GMCA GREATER MANCHESTER COMBINED AUTHORITY

Greater Manchester Combined Authority

Date: 24 March 2023

Subject: Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement and Annual Investment Strategy 2023/24

Report of: Councillor David Molyneux, Portfolio Lead for Resources & Investment

Purpose of Report

To set out the proposed Treasury Management Strategy Statement, Borrowing Limits and Prudential Indicators for 2023/24 to 2025/26 for the Authority. The strategy reflects the 2022-2026 capital programme for Transport, Economic Development, Fire and Rescue, Waste and Police.

Recommendations:

The GMCA is requested to:

Approve the proposed Treasury Management Strategy Statement and Annual Investment Strategy to apply from the 1 April 2023, in particular:

a) The Treasury and Prudential Indicators listed in Section 2.

b) The Minimum Revenue Provision (MRP) Strategy in Section 2.

c) The Treasury Management Scheme of Delegation at Appendix F.

d) The Borrowing Strategy outlined in Section 3.

e) The Annual Investment Strategy detailed in Section 4.

f) Delegation to the Treasurer to step outside of the investment limits to safeguard the GMCA's position as outlined in section 4.7

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Report authors must identify which paragraph relating to the following issues:

Equalities Impact, Carbon and Sustainability Assessment:

N/A

Risk Management

There are considerable risks to the security of the GMCA's resources if appropriate Treasury Management strategies and policies are not adopted and followed. The GMCA has established good practice in relation to Treasury Management.

Legal Considerations

This report fulfils the statutory requirements to have the necessary prudential indicators to be included in a Treasury Management Strategy.

Financial Consequences – Revenue

Financial revenue consequences are contained within the body of the report.

Financial Consequences – Capital

Financial capital consequences are contained within the body of the report.

Number of attachments to the report:

None

Comments/recommendations from Overview & Scrutiny Committee

N/A.

Background Papers

Treasury Management Strategy Statement 2022/23, GMCA 11 February 2022

Tracking/ Process

Does this report relate to a major strategic decision, as set out in the GMCA Constitution

No

Exemption from call in

Are there any aspects in this report which means it should be considered to be exempt from call in by the relevant Scrutiny Committee on the grounds of urgency? No

GM Transport Committee

N/A

Overview and Scrutiny Committee

N/A

Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement and Annual Investment Strategy 2023/24

1. Introduction/Background

1.1 The Authority is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low-risk counterparties or instruments commensurate with the Authority's low risk appetite, providing adequate liquidity initially before considering investment return.

1.2 The second main function of the treasury management service is the funding of the Authority's capital plans. These capital plans provide a guide to the borrowing need of the Authority, essentially the longer-term cash flow planning, to ensure that it can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans or using longer-term cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet risk or cost objectives.

1.3 The contribution the treasury management function makes to the Authority is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.

1.4 CIPFA defines treasury management as: "The management of the local authority's borrowing, investments and cash flows, including its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

1.5 Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activities, (arising usually from capital expenditure), and are separate from the day-to-day treasury management activities.

2. Reporting Requirements

2.1 Capital Strategy

2.1.1 The CIPFA 2021 Prudential and Treasury Management Codes require all local authorities to prepare a Capital Strategy report which will provide the following:

a) a high-level long-term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services;
b) an overview of how the associated risk is managed; and
c) the implications for future financial sustainability

2.1.2 The aim of the strategy is to ensure that all the Authority's elected Members fully understand the overall long-term policy objectives and resulting Capital Strategy requirements, governance procedures and risk appetite.

2.2 Treasury Management Reporting

2.2.1 The Authority is currently required to receive and approve, as a minimum, three main treasury reports each year, which incorporate a variety of policies, estimates and actuals.

a) Prudential and treasury indicators and treasury strategy (this report) - The first, and most important report is forward looking and covers:

- the capital plans, (including prudential indicators);
- a minimum revenue provision (MRP) policy, (how residual capital expenditure is charged to revenue over time);
- the Treasury Management Strategy, (how the investments and borrowings are to be organised), including treasury indicators; and
- an Annual Investment Strategy, (the parameters on how investments are to be managed).

b) mid-year treasury management report – This is primarily a progress report and will update Members on the capital position, amending prudential indicators as necessary, and whether any policies require revision. In addition, this Authority will receive quarterly update reports.
c) An annual treasury report – This is a backward-looking review document and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

2.2.1 Scrutiny

The above reports are required to be adequately scrutinised before being recommended to the Full Authority. This role is undertaken by the Audit Committee.

2.2.2 Quarterly reports

In addition to the three major reports detailed above, from 2023/24 quarterly reporting (end of June/end of December) is also required. However, these additional reports do not have to be reported to Full Authority but do require to be adequately scrutinised. This role is undertaken by the Audit Committee. (The reports, specifically, should comprise updated Treasury/Prudential Indicators.)

3. Treasury Management Strategy for 2023/24

3.1 The strategy for 2023/24 covers two main areas:

Capital issues

a) the capital expenditure plans and the associated prudential indicators
b) the minimum revenue provision (MRP) policy

Treasury management issues

a) the current treasury position
b) treasury indicators which limit the treasury risk and activities of the Authority
c) prospects for interest rates
d) the borrowing strategy
e) policy on borrowing in advance of need
f) debt rescheduling
g) the investment strategy
h) creditworthiness policy; and
i) the policy on use of external service providers

3.2 These elements cover the requirements of the Local Government Act 2003, DLUHC Investment Guidance, DLUHC MRP Guidance, the CIPFA Prudential Code and the CIPFA Treasury Management Code.

4. Training

4.1 The CIPFA Treasury Management Code requires the responsible officer to ensure that Members with responsibility for treasury management receive adequate training in treasury management. This especially applies to Members responsible for scrutiny.

4.2 Furthermore, pages 47 and 48 of the Code state that they expect “all organisations to have a formal and comprehensive knowledge and skills or training policy for the effective acquisition and retention of treasury management knowledge and skills for those responsible for management, delivery, governance and decision making.

4.3 The scale and nature of this will depend on the size and complexity of the organisation’s treasury management needs. Organisations should consider how to assess whether treasury management staff and Members have the required knowledge and skills to undertake their roles and whether they have been able to maintain those skills and keep them up to date.

4.4 As a minimum, authorities should carry out the following to monitor and review knowledge and skills:

a) Record attendance at training and ensure action is taken where poor attendance is identified.
b) Prepare tailored learning plans for treasury management officers and Members.
c) Require treasury management officers and Members to undertake self-assessment against the required competencies (as set out in the schedule that may be adopted by the organisation).
d) Have regular communication with officers and Members, encouraging them to highlight training needs on an ongoing basis.”

4.5 In further support of the revised training requirements, CIPFA’s Better Governance Forum and Treasury Management Network have produced a ‘self-assessment by Members responsible for the scrutiny of treasury management’, which is available from the CIPFA website to download.

4.6 Our treasury advisors, Link, have provided treasury management training on 22 June 2022 and further training will be arranged as required.

4.7 The training needs of treasury management officers are periodically reviewed.

4.8 A formal record of the training received by officers central to the Treasury function will be maintained by the Head of Finance – Capital and Treasury Management. Similarly, a formal record of the treasury management/capital finance training received by Members will also be maintained by the Head of Finance – Capital and Treasury Management.

5 Treasury Management Consultants

5.1 The Authority uses Link Group, Link Treasury Services Limited as its external treasury management advisors.

5.2 The Authority recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon the services of our external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisers.

5.3 It also recognises that there is value in employing external providers of treasury management services to acquire access to specialist skills and resources. The Authority will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented and subjected to regular review.

6. The Capital Prudential Indicators 2023/24 – 2025/26

6.1 The Authority's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist Members' overview and confirm capital expenditure plans.

6.2 Capital Expenditure and Financing

6.2.1 This prudential indicator is a summary of the Authority's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. Members are asked to approve the capital expenditure forecasts:

Capital Expenditure £m	**2021/22 Actual**	**2022/23 Estimate**	**2023/24 Estimate**	**2024/25 Estimate**	**2025/26 Estimate**
Capital Expenditure	526.924	500.669	629.334	598.732	473.370

6.2.2 The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need.

Financing of capital expenditure £m	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Capital receipts	158.247	69.264	175.547	110.475	59.819
Capital grants and other contributions	234.278	288.371	230.327	309.701	329.008
Revenue	36.485	6.597	45.916	18.811	2.830
Net financing need for the year	**97.914**	**136.437**	**177.544**	**159.745**	**81.713**

6.2.3 Other long-term liabilities - the above financing need excludes other long-term liabilities, such as Private Finance Initiative (PFI) and leasing arrangements that already include borrowing instruments.

6.3 The Authority's Borrowing Need (the Capital Financing Requirement)

6.3.1 The second prudential indicator is the Authority's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Authority's indebtedness and so its underlying borrowing need. Any capital expenditure above, which has not immediately been paid for through a revenue or capital resource, will increase the CFR.

6.3.2 The CFR does not increase indefinitely, as the Minimum Revenue Provision (MRP) is a statutory annual revenue charge which broadly reduces the indebtedness in line with each asset's life, and so charges the economic consumption of capital assets as they are used.

6.3.3 The CFR includes any other long-term liabilities (e.g., PFI schemes, finance leases). Whilst these increase the CFR, and therefore the Authority's borrowing requirement, these types of schemes include a borrowing facility by the PFI, Public-Private Partnership (PPP) lease provider and so the Authority is not required to separately borrow for these schemes. The Authority currently has £43.349m of such schemes within the CFR.

6.3.4 The Authority is asked to approve the CFR projections below:

£m	**2021/22 Actual**	**2022/23 Estimate**	**2023/24 Estimate**	**2024/25 Estimate**	**2025/26 Estimate**
Capital Financing Requirement	2,360.237	2,407.841	2,486.166	2,534.398	2,502.813
Movement in CFR	15.178	47.604	78.325	48.233	(31.585)
Net financing need for the year (above)	97.914	136.437	177.544	159.745	81.713
Less MRP/VRP and other financing movements	(82.736)	(88.833)	(99.219)	(111.512)	(113.298)
Movements in CFR	15.178	47.604	78.325	48.233	(31.585)

6.4 Liability Benchmark

6.4.1 A third and new prudential indicator for 2023/24 is the Liability Benchmark (LB). The Authority is required to estimate and measure the LB for the forthcoming financial year and the following two financial years, as a minimum.

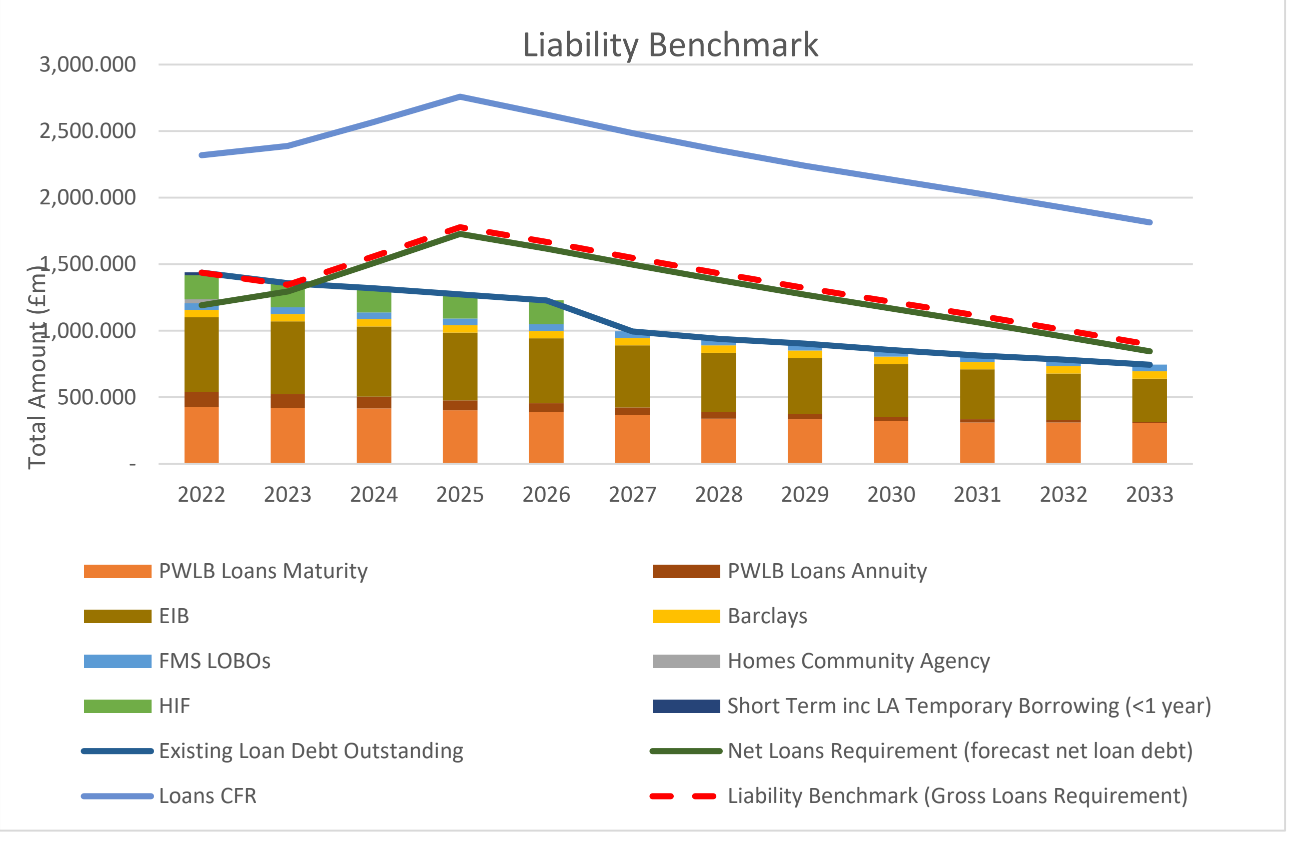
6.4.2 There are four components to the LB: -

a) Existing loan debt outstanding: the Authority's existing loans that are still outstanding in future years.

b) Loans CFR: this is calculated in accordance with the loans CFR definition in the Prudential Code and projected into the future based on approved prudential borrowing and planned MRP.

c) Net loans requirement: this will show the Authority's gross loan debt less treasury management investments at the last financial year-end, projected into the future and based on its approved prudential borrowing, planned MRP and any other major cash flows forecast.

d) Liability benchmark (or gross loans requirement): this equals net loans requirement plus short-term liquidity allowance.



7 Minimum Revenue Provision (MRP) Policy Statement

7.1 Under Regulation 27 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, where the Authority has financed capital expenditure by borrowing it is required to make a provision each year through a revenue charge (MRP).

7.2 The Authority is required to calculate a prudent provision of MRP which ensures that the outstanding debt liability is repaid over a period that is reasonably commensurate with that over which the capital expenditure provides benefits. The MRP Guidance (2018) gives four ready-made options for calculating MRP, but the Authority can use any other reasonable basis that it can justify as prudent.

7.3 The MRP policy statement requires full authority approval (or closest equivalent level) in advance of each financial year.

7.4 The Authority is recommended to approve the following MRP Statement:

a) For capital expenditure incurred before 1 April 2008 or which in the future will be Supported Capital Expenditure, the MRP policy will be:

- MRP will be calculated using an Asset Life annuity basis over 50 years.

b) From 1 April 2008 for all unsupported borrowing (including PFI and finance leases) the MRP policy will be:

- MRP will be calculated on an Asset Life annuity basis. The interest rate applied will be linked to PWLB interest rates and the useful life of the asset.

7.5 Capital expenditure incurred during 2022/23 will not be subject to an MRP charge until 2023/24, or in the year after the asset becomes operational.

8 Borrowing

8.1 The capital expenditure plans set out in Section 2 provide details of the service activity of the Authority. The treasury management function ensures that the Authority’s cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity and the Authority’s Capital Strategy. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions, and the Annual Investment Strategy.

8.2 Current Portfolio Position

8.2.1 The overall treasury management portfolio as at 31 March 2022 and for the position as at 28 February 2023 are shown below for both borrowing and investments.

	Actual 31 March 2022	**Actual 31 March 2022**	**Current 28 February 2023**	**Current 28 February 2023**
Treasury investments	**£m**	**%**	**£m**	**%**
Banks	13.358	5.4	58.850	17.8
Local authorities	171.000	69.6	105.000	31.9
Money Market Funds	0.000	0.0	115.350	35.0
DMADF (HM Treasury)	61.300	25.0	50.250	15.3
Total Treasury Investments	**245.658**	**100**	**329.450**	**100**
External borrowing				
PWLB	546.199	38.3	**529.011**	**37.3**
Market	879.710	61.7	**889.034**	**62.7**
Total External Borrowing	**1,425.909**	**100**	**1,418.045**	**100**
Net Borrowing	**1,179.432**		**1,088.595**	

8.2.2 The Authority's forward projections for borrowing are summarised below. The table shows the actual external debt, against the underlying capital borrowing need, (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

£m	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Debt as 1 April	1,496.826	1,425.909	1,333.089	1,457.676	1,722.540
Expected change in Debt	(70.917)	(92.820)	124.587	264.864	285.924
Other Long-term liabilities (OLTL)	44.418	40.759	36.676	32.998	28.644
Expected change in OLTL	(3.659)	(4.082)	(3.678)	(4.354)	(4.699)
Actual gross debt as at 31 March	1,541.244	1,369.766	1,490.674	1,751.184	2,032.409
The Capital Financing Requirement	2,360.24	2,407.84	2,486.17	2,534.40	2,502.81
Under/ (over) borrowing	818.993	1,038.075	995.492	783.214	470.404

8.2.3 Within the range of prudential indicators there are several key indicators to ensure that the Authority operates its activities within well-defined limits. One of these is that the Authority 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 2023/24 and the following two financial years. This allows some flexibility for limited early borrowing for future years but ensures that borrowing is not undertaken for revenue or speculative purposes.

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

8.3 Treasury Indicators: Limits to Borrowing Activity

8.3.1 **The Operational Boundary**. This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt and the ability to fund under-borrowing by other cash resources.

Operational Boundary £m	**2022/23 Estimate**	**2023/24 Estimate**	**2024/25 Estimate**	**2025/26 Estimate**
Debt	2,533.049	2,615.446	2,666.187	2,632.959
Other Long-term liabilities	40.759	36.676	32.998	28.644
Total	**2,573.808**	**2,652.122**	**2,699.185**	**2,661.603**

8.3.2 The Authorised Limit for external debt. This is a key prudential indicator and represents a control on the maximum level of borrowing. This represents a legal limit beyond which external debt is prohibited, and this limit needs to be set or revised by the Full Authority. It reflects the level of external debt which, while not desired, could be afforded in the short-term, but is not sustainable in the longer-term.

a) This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all local authority plans, or those of a specific authority, although this power has not yet been exercised.

b) The Authority is asked to approve the following Authorised Limit:

Authorised Limit £m	**2022/23 Estimate**	**2023/24 Estimate**	**2024/25 Estimate**	**2025/26 Estimate**
Debt	2,648.625	2,734.782	2,787.838	2,753.094
Other Long-term liabilities	40.759	36.676	32.998	28.644
Total	**2,689.384**	**2,771.458**	**2,820.836**	**2,781.738**

8.4 Prospects for Interest Rates

8.4.1 The Authority has appointed Link Group as its treasury advisor and part of their service is to assist the Authority to formulate a view on interest rates. Link provided the following forecasts on 7 February 2023. These are forecasts for Bank Rate, average earnings and PWLB certainty rates, gilt yields plus 80 bps.

	Mar-23	**Jun-23**	**Sep-23**	**Dec-23**	**Mar-24**	**Jun-24**	**Sep-24**	**Dec-24**	**Mar-25**	**Jun-25**	**Sep-25**	**Dec-25**	**Mar-26**
Bank Rate	4.25	4.50	4.50	4.25	4.00	3.75	3.25	3.00	2.75	2.75	2.50	2.50	2.50
3 month ave earning	4.30	4.50	4.50	4.30	4.00	3.80	3.30	3.00	2.80	2.80	2.50	2.50	2.50
6 month ave earning	4.40	4.50	4.40	4.20	3.90	3.70	3.20	2.90	2.80	2.80	2.60	2.60	2.60
12 month ave earning	4.50	4.50	4.40	4.20	3.80	3.60	3.10	2.70	2.70	2.70	2.70	2.70	2.70
5 yr PWLB	4.00	4.00	3.90	3.80	3.70	3.60	3.50	3.40	3.30	3.20	3.10	3.10	3.10
10 yr PWLB	4.20	4.20	4.10	4.00	3.90	3.80	3.60	3.50	3.50	3.40	3.30	3.30	3.20
25 yr PWLB	4.60	4.60	4.40	4.30	4.20	4.10	3.90	3.80	3.70	3.60	3.50	3.40	3.40
50 yr PWLB	4.30	4.30	4.20	4.10	3.90	3.80	3.60	3.60	3.40	3.30	3.20	3.20	3.10

a) Link central forecast for interest rates was previously updated on 19 December and reflected a view that the Monetary Policy Committee (MPC) would be keen to further demonstrate its anti-inflation credentials by delivering a succession of rate increases. This has happened but the

Government's continued policy of emphasising fiscal rectitude will probably mean Bank Rate will not need to increase to further than 4.5%.

b) Further down the road, Link anticipate the Bank of England will be keen to loosen monetary policy when the worst of the inflationary pressures are behind us – but that timing will be one of fine judgment: cut too soon, and inflationary pressures may well build up further; cut too late and any downturn or recession may be prolonged. Link best judgment is that there will be scope for an early Christmas present for households with a December rate cut priced in, ahead of further reductions in 2024 and 2025.

c) The CPI measure of inflation looks to have peaked at 11.1% in Q4 2022 (currently 10.5%). Despite the cost-of-living squeeze that is still taking shape, the Bank will want to see evidence that wages are not spiralling upwards in what is evidently a very tight labour market.

d) Regarding the plan to sell £10bn of gilts back into the market each quarter (Quantitative Tightening), this has started and will focus on the short, medium and longer end of the curve in equal measure.

e) In the upcoming months, Link forecasts will be guided not only by economic data releases and clarifications from the MPC over its monetary policies and the Government over its fiscal policies, but the on-going conflict between Russia and Ukraine. (More recently, the heightened tensions between China/Taiwan/US also have the potential to have a wider and negative economic impact.)

f) On the positive side, consumers are still estimated to be sitting on significant excess savings left over from the pandemic so that will cushion some of the impact of the above challenges. However, most of those are held by more affluent people whereas lower income families already spend nearly all their income on essentials such as food, energy and rent/mortgage payments.

8.4.2 PWLB RATES

a) The yield curve movements have become less volatile of late and PWLB 5 to 50 years Certainty Rates are, generally, in the range of 3.75% to 4.75%.

b) Link view the markets as having built in, already, nearly all the effects on gilt yields of the likely increases in Bank Rate and the elevated inflation outlook.

8.4.3 The balance of risks to the UK economy:

The overall balance of risks to economic growth in the UK is to the downside.

8.4.4 Downside risks to current forecasts for UK gilt yields and PWLB rates include: -

a) Labour and supply shortages prove more enduring and disruptive and depress economic activity (accepting that in the near-term this is also an upside risk to inflation and, thus, rising gilt yields).
b) The Bank of England acts too quickly, or too far, over the coming year to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
c) UK / EU trade arrangements – if there was a major impact on trade flows and financial services due to complications or lack of co-operation in sorting out significant remaining issues.
d) Geopolitical risks, for example in Ukraine/Russia, China/Taiwan/US, Iran, North Korea and Middle Eastern countries, which could lead to increasing safe-haven flows.

8.4.5 Upside risks to current forecasts for UK gilt yields and PWLB rates:

a) The Bank of England is too slow in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to remain elevated for a longer period within the UK economy, which then necessitates Bank Rate staying higher for longer than we currently project or even necessitates a further series of increases in Bank Rate later in the year or in 2024.
b) The pound weakens because of a lack of confidence in the UK Government's fiscal policies, resulting in investors pricing in a risk premium for holding UK sovereign debt.
c) Longer-term US treasury yields rise strongly if inflation remains more stubborn than the market currently anticipates, pulling gilt yields up higher consequently.
d) Projected gilt issuance, inclusive of natural maturities and QT, could be too much for the markets to comfortably digest without higher yields compensating.

8.4.6 Borrowing advice: Link long-term (beyond 10 years) forecast for Bank Rate stands at 2.5%. As all PWLB certainty rates are currently above this level, borrowing strategies will need to be reviewed in that context. Better value can generally be obtained at the shorter end of the curve and short-dated fixed LA to LA monies should be considered. Temporary borrowing rates are likely, however, to remain near Bank Rate and may also prove attractive whilst the market waits for inflation, and therein gilt yields, to drop back later in 2023.

8.4.7 Link’s suggested budgeted earnings rates for investments up to about three months’ duration in each financial year are rounded to the nearest 10bps as follows:

Average earnings in each year	
2022/23 (remainder)	4.30%
2023/24	4.30%
2024/25	3.20%
2025/26	2.60%
2026/27	2.50%
Years 6 to 10	2.80%
Years 10+	2.80%

8.4.8 As there are so many variables at this time, caution must be exercised in respect of all interest rate forecasts.

8.4.9 Link’s interest rate forecast for Bank Rate is in steps of 25 bps, whereas PWLB forecasts have been rounded to the nearest 10 bps and are central forecasts within bands of + / - 25 bps. Naturally, we continue to monitor events and will update our forecasts as and when appropriate.

8.5 Borrowing Strategy

8.5.1 The Authority is currently maintaining an under-borrowed position. This means that the capital borrowing need, (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Authority’s reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as medium and longer dated borrowing rates are expected to fall from their current levels once prevailing inflation concerns are addressed by tighter near-term monetary policy. That is, Bank Rate increases over the first half of 2023.

8.5.2 Against this background and the risks within the economic forecast, caution will be adopted with the 2023/24 treasury operations. The Director of Finance will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

a) if it was felt that there was a significant risk of a sharp FALL in borrowing rates, then borrowing will be postponed.

b) if it was felt that there was a significant risk of a much sharper RISE in borrowing rates than that currently forecast, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.

8.5.3 Any decisions will be reported to the appropriate decision-making body at the next available opportunity.

8.6 Policy on Borrowing in Advance of Need

8.6.1 The Authority will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates and will be considered carefully to ensure that value for money can be demonstrated and that the Authority can ensure the security of such funds.

8.6.2 Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism

8.7 Rescheduling

8.7.1 Rescheduling of current borrowing in our debt portfolio is unlikely to occur as there is still a large difference between premature redemption rates and new borrowing rates.

8.7.2 If rescheduling is to be undertaken, it will be reported to the Audit Committee, at the earliest meeting following its action.

8.8 New Financial Institutions as a Source of Borrowing and/ or Types of Borrowing

8.8.1 Currently the PWLB Certainty Rate is set at gilts + 80 basis points. However, consideration may still need to be given to sourcing funding from the following sources for the following reasons:

a) Local authorities (primarily shorter dated maturities out to 3 years or so – generally still cheaper than the Certainty Rate).

b) Financial institutions (primarily insurance companies and pension funds but also some banks, out of forward dates where the objective is to avoid a “cost of carry” or to achieve refinancing certainty over the next few years).

8.8.2 Our advisors will keep us informed as to the relative merits of each of these alternative funding sources.

8.9 Approved Sources of Long and Short-term Borrowing

8.9.1

On Balance Sheet	**Fixed**	**Variable**
PWLB	✓	✓
UK Municipal Bond Agency	✓	✓
Local Authorities	✓	✓
Banks	✓	✓
Pension Funds	✓	✓
Insurance Companies	✓	✓
UK Infrastructure Bank	✓	✓
Market (long-term)	✓	✓
Market (Temporary)	✓	✓
Market (LOBOs)	✓	✓
Stock Issues	✓	✓
Local Temporary	✓	✓
Local Bonds	✓	
Local Authority Bills	✓	✓
Overdraft		✓

Negotiable Bonds	✓	✓
Internal (capital receipts and revenue balances	✓	✓
Commercial Paper	✓	
Medium Term Notes	✓	
Finance Leases	✓	✓

9 Annual Investment Strategy

9.1 Investment Policy – Management of Risk

9.1.1 The Department of Levelling Up, Housing and Communities (DLUHC - this was formerly the Ministry of Housing, Communities and Local Government (MHCLG)) and CIPFA have extended the meaning of 'investments' to include both financial and non-financial investments. This report deals solely with treasury (financial) investments, (as managed by the treasury management team). Non-financial investments, essentially the purchase of income yielding assets and service investments, are covered in the Capital Strategy, (a separate report).

9.1.2 The Authority's investment policy has regard to the following:

a) DLUHC's Guidance on Local Government Investments ("the Guidance")
b) CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2021 ("the Code")
c) CIPFA Treasury Management Guidance Notes 2021

9.1.3 The Authority's investment priorities will be security first, portfolio liquidity second and then yield (return). The Authority will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and with regard to the Authority's risk appetite.

9.1.4 In the current economic climate, it is considered appropriate to maintain a degree of liquidity to cover cash flow needs but to also consider "laddering" investments for periods up to 12 months with high credit rated financial institutions, whilst investment rates remain elevated, as well as wider range fund options.

9.1.5 The above guidance from the DLUHC and CIPFA places a high priority on the management of risk. This Authority has adopted a prudent approach to managing risk and defines its risk appetite by the following means:

a) Minimum acceptable credit criteria are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short-term and long-term ratings.

b) Other information: ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration the Authority will engage with its advisors to maintain a monitor on market pricing such as “credit default swaps” and overlay that information on top of the credit ratings.

c) Other information sources used will include the financial press, share price and other such information pertaining to the financial sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

d) This Authority has defined the list of types of investment instruments that the treasury management team are authorised to use. There are two in Appendix D under the categories of ‘specified’ and ‘non-specified’ investments.

   Specified investments are those with a high level of credit quality and subject to a maturity limit of one year or have less than a year left to run to maturity, if originally they were classified as being non-specified investments solely due to the maturity period exceeding one year.

   Non-specified investments are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by Members and officers before being authorised for use.

e) Lending limits, (amounts and maturity), for each counterparty will be set through applying the matrix table in paragraph 4.2.

f) Transaction limits are set for each type of investment in 4.2.

g) This Authority will set a limit for its investments which are invested for longer than 365 days, (see paragraph 4.4).

h) Investments will only be placed with counterparties from countries with a specified minimum sovereign rating, (see paragraph 4.3).

i) This Authority has engaged external consultants, (see paragraph 1.5), to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of this Authority in the context of the expected level of cash balances and need for liquidity throughout the year.

j) All investments will be denominated in sterling.

k) As a result of the change in accounting standards for 2022/23 under IFRS 9, this Authority will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. (In November 2018, the MHCLG, concluded a consultation for a temporary override to allow English local authorities time to adjust their portfolio of all pooled investments by announcing a statutory override to delay implementation of IFRS 9 for five years ending 31 March 2023. At the current juncture it has not been determined whether a further extension to the over-ride will be agreed by Government.)

9.1.6 However, this Authority will also pursue value for money in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance, (see paragraph 4.5). Regular monitoring of investment performance will be carried out during the year.

9.2 Creditworthiness Policy

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

a) "watches" and "outlooks" from credit rating agencies;

b) CDS spreads that may give early warning of changes in credit ratings;

c) sovereign ratings to select counterparties from only the most creditworthy countries.

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

a) Yellow 5 years

b) Dark pink 5 years for Ultra-Short Dated Bond Funds with a credit score of 1.25

c) Light pink 5 years for Ultra-Short Dated Bond Funds with a credit score of 1.5

d) Purple 2 years

e) Blue 1 year (only applies to nationalised or semi nationalised UK Banks)

f) Orange 1 year

g) Red 6 months

h) Green 100 days

i) No colour not to be used

9.2.3 The Link creditworthiness service uses a wider array of information other than just primary ratings. Furthermore, by using a risk weighted scoring system, it does not give undue preponderance to just one agency's ratings.

9.2.4 The Link creditworthiness service uses a wider array of information other than just primary ratings. Furthermore, by using a risk weighted scoring system, it does not give undue preponderance to just one agency's ratings.

9.2.5 Typically, the minimum credit ratings criteria the Authority 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.

9.2.6 All credit ratings will be monitored weekly. The Authority is alerted to changes to ratings of all three agencies through its use of the Link creditworthiness service.

a) if a downgrade results in the counterparty / investment scheme no longer meeting the Authority's minimum criteria, its further use as a new investment will be withdrawn immediately.

b) in addition to the use of credit ratings the Authority will be advised of information in movements in Credit Default Swap spreads against the iTraxx European Senior Financials benchmark and other market data on a daily basis via its Passport website, provided exclusively to it by Link. Extreme market movements may result in downgrade of an institution or removal from the Authority's lending list.

9.2.7 Sole reliance will not be placed on the use of this external service. In addition, this Authority will also use market data and market information, as well as information on any external support for banks to help support its decision-making process.

Y	Pi1	Pi2	P	B	O	R	G	N/C
1	1.25	1.5	2	3	4	5	6	7
Up to 5yrs	Up to 5yrs	Up to 5yrs	Up to 2yrs	Up to 1yr	Up to 1yr	Up to 6mths	Up to 100days	No Colour

	Colour (and long-term rating where applicable)	**Money and/or % limit**	**Time limit**
Banks	Yellow	£25m / 100%	5yrs
Banks	Purple	£25m / 100%	2 yrs
Banks	Orange	£25m / 100%	1 yr
Banks – part nationalised	Blue	£25m / 100%	1 yr
Banks	Red	£25m / 100%	6 mths
Banks	Green	£25m / 100%	100 days
Banks	No Colour	Not to be used	
Limit 3 category – Authority's banker (where "No Colour")		£25m /100%	1 day
DMADF	UK sovereign rating	unlimited	6 months
Local authorities	n/a	£25m / 100%	1 yr
Money Market Funds	AAA	£25m / 100%	liquid

9.2.8 Creditworthiness.

Significant levels of downgrades to Short and Long-Term credit ratings have not materialised since the crisis in March 2020. In the main, where they did change, any alterations were limited to Outlooks. However, more recently the UK sovereign debt rating has been placed on Negative Outlook by the three major rating agencies in the wake of the Truss/Kwarteng unfunded tax-cuts policy. Although the Sunak/Hunt government has calmed markets, the outcome of the rating agency reviews is unknown at present, but it is possible the UK sovereign debt rating will be downgraded. Accordingly, when setting minimum sovereign debt ratings, this Authority will not set a minimum rating for the UK.

9.2.9 CDS prices

Although bank CDS prices, (these are market indicators of credit risk), spiked upwards during the days of the Truss/Kwarteng government, they have returned to more average levels since then. However, sentiment can easily shift, so it will remain important to undertake continual monitoring of all aspects of risk and return in the current circumstances. Link monitor CDS prices as part of their creditworthiness service to local authorities and the Authority has access to this information via its Link-provided Passport portal.

9.3 Limits

9.3.1 Due care will be taken to consider the exposure of the Authority's total investment portfolio to non-specified investments, countries, groups and sectors.

a) Non-specified treasury management investment limit. The Authority has determined that it will not invest for periods longer than 12 months.

b) Country limit. The Authority has determined that it will only use approved counterparties from the UK and from countries with a minimum sovereign credit rating of AA- from Fitch (or equivalent). The list of countries that qualify using this credit criteria as at the date of this report are shown in Appendix E. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

9.4 Investment Strategy

9.4.1 **In-house funds.** Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e., rates for investments up to 12 months). Greater returns are usually obtainable by investing for longer periods. The current shape of the yield curve suggests that is the case at present, but there is the prospect of Bank Rate peaking in the first half of 2023 and possibly reducing as early as the latter part of 2023 so an agile investment strategy would be appropriate to optimise returns.

9.4.2 Accordingly, while most cash balances are required in order to manage the ups and downs of cash flow, where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer-term investments will be carefully assessed.

9.4.3 Investment returns expectations.

The current forecast shown in paragraph 3.4, includes a forecast for Bank Rate to reach 4.5% in Q2 2023.

9.4.4 The suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year are as follows:

Average earning in each year	
2022/23 (remainder)	4.30%
2023/24	4.30%
2024/25	3.20%
2025/26	2.60%
2026/27	2.50%
Years 6 – 10	2.80%
Years 10+	2.80%

As there are so many variables at this time, caution must be exercised in respect of all interest rate forecasts.

9.4.5 For its cash flow generated balances, the Authority will seek to utilise its business reserve instant access and notice accounts, Money Market Funds and short-dated deposits, (overnight to 100 days), in order to benefit from the compounding of interest.

9.4.6 The Authority does not expect to have sums available for investment longer than 365 days.

9.5 Investment Performance / Risk Benchmarking

9.5.1 This Authority will use an investment benchmark to assess the investment performance of its investment portfolio.

9.6 End of Year Investment Report

9.6.1 At the end of the financial year, the Authority will report on its investment activity as part of its Annual Treasury Report.

9.7 Delegation to the Treasurer to Safeguard the Authority's Position

9.7.1 It may be prudent, depending on circumstances, to temporarily increase the limits shown in paragraph 4.2.7 if it becomes increasingly difficult for officers to place funds. If this is the case officers will seek approval from the Treasurer for such an increase and approval may be granted at the Treasurer's discretion. Any increase in the limits will be reported to Members of the Audit Committee as part of the normal treasury management reporting process.

Appendix A – The Capital Prudential and Treasury Indicators 2023/24 – 2025/26

The Authority's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

1. Capital Expenditure

Capital expenditure £m	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Transport	193.942	260.451	346.419	388.641	356.036
Economic Development & Regeneration	269.558	173.290	215.407	140.211	56.849
Fire & Rescue Service	6.861	13.375	23.177	26.759	18.414
Waste & Resources Service	15.554	14.935	6.780	5.570	4.520
Police Service	41.009	38.618	37.551	37.551	37.551
Total	**526.924**	**500.669**	**629.334**	**598.732**	**473.370**

2. Affordability Prudential Indicators

The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Authority's overall finances. The Authority is asked to approve the following indicators.

Ratio of Financing Costs to Net Revenue Stream

This indicator identifies the trend in the cost of capital, (borrowing and other long-term obligation costs net of investment income), against the net revenue stream.

%	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Ratio of Financing Costs to Net Revenue Stream	17.2%	15.3%	16.7%	16.3%	15.9%

Maturity Structure of Borrowing

Maturity structure of borrowing. These gross limits are set to reduce the Authority's exposure to large, fixed rate sums falling due for refinancing, and are required for upper and lower limits.

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

Maturity structure of fixed interest rate borrowing 2023/24		
	Lower	**Upper**
Under 12 months	0%	40%
12 months to 2 years	0%	40%
2 years to 5 years	0%	40%
5 years to 10 years	0%	40%
10 years to 20 years	0%	50%
20 years to 30 years	0%	50%
30 years to 40 years	0%	50%
40 years to 50 years	0%	50%

Appendix B – Interest Rate Forecasts 2022 – 2025

Link Group Interest Rate View 7 February 2023

	Mar-23	**Jun-23**	**Sep-23**	**Dec-23**	**Mar-24**	**Jun-24**	**Sep-24**	**Dec-24**	**Mar-25**	**Jun-25**	**Sep-25**	**Dec-25**	**Mar-26**
Bank Rate	4.25	4.50	4.50	4.25	4.00	3.75	3.25	3.00	2.75	2.75	2.50	2.50	2.50
3 month ave earnings	4.30	4.50	4.50	4.30	4.00	3.80	3.30	3.00	2.80	2.80	2.50	2.50	2.50
6 month ave earnings	4.40	4.50	4.40	4.20	3.90	3.70	3.20	2.90	2.80	2.80	2.60	2.60	2.60
12 month ave earnings	4.50	4.50	4.40	4.20	3.80	3.60	3.10	2.70	2.70	2.70	2.70	2.70	2.70
5 yr PWLB	4.00	4.00	3.90	3.80	3.70	3.60	3.50	3.40	3.30	3.20	3.10	3.10	3.10
10 yr PWLB	4.20	4.20	4.10	4.00	3.90	3.80	3.60	3.50	3.50	3.40	3.30	3.30	3.20
25 yr PWLB	4.60	4.60	4.40	4.30	4.20	4.10	3.90	3.80	3.70	3.60	3.50	3.40	3.40
50 yr PWLB	4.30	4.30	4.20	4.10	3.90	3.80	3.60	3.60	3.40	3.30	3.20	3.20	3.10

Appendix C – Economic Background

1 Against a backdrop of stubborn inflationary pressures, the easing of Covid restrictions in most developed economies, the Russian invasion of Ukraine, and a range of different UK Government policies, it is no surprise that UK interest rates have been volatile right across the curve, from Bank Rate through to 50-year gilt yields, for all of 2022.

2 Market commentators' misplaced optimism around inflation has been the root cause of the rout in the bond markets with, for example, UK, Eurozone (EZ) and United States (US) 10-year yields all rising by over 200 basis points (bps) in 2022. The table below provides a snapshot of the conundrum facing central banks: inflation is elevated but labour markets are extra-ordinarily tight, making it an issue of fine judgment as to how far monetary policy needs to tighten.

	UK	**Eurozone**	**US**
Bank Rate	4.0%	2.5%	4.5% - 4.75%
Gross Domestic Product	-0.3%q/q Q3 (1.9%y/y)	+0.1%q/q Q4 (1.9%y/y)	2.9% Q4 Annualised
Inflation	10.5%y/y (Dec)	8.5%y/y (Jan)	6.5%y/y (Dec)
Unemployment Rate	3.7% (Nov)	6.6% (Dec)	3.4% (Jan)

3 Q2 of 2022 saw UK GDP revised upwards to +0.2% q/q, but this was quickly reversed in the third quarter, albeit some of the fall in GDP can be placed at the foot of the extra Bank Holiday in the wake of the Queen's passing. Nevertheless, CPI inflation picked up to what should be a peak reading of 11.1% in October, although with further increases in the gas and electricity price caps pencilled in for April 2023, and the cap potentially rising from an average of £2,500 to £3,000 per household, there is still a possibility that inflation will face some further upward pressures before dropping back slowly through 2023 to finish the year in the range of 4% - 5%.

4 The UK unemployment rate fell to a 48-year low of 3.6%, and this despite a net migration increase of c500k. The fact is that with many economic participants registered as long-term sick, the UK labour force actually shrunk by c500k in the year to June 2022. Without an increase in the labour force participation rate, it is hard to see how the UK economy will be able to grow its way to prosperity, and with average wage increases running at over 6% the MPC will be concerned that wage inflation will prove just as sticky as major supply-side shocks to food and energy that have endured since Russia's invasion of Ukraine on 22 February 2022.

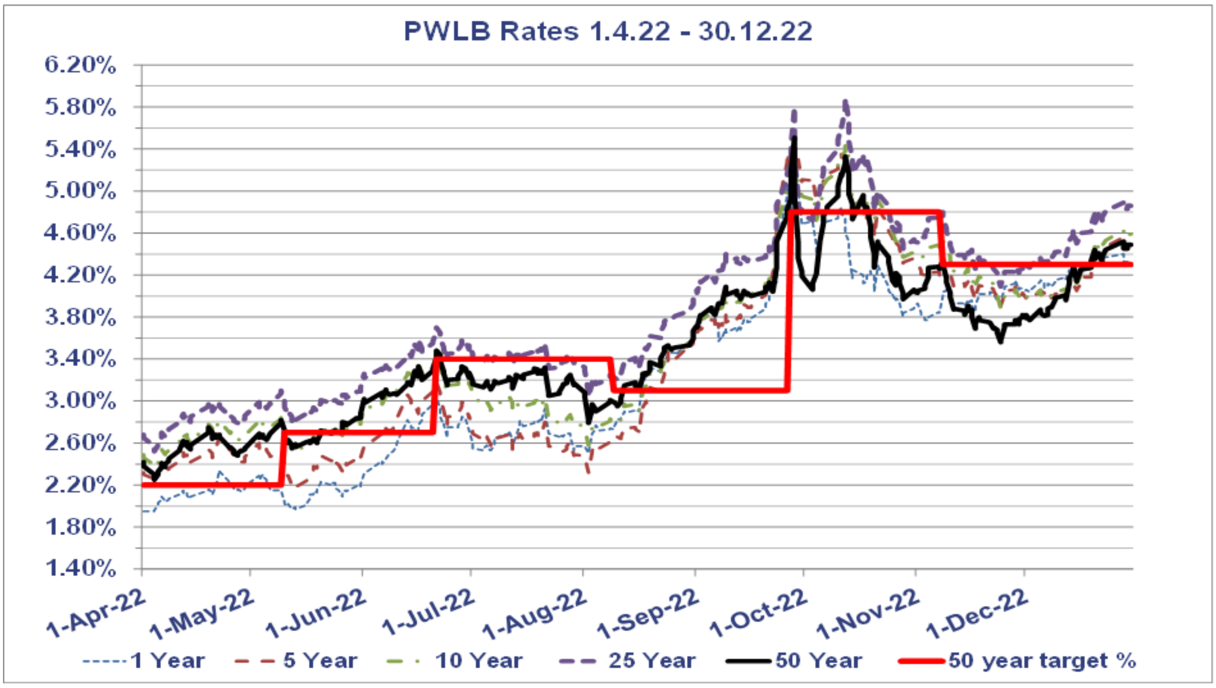
5 Throughout Q3 Bank Rate increased, finishing the quarter at 2.25% (an increase of 1%). Since then, rates rose to 3.5% in December 2022 and 4% in February 2023 and the market currently expects Bank Rate to hit 4.5% by June 2023.

6 Following a Conservative Party leadership contest, Liz Truss became Prime Minister for a tumultuous seven weeks that ran through September 2022 and October 2022. Put simply, the markets did not like the unfunded tax-cutting and heavy spending policies put forward by her Chancellor, Kwasi Kwarteng, and their reign lasted barely seven weeks before being replaced by Prime Minister Rishi Sunak and Chancellor Jeremy Hunt. Their Autumn Statement of the 17 November 2022 gave rise to a net £55bn fiscal tightening, although much of the "heavy lifting" has been left for the next Parliament to deliver. However, the markets liked what they heard, and UK gilt yields have completely reversed the increases seen under the previous tenants of No10/11 Downing Street.

7 Globally, though, all the major economies are expected to struggle in the near term. The fall below 50 in the composite Purchasing Manager Indices for the UK, US, EZ and China all point to at least one, if not more, quarters of GDP contraction in 2023. In November 2022, the MPC projected eight quarters of negative growth for the UK lasting throughout 2023 and 2024, but with Bank Rate set to peak at lower levels than previously priced in by the markets and the fiscal tightening deferred to some extent, it is not clear that things will be as bad as first anticipated by the Bank. Indeed, their February 2023 Monetary Policy Report suggests five quarters of negative growth, albeit a shallow recession with GDP expected to shrink 0.5% in 2023 and 0.25% in 2024.

8 The £ has remained resilient of late, recovering from a record low of $1.035, on the Monday following the Truss government's "fiscal event", to $1.22. Notwithstanding the £'s better run of late, 2023 is likely to see a housing correction of some magnitude as fixed-rate mortgages have moved above 5% and affordability has been squeezed despite proposed Stamp Duty cuts remaining in place.

9 In the table below, the rise in gilt yields, and therein Public Works Loan Board (PWLB) rates, through the first nine months of 2022/23 is clear to see.



10 However, the peak in rates on 28 September 2022 as illustrated in the table covering April 2022 to December 2022 below, has been followed by the whole curve shifting ever lower. PWLB rates at the front end of the curve are generally over 1.25% lower now whilst the 50 years is over 1% lower.

	1 Year	**5 Year**	**10 Year**	**25 Year**	**50 Year**
Low	1.95%	2.18%	2.36%	2.52%	2.25%
Date	1 April 2022	13 May 2022	4 April 2022	4 April 2022	4 April 2022
High	5.11%	5.44%	5.45%	5.88%	5.51%

Date	28 September 2022	28 September 2022	12 October 2022	12 October 2022	28 September 2022
Average	3.26%	3.41%	3.57%	3.85%	3.51%
Spread	3.16%	3.26%	3.09%	3.36%	3.26%

11 The S&P 500 and FTSE 100 have climbed in the early weeks of 2023, albeit the former finished 19% down in 2022 whilst the latter finished up 1%.

Central Bank Concerns – November 2022

12 In December 2022, the Fed decided to push up US rates by 0.5% to a range of 4.25% to 4.5%, whilst the MPC followed by raising Bank Rate from 3% to 3.5%, in line with market expectations. EZ rates have also increased to 2% with further tightening in the pipeline.

13 Having said that, the press conferences in the US and the UK were very different. In the US, Fed Chair, Jerome Powell, stated that rates will be elevated and stay higher for longer than markets had expected. Governor Bailey, here in the UK, said the opposite and explained that the two economies are positioned very differently so you should not, therefore, expect the same policy or messaging.

14 At the start of February 2023, US rates have further increased by 0.25% to a range of 4.5% - 4.75%, whilst UK Bank Rate increased 0.5% to 4%.

15 Regarding UK market expectations, although they now expect Bank Rate to peak within a lower range of 4.25% - 4.5%, caution is advised as the Bank of England Quarterly Monetary Policy Reports have carried a dovish message over the course of the last year, only for the Bank to have to play catch-up as the inflationary data and labour market have proven stronger than expected.

16 In addition, the Bank's central message that GDP will fall for five quarters starting with Q1 2023 may prove to be a little pessimistic. Will the excess savings accumulated by households through the Covid lockdowns provide a spending buffer for the economy – at least to a degree? Ultimately, however, it will not only be inflation data but also employment data that will mostly impact the decision-

making process, although any softening in the interest rate outlook in the US may also have an effect (just as, conversely, greater tightening may also).

Appendix D – Treasury Management Practice (TMP) 1 – Credit and Counterparty Risk Management

1. **SPECIFIED INVESTMENTS:** All such investments will be sterling denominated, with **maturities up to a maximum of 1 year**, meeting the minimum 'high' quality criteria where applicable. (Non-specified investments which would be specified investments apart from originally being for a period longer than 12 months, will be classified as being specified once the remaining period to maturity falls to under twelve months.)

2 **NON-SPECIFIED INVESTMENTS**: These are any investments which do not meet the specified investment criteria. The Authority does not invest for periods longer than 1 year and therefore does not have any non-specified investments.

3 A variety of investment instruments will be used, subject to the credit quality of the institution, and depending on the type of investment made, it will fall into one of the above categories.

4 The criteria, time limits and monetary limits applying to institutions or investment vehicles are:

	Minimum credit criteria / colour band	Max % of total investments / £ limit per institution	Max. maturity period
Debt Management Account Deposit Facility (DMADF) – UK Government	yellow	100%/ unlimited	6 months (max. is set by the Debt Management Office (DMO)
UK Government gilts	yellow	Not used	5 years
UK Government Treasury bills	yellow	Not used	364 days (max. is set by the DMO*)
Bonds issued by multilateral development banks	yellow	Not used	5 years
Money Market Funds	AAA	100%/ £25m	Liquid
Ultra-Short Dated Bond Funds with a credit score of 1.25	AAA	Not used	Liquid
Ultra-Short Dated Bond Funds with a credit score of 1.5	AAA	Not used	Liquid

Local authorities	yellow	100%/ £25m	5 years
Term deposits with housing associations	Blue Orange Red Green No Colour	Not used	12 months 12 months 6 months 100 days Not for use
Term deposits with banks and building societies	Blue Orange Red Green No Colour	100%/ £25m	12 months 12 months 6 months 100 days Not for use
CDs or corporate bonds with banks and building societies	Blue Orange Red Green No Colour	100%/ £25m	12 months 12 months 6 months 100 days Not for use
Gilt funds	UK sovereign rating	Not used	

Appendix E – Approved Countries for Investments

This list is based on those countries which have sovereign ratings of AA- or higher, (we show the lowest rating from Fitch, Moody's and S&P) and also, (except - at the time of writing - for Hong Kong and Luxembourg), have banks operating in sterling markets which have credit ratings of green or above in the Link creditworthiness service.

Based on lowest available rating

AAA

a) Australia
b) Denmark
c) Germany
d) Netherlands
e) Norway
f) Singapore
g) Sweden
h) Switzerland

AA+

a) Canada
b) Finland
c) U.S.A.

AA

a) Abu Dhabi (UAE)
b) France

AA-

a) Belgium
b) Qatar
c) U.K.

Appendix F – Treasury Management Scheme of Delegation

Full Authority

a) receiving and reviewing reports on treasury management policies, practices and activities;

b) approval of annual strategy.

Audit Committee

a) approval of/amendments to the organisation’s adopted clauses, treasury management policy statement and treasury management practices;

b) budget consideration and approval;

c) approval of the division of responsibilities; and

d) receiving and reviewing regular monitoring reports and acting on recommendations.

Treasurer

a) reviewing the treasury management policy and procedures and making recommendations to the responsible body.

Appendix G – The Treasury Management Role of the Section 151 Officer

The S151 (responsible) officer

a) recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance;
b) submitting regular treasury management policy reports;
c) submitting budgets and budget variations;
d) receiving and reviewing management information reports;
e) reviewing the performance of the treasury management function;
f) ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
g) ensuring the adequacy of internal audit, and liaising with external audit; and
h) recommending the appointment of external service providers.