APPENDIX B

TREASURY MANAGEMENT STRATEGY STATEMENT 2022-23

Introduction

1. Treasury management is the management of the authority's cash flows, borrowing and investments. The council is exposed to financial risks from treasury management activity including possible losses associated with council investment and potential for increased borrowing costs arising from market movements. The identification, monitoring and control of financial risks are a crucial part of the financial management and governance arrangements of the council.

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

3. Investments held for service purposes or for commercial profit are considered in the Capital Strategy.

4. Under financial delegation, the strategic director of finance and governance is responsible for all executive and operational decisions on treasury management. This treasury management strategy, together with supporting prudential indicators and policies will ensure that these responsibilities can be carried out effectively.

Net Borrowing Position

5. As at 30 September 2021 the council held £826m of borrowing and £143m of investments.

6. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. The Council's current strategy is to maintain borrowing and investments below their underlying levels, known as internal borrowing.

7. The Council has an increasing CFR due to its ambitious capital programme. Based on current forecasts there is an estimated need to borrow up to £1.3bn by 31 March 2025.

Borrowing strategy and debt management activity and position

8. The council's debt management strategy has been to pursue a policy of internal borrowing, which is the use of existing reserves and balances to temporarily fund capital expenditure rather than the use of external borrowing.

9. The use of internal borrowing allows the council to minimise unnecessary external borrowing costs by only borrowing when needed for liquidity, or to benefit from advantageous borrowing rates. Borrowing in advance of need from a cashflow perspective creates a 'cost of carry' which is the difference between the short term investment income earned through holding cash balances compared against longer term external debt financing costs

10. Efficient use of existing council resources to fund capital expenditure through internal borrowing also reduces the council's counterparty risk inherent in the investment of cash balances.

11. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans. By doing so, the Authority is able to reduce net borrowing costs and reduce overall treasury risk.

12. Officers regularly monitor current and forecast interest rates to determine the benefits of internal/short-term borrowing against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly.

13. Future borrowing requirements arising from the approved capital programme, the extent of internal borrowing and the need to refinance scheduled debt repayments, together with potential for interest rate rises, indicate the need for further borrowing during 2022-23.

14. The council could borrow through the PWLB, financial institutions and banks or directly from other local authorities. Alternative sources of borrowing to the PWLB will be considered to ensure the lowest available rates are achieved.

15. All short term borrowing during 2021-22 was via other local authorities. Borrowing from other local authorities is typically at lower rates than from other sources for short duration debt.

16. The majority of long-term outstanding debt was borrowed from the Public Works Loans Board (PWLB), part of HM Treasury, at fixed rates of interest. The council's outstanding debt portfolio, used to fund historical capital expenditure, stood at £821m as at 30 September 2021 (£886m as at 31 March 2021).

17. The weighted average rate of interest for the council's debt portfolio was 3.3% as at 30 September 2021. (3.2% as at 31 March 2021).

Investment Position and Activity

18. The council holds sizable investment balances, representing income received in advance of expenditure plus balances and reserves held. Investments as at 30 September 2021 were £143m.

19. Council resources that are not immediately required for current expenditure are invested in money market instruments in accordance with the MHCLG (now the Department of Levelling Up and Housing and Communities (DLUHC)) Guidance on Local Authority Investments and the approved investment strategy. The guidance gives priority to security and liquidity and the council's aim is to achieve a yield commensurate with these principles.

20. Council investments are managed both in-house and delegated to two fund managers: Alliance Bernstein and Aberdeen Standard (formerly Aberdeen Asset Management). The focus for in-house investment is to meet variable near term cash liquidity requirements, principally using money market funds and other highly secure, liquid financial instruments

21. Any surplus cash resources not required in the short term to fund council activities is placed with the council's two external fund managers. The fund managers invest for a longer term in UK government gilts, supranational bank bonds, certificates of deposits issued by major banks/ building societies and other financial instruments.

22. The use of fund managers has the advantage of diversification of investment risk, coupled with the services of professional fund managers, which over the longer-term, provides enhanced returns within the council's risk appetite. Although investments can be redeemed from the fund managers at short notice, the intention is to hold them for the medium term. Their performance and suitability in meeting the council's investment objectives are regularly monitored.

23. The distribution of council investments across counterparties by rating and maturity as at 30 September 2021 is set out in the table below:

	A		AA		AAA		Total	
Investment Maturity	**£m**	**%**	**£m**	**%**	**£m**	**%**	**£m**	**%**
Up to 1Year	57.0	39.9	3.1	2.1	46.6	32.6	106.7	74.7
1-2 Years	0.3	0.2	2.0	1.4	17.3	12.1	19.6	13.7
2-5Years	0.3	0.2	12.7	8.9	3.6	2.5	16.6	11.6
Total	**57.6**	**40.3**	**17.8**	**12.4**	**67.5**	**47.2**	**142.9**	**100**

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

25. The Authority's treasury management adviser Arlingclose is forecasting that Bank of England Bank Rate will increase interest rates soon, but not to the 1% level expected by financial markets.

26. To analyse the treasury management portfolio, the council measures the return against a composite investment benchmark of three month LIBID and one to three year gilt index.

27. The rate of investment return generated by the treasury management portfolio is a consequence of the council's prudent, low risk approach to treasury management investing. This is in line with the requirements of the statutory guidance for local government treasury investment issued by MHCLG (now DLHUC)

28. The priorities for treasury management investment are, in order of priority, security, liquidity and yield. The objective therefore is to ensure that funds are available to meet council liabilities as they fall due.

29. It is important that the treasury management strategy is suitably flexible such that the council can take advantage of market opportunities and maintain appropriate asset diversification within the portfolio to best support the council's revenue budget, whilst retaining the overriding objectives of security and liquidity.