STROUD DISTRICT COUNCIL

AUDIT AND STANDARDS COMMITTEE

30 JANUARY 2024

Report Title	**Treasury Management Strategy, Annual Investment Strategy and Minimum Revenue Provision Policy Statement 2024/25**
Purpose of Report	This report outlines the Council's prudential indicators for 2024/25 – 2026/27 and sets out the treasury strategy for this period. It fulfils three key reports required by the Local Government Act 2003: • reporting prudential indicators required by the CIPFA Prudential Code for Capital Finance in Local Authorities; • a treasury management strategy in accordance with the CIPFA Code of Practice on Treasury Management; • an investment strategy in accordance with the DLUHC investment guidance. It also fulfils the statutory duty to approve a minimum revenue policy (MRP) statement for 2024/25.
Decision(s)	**The Committee RECOMMEND that Council:** **a) adopt the prudential indicators and limits for 2024/25 to 2026/27;** **b) approve the Treasury Management Strategy 2024/25, and the treasury prudential indicators;** **c) approve the Investment Strategy 2024/25, and the detailed criteria for specified and non-specified investments** **d) approve the MRP Statement 2024/25; and** **e) approve the Ethical Investment Policy**
Consultation and Feedback	Link Asset Services (LAS).
Report Author	Graham Bailey, Principal Accountant Tel: 01453 754133 E-mail: graham.bailey@stroud.gov.uk
Options	Full Council is required to adopt the prudential indicators and approve the annual treasury management strategy. These are largely determined by the Council's revenue and capital budget decisions when setting the 2024/25 Council Tax, Housing rent levels and the capital programme.
Background Papers	CIPFA Treasury management in the public services – code of practice and cross-sectoral guidance notes 2021 CIPFA The Prudential Code for capital finance in local authorities 2021
Appendices	A. Investments as at 31 December 2023 B. Explanation of Prudential Indicators C. Economic Background D. Treasury Management Scheme of Delegation E. Ethical Investment Policy F. Liability Benchmark

Implications (further details at end of report)	Financial	Legal	Equality	Environmental
	Yes	Yes	Yes	Yes

Discussion

1. Under the Local Government Act 2003 (the Act) and supporting regulations the Council is required to "have regard to" the Chartered Institute of Public Finance and Accountancy (CIPFA) 2021 Prudential Code and the CIPFA 2021 Treasury Management Code of Practice to set Prudential and Treasury Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable.

2. Council is required to approve an Annual Treasury Management Strategy Statement for borrowing, and an Investment Strategy which sets out the Council's policies for managing its investments and for giving priority to security and liquidity of investments.

3. There is also a statutory duty to approve a Minimum Revenue Provision (MRP) Policy Statement for the year 2024-25.

4. CIPFA Code of Practice on Treasury Management requires the Council to maintain a Treasury Management Manual, which is reviewed annually. This manual is a record of internal procedures and operational guidance, as such it is not subject to approval by Members. The manual incorporates the following documentation relating to Treasury management:

   - <u>Treasury Management Policy Statement</u>. This is reviewed annually.
   - <u>Treasury Management Practices (TMP) – Main Principles</u>. There are 12 practices which set out the manner in which this Council will seek to achieve its treasury management policies and objectives and how it will manage and control those activities. These are reviewed annually.
   - <u>Treasury Management Practices – Schedules</u>. These schedules set out the details of how the TMPs are put into effect by this Council. This document is revised annually to include the latest detailed procedures.
   - <u>Counterparty Lending List and lending criteria</u>. The list used by the Council is provided by Link Asset Services (LAS), the Council's treasury advisors. A new list is provided weekly and there are daily updates by email of any changes to ratings.

5. Other CIPFA requirements are:

   - a Mid-Year Report and an Annual Report summarising activities during the previous year, as well as quarterly reports;
   - a Capital Strategy;
   - reporting on any commercial or service investments. It should be noted that this Council only has Treasury investments which arise from the cash flows of the authority.
   - delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions. At this Council, delegation is to the Section 151 officer;
   - delegation by the Council of the role of scrutiny of treasury management reports and strategy to a specific named body. For this Council the delegated body is the Audit and Standards Committee.

Treasury Management Strategy Statement, Annual Investment Strategy and Minimum Revenue Provision Statement 2024/25

1. INTRODUCTION

1.1 The Act and supporting regulations require the Council to 'have regard to' the CIPFA Prudential Code and to set Prudential Indicators for at least the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable.

1.2 The Act therefore requires the Council to set out its treasury strategy for borrowing and to prepare an Annual Investment Strategy (as required by Investment Guidance issued subsequent to the Act). This sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.

1.3 The 2024/25 strategy for the following aspects of the treasury management function is based upon treasury officers' views on interest rates, supplemented with market forecasts provided by the Council's treasury advisor, LAS. The strategy covers two main areas: **Capital Issues**

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

Treasury Management Issues

- treasury indicators which limit treasury risk;
- current treasury position;
- borrowing requirement;
- prospects for interest rates;
- borrowing strategy;
- policy on borrowing in advance of need;
- investment strategy;
- creditworthiness policy;
- policy on use of external service providers;
- ethical investment policy
- miscellaneous treasury issues.

1.4 It is a statutory requirement under Section 33 of the Local Government Finance Act 1992, for the Council to produce a balanced budget. In particular, Section 32 requires a local authority to calculate its budget requirement for each financial year to include the revenue costs that flow from capital financing decisions. Meaning that increases in capital expenditure must be limited to a level whereby increases in charges to revenue from:

- increases in interest charges and minimum revenue provision caused by increased borrowing to finance additional capital expenditure, and
- any increases in running costs from new capital projects are limited to a level which is affordable for the foreseeable future.

2. CAPITAL PRUDENTIAL INDICATORS FOR 2024/25 TO 2026/27

2.1 Capital expenditure plans are a key driver of treasury management activity. There are prudential indicators that focus on the Council's capital spending plans.

2.2 The first prudential indicator is a summary of the Council's capital expenditure plans, shown in Table 1.

Table 1: Capital Expenditure

Capital Expenditure	2022/23 £000 Actual	2023/24 £000 Estimate	2024/25 £000 Estimate	2025/26 £000 Estimate	2026/27 £000 Estimate
Community Services	208	5,557	100	-	-
Environment	3,279	6,648	8,127	6,432	4,618
Housing General Fund	1,251	3,190	5,855	765	765
Strategy & Resources	1,975	408	286	505	3,157
General Fund	**6,713**	**15,803**	**14,368**	**7,702**	**8,540**
HRA	**9,720**	**21,620**	**18,310**	**37,605**	**18,730**
Total	**16,433**	**37,423**	**32,678**	**45,307**	**27,270**

2.3 Any shortfall of resources to finance the capital programme results in a borrowing need as set out in Table 2 below.

Table 2: Capital Financing

Capital Expenditure	2022/23 £000 Actual	2023/24 £000 Estimate	2024/25 £000 Estimate	2025/26 £000 Estimate	2026/27 £000 Estimate
General Fund	6,713	15,803	14,368	7,702	8,540
HRA	9,720	21,620	18,310	37,605	18,730
Total	**16,433**	**37,423**	**32,678**	**45,307**	**27,270**
Financed by:					
Capital receipts	827	919	3,357	6,499	1,900
Capital grants	3,613	17,346	10,776	10,076	4,321
Capital reserves	8,830	11,772	7,427	7,988	7,174
Revenue	25	1,693	2,543	6,092	4,758
Net GF Financing Need for the year	**2,538**	**1,855**	**4,184**	**49**	**3,822**
Net HRA Financing Need for the year	**600**	**3,838**	**4,391**	**14,603**	**5,295**
Total Net Financing Need for the year	**3,138**	**5,693**	**8,575**	**14,652**	**9,117**

2.4 The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic capital expenditure which has not yet been financed from either revenue or capital resources. It is the measure of the Council's underlying borrowing need. Any newly planned unfinanced capital expenditure will increase the CFR.

2.5 The CFR projections below that are in line with approved capital budgets:

Table 3: The Council's borrowing need (Capital Financing Requirement)

Capital Financing Requirement	2022/23 £000 Actual	2023/24 £000 Estimate	2024/25 £000 Estimate	2025/26 £000 Estimate	2026/27 £000 Estimate
CFR - General Fund	18,551	19,377	22,120	20,748	23,068
CFR - HRA	100,596	104,434	108,825	123,428	128,723
Total CFR	119,147	123,811	130,945	144,176	151,791
Movement in CFR	2,088	4,664	7,134	13,231	7,615

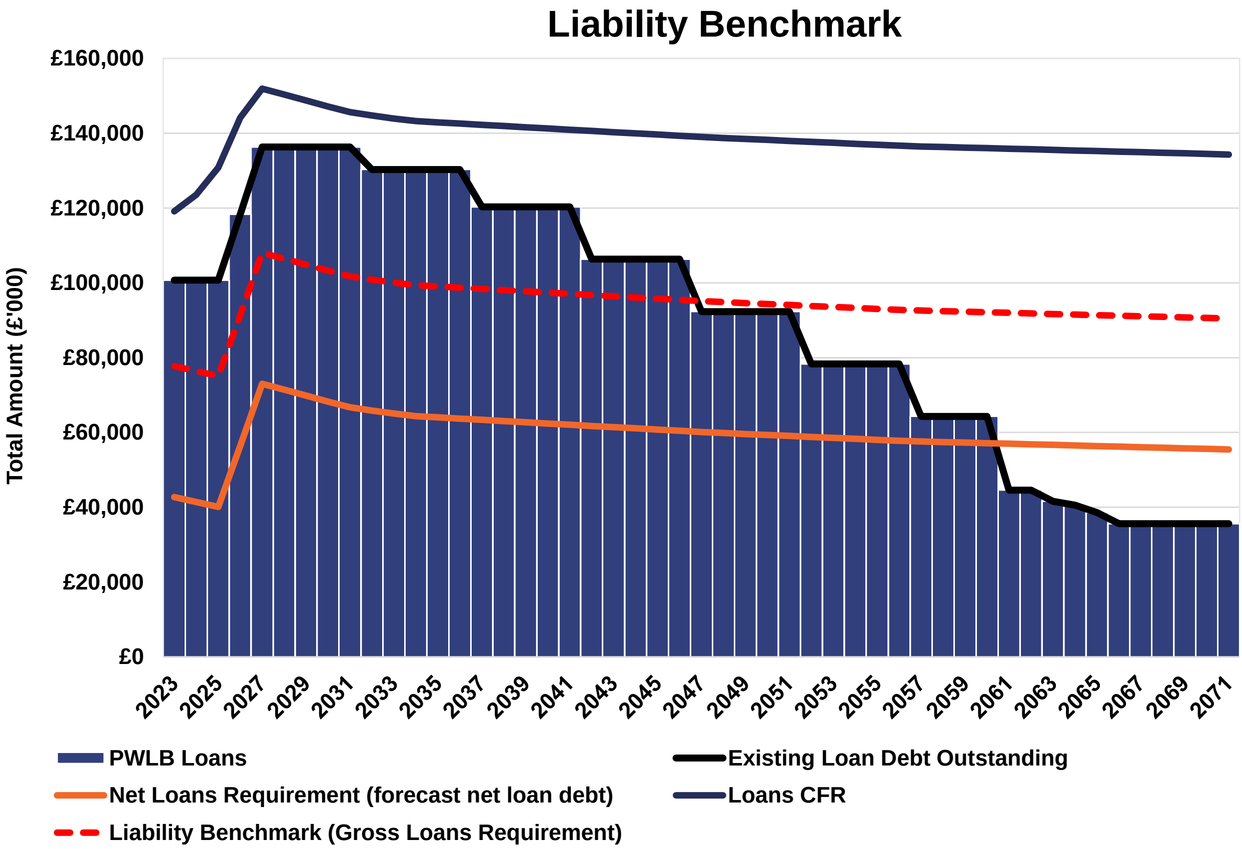
Movement in CFR represented by					
Net financing need for the year	3,138	5,693	8,575	14,652	9,117
Less MRP / VRP and other financing movements	-1,050	-1,029	-1,441	-1,421	-1,502
Movement in CFR	2,088	4,664	7,134	13,231	7,615

Liability Benchmark

2.6 This new prudential indicator was first introduced by CIPFA for inclusion in the 2023-24 strategy. It is showing the Council's CFR together with the current and future borrowing of the Council and also current cash resources together with forecast cashflows arising from the medium-term financial plan.

2.7 The liability benchmark is CIPFA's ideal borrowing position. The benchmark is allowing sufficient liquidity for day to day cash flow, but maximises internal borrowing and so limits counterparty risk. The chart below shows the Council's liability benchmark. The aim is to get the columns of borrowing down to the level of the dotted line. The Council is above the line as a result of the long maturity dates on HRA self-financing borrowing. The chart shows how the gap is eliminated as those loans are repaid over time.

2.8 The benchmark can be split into General Fund and HRA. This is set out at Appendix F.



Minimum Revenue Provision (MRP) Policy Statement 2024/25

2.9 The Council's MRP policy statement for 2024/25 is in accordance with the main recommendations contained within the guidance issued by the Secretary of State under section 21(1A) of the Local Government Act 2003. MRP will be charged under Option 3 of the DLUHC guidance on General Fund borrowing. Option 3 is an MRP charge over a time period reasonably commensurate with the estimated useful life of a new asset.

2.10 There is no requirement to charge MRP to the HRA. However, since the introduction of Self-Financing the HRA is required to charge depreciation on its assets for financial years commencing April 2017. As a result, depreciation has been a real cost to the HRA from financial year 2017/18 onwards.

2.11 The HRA 30 year financial plan includes provision for the repayment of debt and an amount is transferred to an earmarked reserve each year. As at April 2023 this reserve was £2.9m. This earmarked reserve does not decrease the CFR but is available for the repayment of debt in future years. There is also £0.9m of VRP, which did decrease the CFR, that has been made in previous years.

2.12 The requirement for the General Fund to charge MRP began when the General Fund first undertook borrowing during financial year 2016/17. Since then, borrowing in respect of The Pulse fitness extension, Multi-Service contract vehicles, premises and equipment, Littlecombe Business Units, the Canal, Brimscombe redevelopment, water and air source heat pumps, appropriation of land to the General Fund from the HRA and purchase of Bath Place has resulted in a requirement to charge the General Fund with MRP, as a prudent provision for the repayment of that debt.

2.13 In 2024/25 IFRS16 will be implemented and this will have the effect of removing the current accounting distinction between finance and operating leases. As a result, some currently leased assets will come on to the balance sheet, but the impact is assessed as immaterial. The policy will be for these leased assets to be depreciated by the same amount as the MRP element of annual lease payments. MRP is the capital element of the annual lease payments, excluding interest and service elements which are revenue costs.

2.14 DLUHC is currently finalising a consultation on MRP regulation changes to address a perception that some local authorities are not adequately complying with the duty to make proper MRP charges to their revenue budgets. Any changes will take effect from 2024/25 at the earliest and are not expected to impact upon this Council.

Table 4: Core Funds and Expected Investments

Year end resources	2022/23 £m Actual	2023/24 £m Estimate	2024/25 £m Estimate	2025/26 £m Estimate	2026/27 £m Estimate
Fund balances / reserves	45.290	34.145	33.373	26.956	19.326
Capital receipts	14.073	13.184	12.295	11.300	10.527
Provisions	0.900	0.900	0.900	0.900	0.900
Other	0.000	0.500	0.500	0.500	0.500
Total Core funds	**60.263**	**48.729**	**47.068**	**39.656**	**31.253**
Working capital	13.062	5.000	2.000	2.000	2.000
Under (-) / over borrowing	-18.430	-23.094	-30.228	-25.885	-15.477
Expected investments	**54.895**	**30.635**	**18.840**	**15.771**	**17.776**

2.15 The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.). Detailed in Table 4 above are estimates of the year-end balances for each resource and total cash flow balances.

Affordability of capital plans prudential indicators

2.16 A prudential indicator is required to assess the affordability of capital expenditure plans. This indicator provides an estimate of the impact of capital investment plans on the Council's overall finances. The Council is asked to approve the cost of capital expenditure plans as a ratio of the net revenue stream indicator shown in table 5.

Table 5: Ratio of financing costs to net revenue stream

	2022/23 Actual	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
Non-HRA	0.48%	0.58%	0.52%	0.49%	0.80%
HRA	15.05%	13.92%	15.72%	17.54%	17.76%

3. BORROWING

3.1 Amongst the objectives of the treasury management function are ensuring that the Council's cash is managed in accordance with relevant professional codes and that sufficient cash is available at the right times to facilitate revenue and capital spending plans. Capital expenditure plans as set out in section 2 indicate if borrowing is required.

3.2 Table 6 shows the actual external debt, compared against the underlying capital borrowing need (the Capital Financing Requirement – CFR), highlighting any over or under borrowing.

Table 6: Gross Debt compared with Capital Financing Requirement (CFR)

	2022/23 £m Actual	2023/24 £m Estimate	2024/25 £m Estimate	2025/26 £m Estimate	2026/27 £m Estimate
External Debt					
Debt at 1 April	100.717	100.717	100.717	100.717	118.291
Expected change in debt	-	-	-	17.574	18.023
Other long term liabilities at 1 Apr	-	-	-	-	-
Actual Gross Debt at 31 March	100.717	100.717	100.717	118.291	136.314
Capital Financing Requirement	119.147	123.811	130.945	144.176	151.791
Under / (-) over borrowing	18.430	23.094	30.228	25.885	15.477

Borrowing Strategy

3.3 Currently the Council has £100.717m of external borrowing, compared with a Capital Financing Requirement (CFR) of £119.147m. This means that the capital borrowing need (the CFR) is greater than loan debt by £18.430m, which is the level of internal borrowing. The next borrowing to be repaid is £6m in March 2032.

3.4 There was a limit on HRA borrowing set by the Government in the Localism Act 2011 known as the HRA debt cap. This Council's HRA debt cap was £95.742m. This cap was the absolute limit for HRA borrowing under the Prudential Code, even if the Council considered further borrowing was affordable by the HRA. This debt cap was removed in 2018.

3.5 HRA capital plans, as approved by Council, now include borrowing totalling £28.127m up to 2026/27. General Fund capital plans include borrowing of £9.910m up to 2026/27. The Section 151 officer will decide on the length and type of borrowing which may be required, as well as the optimum time to borrow in consultation with LAS, and take into account the latest projections for interest rates and other relevant factors including any benefits arising from internal borrowing.

3.6 At the end of 2024/25 there is an estimated internal borrowing position of £30.228m. Internal borrowing has been particularly beneficial because it reduced the financial impact of the differential between borrowing and investment interest rates and also minimised counterparty risk. This internally borrowed position is projected as continuing through the period to 2026/27. Although, with the MTFP forecasting the running down of balances, and changes in interest rate forecasts the Section 151 officer will keep this under review, and adjust the strategy as necessary in consultation with our Treasury advisers LAS.

3.7 Within the prudential indicators, there are key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2024/25 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not for revenue purposes.

3.8 The Section 151 officer reports that the Council complied with this prudential indicator in the current year and does not expect any breaches up to and including financial year 2026/27. This view takes into account current commitments, existing plans, and the proposals in this year's budget report.

3.9 There are two Treasury indicators set which limit external debt. The operational boundary is the limit that external debt should not normally exceed. If external debt were to exceed this figure then it should prompt an internal investigation to establish the reasons why the breach had occurred.

Table 7: Operational Boundary

Operational Boundary	2023/24 £m Estimate	2024/25 £m Estimate	2025/26 £m Estimate	2026/27 £m Estimate
Debt	134	140	154	161
Other Long Term Liabilities	-	-	-	-
Total	134	140	154	161

3.10 The Authorised Limit is set or revised by full Council, and must not be exceeded. It represents the level of debt that is unsustainable in the longer term. It is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control local government borrowing in total or for specific councils.

3.11 The Council is asked to approve the following Authorised Limit:

Table 8: Authorised Limit for External Debt

Authorised Limit	2023/24 £m Estimate	2024/25 £m Estimate	2025/26 £m Estimate	2026/27 £m Estimate
Debt	139	145	159	166
Other Long Term Liabilities	-	-	-	-
Total	139	145	159	166

3.12 Link Asset Services (LAS) are treasury advisers to the Council and part of their service is to assist the Council to formulate a view on interest rates. The following table gives the latest LAS forecast as at November 2023.

Table 9: Interest Rate Forecast

Month	Bank Rate	PWLB Borrowing Rates		
		5 year	25 year	50 year
Mar-24	5.25	4.9	5.3	5.1
Jun-24	5.25	4.8	5.1	4.9
Sep-24	5	4.7	4.9	4.7
Dec-24	4.5	4.4	4.7	4.5
Mar-25	4	4.2	4.5	4.3
Jun-25	3.5	4	4.3	4.1
Sep-25	3.25	3.8	4.2	4
Dec-25	3	3.7	4.1	3.9
Mar-26	3	3.6	4.1	3.9
Jun-26	3	3.5	4	3.8
Sep-26	3	3.5	4	3.8
Dec-26	3	3.5	4	3.8

Treasury management limits on activity

3.13 The purpose of treasury management limits is to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these limits are set to be too restrictive they will impair the opportunities to reduce costs or improve performance. The maturity structure of borrowing limits is set out in Table 10. The gross limits are set to control the Council's exposure to large fixed rate sums falling due for refinancing at the same time. Upper and lower limits are set for each time period.

3.14 The Council is asked to approve the following treasury indicators and limits:

Table 10: Maturity structure of borrowing

Maturity structure of new fixed and variable rate borrowing during 2024/25	Upper Limit	Lower Limit
Under 12 months	25%	0%
12 months and within 24 months	50%	0%
24 months and within 5 years	75%	0%
5 years and within 10 years	100%	0%
10 years and above	100%	0%

Policy on borrowing in advance of need

3.15 The Council will not borrow more than, or in advance of, need purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within approved Capital Financing Requirement estimates as required by the Prudential Code (see paragraph 3.7). Decisions to borrow will seek to ensure value for money and security of funds.

3.16 The Council will consider borrowing up to 12 months ahead of capital spend:

- If such capital spend is considered very likely to occur within 12 months;
- treasury advisers demonstrate that rates are particularly low and likely to move higher within 12 months;
- treasury advisers evaluate a net saving after assessing cost of carry;
- a trigger rate(s) will be set by s151 officer in consultation with treasury advisers and treasury officers;
- borrowing may be conducted in parcels – e.g. £4m could be split into 4 x £1m or 2 x £2m;
- ensure the ongoing revenue liabilities created, and the implications for the future plans and budgets have been fully considered;
- evaluate the economic and market factors that might influence the manner and timing of any decision to borrow;
- consider the merits and demerits of alternative forms of funding;
- consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use.

3.17 The foregoing usual procedure will not prevent the Section 151 officer from forward borrowing to the fullest extent permitted by the Prudential Code, CFR for the current year plus the following two years, if extraordinary conditions arise in the short term to make such action in the interests of the authority.

Debt rescheduling

3.18 The Council has £100.7m of debt. The Section 151 officer will keep under review opportunities for debt rescheduling. Debt rescheduling will be reported to Council at the next meeting after it occurs.

4. ANNUAL INVESTMENT STRATEGY

Investment Policy

4.1 It is vital that the Council ensures that its investment balances are best utilised to help the overall financial position. Appendix A shows there is over £61m invested as at 31 December 2023. Improving average returns on the Council's investment portfolio has been and will remain a significant factor in improving the Council's financial sustainability. The Investment strategy is to broaden the range of longer term investments. During 2019/20 £10m of longer term investments were approved comprising £6m in property funds and £4m in multi-asset funds. These investments utilised core cash balances which can be invested for the longer term.

4.2 The Council will have regard to the DLUHC's Guidance on Local Government Investments ("the Guidance") issued in March 2004, any updates to that guidance such as the 2018 update, and the 2021 revised CIPFA Treasury Management in Public Services Code of

Practice and Cross Sectoral Guidance Notes ("the CIPFA Treasury Management Code"). The Council's investment priorities in order are:

1) security
2) liquidity
3) yield
4) ESG (Environmental, Social and Governance)

4.3 In accordance with the above, and in order to minimise the risk to investments with banks and building societies, the Council has below clearly stipulated the minimum acceptable credit quality of counterparties for inclusion on the lending list. The creditworthiness methodology used to create the counterparty list fully accounts for the ratings, watches and outlooks published by all three ratings agencies with a full understanding of what the ratings mean for each agency. LAS's bank ratings service enables real-time monitoring of a bank's rating. Daily emails are sent to the Council to notify of any significant change to a bank rating, and are available on Link's Passport online portal.

4.4 Further, the Council's officers recognise that ratings should not be the sole determinant of the quality of an institution and that it is important to continually assess and monitor the financial sector. Assessment will also take account of information reflecting the opinion of the markets. To this end the Council will engage with its advisors to maintain a monitor on market pricing such as "credit default swaps" (CDS). Other information sources used will include the financial press, share price and other such information about the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

4.5 The ethical investment policy will be used in tandem with the principles of Security, Liquidty and Yield. After the consideration of Security, Liquidity and Yield investments will not be made unless they satisfy the ethical investment policy. This reinforces that fact environmental, social and governance principles are a fundamental component of this Investment Strategy.

4.6 The intention of the strategy is to provide security of investment whilst maximising returns and an awareness of the risks, both of losing capital and also of eroding the value of funds through lower rates of return.

4.7 The Council will also aim to achieve the optimum return on its investments commensurate with proper levels of security and liquidity. The risk appetite of this Council has been generally low in order to give priority to security of investments, however higher risk longer term investments are part of a balanced portfolio of investments up to a value of £15m, subject to proper due diligence by the Section 151 officer.

4.8 Borrowing of monies purely to invest or on-lend and make a return is unlawful and this Council will not engage in such activity.

4.9 'Specified' Investments which are investments with a high level of credit quality and maturities of up to 1 year and 'Non-Specified' Investments which are of a lower credit quality, may be for longer periods than 1 year and are more complex investment instruments which require proper due diligence before they are authorised for use during the financial year.

Table 11: Upper limit for investments over 365 days

Upper Limit for total principal sums invested for over 365 days	2023/24	2024/25	2025/26	2026/27	2027/28
Investments	£15m	£15m	£12m	£10m	£10m

Specified Investments

4.10 All specified investments will be sterling denominated, with maturities up to 1 year or less (including any forward deal time), subject to LAS's colour coding rating system as set out in creditworthiness policy paragraphs 4.20 – 4.25.

Table 12: Specified Investments

Type of Investment	Minimum 'High' Credit Criteria	Max Sum** per institution / group
Debt Management Agency Deposit Facility	*	Unlimited
Term deposits – local authorities	*	£4m per local authority £12m total
Term deposits – banks and building societies	Colour coded as per CAS Weekly counterparty listing (AA- countries & UK only)	£8m
UK Government Gilts	*	£12m
Bonds issued by multilateral development banks	*	£8m
Bonds issued by a financial institution which is guaranteed by the UK government	*	£8m
Treasury Bills	*	£12m
Certificates of deposits issued by banks and building societies	Colour coded as per CAS Weekly counterparty listing (AA- countries & UK only)	£8m
Money Market Funds (CNAV)	AAA	£6m per MMF & £12m total in MMFs
Money Market Funds (LVNAV)	AAA	£4m per MMF & £12m total in MMFs
Money Market Funds (VNAV)	AAA	£2m & £12m total in MMFs

Non-Specified Investments

4.11 All investments will be sterling denominated.

4.12 Investments will not necessarily be made in all categories, but they are included to allow the Council to put together a balanced portfolio to mitigate risk.

4.13 There are some important considerations that need to be borne in mind when considering non-specified investment types:

- There is usually a need to commit to investing for the medium to longer term and so funds invested need to be sourced from balances that will not be called upon for cash flow purposes in the short term;
- Some investments have naturally fluctuating capital values, whilst still providing a revenue income stream;
- Fluctuation in the value of pooled investments has no impact upon the General Fund in the short term. This is because government has given local government a 5-year mitigation, commencing April 2018 and ending March 2023 (extended by a further 2 years to March 2025 in December 2022 following a consultation by DLUHC), under the accounting standard IFRS9 which affects the accounting for pooled investments. Without the mitigation, IFRS9 would have meant charging any fluctuations in capital values of investments against the Council's revenue expenditure each year. In financial year 2025-26 any balance on the Financial Instrument Adjustment account will be charged to revenue.
- In addition to the statutory mitigation this Council maintains an investment risk reserve to provide a sum to protect the Council General Fund against future changes in capital values. This sum is reviewed on an annual basis as part of the accounts closedown procedures and currently stands at £820k.
- The Section 151 officer will subject any investment proposals to extensive due diligence using investment advisers as appropriate.

4.14 An investment selection process lead by LAS and involving a cross-party member advisory group to reflect member views in the decision making process was carried out in 2019 to select property fund and multi-asset fund investments. That process resulted in the selection and approval of investments in two property funds (Lothbury £4m and Hermes £2m), and two multi-asset funds (Royal London £3m and CCLA £1m). The multi-asset funds are under the Mixed Investment 0 – 35% Shares non-specified category, although it is accepted by the Section 151 officer that there could theoretically be up to 40% in equities in the CCLA fund due to their volatility constraints.

4.15 Predominantly, investments greater than a year in duration except for unrated building societies which are limited to durations of less than a year.

Table 13: Non-specified Investments

Financial instrument / institution	Minimum Credit Criteria	Max. maturity period	Max. Sum**
Term deposits – banks and building societies	Colour coded as per LAS Weekly counterparty listing (AA- countries & UK only)	3 years	£8m
Certificates of deposits issued by banks and building societies	Colour coded as per LAS Weekly counterparty listing (AA- countries & UK only)	3 years	£8m
Building Societies	Unrated with assets > £1bn	6 mths	£2m*****
Building Societies	Unrated with assets < £1bn	3 mths	£1m*****
Property Funds	***	25 years	£12m
Short Dated Bond Funds	****	3 years	£3m
UK Gilts Funds	****	4 years	£3m
UK Index Linked Gilts Funds	****	4 years	£3m
£ Corporate Bond Funds	****	4 years	£3m
UK Equity & Bond Income Funds	****	10 years	£3m
Mixed Investments 0-35% Shares	****	3 years	£6m
Mixed Investments 20-60% Shares	****	4 years	£4m
Mixed investments 40-85% Shares	****	5 years	£3m
Corporate Bonds	AA-	3 years	£3m
Housing Associations	AA-	3 years	£3m
UK Local Authorities	*	3 years	£8m
UK Government Gilts	*	3 years	£8m
Bonds issued by multilateral development banks	*	3 years	£8m
Bonds issued by a financial institution which is guaranteed by the UK government	*	3 years	£8m

* Government institutions have the highest security, although they are not formally rated.

** A maximum sum refers to the combined total of specified and non-specified investments with a particular bank, or group if specified.

*** Any investment would be subject to an evaluation process and a report to Strategy and Resources Committee.

**** Due diligence Section 151 Officer

***** Maximum of £8m in unrated building societies

Investment Definitions

Short Dated Bond Funds focus on shorter-term investments, typically with a maturity limit of 5 years. May invest in all forms of fixed income investments, including government and corporate debt. They are often limited to using only investment grade bonds (BBB-rated and higher), but some funds may make use of sub-investment grade bonds, or unrated issuance.

UK Gilt Funds invest at least 95% of their assets in Sterling denominated (or hedged back to Sterling) government backed securities, with a rating the same or higher than that of the UK, with at least 80% invested in UK government securities (Gilts).

UK Index Linked Gilt Funds invest at least 95% of their assets in Sterling denominated (or hedged back to Sterling) government backed index linked securities, with a rating the same or higher than that of the UK government, with at least 80% invested in UK Index Linked Gilts.

Sterling Corporate Bond Funds invest at least 80% of their assets in Sterling denominated (or hedged back to Sterling), Triple BBB minus or above corporate bond securities (as measured by Standard & Poors or an equivalent external rating agency). This excludes convertibles, preference shares and permanent interest bearing shares (PIBs).

UK Equity & Bond Income Funds invest at least 80% of their assets in the UK, between 20% and 80% in UK fixed interest securities and between 20% and 80% in UK equities. These funds aim to have a yield in excess of 120% of the FTSE All Share Index.

Mixed Investments 0 – 35% Share Funds are required to have a range of different investments. Up to 35% of the fund can be invested in company shares (equities). At least 45% of the fund must be in fixed income investments (for example, corporate and government bonds) and/or “cash” investments. “Cash” can include investments such as current account cash, short-term fixed income investments and certificates of deposit.

Mixed Investments 20 – 60% Shares Funds are required to have a range of different investments. The fund must have between 20% and 60% invested in company shares (equities). At least 30% of the fund must be in fixed income investments (for example, corporate and government bonds) and/or “cash” investments. “Cash” can include investments such as current account cash, short-term fixed income investments and certificates of deposit.

Mixed Investments 40 – 85% Shares Funds are required to have a range of different investments. However, there is scope for funds to have a high proportion in company shares (equities). The fund must have between 40% and 85% invested in company shares.

Property Funds invest an average of at least 70% of their assets direct in UK property over 5 year rolling periods.

Investment Strategy

4.16 Cash flow forecast requirements and the outlook for short-term interest rates are important factors to consider when making investments. During 2023 base interest rate was 3.5% until 2 February when it increased to 4%. It increased on four further occasions ending the year on 5.25%.

4.17 In 2024-25 the Council will continue to invest in the specified investment category for varying durations with quality counterparties to maximise return without compromising security or liquidity. The length of investments permitted will vary if necessary in line with LAS advice subject to the Council's upper time limits.

Table 14: Investments maturing after the end of the current financial year.

Financial Institution	Amount Invested £	Maturity	Rate
Toronto Dominion Bank	2,000,000	05/04/2024	5.10%
National Bank of Canada	2,000,000	19/04/2024	5.27%
Svenska	1,000,000	15/05/2024	5.50%
Toronto Dominion Bank	2,000,000	24/10/2024	5.79%
Lothbury Property Fund	4,000,000	long term	variable
Hermes Property Fund	2,000,000	long term	variable
Royal London Multi Asset Fund	3,000,000	long term	variable
CCLA Multi Asset Fund	1,000,000	long term	variable

4.18 The Council has £10m of fund investments in the Non-Specified category.

4.19 Bank Rate is currently forecast to have peaked at 5.25% and is forecast to begin reducing to 5% in September 2024 and to reach 3% by December 2026.

4.20 The Council will, where possible and taking into account cash flow, invest for longer periods to mitigate against the impact of falling rates with appropriately rated banks or UK local authorities. Also, the Council will utilise call accounts or money market funds in order to maximise interest, achieve diversification and maximise liquidity. Transaction costs will be taken into account in any investment decision for smaller sums, which means balances of up to £1m may be retained in lower interest rate accounts. This will be done to save transaction costs, where transaction costs would exceed interest earned.

4.21 There will be daily monitoring of investments by treasury staff. There will be first quarter and third quarter reports to Audit and Standards Committee and a strategy report, half year and year end reports that detail investment activity and performance to Audit and Standards Committee and to Council.

Creditworthiness policy

4.22 This Council applies the creditworthiness service provided by LAS. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard and Poor's. The credit ratings of counterparties are supplemented with the following overlays:

- credit watches and credit outlooks from credit rating agencies;
- CDS spreads to give early warning of likely changes in credit ratings;
- sovereign ratings to select counterparties from only the most creditworthy countries.

4.23 This modelling approach combines credit ratings, credit Watches and credit Outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads. The end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the suggested duration for investments. The Council will therefore use counterparties within the following durational bands:

- **Yellow** 3 years
- **Dark pink** 3 years for Ultra-Short Dated Bond Funds with a credit
- score of 1.25
- **Light pink** 3 years for Ultra-Short Dated Bond Funds with credit
- score of 1.5
- **Purple** 2 years
- **Blue** 1 year (only applies to nationalised or semi nationalised
- UK Banks)
- **Orange** 1 year
- **Red** 6 months
- **Green** 100 days
- **No colour** not to be used

4.24 This creditworthiness service uses a wider array of information than just primary ratings, and by using a risk weighted scoring system, it does not give undue impact to just one agency's ratings.

4.25 Typically, the minimum credit ratings criteria the Council uses will be a short term rating (Fitch or equivalents) of F1 and a long term rating of A-. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings, but may still be used. In these instances, consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

4.26 All credit ratings will be monitored prior to making an investment decision. The Council is alerted to changes to ratings of all three agencies through its use of the LAS creditworthiness service.

- if a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its use for new investments will be withdrawn immediately;
- in addition to the use of credit ratings the Council will be advised of information in movements in credit default swap spreads against the iTraxx European Financials

benchmark and other market data on a daily basis via LAS's Passport website. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

4.27 The Council will not place sole reliance on the use of this external service. In addition, this Council will use market data and market information, and information on external support for banks to help support its decision making process.

Benchmarking investment performance

4.28 Publication of official LIBOR and LIBID interest rates ceased at the end of 2021. The Council has from 2022-23 onwards benchmarked specified investments against the 7-day and 3-month compounded SONIA (Sterling Overnight Index Average) rate, which is the risk-free rate for sterling markets administered by the Bank of England. The Council's multi-asset fund investments will be benchmarked against the 0 – 35% shares index, whilst property fund investments will be benchmarked against the 3-month property fund index.

Ethical Investment Policy

4.29 Stroud District Council is directly and indirectly investing an average of over £150m per day throughout the year. As directed by CIPFA Treasury Code there is a requirement for Councils to prioritise security, liquidity and yield. Return on investment is important, but more important are the security of the sums invested and the availability of funds when they are needed.

4.30 An important factor that sits alongside those fiduciary duties is responsible or ethical investment, in particular our investments' impacts on the climate because of the Council's 2018 declaration of a Climate Change Emergency and 2019 commitment to be a Carbon Neutral District by 2030 as part of the Priorities of our Council Plan.

4.31 This Council is supportive of the Principles for Responsible Investment (www.unipri.org). ESG is incorporated into investment decisions for example when two potential investments offer the same level of security and return, the investment with the better ESG rating will be selected.

4.32 The ethical policy will be developed by examining and exploring in consultation with members, Link Asset Services, other government and local government organisations what the Council can do to avoid and minimise the collateral impacts of investments and maximise positive impacts, whilst still meeting its primary fiduciary duties to prioritise security, liquidity and yield.

4.33 The Ethical Investment Policy is set out in Appendix E.

Country limits

4.34 The Council will only invest in the UK and countries with a sovereign rating of AA- or higher. The following countries currently have sovereign ratings of AA- or higher, and also have banks operating in sterling markets which have credit ratings of green or above in LAS credit worthiness service.

AAA		**AA+**	**AA**	**AA-**
Australia	Canada		Abu Dhabi (UAE)	Belgium
Denmark	Finland			France
Germany	USA			Qatar
Netherlands				UK

Norway

Singapore

Sweden

Switzerland

5 MISCELLANEOUS TREASURY ISSUES

Use of external service providers

5.1 A treasury management advice contract with Link Asset Services (LAS) was procured via the Eastern Shires Purchasing Organisation (ESPO) commencing 1 October 2020. This contract had an end date of 30 September 2023. An option to extend was activated earlier in the year to extend the contract until 30 September 2025. Responsibility for treasury management decisions remains with the Council at all times, therefore undue reliance will not be placed upon our external treasury management advisers.

Member Training

5.2 Member training will be arranged for members of the Audit and Standards Committee during the civic year following the May 2024 elections. Immediately prior to this meeting Bob Swarup of Camdor Global Advisors is scheduled to present to members and take questions regarding ESG reports provided by Camdor.

6 IMPLICATIONS

6.1 Financial Implications

The Council has a responsibility to set a Treasury Management Strategy for the effective management of investments and borrowings. The Strategy proposed within is in line with the Medium-Term Financial Plan including estimates of capital expenditure, borrowing costs and targets for income receivable. All specific financial implications are addressed throughout the body of the report.

Andrew Cummings, Strategic Director of Resources
Tel: 01453 754115 Email: andrew.cummings@stroud.gov.uk

6.2 Legal Implications

As detailed in the body of the report, the Council is required to approve a Treasury Management Strategy before the start of each financial year to meet the requirements of the Local Government Act 2003, the Chartered Institute of Public Finance and Accountancy's (CIPFA) Prudential Code for Capital Finance in Local Authorities, the CIPFA Treasury Management in Public Services: Code of Practice and Cross-sectoral Guidance Notes; and DLUHC Capital finance: Guidance on government investments.

One Legal
Tel: 01684 272012 Email: legalservices@onelegal.org.uk

6.3 Equality Implications

The report includes an Ethical Investment Policy set out at Appendix E.

6.4 Environmental Implications

The report includes an Ethical Investment Policy set out at Appendix E.