Report to:	**POLICY AND ORGANISATION BOARD**
Meeting date:	**17th March 2022**
Title:	**TREASURY MANAGEMENT STRATEGY & MRP POLICY 2022/23**
Originator:	**BOROUGH TREASURER**
Status	**FOR DECISION**

Purpose

This report outlines the Council's policy for charging unfinanced capital expenditure to revenue (MRP) together with the expected treasury operations for this period. It fulfils a key legislative requirement.

Recommendations

Council is recommended to approve:

- Minimum Revenue Provision Policy, as identified in 2.1
- The Treasury Management Strategy, as identified in 2.2

1.0 BACKGROUND

1.1 Overview

1.1.1 Treasury management is the management of the Council's cash flows, borrowing and investments, and the associated risks. The Council has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of financial risk are therefore central to the Council's prudent financial management.

Treasury risk management at the Council is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2017 Edition (the CIPFA Code) which requires the Council to approve a treasury management strategy before the start of each financial year. This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.

Investments held for service purposes or for commercial profit are considered in a different report, the Investment Strategy.

1.2 Reporting requirements

1.2.1 The Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of polices, estimates and actuals.

1.2.2 **Minimum Revenue Provision and Treasury Management Strategy** (this report) - which covers:

- a Minimum Revenue Provision Policy (how residual capital expenditure i.e. capital expenditure financed by debt - is charged to revenue over time);
- the Treasury Management Strategy (how the treasury management investments and borrowings are to be organised) including treasury indicators;

1.2.3 **A Mid Year Treasury Management Report** – this will update members with the progress of the capital position, amending prudential indicators as necessary, and whether the treasury strategy and investment strategies are meeting their objectives or whether any policies require revision

1.2.4 **An Annual Treasury Report** – this provides details of a selection of actual prudential, investment and treasury indicators and actual treasury and investment operations compared to the estimates within the strategy.

The latter two reports are combined and jointly and normally reported in September.

1.3 Annual Minimum Revenue Provision (MRP) Statement

1.3.1 The Council's policy for calculating the annual amount charged to the revenue budget to repay capital expenditure financed by debt is set out in para 2.1.

1.4 Treasury Management Strategy for 2022/23

1.4.1 The strategy for 2022/23 (set out in section 2.2) includes the following areas:

- Economic Outlook and prospects for interest rates (para 2.2.1)
- Borrowing strategy (para 2.2.2)
- Policy on borrowing in advance of need (para 2.2.3)
- Debt rescheduling (para 2.2.4)
- Investment strategy (Treasury Management Investments) (para 2.2.5)
- Treasury indicators which limit the treasury risk and activities of the Council (para 2.2.6)
- Other Items (para 2.2.7)

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

2.0 REPORT

2.1 MINIMUM REVENUE PROVISION (MRP) POLICY STATEMENT

2.1.1 Background

Where the Council finances capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP).

The Local Government Act 2003 requires the Council to have regard to the former Ministry of Housing, Communities and Local Government's Guidance on Minimum Revenue Provision (the MHCLG Guidance) most recently issued in 2018.

The broad aim of the MHCLG Guidance is to ensure that capital expenditure is financed over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant.

The 2018 updated guidance introduced a maximum useful life of 50 years for MRP purposes including any expenditure incurred on investment properties that provide a revenue stream, except where a longer life is supported by an opinion from a suitably qualified professional adviser.

There is no requirement on the HRA to make a minimum revenue provision.

2.1.2 Policy Statement

- For unsupported capital expenditure MRP will be determined by charging the expenditure over the expected useful life of the relevant asset as the principal repayment on an annuity with an interest rate by reference to the relevant PWLB rate at 31st March, starting in the year after the asset becomes operational. MRP on purchases of freehold land will be charged over 50 years.

- For assets acquired by leases, MRP will be determined as being equal to the element of the rent or charge that goes to write down the balance sheet liability.

- Where former operating leases have been brought onto the balance sheet on 1st April 2022 due to the adoption of the IFRS 16 Leases accounting standard, and the asset values have been adjusted for accruals, prepayments, premiums and/or discounts, then the annual MRP charges will be adjusted so that the total charge to revenue remains unaffected by the new standard.

- No MRP will be charged in respect of assets held within the Housing Revenue Account.

2.2 TREASURY MANAGEMENT STRATEGY

2.2.1 Economic Outlook and prospects for interest rates

The Council uses Arlingclose Limited as its treasury advisor and the following is their view of the economic outlook and interest rates

Economic background: *The ongoing impact on the UK from coronavirus, together with higher inflation, higher interest rates, and the country's trade position post-Brexit, will be major influences on the Authority's treasury management strategy for 2022/23.*

The Bank of England (BoE) increased Bank Rate to 0.25% in December 2021 and 0.50% in February 2022. The Monetary Policy Committee (MPC) voted 5-4 in favour of raising rates again in February with the slight minority wishing to raise rates to 0.75%, and unanimously for the Bank of England to begin to reduce the stock of UK government bond purchases by ceasing to reinvest maturing assets. The Committee also voted unanimously for the Bank of England to begin to reduce the stock of sterling non-financial investment-grade corporate bond purchases by ceasing to reinvest maturing assets and by a programme of corporate bond sales to be completed no earlier than the end of 2023.

Within the announcement the MPC noted that the pace of the global recovery was broadly in line with its November Monetary Policy Report. Prior to the emergence of the Omicron coronavirus variant, the Bank also considered the UK economy to be evolving in line with expectations, however the increased uncertainty and risk to activity the new variant presents, the Bank revised down its estimates for Q4 GDP growth to 0.6% from 1.0%. Inflation was projected to be higher than previously forecast, with CPI likely to remain above 5% throughout the winter and peak at 6% in April 2022. The labour market was generally performing better than previously forecast and the BoE now expects the unemployment rate to fall to 4% compared to 4.5% forecast previously, but notes that Omicron could weaken the demand for labour.

UK CPI for November 2021 registered 5.1% year on year, up from 4.2% in the previous month. Core inflation, which excludes the more volatile components, rose to 4.0% y/y from 3.4%. The most recent labour market data for the three months to October 2021 showed the unemployment rate fell to 4.2% while the employment rate rose to 75.5%.

In October 2021, the headline 3-month average annual growth rate for wages were 4.9% for total pay and 4.3% for regular pay. In real terms, after adjusting for inflation, total pay growth was up 1.7% while regular pay was up 1.0%. The change in pay growth has been affected by a change in composition of employee jobs, where there has been a fall in the number and proportion of lower paid jobs.

Gross domestic product (GDP) grew by 1.3% in the third calendar quarter of 2021 according to the initial estimate, compared to a gain of 5.5% q/q in the previous quarter, with the annual rate slowing to 6.6% from 23.6%. The Q3 gain was modestly below the consensus forecast of a 1.5% q/q rise. During the quarter activity measures were boosted by sectors that reopened following pandemic restrictions, suggesting that wider spending was flat. Looking ahead, while monthly GDP readings suggest *there had been some increase in momentum in the latter part of Q3, Q4 growth is expected to be soft.*

GDP growth in the euro zone increased by 2.2% in calendar Q3 2021 following a gain of 2.1% in the second quarter and a decline of -0.3% in the first. Headline inflation has been strong, with CPI registering 4.9% year-on-year in November, the fifth successive month of inflation. Core CPI inflation was 2.6% y/y in November, the fourth month of successive increases from July's 0.7% y/y. At these levels, inflation is above the European Central Bank's target of 'below, but close to 2%', putting some pressure on its long-term stance of holding its main interest rate of 0%.

The US economy expanded at an annualised rate of 2.1% in Q3 2021, slowing sharply from gains of 6.7% and 6.3% in the previous two quarters. In its December 2021 interest rate announcement, the Federal Reserve continue to maintain the Fed Funds rate at between 0% and 0.25% but outlined its plan to reduce its asset purchase programme earlier than previously stated and signalled they are in favour of tightening interest rates at a faster pace in 2022, with three 0.25% movements now expected.

***Credit outlook:** 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 had steadily edged down throughout the year up until mid-November when the emergence of Omicron has caused them to rise modestly. However, the generally 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.*

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 and even making a handful of rating upgrades.

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.

***Interest rate forecast:** The Authority's treasury management adviser Arlingclose is forecasting that Bank Rate will continue to rise in calendar Q1 and Q2 2022 to subdue inflationary pressures and the perceived desire by the BoE to move away from emergency levels of interest rates.*

Investors continue to price in multiple rises in Bank Rate over the next forecast horizon, and Arlingclose believes that although interest rates will rise again, the increases will not be to the extent predicted by financial markets. In the near-term, the risks around Arlingclose's central case are to the upside while over the medium-term the risks become more balanced.

Yields are expected to remain broadly at current levels over the medium-term, with the 5, 10 and 20 year gilt yields expected to average around 1.17%, 1.35%, and 1.55% respectively. The risks around for short and medium-term yields are initially to the upside but shifts lower later, while for long-term yields the risk is to the upside. However, as ever there will almost certainly be short-term volatility due to economic and political uncertainty and events.

For the purpose of setting the budget, it has been assumed that new treasury investments will be made at an average rate of 0.2%, and that new long-term loans will be borrowed at an average rate of 1.6%.

Interest rate forecasts (February 2022) :

	Bank Rate %	**PWLB Borrowing Rates % (including certainty rate adjustment)**			
		5 year	**10 year**	**20 year**	**50 year**
Mar-22	0.75	2.00	2.15	2.35	2.00
Jun-22	1.00	2.00	2.15	2.35	2.00
Sep-22	1.00	2.00	2.15	2.35	2.00
Dec-23	1.00	2.00	2.15	2.35	2.00
Mar-22	1.00	2.00	2.15	2.35	2.00
Jun-23	1.00	2.00	2.15	2.35	2.00
Sep-23	1.00	1.95	2.15	2.35	2.00
Dec-22	1.00	1.95	2.15	2.35	2.00
Mar-24	1.00	1.95	2.15	2.35	2.00
Jun-24	1.00	1.95	2.15	2.35	2.00
Sep-24	1.00	1.95	2.15	2.35	2.00
Dec-24	1.00	1.95	2.15	2.35	2.00
Mar-22	1.00	1.95	2.15	2.35	2.00
Average rate	0.98	1.97	2.15	2.35	2.00

2.2.2 Borrowing Strategy

The Council expects to hold £71 million of loans at 31/3/22, an increase of £6 million from the previous year, as part of its strategy for funding previous years' capital programmes. The value of loans are expected to increase to £79 million by the end of 2024/25 as a result of new borrowing and reduction in available existing resources which internally fund the planned capital programme.

Objectives: The Council's primary objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required. The flexibility to renegotiate loans should the Council's long-term plans change is a secondary objective.

Strategy: Given the significant cuts to public expenditure and in particular to local government funding, the Council'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 use internal resources, and / or to borrow short-term loans instead. By doing so, the Council is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully financed with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure.

The benefits of internal and 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.

At 31st March 2022 the Council expects to be underborrowed by £12.7 million, this will reduce to around £4.1 million by 31st March 2025.

The Council will undertake a 'cost of carry' and breakeven analysis to determine whether to borrow additional sums at long-term fixed rates in 2022/23 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield; the Council intends to avoid this activity in order to retain its access to PWLB loans. The Council will consider borrowing any long-term loans from other robust sources including banks, pensions and other local authorities.

In addition, the Council will include within it's debt portfilio short-term loans (normally for up to one year) to reduce treasury cost in a low interest rate environment and cover unexpected cash flow shortages.

The approved sources of long term and short term borrowing are:

- HM Treasury's PWLB lending facility (formerly the Public Works Loan Board)
- Banks or building societies authorised to operate in the UK
- Money Market Loans
- Any other UK public body e.g. other Local Authorities
- UK public and private sector pension funds
- Internal funds – the cash held in internal funds can be used short term to fund capital expenditure or the repayment of debt, thus delaying the need to borrow externally
- UK Municipal Bonds Agency

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

- leasing
- hire purchase
- sale and leaseback

2.2.3 Policy on borrowing in advance of need

The Council may from time to time borrow in advance of need, providing this does not exceed the authorised limit for borrowing which is £91.5 million for 2022/23 and where this is expected to provide the best long term value for money and the Council can ensure the security of such funds. The Borough Treasurer may do this under delegated powers where, for instance, a sharp rise or fall in interest rates is expected meaning borrowing early at fixed interest rates will be economically beneficial or meet budgetary constraints. Whilst the Borough Treasurer will adopt a cautious approach to any such borrowing, where there is a clear business case for doing so borrowing may be undertaken to fund the approved capital programme or to fund future debt maturities.

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 is expected to be within forward approved Capital Financing Requirement estimates. Exceptionally, should a new Capital Invesment opportunity arise in the year where it would be appropriate to finance through borrowing and where it could be demonstrated that borrowing in advance of need would provide value for money the Council may borrow beyond its forward approved Capital Financing Requirement estimates.

2.2.4 Debt rescheduling

The PWLB allows authorities to repay loans before they mature and either pay a premium or receive a discount according to a set formula based on current interest rates. The Council may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk.

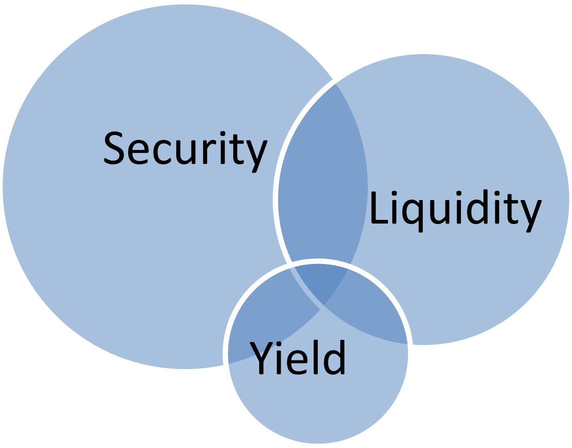
Any rescheduling undertaken will be reported to Policy and Organisation Board.

2.2.5 Treasury Investment Strategy

The Council holds invested funds, representing income received in advance of expenditure plus balances and reserves held.

During 2021/22, the Council’s treasury investment balances have averaged £17 million, this is expected to reduce to around £12 million in the forthcoming year.

Objectives: The CIPFA Code requires the Council to invest its treasury funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of retrun or yield.



The Council'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. Where balances are expected to be invested for more than one year, the Council will aim to achieve a total return that is equal or higher than the 3 month LIBID rate.

Approved Counterparties: The Council may invest surplus funds with any of the counterparty types in the table below, subject to the cash limits (per counterparty), the time limits subject to the sector limits shown.

Sector	Time limit	Counterparty limit	Sector limit
The UK Government	50 years	Unlimited	n/a
Local authorities & other government entities	5 years	£3m	Unlimited
Secured investments *	5 years	£3m	Unlimited
Banks (unsecured) *	13 months	£2m	Unlimited
Building societies (unsecured) *	13 months	£2m	£6m
Registered providers (unsecured) *	5 years	£2m	£6m
Money market funds *	n/a	£3m	Unlimited
Strategic pooled funds	Strategic pooled investment fund £2m per fund Local Authority Property Fund mamimum £4m. Subject to an overall maximum Investment of £6m		
Other investments *	5 years	£2m	£6m

*** Minimum+ credit rating:** Treasury investments in the sectors marked with an asterisk will only be made with entities whose lowest published long-term credit rating is no lower than [A-]. 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.

For entities without published credit ratings, investments may be made either (a) where external advice indicates the entity to be of similar credit quality; or (b) to a maximum of £3million per counterparty as part of a diversified pool e.g. via a peer-to-peer platform.

The Council has determined that it will only use approved counterparties from the UK or a foreign country with a sovereign rating of AA or higher for direct investment.
No country limit will apply to investments in UK banks or building society. It is recommended that an aggregate limit for Investments outside the UK be applied of £8million and that in order to minimise the sytemic credit risk of investments in any region it is recommended that a £4million limit be applied to the following geographical areas where investments can be made in foreign countries.

- Asia & Australia
- Americas
- Eurozone
- Continental Europe outside the Eurozone

Government (including Local Government) : Loans to, and bonds and bills issued or guaranteed by, national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk. Investments with the UK Government are deemed to be zero credit risk due to its ability to create additional currency and therefore may be made in unlimited amounts for up to 50 years.

Secured investments: Investments secured on the borrower's assets, which limits the potential losses in the event of insolvency. The amount and quality of the security will be a key factor in the investment decision. Covered bonds and reverse repurchase agreements with banks and building societies 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 higher of the collateral credit rating and the counterparty credit rating will be used. The combined secured and unsecured investments with any one counterparty will not exceed the cash limit for secured investments.

Banks and Building Societies (unsecured): Accounts, 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. See below for arrangements relating to operational bank accounts.

Registered Providers (unsecured): Loans and bonds issued by, guaranteed by or secured on the assets of Registered Providers of Social Housing and registered social landlords, formerly known as Housing Associations. These bodies are regulated by the Regulator of Social Housing (in England) and, as providers of public services, they retain the likelihood of receiving government support if needed.

Money market funds: Pooled funds that offer same-day or short notice liquidity and very low or no price volatility by investing in short-term money markets. They have the advantage over bank accounts of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a small fee. Although no sector limit applies to money market funds, the Council will take care to diversify its liquid investments over a variety of providers to ensure access to cash at all times.

Strategic pooled funds: Bond, equity and property funds that offer enhanced returns over the longer term but are more volatile in the short term. These allow the Council 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 Council's investment objectives will be monitored regularly.

Other investments: This category covers treasury investments not listed above, for example unsecured corporate bonds and company loans. Non-bank companies cannot be bailed-in but can become insolvent placing the Council's investment at risk.

Operational bank accounts: The Council will incur operational exposures, through operation of it's current account with National Westminster Bank (credit rating above A-). These are not classed as investments, but are still subject to the risk of a bank bail-in, and balances will therefore be kept below £250,000 which may for operational reasons be occassionally exceeded.

Risk Assessment and Credit Ratings: Credit ratings are obtained and monitored by the Councl's treasury advisers, 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 investment will be made
- any existing investment 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 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.

Other Information on the Security of Investments : the Council understands that credit ratings are useful, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations, in which it invests, including credit default swaps, share prices, information on government support for banks and reports in the quality financial press and analysis and advice from the Council's treasury management adviser. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may otherwise meet the above criteria. When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2020, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Council 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, or with other local authorities. This will cause investment returns to fall but will protect the principal sum invested.

2.2.6 Treasury Management Indicators

2.2.6.1 Interest Rate Exposures

This indicator measures the Council's exposure to interest rate risk. The limits on one-year revenue impact of a 1% rise or fall in interest rates will be:

Interest rate exposures	**2022/23**
	£'000
Limits on one-year revenue impact of a 1% <u>rise</u> in interest rates	5
Limits on one-year revenue impact of a 1% <u>fall</u> in interest rates	(38)

The impact of a change in interest rates is calculated on the assumption that maturing loans and investments will be replaced at new market rates.

2.2.6.2 Maturity Structure of Borrowing

This indicator is set to control the Council's exposure to refinancing risk i.e the risk of replacement loans being unavailable. The upper and lower limits on the maturity structure of borrowing will be:

	2022/23	**2022/23**
	Lower	**Upper**
Refinancing risk indicator		
Under 12 months	0%	25%
12 months to 2 years	0%	25%
2 years to 5 years	0%	25%
5 years to 10 years	0%	20%
10 years to 30 years	0%	20%
30 years to 50 years	30%	50%

(NB Time periods start on the first day of each financial year)

2.2.6.3 Principal Sums Invested for Periods Longer than 364 days

The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the year end will be:

Maximum principal sums invested >365 days	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m
Principal sums invested > 364 days	6.0	6.0	6.0

2.2.7 Other Items

2.2.7.1 Other Options Considered

The CIPFA Code does not prescribe any particular treasury management strategy for local authorities to adopt. The S151 Officer believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

Alternative	Impact on income and expenditure	Impact on risk management
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses may be greater
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses may be smaller
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs may be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long-term costs may be less certain
Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs may be less certain

2.2.7.2 Investment Training
The training needs of the officers involved on treasury management are identified through the annual personal review process, and additionally when the responsibilities of individual members of staff change. Staff attend relevant training courses, seminars and conferences.

2.2.7.3 Treasury management consultants
The Council have appointed Arlingclose Limited as its external treasury management advisors and they provide a range of services to the Council including:

- Investments advice
- Borrowing advice
- Technical support on treasury matters and capital finance issues
- Economic and interest rate analysis
- Training and briefing sessions

The contract with Arlinclose commenced July 2016 for an initial period of 3 years with an option to extend for a further year. The option to extend has been taken. A further two 1 year contract extensions have been agreed. This contract will be reviewed during 2022/23.

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.

2.2.7.4 Policy on Apportioning Interest to the HRA

On 1st April 2012, the Council notionally split each of its existing long-term loans into General Fund and HRA pools the later included £57million borrowed on the 28th March 2012 to make a payment to the Government under the HRA Self Financing scheme. In the future, new long-term loans borrowed will be assigned in their entirety to one pool or the other. Interest payable and other costs/income arising from long-term loans (e.g. premiums and discounts on early redemption) will be charged/credited to the respective revenue account. Differences between the value of the HRA loans and the HRA's underlying need to borrow will be charged an interest from the General Fund equivalent to the General Funds average interest on its borrowing. HRA balance sheet resources available for investment will result in a notional cash balance which will receive the Council's average interest rate on investments.

2.2.7.5 Markets in Financial Instruments Directive:

The Council has opted up to professional client status with it's 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 Council's treasury management activities, the S151 Officer believes this to be the most appropriate status.

2.2.7.6 Financial Implications

The budget for investment income in 2022/23 is £24,000, based on an average investment portfolio of £12 million at an interest rate of 0.2%. The budget for debt interest paid in 2022/23 is £1,840,000, based on an average debt portfolio of £68,000,000 at an average interest rate of 2.7%. If actual levels of investments and borrowing, or actual interest rates, differ from those forecast, performance against budget will be correspondingly different.

3.0 CONCLUSION

The effect of the proposals set out in this report is to allow the Council to effectively and efficiently manage cash balances in line with the relevant CIPFA and MHCLG guidance. The low risk nature of the Council's current policy is consistent with the current economic climate.

Financial Services comments	As set out in the report
Legal Services comments	This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Treasury Management Code of Practice.
Equality and Diversity	N/A
Climate Change	No direct impact
Crime and Disorder	N/A
Service Improvement Plan	N/A
Corporate Plan:	N/A
Risk Assessment:	As contained in the report
Background papers:	
Appendix	N/A
Report Author/Lead OfficerLead Officer	Keith Price