

**STROUD DISTRICT COUNCIL**  
**AUDIT AND STANDARDS COMMITTEE**

**8 FEBRUARY 2022**

<b>Report Title</b>	<b>Treasury Management Strategy, Annual Investment Strategy and Minimum Revenue Provision Policy Statement 2022/23</b>			
<b>Purpose of Report</b>	<p>This report outlines the Council's prudential indicators for 2022/23 – 2024/25 and sets out the treasury strategy for this period. It fulfils three key reports required by the Local Government Act 2003:</p> <ul style="list-style-type: none"> <li>• reporting prudential indicators required by the CIPFA Prudential Code for Capital Finance in Local Authorities;</li> <li>• a treasury management strategy in accordance with the CIPFA Code of Practice on Treasury Management;</li> <li>• an investment strategy in accordance with the DLUHC investment guidance.</li> </ul> <p>It also fulfils the statutory duty to approve a minimum revenue policy (MRP) statement for 2022/23.</p>			
<b>Decision(s)</b>	<p><b>The Audit and Standards Committee RECOMMEND that Council:</b></p> <p><b>a) adopt the prudential indicators and limits for 2022/23 to 2024/25;</b>  <b>b) approve the Treasury Management Strategy 2022/23, and the treasury prudential indicators;</b>  <b>c) approve the Investment Strategy 2022/23, and the detailed criteria for specified and non-specified investments; and</b>  <b>d) approve the MRP Statement 2022/23</b>  <b>e) approve the Ethical Investment Policy</b></p>			
<b>Consultation and Feedback</b>	Link Asset Services (LAS).			
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<b>Options</b>	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 2022/23 Council Tax, Housing rent levels and the capital programme.			
<b>Background Papers</b>	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			
<b>Appendices</b>	Appendix A - Investments at 31 December 2021 Appendix B - Explanation of Prudential Indicators Appendix C - Economic Background Appendix D - Treasury Management Scheme of Delegation Appendix E - Ethical Investment Policy			
<b>Implications (further details at the end of the report)</b>	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 2022-23.
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:
  - Treasury Management Policy Statement. This is reviewed annually.
  - Treasury Management Practices (TMP) – Main Principles. 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.
  - Treasury Management Practices – Schedules. 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 procedural documents.
  - Counterparty Lending List and lending criteria. 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;
  - a Capital Strategy;
  - 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.
6. CIPFA recently completed the second round of consultation on the proposed changes to the current editions of the Treasury Management Code and Prudential Code. The revised editions of these Codes were published on the 20th Dec 2021. The Council has to have regard to these codes of practice when preparing the Treasury Management Strategy Statement and related in-year reports taken to Full Council for approval. CIPFA has agreed a soft launch approach with formal reporting requirements deferred until 2023/24 financial year. We will ensure that we implement these new requirements on or before the 1st April 2023.

7. As part of these changes, the Council is required to adopt a new Liability Benchmark treasury indicator to support Capital Financing Requirement financing risk management. There will also be further changes to clarify what CIPFA expect a local authority to borrow for and what they do not view as appropriate. This will include the requirement to set a proportionate approach to Commercial and Service capital investment; address ESG issues within Capital Strategy; require implementation of a policy to review Commercial Property with a view to divest where appropriate; create new Investment Practices to manage risks associated with non-Treasury investment (similar to current Treasury Management Practice approach); recommend that any long term treasury investment is supported by business model and requirement to effectively manage liquidity and longer term cash flow requirements; amendment to TMP1 to address ESG policy within the treasury management risk framework; amendment to Knowledge and Skills register for individuals involved in treasury management function (proportionate to size/complexity of organisation); a new requirement to clarify reporting requirements for Service and Commercial investment (especially where supported by borrowing/leverage).
8. Members will be updated on how these changes will impact our current approach and any changes required will be formally adopted within the 2023/24 TMSS and associated reports.
9. Whilst the reporting requirements do not formally need to be adopted until 2023/24, the Codes are now in force and should be followed when decisions on capital expenditure, treasury, service and commercial investment are being taken.

## **Treasury Management Strategy Statement, Annual Investment Strategy and Minimum Revenue Provision Statement 2022/23**

### **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 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 2022/23 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:
  - limits in force to mitigate the Council's treasury risk;
  - Prudential Indicators;
  - 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;
  - Minimum Revenue Provision (MRP) statement;

- treasury management scheme of delegation and section 151 role;
- 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 2022/23 TO 2024/25

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**

<b>Capital Expenditure</b>	<b>2020/21 £000 Actual</b>	<b>2021/22 £000 Estimate</b>	<b>2022/23 £000 Estimate</b>	<b>2023/24 £000 Estimate</b>	<b>2024/25 £000 Estimate</b>
Community Services	-	147	190	-	-
Environment	2,966	6,625	7,855	4,337	532
Housing General Fund	1,643	2,721	5,813	365	365
Strategy & Resources	904	1,799	174	3,533	-
<b>General Fund</b>	<b>5,513</b>	<b>11,292</b>	<b>14,032</b>	<b>8,235</b>	<b>897</b>
<b>HRA</b>	<b>7,171</b>	<b>21,790</b>	<b>21,644</b>	<b>16,137</b>	<b>13,115</b>
<b>Total</b>	<b>12,684</b>	<b>33,082</b>	<b>35,676</b>	<b>24,372</b>	<b>14,012</b>

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**

<b>Capital Expenditure</b>	<b>2020/21 £000 Actual</b>	<b>2021/22 £000 Estimate</b>	<b>2022/23 £000 Estimate</b>	<b>2023/24 £000 Estimate</b>	<b>2024/25 £000 Estimate</b>
General Fund	5,513	11,292	14,032	8,235	897
HRA	7,171	21,790	21,644	16,137	13,115
<b>Total</b>	<b>12,684</b>	<b>33,082</b>	<b>35,676</b>	<b>24,372</b>	<b>14,012</b>
Financed by:					
Capital receipts	1,363	3,251	2,959	1,324	600
Capital grants	2,570	7,813	12,943	3,742	395
Capital reserves	5,098	10,924	6,772	8,433	6,609
Revenue	807	671	1,969	712	1,757
<b>Net GF Financing Need for the year</b>	<b>2,085</b>	<b>2,805</b>	<b>805</b>	<b>4,493</b>	<b>502</b>
<b>Net HRA Financing Need for the year</b>	<b>761</b>	<b>7,618</b>	<b>10,228</b>	<b>5,668</b>	<b>4,149</b>
<b>Total Net Financing Need for the year</b>	<b>2,846</b>	<b>10,423</b>	<b>11,033</b>	<b>10,161</b>	<b>4,651</b>

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 Council is asked to approve the CFR projections below that are in line with approved capital budgets:

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

<b>Capital Financing Requirement</b>	<b>2020/21 £000 Actual</b>	<b>2021/22 £000 Estimate</b>	<b>2022/23 £000 Estimate</b>	<b>2023/24 £000 Estimate</b>	<b>2024/25 £000 Estimate</b>
CFR - General Fund	15,202	16,906	16,670	19,948	19,279
CFR - HRA	96,128	103,746	113,974	119,642	123,791
Total CFR	111,330	120,652	130,644	139,590	143,070
<b>Movement in CFR</b>	<b>1,316</b>	<b>9,322</b>	<b>9,992</b>	<b>8,946</b>	<b>3,480</b>

Movement in CFR represented by					
Net financing need for the year	2,846	10,423	11,033	10,161	4,651
Less MRP / VRP and other financing movements	-1,530	-1,101	-1,041	-1,215	-1,171
<b>Movement in CFR</b>	<b>1,316</b>	<b>9,322</b>	<b>9,992</b>	<b>8,946</b>	<b>3,480</b>

## Minimum Revenue Provision (MRP) Policy Statement 2022/23

- 2.6 The Council's MRP policy statement for 2022/23 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.
- 2.7 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.
- 2.8 The HRA 30 year financial plan now includes provision for the repayment of debt and therefore the HRA will make Voluntary Revenue Provision (VRP) when this is considered prudent. The HRA has paid VRP of £0.9m in (19/20). There are no current plans to make further VRP payments, but sums for HRA debt repayment are currently being placed each year in an earmarked reserve.
- 2.9 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 and water source heat pumps project has resulted in a requirement to charge the General Fund with MRP, as a prudent provision for the repayment of that debt.
- 2.10 The status of £2m of funding received from the HCA in respect of capital development works to Brimscombe Port is effectively a loan. As no expenditure related to that loan has yet been incurred no MRP is charged to make provision for repayment. When expenditure is incurred then MRP will begin.
- 2.11 In 2022-23 IFRS16 is introduced and this will have the effect of removing the current distinction between finance and operating leases. As a result, some currently leased assets will come on 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.
- 2.12 DLUHC is currently consulting 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. Responses are due by 8 February 2022.

**Table 4: Core Funds and Expected Investments**

Year end resources	2020/21 £m Actual	2021/22 £m Estimate	2022/23 £m Estimate	2023/24 £m Estimate	2024/25 £m Estimate
Fund balances / reserves	38.616	33.186	30.713	26.121	23.689
Capital receipts	10.259	7.638	5.309	4.620	4.655
Provisions	1.536	0.800	0.800	0.800	0.800
Other	0.938	0.500	0.500	0.500	0.500
<b>Total Core funds</b>	<b>51.349</b>	<b>42.124</b>	<b>37.322</b>	<b>32.041</b>	<b>29.644</b>
Working capital	13.129	2.000	2.000	2.000	2.000
Under (-) / over borrowing	-8.615	-17.935	-12.927	-15.873	-14.353
<b>Expected investments</b>	<b>55.863</b>	<b>26.189</b>	<b>26.395</b>	<b>18.168</b>	<b>17.291</b>

2.13 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

2.14 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**

	2020/21 Actual	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
Non-HRA	1.09%	0.98%	0.65%	0.75%	0.73%
HRA	16.10%	14.83%	14.31%	13.79%	13.45%

## 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)**

	2020/21 £m Actual	2021/22 £m Estimate	2022/23 £m Estimate	2023/24 £m Estimate	2024/25 £m Estimate
<b>External Debt</b>					
Debt at 1 April	102.717	102.717	102.717	117.717	123.717
Expected change in debt	-	-	15.000	6.000	5.000
Other long term liabilities at 1 Apr	-	-	-	-	-
<b>Actual Gross Debt at 31 March</b>	102.717	102.717	117.717	123.717	128.717
<b>Capital Financing Requirement</b>	111.330	120.652	130.644	139.590	143.070
<b>Under / (-) over borrowing</b>	8.613	17.935	12.927	15.873	14.353

### Borrowing Strategy

3.3 Currently the Council has £102.717m of external borrowing, compared with a Capital Financing Requirement (CFR) of £111.330m. This means that the capital borrowing need (the CFR) is greater than loan debt by £8.613m, which is the level of internal borrowing. The Council will repay £2m of borrowing during the 2022/23 financial year in February 2023.

- 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. The debt cap was removed in 2018.
- 3.5 HRA capital plans now include borrowing totalling £27.663m up to 2024/25. General Fund capital plans include borrowing of £8.605m up to 2024/25. 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 2022/23 there is an estimated internal borrowing position of £12.927m. Internal borrowing is currently beneficial because it reduces the financial impact of the differential between borrowing and investment interest rates. This position is projected as continuing through the period to 2024/25. Although, with the MTFP forecasting the running down of balances, and possible future 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 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 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 2024/25. 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**

<b>Operational Boundary</b>	<b>2021/22 £m Estimate</b>	<b>2022/23 £m Estimate</b>	<b>2023/24 £m Estimate</b>	<b>2024/25 £m Estimate</b>
Debt	133	142	152	155
Other Long Term Liabilities	-	-	-	-
Total	133	142	152	155

- 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. This power has not been used to date.



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

**Table 8: Authorised Limit for External Debt**

<b>Authorised Limit</b>	<b>2021/22 £m Estimate</b>	<b>2022/23 £m Estimate</b>	<b>2023/24 £m Estimate</b>	<b>2024/25 £m Estimate</b>
Debt	138	147	157	160
Other Long Term Liabilities	-	-	-	-
Total	138	147	157	160

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 December 2021.

**Table 9: Interest Rate Forecast**

<b>Month</b>	<b>Bank Rate</b>	<b>PWLB Borrowing Rates</b>		
		<b>5 year</b>	<b>25 year</b>	<b>50 year</b>
Mar-22	0.25	1.5	1.9	1.7
Jun-22	0.5	1.5	2	1.8
Sep-22	0.5	1.6	2.1	1.9
Dec-22	0.5	1.6	2.1	1.9
Mar-23	0.75	1.7	2.2	2
Jun-23	0.75	1.8	2.2	2
Sep-23	0.75	1.8	2.2	2
Dec-23	0.75	1.8	2.3	2.1
Mar-24	1	1.9	2.3	2.1
Jun-24	1	1.9	2.4	2.2
Sep-24	1	1.9	2.4	2.2
Dec-24	1	2	2.5	2.3
Mar-25	1.25	2	2.5	2.3

### **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**

<b>Maturity structure of new fixed and variable rate borrowing during 2022/23</b>	<b>Upper Limit</b>	<b>Lower Limit</b>
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 £102.7m of debt. There is a repayment of £2m due in February 2023. 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 £50m invested as at 31 December 2021. Improving average returns on the Council's investment portfolio will be a significant factor in improving the Council's financial sustainability. Investment strategy is to broaden the range of longer term investments, and during 2019/20 £10m of longer term investments were approved comprising £6m in property funds and £4m in multi-asset funds.
- 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
- 4.3 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 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.
- 4.6 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.

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

<b>Upper Limit for total principal sums invested for over 365 days</b>	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>	<b>2024/25</b>
Investments	£15m	£15m	£15m	£12m	£10m

### **Specified Investments**

- 4.9 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 4.19 – 4.24.

**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**

- 4.10 All investments will be sterling denominated.
- 4.11 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.
- 4.12 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, 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 2023-24 any balance on the Financial Instrument Adjustment account will be charged to revenue.
- 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**

<b>Financial instrument / institution</b>	<b>Minimum Credit Criteria</b>	<b>Max. maturity period</b>	<b>Max. Sum**</b>
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
Folk2Folk	****	5 years	£1m
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**

- 4.13 Cash flow forecast requirements and the outlook for short-term interest rates are important factors to consider when making investments. During 2021 base interest rate was 0.10% until 16 December when it increased to 0.25%.
- 4.14 In 2022-23 the Council will continue to invest in the specified investment category for the longest permitted duration with quality counterparties to maximise return without



compromising security or liquidity. In particular instances the Section 151 Officer may authorise investments in the LAS blue category (see para 4.20) for a period of up to two years, which is currently longer than the LAS recommended duration of one year. Otherwise, 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.**

<b>Financial Institution</b>	<b>Amount Invested £</b>	<b>Maturity</b>	<b>Rate</b>
Toronto Dominion Bank	2,000,000	02/09/2022	0.16%
NatWest (RFB)	3,000,000	18/08/2022	0.19%
Thurrock District Council	1,000,000	01/07/2022	0.15%
Toronto Dominion Bank	2,000,000	28/06/2022	0.11%
Dudley Metropolitan Council	1,000,000	01/04/2022	1.45%
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

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

4.16 Bank Rate is currently forecast to increase to 1.25% by March 2025.

4.17 The Council will primarily make short-dated deposits of up to a year with appropriately rated banks or UK local authorities rather than utilising call accounts or money market funds in order to maximise interest. 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.

4.18 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**

- 4.19 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.
- 4.20 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
- 4.21 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.
- 4.22 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.
- 4.23 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.

- 4.24 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**

- 4.25 Publication of official LIBOR and LIBID interest rates ceased at the end of 2021. The Council will from 2022-23 onwards benchmark 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 fund investments will be benchmarked against the 0 – 35% shares index.

### **Ethical Investment Policy**

- 4.26 Stroud District Council is directly and indirectly investing an average of over £150m per day throughout the year. As directed by the CIPFA Treasury Code's 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.
- 4.27 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.
- 4.28 This Council is supportive of the Principles for Responsible Investment ([www.unipri.org](http://www.unipri.org)) and will seek to bring ESG (environmental, social and governance) factors into the decision making process for investments.
- 4.29 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.
- 4.30 The Ethical Investment Policy is set out in Appendix E.

### **Country limits**

- 4.31 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.

<b>AAA</b>	<b>AA+</b>	<b>AA</b>	<b>AA-</b>
Australia	Canada	Abu Dhabi (UAE)	Belgium
Denmark	Finland	France	Hong Kong
Germany	USA		Qatar
Luxemburg			UK
Netherlands			
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 has an end date of 30 September 2023, with an option to extend 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 provided by LAS was arranged for 17<sup>th</sup> January 2022.

## **6. IMPLICATIONS**

### **6.1 Financial Implications**

The whole report is of a financial nature.

It includes the detail of the Council's policies on investments and borrowing. The Council has a responsibility to set a Treasury Management Strategy for the effective management of investments and borrowings. It is designed to protect the Council's finances, and safeguarding public funds, through limiting exposure to risk.

The Strategy proposed is in line with the Medium-Term Financial Plan including estimates of capital expenditure, borrowing, costs and targets for income receivable.

Andrew Cummings, Strategic Director of Resources

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### **6.2 Legal Implications**

As detailed within the report and appendices.

One Legal

Tel: 01684 272203 Email: [legalservices@onelegal.org.uk](mailto: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.