

## Treasury Management Strategy Statement 2023/24

### 1.1 Background

The Council 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 Council's low risk appetite, providing adequate liquidity initially before considering investment return. The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning, to ensure that the Council 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 Council risk or cost objectives.

The contribution the treasury management function makes to the Council 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.

CIPFA defines treasury management as:

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

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. Investments held for service purposes or for commercial profit are considered in the Capital and Investment Strategy rather than the Treasury Management Strategy document. This will cover in detail the capital plans for the Council (including the capital related prudential indicators), the minimum revenue provision (MRP) policy and non-financial investments (such as Property).

### 1.2 Reporting requirements

### 1.2.1 Treasury Management reporting

The Council 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 treasury management strategy, (how the investments and borrowings are to be organised), including treasury indicators; and
  - an investment strategy, (the parameters on how investments are to be managed).
  
- b. **A mid-year treasury management report** – Receiving this report is delegated to the Audit and Governance Committee, it is primarily a progress report and will update members on the capital position, amending prudential indicators as necessary, and whether any policies require revision.
  
- c. **An annual treasury report** – Receiving this report is delegated to the Audit and Governance Committee, it 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.

### 1.3 Treasury Management Strategy for 2023/24

The strategy for 2023/24 covers:

- the current treasury position;
- treasury indicators which limit the treasury risk and activities of the Council;
- prospects for interest rates;
- the borrowing strategy;
- policy on borrowing in advance of need;
- debt rescheduling;
- the investment strategy;
- creditworthiness policy; and
- the policy on use of external service providers.

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

### 1.4 Training

The CIPFA 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. Members of the Audit and Governance Committee attended a Treasury Management training session in November 2022 and further training will be arranged as required. The training needs of treasury management officers are periodically reviewed.

Representatives from the Council's treasury management advisors have also met and discussed treasury management activities with the Cabinet Member for Accessible Housing and Resources and the Deputy Cabinet Member for Accessible Housing and Resources.

### **1.5 Treasury management consultants**

The Council uses Link Group, Treasury solutions as its external treasury management advisors. The Council 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.

## 2 The Capital Financing Requirement 2022/23 – 2024/25

The Capital and Investment Strategy covers in detail the capital expenditure plans for the Council (including the capital related prudential indicators), the minimum revenue provision (MRP) policy and non-financial investments (such as Property).

### 2.1 The Council's borrowing need (the Capital Financing Requirement)

The Council's Capital Financing Requirement (CFR) is 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 Council's indebtedness and so its underlying borrowing need. Any capital expenditure which has not immediately been paid for through a revenue or capital resource, will increase the CFR.

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.

<b>£m</b>	<b>2021/22 Actual</b>	<b>2022/23 Estimate</b>	<b>2023/24 Estimate</b>	<b>2024/25 Estimate</b>	<b>2025/26 Estimate</b>
<b>Capital Financing Requirement</b>					
	571.49	570.42	667.48	656.90	637.70

### 3 Borrowing

The treasury management function ensures that the Council’s cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity and the Council’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.

#### 3.1 Current portfolio position

1.1 The table below is a summary of the Council’s borrowing position:

£000	1st April 2020	31st March 2021	31st March 2022	30th Dec 2022	31st March 2023	31st March 2024
PWLB <sup>1</sup>	333,193	286,459	279,638	<b>263,692</b>	262,728	255,728
LOBO <sup>2</sup>	30,000	30,000	30,000	<b>30,000</b>	30,000	30,000
Total	363,193	316,459	309,638	<b>293,692</b>	292,728	285,728

The Council’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
<b>External Debt</b>					
Debt at 1 April	316.46	309.64	292.72	385.73	378.63
Expected change in Debt	-6.82	-16.92	93.01	-7.10	-7.19
Actual gross debt at 31 March	309.64	292.72	385.73	378.63	371.44
The Capital Financing Requirement	571.49	570.42	667.48	656.90	652.67
Under / (over) borrowing	<b>261.85</b>	<b>277.70</b>	<b>281.75</b>	<b>278.27</b>	<b>281.23</b>

Within the range of prudential indicators there are a number of 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 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. The 2023/24 and later financial years includes the £100m potential borrowing that Council has delegated to Cabinet where there exists a robust and financially viable business case.

The Service Director of Finance reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future.

### 3.2 Treasury Indicators: limits to borrowing activity

**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. The total estimate includes the £100m potential borrowing that Council has delegated to Cabinet where there exists a robust and financially viable business case.

Operational boundary £m	2022/23	2023/24	2024/25	2025/26
	Estimate	Estimate	Estimate	Estimate
Debt	320	410	410	410
Other long-term liabilities	7.5	7.5	7.5	7.5
<b>Total</b>	<b>327.5</b>	<b>417.5</b>	<b>417.5</b>	<b>417.5</b>

**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 approved by full Council. If there is a possibility that the Council is likely to exceed the agreed authorised limit, then full Council approval would be required in advance. 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.

1. 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 councils' plans, or those of a specific council, although this power has not yet been exercised.
2. The Council is asked to approve the following authorised limit:

Authorised Limit £m	2022/23	2023/24	2024/25	2025/26
	Estimate	Estimate	Estimate	Estimate
Debt	420	510	510	510
Other long-term liabilities	10	10	10	10
<b>Total</b>	<b>430</b>	<b>520</b>	<b>520</b>	<b>520</b>

**Maturity structure of borrowing.** These gross limits are set to reduce the Council's exposure to large, fixed rate sums falling due for refinancing, and are required for upper and lower limits. The Council is asked to approve the following treasury indicator and limits:

<b>Maturity structure of borrowing 2023/24</b>		
	<b>Lower</b>	<b>Upper</b>
Under 12 months	0%	18%
12 months to 2 years	0%	20%
2 years to 5 years	0%	17%
5 years to 10 years	0%	36%
10 years to 20 years	0%	34%
20 years to 30 years	0%	34%
30 years to 40 years	0%	32%
40 years to 50 years	0%	20%
40 years to 50 years	0%	12%

### 3.3 Prospects for interest rates

Part of the Link Group service is to assist the Council to formulate a view on interest rates. Link provided the following forecasts on 19<sup>th</sup> December 2022. These are forecasts for certainty rates, gilt yields plus 0.8%.

Link Group Interest Rate View	19.12.22												
	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
BANK RATE	3.50	4.25	4.50	4.50	4.50	4.00	3.75	3.50	3.25	3.00	2.75	2.50	2.50
3 month ave earnings	3.60	4.30	4.50	4.50	4.50	4.00	3.80	3.30	3.00	3.00	2.80	2.50	2.50
6 month ave earnings	4.20	4.50	4.60	4.50	4.20	4.10	3.90	3.40	3.10	3.00	2.90	2.60	2.60
12 month ave earnings	4.70	4.70	4.70	4.50	4.30	4.20	4.00	3.50	3.20	3.10	3.00	2.70	2.70
5 yr PWLB	4.20	4.20	4.20	4.10	4.00	3.90	3.80	3.60	3.50	3.40	3.30	3.20	3.10
10 yr PWLB	4.30	4.40	4.40	4.30	4.10	4.00	3.90	3.80	3.60	3.50	3.40	3.30	3.30
25 yr PWLB	4.60	4.60	4.60	4.50	4.40	4.20	4.10	4.00	3.90	3.70	3.60	3.50	3.50
50 yr PWLB	4.30	4.30	4.30	4.20	4.10	3.90	3.80	3.70	3.60	3.50	3.30	3.20	3.20

Bank rate is currently 3.5%, it is forecast to reach a peak of 4.5% in the second half of 2023.

### 3.4 Borrowing strategy

The Council 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 Council'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.

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

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

Any decisions will be reported to the Audit and Governance Committee and the Treasury Management Group at the next available opportunity. The Treasury Management Group comprises the Cabinet Member for Accessible Housing and Resources, the Deputy Cabinet Member for Accessible Housing and Resources, Service Director of Finance and treasury management officers.

### 3.5 Policy on borrowing in advance of need

The Council 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 Council can ensure the security of such funds.



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.

### 3.6 Debt rescheduling

Rescheduling of current borrowing in our debt portfolio is unlikely to occur as there is still a very large difference between premature redemption rates and new borrowing rates. If rescheduling was done, it will be reported to the Treasury Management Group and the Audit and Governance Committee.

### 3.7 New financial institutions as a source of borrowing and / or types of borrowing

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

- Local authorities (primarily shorter dated maturities out to 3 years or so – still cheaper than the Certainty Rate).
- 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).
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues.

### 3.8 Approved sources of long- and short-term borrowing

The table below lists the sources of long and short term borrowing, the bullet indicates whether the source of borrowing could be a fixed rate of interest or a variable rate of interest.

<b>On Balance Sheet</b>	<b>Fixed</b>	<b>Variable</b>
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 & revenue balances)	●	●
Commercial Paper	●	
Medium Term Notes	●	
Finance leases	●	●

## 4 Annual Investment Strategy

### 4.1 Investment policy – management of risk

The Department of Levelling Up, Housing and Communities (DLUHC) 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, are covered in the Capital and Investment Strategy, (a separate report).

The Council’s investment policy has regard to the following: -

- DLUHC’s Guidance on Local Government Investments (“the Guidance”)
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2021 (“the Code”)
- CIPFA Treasury Management Guidance Notes 2021

The Council’s investment priorities will be security first, portfolio liquidity second and then yield, (return). The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and with the Council’s risk appetite. In the current economic climate, it is considered appropriate to maintain a degree of liquidity to cover cash flow needs but the Council will also consider investing for periods up to 12 months with high credit rated financial institutions, whilst investment rates remain elevated.

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

1. 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.
2. **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 Council 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.
3. **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.
4. This Council has defined the list of **types of investment instruments** that the treasury management team are authorised to use.

- **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 more than one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use.
5. **Non-specified and loan investment limits.** The maximum exposure of the total treasury management investment portfolio to non-specified treasury management investments of £100m.
  6. **Lending limits**, (amounts and maturity), for each counterparty will be set through applying the matrix table in paragraph 4.2.
  7. **Transaction limits** are set for each type of investment in 4.2.
  8. This Council will set a limit for its investments which are invested for **longer than 365 days**, (see paragraph 4.4).
  9. Investments will only be placed with counterparties from countries with a specified minimum **sovereign rating**, (see paragraph 4.3).
  10. This Council 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 Council in the context of the expected level of cash balances and need for liquidity throughout the year.
  11. All investments will be denominated in **sterling**.

However, this Council 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.

#### **Changes in risk management policy from last year.**

The above criteria are unchanged from last year.

#### **4.2 Creditworthiness policy**

This Council applies the creditworthiness service provided by the Link Group 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:

- "watches" and "outlooks" from credit rating agencies;
- Credit Default Swaps spreads that may give early warning of changes in credit ratings;
- sovereign ratings to select counterparties from only the most creditworthy countries.

This approach combines credit ratings, and any assigned Watches and Outlooks in a weighted scoring system which is then combined with an overlay of Credit Default Swaps 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 Council to determine the suggested duration for investments. The Council will, therefore, use counterparties within the following durational bands:

- Yellow 5 years \*
- Dark pink 5 years for Ultra-Short Dated Bond Funds with a credit score of 1.25
- Light pink 5 years for Ultra-Short Dated Bond Funds with a 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

Typically, the minimum credit ratings criteria the Council use 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.

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

- if a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment 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 daily. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

Sole reliance will not be placed on the use of this external service. In addition, the Council 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
			<b>Colour (and long-term rating where applicable)</b>	<b>Counterparty Limit £m</b>	<b>Transaction limit £m</b>	<b>Time limit</b>		
Banks *			yellow	£20m	£10m	5 years		
Banks			purple	£20m	£10m	2 years		

Banks	orange	£20m	£10m	1 year
Banks – part nationalised	blue	£20m	£10m	1 year
Banks and Building Societies	red	£10m	£5m	6 months
Banks and Building Societies	green	£10m	£5m	100 days
Banks	No colour	Not to be used	-	-
Limit 3 category – Council’s banker (where “No Colour”)	-	Minimal balances	Minimal balances	1 day
Debt Management Agency Deposit Facility (UK Government)	UK sovereign rating	Unlimited	£100m	6 months
Local authorities (sector limit £150m)	n/a	£10m	£10m	5 years
Housing associations (sector limit £25m)	Colour bands	£5m	£5m	As per colour band
	<b>Fund rating**</b>	<b>Counterparty Limit</b>		<b>Time Limit</b>
Money Market Funds CNAV <sup>1</sup>	AAA	£30m		liquid
Money Market Funds LVNAV <sup>2</sup>	AAA	£30m		liquid
Money Market Funds VNAV <sup>3</sup>	AAA	£30m		liquid
Ultra-Short Dated Bond Funds with a credit score of 1.25	Dark pink / AAA	£30m		liquid
Ultra-Short Dated Bond Funds with a credit score of 1.50	Light pink / AAA	£30m		liquid

\* The yellow category is for UK government debt or its equivalent.

\*\* Fund ratings are different to individual counterparty ratings.

CNAV<sup>1</sup> – Constant Net Asset Value

LVNAV<sup>2</sup> – Low Volatility Net Asset Value

VNAV<sup>3</sup> – Variable Net Asset Value

### **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 United Kingdom sovereign debt rating has been placed on Negative Outlook by the three major rating agencies. It is possible that the UK

sovereign debt rating will be downgraded, the Council will not set a minimum rating for the United Kingdom.

### **Credit Default Swaps prices**

Although bank Credit Default Swaps prices, (these are market indicators of credit risk), are currently at average levels, sentiment can easily shift, so it will remain important to undertake continual monitoring of all aspects of risk and return in the current circumstances.

### **Other Local Authorities**

The Council will invest with other local authorities, the investment can only be placed with the prior approval of the Council Leader, the Chief Executive and the Service Director of Finance or deputies in the case of leave. If a local authority that the Council has invested in subsequently issues a section 114 or is given a capitalisation directive, or any other untoward financial event experienced by an authority who the Council held an investment in will be reported to the Audit and Governance Committee at the earliest opportunity.

### **Buckinghamshire Council's Bank**

The Council frequently receives cash without prior notification from the sender. There is a possibility that a large receipt or several smaller receipts could be received once the daily treasury dealing process is completed resulting in overnight cash at the Council's bank exceeding the counterparty limit as defined by the treasury management strategy. If this occurs the cash will be invested with other counterparties in line with the treasury management strategy the following day.

## **4.3 Other limits**

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

- a) **Non-specified treasury management investment limit.** The maximum total exposure of treasury management investments to non-specified treasury management investments is limited to £100m treasury management investment portfolio.
- b) **Country limit.** The Council will only use approved counterparties from the UK and from countries with a **minimum sovereign credit rating of AAA** from Fitch (or equivalent). The cash limit for AAA sovereign rated countries is £20m per country and £40m in aggregate – Australia, Denmark, Germany, Luxembourg, Netherlands, Norway, Singapore, Sweden and Switzerland are AAA. These lists will be added to, or deducted from, by officers should ratings change in accordance with this policy.
- c) **Other limits.** In addition:
  - limits in place above will apply to a group of companies;
  - sector limits will be monitored regularly for appropriateness.

## **4.4 Investment strategy**

**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. While most cash balances are required 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.

**Investment treasury indicator and limit** - total principal funds invested for greater than 365 days. These limits are set with regard to the Council’s liquidity requirements and to reduce the need for early sale of an investment and are based on the availability of funds after each year-end.

The Council is asked to approve the following treasury indicator and limit:

<b>Upper limit for principal sums invested for longer than 365 days</b>			
<b>£m</b>	<b>2022/23</b>	<b>2023/24</b>	<b>2024/25</b>
Principal sums invested for longer than 365 days	£25m	£25m	£25m
Current investments on 31 <sup>st</sup> December 2022 more than 1 year maturing in each year	£0m	£10m	£0m

#### **4.5 Investment performance / risk benchmarking**

This Council will use an investment benchmark to assess the investment performance of its investment portfolio of overnight, 7-day SONIA (Sterling Overnight Index Average) compounded rate.

#### **4.6 End of year investment report**

At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Report to the Audit and Governance Committee.

#### **4.7 External fund managers**

£19.5m of the Council’s funds are externally managed in a pooled property fund by CCLA (Churches, Charities and Local Authorities). A significant proportion of the Council’s funds are invested in liquid Money Market Funds (MMF), there is a limit of £30m per MMF but no overall sector limit.

The Council fully appreciates the importance of monitoring the activity and resultant performance of its appointed external fund manager. To aid this assessment, the Council is provided with a suite of regular reporting from its managers.

#### **Related Matters**

The CIPFA Code requires the Council to include the following in its treasury management strategy.



**Financial Derivatives:** Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g., interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in Section 1 of the *Localism Act 2011* removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e., those that are not embedded into a loan or investment).

The Council will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Council is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy. The Council will only use derivatives for risk management purposes, not for speculative purposes.

Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria, assessed using the appropriate credit rating for derivative exposures. An allowance for credit risk will count against the counterparty credit limit and the relevant foreign country limit.

In line with the CIPFA Code, the Council will seek external advice and will consider that advice before entering into financial derivatives to ensure it fully understands the implications. After undertaking due diligence and seeking advice from the Council's treasury advisers, the Council will only enter into financial derivatives if there is a strong case and the proposal is approved by the Cabinet Member for Accessible Housing and Resources. The Chairman of the Audit and Governance Committee will be notified before the Council enters into financial derivatives.