

COUNCIL

24 MARCH 2022

Report of the Director of Resources

TREASURY MANAGEMENT STRATEGY STATEMENT 2022/23

PURPOSE OF REPORT

This report determines the Treasury Management Strategy Statement for 2022/23.

RECOMMENDATION

That the Treasury Management Strategy Statement for 2022/23 and the Treasury Management Prudential Indicators contained within be approved;

WARDS AFFECTED

All

STRATEGIC LINK

The above recommendations contribute to all of the Council's Corporate Plan Priorities.

REPORT

1 TREASURY MANAGEMENT STRATEGY 2022/23 – 2024/25

Introduction to Treasury Management

- 1.1 Treasury management is the management of the Council's cash flows, borrowing and investments, and the associated risks. The Authority borrows and invests substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of financial risk are therefore central to the Council's prudent financial management.
- 1.2 Treasury risk management at the Authority is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2021 Edition (the CIPFA Code) which requires the Authority to approve a treasury management strategy before the start of each financial year. This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.
- 1.3 Investments held for service purposes or for commercial profit are considered in a different report, the Investment Strategy (Appendix 3 to Capital Strategy Report).

External Context

Economic background

- 1.4 The ongoing impact on the UK of the Russia/Ukraine border crisis, coronavirus, together with higher inflation, higher interest rates, and the country's trade position post-Brexit, will be major influences on the Council's treasury management strategy for 2022/23.
- 1.5 At its meeting on 2nd February 2022 the Monetary Policy Committee (MPC) voted by a majority of 5-4 to increase Bank Rate by 0.25% to 0.5%. With almost half of the MPC members voting for a hike to 0.75%, it is more likely that further tightening will be announced upon their meeting in the following week, with inflation to peak soon after. This would be the first time the Bank has raised rates for three consecutive meetings since 1997.
- 1.6 Although the hit to households' real incomes, from a bigger surge in CPI inflation than most expect, explains why GDP (Gross Domestic Product) is expected to be slower this year than the consensus forecast, it is expected that the leap in inflation will prompt the Bank of England to raise interest rates further this (calendar) year. The risks are that the labour market remains stronger for longer, CPI inflation stays above the 2% target well into 2023 and the Bank of England raises interest rates further in 2023.

Outlook

- The development of global tension has created major impacts to oil prices, with Western Governments implementing sanctions on Russian oil exports. The outright ban that the US has placed on Russian energy imports and the EU looking to reduce dependency on Russian energy, mean that the UK is already seeing the household effects today. This has only deepened the existing rise in wholesale costs, with experts predicting an even further increase. Although the UK has experienced some fluctuation recently, they have jumped more than 30% since the 24th February, touching £105 a one point. Tighter economic sanctions on Russia and renewed surges in commodity prices, has increased the upside risks to inflation and the downside risks to activity.
- In the UK, Ofgem has confirmed a significant rise in retail energy prices, which will maintain relatively high CPI rates throughout 2022. Supply constraints are also evident in the labour market.
- Underlying wage growth is running above pre-COVID levels despite employment being lower now than in early 2020. Evidence suggests that labour pools have diminished. Higher wage growth will be a contributory factor to sustained above-target inflation this year.
- The lower severity of Omicron means that the economic impact should be limited. The UK economy had a weak Q4 2021 due to the virus, but growth is likely to bounce back in Q1 2022.
- However, higher inflation will dampen demand. In the UK, households face a difficult outlook. Fiscal and monetary headwinds alongside a sharp reduction in real income growth will weigh on disposable income, ultimately leading to slower growth.

Forecast

- The MPC will raise Bank rate further to dampen aggregate demand and reduce the risk of sustained higher inflation. Arlingclose therefore expects the Bank Rate to rise to 0.75% in March and 1.0% in May.
- The Bank of England predicts that UK aggregate income and spending will reduce due to higher goods and energy prices. Households cut back on spending as real incomes decline, due to high inflation and rises in taxes. Some of the decline in real income will be offset by households using accumulated savings to support spending. Demand growth is expected to slow as support from fiscal and monetary policy ebbs compared to previous years.
- As spending growth declines, unemployment is expected to rise, up by about 1% compared to the current 4.1% rate. Slowing growth and rising inflation leads to a margin of spare capacity opening up by the end of 2022 and growing to around 1%.
- CPI inflation is expected to rise further in the near term to a peak of 7.25% in April 2022. This mainly reflects the increase in global prices, with around three quarters of the rise in inflation between December and April due to higher contributions from energy and goods prices. Higher wage settlements place further upward pressure on CPI throughout 2022.

Local Context

- 1.6 On 2nd March 2022, the Council held £5.5m of borrowing and £29m of investments. This is set out in further detail at **Appendix 1**. Forecast changes in the balance sheet analysis are shown in table 1 below:

Table 1: Balance Sheet Summary and Forecast

	31.03.21 Actual £m	31.03.22 Estimate £m	31.03.23 Forecast £m	31.03.24 Forecast £m	31.03.25 Forecast £m
General Fund CFR	5.6	5.5	5.3	5.2	5.1
Less External Borrowing ***	(5.5)	(5.5)	(5.5)	(5.5)	(5.5)
Internal (over) borrowing	0.1	0.0	(0.2)	(0.3)	(0.4)
Less: Useable Reserves	(26.8)	(20.6)	(13.2)	(12.7)	(12.7)
Plus: Working Capital	4.9	4.9	4.9	4.9	4.9
Treasury Investments	(21.8)	(15.7)	(8.5)	(8.1)	(8.2)

**shows only loans to which the Council is committed and excludes optional refinancing.

- 1.7 The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while useable reserves and working capital are the underlying resources available for investment.

- 1.8 CIPFA's Prudential Code for Capital Finance in Local Authorities recommends that the Council's total debt should be lower than its highest CFR over the next three years. The table above indicates that the level of borrowing is slightly higher than the CFR.
- 1.9 The Council borrowed £5.45m as a maturity loan but this is not due for repayment until 2056. The Council also has internal borrowing of £849k for the purchase of wheeled bins. In accordance with sound accounting practice the Council has annually set aside amounts for the repayment of debt called the Minimum Revenue Provision. As shown in the table above, this has the impact of reducing the CFR. The Council's expenditure plans do not currently imply any need to borrow over the forecast period. The debt is higher than the CFR due to the loan being paid at maturity and therefore is a timing issue and therefore acceptable in these circumstances.
- 1.10 Investments are forecast to fall to circa £8m as capital receipts and reserves are used to finance capital expenditure and the revenue budget.

Liability Benchmark

- 1.11 To compare the Council's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes the same forecasts as Table 1 above, but that the cash investment balances are kept to a minimum level of £5m at each year to maintain sufficient liquidity but minimise risk.

Table 2: Liability Benchmark

	31.03.21 Actual £m	31.03.22 Estimate £m	31.03.23 Forecast £m	31.03.24 Forecast £m	31.05.25 Forecast £m
Net Loans Requirement	(16.3)	(10.2)	(3.0)	(2.6)	(2.7)
Plus: Liquidity Allowance	5.0	5.0	5.0	5.0	5.0
Liquidity Benchmark	(11.3)	(5.2)	2.0	2.4	2.3

As shown in the table 2 above, the Council has a positive 'net loans requirement' during the periods covered; i.e. it has a net surplus to invest after providing for loan repayment. Taking into account the liquidity allowance, the lowest risk level of borrowing is circa £2 to 2.4m over the period 2022/23 and 2024/25. The 'benchmark' is just that and it will change only time and therefore acts as a guide only.

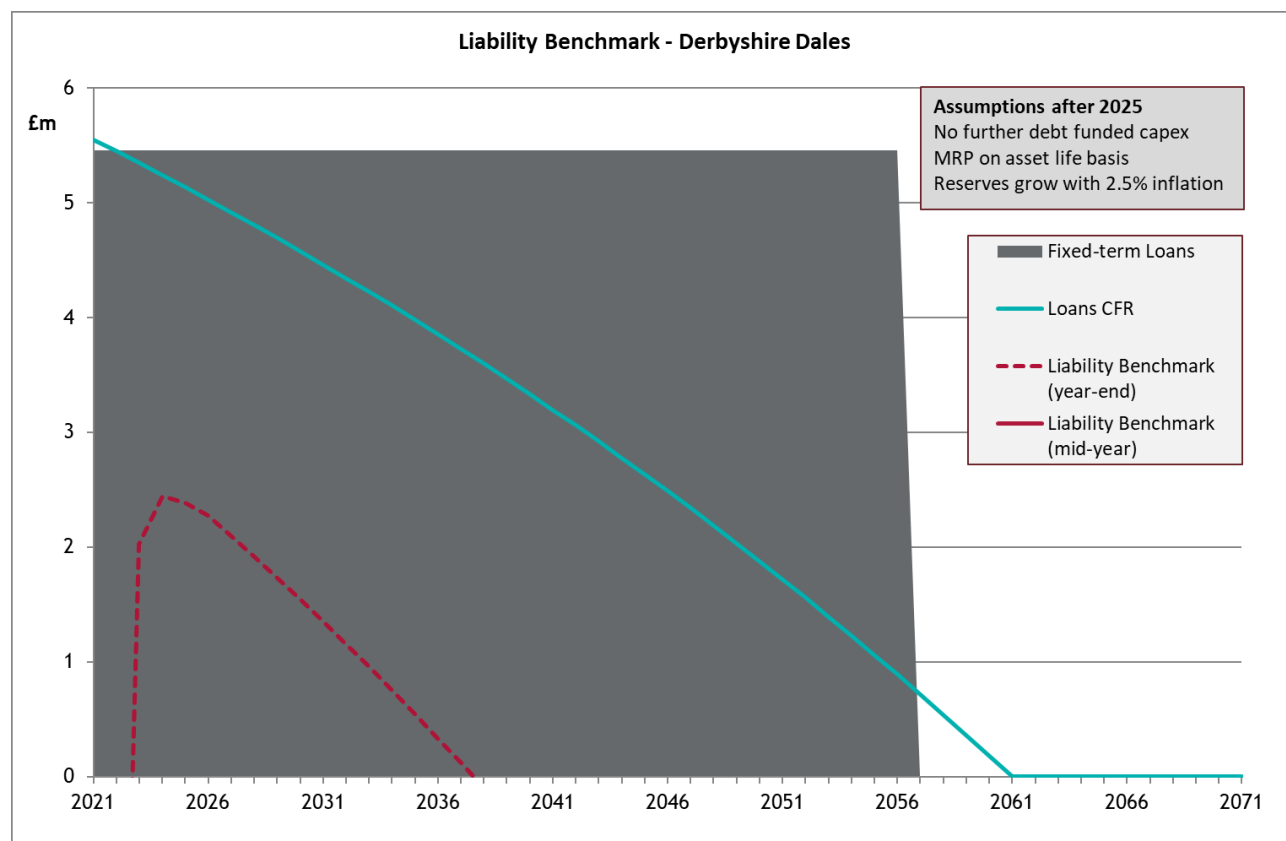
The benchmark indicates borrowing risk of £2m; however as the actual borrowing is currently at £5.5m the risk is covered and there are surplus funds to invest.

- 1.12 Following on from the medium-term forecasts in table 2 above, the long-term liability benchmark assumes:-
- capital expenditure funded by existing and forecast capital receipts, grants and reserves. No new borrowing is forecast based upon the current capital programme plans.

- Minimum Revenue Provision is based upon borrowing for previous capital expenditure based upon asset life.
- income, expenditure and reserves all increasing by inflation of 2.5% a year.

The Liability Benchmark continues to reduce as the CFR reduces and further cash is available for investment until 2056 when the debt is repaid.

Liability Benchmark Chart



Borrowing Strategy

1.13 The Council currently holds £5.45 million of loans, as part of its strategy for funding previous years' capital programmes. The balance sheet forecast in table 1 shows that the Council does not need to borrow in 2022/23. Although not demonstrated as necessary at this point, the Council is able to borrow to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing of £12 million.

Objectives: The Council's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should the Council's long-term plans change is a secondary objective.

Strategy: Given the significant cuts to public expenditure and in particular to local government funding, the Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates,

it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead should future borrowing be required.

- 1.14 By doing so, the Council is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of internal / short-term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. Arlingclose will assist the Council with this 'cost of carry' and breakeven analysis. Its output may determine whether the Council borrows additional sums at long-term fixed rates in the future with a view to keeping future interest costs low, even if this causes additional cost in the short-term.
- 1.15 The Authority has previously raised all of its long-term borrowing from the PWLB but will consider long term loans from any sources including banks, pensions and local authorities and will reduce over reliance on one source of funding in line with the CIPFA code. PWLB loans are no longer available to Local Authorities planning to buy investment assets primarily for yield; the Authority intends to avoid this activity in order to retain its access to PWLB loans.
- 1.16 Alternatively the authority may arrange forward starting loans where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period. In addition, the Council may borrow short-term loans to cover unplanned cash flow shortages.

Sources:

- 1.17 The approved sources of long-term and short-term borrowing are:
- HM Treasury's PWLB lending facility (formerly the Public Works Loan Board)
 - any institution approved for investments (see below)
 - any other bank or building society authorised to operate in the UK
 - any other UK public sector body
 - UK public and private sector pension funds (except our own Pension Fund)
 - capital market bond investors
 - UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues
- 1.18 In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:
- leasing
 - hire purchase
 - Private Finance Initiative
 - sale and leaseback

The Council has previously raised all of its long-term borrowing from the PWLB but it continues to investigate other sources of finance, such as local authority loans and bank loans, which may be available at more favourable rates.

Municipal Bond Agency:

1.19 UK Municipal Bonds Agency plc was established in 2014 by the Local Government Association as an alternative to the PWLB. It issues bonds on the capital markets and lend the proceeds to local authorities. This is a more complicated source of finance than the PWLB for two reasons: borrowing authorities will be required to provide bond investors with a joint and several guarantee to refund their investment in the event that the agency is unable to for any reason; and there will be a lead time of several months between committing to borrow and knowing the interest rate payable. Any decision to borrow from the Agency will therefore be the subject of a separate report to Council.

Short-term and Variable Rate loans:

1.20 These loans leave the Council exposed to the risk of short-term interest rate rises and are therefore subject to the limit on the net exposure to variable interest rates in the treasury management indicators below.

Debt Rescheduling:

1.21 The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The Council may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk.

Treasury Investment Strategy

1.22 The Council holds invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Council's treasury investment balance has ranged between £19.4 million and £41.8 million, largely due to the substantial funds received from central government for COVID business grants. The Council has also received Section 31 grant to compensate for losses incurred due to a lower Business Rates base, as a result of the Government awarding further discounts and reliefs to businesses. An element of the grant belongs to other Preceptors therefore at the reconciliation stage funds will be required to be returned to the Government. These factors and the growing capital programme will reduce reserves available to invest:-

Objectives: The CIPFA code requires the Council to invest its treasury funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the Council will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested.

Strategy: Given the increasing risk and very low returns from short-term unsecured bank investments, the Council aims to further diversify into more secure and/or higher yielding asset classes during 2022/23. This had been anticipated in 2021/22 however staff turnover and additional work as a result of COVID prevented this being explored. An in-depth review of longer-term investment opportunities will be undertaken in July 2022. The majority of the

Council's surplus cash remains invested in short-term unsecured bank deposit, the Government and money market firms.

1.23 Approved Counterparties: The Authority may invest its surplus funds with any of the counterparty types in table 2 below, subject to the cash limits (per counterparty) and the time limits shown.

Table 3: Approved Investment Counterparties and Limits for 2022/23

Sector	Time Limit	Counterparty Limit	Sector Limit
UK Government	50 years	Unlimited	n/a
Local Authorities & other government entities	25 years	£4m	unlimited
Secured Investments*	25 years	£4m	unlimited
Banks (unsecured)*	13 months	£2m	unlimited
Building Societies (unsecured)*	13 months	£2m	£4 million
Registered Providers (unsecured)*	5 years	£2m	£10 million
Strategic Pooled Funds	n/a	£4m	£20 million
Money Market funds	n/a	£4m	unlimited
Real estate investment trusts	n/a	£4m	£10 million
Other investments*	5 years	£2m	£4 million

This table must be read in conjunction with the notes below:

1.24 Minimum Credit Rating: Treasury Investments in the sectors marked with an asterisk will only be made with entities whose lowest published long-term credit rating is no lower than (A-) where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

For entities without published credit ratings, investments may be made either (a) where external advice indicates the entity to be of similar credit quality or (b) to a maximum of £2 million per counterparty.

1.25 Government: Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is an insignificant risk of insolvency, although they are not zero risk. Investments with the UK Central Government are deemed to be zero credit risk due to its ability to create additional currency and therefore may be made in unlimited amounts for up to 50 years.

1.26 Secured Investments: These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

- 1.27 **Banks and building societies Unsecured:** Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See below for arrangements relating to operational bank accounts.
- 1.28 **Registered Providers: (unsecured)** Loans and bonds issued by, guaranteed by or secured on the assets of Registered Providers of Social Housing, formerly known as Housing Associations. These bodies are regulated by the Regulator of Social Housing (in England), the Scottish Housing Regulator, the Welsh government and the Department for Communities (in Northern Ireland). As providers of public services, they retain the likelihood of receiving government support if needed.
- 1.29 **Money market funds:** Pooled funds that offer same-day or short notice liquidity and very low or no price volatility by investing in short-term money markets. They have the advantage over bank accounts of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a small fee. Although no sector limit applies to money market funds, the Authority will take care to diversify its liquid investments over a variety of providers to ensure access to cash at all times.
- 1.30 **Strategic pooled funds:** Bond, equity and property funds that offer enhanced returns over the longer term but are more volatile in the short term. These allow the Authority to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Council's investment objectives will be monitored regularly.
- 1.31 **Real estate investment trusts:** Shares in companies that invest mainly in real estate and pay the majority of their rental income to investors in a similar manner to pooled property funds. As with property funds, REITs offer enhanced returns over the longer term, but are more volatile especially as the share price reflects changing demand on the shares as well as changes in the underlying properties
- 1.32 **Other Investments:** This category covers treasury investments not listed above, for example unsecured corporate bonds and company loans. Non-bank companies cannot be bailed-in but can become insolvent placing the Council's investment at risk.
- 1.33 **Operational Bank Accounts:** The Authority may incur operational exposures, for example through current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments, but are still subject to the risk of a bank bail-in, and balances will therefore be kept below £7 million per bank (the practicalities of making large payments, such as precept payments, on any one day mean that funds of that magnitude will be required in the Council's current account). The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Authority maintaining operational continuity.

1.34 Risk Assessment and Credit Ratings: Credit ratings are obtained and monitored by the Council’s treasury advisers, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made,
- any existing investments that can be recalled or sold at no cost will be, and
- Full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as “rating watch negative” or “credit watch negative”) so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

1.35 Other Information on the Security of Investments: The Council understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support and reports in the quality financial press and analysis and advice from Arlingclose. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may otherwise meet the above criteria.

1.36 When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2020, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Council will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Council’s cash balances, then the surplus will be deposited with the UK Government via the Debt Management Office or invested in government treasury bills for example, or with other local authorities. This will cause investment returns to fall but will protect the principal sum invested.

1.37 Investment Limits: The Council’s revenue balances available to cover investment losses are forecast to be £2 million on 31st March 2022. A group of entities under the same ownership will be treated as a single organisation for limit purposes. Limits will also be placed on fund managers, investments in brokers’ nominee accounts, foreign countries and industry sectors as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

Table 4: Investment Limits

	Cash limit
Any group of pooled funds under the same management	£10m per manager
Negotiable instruments held in a broker’s nominee account	£10m per broker
Foreign countries	£4m per country

1.38 **Liquidity Management:** The Council uses cash flow forecasting spreadsheets to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the Council being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Council's medium term financial plan and cash flow forecast.

Treasury Management Prudential Indicators

1.39 The Council measures and manages its exposures to treasury management risks using the following indicators.

Security: The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

	Target
Portfolio average credit	A

1.40 **Liquidity:** The Council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three month period, without additional borrowing.

	Target
Total cash available within 3 months	£30m

1.41 **Interest Rate Exposures:** This indicator is set to control the Authority's exposure to interest rate risk. The upper limits on the one-year revenue impact of a 1% rise or fall in interest rates will be:

Interest Rate Risk Indicator	Limit
Upper limit on one-year revenue impact of a 1% rise in interest rates	(£290,000)
Upper limit on one-year revenue impact of 1% fall in interest rates	£290,000

The impact of a change in interest rates is calculated on the assumption that maturing loans and investments will be replaced at current rates.

1.42 **Maturity Structure of Borrowing:** This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing will be:

	Upper	Lower
Under 12 months	35%	0%
12 months and within 24 months	50%	0%
24 months and within 5 years	65%	0%
5 years and within 10 years	80%	0%
10 years and above	100%	0%

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

- 1.44 **Principal Sums Invested for Periods Longer than 1 year:** The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end will be:

	2022/23	2023/24	2024/25
Limit on principal invested beyond the year end	£5m	£5m	£5m

Related Matters

- 1.45 There are a number of additional items that the Council is obliged by CIPFA or government (DLUHC) to include in its Treasury Management Strategy:

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

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

Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit.

In line with the CIPFA Code, the Authority will seek external advice and will consider that advice before entering into financial derivatives to ensure that it fully understands the implications.

Markets in Financial Instruments Directive: The Council has opted up to professional client status with its providers of financial services, allowing it access to a greater range of service but without the greater regulatory protections afforded to individuals and small companies. Given the size and range of the Council's treasury management activities, the Director of Resources believes this to be the most appropriate status.

Other Options Considered

14.6 The CIPFA Code does not prescribe any particular treasury management strategy for local authorities to adopt. The Director of Resources believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

Alternative	Impact on income and expenditure	Impact on risk management
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses may be greater
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses may be smaller
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs may be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long term costs may be less certain
Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs may be less certain

2. RISK ASSESSMENT

2.1 Legal

The report complies with best practice and government guidance on the preparation of the treasury management strategy statement. The legal risk is therefore low.

2.2 Financial

The budget for investment income in 2022/23 is £37,000. The budget for debt interest payable in 2022/23 is £225,000, based on an average debt portfolio of £5.45 million at an average interest rate of 4.1%. If actual levels of investments and borrowing, or actual interest rates, differ from those forecast, performance against budget will be correspondingly different. The financial climate is changing due to the war in Russia, the lasting effect of COVID and recent changes in interest rates.

The financial risk is assessed as medium.

3 OTHER CONSIDERATIONS

- 3.1 In preparing this report the relevance of the following factors has also been considered prevention of crime and disorder, equalities, environmental, climate change, health, human rights, personnel and property.
- 3.2 There are no perceived direct climate change impacts of the recommendations to approve the Treasury Management Strategy Statement for 2022/23 and the Treasury Management Prudential Indicators. However it should be noted that, as per 1.22, the Council aims to further diversify into more secure and/or higher yielding asset classes during 2022/23. The in-depth review of longer-term investment opportunities to be undertaken in July 2022 should explore the climate change impacts of any investment to ensure that they align with our declaration of a climate emergency.

4 CONTACT INFORMATION

For further information contact:

Karen Henriksen – Director of Resources

Tel: 01629 761284

Email: karen.henriksen@derbyshiredales.gov.uk

5 BACKGROUND PAPERS

None

6 ATTACHMENTS

Appendix 1 - Existing Investment and Debt Portfolio Position

TREASURY MANAGEMENT STRATEGY STATEMENT 2022/32Existing Investment & Debt Portfolio Position

	2nd March 2022 Actual Portfolio £	Average Rate %
External Borrowing		
Public Loans Board	5.450.000	4.1%
Total Gross External Debt	5,450,000	4.1%
<u>Treasury Investments</u>		
The UK Government (Debt Management Office)	11,500,000	0.03%
Bank (unsecured)	854,892	0.01%
Money Market Funds	16,000,000	0.04%
Strategic Pooled Funds:-		
*CCLA Property Fund	1,000,000	3.50%
Total Investments	29,354,892	0.15%
*Amount deposited shown. Bid market valuation. Valuation as at 30/09/21 £954k		