOBOs called will be discussed with the Treasury Management Adviser prior to acceptance of any revised terms. Depending on the advice received, the Authority will consider, in the event of a repayment, the use of its cash investments balances or raising new debt to repay the loan.

5.9 Gross Debt and the Capital Financing Requirement

- 5.9.1 A further requirement of the revised Prudential Code is to ensure that over the medium term debt will only be for a capital purpose, the Authority will ensure that debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years.

5.10 Debt Rescheduling

- 5.10.1 Due to the difference in the rates, it is unlikely that there will be many viable opportunities to reschedule loans (General Fund and the HRA) in the foreseeable future. However, should any such opportunities arise; any decision on debt rescheduling will be supported by the appropriate report detailing the options and potential savings from the Authority's Treasury Management Adviser.

5.11 Policy on Borrowing In advance of Need

- 5.11.1 Whilst the Authority is able to borrow in advance of need, it is a requirement of the Code that any instance of pre-funding must be supported by a clear business case setting out the reasons for such activity. The Authority will prepare a business case whenever there is need to borrow in advance of need.

5.12 Annual Investment Strategy

- 5.12.1 The CIPFA Code and the Welsh Government Guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

- 5.12.2 **Current strategy (2021/22)** - At present the Authority lends to financial institutions, corporates and the UK Government using a range of financial instruments to diversify risk. These include unsecured corporate bonds; covered bonds (secured); fixed term deposits; certificate of deposits (CDs); T-Bills; the DMADF (DMO) money market funds and call accounts. The Authority has also invested in pooled funds (property funds; equity funds; multi-asset funds) and for the purpose of enhancing returns. Pooled funds will be held for minimum of five years to offset any premature exit costs. A lesser period would be considered only if it is cost neutral to the Authority.

- 5.12.3 **The 2022/23 Investment Strategy** will continue with the lending approach as set out in the 2021/22 Strategy.

- 5.12.4 This Strategy (2022/23), in line with the Welsh Government guidance, sets out the Authority's policies for (and in order of priority) the security, liquidity and yield of its investments. It will have regard to credit ratings and determine the periods for which funds may be prudently invested, whilst aiming to achieve, or better a target rate for investments of **0.25% (the base rate)**. Creditworthiness approach, investment periods and the rationale for the target rate are explained in **Appendix 3**. The Authority's objective when investing cash is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

- 5.12.5 The strategy sets out which investments the Authority may use for the prudent management of its balances during the financial year within the areas of 'specified' and 'non-specified' investments, and provides the appropriate authorisation for the in-house investment team to manage such investments. These are listed in **Appendix 4**.
- 5.12.6 The Authority will continue to diversify into more secure and/or higher yielding asset classes during 2022/23 in order to mitigate the risk stemming from regulations associated with Bank Bail-In; political uncertainty; and the risk of zero or negative Bank Rate. Short-term cash that is required for liquidity management will be deposited with local authorities (secured), Government securities (secured), money market funds (unsecured) and bank and building society investments (unsecured). Up to £60m will be made available for long-term investments.
- 5.12.7 In view of the ongoing volatility in the economy, and bank bail in risk, it is recommended that investments (both new and maturing) be placed with the most secure institutions as well as the most secure instruments (subject to liquidity requirements) as detailed in **Appendix 3**. Currently this would be AAA rated covered bonds, the Government (Debt Management Account Facility and Treasury Bills and Gilts), other Local Authorities and Public Bodies, such as Police and Fire Authorities, Repos, Registered Landlords, AAA Money Market Funds, and highly credit rated banks (subject to the creditworthiness limits referred to in the appendix 3). In light of Statutory and regulatory changes adopted by the Bank of England and Regulators with respect to Bail-In, it is recommended that the Authority moves away from unsecured lending (where possible and subject to liquidity requirements) to secured investments.
- 5.12.8 With respect to Repo agreements, Repo/Reverse Repo is accepted as a form of securitised lending and should be based on the GMRA 2000 (Global Master Repo Agreement). Should the counterparty not meet our senior unsecured rating then a 102% collateralisation would be required. The acceptable collateral can be anyone or combination of the following securities:
- Index linked Gilts
 - Conventional Gilts
 - UK Treasury bills
 - DBV (Delivery By Value)
 - Corporate bonds
- 5.12.9 The Welsh Government maintains that the borrowing of monies for the purposes of investing or on-lending to benefit from differences in interest rates is unlawful. This Authority will not engage in such activity.
- 5.12.10 Under the Local Authorities (Capital Finance and Accounting) (Wales) (Amendment) Regulations 2004 regulation 12(b), the acquisition of share or loan capital in any corporate body would not be defined as capital expenditure as long as it is an investment for the purposes of the prudent management of the Authority's financial affairs. Due to the high risk of capital loss involved with such instruments, this Authority will not engage in such activity.
- 5.12.11 A loan or grant to another body for capital expenditure by that body is also deemed by the 2003 Regulations to be capital expenditure by the Authority. This Authority will only engage in such activity with the approval of Council.
- 5.12.12 In the event that any existing investment appears to be at risk of loss, the Authority will make proper revenue provision of an appropriate amount in accordance with the relevant Accounting Regulations.

5.12.13 At the end of the financial year, the Authority will prepare a report on its investment activity as part of its Annual Treasury Management Strategy Report. This report will be supported throughout the year by quarterly monitoring reports to the Policy & Resources Scrutiny Committee (the responsible body for scrutiny of Treasury Management activities as required by the Code), which will include a review of the current strategy. A report to Council will also be prepared on a half-yearly basis.

5.12.14 It is a fundamental requirement of the Code that officers engaged in Treasury Management follow all Treasury Management policies and procedures and all activities must comply with the Annual Strategy.

5.12.15 The Welsh Government has reservations regarding borrowing in advance of need on the grounds that more money than is strictly necessary is likely to be put at risk in the investment market. As a result, Officers must report any investment made as a result of borrowing in advance and must set out the maximum period for which the funds can be prudently committed. In the event that this Authority decides to take up such borrowing, it is suggested that any deposit made with these funds be limited to a maturity period of up to twelve months and pro-rata to coincide with the profiling of capital expenditure.

6. Policy on Use of Financial Derivatives

6.1 The Localism Act 2011 includes a general power of competence that removes the uncertain legal position over English local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment). Although this change does not apply to Wales, the latest CIPFA Code requires authorities to clearly detail their policy on the use of derivatives in the Annual Treasury Management Strategy.

6.2 In the absence of any legislative power, the Authority's policy is not to enter into standalone financial derivatives transactions such as swaps, forwards, futures, and options. Embedded derivatives will not be subject to this policy, although the risks they present will be managed in line with the overall risk management strategy.

7. Non-Treasury Investments

7.1 Although not classed as treasury management activities and therefore not covered by the CIPFA Code or the WG Guidance, the Authority may also purchase property for investment purposes and may also make loans and investments for service purposes. Such loans and investments will be subject to the Authority's normal approval processes for revenue and capital expenditure and need not comply with this treasury management strategy. As a result of a change in PWLB terms, PWLB loans are no longer available to local authorities planning on buying investment assets primarily for yield.

8. Treasury Management Adviser

8.1 The Authority has appointed Arlingclose Limited as its external Treasury Management Adviser and receives a number of services including specific advice on investment, debt and capital finance issues; counterparty advice; economic forecasts and commentary; workshops, training and seminar events; and technical advice (including accountancy).

9. Treasury Management Training

9.1 The revised CIPFA Code, adopted by the Authority in January 2012, requires that Local Authorities must ensure that all staff and those Members with responsibility for Treasury Management receive the appropriate training. To this end the following will be observed:

- The contract for Treasury Consultancy Services includes requirements for Member and Officer training to be provided during any year.
- Officers will attend any courses/seminars that are appropriate especially where new regulations are to be discussed.
- Officers will update Members during the financial year by way of seminars/workshops/reports.
- Officers will utilise online access to the CIPFA Treasury Forum and the CIPFA Technical Information Service.
- Relevant staff are encouraged to study professional qualifications from CIPFA; the Association of Corporate Treasurers; and other relevant organisations.

9.2 Officers will look to schedule Member training for Spring 2022 Further training will be undertaken as and when required.

10. PRUDENTIAL INDICATORS

10.1 Capital Financing Requirement

10.1.1 The Capital Financing Requirement (CFR) measures the authority's underlying need to borrow for a capital purpose. In accordance with best professional practice, the authority does not associate borrowing with particular items or types of expenditure. CIPFA's Prudential Code for Capital Finance in Local Authorities recommends that the Authority's total debt should be lower than its highest forecast CFR over the next three years.

10.1.2 The capital financing requirement is below the authorised borrowing limits in order to allow scope for short-term cash flow borrowing and provision for unforeseen contingencies.

10.1.3 The estimated values of Capital Financing Requirement for the period under review are shown in **Appendix 6** attached.

10.2 Prudential Indicators – “Prudence”

10.2.1 The proposed Prudential Indicators for Treasury Management Strategy are detailed in **Appendix 5**.

10.3 Prudential Indicators – “Affordability” [**Appendices 6 and 7**]

10.3.1 There is a requirement to analyse and report the capital financing costs and express those costs as a percentage of the net revenue streams of the Authority.

10.3.2 The General Fund future revenue streams are based upon the content of “the Budget Report”.

10.3.3 Future revenue streams for Housing Revenue Account (H.R.A.) have been projected on the basis of a 1.5% increase applied to the rental income (using 2021/22 as a base), less an adjustment for estimated reduction in housing stock as a result of the “Right to Buy” sales.

10.4 Capital Expenditure and Funding

10.4.1 The summary Capital Expenditure and funding, as shown in **Appendix 7** of this report has been considered in “the Budget Report”.

10.4.2 The Revenue Support Grant (RSG) provided by the Welsh Government (WG) includes an element to off-set the costs of borrowing funds for capital purposes. WG has announced supported borrowings of £4.84m in respect of the 2022/23 financial year, together with General Capital Grant funding of £3.02m.

10.4.3 For calculation purposes, it has been assumed that the supporting borrowing element of funding support and the capital grant received will remain static for 2023/24 and for 2024/25. HRA provisional values for the years 2023-2025 are based on the 2022/23 allocation of the Major Repairs Allowance of £7.35m and assumed to continue at this level for future years.

11. Minimum Revenue Provision (MRP)

11.1 In accordance with the Amendment Regulations, rather than applying a defined formula, the Authority is now only required to apply a charge that is ‘prudent’. A “prudent” period of time for debt repayment is defined as one which reflects the period over which the associated capital expenditure provides benefits.

11.2 The Amendment Regulations also introduced an additional reporting requirement. Authorities are now required to submit to full Council, for approval, an Annual MRP Statement, setting out the policy to be adopted for the year following.

11.3 The Authority will continue to apply the revised MRP policy that was agreed by Members on 24th January 2017. MRP on supported borrowings will be charged at 2% over 50 years. MRP on unsupported borrowings will be charged at the PWLB annuity loan rate equivalent to the life of the asset. The MRP policy is detailed in **Appendix 8**.

12. Other Local Issues

12.1 The Authority’s Banker

12.1.1 The Authority will ensure that its day-to-day banking activity is undertaken with an investment grade bank. If the Authority’s Bank is downgraded during the contract period (as specified under the Banking Services Contract) to non-investment grade, reasonable measures will need to be undertaken to mitigate the risk associated with further downgrades, and the risk of losing funds if the Bank was to default.

12.1.2 Reasonable measures will need to include (and not limited to) keeping balances to a minimum; hourly review of bank balances for the Group Accounts and subsequently transferring surplus balances to a Call Account; re-routing material income (maturing investments, grants) to a bank

account held outside of the existing bank arrangement; and consideration of contingency banking arrangements with another bank should the risk be severe to the Authority's operational requirements. Cabinet will be kept informed if such risks arise. In the case of negative interest rates, monies may be held in the Authority's main bank account.

12.2 Policy on Apportioning Interest to the HRA

12.2.1 On 1st April 2015 the HRA exited the subsidy mechanism by way of the HRA buyout process. As a result, the Authority will operate a single consolidated pool of debt that will hold all debt (new and old loans), and annually recharge the HRA the interest payable on all loans using the average rate of interest as a recharge rate.

12.3 Markets in Financial Instruments Directive: The Authority has opted up to professional client status with its providers of financial services, including advisers, banks, brokers and fund managers, allowing it access to a greater range of services but without the greater regulatory protections afforded to individuals and small companies. Given the size and range of the Authority's treasury management activities, the Chief Financial Officer believes this to be the most appropriate status.

12.4 IFRS 9 Classification

12.4.1 Under the IFRS 9 standard, the accounting for certain investments depends on the Authority's "business model" for managing them. The Authority aims to achieve value from its internally managed treasury investments by a business model of collecting the contractual cash flows and therefore, where other criteria are also met, these investments will continue to be accounted for at amortised cost. Pooled fund investments will be elected to be carried at 'Fair Value through Other Comprehensive Income (FVOCI).

13. ASSUMPTIONS

13.1 The details set out in the report are based on interest rate forecasts provided by the Authority's Treasury Management Adviser.

13.2 It is currently assumed that investment cash balances remain at £100m throughout 2022/23 in order to deliver the investment returns stated within this report.

13.3 It has been assumed that the Authority will fund a proportion of its capital programme through supported borrowing.

13.4 It has been assumed that the HRA's borrowing needs are based on the current Business Plan at the time of writing this report.

14. SUMMARY OF INTEGRATED IMPACT ASSESSMENT

14.1 The Treasury Management strategy report is a requirement of the Local Government Act and provides a high-level framework in which the Council can operate. This does not impact on any individuals, or any protected characteristic groups as defined in the Council's Strategic Equality Plan 2020-2024 and as a result an Integrated Impact Assessment is not required.

15. FINANCIAL IMPLICATIONS

15.1 As detailed throughout the report.

16. PERSONNEL IMPLICATIONS

16.1 There are no personnel implications.

17. CONSULTATION

17.1 The report was presented to the Policy and Resources Scrutiny Committee on the 20th January 2022 for consideration. The Scrutiny Committee made the following comments and recommendation to Council: -

- In relation to internal and external borrowing, a Member asked whether there had been a fundamental change of policy or if the existing strategy of internal borrowing was a continuation of an old policy. The Head of Financial Services & S151 Officer confirmed that there was no fundamental change of policy and explained that as the cost of borrowing is higher than the returns that the Authority can achieve on its investments, it is more financially beneficial at the present time for the Council to undertake a practice of internal borrowing and to use any cash balances available to fund the capital programme instead of borrowing externally. He confirmed that the Authority will continue with the existing policy as long as it is feasible to do so, but once this is no longer feasible, this practice will end and there will be a need to replenish funds through external borrowing.
- Clarification was sought in relation to Section 5.2 of the report (Interest Rate Prospects - Long-term) specifically around the impact of inflation and the costs the Council would have to meet as a result of inflation increasing. The Head of Financial Services & S151 Officer confirmed that although there is expected to be an upward trend in interest rates, this is not anticipated to be a sharp increase, with it instead expected that the increase would be moderate over time. The inflation increase was acknowledged but it is expected that will reduce moving forward, however an allowance of 4% non-pay inflation has been factored into the 2022/23 draft budget proposals. It was also explained that if interest rates increase, then the Authority may well see better returns on its investments, although the cost of borrowing would also be higher, and that all these factors would need to be balanced and taken into consideration during these challenging times arising from the impact of the Covid-19 pandemic and Brexit.
- With regards to the increase in interest rates, Members asked if there were any alternative ratings agencies that the Authority could turn to acquire information, given that the year-on-year increase predicted by the Bank of England had not materialised. Officers confirmed that only a limited field of specialist financial agencies are able to provide these ratings and explained that finance staff also regularly consult our Treasury Advisors (Arlingclose) for advice and guidance on a range of issues.
- A question was raised on whether the Authority would be able to achieve its predicted returns on investment for this year. Officers confirmed that the Authority is beginning to see an improved position in terms of investment returns, and that for the 2020/21 financial year returns of around £786k had been achieved. It was noted that investment returns in 2021/22 have further improved with circa £1.1m expected, which compares favourably with the Welsh average.
- Reference was made to the borrowing of £42.0m for the General Fund to support the 2022/23 capital programme and £17.7m for the HRA WHQS and Affordable Homes programme, and a Member asked if borrowing was needed to this extent, given the level

of funds held in reserve by the Authority. Officers explained that although the Authority is currently utilising internal borrowing, there is a need to seek Members' approval to borrow externally in the future when needed.

- Having considered and commented upon the content of the report and appendices, it was moved and seconded that the recommendations be forwarded to Council for approval

17.1 No external consultation is required for the purposes of the report. However, advice has been sought from the Authority's current Treasury Management Advisor.

18. STATUTORY POWER

18.1 Local Government Act 1972

Author: Rhiann Williams – Group Accountant -Treasury Management & Capital

Consultees: Stephen Harris – Head of Financial Service and S151 Officer
Andrew Southcombe – Finance Manager, Corporate Finance
Robert Tranter- Head of Legal Services & monitoring Officer
Cllr E. Stenner – Cabinet Member for Finance, Performance & Planning

Appendices:

Appendix 1 Local Government Investments - Definitions
Appendix 2 Interest Rates – Forecasts/Indicative
Appendix 3 Credit Policy, Investment Ratings, Periods and Targets
Appendix 4 Investments to be used and “in house” authorisations
Appendix 5 Treasury Management Strategy Indicators
Appendix 6 Prudential Indicators – Capital Finance
Appendix 7 Capital Expenditure and Funding
Appendix 8 MRP Policy

Appendix 1

Local Government Treasury Management Definitions

- **Investment**

In the context of a local authority cash deposit, an investment is a monetary asset deposited with a credible institution with the objective of providing income in the future. This is a transaction which relies upon the power in section 12 of the 2003 Act and is recorded in the balance sheet under the heading of investments within current assets or long-term investments.

- **Long-term Investment**

This is any investment other than one which is contractually committed to be paid within 12 months of the date on which the investment was made.

- **Credit Rating Agency**

An independent company that provides investors with assessments of an investment's risk and the three most prominent are.

Standard and Poor's (S & P)
Moody's Investors Service Limited (Moody's)
Fitch Ratings Limited (Fitch)

- **Specified Investment**

An investment is a specified investment if it satisfies the following conditions:

1. The investment is denominated in sterling and any payments or repayments in respect of the investment are payable only in sterling.
2. The investment is not a long-term investment (as defined above).
3. The investment is not considered to be capital expenditure.
4. One or both of the following conditions is both:
 - The investment is made with the UK Government or a local authority (as defined in section 23 of the 2003 Act) or local authorities in Scotland and Northern Ireland or a parish or community council.
 - The investment is made with a body or in an investment scheme which has been awarded a high credit rating by a credit rating agency

5. The principal sum to be repaid at maturity is the same as the initial sum invested other than investments in the UK Government.

- **Non-specified Investments**

These are investments, which do not meet the conditions of specified investments.

Appendix 2 Interest Rate Forecasts

Bank Rate (Forecasts as at December 2021 and subject to change)

| | Arlingclose (Central case) |
|------------|----------------------------|
| 2022/23 Q1 | 0.50% |
| 2022/23 Q2 | 0.50% |
| 2022/23 Q3 | 0.50% |
| 2022/23 Q4 | 0.50% |
| 2023/24 | 0.50% |
| 2024/25 | 0.50% |

PWLB (Forecasts as at December 2021 and subject to change- Source Arlingclose (Upside case))

| | Q1 – 2022/23 | Q2 – 2022/23 | Q3 – 2022/23 | Q4 – 2022/23 |
|---------|--------------|--------------|--------------|--------------|
| 5 Year | 1.75% | 1.85% | 1.95% | 1.95% |
| 10 Year | 1.90% | 1.90% | 1.95% | 2.00% |
| 20 year | 2.25% | 2.35% | 2.35% | 2.40% |
| 50 Year | 1.85% | 2.00% | 2.10% | 2.20% |

For budget setting and financial planning, the following rates have been assumed.

| Budget Period | Investment Returns | Borrowing Rates (PWLB 50 Years) |
|---------------|--------------------|---------------------------------|
| 2022/23 | 0.25% | 2.20% |
| 2023/24 | 0.25% | 2.20% |
| 2024/25 | 0.25% | 2.20% |
| 2025/26 | 0.25% | 2.20% |
| 2026/27 | 0.25% | 2.20% |

Appendix 3 Credit Risk Policy

Bank Bail-In

Bail-in legislation has now been fully implemented in the European Union and major economies around the World. In addition, the largest UK banks have ring-fence their retail and investment banking functions into separate legal entities during 2018 and 2019. The impact of the structural change on the banks credit rating was minimal. Bail-In proposals, an approach where retail customers of a failing bank are protected under compensation schemes (up to a threshold) and losses are covered by investor's equity capital in the first instance, followed by junior debt and then senior unsecured debt and deposits. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Authority maintaining operational continuity.

A bail-in is likely, although not certain, to happen over the course of a weekend, with much of the preparatory work having been undertaken in advance as the bank continues to fail regulatory conditions. The announcement of a bail-in, including which creditors will be affected, will normally be made by the Bank of England on a Sunday evening before the Asian markets open. Apart from the affected creditors, the bank will open for business as normal on the Monday morning. Where a banking group comprises several UK bank companies, it is likely that all group banks will be bailed-in together. Separately capitalized subsidiaries in other countries might not be bailed-in; that will be a matter for the local regulator. Before a bail-in, the bank's ordinary shareholders will have their shares expropriated and they will therefore no longer be the bank's owners. Building societies, which are mutually owned by their customers, will be converted to banks before bail-in. Hybrid capital instruments that convert to equity in certain circumstances will also be converted. Creditors will then be bailed-in in this order:

- junior or subordinated bonds, in order of increasing seniority;
- senior unsecured bonds issued by the non-operating holding company (if any);
- senior unsecured bonds issued by the operating bank companies;
- Unsecured deposits (money market funds, call accounts and fixed-term deposits with banks and building societies) and certificates of deposit (except interbank deposits of less than seven days original maturity); and
- Insured deposits that are larger than the FSCS £85,000 coverage limit.

Subject to cashflow liquidity requirements, the Authority will manage bail-in risk by way of investing surplus cash in instruments that are considered to be exempt from bail-in and include (and in no particular order) the Government, Corporate bonds, Registered Providers (Housing Associations) and secured bank instruments (Repos, Covered Bonds and other collateralised instruments). These instruments are considered to have a medium to long-term investment horizon, and therefore it is likely that the Authority will hold investment instruments with financial institutions that will not be exempt from the bank bail-in process such as fixed term deposits, call accounts and money market funds. The Authority will look to limit such holdings for the purpose of managing liquidity.

Counterparty Criteria

The Authority considers, in order of priority, security, liquidity and yield when making investment decisions. Credit ratings remain an important element of assessing credit risk, but they are not a sole feature in the Authority's assessment of counterparty credit risk. The intention of the strategy

is to provide security of investment and minimisation of risk which will also enable diversification and thus avoidance of concentration risk.

The Authority also considers alternative assessments of credit strength, and information on corporate developments of and market sentiment towards counterparties. In accordance with the 2017 Treasury Management Code of Practice, the Authority will use the following key tools to assess credit risk:

- Published credit ratings of the financial institution and its sovereign rating;
- Sovereign support mechanisms;
- Credit default swaps (where quoted);
- Share prices (where available);
- Economic fundamentals, such as a country's net debt as a percentage of its GDP;
- Corporate developments, news, articles, markets sentiment and momentum;
- Subjective overlay.

The only indicators with prescriptive values remain to be credit ratings. Other indicators of creditworthiness are considered in relative rather than absolute terms.

The Authority is advised by Arlingclose Limited, who provides counterparty risk management services. Credit rating lists are obtained and monitored by Arlingclose, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

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

Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "rating watch negative" or "credit watch negative") so that it may fall below the approved rating criteria, then only investments that can be withdrawn [on the next working day] will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2011, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Authority will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Authority's cash balances, then the surplus will be deposited with the UK Government, via the Debt Management Office (unless interest rates are negative) or invested in government treasury bills or with other local authorities. This will cause a reduction in the level of investment income earned but will protect the principal sum invested.

The Authority defines “high credit quality” organisations and securities as those having a credit rating of A- or higher that are domiciled in the UK or a foreign country with a sovereign rating of AA+ or higher. For money market funds and other pooled funds “high credit quality” is defined as those having a credit rating of A- or higher.

Due to the ongoing strengthening of bank regulations it is recommended that the Authority adopts the Investment Grade scale as the minimum credit rating criteria. This will enable greater flexibility when placing investments especially during periods of regulatory stress tests where the outcome can result in a downsized counterparty list as a result of the downgrading of credit ratings. Furthermore, the need to hold a diversified investment portfolio and the impact of bank bail-in regulations means that the Authority will need to adopt a more structured credit rating criteria matrix for specific instruments. The table below details maximum monetary and investment duration limits.

| Maximum Monetary and Investment Duration Limits | | | | | | |
|--|------------------------|----------------------|-------------------------|--------------------------|-------------------|-----------------------------|
| Credit Rating (Long-Term) | Banks Unsecured | Banks Secured | Government | Local Authorities | Corporates | Registered Providers |
| UK Govt | - | - | £ Unlimited 50 years | - | - | - |
| AAA | £20m 5 years | £20m 20 years | £20m 50 years | £20m 50 years | £10m 20 years | £10m 20 years |
| AA+ | £10m 5 years | £20m 10 years | £20m 25 years | £10m 25 years | £10m 10 years | £10m 10 years |
| AA | £10m 4 years | £20m 5 years | £20m 15 years | £10m 15 years | £10m 5 years | £10m 10 years |
| AA- | £10m 3 years | £20m 4 years | £20m 10 years | £10m 10 years | £10m 4 years | £10m 10 years |
| A+ | £10m 2 years | £20m 3 years | £10m 5 years | £10m 5 years | £10m 3 years | £10m 5 years |
| A | £10m 13 months | £20m 2 years | £10m 5 years | £10m 5 years | £10m 2 years | £10m 5 years |
| A- | £10m 6 months | £20m 13 months | £10m 5 years | £10m 5 years | £10m 13 months | £10m 5 years |
| BBB+ | £10m 100 days | £10m 6 months | £10m 2 years | £10m 2 years | £10m 6 months | £10m 2 years |
| BBB | £5m next day only | £5m next day only | - | £5m next day only | - | £5m next day only |
| None Rated | £1m 6 months | - | £5m 25 years | | - | £5m 5 years |
| REITS | | | £20m per fund | | | |
| Pooled funds | | | £20m per fund | | | |

Credit rating: Investment limits are set by reference to the lowest published long-term credit rating from a selection of external rating agencies. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

Banks Unsecured: Call accounts, term deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. Unsecured investment with banks rated BBB are restricted to overnight deposits at the Authority's current account bank [Barclays Bank Plc] or the Debt Management Office. The use of Banks unsecured instruments will be limited to aid the management of cashflow liquidity. In accordance with advice from the Authority's Treasury Management adviser, International banks will also be considered.

Banks Secured: Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the highest of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments. Investments placed in conjunction with a Repo Agreement will be classed as a secured investment.

Government: The Debt Management Office, Loans, bonds and bills issued or guaranteed by national governments and multilateral development banks. These investments are not subject to bail-in, and there is an insignificant risk of insolvency. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years. Multilateral / Supranational institutions and State Agencies will also be classed as Government institutions as a number of sovereign states are key shareholders.

Local Authorities: Fixed term deposits / bills/ Bonds issued by local and regional authorities who include police and fire authorities. These investments are not subject to bail-in, and there is an insignificant risk of insolvency. Local authorities are not rated by credit rating agencies (though a handful of authorities have obtained a credit rating), but it is assumed that local authorities have the same credit rating as the UK Government (AA). Therefore, a limit of £10m and duration of 15 years will be applied.

Corporates: Loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in, but are exposed to the risk of the company going insolvent. Loans to unrated companies will only be made as part of a diversified pool in order to spread the risk widely.

Registered Providers: Loans and bonds issued by, guaranteed by or secured on the assets of Registered Providers of Social Housing, formerly known as Housing Associations. These bodies are tightly regulated by the Homes and Communities Agency and, as providers of public services; they retain the likelihood of receiving government support if needed. Consideration will also be given to providing liquidity facilities, such as a revolving credit facility, subject to a detailed credit assessment of the Registered Provider.

Pooled Funds: Shares or units in diversified investment vehicles consisting of the any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. **Money Market Funds** that offer same-day liquidity and aim for a constant net asset value will be used as an alternative to instant access bank accounts to manage short-term liquidity, while long-term strategic **pooled funds** whose value changes with market prices and/or have a notice period will be used for longer investment periods.

Bond, equity, and property funds offer enhanced returns over the longer term but are more volatile in the short term. These allow the Authority to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's investment objectives will be monitored regularly.

Real estate investment trusts: Shares in companies that invest mainly in real estate and pay the majority of their rental income to investors in a similar manner to pooled property funds. As with property funds, REITs offer enhanced returns over the longer term, but are more volatile especially as the share price reflects changing demand for the shares as well as changes in the value of the underlying properties. Investments in REIT shares cannot be withdrawn but can be sold on the stock market to another investor.

Investment periods

- **Short-term (up to 365 days)**

At the time of writing, all short-term investments are managed in-house as a result of day-to-day cash flow management.

For the purpose of flexibility to respond to day-to-day cash flow demands, the proposed minimum percentage of its overall investments that the Authority will hold in short-term investments is **40%**.

Members are reminded that once a deposit has been made for a fixed period it can only be withdrawn (repaid early) by mutual consent albeit at a cost and subject to the underlying terms and conditions of the contract.

- **Long-term (one year and over)**

The Authority will continue to invest in long-term investments. Excluding the UK Government, It is suggested that no more than £20m be placed with any one institution with duration as set out in the table above. The Authority will not have more than £60m deposited in long-term investments (the Upper Limit).

Target Rate

Forecasts of base rate can be quite diverse as illustrated by the table in **Appendix 2**. In view of the uncertainty inherent in such predictions, it would be imprudent to set a target rate which may be difficult to achieve. In view of the foregoing, it is proposed to set a target rate of return for short-term deposits in 2022/23 of at least **0.25%**.

This rate reflects the forecast of Bank Rate and the relationship between that rate and the rate achievable from the DMADF. If deposits are made with other counterparties as detailed in Section (a) of this Appendix, it is possible that the above rate could be exceeded.

Appendix 4- Specified and Non-Specified Investments

Investments are categorised as “Specified” or “Non-Specified” within the investment guidance issued by the Welsh Government.

Specified investments are sterling denominated investments with a maximum maturity of one year. They also meet the “high credit quality” as determined by the Authority and are not deemed capital expenditure investments under Statute. Non specified investments are, effectively, everything else.

The Authority’s credit ratings criterion is set out in **Appendix 3** and will be consulted when using the investments set out below. Credit ratings are monitored on a daily basis and the Treasury Management Adviser will advise the Authority on rating changes and appropriate action to be taken.

The types of investments that will be used by the Authority and whether they are specified or non-specified are listed in the table below.

| | Specified | Non-Specified |
|--|-----------|---------------|
| Government | | |
| Debt Management Account Deposit Facility | ✓ | ✗ |
| Gilts (UK Government) | ✓ | ✓ |
| Treasury Bills (T-Bills- UK Government) | ✓ | ✗ |
| Bonds issued by AAA rated Multilateral Development Banks | ✓ | ✓ |
| Registered Providers (Housing Associations) | | |
| Registered Providers (Housing Associations) | ✓ | ✓ |
| Corporates | | |
| Corporate Bonds (including Floating Rate Notes and Commercial Paper) | ✓ | ✓ |
| Local Authorities | | |
| Term deposits with other UK local authorities | ✓ | ✓ |
| Local Authority Bills / Bonds | ✓ | ✓ |
| Banks- Secured | | |
| Repurchase Agreements (Repos)- Banks & Building Societies | ✓ | ✓ |
| Covered Bonds | ✓ | ✓ |
| Other Collateralised arrangements | ✓ | ✓ |
| Banks- Unsecured | | |
| Term deposits with banks and building societies | ✓ | ✗ |
| Certificates of deposit with banks and building societies | ✓ | ✗ |
| AAA-Rated Money Market Funds | ✓ | ✗ |
| Authority's Banker | ✓ | ✗ |
| Pooled Funds (Variable Net Asset Valuation) | | |
| Other Money Market and Collective Investment Schemes | ✗ | ✓ |
| Pooled Funds (Property; Bonds; Equity; Multi-Asset) | ✗ | ✓ |
| Real Estate Investment Trusts | ✗ | ✓ |

Authorisation for the in-house team

A. Short-term Investments

Due to the nature of the in-house team's duties, in that they need to respond to cash-flow fluctuations by dealing on the money market generally between 8.00am and 10.00am each day, it is impractical for each decision to be referred to the most senior management levels.

As a result, it is proposed that day-to-day decisions remain the responsibility of the Group Accountant (Treasury Management & Capital) who is the *de facto* Treasury Manager. In the absence of the Group Accountant (Treasury Management & Capital), the responsibility will pass to any of the appropriate line managers.

It is proposed that all Treasury Management decisions that arise from the daily cashflow will be supported by the completion of a pro-forma which will evidence compliance with the strategy.

B. Long-term Investments

It is proposed that decisions regarding long-term investments be referred to the Head of Financial Services & S151 Officer (as Chief Financial Officer) after consultation with the Finance Manager for Corporate Finance.

C. General Authorisations

Whilst it is generally the intention to refer all decisions regarding long-term borrowing to the Head of Financial Services, there are times when to do so will risk the loss of a potentially advantageous deal, due to non-availability. This is particularly relevant to the raising of PWLB loans.

The Authority's Treasury Management Adviser continually monitors the movement of interest rates and can predict the changes in PWLB rates. On occasions it may be necessary to respond to advice from the Adviser to take up PWLB loans (whether as part of the current years funding requirement, or as part of a rescheduling exercise) before interest rates increase and make the necessary application to the PWLB before their cut-off time. In these circumstances, it is not always possible to have access to the Head of Financial Services & S151 Officer, at short notice, for approval.

As a result, it is proposed that, if the Head of Financial Services & S151 Officer is unavailable, the decision be referred to the Finance Manager Corporate Finance. In the absence of both, then the decision will be made by the Group Accountant (Treasury Management and Capital) provided that the reason for the transaction is appropriately documented, falls within the approved Annual Strategy and prudential indicators, and failure to act upon the advice given would result in additional interest charges.

In all the foregoing, it must be remembered that any action taken, based on a view of interest rates, can only be assessed on the data available at the time.