TRAFFORD COUNCIL

Report to:	**Accounts and Audit Committee 2 February 2022** **Executive and Council 16 February 2022**
Report for:	**Decision**
Report of:	**The Executive Member for Finance and Governance and the Director of Finance and Systems**

Report Title

TREASURY MANAGEMENT STRATEGY 2022/23 – 2024/25

Summary

This report outlines the:-

- strategy to be implemented during this period for investments and borrowing,
- outlook for interest rates,
- management of associated risks,
- policy to be adopted on Minimum Revenue Provision (MRP) and
- Prudential Indicators.

Recommendations

That Accounts & Audit Committee be requested to note and recommend the report to Executive.
That Executive notes the report and recommends that Council approves;

- the Treasury Management Strategy 2022/23 – 2024/25 including the:
- policy on debt strategy as set out in section 4;
- investment strategy as set out in section 6;
- Prudential Indicators and limits including the Authorised Limit (as required by section 3(1) of the Local Government Act 2003), Operational Boundary, Minimum Revenue Provision Statement and Investment criteria as detailed in Appendix 3.

Contact person for access to background papers and further information:

Name: Graham Perkins
Extension: 4017

Background papers: None

Relationship to Corporate Priorities	Value for Money
Relationship to GM Policy or Strategy Framework	Not applicable
Financial	The treasury management strategy will aim to minimise risk to the Council whilst maximising investment interest. The Council's debt position will be administered effectively and any new loans taken will be in-line with that provided for within the Medium Term Financial Plan and Prudential Indicators.
Legal Implications:	Actions are undertaken in accordance with legislation issued by Department for Levelling Up, Housing and Communities (DLUHC) and guidance from Chartered Institute of Public Finance & Accountancy (CIPFA) Prudential Code and the Treasury Management Code of Practice.
Equality/Diversity Implications	All treasury management transactions undertaken by the Council are carried out with institutions with no known direct links to any illegal regimes or which promote the use of forced labour.
Sustainability Implications	The Council, when undertaking any treasury management investment fully supports the ethos of socially responsible investments and will avoid direct investment in institutions with material links to environmentally harmful activities. Opportunities to invest monies in products which both supports sustainable assets and complies with the Council's investment strategy will continue to be explored as and when they become available.
Carbon Reduction	Not directly applicable – See above
Staffing/E-Government/Asset Management Implications	Not applicable
Risk Management Implications	The monitoring and control of risk underpins all treasury management activities and these factors have been incorporated into the systems and procedures for this function which are independently tested on a regular basis. Failure to properly manage and monitor the Council's loans and investments could lead to service failure and a loss of reputation. Whilst no Treasury activity is without risk, the Council's in-house treasury management team continually monitor risks to ensure that security of capital sums is maintained at all times and adverse fluctuations in interest rates are avoided.
Health & Wellbeing Implications	Not applicable
Health and Safety Implications	Not applicable

Executive Summary

This report has been prepared in accordance with the Council's Financial Procedure Rules number 8 and outlines the forecasted treasury management activities for the forthcoming three years. Additional reports are produced during the course of the year informing Members of the preceding financial year actual activities together with a current mid-year update.

Economic position (Appendix 2)

The COVID-19 pandemic continued to dominate the headlines however as a result of the production of effective vaccines and their fast rollout, economies across the world started to bounce back following the negative impact the virus had in 2020. As a result of shortages in both staff and raw materials together with increasing energy prices, increases in interest rates are now predicted to be implemented in order to try and maintain inflation at manageable levels.

At its December meeting the Monetary Policy Committee (MPC) applied its first increase in rates since August 2018 when it raised the bank rate from 0.10% to 0.25% which surprised markets who expected no changes due to the threat of Omicron strain of COVID-19 virus.

Debt (Section 4)

Whilst borrowing interest rates are forecasted to move upwards, this movement will not be significant from their current levels during the immediate future.

Any new external borrowing the Council undertakes will be taken to assist in financing the capital borrowing requirement as outlined in the 2022/25 Capital Programme report with all associated costs being contained within the Medium Term Financial Plan.

At the end of November 2021 the DLUHC published a consultation document on proposed changes to the Minimum Revenue Provision (MRP) concerning the application of future potential capital receipts instead of setting aside annual MRP on any Council investment asset or capital loan which it may hold. The outcome from this consultation will not be known until early in 2022/23 and will be required to be implemented in 2023/24.

Debt restructuring exercises will only be undertaken in order to produce revenue savings or reduce overall treasury risk.

Investments (See Section 6 and Appendix 3)

The Council's investment criteria remains unchanged from that previously adopted of SLY, **S**ecurity of capital first, then **L**iquidity of its cash flows and finally **Y**ields.

Council is required to agree the Investment criteria and this is set out for Member approval at Appendix 3.

Prudential Indicators and limits (Section 8 and Appendix 3)

Council is required to approve a set of Prudential Indicators and limits ensuring its capital expenditure plans and borrowing remain robust, prudent, affordable and sustainable. These are detailed at Appendix 3 for Member approval.

Medium Term Financial Plan (See Appendix 6)

The current forecasted financial requirements of the Council's treasury management functions during this reporting period are shown for Members reference at Appendix 6.

1. Background

1.1 The Council is required to operate a balanced budget with cash raised during the year being used to pay for expenditure incurred. A primary part of the treasury management operation is to ensure that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet service activity with any temporary surplus monies being invested in low risk institutions.

1.2 Another function of this service is to ensure that the Council's capital borrowing requirement, the longer-term cash flow planning, is provided for which may involve arranging long or short-term loans or using longer-term cash flow surpluses. In addition to this and when it is financially prudent to do so, any debt previously obtained may be restructured.

1.3 The Council's in-house treasury management team will ensure that;

- all treasury management transactions undertaken comply with the statutory requirements as stipulated within the relevant professional codes and legislation (Local Government Act 2003, CIPFA Prudential Code and Treasury Management Code, MRP Guidance, and DLUHC Investment Guidance, (a brief outline of these frameworks is provided at Appendix 1),
- sufficient cash is available to meet both service activity and the Council's capital strategy,
- various periodic cash flows are prepared and maintained accurately using all known information available,
- where capital plans require, appropriate borrowing facilities are undertaken and
- when financially prudent any debt previously obtained is restructured.

1.4 Treasury management as defined by CIPFA is;

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

1.5 The contribution the treasury management function makes to the Council's overall financial situation is significant. Failure to ensure sufficient funding is in place to cover planned payments or undertaking the investment of temporary surplus funds when available, in a secure manner would create both a negative impact on the Council's reputation and a loss of income.

1.6 Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of all monies invested is achieved in order to avoid any potential loss of principal which in turn would result in a loss to the General Fund Balance

1.7 The scope of investments within the Council's operations now includes both conventional treasury investments, (the placing of residual cash from the Council's functions as covered by this report), and more strategic type investments, such as regeneration properties. In order to assist with this activity the Council uses a specialist external advisor.

1.8 Whilst any strategic initiatives or loans to third parties will impact on the treasury function, these activities are classed as non-treasury activities, (arising from capital expenditure) and are separate from the day to day treasury management activities. Details of these transactions are shown in Appendix 7 for reference.

1.9 Members are required to receive and approve, as a minimum, 3 main treasury reports each year which incorporate a variety of policies, forecasts and actuals as follows;

- **Annual treasury strategy** (issued February - is the most important report and includes);
  - ➢ A MRP policy (this reflects capital expenditure previously financed by borrowing and how the principal element is charged to revenue over time),
  - ➢ The treasury management strategies (how the investments and borrowings are to be organised) including treasury prudential indicators and limits and
  - ➢ An investment strategy (the parameters on how investments are to be managed).

- **Mid-year update** – (issued November / December – this provides an);
  - ➢ update for members with the progress of the treasury management activities undertaken for the period April to September and
  - ➢ opportunity for amending prudential indicators and policies if necessary.

- **Annual outturn** – (issued June);
  - ➢ this provides details of actual treasury operations undertaken in the previous financial year.

1.10 Each of the above 3 reports are scrutinised by the Council's Accounts & Audit Committee before being forwarded onto either Executive or Council for final approval.

1.11 This report which has been prepared in accordance with the required statutory regulations and guidance, includes;

- The current treasury position (section 2);
- Economic & Interest Rate forecast (section 3)
- Debt Strategy (section 4)
- Minimum Revenue Provision (section 5)
- Investment Strategy (section 6)
- Investment Risk Benchmarking (section 7)
- Prudential Indicators (section 8)
- Related Treasury Issues (section 9)
- Medium Term Financial Plan (section 10)
- Recommendations (section 11)
- Appendices.

1.12 The Council uses Link Group (LG) as its external treasury management advisors who provide a range of services on treasury matters from the supply of credit ratings to technical support. The Council recognises that there is value in using external providers for this service which is subject to regular reviews.

1.13 Whilst the external advisors provide support to the in-house team, the Council will consider all available information when forming an opinion on matters concerning treasury management and acknowledges that the final decision remains with it at all times.

1.14 The Council also acknowledges the importance of ensuring that all members and staff involved in the treasury management function receive adequate and relevant training in order to undertake the duties and responsibilities allocated to them. This is further highlighted in the CIPFA Code which requires the responsible officer, Director of Finance and Systems, ensures that members with responsibility for this task, receive adequate training in treasury management.

1.15 For reference a member training event was provided on 27th January 2022 by the Council's in-house team and its external advisors LG. Continuing attendance at relevant courses / seminars / webinars by staff and members as presented by CIPFA, LG and other suitable professional organisations will be encouraged.

2. Treasury Position

2.1 The Council's investment and debt positions at the beginning of the current financial year and as at 31st December are listed in the table below;

	31 March 2021		31 December 2021	
	Principal £m	**Average Interest Rate %**	**Principal £m**	**Average Interest Rate %**
DEBT				
Short term (payable before 31.03.22)				
PWLB	2.7	8.80	0.0	0.00
Market	26.7	0.07	0.0	0.00
Government Loans - Salix	0.5	0.00	0.3	0.00
Sub-total	29.9	0.86	0.3	0.00
Long term (payable after 31.03.22)				
PWLB	313.9	2.45	313.9	2.45
Market	36.0	4.56	36.0	4.56
Government Loans - Salix	0.3	0.00	0.3	0.00
Sub-total	350.2	2.67	350.2	2.67
Total debt	**380.1**	**2.53**	**350.5**	**2.67**
INVESTMENTS				
Short term(less than 1 year duration)				
- Instant access	12.5	0.03	33.2	0.08
- Call accounts	22.9	0.07	0.4	0.05
- Term deposit	39.5	0.17	75.7	0.24
Sub-total	74.9	0.12	109.3	0.20
Long term (greater than 1 year duration)				
- CCLA	4.8	4.51	5.4	4.40
- Strategic Investment programme (SIP)	17.6	n/a	17.6	n/a
Sub-total	22.4	4.51	23.0	4.40
Total Investments	**97.3**	**0.99**	**132.3**	**0.84**

Information in the above table reflects the;

- level of funds available on a temporary basis for investment purposes which fluctuate on a daily basis due to the timing of precept payments, receipt of grants and spend progress on the capital programme,
- repayment of monies borrowed and
- value of original monies placed with CCLA is £5m.

3. Economic & Interest Rate forecast

3.1 During the course of 2021 world's economies continued to slowly re-open as Governments began to scale back on the huge levels of emergency financial support provided during the imposed lockdowns in 2020 resulting from the COVID-19 pandemic. As a result of rising inflation caused by shortages in raw materials and staff, together with higher energy prices, interest rates are expected to increase over the next couple of years. In addition to this there continues to be a risk that further variants of the COVID-19 virus together with the winter flu season, could also have a negative impact on economic activity.

3.2 An outline of the major economic events which occurred during 2021 together with market forecasters expectations for 2022 are provided for reference at Appendix 2.

3.3 LG produce interest rate projections periodically throughout the year and the latest forecasts (December 2021) are shown below for reference;

Average rates	**2021-22 Forecast %**	**2022-23 Forecast %**	**2023-24 Forecast %**	**2024-25 Forecast %**
Bank Rate	0.15	0.56	0.81	1.06
Investment Rates				
3 month	0.23	0.58	0.90	1.00
1 Year	0.45	0.78	1.10	1.20
PWLB Loan Rates				
5 Year	1.33	1.60	1.83	1.95
25 Year	1.98	2.10	2.25	2.45
50 Year	1.75	1.90	2.05	2.25

3.4 As shown in the table above, interest rates are expected to continue on an upwards path following the first increase in Bank Rate being implemented by the MPC on 16th December 2021, the first increase since August 2018. This December increase in the Bank Rate comes from the continuous upwards trend in inflation over and above the Government's target of 2% (5.4% in December 2021). Whilst interest rates are forecasted to move up, it is currently expected that there will be 4 separate increases of 0.25% to the Bank Rate being implemented before the end of March 2024.

3.5 The Council will continue to adopt a cautious approach to its treasury management activities whilst utilising the information available from both LG and other external sources which may become available during this time.

4. Debt Strategy

4.1 The Council's capital expenditure plans are set out in the Capital Programme report and this provides details of the service activity. The treasury management function ensures in accordance with the relevant professional codes, that sufficient cash is available to meet this service activity. This will involve both the organisation of the cash flow and where capital plans require, appropriate borrowing facilities.

4.2 The underlying need to borrow comes from the Capital Financing Requirement (CFR) which represents the total level of outstanding capital expenditure both historic and current, not yet paid for from either revenue or capital resources. It is essentially a measure of the Council's indebtedness or its underlying borrowing need.

4.3 The Council needs to ensure that its debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates going out to

2024/25. Whilst this allows some flexibility for limited early borrowing for future years, it also ensures that borrowing is not undertaken for revenue or speculative purposes. The Director of Finance and Systems can confirm that to date the Council has not exceeded the CFR with its debt.

4.4 The CFR is not allowed to rise indefinitely and statutory controls are in place to ensure that capital assets are broadly charged to revenue over the life of the asset with an annual revenue charge, the MRP, being applied to reduce the CFR each year.

4.5 Included within the CFR are any other long-term liabilities such as Private Finance Initiative (PFI) schemes and finance leases. Whilst these increase the overall balance of the CFR, the Council's borrowing requirement is not increased as this type of liability includes a borrowing facility by the PFI or lease provider. The Council currently has £4.1m (31 March 2022) liability of such schemes within the CFR which is set to fall to £3.0m by 31 March 2025 as highlighted in the table below;

Other long-term liabilities	**2021/22 Estimate £000**	**2022/23 Estimate £000**	**2023/24 Estimate £000**	**2024/25 Estimate £000**
Total at 1 April	4,434	4,106	3,755	3,380
Expected repayment	(328)	(351)	(375)	(401)
Total at 31 March	4,106	3,755	3,380	2,979

4.6 With effect from April 2022, the International Financial Reporting Standard 16 will require that all Council leases are also included with the CFR. Whilst the compliance of this new accounting requirement will impact on the Council's overall long term liabilities, it is deemed at this stage to be immaterial.

4.7 The total of the Council's loans outstanding as at 31 December 2021 totalled £350.5m and a breakdown of this debt is provided for reference in Section 2 above.

4.8 The Council holds, as mentioned above £36.5m of Non-PWLB loans and of these £15.0m are held as variable rates of interest in the form of Lender's Option Borrower's Option (LOBO) loans. With regards to this type of loan, the lender has the option to propose an increase in the interest rate at set dates and should this situation occur then the Council can either accept the new rate or repay the loan at no additional cost. In accordance with the Director of Finance and Systems delegated authority, should an opportunity present itself to repay a LOBO loan then this option will be fully examined to determine whether any financial benefit could be obtained including taking a replacement loan from another lender.

4.9 The Council continues, as in previous years, to be in an under-borrowed position which reflects that the CFR balance is greater than the level of external debt and this is in line with the majority of other UK local authorities. This under-borrowed position has arisen from previous and current years annual CFR (borrowing need), not being fully funded with new loans, as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure.

4.10 The policy of avoiding new borrowing by running down spare cash balances has served the Council well over the last few years due to debt interest rates being consistently higher than investment returns, a situation which is forecasted to continue for the foreseeable future. This situation will continue to be carefully monitored to avoid incurring higher borrowing costs in the future when the Council may not be able to avoid new borrowing to finance capital expenditure or the refinancing of maturing debt. For reference as at 31 March 2021 the Council's under borrowed position was £43.4m.

4.11 As in line with previous years requirements any new capital projects which are to be funded from borrowing will need to generate sufficient revenue savings in order to be self-financing therefore avoiding any impact on the Council's MTFP.

4.12 The Director of Finance and Systems will continue to monitor interest rates and adopt a sensible approach to changing circumstances within the 2022/23 treasury operations before taking on any new debt.

4.13 Based on current c\ommitments the table below reflects the level of external debt the Council potentially may have for the period 2021/22 to 2024/25 which is used to part fund its capital programme. In addition, it reflects to the borrowing required to finance the projected future pipeline of schemes for the Council's Strategic ;

	2021/22 Estimate £000	**2022/23 Estimate £000**	**2023/24 Estimate £000**	**2024/25 Estimate £000**
Strategic Investment programme				
Total at 1 April	215,636	269,850	400,000	475,000
Planned repayments	(26,837)	(141)	(145)	(149)
Potential New debt	81,051	130,291	75,145	25,149
Total at 31 March	269,850	400,000	475,000	500,000

General capital programme				
Total at 1 April	164,496	166,636	180,295	197,291
Planned repayments	(3,078)	(4,114)	(4,185)	(17,000)
Potential New debt	5,218	17,773	21,181	24,485
Total at 31 March	166,636	180,295	197,291	204,776

4.14 All interest incurred on the Council's external debt is charged directly to treasury management apart from where it has previously been agreed by Executive for interest incurred on major development schemes i.e. Brown Street Hale to be capitalised.

4.15 When any form of borrowing is required to finance the Council's capital expenditure, be this Long or Short term, consideration will continue to be given to obtaining funds at the most advantegous rates possible at that time, from the following souces:

- Other local authorities,
- The Government via the PWLB,
- Dedicated publicly funded companies e.g. Salix,
- Municipal Bond Agency, or
- Financial institutions within the money market (insurance companies, pension funds and banks).

4.16 The uptake of new long term debt will be processed in accordance with the Council's approved scheme of delegation and reported to members at the earliest opportunity. Action of this sort will be undertaken in accordance with a number of factors such as affordability, proposed life of the asset, current interest rate projections and advice obtained from the Council's external advisors.

4.17 Rescheduling any of the Council's current loans will only be undertaken when it is cost effective to do so taking into account the high early repayment penalty (premium) which will be incurred. This situation will be monitored during the course of the year and in the event any debt rescheduling is done, it will be reported to the members at the earliest opportunity following its action.

4.18 Whilst the Council retains the flexibility to borrow funds in advance of requirement as a result of potential changes to market conditions i.e. a sharp rise in interest rates, it will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will ensure that funds are taken within the forward approved CFR estimates and that value for money can be demonstrated.

4.19 Any borrowing taken by the Director of Finance and Systems in advance of need will be done in accordance with delegated powers and within the constraints stated below;

- no more than 50% of the expected increase in borrowing need (CFR) over the three year planning period and
- the Council would not look to borrow more than 12 months in advance of need.

4.20 The Council's debt maturity profile is provided at Appendix 4 for reference which also shows, in accordance with the Code of Practice, the potential first date the lending banks could amend the rate of interest for their respective market LOBO loans.

4.21 *The Council is required to approve;*

- *the above debt strategy and*
- *as part of the Prudential Indicators and Limits requirement, the limits for external debt in accordance with the Local Government Act 2003, having regard to CIPFA's prudential code before the commencement of each financial year. These limits are detailed at Appendix 3.*

5. Minimum Revenue Provision Strategy

5.1 In November 2021 DLUHC published a consultation document on proposed changes to the MRP which concerned the application of future potential capital receipts instead of setting aside annual MRP on any Council investment asset or capital loan which it may hold. These proposed changes which the government is proposing, are to be incorporated into the current legislation, Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 (the 2003 Regulations) and not to the 2018 Statutory MRP Guidance thereby making it compulsory for Local Authorities to adopt.

5.2 It is not expected the outcome from this consultation will be available until early 2022/23 with recommendations from this exercise being required to be put in place for the financial year 2023/24.

5.3 Members will be informed of the outcome of this consultation at the first opportunity and how it will impact on the Council's MRP policy.

5.4 In the meantime the Council is required in accordance with existing DLUHC regulations to approve an MRP Statement in advance of each financial year. This Statement details how the Council will set aside annual amounts for the repayment of debt (by reducing the CFR), through a revenue MRP charge and any additional Voluntary Revenue Payments (VRP).

5.5 *The Council is requested to approve the MRP Statement as detailed at Appendix 3.*

6. Investment Strategy

6.1 In accordance with both DLUHC and CIPFA guidelines, the term ‘investments’ now reflects both financial and non-financial investments. This report deals solely with financial investments, (as managed by the in-house treasury management team). Non-financial investments, essentially the Council’s Strategic Investment programme, are covered in the Capital Strategy, (a separate report).

6.2 When the Council’s in-house treasury management team places an investment, it does so with regard to current legislation and guidance as highlighted below but also with regards to the outlook for short-term interest rates.

- DLUHC’s Guidance on Local Government Investments (“the Guidance”)
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017 (“the Code”)
- CIPFA Treasury Management Guidance Notes 2018

6.3 On each occasion when the Council’s in-house treasury management team places an investment it continues to ensure that the primary principle will be as that followed in previous years of **SLY**, **S**ecurity of funds first, **L**iquidity second followed by **Y**ield.

6.4 Whilst the active use of Ethical investments is a topic of increasing interest to both members and officers, investment guidance, both statutory and from CIPFA, clearly states that all investing must follow the SLY principles with all ethical issues taking a secondary role. The Council’s in-house treasury management team will continue to follow this principle whilst monitoring the market in order to be able to take advantage of any new investment product which supports this aspect providing it complies with the current investment credit criteria.

6.5 The Council will aim to achieve the maximum return (yield) on its investments appropriate with proper levels of security and liquidity in line with the Council’s risk appetite. In the current economic climate of low investment interest rates the Council is restricted in generating a significant return from its investments without exposing it to additional risk factors. In order to safeguard its funds the Council’s in-house treasury management team will continue its approach of not undertaking any investment without thoroughly understanding the product together with associated risks or in any institution which is paying considerably over and above market levels.

6.6 Funds making up the Council’s investments derive from monies received in advance of spend requirement and from the balances and reserves which it holds. Whilst greater returns are usually obtainable by investing for longer periods, most cash balances are required to manage the movements of the Council’s day to day cash flows. Cash not required for immediate use may be invested for longer periods of time, however before doing so careful assessment to the value to be obtained from this is undertaken.

6.7 Guidance issued by both the DLUHC and CIPFA as identified at paragraph 6.2 places a high priority on the management of risk and whilst this will never completely be eliminated, it can be minimised. The Director of Finance and Systems will maintain a counterparty list with the assistance of LG specifying which institutions it can place funds with. By only placing funds with those institutions which appear on this list it reduces the risk of an institution defaulting, enables diversification and avoids concentration risk. The key credit ratings used to monitor institutions are the short term and long-term ratings.

6.8 The Council will use UK institutions, including banks, building societies and local authorities together with banks located in a country which has a minimum Sovereign Long term credit rating of AA-. As well as detailing the criteria institutions must meet to enable them to be included onto the Council's approved lending list, within their respective category, Appendix 3 also specifies both the maximum value and duration funds can be placed at any one time.

6.9 Credit rating information is supplied by LG, the Council's treasury advisors, on all active counterparties that comply with the criteria above. Any rating changes, rating Watches (notification of a likely change), rating Outlooks (notification of the longer-term bias outside the central rating view) are provided to officers immediately after they occur and this information is considered before dealing. For instance, a negative rating Watch applying to an institution at the minimum Council criteria will be suspended from use, with all others being reviewed in light of market conditions.

6.10 This approach uses real time credit rating information provided by LG and enables an institution, should they meet or no longer meet the minimum credit criteria required to be immediately included on to or removed off the approved list.

6.11 A full explanation of the credit ratings determining the institutions which the Council will use can be found at Appendix 5.

6.12 The Council's in-house treasury management team recognises ratings should not be the sole basis of determining the quality of an institution. It is important to continually assess and monitor institutions both on the economic and political environments in which they operate together with information that reflects the opinion of the markets. To achieve this, the Council will, with LG, monitor market pricing on additional factors such as "credit default swaps" (CDS) and overlay this information on top of the credit ratings. This additional market information is detailed for members' reference at Appendix 5.

6.13 Members are asked to approve this base criteria, however the Director of Finance and Systems may temporarily restrict further investment activity to those institutions considered of higher credit quality than the minimum criteria set out for approval should any exceptional market conditions be encountered.

6.14 Investments will continue to be placed as follows;

- Short-term – cash required to meet known cash flow outgoings in the next month, plus a contingency to cover any unexpected transaction over the same period with bank notice accounts and money market funds being the main methods used for this purpose.
- Medium-term – cash required to manage the annual seasonal cash flow cycle covering the next 12 months and will generally be in the form of fixed term deposits and ultra-short dated bond funds.
- Long-term – cash not required to meet any immediate cash flow requirements and can be used primarily to generate investment income by using fixed or structured term deposits, certificates of deposits, government bonds or the Local Authority Property Investment fund.

6.15 Investment instruments identified for use in the financial year together with institution limits are detailed for members reference in Appendix 3. The use of longer term instruments (greater than one year from inception to repayment) falls in the Non-specified investment category and these will only be used where the

Council's liquidity requirements are safeguarded and be limited to the Prudential Indicator which is also detailed at Appendix 3.

6.16 The level of the Council's investments together with the average interest rate, as at 31 December 2021, is provided for reference at paragraph 2.1

6.17 *The Council is requested to approve the;*

- *adoption of the above Investment strategy and*
- *minimum criteria for providing a list of high quality investment institutions, instruments and limits to be applied as set out at Appendix 3.*

7. Investment Risk Benchmarking

7.1 The CIPFA Code of Practice and DLUHC Investment Guidance require that appropriate security and liquidity benchmarks are considered and reported to members annually and details of these are provided below with more detail concerning the security benchmark being provided in Appendix 5.

7.2 Benchmarks are simple guides (not limits) to maximum risk for use with cash deposits and so may be breached from time to time, depending on movements in interest rates and institution criteria. The purpose of the benchmark is to assist officers to monitor the current and trend position and amend the operational strategy to manage risk as conditions change. For reference the benchmarks proposed are;

- Security - Each individual year the security benchmark is:

1 year investments	2 year investments	3 year investments
0.05%	**0.04%**	**0.09%**

Note - This benchmark is an average risk of default measure and would not constitute an expectation of loss against a particular investment. At 31 December 2021 the Council's default rate of its investments placed was 0.019% which is 0.031% below the 1 year benchmark of 0.05%.

- Liquidity - The current CIPFA Treasury Management Code of Practice defines this as "*having adequate, though not excessive cash resources, borrowing arrangements, overdrafts or standby facilities to enable at all times to have the level of funds available which are necessary for the achievement of its business / service objectives"*.

  -Weighted Average Life (WAL) - benchmark for 2022/23 is set at 6 months, with a maximum of 3 years for cash time deposits;

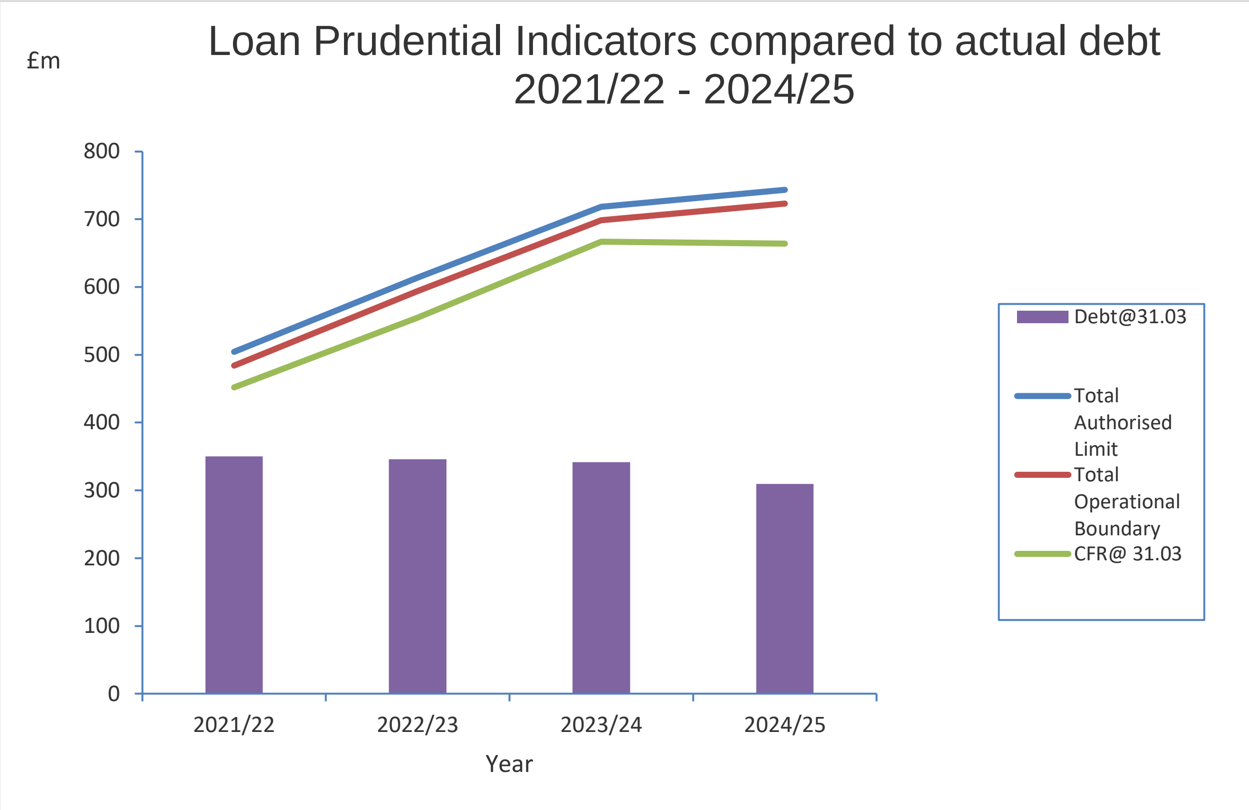
  -Liquid short term deposits - at least £5m is available within a week's notice.

- Yield - Previously the Council aimed to achieve a return on its investments of greater than the 7 day London Interbank Deposit (LIBID) rate without sacrificing any security aspects. This rate was a daily average of what banks say they would charge to lend to one another. The Financial Conduct Authority (FCA) announced in July 2017 that it was to look at replacing this rate together with several other rates as they had become unreliable. With effect from the close of business on 31st December 2021, LIBID ceased to exist and was replaced by Sterling Overnight Index Average (SONIA). As a consequence of this the Council will adopt the 7 day SONIA rate as its replacement benchmark which is based on previous day's actual transactions and administered by the Bank of England,

8. Prudential Indicators

8.1 A number of prudential indicators have been devised for the treasury management process and these have been prepared to assist managing risk and reduce the impact of an adverse movement in interest rate. These indicators have been set at levels which do not restrict day to day activities whilst at the same time ensure the Council's capital expenditure plans are prudent, affordable and sustainable.

8.2 The graph below shows how 2 of these prudential indicators (Authorised Limit and Operational Boundary) relate to actual levels of debt currently in place and *members are requested to approve the full set of Prudential Indicators for the Council's treasury management activities as detailed at Appendix 3.*



9. Related Treasury Issues

9.1 Greater Manchester Pension Fund (GMPF). During April 2020, the Council together with several other Greater Manchester councils, paid over to the GMPF a discounted advance equivalent to 3 years of employer pension contributions in order to take advantage of GMPF's wider investment powers. This initial payment will have run its course by 31st March 2023.

9.2 Strategic Investment Regeneration. During 2017/18 the Council introduced a programme to acquire suitable assets which will deliver significant regeneration benefits for the area and increase the Council's income generating capacity thereby enabling it to maintain the provision of services in future years.

9.3 Whilst investments under Strategic Investment Regeneration are made to support policy related activities and are therefore considered outside the treasury management function, their implementation will have an impact on the Council's cash flow. All such investments are also considered on each occasion in accordance with the principles set out in paragraphs 6.2 and 6.3 above.

9.4 International Financial Reporting Standards 9 (IFRS9). This was introduced to enable a reader of the Council's accounts to fully assess the worth and risk of its financial instruments with any potential losses or profits being taken to the accounts in full in the year they occur. To mitigate against this, DLUHC issued a 5 year override which is set to expire on 31 March 2023 enabling local authorities' time to either arrange for a planned exit or for potential surpluses to be placed into an unusable reserve and applied in those years when a downward revaluation occurs. Whilst IFRS 9 is primarily a re-classification not a re-valuation exercise, its introduction is not envisaged to have any major impact for the Council. Currently there is 1 investment which is effected by this re-classification which is placed with the Church Commissioners Local Authority in its Property fund. Whilst this investment generates a return of approximately 4.25% to 4.75% per annum the Council's in-house team will;

- continue to monitor both the monthly valuations received for this investment and the quarterly market forecasts produced to ensure that any potential losses in valuation are kept to a minimum and
- consider setting aside a proportion of the annual interest received into a reserve for use to smooth out any potential losses.

9.5 In September 2021, CIPFA released the second proposed set of changes to the current version of the Treasury Management Code (previously updated in 2017) to all local authorities for consultation and in December 2021 the outcome of this exercise was released in the form of the publication of a revised and updated Code.

For reference the main updates in the revised code for implementation in 2023/24 are as follows:

- a requirement for the Council to adopt a new debt liability benchmark treasury indicator to support the financing risk management of the capital financing requirement,
- clarification on what CIPFA expects a local authority to borrow for and what they do not view as appropriate, i.e. Local Authorities must not borrow to invest for the primary pupose of financial return,
- ensure that any long term treasury investment is supported by a business model,
- a requirement to effectively manage liquidity and longer term cash flow requirements,
- a knowledge and skills register for individuals involved in the treasury management function to be maintained proportionate to the size and complexity of the treasury management.

In addition, all investments and investment income must be attributed to one of the following three purposes: -

- Treasury management - Arising from the organisation's cash flows or treasury risk management activity, this type of investment represents balances which are only held until the cash is required for use.
- Service delivery **-** Investments held primarily and directly for the delivery of public services including housing, regeneration and local infrastructure.
- Commercial return - Investments held primarily for financial return with no treasury management or direct service provision purpose.

Members will be updated on how all these changes will impact on the Council's current approach and any changes required to be formally adopted within the 2023/24 Treasury Management Strategy Statement report.

9.6 In addition to the changes stated above, CIPFA have also made changes to its Prudential Code, similarly published, after consultation, in December 2021. For reference the main updates in the revised code are as follows:

- the provisions in the code, which present the approach to borrowing in advance of need in order to profit from additional sums borrowed, have been strengthened. The relevant parts of the code have augmented to be clear that borrowing for debt-for-yield investment is not permissible under the Prudential Code,
- proportionality has been included as an objective in the Prudential Code. New provisions have been added so that an authority incorporates an assessment of risk to levels of resources used for capital purposes,
- Heritage Assets are to be included in the Local Authority's Capital Financing Requirement (CFR) calculations.
- a new requirement has been added so that capital strategies are required to report investments under the following headings: service, treasury management and commercial investments.
- Local Authorities will be required to monitor and report against all forward looking prudential indicators on at least a quarterly basis.
- Authorities which have an expected need to borrow should review options for exiting their financial investments for commercial purposes in their annual treasury management or investment strategies. The options should include using the sale proceeds to repay debt or reduce new borrowing requirements.
- Local Authorities will need to monitor and report on a new Prudential Indicator which reviews net income from commercial and service investments as a percentage of the Authority's net revenue stream.

10. Medium Term Financial Plan

10.1 Detailed for reference at Appendix 6 is a headline breakdown of the treasury management budgets for the period 2022/23 – 2024/25 split between Treasury and Non-Treasury activities. Whilst these budgets have been produced using the latest interest rate forecasts and predicted movements in the Council's income and expenditure plans, they will be subject to change due to factors beyond the Council's control i.e. interest rate movements.

11. Recommendations

That Accounts & Audit Committee be requested to note and recommend the report to Executive.

That Executive notes the report and recommends that Council approves;

- the Treasury Management Strategy 2022/23 – 2024/25 including the:
- policy on debt strategy as set out in section 4;
- investment strategy as set out in section 6;

  Prudential Indicators and limits including the Authorised Limit (as required by section 3(1) of the Local Government Act 2003), Operational Boundary, Minimum Revenue Provision Statement and Investment criteria as detailed in Appendix 3.

<u>Other Options</u>

This report is a mandatory report which has been produced in order to comply with Financial Procedure Rules and relevant legislation. The DLUHC Guidance and CIPFA Code do not prescribe any particular treasury management strategy for

Councils to adopt and there are an unlimited number of other options that the Council could consider as part of its treasury management activities. This report however outlines a clear and practical approach with an appropriate balance between risk management and cost effectiveness and is recommended by the Director of Finance and Systems.

Consultation

There are no applicable consultation requirements in respect of this report. Advice has been obtained from Link Group, the Council's external advisors.

Reasons for Recommendation

The Financial Procedure Rules, incorporating the requirements of the CIPFA Treasury Management Code of Practice requires that the annual strategy report is provided to the Council as an essential control over treasury management activities. In it the Council approves the parameters under which officers will operate. In addition The Local Government Act 2003 requires that the Council approves an annual borrowing limit (the Authorised Limit) and DLUHC Guidance an annual investment strategy (setting out the limits to investment activities) prior to the commencement of each financial year.

Key Decision

This will be a key decision likely to be taken in: February 2022

This is a key decision currently on the Forward Plan: Yes

Finance Officer Clearance FF

Legal Officer Clearance DS

Corporate Director's Signature GB

APPENDIX 1

STATUTORY FRAMEWORK

Local Government Act 2003

In accordance with the Local Government Act 2003 (and supporting regulations and guidance) each Council must before the commencement of each financial year, produce a report fulfilling three key requirements as stipulated below;

- The debt strategy in accordance with the CIPFA Code of Practice on Treasury Management (section 4);
- The investment strategy in accordance with the DLUHC investment guidance (section 6);
- The reporting of the prudential indicators as required by the CIPFA Prudential Code for Capital Finance in Local Authorities (Appendix 3).

CIPFA Code of Practice

The Council's treasury activities are strictly regulated by statutory requirements in conjunction with a professional code of practice (the CIPFA Treasury Management Code of Practice). This Council adopted the Code of Practice on Treasury Management on 24 April 2002 and followed recommended practices by considering an annual Treasury Management Strategy before the commencement of each financial year. These Codes are revised from time to time and the Council complies with any revisions.

Investment Guidance

DLUHC issued Investment Guidance in 2018 and this forms the structure of the Council's Investment policy as set out below:

- The strategic guidelines for decision making on investments, particularly non-specified investments;
- Specified investments that the Council will use. These are high security (no guidelines are given defining what this should consist of and each individual Council is required to state what this should be i.e. high credit ratings), high liquidity investments in sterling and with a maturity of no more than a year;
- Non-specified investments, clarifying the greater risk implications, identifying the general types of investment that may be used and a limit to the overall amount of various categories that can be held at any time;
- The principles to be used to determine the maximum periods for which funds can be committed.

APPENDIX 2

MAIN 2021 ECONOMIC HEADLINES

ECONOMIC BACKGROUND

GLOBAL-

- World growth recovered in 2021 from the recession in 2020 as a result of the COVID-19 pandemic however towards the later part of the year this recovery slowed due to the new variant of the virus.
- According to the World Health Organisation 42.7% (Nov21) have received full vaccination from the COVID-19 virus.
- Inflation has been rising due to increases in energy prices, shipping costs and supply shortages.
- The pandemic and extreme weather events, followed by a major surge in demand after lockdowns ended, have been highly disruptive of extended worldwide supply chains.
- The International Monetary Fund (IMF) predicts that the world economic growth rate will grow by 5.9% in 2021 following a 4.9% contraction in 2020.

UK-

- Whilst the successful rollout of the COVID-19 vaccines started to restore confidence that life could move to a new normal, this maybe a little premature due to the winter flu season combined with new strains of COVID-19 impacting on hospitals.
- Strong GDP growth of 6.9% in 2021 is currently being projected following a reduction in 2020 of -9.8%.
- Consumer Price Index (CPI) which started the year off at 1.5% in April increased to 5.4% in December 2021 which is 3.4% above the Government's target rate of 2.0%
- The potential for the Bank Rate to go negative during the year did not materialise and has now disappeared. At its December meeting, the MPC surprised everybody when it increased the Bank Rate from 0.10% to 0.25%, removing the emergency reduction of 0.15% in March 2020 which was in response to the COVID-19 pandemic. Despite this increase in Bank Rate no changes to its programme of quantitative easing purchases, which totals £895bn, were undertaken.
- The Government's furlough scheme, implemented during the first lockdown in 2020 and which had an estimated 1 million people on it, finished on 30th September 2021. It was feared by some market forecasters that this would lead to possible large job losses however this did not occur due to job vacancies being at record levels together with continual shortage of workers.
- In October 2021, the employment rate was estimated to be at 75.5% which is slightly lower than before the pandemic with the unemployment rate being 4.2%, the lowest level it has been in 2021
- Ports are becoming increasingly clogged up with containers due to a shortage of lorry drivers being available to move the goods and supplies to their respective destinations.

Eurozone –

- The initial slow role out of vaccines delayed economic recovery in early 2021 but the vaccination rate has picked up sharply since then.
- Some strong growth in quarters 2 & 3 was seen although some countries which are more dependent on tourism have struggled.
- The European Central Bank (ECB) is expected to see the current situation of rising energy prices as being only temporary and therefore unlikely to be raising interest rates for a considerable time.

US –

- Shortages of goods are fuelling increases in prices and reducing economic growth potential.
- The economy is now bigger than it was before the pandemic with economists expecting growth of 5.9% in 2021, the fastest levels in decades despite ongoing labour market troubles,

China-

- The spread of the Delta variation of the COVID-19 virus earlier in the year resulted in sharp lockdowns being enforced however despite this, GDP growth is expected to be 8.0% compared to 2.34% in 2020.
- Shortages of gas and coal are restricting industrial production through power cuts
- The decline in demand for imported raw materials has impacted on the economies of commodity exporting countries, especially developing countries.

Japan-

- After a slow start, the majority of the population is now vaccinated against the COVID-19 virus.
- The Bank of Japan is continuing its very loose monetary policy and continues to struggle with getting inflation, which was negative in July, above 1% and towards its target of 2%.

MAIN ECONOMIC FORECASTS FOR 2022

Producing accurate economic forecasts continues to be an extremely difficult task due to the many external factors which have an impact on them. Forecasters are currently predicting the following levels of activity for the year ahead however these will be liable to change as the year progresses;

Indicator	UK	Eurozone	US	China
Gross Domestic Product	4.8%	3.3%	2.3%	5.8%
Consumer Price Index	4.0%	3.0%	3.1%	2.1%
Unemployment Rate	4.1%	7.4%	5.0%	5.0%
Bank Rate (Average)	0.6%	0.0%	0.6%	3.9%

Source - Trading Economics

ELEMENTS FOR COUNCIL APPROVAL

(Including Prudential and Treasury Indicators, Minimum Revenue Provision & Investment Criteria)

In accordance with the current DLUHC Guidance, CIPFA Treasury Management Code of Practice, each council is required to set before the commencement of each financial year Treasury Management Prudential Indicators and limits, a Minimum Revenue Provision Statement and Investment criteria.

The Accounts and Audit Committee and Executive are requested to recommend that Council approve these for the period 2022/23 – 2024/25 as detailed below. Upon recommendation, Council is required to approve the prudential indicators and limits affecting treasury management performance for this period.

<u>TREASURY PRUDENTIAL INDICATORS AND LIMITS –</u>

In accordance with the current CIPFA Prudential code, the Council is required to produce prudential indicators and limits reflecting the projected capital activity regarding its capital investment programme. These have an impact on the Council's treasury management activities and are monitored on a regular basis with any breaches being reported to Council at the earliest opportunity.

Authorised Limit for External debt	**2021/22 estimate £m**	**2022/23 estimate £m**	**2023/24 estimate £m**	**2024/25 estimate £m**
General capital programme	200.0	210.0	240.0	240.0
Strategic Investment programme	300.0	400.0	475.0	500.0
Other long term Liabilities (PFI)	4.2	3.9	3.5	3.1
Total	**504.2**	**613.9**	**718.5**	**743.1**

Authorised external debt limit - This is a key prudential indicator and represents a control on the maximum level of external debt that the Council will require for all known potential requirements. It includes headroom to cover the risk of short-term cash flow variations that could lead to temporary borrowing and any potential effects arising from bringing "off balance sheet" leased assets onto the balance sheet in compliance with IFRS 16. This statutory limit as determined under section 3(1) of the Local Government Act 2003 needs to be approved by Council prior to the commencement of each financial year.

Operational Boundary for External debt	**2021/22 estimate £m**	**2022/23 estimate £m**	**2023/24 estimate £m**	**2024/25 estimate £m**
General capital programme	180.0	190.0	220.0	220.0
Strategic Investment programme	300.0	400.0	475.0	500.0
Other long term Liabilities (PFI)	4.2	3.9	3.5	3.1
Total	**484.2**	**593.9**	**698.5**	**723.1**

Operational boundary - calculated on a similar basis as the authorised limit but represents the likely level of external debt that may be reached during the course of the year and is not a limit.

Upper limit for Principal sums invested over 1 Year	**2021/22 estimate £m**	**2022/23 estimate £m**	**2023/24 estimate £m**	**2024/25 estimate £m**
Maximum limit	**100.0**	**100.0**	**100.0**	**100.0**
Current investments: Manchester Airport Shares @ (31 March 2021) *	37.7	37.7	37.7	37.7
Church Commissioners Local Authorities Property Investment Fund	5.0	5.0	5.0	5.0
Strategic Investments	17.6	17.6	17.6	17.6

* Manchester airport shares are included for clarity and transparency purposes only as they are a non-treasury investment.

Upper Limit for sums invested for over 1 year – these limits are set with regard to the Council's liquidity requirements.

Upper Interest limits	**2021/22 estimate £m**	**2022/23 estimate £m**	**2023/24 estimate £m**	**2024/25 estimate £m**
Fixed interest rate exposure based on net debt	9.5	9.5	9.5	9.5
Variable interest rate exposure based on net debt	1.0	1.0	1.0	1.0

Upper Interest Limits – identifies the maximum limit of interest payable after deducting all investment interest for each category of interest rate fixing

Maturity structure of all external loan debt – 2022/23 to 2024/25	**Lower limit %**	**Upper limit %**
Under 12 months	0	40
12 months to 2 years	0	40
2 years to 5 years	0	40
5 years to 10 years	0	40
10 years to 20 years	0	40
20 years to 30 years	0	40
30 years to 40 years	0	70
40 years and above	0	90

Maturity Structure of Borrowing – these gross limits are set to reduce the Council's exposure to large sums falling due for payment or refinancing and reflect the next date on which the lending bank can amend the interest rate for any Lender Option Borrower Option loans the Council currently has.

Gross Debt and the Capital Financing Requirement

The Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2022/23 and the following two financial years. This allows some flexibility for limited early borrowing for future years but ensures that borrowing is not undertaken for revenue or speculative purposes.

The Director of Finance and Systems reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this budget report.

MINIMUM REVENUE PROVISION

In accordance with the current DLUHC Guidance, the Council shall determine an amount of minimum revenue provision that it considers to be prudent and submit to Council for approval an annual MRP Statement which sets out its policy. The following MRP Statement has been prepared in accordance with the Council's accounting procedures and is recommended for approval:

- **Capital expenditure financed by Supported Borrowing:** MRP will be calculated on a straight line basis over the expected average useful life of the assets (50yrs);
- **Capital expenditure financed by Prudential Borrowing:** MRP will be based on the estimated life of the assets once operational and charged on a straight line or annuity basis in accordance with DLUHC guidance;
- **Strategic Asset Investment Strategy financed by Prudential Borrowing:** Voluntary Revenue Provision (VRP) using the periods stipulated within the DLUHC Guidance of up to 50 years will be applied. By adopting this approach it will enable the Council upon the sale of each asset, to either apply the capital receipt or use the VRP receipts to extinguish debt taken. If the capital receipt is applied then the VRP previously set-aside will have been undertaken for no purpose and therefore can be reclaimed. Annual reviews are undertaken to ensure that this policy remains prudent and as at 31 March 2021 the total VRP overpayments were £4.789m and are forecasted to total £7.031m by 31 March 2022.
- **PFI schemes and leases shown on the balance sheet:** MRP will be based on the amount of the principal element within the annual unitary service payment and financed from the provision set-up to cover the final bullet payment. Capital receipts are to be used to replenish this provision to ensure any final bullet payment can still be made in 2028/29;
- **Expenditure that does not create an asset:** this is where the Council through the Strategic Asset Investment Strategy has made equity investment with Joint Venture companies with VRP being provided and calculated on a straight line basis for periods up to 50 years. Whilst this is a departure from statutory guidance for equity it is equivalent to the period allowed for Investment Property;
- **Use of a Capitalisation Direction**: Expenditure incurred in response to the issuance of a Capitalisation Direction by Central Government, MRP will be made over a period not exceeding 20 years, in accordance with the 2018 Guidance;
- **Lending to a third party**: In instances where the Council lends funds to a third party and in accordance with the guidelines issued (February 2018) by the Secretary of State, MRP is required to be provided over the useful life of the asset created. The Council in this instance will not follow the guidance but rather treat any advance as "Serviced debt" and therefore no MRP will be set-

aside providing there is an agreed repayment date. Annually the Council will undertake a financial assessment of the third parties ability to repay the debt and where any adverse changes are perceived to be occurring then a provision will be created to cover any future potential financial losses.

- **Equity** – MRP for the acquisition of share capital will be calculated on a straight line basis for a period up to 20 years. The Council will consider on a case by case basis the appropriateness of the application of this period against any equity investments it undertakes.

<u>INVESTMENT CRITERIA</u> – (no changes)

Counterparty Selection

- The Council will only use institutions which are located in the UK or from a country with a minimum Sovereign Long term credit rating of AA-. The individual credit criteria, is highlighted below and where credit ratings have been issued, both the Long and Short term rating from 2 of the 3 main agencies will need to meet the minimum required. The requirements shown below for categories 1 to 5 and 7 will be applied to both Specified and Non-specified investments. Category 6 applies only to The Church Commissioners Local Authorities Property Investment fund.

The limits shown in the table below are set at a contingency level and operationally monies will be placed with a number of institutions with a maximum 20% of the portfolio being placed with any one institution at the time each investment is made. This situation will be monitored during the course of the year with any corrective action being undertaken at the first opportunity without any financial penalty being incurred.

	Fitch (or equivalent) – Long Term	Maximum Group Limit	Maximum Time Limit
Category 1 – • UK & Non UK Banks (bank subsidiaries must have a parent guarantee in place), • UK Building Societies Institutions must also have an individual minimum short term credit rating of – Fitch F1 or equivalent.	AA to AAA A+ to AA- A- to A	£75m £25m £10m	3yrs 1yr 1yr
Category 2 – UK Building Societies which are unrated or do not meet the minimum ratings as per Category 1 with assets in excess of; • £5bln+, • £2.5bln - £4.99bln	- -	£5m £3m	1yr 1yr
Category 3 – UK Banks part nationalised - Royal Bank of Scotland. This bank or its subsidiaries can be included provided it continues to be part nationalised or meets the ratings in category1 above.	-	£20m	1yr
Category 4 – The Council's own banker for transactional purposes if the bank falls below the above criteria.	-	n/a	1day

Cont.	Fitch (or equivalent) – Long Term	Maximum Group Limit	Maximum Time Limit
Category 5 – • Pooled Investment Vehicles: ➢ Money Market Funds (per fund) ➢ Ultra-Short Dated Bond Funds(per fund) • Social & Ethical funds (per fund) • UK Government (including treasury bills, gilts and the DMO) • Local Authorities (per authority) • Supranational Institutions	 AAA AA - - - -	 £20m £15m £5m £20m £10m £20m	 3yrs 3yrs 10yrs 3yrs 3yrs 1yrs
Category 6 – • Local Authority Property Investment fund	-	£10m	10yrs
Category 7 – • Support for the Strategic Asset Investment Programme	-	£50m	5yrs

Specified and Non Specified Investments – (no changes)

In accordance with the current Code of Practice, the Council is required to set criteria which identify its investments between Specified and Non Specified investments and these are classified as follows;

- **Specified investments** - are high security and liquid investments with a maturity of no more than a year or those which could be for a longer period but where the Council has the right to be repaid within one year if it wishes. These are considered low risk assets where the possibility of loss of principal or investment income is small.
- **Non specified investments** - are any other type of investment not defined as specified above. Once an investment is classed as non-specified, it remains non-specified all the way through to maturity i.e. an 18 month deposit would still be non-specified even if it has only 11 months left until maturity. A maximum of £100m is permitted to be held in this classification as detailed on page 21, Prudential Indicator Upper limit for sums invested over one year.

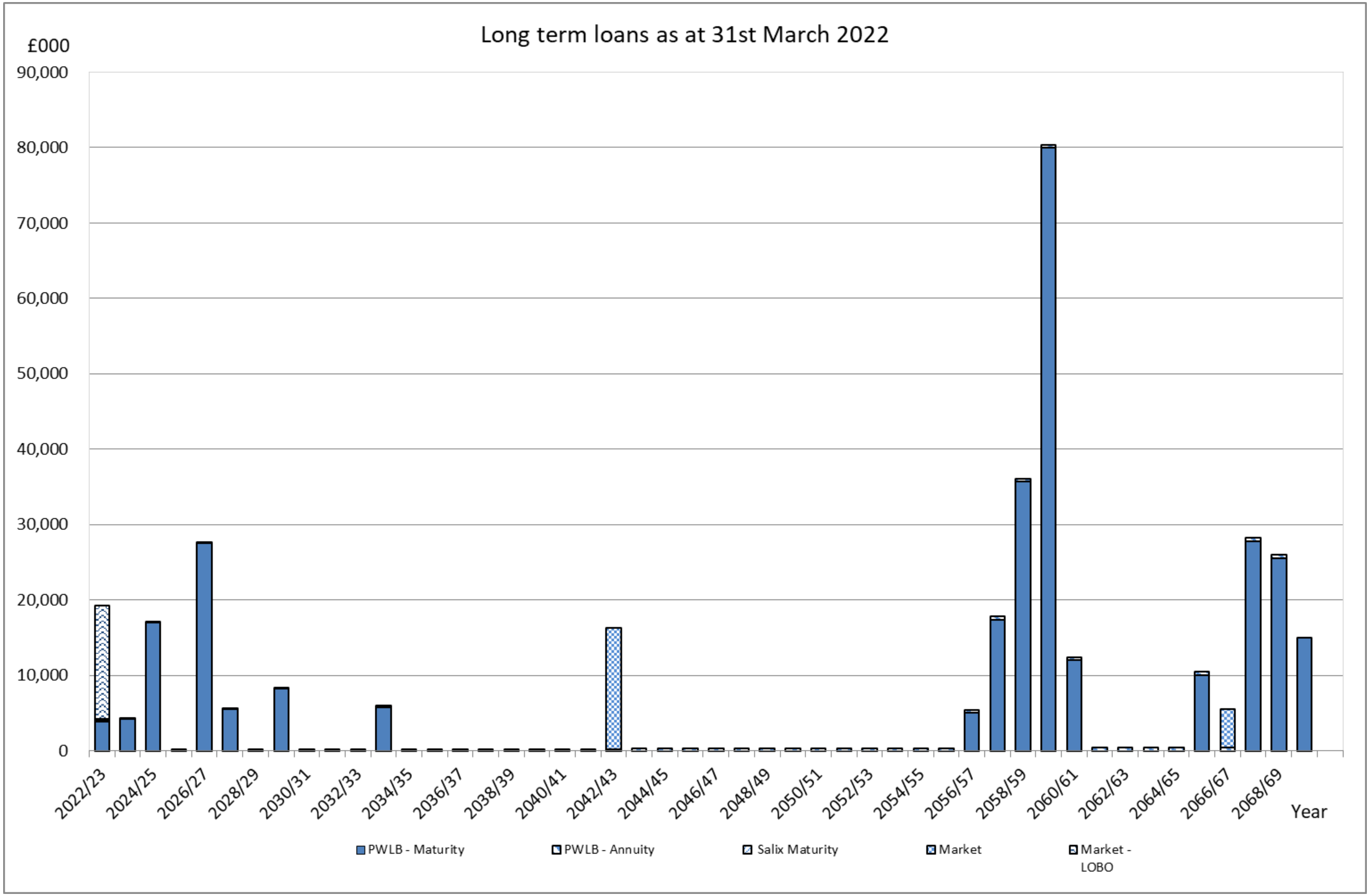
Instruments & Maximum period

All Investments undertaken will be in Sterling and placed in any of the following instruments: Term Deposits, Money Market Funds, Ultra Short Dated Bond Funds, Treasury Bills, Bonds, Gilts or Certificates of Deposits unless otherwise stated below;

Specified Investments	Maximum Maturity
The UK Government including Local Authorities and Debt Management Office.	1 Year
Supranational bonds of less than one year duration (e.g. International Monetary Fund)	1 Year
Pooled investment vehicles such as money market funds (including the revised categories of Low Volatility Net Asset value and variable Net Asset Value funds) Social & Ethical funds and low volatility bond funds.	1 Year

Specified Investments…..cont.	Maximum Maturity
An institution that has been awarded a high short term credit rating (minimum F1 or equivalent) by a credit rating agency, such as a bank or building society.	1 Year
Non-Specified Investments	
Multilateral development bank bonds - These are bonds defined as an international financial institution having as one of its objects economic development, either generally or in any region of the world (e.g. World Bank). The security of principal and interest on maturity is on a par with the Government and these bonds usually provide returns above equivalent gilt edged securities. The value of the bond may rise or fall and losses may accrue if the bond is sold prematurely.	3 Years
Gilt edged securities. These are Government bonds and provide the highest security of interest and principal. The value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity.	3 Years
The Council's own bank if it fails to meet the basic credit criteria with balances being kept to a minimum.	1 Day
UK Banks which have significant Government holdings	1 Year
Any bank or building society which meets the minimum long term credit criteria for Category 1 institutions detailed on page 23 with a maturity of greater than one year (including forward deals in excess of 1 year from inception to repayment).	3 Years
Building societies The operation of some building societies does not require a credit rating, although in every other respect the security of the society would match similarly sized societies with ratings. The Council may use such building societies which have a minimum asset size of £2.5bln but will restrict these type of investments as shown for Category 2 institutions on page 23.	1 Year
The UK Government including Local Authorities and Debt Management Office.	3 Years
Pooled investment vehicles such as money market funds (including the revised categories of Low Volatility Net Asset value and variable Net Asset Value funds) Social & Ethical funds and low volatility bond funds.	10 Years
Share capital or loan capital in a body corporate – The use of these instruments will be deemed to be capital expenditure, and as such will be an application (spending) of capital resources. It is envisaged this facility will apply to the Manchester Airport share-holding which the Council holds at a historical value of £37.7m as reported in the 2020/21 Statement of Accounts.	Unspecified
Manchester Airport Group – This is in response to the restructuring of the airports existing debt and is included for clarity and transparency purposes only.	Term of loans

Non-Specified Investments cont.	Maximum Maturity
Church Commissioners Local Authorities Property Investment Fund - This fund is aimed solely for use by public sector organisations wishing to invest in the property market whilst at the same time generating a favourable rate of return.	10 Years
Support the Strategic Asset Investment programme - where external borrowing to support the investment would not be in accordance with the CIPFA Prudential Code.	5 Years


Long term loans as at 31st March 2022
£000
90,000
80,000
70,000
60,000
50,000
40,000
30,000
20,000
10,000
0
2022/23
2024/25
2026/27
2028/29
2030/31
2032/33
2034/35
2036/37
2038/39
2040/41
2042/43
2044/45
2046/47
2048/49
2050/51
2052/53
2054/55
2056/57
2058/59
2060/61
2062/63
2064/65
2066/67
2068/69
Year
PWLB - Maturity
PWLB - Annuity
Salix Maturity
Market
Market - LOBO

APPENDIX 4

APPENDIX 5

INVESTMENT CREDIT AND INSTITUTION RISK MANAGEMENT

Monitoring of investment counterparties - The Council receives credit rating advice from Link Group and when ratings change this information is checked promptly to ensure institutions affected comply with the Council's criteria. On the occasion a rating may be downgraded when an investment has already been made, the criteria used are such that this should not affect the full receipt of the principal and interest. Any institution failing to meet the criteria, or those on the minimum criteria placed on negative credit watch, will be removed from the list immediately and if required new institutions which meet the criteria will be added.

		Credit Rating Agency		
Classification	**Description**	**Fitch** (Minimum)	**Moody's** (Minimum)	**Standard & Poors** (Minimum)
Short Term	Ensures that an institution is able to meet its financial obligations within 1 Year	F1 (Range **F1+, F2 A** to **D**)	P1 (Range **P1** to **P3**)	A1 (Range **A-1,** to **C**)
Long Term	Ensures that an institution is able to meet its financial obligations greater than 1 Year	A- (Range **AAA** to **D**)	A3 (Range **AAA** to **C**)	A- (Range **AAA** to **CC**)

The Council's list of Investment institutions is prepared primarily using credit rating information with full regard also being given to other sources of available information concerning credit quality. The information below will continue to be considered when undertaking investments;

- Credit default swaps - CDS were first created in 1997 and are a financial instrument for swapping the risk of debt default. Essentially the owner of the debt would enter into an agreement with a third party who would receive a payment in return for protection against a particular credit event – such as default. Whilst absolute prices can be unreliable, trends in CDS spreads do give an indicator of relative confidence about credit risk.
- Equity prices – like CDS prices, equities are sensitive to a wide array of factors and a decline in share price may not necessarily signal that the institution in question is in difficulty.
- Interest rates being paid - If an institution is offering an interest rate which is considerably out of line with the rest of the market this could indicate that the investment is likely to carry a high risk.
- Information provided by management advisors – this may include some information detailed above together with weekly investment market updates.

- Market & Financial Press information – information obtained from the money market brokers used by the Council in respect of interest rates & institutions will also be considered.

No investment will be made with an institution if there are substantive doubts about its credit quality, even though it may meet the credit rating criteria.

In order to further safeguard the Council's investments and in addition to the information shown at Appendix 3, due care will be taken to consider country, group and sector exposure as follows;

- **Country** – this will be chosen by the credit rating of the Sovereign state as shown at Appendix 3 and no more than 40% of the Council's total investments will be directly placed with non-UK counterparties at any time;
- **Group** – this will apply where a number of financial institutions are under one ownership (e.g. Royal Bank of Scotland / Nat West) and the Group limit will be the same as the individual limit for any one institution within that group;
- **Sector** limits will be monitored regularly for appropriateness.

Investment Risk benchmarking

Security benchmarks are central to the approved treasury strategy through the institution selection criteria and proposed benchmarks for these are set out below.

A method to benchmark security risk is to assess the historic level of default against the minimum criteria used in the Council's investment strategy. The table below shows the latest average defaults for differing periods of investment grade products for each of Fitch, Moody's and Standard and Poors long term rating category over the period 1981 to 2020. The Council can generally place investments up to a maximum period of 3 years and for this purpose will only use high rated institutions in order to ensure any potential risk in the form of defaults are kept to a minimum. Investments placed over 1 year but up to 3 years are placed with higher rated institutions in order to ensure that any potential risk of default as highlighted in the table below is kept to a minimum.

Long term rating	Average 1 yr default	Average 2 yr default	Average 3 yr default	Average 4 yr default	Average 5 yr default
AAA	0.04%	0.09%	0.17%	0.26%	0.35%
AA	0.02%	0.04%	0.09%	0.16%	0.23%
A	0.05%	0.14%	0.26%	0.38%	0.54%
BBB	0.14%	0.38%	0.66%	1.01%	1.36%
BB	0.64%	1.79%	3.14%	4.48%	5.73%
B	2.81%	6.83%	10.44%	13.48%	16.03%
CCC	19.89%	27.52%	32.84%	36.31%	39.42%

The Council's minimum long term rating criteria is currently "A-", meaning the average expectation of default for a one year investment in an institution with a "A-" long term rating would be 0.05% of the total investment (e.g. for a £1m investment the average loss would be £500). This is only an average as any specific institution loss is likely to be higher.

APPENDIX 6

SUMMARY MEDIUM FINANCIAL PLAN 2022/23-2024/25

Non-Treasury Management

	2022/23 £000	2023/24 £000	2024/25 £000
Loan Interest	3,773	3,769	3,765
Loss of Investment interest	356	760	727
VRP	2,517	2,521	2,526
Sub-total	6,646	7,050	7,018
Interest for aspirational Strategic Investment growth	1,817	2,869	3,222
TOTAL	8,463	9,919	10,240

Treasury Management

	2022/23 £000	2023/24 £000	2024/25 £000
Net Interest payable	6,697	6,782	6,835
Net MRP payable	5,668	6,127	6,129
Net Interest receivable	(1,346)	(1,291)	(1,236)
Other Income - MAG	(3,393)	(3,892)	(4,002)
TOTAL	7,626	7,726	7,726

APPENDIX 7

NON-TREASURY INVESTMENT ACTIVITIES

Details of the actual spend and commitments on the Council's non-treasury activities are outlined below:

Description	£m	Purpose
General		
Manchester Airport Group	29.7	Regeneration – 3 Shareholder loans
Homestep	0.5	Regeneration – Capital loan monies advanced to assist first time buyers to acquire property within Trafford which remains in place
Town Centre	0.2	Regeneration – Capital loan monies advanced to assist businesses occupy empty high street units within Trafford.
Sub-total	**30.4**	
Asset Regeneration Schemes		
Sonova House - Warrington	12.2	
DSG - Preston	17.4	
The Grafton Centre - Altrincham	10.8	
Magistrates Courts - Sale	5.1	
The Fort - Wigan	13.9	
Sainsbury's Altrincham	25.6	
Former Sorting Office - Stretford	0.9	
CIS - Manchester	60.0	
Altrincham & Stretford Shopping Malls - Equity contribution Trafford / Bruntwood loan	 34.0 34.0	
K Site Old Trafford - Equity contribution Trafford / Bruntwood loan	 12.3 12.4	
Brown Street Hale	8.7	
Care homes	2.4	
Castle Irwell Salford Ph1 + Ph2	31.0	£8.8m of repayments for Phase 1 received as at 31st December 2021
THG HQ	67.5	
Various Development sites	0.3	
Sub-total	**348.5**	
TOTAL	**378.9**	