Mayor and Cabinet

Treasury Management Strategy 2022/23

Date: 2 February 2022

Key decision: Yes

Class: Part 1.

Ward(s) affected: All

Contributors: Director of Finance

Outline:

The purpose of this report is to set out the following:

- A review of the Treasury Management Strategy;
- An update on the Council's prudential indicators;
- A review of the Council's investment portfolio for 2021/22;
- A review of compliance with treasury and prudential limits for 2021/22; and
- A review of the Council's borrowing strategy for 2022/23.

Recommendations:

Mayor and Cabinet are recommended to:

1. approve and recommend that Council approves the prudential indicators and treasury indicators, as set out in section 6 and 7 of this report;
2. approve and recommend that Council approves the Annual Investment Strategy and Creditworthiness Policy, set out in further detail at Appendix 2;
3. approve and recommend that Council approves the Investment Strategy as set out in section 5 of this report, along with the operational boundary & authorised limit for the year as set out in section 7 of this report;
4. approve and recommend that Council approves the Minimum Revenue Provision (MRP) policy as set out in section 6 of this report;
5. agrees and recommends that Council agrees to delegate to the Executive Director of Corporate Resources authority during 2022/23 to make amendments to borrowing and investment limits provided they are consistent with the strategy and there is no change to the Council's authorised limit for borrowing; and
6. approve and recommend that Council approves the overall credit and counterparty risk management criteria, as set out at Appendix 2, the proposed countries for investment at Appendix 5, and that it formally delegates responsibility for managing transactions with those institutions which meet the criteria to the Executive Director for Corporate Resources.

Timeline of engagement and decision-making:

9 February 2022 – Treasury Management Strategy 2022/23 to Mayor & Cabinet

2 March 2022 – Treasury Management Strategy 2022/23 to Council

1. Summary

Economic Context and Interest Rate Forecast

1.1 The economic recession triggered by the pandemic in 2020 continued into 2021 and the Omicron variant caused a further economic slump. In December 2021 the Bank of England figures confirmed an interest rate rise to 0.25% from 0.10%, quantitative easing totalling £895bn, and inflation at 4.6%*.

1.2 Although the Bank of England raised the interest rate in December 2021, forecasts have been set for another rate hike in June 2022 to 0.50% from 0.25%, and then further increases by 0.25% each March for the following three years until 2025 – see Appendix 1 for more information.

1.3 The reduction to the UK Bank Rate, as a result of the pandemic has caused Lewisham to see significantly lower return on investments when placing funds in fixed deposit and notice accounts. The pace and scale of future changes to the Bank Rate are of concern to Lewisham as low rates directly impacts return on investment.

1.4 The Government's inflation target for the United Kingdom is defined in terms of the Consumer Price Index (CPI) measure of inflation which excludes mortgage interest payments. Since April 2011, the CPI has also been used for the indexation of benefits, tax credits, and public service pensions.

The Bank of England forecast is that CPI inflation will rise to about 5% in Q2 of 2022 as household energy prices increase further than current levels. Nevertheless, in the November monetary policy report, global goods price inflation forecast is expected to slow markedly from December onwards, as supply bottlenecks ease and demand rotates further away from goods and back to services. Within the forecast, rising unemployment keeps pay growth subdued. The Bank of England's projection is that, as effects from higher energy prices and gains in global costs fade, CPI inflation will fall slightly below the 2% target over the three years ahead to 2025.

1.5 This report sets out the current economic conditions in which the Council is operating in respect of its investments and borrowing. There have been no major changes to the Treasury Management Strategy in 2021 aside from the consultation and subsequent update to the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice, although implementation is not required until 2023/24, more information is set out in Appendix 7.

1.6 Additionally, in 2021, CIPFA began a review of the Prudential Code for Capital Finance in Local Authorities (Prudential Code). The results of the consultation, and the update to the Prudential Code is not yet clear although this will be brought back to members and included within the Treasury Management Strategy in due course.

1.7 Borrowing – the Council's operational boundary and authorised limits of £498.60m and £604.46m respectively were not breached during the year 2021/22.

*December figures announced on 19th January, 4.6% was November figures published in December.

Background of Treasury Management Strategy

1.8 Our Investment Strategy will be focused on liquidity, security, yield, only investing in approved counterparties from the UK and from other countries with a minimum sovereign credit rating of AA-, further detail in Appendix 5 and 2.

1.9 Borrowing limits have also been specified within table 5. The operational boundary for 2022/23 is £607.0m, and the authorised limit for 2022/23 is £723.70m. It should be noted that the Council's operational boundary for 2021/22 of £498.60m, and the authorised limit for 2021/22 of £604.46m had not been breached in 2021/22 as at January 2022.

1.10 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 prudent risk appetite, ensuring adequate liquidity initially before considering investment return.

1.11 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.

1.12 The contribution the treasury management function makes to the authority is critical, as the balance of debt and investment operations ensure liquidity and the ability to meet spending commitments as they fall due, either for day-to-day revenue purposes or for larger capital projects. 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.

1.13 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.

1.14 Accordingly, treasury management is defined 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."

1.15 The Council complies with the requirements of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised 2017). The primary requirements of the 2017 Code are as follows:

a) Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities;

b) Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives;

c) Receipt by the full Council of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a Mid-year Review Report and an Annual Report (stewardship report) covering activities during the previous year;

d) Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions; and

e) Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body. For this Council the delegated body is the Public Accounts Select Committee

2. Recommendations

2.1. Mayor and Cabinet are recommended to:

2.1.1. approve and recommend that Council approves the prudential indicators and treasury indicators, as set out in section 6 and 7 of this report;

2.1.2. approve and recommend that Council approves the Annual Investment Strategy and Creditworthiness Policy, set out in further detail at Appendix 2;

2.1.3. approve and recommend that Council approves the Investment Strategy as set out in section 5 of this report, along with the operational boundary & authorised limit for the year as set out in section 7 of this report;

2.1.4. approve and recommend that Council approves the Minimum Revenue Provision (MRP) policy as set out in section 6 of this report;

2.1.5. agrees and recommends that Council agrees to delegate to the Executive Director of Corporate Resources authority during 2022/23 to make amendments to borrowing and investment limits provided they are consistent with the strategy and there is no change to the Council's authorised limit for borrowing; and

2.1.6. approve and recommend that Council approves the overall credit and counterparty risk management criteria, as set out at Appendix 2, the proposed countries for investment at Appendix 5, and that it formally delegates responsibility for managing transactions with those institutions which meet the criteria to the Executive Director for Corporate Resources.

3. Policy Context

3.1. The Council's Corporate Strategy identifies seven corporate priorities and four core values which are the driving force behind what we do as an organisation. It sets out a vision for Lewisham and priority outcomes that organisations, communities and individuals can work towards to make this vision a reality. Through the work on Covid recovery these are also supported by the four Future Lewisham themes.

3.2. In taking action to implement and review the Council's treasury management function, with the overriding objective to achieve security, maintain adequate liquidity, and seek yield in line with the Council's risk appetite, we will be driven by the Council's four core values:

- We put service to the public first;
- We respect all people and all communities;
- We invest in employees; and
- We are open, honest and fair in all we do.

3.3. These core values align with the Council's seven corporate priorities, as follows:

- **Open Lewisham** - Lewisham is a welcoming place of safety for all where we celebrate the diversity that strengthens us.
- **Tackling the housing crisis** - Everyone has a decent home that is secure and affordable.
- **Giving children and young people the best start in life** - Every child has access to an outstanding and inspiring education, and is given the support they need to keep them safe, well and able to achieve their full potential.
- **Building an inclusive local economy** - Everyone can access high quality job opportunities, with decent pay and security in our thriving and inclusive local economy.
- **Delivering and defending: health, social care and support** - Ensuring everyone receives the health, mental health, social care and support services they need.
- **Making Lewisham greener** - Everyone enjoys our green spaces, and benefits from a healthy environment as we work to protect and improve our local environment.
- **Building safer communities** - Every resident feels safe and secure living here as we work together towards a borough free from the fear of crime.

3.4. As the Council seeks to support the borough and its businesses and residents through the pandemic and beyond, this recovery is based on the four key themes of Future Lewisham, these are:

- A greener Lewisham;
- A healthy and well future;
- An economically sound future; and
- A future we all have a part in.

3.5. The Treasury Management Strategy will directly support the theme of an economically sound future for the borough and its residents.

4. Structure of the Report

This report is structured as follows:

1. Summary
    - Economic Context and Interest Rate Forecast
    - Background of Treasury Management Strategy
2. Recommendations
3. Policy Context
4. Structure of the Report
5. Investments
    - Annual Investment Strategy
    - Creditworthiness Policy
    - Investment Opportunity
6. Borrowing
    - Minimum Revenue Provision (MRP) Policy Statement
    - Borrowing, Treasury Indicators and Debt Rescheduling
7. Council's Capital Programme
    - Capital Investment Plans
    - Capital Strategy
    - Capital Position (Prudential Indicators)
8. Financial Implications
9. Legal Implications
10. Equalities Implications
11. Climate Change and Environmental Implications
12. Crime and Disorder Implications
13. Health and Wellbeing Implications
14. Background Papers (Appendices at end)
15. Report Author and Contacts

5. Investments

Annual Investment Strategy

5.1. The DLUHC (previously MHCLG) and CIPFA have extended the meaning of 'investments' to include both financial and non-financial investments. This report deals predominantly with financial instruments (as managed by the Strategic Finance – Treasury Team); non-financial investments, essentially the purchase of income yielding assets, are summarised at the end of this report and covered in detail within the separate Capital Strategy.

5.2. The Council's investment policy has regard to DLUHC's Guidance on Local Government Investments ("the Guidance"), the CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"), and CIPFA's Treasury Management Guidance Notes 2018.

5.3. The Council's investment priorities will be security first, liquidity second, then return. The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and within the Council's risk appetite. In the current economic climate it is considered appropriate to keep investments short term to cover cash flow needs. However, where appropriate (from an internal as well as external perspective), the Council will also consider the value available in periods up to 12 months with high credit rated financial institutions, as well as wider range fund options.

5.4. The outbreak of coronavirus in March 2020 and the global response in implementing lockdowns and coordinating economic support packages has created an unprecedented and prolonged period of economic and fiscal uncertainty, the impact of which is likely to be felt for years to come. In the UK, there has been a sharp recovery from impact of coronavirus as a result of the vaccination programme rollout and easing of restrictions, although there will be risks which will likely persist in both the short and medium term, including:

5.5. The pace and scale of any future changes to the UK Bank Rate, which will impact interest rates for investments that Lewisham have and will provide an increceing returns for the Council.

5.6. Geopolitical risks in Europe, the Middle East and Asia, which could lead to increasing safe haven flows that would keep foreign investment rates low and therefore would not improve the retruns for the Council's investments.

5.7. UK/EU trade negotiations causing significant economic disruption. This has caused supply issues and raised prices of construction materials which has then increased the cost of many of the Council's capital projects as well as delaying them.

5.8. The Council uses Link Group, Treasury Solutions as its external treasury management advisor. The Council recognises that responsibility for treasury management decisions remains with the Council at all times and will ensure that undue reliance is not placed upon our external service providers. All decisions will be undertaken with regards to all available information including, but not solely, our treasury advisors. It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council 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.

5.9. The Guidance and CIPFA Treasury Manangement Code place a high priority on the management of risk. The 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 which 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 this end, 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, as well as information on outlooks and watches. This is fully integrated into the credit methodology provided by the advisors in producing its colour codings which show the varying degrees of suggested institution creditworthiness. This has been set out in more detail at Appendix 2.
3. **Other information sources** used will include the financial press, share prices 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. The Council has defined the list of **types of investment instruments** that the treasury team are authorised to use in the financial year, and these are listed in Appendix 2 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; and
    - **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.
5. **Lending limits** (amounts and maturity) for each counterparty will be set through applying the credit criteria provided by advisors, and are set out in Appendix 2.
6. **Interest rate limits** are set out in paragraph 6.14 and Table 1 and place restrictions on the exposure to variable and fixed rate investments.
7. The Council has placed a limit on the amount of its investments which are invested for **longer than 365 days** (see paragraph 6.16 and Table 2).
8. Investments will only be placed with counterparties from countries with a specified minimum **sovereign rating** (see Appendix 5).
9. All investments will be denominated in **sterling**.
10. As a result of the change in accounting standards for 2018/19 under IFRS 9, the Council will, on an ongoing basis, consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant changes at the end of the year to the General Fund. The DLUHC enacted a statutory override in 2018/19 for a five year period over the requirement for any unrealised capital gains or losses on marketable pooled funds to be chargeable in year, giving local authorities time to initiate an orderly withdrawal of funds if required. The Council does not at present have any pooled investments, though has scope to do so as per the creditworthiness policy in Appendix 2.

5.10. Investments will be made with reference to the core balances and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months). In order to maintain sufficient liquidity, the Council will seek to utilise its notice accounts, money market funds and short-dated deposits (overnight to three months. The remainder of its investments will be placed in fixed term deposits of up to 24 months to generate improved returns, depending on prevailing market conditions.

Creditworthiness Policy

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

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

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

- Yellow 5 years*
- 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**

*for UK Government debt, or its equivalent, Constant Net Asset Value (CNAV) money market funds and collateralised deposits where the collateral is UK Government debt.
**except for those building societies rated BBB- or higher as set out in the policy.

Country limits

5.13. The Council has determined that it will only use approved counterparties from the UK and from other countries with a minimum sovereign credit rating of AA- from Fitch. The list of countries that qualify using this credit criteria as at the date of this report are shown in Appendix 5. This list will be added to, or deducted from, by officers should country ratings change in accordance with this policy.

Prior Updates to Investment Strategy

5.14. For the 2021/22 strategy, an additional unspecified investment was added to the creditworthiness policy at Appendix 2, namely the ability to invest in UK building societies with a minimum credit rating of BBB- from Fitch (or equivalent), specifically those that are shown on Link Group's lending list only (but which may be rated 'No colour') for a maximum of three months and limited to £10m per institution.

5.15. Very few building societies have credit ratings assigned to them due to the lack of large ticket funding transactions that would warrant a formal credit rating being issued by one of the three main ratings agencies, and only a select few within the top ten by asset size have been issued with one. A credit rating of BBB- remains within the 'investment grade' category, subject to moderate credit risk, which is reflected by the monetary and duration limits as set out above.

5.16. This addition to the strategy was made as a result of economic conditions and the reduced options available for investing at positive yields; in practice it opens up a limited number of two-three additional counterparties for consideration. Officers will continue to monitor the rating movements against these counterparties to ensure that any investments fall within the set criteria.

Prospects for Investment Returns

5.17. Investment returns are likely to remain low during 2022/23 with little increase expected in 2023/24. The coronavirus outbreak has caused huge economic damage to the UK and economies around the world. The Bank of England took emergency action in March 2020 to cut the Bank Rate to first 0.25%, and then to 0.10%. In December 2021, the Monetary Policy Committee (MPC) voted 8-1 to increase the Bank Rate back to 0.25%, with a view of a further increase in 2022.

5.18. Money market yields continued to drift lower and some managers resorted to trimming fee levels to ensure that net yields for investors remained in positive territory, or zero, where possible. Rates have seen a slight pick-up since the MPC agreed to raise the Bank Rate to 0.25%. Additionally, investor cash flow uncertainty, and the need to maintain liquidity in these unprecedented times, has resulted in a surplus of cash swilling around at the very short end of the market with only marginally positive returns.

5.19. The Council uses the services of its advisor, Link Group, to formulate a view on interest rates; their view is that there will be a steady increase in the Bank Rate up to at least March 2025 as economic recovery is expected to be gradual and therefore prolonged. Given this uncertainty, suggested investment returns are expected to remain low and money market related instruments will be sub 0.50% for the foreseeable future.

5.20. In light of these predictions for low returns the Council continues to assess, with support from its advisors, the potential risk and return offered by investing for longer (five or more years) in pooled asset funds. This policy is set with regard to the Council's liquidity requirements and to reduce the risk of a forced sub-optimal early sale of an investment; any investments entered into will be on the advice of the Council's advisors and will continue to meet the objectives of security, liquidity and return.

5.21. There is relatively little UK domestic risk of decreases in the Bank Rate and significant changes in shorter term PWLB rates. The Bank of England has effectively ruled out the use of negative interest rates and increases in the Bank Rate have already been seen although the rise will be gradual considering the underlying economic position. However, it is always possible that safe haven flows, due to unexpected domestic developments and those in other major economies, or a return of investor confidence in equities, could impact gilt yields (and so PWLB rates) in the UK.

5.22. A more extensive table of interest rate forecasts for December 2021 onwards, including Public Works Loan Board (PWLB) borrowing rate forecasts, is set out in Appendix 1.

Non-Treasury Investments

5.23. Treasury management investments represent the placement of cash in relation to the S12 Local Government Act 2003 investment powers, i.e. they represent investments using the residual cash available to the authority from its day to day activities, under security, liquidity and yield principles.

5.24. The Council recognises that non-treasury investments in other financial assets and property primarily for financial return, taken for non-treasury management purposes, requires careful management. Such investments tend to be either:

- Policy type investments; whereby capital or revenue cash is advanced for a specific Council objective and will be approved directly through Committee. This may be an advance to a third party for economic regeneration, investments in subsidiaries and joint ventures, etc.

- Strategic type investments; whereby the objective is primarily to generate capital or revenue resources to help facilitate Council services.

5.25. The Council's risk appetite for these investments is reviewed on a case-by-case basis depending on the scale and nature, and strategic fit, of the proposed investment. Where such non-treasury investments exist, they will be identified and summarised at high level within this strategy. The detail and rationale for non-treasury investments are covered in the separate Capital Strategy.

Subsidiary Companies

5.26. The Council has two wholly owned subsidiary companies, Lewisham Homes Limited and Catford Regeneration Partnership Limited (CRPL). It has invested in these subsidiaries as summarised below.

<u>Lewisham Homes Limited</u>

5.27. Lewisham Homes is an arms-length management organisation (ALMO) set up in 2007 as part of the Council's initiative to deliver better housing services and achieve the Decent Homes Standard. The company manages approximately 19,000 homes.

5.28. The Council has to date agreed two separate loan facilities with Lewisham Homes, the first on proxy commercial terms financed from internal borrowing and the second on cost-neutral terms financed through the PWLB. Both loans allow Lewisham Homes to purchase properties to address temporary accommodation needs in the borough, and will be repaid on set maturity dates.

5.29. Agreement of the property acquisition programme and relevant loan agreements was obtained from Mayor and Cabinet. State Aid issues and other risks and mitigations were considered in the approval of the loan facilities, including for the second loan the requirement for collateral against the loan in order to obtain MRP exemption.

5.30. As at 31 March 2022 the Council has advanced all £20m of the commercial loan facility, and all £20m of the agreed facility financed from PWLB debt.

<u>Catford Regeneration Partnership Limited (CRPL)</u>

5.31. The CRPL is a property investment company created in January 2010 which owns the Catford Shopping Centre and several neighbouring properties used to generate income whilst driving forward a regeneration programme for the town centre and surrounding area.

5.32. The Council has existing loan agreements in place with the CRPL, currently on an interest only basis, with interest being capitalised until 2024/25. As at 31 March 2022 the Council expects the outstanding loan principal to be approximately £15.0m, and £0.5m of capitalised interest.

Other Non-Treasury Investments

<u>Besson Street Joint Venture</u>

5.33. The Council is an equal equity partner in a joint venture with Grainger Plc. to bring forward the development of the currently vacant Besson Street site to provide properties for the Private Rented Sector on long term tenancies. The Council has invested land at this stage and will be required to put forward an estimated £22-27m of cash to make up its share (50%) of the 40% equity, with 60% external long-term borrowing, to be invested once the scheme is built. This is currently forecast to be in 2026/27.

5.34. The Council also holds minority stakes in the following:

- 10% in Lewisham Schools for the Future LEP Limited, a Local Education Partnership established under the Council's Building Schools for the Future (BSF) programme to rebuild and refurbish secondary schools within the borough;

- Less than 1% in South-East London Combined Heat and Power Ltd (SELCHP), a joint venture with the London Borough of Greenwich for the provision of waste disposal and waste to energy processes; and
- A minority share in Newable Ltd (formerly Greater London Enterprise Ltd) which provides property management and consultancy services.

Investment Opportunity

5.35. In accordance with the Treasury Management Code, it is the Council's priority to ensure security of capital and liquidity, and to obtain an appropriate level of return which is consistent with the Council's risk appetite. In the current economic climate it is considered appropriate to keep investments short term to cover cash flow needs, but also to seek out value available in periods up to 12 months with high credit rated financial institutions, using the Link suggested creditworthiness approach, including a minimum sovereign credit rating and Credit Default Swap (CDS) overlay information. As set out previously, it is no longer possible to earn the level of interest rates commonly seen in previous decades as investment rates are considerably lower than pre-pandemic, and the Bank Rate is now at 0.25%. Given this risk environment and economic uncertainty, investment returns are expected to remain low in 2022/23.

5.36. Money Market Fund (MMF) yields have continued to drift lower. Some managers have suggested they might resort to trimming fee levels to ensure that net yields for investors remain in positive territory where possible and practical. Investor cash flow uncertainty, and the need to maintain liquidity, has resulted in a glut of money moving around at the very short end of the market; inter-local authority lending and borrowing rates have also declined due to the surge in the levels of cash seeking a short-term home. However, MMFs are still offering a marginally positive return, as are a number of financial institutions. The increase to the Bank Rate in December 2021 has resulted in a slight increase to interest rates although these remain considerably lower than pre-pandemic levels.

The Council is a member of a treasury benchmarking group (organised by Link Asset Services) containing 15 authorities, including 12 other London authorities. An extract from the latest available benchmarking report is shown in Appendix 3; this shows that the return on investments as at September 2021 is below the Council's model weighted average rate of return provided by the treasury advisors, which is adjusted for the risks inherent in the portfolio. Portfolio performance is inline with the overall benchmarking group, as well as a wider group of 20 London boroughs.

5.37. The current investment counterparty criteria as set out in the Credit Worthiness Policy and included at Appendix 2 of this report are meeting the requirements of the treasury management function, although the current low rate environment and the reluctance of banks and building societies to accept new deposits reduces the available pool of counterparties that meet guideline investment rates.

6. Borrowing

Minimum Revenue Provision (MRP) Policy Statement

6.1. The Council is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the MRP), although it is also allowed to undertake additional voluntary payments if required (Voluntary Revenue Provision – VRP). The MRP must be determined by the Council as being a prudent provision having regard to the DLUHC (Department for Levelling Up, Housing and Communities) (previously MHCLG) Statutory Guidance on Minimum Revenue Provision.

6.2. The MRP is the amount the Council charges to the revenue account and does not correspond to the actual amount of debt repaid, which is determined by treasury related issues. Historically the Council has applied a consistent MRP policy which comprises prudential borrowing being repaid over the useful life of the asset concerned and previous borrowing being repaid at the rate of 4% (equivalent to 25 years) of the outstanding balance.

6.3. In 2016/17, this policy was changed to reflect the useful lives of the specific asset classes on the Council's balance sheet. It moved to:

- A straight line MRP of 14% equivalent to seven years for plant and equipment (such as IT and vehicles); and
- A straight line MRP of 2.5% equivalent to forty years for property (such as land and buildings).

6.4. In 2017/18, a third element was added to the Council's MRP policy, whereby no MRP need be charged on capital expenditure where the Council has assessed that sufficient collateral is held at a current valuation to meet the outstanding CFR liability, and that should it be determined at any point that insufficient collateral is held to match the Council's CFR liability, a prudent MRP charge will commence.

6.5. In 2019/20 the Council commissioned an independent review of its current MRP policy to ensure it is fit for current and future spending plans, as well as a review of historic calculations and a reconciliation to the CFR to identify any potential efficiencies. The review was undertaken by the Council's treasury advisors, Link Group.

6.6. The Council implemented one of the recommendations from the report from 2019/20 onwards, specifically to adjust for an historic overcharging of MRP from 2003/04 as a result of a miscalculation in the 'Adjustment A' figure (an accounting adjustment designed to ensure minimal changes in liability when new capital financing regulations were introduced in 2003/04). The Prudential Code allows for MRP to be reduced appropriately, in line with an authority's own judgement, where Adjustment A reflects an error that increases the current MRP liability. As such, the Council reduced its ongoing liability by reducing its MRP charge to account for the higher Adjustment A figure, whilst additionally offsetting current and future years' MRP charges to recover the historic overcharging since 2003/04.

6.7. The value of the overcharge has been calculated as £10.1m, which will be recovered from 2019/20 over a 10 year period via an annual reduction to MRP. The outstanding value of the overcharge to be recovered as at 31 March 2022 is £7.1m.

Borrowing, Treasury Indicators and Debt Rescheduling

6.8. The Council's external debt as at 31 March 2022, gross borrowing plus long term liabilities, is expected to be £498.6m. The Council's borrowing strategy is consistent with last year's strategy. The Council is currently maintaining an under-borrowed position in that the CFR is not fully funded with loan debt, as cash supporting the Council's reserves, balances and cash flow has been used as an alternative funding measure. In the current economic climate, this strategy is considered prudent while investment returns are low and counterparty risk remains an issue to be considered.

6.9. The Executive Director for Corporate Resources will continue to monitor interest rates in the financial markets and adopt a pragmatic and cautious approach to changing circumstances. For instance, if it was felt that there was a significant risk of a sharp fall in long and short term rates then long term borrowing will be postponed and potential rescheduling from fixed rate funding into short-term borrowing considered. Any such decisions would be reported to Mayor and Cabinet and subsequently Council, at the next available opportunity.

6.10. Alternatively, if it was felt that there was a significant risk of a much sharper rise in long and short term rates than that currently forecast (perhaps arising from an acceleration in rate of increase in central rates in the USA and UK, an increase in world economic activity or a sudden increase in inflation risks) then the portfolio position will be re-appraised. Most likely, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in future years. Once again, any such decisions would be reported to Mayor and Cabinet and subsequently Council, at the next available opportunity.

Policy on Borrowing in Advance of Need

6.11. Members should note that the Council's policy is not to 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 the approved forward CFR 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.

Treasury Indicators

6.12. There are three debt-related treasury activity limits. The purpose of these are to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. These limits need to be balanced against the requirement for the treasury function to retain some flexibility to enable it to respond quickly to opportunities to reduce costs and improve performance.

6.13. The debt related indicators are:

- Upper limits on variable interest rate exposure. This identifies a maximum limit for variable interest rates based upon the debt position net of investments;
- Upper limits on fixed interest rate exposure. This is similar to the previous indicator and covers a maximum limit on fixed interest rates; and
- 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.

6.14. The treasury indicators and limits are set out in Table 1 below:

Limits on Interest Rate Exposures	2022/23	2023/24	2024/25
	Upper	**Upper**	**Upper**
Limits on fixed interest rates:			
• **Debt only**	100%	100%	100%
• **Investments only:**			
When total portfolio >£400m	90%	90%	90%
When total portfolio <£400m	85%	85%	85%
Limits on variable interest rates			
• **Debt only**	15%	15%	15%
• **Investments only**	75%	75%	75%

Limits on Maturity Structure of Fixed Interest Rate Borrowing 2022/23	Lower	Upper
Under 12 months	0%	10%
12 months to 2 years	0%	10%
2 years to 5 years	0%	10%
5 years to 10 years	0%	25%

10 years to 20 years	0%	20%
20 years to 30 years	0%	25%
30 years to 40 years	0%	50%
40 years to 50 years	0%	60%
Limits on Maturity Structure of Variable Interest Rate Borrowing 2022/23		
	Lower	**Upper**
30 years to 40 years	0%	60%
40 years to 50 years	0%	40%

Long Term Investments Indicator

6.15. This indicator sets a limit on the total principal funds invested for greater than 365 days. This limit is set with regard to the Council's liquidity requirements and to manage the risks associated with the possibility of loss which may arise as a result of having to seek early repayment, or redemption of, principal sums invested.

6.16. The indicator is set out in Table 2 below. As at 31 March 2022, the Council is not expected to hold any investments for longer than 365 days.

Table 2: Treasury Indicators and Limits

Maximum Principal Sums Invested for Longer than 365 days			
	2022/23 £m	**2023/24 £m**	**2024/25 £m**
Limit on principal sums invested for longer than 365 days	50.0	50.0	50.0

Debt Rescheduling

6.17. As short-term borrowing rates will be considerably cheaper than longer term fixed interest rates, there may be potential opportunities to generate efficiencies by switching from long-term debt to short-term debt. However, these efficiencies will need to be considered in light of the current treasury position and the size of the cost of debt repayment (premiums incurred).

6.18. The reasons for any rescheduling to take place will include:

- The generation of cash savings and/or discounted cash flow savings;
- Helping to fulfil the Treasury Strategy; and
- Enhancing the balance of the portfolio (to amend the maturity profile and/or the balance of volatility).

6.19. The Council will continue to explore rescheduling opportunities as appropriate in respect of the financing of its PFIs and external loans.

6.20. The Council has £120m of LOBO loans at nominal value as at 31 March 2022 of which £35m will be in their call period in 2022/23 for fixed rate LOBO loans, along with £12.5m of capitalised interest in respect of the stepped LOBO loan. In the event that the lender exercises the option to change the rate or terms of the loans within their call period, the Council will consider the terms being provided and also the option of repayment of the loan without penalty.

6.21. The Council continuously reviews its debt position to optimise its cash flow. Any consideration of debt rescheduling will be reported to Mayor and Cabinet and subsequently to Council at the earliest meeting possible.

6.22. No new external borrowing has been undertaken to date in 2021/22 as of 10 January 2022. There was an increase in PWLB margins over gilt yields in October 2019, although the general margin of PWLB rates over gilt yields was then reduced by 100 bps in November 2020. The subsequent consultation on these margins by HM Treasury, together with the impact of coronavirus on the capital programme, has led the Council to make use of internal borrowing where required in 2021/22 financial year.

6.23. Debt rescheduling of current borrowing is unlikely to occur as there is still a very large difference between premature redemption rates and new borrowing rates.

6.24. Debt rescheduling opportunities have been very limited in the current economic climate and following the various increases in the margins added to gilt yields which have impacted PWLB new borrowing rates since October 2010. No debt rescheduling has therefore been undertaken to date in the current financial year.

7. Council's Capital Programme

Capital Investment Plans

7.1. The Treasury Management Strategy for 2022/23 incorporates the capital plans of the Council, which are a key driver of treasury management activity. The output of capital expenditure plans is reflected in the prudential indicators, which are designed to assist Members' overview and confirm capital expenditure plans.

7.2. 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 service activity and the Council's Capital Strategy. This involves both the management and monitoring of cash flows and, where capital plans require, the arrangement of appropriate borrowing facilities.

Capital Strategy

7.3. The CIPFA 2017 Prudential and Treasury Management Codes require all local authorities to produce a Capital Strategy, which will provide the following:

- A high-level long-term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services;
- An overview of how the associated risk is managed; and
- The implications for future financial sustainability.

7.4. The aim of the strategy is to ensure that all elected Members on full Council fully understand the overall long-term policy objectives and resulting Capital Strategy requirements, governance procedures and risk appetite.

7.5. The Capital Strategy is reported separately from the Treasury Management Strategy; non-treasury investments will be reported through the former. This ensures the separation of the core treasury function under security, liquidity and yield principles, and the policy and commercialism investments usually driven by expenditure on an asset. The Capital Strategy shows:

- The corporate governance arrangements for these types of activities;
- Any service objectives relating to the investments;
- The expected income, costs and resulting contribution;
- The debt related to the activity and the associated interest costs;
- For non-loan type investments, the cost against the current market value; and

- The risks associated with each activity.

7.6. The 2022/23 Capital Strategy will be presented to Members on 2 February 2022.

Capital Position (Prudential Indicators)

7.7. Forward projections for borrowing as at 31 March 2022 are summarised below in Table 3, which shows the actual external debt from treasury management operations and other long-term liabilities against the underlying capital borrowing need (the Capital Financing Requirement - CFR) which 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 Council's indebtedness, and its underlying borrowing need; any increase to capital expenditure which has not immediately been paid for through a revenue or capital resource will increase the CFR.

7.8. 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.

7.9. The CFR includes any other long-term liabilities (e.g. PFI liabilities). Whilst these increase the CFR and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility by the PFI or PPP provider and so the Council is not required to separately borrow for these schemes.

7.10. Changes in external debt incorporate upcoming loan maturities and projected prudential borrowing requirements in both the General Fund and the Housing Revenue Account (HRA).

7.11. Table 3 below illustrates over/(under) borrowing relative to the combined CFR for the General Fund and HRA.

Table 3: External Debt Projections

	2020/21 Actual £m	2021/22 Forecast £m	2022/23 Forecast £m	2023/24 Forecast £m	2024/25 Forecast £m
External Debt at 1 April	217.00	223.50	268.70	387.20	532.50
Change in External Debt	6.50	45.20	118.50	145.30	69.50
Other Long-Term Liabilities	240.20	229.90	219.80	209.00	197.50
Gross Debt at 31 March	**463.70**	**498.60**	**607.00**	**741.50**	**799.50**
CFR - HRA	55.50	81.60	190.40	327.00	389.80
CFR – General Fund and Other Long-Term Liabilities	451.70	457.40	469.20	459.80	442.30
Total Capital Financing Requirement at 31 March*	**507.20**	**539.00**	**659.60**	**786.80**	**832.10**
Borrowing – over / (under)	**(43.50)**	**(40.40)**	**(52.60)**	**(45.30)**	**(32.60)**

*****The Capital Financing Requirement includes the prudential borrowing figures shown in Section 6.1 of the 2022/23 Capital Strategy. The previous year's forecast prudential borrowing for capital did not materialise as expected and there is a risk that this recurs. This will be monitored during the year and reported back. This is a more acute risk given the scale and ambition of the capital programme, particularly in the HRA. We will ensure that we only borrow as the need arises.

7.12. Within the 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 the current and 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.

7.13. The Executive Director for Corporate Resources reports that the Council has complied with this prudential indicator in the current year to date and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this report.

Limits to Borrowing Activity

7.14. There are two measures of limiting external debt; the 'operational boundary' and 'authorised limit for external debt', which the Council reports on as part of its prudential indicators. Both are described in further detail in the following paragraphs.

<u>The Operational Boundary for External Debt</u>

7.15. 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 Council's operational boundary is set out in Table 4.

Table 4: Operational Boundary

	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m
Maximum External Debt at 31 March	268.70	387.20	532.50	602.00
Other Long-Term Liabilities	229.90	219.80	209.00	197.50
Operational Boundary for Year	**498.60**	**607.00**	**741.50**	**799.50**

<u>The Authorised Limit for External Debt</u>

7.16. This key indicator represents a control on the maximum level of borrowing, and provides a limit beyond which external debt is prohibited. 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.

7.17. This is a statutory limit determined under Section 3(1) of the Local Government Act 2003, and needs to be set and revised by full Council. 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.

7.18. The authorised limits are as set out in Table 5.

Table 5: Authorised Limits for External Debt

	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m
Operational Boundary for Year	**498.60**	**607.00**	**741.50**	**799.50**
Provision for Non Receipt of Expected Income	56.00	56.00	56.00	56.00
Additional 10% Margin	49.86	60.70	74.15	79.95
Authorised Limit for Year	**604.46**	**723.70**	**871.65**	**935.45**

8. Financial Implications

8.1. There are no additional financial implications besides those mentioned elsewhere in this report.

9. Legal Implications

9.1. Local authorities are required to produce and monitor for the forthcoming year a range of indicators based on actual figures; these are set out in the report. The CIPFA Treasury Management Code of Practice says that movement may be made between the various indicators during the year by an Authority's Chief Finance Officer so long as the indicators for the total Authorised Limit and the total Operational Boundary for external debt remain unchanged. Any such changes are to be reported to the next meeting of the Council.

9.2. Under Section 5 of the Local Government Act 2003, the prudential indicator for the total Authorised Limit for external debt is deemed to be increased by an amount of any unforeseen payment which becomes due to the Authority within the period to which the limit relates, which includes, for example, additional external funding becoming available but not taken into account by the Authority when determining the Authorised Limit. Where Section 5 of the Act is relied upon to borrow above the Authorised Limit, the Code requires that this fact is reported to the next meeting of the Council.

9.3. Authority is delegated to the Executive Director of Corporate Resources to make amendments to the limits on the Council's counterparty list and to undertake treasury management in accordance with the CIPFA Code of Practice and the Council's Treasury Policies.

Balanced Budget

9.4. In accordance with the Local Government Act 1992 the Council must set its Council Tax for 2022/2023 before 11 March 2022. By law it may not set the Council Tax before receipt of confirmation of the precept from the precepting authority, the GLA which is anticipated on 24 February. A report will be prepared for the Council meeting on 2 March 2022 on the basis of indications from the GLA but the report will be despatched before their final decision. The Executive Director for Corporate Resources will update the Council accordingly before it makes its decision.

9.5. Following the introduction of the Local Authorities (Standing Orders)(Amendment) Regulations 2014 the Council's Constitution was amended to require that when the Council votes on key budget and Council Tax decisions, the vote must be recorded. This requirement will apply when the Council meets to set the Council Tax.

9.6. Members have a duty to ensure that the Council acts lawfully. It must set and maintain a balanced budget each year. The Council must take steps to deal with any projected overspends and identify budget reductions or other measures to bring the budget under control. If the Capital Programme is overspending, this may be brought back into line through cuts, slippage, or contributions from revenue.

9.7. In this context, Members are reminded of their fiduciary duty to the Council Tax payer, effectively to act as trustee of the Council's resources and to ensure proper custodianship of Council funds.

10. Equalities Implications

10.1. The Equality Act 2010 (the Act) introduced the public sector equality duty (the equality duty or the duty). It covers the following nine protected characteristics: age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation.

10.2. In summary, the Council must, in the exercise of its functions, have due regard to the need to:

- eliminate unlawful discrimination, harassment and victimisation and other conduct prohibited by the Act.
- advance equality of opportunity between people who share a protected characteristic and those who do not.
- foster good relations between people who share a protected characteristic and those who do not.

10.3. The duty continues to be a "have regard duty", and the weight to be attached to it is a matter for the Mayor and Cabinet, bearing in mind the issues of relevance and proportionality. It is not an absolute requirement to eliminate unlawful discrimination, advance equality of opportunity or foster good relations. Assessing the potential impact on equality of proposed changes to policies, procedures and practices is one of the key ways in which the Council can demonstrate that they have had 'due regard'.

10.4. The Equality and Human Rights Commission issued Technical Guidance on the Public Sector Equality Duty and statutory guidance entitled "Equality Act 2010 Services, Public Functions & Associations Statutory Code of Practice". The Council must have regard to the statutory code in so far as it relates to the duty and attention is drawn to Chapter 11 which deals particularly with services and public functions. The Technical Guidance also covers what public authorities should do to meet the duty. This includes steps that are legally required, as well as recommended actions. The guidance does not have statutory force but nonetheless regard should be had to it, as failure to do so without compelling reason would be of evidential value. The statutory code and the technical guidance can be found at: http://www.equalityhumanrights.com/legal-and-policy/equality-act/equality-act-codes-of-practice-and-technical-guidance/

10.5. The Equality and Human Rights Commission (EHRC) has previously issued five guides for public authorities in England giving advice on the equality duty:

1. The essential guide to the public sector equality duty
2. Meeting the equality duty in policy and decision-making
3. Engagement and the equality duty
4. Equality objectives and the equality duty
5. Equality information and the equality duty

10.6. The essential guide provides an overview of the equality duty requirements including the general equality duty, the specific duties, and who they apply to. It covers what public authorities should do to meet the duty including steps that are legally required, as well as recommended actions. The other four documents provide more detailed guidance on key areas and advice on good practice. Further information and resources are available at: http://www.equalityhumanrights.com/advice-and-guidance/public-sector-equality-duty/guidance-on-the-equality-duty/

10.7. The EHRC has also issued Guidance entitled "Making Fair Financial Decisions".

10.8. Assessing impact on equality is not an end to itself and it should be tailored to, and be proportionate to, the decision being made. Whether it is proportionate for the Council to conduct an Equalities Analysis Assessment of the impact on equality of a financial decision or not depends on its relevance to the Authority's particular function and its likely impact on people from protected groups, including staff.

10.9. It is also important to note that the Council is subject to the Human Rights Act, and should therefore, also consider the potential impact their particular decisions could have on human rights.

11. Climate Change and Environmental Implications

11.1. There are no direct climate or environmental implications arising from this report.

12. Crime and Disorder Implications

12.1. There are no direct crime and disorder implications arising from this report.

13. Health and Wellbeing Implications

13.1. There are no direct health and wellbeing implications arising from this report.

14. Background Papers

14.1. The following papers are appended to this report:

- *Appendix 1 – Interest Rate Forecasts 2021 – 2025*
- *Appendix 2 – Extract from Credit Worthiness Policy*
- *Appendix 3 – Benchmarking Extract*
- *Appendix 4 – Economic Update from Link Asset Services*
- *Appendix 5 – Approved Countries for Investment*
- *Appendix 6 – Requirement of the CIPFA Treasury Management Code of Practice*
- *Appendix 7 – Background of revised CIPFA TM Code 2021*
- *Appendix 8 – Investment Portfolio*

15. Report Author and Contacts

15.1. For more information please contact Kathy Freeman, Executive Director of Corporate Resources, 1st Floor Laurence House, 020 8314 9249, Kathy.Freeman@lewisham.gov.uk

15.2. Financial implications: Michael Docherty, Senior Accountant – Financial Strategy, Planning and Commercial

15.3. Legal implications: Mia Agnew, Contracts Lawyer

APPENDIX 1: Interest Rate Forecasts 2021 - 2025

The Council has appointed Link Group as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. The following table provides Link's latest central view.

Period	Bank Rate	PWLB Borrowing Rates % (including certainty rate adjustment of 20 basis points)			
	%	5 year	10 year	25 year	50 year
Dec 2021	0.25	1.40	1.60	1.80	1.50
Mar 2022	0.25	1.50	1.70	1.90	1.70
Jun 2022	0.50	1.50	1.80	2.00	1.80
Sep 2022	0.50	1.60	1.80	2.10	1.90
Dec 2022	0.50	1.60	1.90	2.10	1.90
Mar 2023	0.75	1.70	1.90	2.20	2.00
Jun 2023	0.75	1.80	2.00	2.20	2.00
Sep 2023	0.75	1.80	2.00	2.20	2.00
Dec 2023	0.75	1.80	2.00	2.30	2.10
Mar 2024	1.00	1.90	2.10	2.30	2.10
Jun 2024	1.00	1.90	2.10	2.40	2.20
Sep 2024	1.00	1.90	2.10	2.40	2.20
Dec 2024	1.00	2.00	2.20	2.50	2.30
Mar 2025	1.25	2.00	2.30	2.50	2.30

APPENDIX 2: Extract from Credit Worthiness Policy

(Linked to Treasury Management Practice (TMP1) – Credit and Counterparty Risk Management)

Annual Investment Strategy:

The key requirements of both the CIPFA Code of Practice on Treasury Management in the Public Services and Department for Levelling Up, Housing and Communities (DLUHC's) Investment Guidance are to set an annual investment strategy, as part of its annual Treasury Management Strategy for the following year, covering the identification and approval of the following:

- The strategy guidelines for choosing and placing investments, particularly non-specified investments;
- The principles to be used to determine the maximum periods for which funds can be committed;
- Specified investments that the Council will use. These are high security (i.e. high credit rating, although this is defined by the Council, and no guidelines are given), and high liquidity investments in sterling and with a maturity of no more than a year; and
- Non-specified investments, clarifying the greater risk implications, identifying the general types of investment that may be used and a limit to the overall amount of various categories that can be held at any time.

The investment policy proposed for the Council is:

Strategy guidelines – The main strategy guidelines are contained in the body of the treasury strategy statement.

Specified investments: These investments are sterling investments of not more than one-year maturity, or those which could be for a longer period but where the Council has the right to be repaid within 12 months if it wishes. They also include investments which were originally classed as being non-specified investments, but which would have been classified as specified investments apart from originally being for a period longer than 12 months, once the remaining period to maturity falls to under twelve months. These are considered low risk assets where the possibility of loss of principal or investment income is small. These would include sterling investments which would not be defined as capital expenditure with:

1. The UK Government, such as the Debt Management Account Deposit Facility (DMADF), UK Treasury bills or a gilt with less than one year to maturity;
2. Supranational bonds of less than one year's duration;
3. A local authority, housing association, parish council or community council;
4. Pooled investment vehicles (such as money market funds) that have been awarded a high credit rating (AAA) by a credit rating agency; and
5. A body that is considered of a high credit quality (such as a bank or building society).

Within these bodies, and in accordance with the Code, the Council has set additional criteria to define the time and amount of monies which will be invested in these bodies, as shown in the table further below.

Non-Specified Investments: These are any investments which do not meet the specified investment criteria, and include certificates of deposit issued by banks or building societies, fixed deposits with building societies that do not meet the basic secruity requirements of specified investments, corporate bonds, and property funds. Provision has been made in the Strategy to invest in a limited number of lower rated building societies within the restrictions set out, certifcates of deposit with both banks and building societies, and pooled asset funds (should the relevant opportunity arise). The Council will seek guidance on the status of any pooled fund or collective investment scheme it may consider using, and appropriate due diligence will also be undertaken before investment of this type is undertaken.

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

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

These factors are weighted and combined with an overlay of CDS spreads. The end product is a series of ratings (colour coded) to indicate the relative creditworthiness of counterparties. These ratings are used by the Council to determine the suggested duration for investments.

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

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**
DMADF – UK Government	N/A	100%	6 months
UK Government gilts	UK sovereign rating	£20m	1 year
UK Government Treasury bills	UK sovereign rating	£60m	6 months
Money Market Funds - CNAV	AAA	£30m	Liquid
Money Market Funds - LVNAV	AAA	£30m	Liquid
Money Market Funds - VNAV	AAA	£30m	Liquid
Local authorities	N/A	£10m	1 year
Term deposits with banks and building societies	Yellow* Purple Blue Orange Red	£30m £25m £40m £25m £20m	Up to 5 years Up to 2 years Up to 1 year Up to 1 year Up to 6 Months

	Green No Colour	£15m Not for use**	Up to 100 days Not for use**
CDs or corporate bonds with banks and building societies	Blue Orange Red Green No Colour	£40m £25m £20m £15m Not for use**	Up to 1 year Up to 1 year Up to 6 Months Up to 100 days Not for use**
Term deposits or CDs with building societies on Link's counterparty list rated 'No colour'	BBB-	£10m	Up to 3 months
Call accounts and notice accounts	Yellow* Purple Blue Orange Red Green No Colour	£30m £25m £40m £25m £20m £15m Not for use	Liquid
Pooled asset funds		£50m	At least 5 years

*for UK Government debt, or its equivalent, Constant Net Asset Value (CNAV) money market funds and collateralised deposits where the collateral is UK Government debt.

**except for those building societies rated BBB- or higher as set out elsewhere in the table.

The monitoring of investment counterparties: The credit rating of counterparties will be monitored regularly, on at least a weekly basis. The Council receives credit rating information (changes, rating watches and rating outlooks) from Link Group as and when ratings change, and the impact of those changes are assessed promptly. On occasion ratings may be downgraded when an investment has already been made. The criteria used are such that a minor downgrading should not affect the full receipt of the principal and interest upon maturity. Any counterparty failing to meet the criteria will be removed from the lending list immediately, and if required new counterparties which meet the criteria will be added to the list. Any fixed term investment held at the time of the downgrade will be left to mature as such investments cannot be broken mid-term.

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

Accounting treatment of investments: The accounting treatment may differ from the underlying cash transactions arising from investment decisions made by this Council. To ensure that the Council is protected from any adverse revenue impact which may arise from these differences, we will review the accounting implications of new transactions before they are undertaken.

APPENDIX 3: Benchmarking Extract

The following three pages present an extract, with glossary, of the Council's treasury benchmarking report as at 30 September 2021.

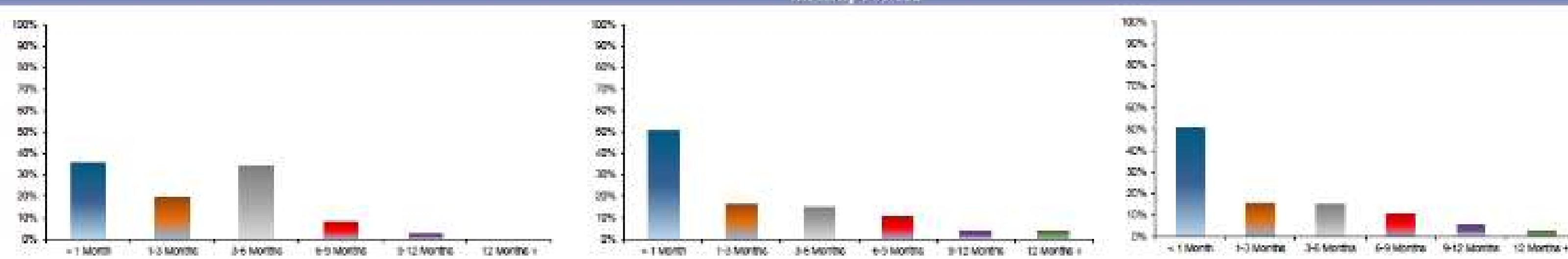
London Borough Of Lewisham

Summary Sheet

	London Borough Of Lewisham	Benchmarking Group 2 (15)	London (20)
		Basic Portfolio Characteristics	
WARoR	0.11%	0.25%	0.22%
WAM	94	85	89
WATT	150	192	178
WA Credit Risk	3.57	2.79	2.76
Model WARoR	0.16%	0.24%	0.20%
Difference	-0.05%	0.01%	0.02%
Model Band	0.12% - 0.21%	0.19% - 0.28%	0.16% - 0.25%
Performance	Below	Inline	Inline

Asset Breakdown

Maturity Profiles



London Borough Of Lewisham

Peer Comparison

	London Borough Of Lewisham	Benchmarking Group 2 (15)		London (20)		Population Average (215)	
Basic Characteristics							
Principal	£436,643,000	£249,031,867		£260,014,843		£111,256,212	
WARoR	0.11%	0.25%		0.22%		0.15%	
WAM	94	85		89		74	
WATT	150	192		178		133	
WA Credit Risk	3.57	2.79		2.76		3.03	
Portfolio Breakdown							
Fixed Deposits	51.53%	48.35%	14	51.58%	18	41.37%	186
Calls & O/N	20.61%	21.56%	11	18.71%	15	29.20%	192
MMFs	27.86%	23.40%	14	22.71%	15	25.92%	165
USDBFs	0.00%	1.84%	2	1.76%	2	1.26%	19
Struct. Prods.	0.00%	0.00%	0	0.00%	0	0.27%	5
Bonds	0.00%	4.73%	2	1.26%	1	0.61%	9
CDs	0.00%	0.12%	1	3.99%	1	1.38%	18
Institution Breakdown							
Banks	72.14%	45.83%	15	43.37%	19	46.35%	204
Building Socs.	0.00%	3.57%	3	5.04%	5	6.12%	69
Government	0.00%	23.98%	9	25.64%	12	19.79%	127
MMFs	27.86%	23.40%	14	23.16%	16	25.82%	166
USDBFs	0.00%	1.84%	2	1.76%	2	1.26%	19
MLDBs	0.00%	0.00%	0	0.00%	0	0.03%	2
Other	0.00%	1.37%	2	1.03%	2	0.62%	15
Domestic/Foreign Exposure							
Domestic	41.22%	66.62%	15	67.44%	19	68.07%	209
Foreign	30.92%	8.13%	9	7.63%	11	4.80%	66
MMFs	27.86%	23.40%	14	23.16%	16	25.87%	166
USDBFs	0.00%	1.84%	2	1.76%	2	1.26%	19
Maturity Structure							
< 1 Month	35.87%	50.62%		50.54%		55.17%	
1-3 Months	19.47%	16.37%		15.32%		13.96%	
3-6 Months	34.35%	14.92%		15.00%		19.69%	
6-9 Months	8.02%	10.75%		10.83%		4.95%	
9-12 Months	2.29%	3.81%		5.65%		4.05%	
12 Months +	0.00%	3.54%		2.65%		2.19%	

Definitions

WARoR	Weighted Average Rate of Return	This is the average annualised rate of return weighted by the principal amount in each rate.
WAM	Weighted Average Time to Maturity	This is the average time, in days, till the portfolio matures, weighted by principal amount.
WATT	Weighted Average Total Time	This is the average time, in days, that deposits are lent out for, weighted by principal amount.
WA Risk	Weighted Average Credit Risk Number	Each institution is assigned a colour corresponding to a suggested duration using Link Asset Services' Suggested Credit Methodology 1 = Yellow; 1.25 = Pink 1; 1.5 = Pink 2, 2 = Purple; 3 = Blue; 4 = Orange; 5 = Red; 6 = Green; 7 = No Colour
Model WARoR	Model Weighted Average Rate of Return	This is the WARoR that the model produces by taking into account the risks inherent in the portfolio.
Difference	Difference	This is the difference between the actual WARoR and the model WARoR; Actual WARoR minus Model WARoR.

APPENDIX 4: Economic Update from Link Asset Services

UK Economy

1.1 On 16th December 2021, the Monetary Policy Committee (MPC) voted 8-1 to raise Bank Rate by 0.15% from 0.10% to 0.25% and unanimously decided to make no changes to its programme of quantitative easing purchases due to finish in December 2021 at a total of £895bn.

1.2 The Bank of England retained its guidance that only a “modest tightening” in policy will be required, it cannot be thinking that it will need to increase interest rates that much more. A typical policy tightening cycle has usually involved rates rising by 0.25% four times in a year. “Modest” seems slower than that. As such, the Bank could be thinking about raising interest rates two or three times next year to 0.75% or 1.00%

1.3 As for the timing of the next increase in Bank Rate, the MPC dropped the comment from November’s statement that Bank Rate would be raised “in the coming months”. That may imply another rise is unlikely at the next meeting in February and that May is more likely. However, much could depend on how adversely, or not, the economy is affected by Omicron in the run up to the next meeting on 3rd February. Once 0.50% is reached, the Bank would start shrinking its stock of QE (gilts purchased by the Bank would not be replaced when they mature).

1.4 The MPC’s forward guidance on its intended monetary policy on raising Bank Rate versus selling (quantitative easing) holdings of bonds is as follows:

- Raising Bank Rate as “the active instrument in most circumstances”
- Raising Bank Rate to 0.50%, before starting on reducing its holdings.
- Once Bank Rate is at 0.50%, it would stop reinvesting maturing gilts.
- Once Bank Rate had risen to at least 1%, it would start selling its holdings.

1.5 On 14th December 2021, the labour market statistics for the three months to October and the single month of October were released. The fallout after the furlough scheme was smaller and shorter than the Bank of England had feared. The single-month data were more informative and showed that labour force employment fell by 240,000, unemployment increased by 75,000 and the unemployment rate rose from 3.9% in September to 4.2%. However, the weekly data suggested this didn’t last long as unemployment was falling again by the end of October. What’s more, the 49,700 fall in the claimant count and the 257,000 rise in the PAYE measure of company payrolls suggests that the labour market strengthened again in November.

1.6 The other side of the coin was a further rise in the number of vacancies from 1.182m to a record 1.219m in the three months to November which suggests that the supply of labour is struggling to keep up with demand, although the single-month figure for November fell for the first time since February, from 1.307m to 1.227m.

1.7 These figures by themselves, would probably have been enough to give the MPC the assurance that it could press ahead to raise Bank Rate at the meeting in December. However, the advent of Omicron potentially threw a spanner into the works as it poses a major headwind to the economy which, of itself, will help to cool the economy. The financial markets, therefore, swung round to expecting no change in Bank Rate.

1.8 On 15th December 2021, it was announced that the CPI inflation figure for November spiked up further from 4.2% to 5.1%, confirming again how inflationary pressures have been building sharply. However, Omicron also caused a sharp fall in world oil and other commodity prices; (gas and electricity inflation has generally accounted on average for about 60% of the increase in inflation in advanced western economies).

1.9 Other elements of inflation are also transitory e.g., prices of goods being forced up by supply shortages, and shortages of shipping containers due to ports being clogged have caused huge increases in shipping costs. But these issues are likely to clear during 2022, and then prices will subside back to more normal levels. Gas prices and electricity prices will also fall back once winter is passed and demand for these falls away.

USA Economy

1.10 Shortages of goods and intermediate goods like semi-conductors, have been fuelling increases in prices and reducing economic growth potential. In November, CPI inflation hit a near 40-year record level of 6.8% but with energy prices then falling sharply, this was probably the peak. The biggest problem for the Federal Reserve (Fed) is the mounting evidence of a strong pick-up in cyclical price pressures e.g., in rent which has hit a decades high.

1.11 Shortages of labour have also been driving up wage rates sharply; this also poses a considerable threat, feeding back into producer prices and then into consumer price inflation. It now also appears that there has been a sustained drop in the labour force which suggests the pandemic has had a longer-term scarring effect in reducing potential GDP. Economic growth may therefore be reduced to between 2% and 3% in 2022 and 2023, while core inflation is likely to remain elevated at around 3% in both years instead of declining back to the Fed's 2% central target.

1.12 Inflation hitting 6.8% and the feed through into second round effects, meant that it was near certain that the Fed's meeting on 15th December 2021 would take aggressive action against inflation. Accordingly, the rate of tapering of monthly $120bn QE purchases announced at its November 3rd meeting was doubled so that all purchases would now finish in February 2022. In addition, Fed officials had started discussions on running down the stock of QE held by the Fed.

1.13 Fed officials also expected three rate rises in 2022 of 0.25% from near zero currently, followed by three in 2023 and two in 2024, taking rates back above 2% to a neutral level for monetary policy. The first increase could come as soon as March 2022 as the chairman of the Fed stated his view that the economy had made rapid progress to achieving the other goal of the Fed – "maximum employment".

1.14 The Fed forecast that inflation would fall from an average of 5.3% in 2021 to 2.6% in 2023, still above its target of 2% and both figures significantly up from previous forecasts. What was also significant was that this month the Fed dropped its description of the current level of inflation as being "transitory" and instead referred to "elevated levels" of inflation: the statement also dropped most of the language around the flexible average inflation target, with inflation now described as having exceeded 2 percent "for some time". It did not see Omicron as being a major impediment to the need to take action now to curtail the level of inflationary pressures that have built up, although Fed officials did note that it has the potential to exacerbate supply chain problems and add to price pressures.

Eurozone Economy

1.15 The slow role out of vaccines initially delayed economic recovery in early 2021 but the vaccination rate then picked up sharply. After a contraction of -0.3% in Q1, Q2 came in with strong growth of 2%. With Q3 at 2.2%, the EU recovery was then within 0.5% of its pre Covid size. However, the arrival of Omicron is now a major headwind to growth in quarter 4 and the expected downturn into weak growth could well turn negative, with the outlook for the first two months of 2022 expected to continue to be very weak.

1.16 November's inflation figures breakdown shows that the increase in price pressures is not just due to high energy costs and global demand-supply imbalances for durable goods as services inflation also rose. Headline inflation reached 4.9% in November, with over half of that due to energy. However, oil and gas prices are expected to fall after the winter and so energy inflation is expected to plummet in 2022. Core goods inflation rose to 2.4% in November, its second highest ever level, and is likely to remain high for some time as it will take a long time for the inflationary impact of global imbalances in the demand and supply of durable goods to disappear. Price pressures also increased in the services sector, but wage growth remains subdued and there are no signs of a trend of faster wage growth which might lead to persistently higher services inflation - which would get the ECB concerned. The upshot is that the euro-zone is set for a prolonged period of inflation being above the ECB's target of 2% and it is likely to average 3% in 2022, in line with the ECB's latest projection.

China Economy

1.17 After a concerted effort to get on top of the virus outbreak in Q1 2020, economic recovery was strong in the rest of 2020; this enabled China to recover all the initial contraction. During 2020, policy makers both quashed the virus and implemented a programme of monetary and fiscal support that was particularly effective at stimulating short-term growth. At the same time, China's economy benefited from the shift towards online spending by consumers in developed markets. These factors helped to explain its comparative outperformance compared to western economies during 2020 and earlier in 2021.

1.18 However, the pace of economic growth has now fallen back in 2021 after this initial surge of recovery from the pandemic and looks likely to be particularly weak in 2022. China has been struggling to contain the spread of the Delta variant through using sharp local lockdowns - which depress economic growth. Chinese consumers are also being very wary about leaving home and so spending money on services. However, with Omicron having now spread to China, and being much more easily transmissible, this strategy of sharp local lockdowns to stop the virus may not prove so successful in future. In addition, the current pace of providing boosters at 100 million per month will leave much of the 1.4 billion population exposed to Omicron, and any further mutations, for a considerable time.

1.19 The People's Bank of China made a start in December 2021 on cutting its key interest rate marginally so as to stimulate economic growth. However, after credit has already expanded by around 25% in just the last two years, it will probably leave the heavy lifting in supporting growth to fiscal stimulus by central and local government.

1.20 Supply shortages, especially of coal for power generation, were causing widespread power cuts to industry during the second half of 2021 and so a sharp disruptive impact on some sectors of the economy. In addition, recent regulatory actions motivated by a political agenda to channel activities into officially approved directions, are also likely to reduce the dynamism and long-term growth of the Chinese economy

Japan Economy

1.21 2021 has been a patchy year in combating Covid. However, recent business surveys indicate that the economy has been rebounding rapidly in 2021 as the bulk of the population had been double vaccinated and new virus cases had plunged. However, Omicron could reverse this initial success in combating Covid.

1.22 The Bank of Japan is continuing its very loose monetary policy but with little prospect of getting inflation back above 1% towards its target of 2%, any time soon: indeed, inflation was actually negative in July. New Prime Minister Kishida, having won the November general election, brought in a supplementary budget to boost growth, but it is unlikely to have a major effect.

Global Growth Prospects

1.23 World growth was in recession in 2020 but recovered during 2021 until starting to lose momentum in the second half of the year, though overall growth for the year is expected to be about 6% and to be around 4-5% in 2022. Inflation has been rising due to increases in gas and electricity prices, shipping costs and supply shortages, although these should subside during 2022. While headline inflation will fall sharply, core inflation will probably not fall as quickly as central bankers would hope. It is likely that we are heading into a period where there will be a reversal of world globalisation and a decoupling of western countries from dependence on China to supply products, and vice versa. This is likely to reduce world growth rates from those in prior decades.

Supply Shortages

1.24 The pandemic and extreme weather events, followed by a major surge in demand after lockdowns ended, have been highly disruptive of extended worldwide supply chains. Major queues of ships unable to unload their goods at ports in New York, California and China built up rapidly during Q2 and Q3 of 2021 but then halved during Q4. Such issues have led to a misdistribution of shipping containers around the world and have contributed to a huge increase in the cost of shipping. Combined with a shortage of semi-conductors, these issues have had a disruptive impact on production in many countries. The latest additional disruption has been a shortage of coal in China leading to power cuts focused primarily on producers (rather than consumers), i.e., this will further aggravate shortages in meeting demand for goods.

1.25 Many western countries are also hitting up against a difficulty in filling job vacancies. It is expected that these issues will be gradually sorted out, but they are currently contributing to a spike upwards in inflation and shortages of materials and goods available to purchase.

Gilt Yields/PWLB Rates

1.26 Since the start of 2021, there has been a lot of volatility in gilt yields, and hence PWLB rates. As the interest forecast table for PWLB certainty rates in Appendix 1 shows, the forecast rise is to be steady, but slow, in both Bank Rate and gilt yields during the period to March 2025, though there will be a lot of unpredictable volatility during this forecast period.

1.27 On 25th November 2020, the Chancellor announced the conclusion to the review of margins over gilt yields for PWLB rates which had been increased by 100 bps in October 2019. The standard and certainty margins were reduced by 100 bps but a prohibition was introduced to deny access to borrowing from the PWLB for any local authority which had purchase of assets primarily for yield in its three-year capital programme.

1.28 The current PWLB rates are set as margins over gilt yields as follows:

- PWLB Standard Rate is gilt plus 100 basis points (G+100bps)
- PWLB Certainty Rate is gilt plus 80 basis points (G+80bps)
- PWLB HRA Standard Rate is gilt plus 100 basis points (G+100bps)
- PWLB HRA Certainty Rate is gilt plus 80bps (G+80bps)
- Local Infrastructure Rate is gilt plus 60bps (G+60bps)

As the interest forecast table for PWLB certainty rates, (gilts plus 80bps), above shows, there is likely to be little upward movement in PWLB rates over the next three years as the Bank of England is not expected to raise Bank Rate above 1.00%.

1.29 While monetary policy in the UK will have a major impact on gilt yields, there is also a need to consider the potential impact that rising treasury yields in America could have on the UK gilt yields. As an average since 2011, there has been a 75% correlation between movements in US 10-year treasury yields and UK 10-year gilt yields. This is a significant upward risk exposure to the UK's forecasts for longer term PWLB rates. However, gilt yields and treasury yields do not always move in unison.

US Treasury Yields

1.30 During the first part of 2021, US President Biden's, and the Democratic party's, determination to push through a $1.9trn (equivalent to 8.8% of GDP) fiscal boost for the US economy as a recovery package from the Covid pandemic unsettled financial markets. However, this was in addition to the $900bn support package already passed in December 2020. This was then followed by additional Democratic ambition to spend $1trn on infrastructure, (which was eventually passed by both houses later in 2021), and an even larger sum on an American families plan over the next decade. Financial markets were alarmed that all this stimulus was happening at a time when:

- A fast vaccination programme had enabled a rapid opening up of the economy during 2021;
- The economy was growing strongly during the first half of 2021 although it has weakened overall during the second half;
- It started from a position of little spare capacity due to less severe lockdown measures than in many other countries; and
- The Fed was still providing substantial stimulus through monthly QE purchases during 2021.

1.31 There are also possible downside risks from the huge sums of cash that the UK populace have saved during the pandemic; when savings accounts earn little interest, it is likely that some of this cash mountain could end up being invested in bonds and so push up demand for bonds and support their prices i.e., this would help to keep their yields down. How this will interplay with the Bank of England eventually getting round to not reinvesting maturing gilts and then later selling gilts, will be interesting to monitor.

Creditworthiness

1.32 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, as economies are beginning to reopen, there have been some instances of previous lowering of Outlooks being reversed.

1.33 Although CDS prices (these are market indicators of credit risk) for banks (including those from the UK) spiked at the outset of the pandemic in 2020, due to the heightened market uncertainty and ensuing liquidity crisis that affected financial markets, they have subsequently returned to near pre-pandemic levels. However, sentiment can easily shift, so it remains important to undertake continual monitoring of all aspects of risk and return in the current circumstances.

Debt Rescheduling

1.34 Debt rescheduling of current borrowing is unlikely to occur as there is still a very large difference between premature redemption rates and new borrowing rates, even though the general margin of PWLB rates over gilt yields was reduced by 100 bps in November 2020.

1.35 Debt rescheduling opportunities have been very limited in the current economic climate and following the various increases in the margins added to gilt yields which have impacted PWLB new borrowing rates since October 2010. No debt rescheduling has therefore been undertaken to date in the current financial year.

APPENDIX 5: Approved Countries for Investment

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, Norway and Luxembourg), have banks operating in sterling markets which have credit ratings of green or above in the Link credit worthiness service.

AAA

- Australia
- Denmark
- Germany
- Luxembourg
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland

AA+

- Canada
- Finland
- USA

AA

- Abu Dhabi (UAE)
- France

AA-

- Belgium
- Hong Kong
- Qatar
- U.K.

APPENDIX 6: Requirement of the CIPFA Treasury Management Code of Practice

Treasury Management Scheme of Delegation

(i) Full Council

- budget consideration and approval;
- approval of annual Treasury Management Strategy;
- approval of/amendments to the organisation's adopted clauses and treasury management policy statement.

(ii) Public Accounts Committee

- receiving and reviewing reports on treasury management policies, practices and activities.

The Treasury Management Role of the Section 151 Officer

The S151 (responsible) officer has responsibility for:

- recommending treasury management policies for approval, reviewing the same regularly, and monitoring compliance;
- submitting regular treasury management policy reports;
- submitting budgets and budget variations;
- receiving and reviewing management information reports;
- reviewing the performance of the treasury management function;
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
- ensuring the adequacy of internal audit, and liaising with external audit;
- approval of the division of responsibilities;
- approving the organisation's treasury management practices;
- preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments and treasury management, with a long-term timeframe;
- ensuring that the capital strategy is prudent, sustainable, affordable and prudent in the long term and provides value for money;
- ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the authority;
- ensuring that the authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing;
- ensuring the proportionality of all investments so that the authority does not undertake a level of investing which exposes the authority to an excessive level of risk compared to its financial resources;
- ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long term liabilities;
- provision to Members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees;
- ensuring that Members are adequately informed and understand the risk exposures taken on by an authority; and
- ensuring that the authority has adequate expertise, either in-house or externally, to carry out the above.

APPENDIX 7: Background of revised CIPFA TM Code 2021

2021 revised CIPFA Treasury Management Code and Prudential Code – changes which will impact on future TMSS/AIS reports and the risk management framework

CIPFA published the revised codes on 20th December 2021 and has stated that formal adoption is not required until the 2023/24 financial year. This Council has to have regard to these codes of practice when it prepares the Treasury Management Strategy Statement and Annual Investment Strategy, and also related reports during the financial year, which are taken to Full Council for approval.

The revised codes will have the following implications:

- a requirement for the Council to adopt a new debt liability benchmark treasury indicator to support the financing risk management of the capital financing requirement;
- clarify what CIPFA expects a local authority to borrow for and what they do not view as appropriate. This will include the requirement to set a proportionate approach to commercial and service capital investment;
- address ESG issues within the Capital Strategy;
- require implementation of a policy to review commercial property, with a view to divest where appropriate;
- create new Investment Practices to manage risks associated with non-treasury investment (similar to the current Treasury Management Practices);
- ensure that any long term treasury investment is supported by a business model;
- a requirement to effectively manage liquidity and longer term cash flow requirements;
- amendment to TMP1 to address ESG policy within the treasury management risk framework;
- amendment to the knowledge and skills register for individuals involved in the treasury management function - to be proportionate to the size and complexity of the treasury management conducted by each council; and
- a new requirement to clarify reporting requirements for service and commercial investment, (especially where supported by borrowing/leverage).

In addition, all investments and investment income must be attributed to one of the following three purposes:

Treasury management

Arising from the organisation's cash flows or treasury risk management activity, this type of investment represents balances which are only held until the cash is required for use. Treasury investments may also arise from other treasury risk management activity which seeks to prudently manage the risks, costs or income relating to existing or forecast debt or treasury investments.

Service delivery

Investments held primarily and directly for the delivery of public services including housing, regeneration and local infrastructure. Returns on this category of investment which are funded by borrowing are permitted only in cases where the income is "either related to the financial viability of the project in question or otherwise incidental to the primary purpose".

Commercial return

Investments held primarily for financial return with no treasury management or direct service provision purpose. Risks on such investments should be proportionate to a council's financial capacity – i.e., that 'plausible losses' could be absorbed in budgets or reserves without unmanageable detriment to local services. An authority must not borrow to invest primarily for financial return.

As this Treasury Management Strategy Statement and Annual Investment Strategy deals solely with treasury management investments, the categories of service delivery and commercial investments will be dealt with as part of the Capital Strategy report. However, as investments in commercial property have implications for cash balances managed by the treasury team, it will be for each authority to determine whether they feel it is relevant to add a high level summary of the impact that commercial investments have, or may have, if it is planned to liquidate such investments within the three year time horizon of this report, (or a longer time horizon if that is felt appropriate).

In 2023, members will be updated on how all these changes will impact our current approach and any changes required will be formally adopted within the 2023/24 TMSS report.

APPENDIX 8: Investment Portfolio

A full list of outstanding investments held as at 10 January 2022 is shown below:

Counterparty	Duration (Days)	Principal £m	Interest Rate	Interest £
Fixed Rate Investments – Banks and Building Societies				
Australia and New Zealand Banking Group	273	15.0	0.15%	16,829
Bank of Montreal	364	10.0	0.60%	59,836
Close Brothers Ltd	182	20.0	0.25%	24,932
DBS Bank Ltd.	277	5.0	0.14%	5,312
DBS Bank Ltd	90	5.0	0.30%	3,699
DBS Bank Ltd	365	15.0	0.15%	22,500
Goldman Sachs International Bank	181	20.0	0.115%	11,405
Landesbank Hessen-Thueringen Girozentrale	92	5.0	0.23%	2,899
Landesbank Hessen-Thueringen Girozentrale	276	10.0	0.11%	8,318
Landesbank Hessen-Thueringen Girozentrale	181	5.0	0.33%	8,182
National Bank of Canada	90	20.0	0.20%	9,863
National Westminster Bank PLC (RFB)	276	20.0	0.13%	19,660
National Westminster Bank PLC (RFB)	365	10.0	0.17%	17,000
National Westminster Bank PLC (RFB)	364	10.0	0.23%	22,937
Norddeutsche Landesbank	90	15.0	0.36%	13,315
SMBC Bank International Plc	181	20.0	0.27%	26,778
Toronto-Dominion Bank	365	5.0	0.12%	6,000
Toronto-Dominion Bank	364	20.0	0.68%	135,627
Variable Rate Investments – Money Markets				
Aberdeen Standard	N/A	30.0	0.08%	N/A
BlackRock	N/A	3.6	0.03%	N/A
Federated Hermes	N/A	30.0	0.07%	N/A
Goldman Sachs	N/A	0.0	0.01%	N/A
Insight	N/A	30.0	0.08%	N/A
Variable Rate Investments – Notice Accounts				
Australia and New Zealand Banking Group	185	10.0	0.28%	N/A
Bank of Scotland Plc (RFB)	175	20.0	0.06%	N/A
Barclays Bank Plc (NRFB)	95	20.0	0.15%	N/A
Lloyds Bank Plc (RFB)	175	20.0	0.06%	N/A
Santander UK Plc	180	20.0	0.58%	N/A

The Executive Director of Corporate Resources confirms that the approved limits within the Annual Investment Strategy were not breached as at 10 January 2022, during the 2021/22 financial year.