Agenda item no

Report to:	POLICY AND ORGANISATION BOARD
Meeting date:	15th March 2023
Title:	TREASURY MANAGEMENT STRATEGY & MRP POLICY 2023/24
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 2021 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 2023/24

1.4.1 The strategy for 2023/24 (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.

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

- Capital expenditure incurred during 2023/24 will not be subject to a MRP charge until 2024/25 or later

- The 2023/24 budget inclues an estimated MRP provision of £739,000

2.2 TREASURY MANAGEMENT STRATEGY

2.2.1 Economic Outlook and prospects for interest rates

Economic background: *(commentary provided by Arlingclose Ltd)*

The ongoing impact on the UK from the war in Ukraine, together with higher inflation, higher interest rates, uncertain government policy, and a deteriorating economic outlook, will be major influences on the Authority's treasury management strategy for 2023/24.

The Bank of England (BoE) increased Bank Rate by 0.50% to 4.0% in February 2023 the ninth successive rise since December 2021.

The November quarterly Monetary Policy Report (MPR) forecast a prolonged but shallow recession in the UK with CPI inflation remaining elevated at over 10% in the near-term. While the projected peak of inflation is lower than in the August report, due in part to the government's support package for household energy costs, inflation is expected remain higher for longer over the forecast horizon and the economic outlook remains weak, with unemployment projected to start rising.

The UK economy grew by 0.2% between April and June 2022, but the BoE forecasts Gross Domestic Product (GDP) will decline 0.75% in the second half of the calendar year due to the squeeze on household income from higher energy costs and goods prices. Growth is then expected to continue to fall throughout 2023 and the first half of 2024.

CPI inflation is expected to peak at around 11% in the last calendar quarter of 2022 and then fall sharply to 1.4%, below the 2% target, in two years' time and to 0% in three years' time if Bank Rate follows the path implied by financial markets with a peak of 5.25%. However the BoE has stated it considers this path to be too high, suggesting that the peak in interest rates will be lower, reducing the risk of inflation falling too far below target.

The labour market remains tight for now, with the most recent statistics showing the unemployment rate fell to 3.5%, driven mostly by a shrinking labour force. Earnings were up strongly in nominal terms by 6% for total pay and 5.4% for regular pay but factoring in inflation means real total pay was -2.4% and regular pay -2.9%. Looking forward, the MPR shows the labour market weakening in response to the deteriorating outlook for growth, leading to the unemployment rate rising to around 6.5% in 2025.

Interest rates have also been rising sharply in the US, with the Federal Reserve increasing the range on its key interest rate by 0.75% in November 2022 to 3.75%-4.0%. This was the fourth successive 0.75% rise in a pace of tightening that has seen rates increase from 0.25%-0.50% in March 2022. Annual inflation has been slowing in the US but remains above 8%. GDP grew at an annualised rate of 2.6% between July and September 2022, a better-than-expected rise, but with official interest rates expected to rise even further in the coming months, a recession in the region is widely expected at some point during 2023.

Inflation has been rising consistently in the Euro Zone since the start of the year, hitting an annual rate of 10.7% in October 2022. Economic growth has been weakening with an expansion of just 0.2% in the three months to September 2022. As with the UK and US, the European Central Bank has been on an interest rate tightening cycle, pushing up its three key interest rates by 0.75% in October, the third major increase in a row, taking its main refinancing rate to 2% and deposit facility rate to 1.5%.

Credit outlook:

Credit default swap (CDS) prices have followed an upward trend throughout the year, indicating higher credit risk. They have been boosted by the war in Ukraine, increasing economic and political uncertainty and a weaker global and UK outlook, but remain well below the levels seen at the beginning of the Covid-19 pandemic.

CDS price volatility has been higher in 2022 compared to 2021 and this year has seen a divergence in prices between ringfenced (retail) and non-ringfenced (investment) banking entities once again.

The weakening economic picture during 2022 led the credit rating agencies to reflect this in their assessment of the outlook for the UK sovereign as well as several local authorities and financial institutions, revising them from to negative from stable.

There are competing tensions in the banking sector which could impact bank balance sheet strength going forward. The weakening economic outlook and likely recessions in many regions increase the possibility of a deterioration in the quality of banks' assets, while higher interest rates provide a boost to net income and profitability.

However, the institutions on our adviser Arlingclose's counterparty list remain well-capitalised and their counterparty advice on both recommended institutions and maximum duration remain under constant review and will continue to reflect economic conditions and the credit outlook.

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

Interest rate forecast: *The Authority's treasury management adviser Arlingclose forecasts that Bank Rate will rise to 4.25% in March 2023 as the Bank of England attempts to subdue inflation which is significantly above its 2% target.*

Yields are expected to remain broadly at current levels over the medium-term, with 5-, 10- and 20-year gilt yields expected to average around 3.89%, 4.03%, and 3.85% respectively over the 3-year period to December 2025. The risks for short, medium and longer-term yields are judged to be broadly balanced over the forecast horizon. As ever, there will undoubtedly 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 2.5%, and that new long-term loans will be borrowed at an average rate of 3.8%.

Interest rate forecasts (February 2023) :

	Bank Rate %	PWLB Borrowing Rates % (including certainty rate adjustment)			
		5 year	10 year	20 year	50 year
Mar-23	4.25	4.00	4.10	3.85	4.40
Jun-23	4.25	4.00	4.10	3.85	4.40
Sep-23	4.25	4.00	4.10	3.85	4.40
Dec-23	4.25	4.00	4.10	3.85	4.40
Mar-24	4.00	3.90	4.00	3.85	4.40
Jun-24	3.75	3.90	4.00	3.85	4.40
Sep-24	3.50	3.90	4.00	3.85	4.40
Dec-24	3.25	3.80	4.00	3.85	4.40
Mar-25	3.00	3.80	4.00	3.85	4.40
Jun-25	3.00	3.80	4.00	3.85	4.40
Sep-25	3.00	3.80	4.00	3.85	4.40
Dec-25	3.00	3.90	4.00	3.85	4.40
Average rate	3.63	3.89	4.03	3.85	4.40

2.2.2 Borrowing Strategy

The Council expects to hold £63 million of loans at 31/3/23, an increase of £5 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 £74 million by the end of 2025/26 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 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 remain broadly at existing levels.

At 31st March 2023 the Council expects to be underborrowed by £16.7 million, this will reduce to around £9.1 million by 31st March 2026.

The Council will undertake a 'cost of carry' and breakeven analysis to determine whether to borrow additional sums at long-term fixed rates in 2023/24 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 may borrow short-term loans (normally for up to one year) to cover unexpected cash flow shortages and reduce treasury costs if the opportunity presents.

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

Liability benchmark : To compare the Council's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing.

The liability benchmark is an important tool to help establish whether the Council is likely to be a long-term borrower or long-term investor in the future, and so shape its strategic focus and decision making. The liability benchmark itself represents an estimate of the cumulative amount of external borrowing the Council must hold to fund its current capital and revenue plans while keeping treasury investments at the minimum level required to manage day-to-day cash flow.

The Council following this borrowing strategy.

Liability Benchmark	2023/243 Estimate £m	2024/25 Estimate £m	2025/265 Estimate £m
Capital Financing Requirement	83,925.0	83,593.0	82,896.0
Less: Balance Sheet Resources	(18,206.0)	(13,951.0)	(14,701.0)
Net Loans Requirement	65,719.0	69,642.0	68,195.0
Plus Liquidity Allowance	4,000.0	4,000.0	4,000.0
Liability Benchmark	69,719.0	73,642.0	72,195.0

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 £89.4 million for 2023/24 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. The recent rise in interest rates mean that more favourable debt rescheduling opportunities should arise than in previous years.

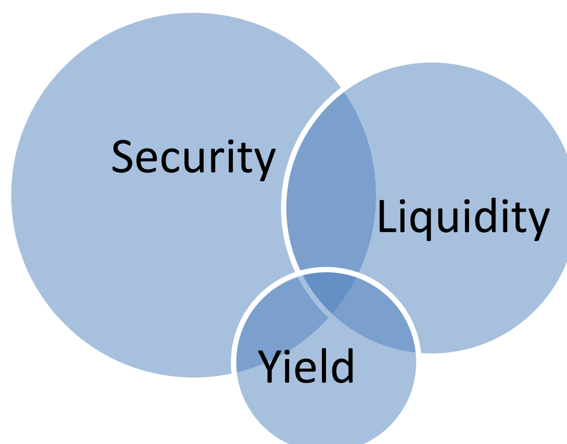
Any rescheduling undertaken will be reported to Policy and Organisation Board.

2.2.5 Treasury Investment Strategy

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

During 2022/23, the Council's treasury investment balances have averaged £15 million, this is expected to reduce to around £10 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 £3 million 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	**2023/24**
	£'000
Limits on one-year revenue impact of a 1% rise in interest rates	23
Limits on one-year revenue impact of a 1% fall in interest rates	(23)

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:

	2023/24	**2023/24**
	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	2023/243 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m
Principal sums invested > 364 days	5.0	5.0	5.0

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 series of contract extensions have subsequently been agreed. A joint procurement with Portsmouth City and Council and Isle of Wight Council is currently being undertaken for a new 3 year (with the option to extend the term by a further 2 years) Treasury Management Consultancy contract commencing in the Summer of 2023.

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. With the recent increase in borrowing costs together with the requirement to maintain at least £10 million investment balances to maintain

MIFID status the the S151 Officer will keep this decision under review and may elect for retail client status if this is considered more appropriate to the Council's position.

2.2.7.6 Financial Implications

The budget for investment income in 2023/24 is £158,100, based on an average investment portfolio of £10 million at an interest rate of 2.5%. The budget for debt interest paid in 2023/24 is £1,950,700, based on an average debt portfolio of £58,200,000 at an average interest rate of 3.35%. 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