Treasury Management Strategy Statement & Annual Investment Strategy for 2023/24

Executive Summary

1. The Treasury Management Strategy & Annual Investment Strategy for 2023/24 outlines the Council's strategic objectives in terms of its debt and investment management for the financial year 2023/24.

2. The forecast average cash balance for 2023/24 is £480m. The Council will maintain its investment in strategic pooled funds with a purchase value of £101m (21%). The remaining £379m (79%) will be managed internally with a mixture of short, medium and long-term deposits.

3. The Bank of England Base Rate is forecast to peak at 4.50% during the 2023/24 financial year.

4. UK Government Gilt yields are forecast to fall from 3.80 to 2.40% over the medium term.

5. Changes to the Treasury Management Strategy will be recommended to Council to be delegated to the Director of Finance in consultation with the Leader of the Council and Cabinet Member for Finance

Changes from 2023/24 Strategy

6. Reflecting the anticipated level of cash balances over the medium term and the long term lending limits are proposed to be updated as follows:

	From	To
2023/24	£185m	£200m
2024/25	£185m	£145m
2025/26	£185m	£110m
2026/27	£185m	£100m
2027/28	n/a	£100m

Background

7. The Local Government Act 2003 and supporting regulations require the Council to 'have regard to' the Prudential Code and to set Prudential Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable.

8. The Act requires the Council to set out its treasury strategy for borrowing and to prepare an Annual Investment Strategy (as required by Investment Guidance issued subsequent to the Act). The Annual Investment Strategy sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.

9. Treasury management is defined as: "The management of the organisation's borrowing, investments and cash flows, including its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

10. The proposed strategy for 2023/24 is based upon the views of the Council's Treasury Management Strategy Team (TMST)[1], informed by market forecasts provided by the Council's treasury advisor, Link Treasury Services. The forecast and economic background provided by Link Treasury Services can be found in Annex 1.

11. It is proposed that any further changes required to the Annual Treasury Management Strategy & Annual Investment Strategy, continue to be delegated to the Director of Finance in consultation with the Leader of the Council and Cabinet Member for Finance.

Forecast Treasury Portfolio Position

12. The Council's treasury forecast portfolio position for the 2023/24 financial year comprises:

	Principal £m	**Average Rate %**
Opening External Debt Balance		
Public Works Loans Board (PWLB)	248.383	4.467
Lender's Option Borrower's Options (LOBOs)[2]	45.000	3.943
Money Market Loans	5.000	3.950
TOTAL EXTERNAL DEBT	298.383	
2023/24 Average Forecast Cash Balance		
Average In-House Cash	379.144	
Average Externally Managed	101.006	
TOTAL INVESTMENTS	**480.150**	

13. The average forecast cash balance for 2023/24 is comprised of the following:

	Average Balance £m
Earmarked Reserves	99.247
Unusable DSG Reserve	-61.200
Capital and Developer Contributions	379.068
General & School Balances	49.261

[1] Comprising the Director of Finance, Service Manager (Pensions), Head of Financial Strategy and Treasury Manager.
[2] See paragraphs 23 & 24 for detail

Cashflow and Working Capital Adjustments	178.583
Internal Borrowing	-178.976
Provisions and Deferred Income	14.167
TOTAL	**480.150**

14. Cash balances for 2023/24 are higher than anticipated when the Treasury Management Strategy for 2022/23 was agreed. This reflects the updated profile of capital expenditure as set out in the Capital Monitoring Reports to Cabinet in 2022/23.

Prospect for Interest Rates

15. The Council's TMST, taking into account the advice from Link Treasury Services, market implications and the current economic outlook, have determined the interest rates to be included in the Strategic Measures budget for 2023/24 and over the medium term. TMST forecast a rise to 4.25% before the start of the financial year, rising to 4.50% during in the first quarter of 2023/24, before dropping back to 4.00% by the end of 2023/24. The bank rate is then forecast to drop to 2.50% over the medium term.

16. The TMST team has agreed that based on the current portfolio of deposits and market rates, the target in-house rate of return is as set out below. These rates have been incorporated into the strategic measures budget estimates and reflect the mix of rates expected to be achieved on existing and new deposits:

2023/24	3.00%
2024/25 -2027/28	2.80%

Borrowing Strategy

17. The Council's Capital Programme Financing Principles require the application of capital grants, developer contributions, capital receipts and revenue contributions to fund capital expenditure. Prudential borrowing will only be considered where:

   i. there is a robust invest to save model; or
   ii. the council has a significant unmet capital need; or
   iii. It contributes towards the overall investment approach

   The Capital Financing Requirement sets out the council's requirement to prudentially borrow for capital purposes. This borrowing can either be met through external loads of by using existing cash balances held by the council.

18. The Council's chief objective when borrowing money is to strike an appropriate balance between securing low interest costs and achieving cost certainty over the period for which funds are required. The flexibility to

renegotiate loans should the Authority's long-term plans change is a secondary objective.

19. Borrowing rates are forecast to fall from the high of 5.50% in October 2022 to 3.20% over the medium term.

20. External borrowing taken out by the council is expected to fall well below the Capital Financing Requirement due to increased capital expenditure and £25m of debt repayments by 2027/28. If no new external borrowing is arranged during this time, the council will be temporarily financing the capital programme via internal borrowing.

21. Given the high level of balances and the forecast for borrowing rates to significantly reduce in the medium term, the Council's TMST have agreed that the council should maintain the option to fund new or replacement borrowing through internal borrowing. The limit of internal borrowing will be combined with the long term lending limit, and will not exceed £380m in 2023/24.

22. The TMST monitor the borrowing rates on a daily basis. If changes in interest rate forecasts mean the policy to borrow internally is no longer in the short term or long-term interests of the council, the TMST may agree to take out new or replacement borrowing to give the council certainty of costs over the long term, and to reduce Interest Rate Risk and Refinancing Risk in the short to medium term. Any increase in borrowing costs as a result of new external borrowing will be offset by an increased return of interest on balances. Any new external borrowing will be reported to Cabinet.

The approved sources of long-term and short-term borrowing are:

- Public Works Loan Board and any successor body
- UK local authorities
- any institution approved for investments (see below)
- any other bank or building society authorised by the Prudential Regulation Authority to operate in the UK
- UK public and private sector pension funds
- capital market bond investors
- special purpose companies created to enable joint local authority bond issues.

23. The Council has historically set a maximum limit of 20% of the debt portfolio to be borrowed in the form of Lender's Option Borrower's Option (LOBOs). As at 30 November 2022 LOBOs represent 14.5% of the total external debt. The council has no intention of entering into any new LOBO arrangements, however as the level of PWLB debt is due to fall over the medium term, the percentage of LOBOs compared to total external debt will increase. Therefore, it is recommended that the limit for 2023/24 remains at 20%.

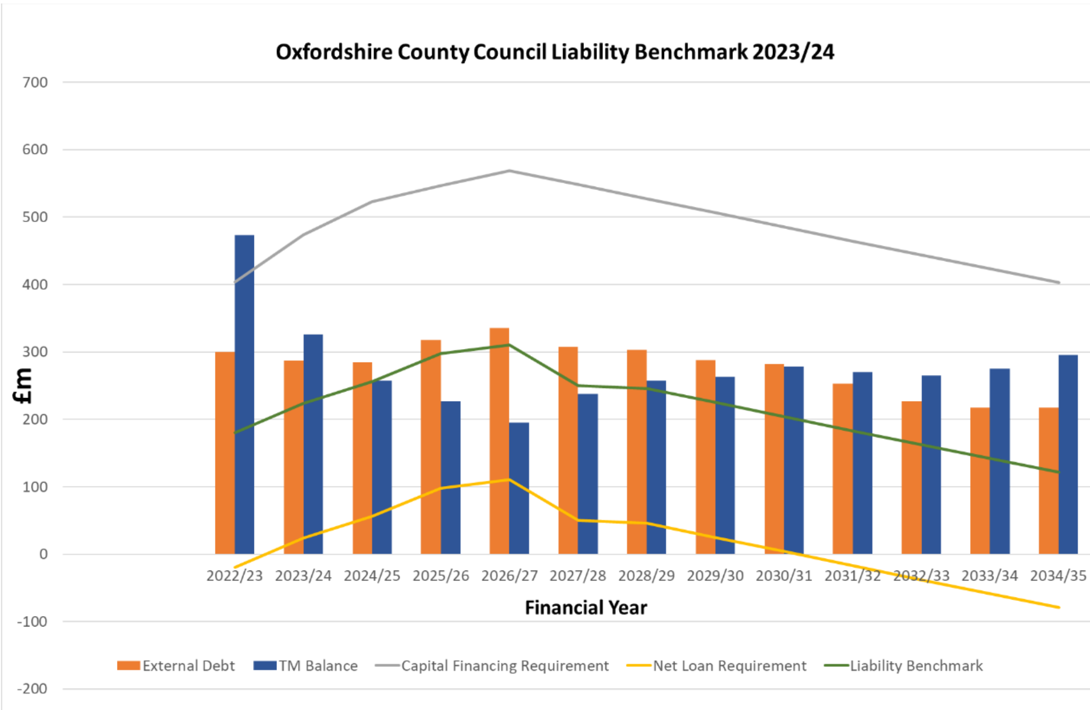
24. The Council has five £5m LOBOs with call options in 2023/24, three of which have two call options in year, whilst two have a single call option in year. At

each call date, the lender may choose to exercise their option to change the interest rate payable on the loan. If the lender chooses to do so, the Council will evaluate alternative financing options before deciding whether or not to exercise the borrower's option to repay the loan or to accept the new rate offered. It is likely that if the rate is changed the debt will be repaid. The TMST will explore early repayment of LOBOs if there were to arise and where there is a financial benefit to do so.

Liability Benchmark

25. Changes to the Prudential Code for Capital Finance in Local Authorities were consulted on in 2021. The Liability Benchmark (i.e. the real need to borrow) is an additional prudential indicator introduced in the updated code. This identifies the minimum future borrowing needs, compared to the capital financing requirement and the actual level of external debt.

26. The gap between the capital financing requirement and the minimum borrowing requirement[3] represents the maximum amount of financing that can be temporarily funded through internal borrowing. Based on the assessment below the council could internally borrow up to £250m in 2023/24. The forecast internal borrowing position for 2023/24 is £178m.



Treasury Management Prudential Indicators for Debt

[3] The minimum borrowing requirement is calculated by taking the capital financing requirement, netting off usable reserves and working capital, and adding on a liquidity allowance.

Upper and lower limits to maturity structure of fixed rate borrowing

27. This indicator highlights the existence of any large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates and is designed to protect against excessive exposures to interest rate changes in any one period, in particular in the course of the next ten years.

28. It is calculated as the amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate. The maturity of borrowing is determined by reference to the earliest date on which the lender can require payment.

29. LOBOs are classified as maturing on the next call date, this being the earliest date that the lender can require repayment.

Maturity structure of fixed rate borrowing during 2023/24	**Lower Limit %**	**Upper Limit %**	**2023/24 Forecast %**
Under 12 months	0	20	10.44
12 months and within 24 months	0	25	2.61
24 months and within 5 years	0	35	25.13
5 years and within 10 years	5	40	27.87
10 years and above	25	95	33.94

Annual Investment Strategy

30. The Council complies with all relevant treasury management regulations, codes of practice and guidance. The Council's investment priorities are:

    - The security of capital and
    - The liquidity of its investments

31. The Council also aims to achieve the optimum return on its investments commensurate with proper levels of security and liquidity. The borrowing of monies purely to invest or on-lend and make a return is unlawful and the Council will not engage in such activity.

32. The Treasury Management Code of Practice requires the Council to approve a Treasury Management Policy Statement. Good practice requires that this statement is regularly reviewed and revised as appropriate. Council approved the statement in February 2019. The statement has been reviewed and there are no revisions proposed for 2023/24.

Investment Instruments

33. Investment instruments identified for use in the 2023/24 financial year are set out in the Specified and Non-Specified instrument tables below

34. Guidance states that specified investments are those requiring “minimal procedural formalities”. The placing of cash on deposit with banks and building societies ‘awarded high credit ratings by a credit rating agency’, the use of Money Market Funds (MMFs) and investments with the UK Government and local authorities qualify as falling under this phrase as they form a normal part of day to day treasury management.

35. Money market funds (MMFs) will be utilised, but good treasury management practice prevails and whilst MMFs provide good diversification the council will also seek to diversify any exposure by using more than one MMF where practical. It should be noted that while exposure will be limited, the use of MMFs does give the council exposure to institutions that may not be included on the approved lending list for direct deposits. This is deemed to be an acceptable risk due to the benefits of diversification. The Treasury team use an online portal to provide details of underlying holdings in MMFs. This enables more effective and regular monitoring of full counterparty risk.

36. All specified investments will be sterling denominated, with maturities up to a maximum of 1 year, meeting the ‘high’ credit rating criteria where applicable.

Specified Investment Instrument	Minimum Credit Criteria	Use
Term Deposits – UK Government	N/A	In-house
Term Deposits – other Local Authorities	N/A	In-house
Debt Management Agency Deposit Facility	N/A	In-house and Fund Managers
Treasury Bills	N/A	In-house and Fund Managers
UK Government Gilts	N/A	In-house on a buy and hold basis and Fund Managers
Term Deposits – Banks and Building Societies	Short-term F1, Long-term BBB+, Minimum Sovereign Rating AA+	In-house and Fund Managers
Certificates of Deposit issued by Banks and Building Societies	A1 or P1	In-house on a buy and hold basis and Fund Managers
Money Market Funds	AAA	In-house and Fund Managers
Other Money Market Funds and Collective Investment Schemes[4]	Minimum equivalent credit rating of A+. These funds do not have short-term or support ratings.	In-house and Fund Managers
Reverse Repurchase Agreements - maturity under 1 year from arrangement and counterparty is of high credit quality (not collateral)	Long Term Counterparty Rating A-	In-house and Fund Managers
Covered Bonds – maturity under 1 year from arrangement	Minimum issue rating of A-	In-house and Fund Managers

37. Non-specified investment products are those which take on greater risk. They are subject to greater scrutiny and should therefore be subject to more rigorous justification and agreement of their use in the Annual Investment Strategy; this applies regardless of whether they are under one-year investments and have high credit ratings.

38. A maximum of 50% of internal investments, and 100% of external investments will be held in non-specified investments.

[4] I.e., credit rated funds which meet the definition of a collective investment scheme as defined in SI 2004 No 534 and SI 2007 No 573.

Non-Specified Investment Instrument	Minimum Credit Criteria	Use	Max Maturity Period
Term Deposits – other Local Authorities (maturities in excess of 1 year)	N/A	In-house	5 years
UK Government Gilts with maturities in excess of 1 year	N/A	In-house and Fund Managers	5 years in-house, 10 years fund managers
Collective Investment Schemes[5] but which are not credit rated	N/A	In-house and Fund Managers	Pooled Funds do not have a defined maturity date
Registered Providers	As agreed by TMST in consultation with the Leader and the Cabinet Member for Finance	In-house	5 years
OxLEP Ltd	As agreed by TMST in consultation with the Leader and the Cabinet Member for Finance	In-house	5 years
Term Deposits – Banks and Building Societies (maturities in excess of 1 year)	Short-term F1+, Long-term AA-	In-house and Fund Managers	3 years
Structured Products (e.g. Callable deposits, range accruals, snowballs, escalators etc.)	Short-term F1+, Long-term AA-	In-house and Fund Managers	3 years
Bonds issued by Multilateral Development Banks	AAA	In-house and Fund Managers	25 years
Bonds issued by a financial institution which is guaranteed by the UK Government	AA	In-house and Fund Managers	5 years in-house

[5] Pooled funds which meet the definition of a collective investment scheme as defined in SI 2004 No 534 and SI 2007 No 573.

Non-Specified Investment Instrument	Minimum Credit Criteria	Use	Max Maturity Period
Sovereign Bond Issues	AAA	In-house on a buy and hold basis. Fund Managers	5 year in-house, 30 years fund managers
Reverse Repurchase Agreements - maturity in excess of 1 year, or/and counterparty not of high credit quality.	Minimum long term rating of A-	In-house and Fund Managers	3 years
Covered Bonds	AAA	In-house and Fund Managers	20 years

Changes to Instruments

39. There are no proposed changes to instruments

Credit Quality

40. The CIPFA Code of Practice on Treasury Management (2021) recommends that Councils have regard to the ratings issued by the three major credit rating agencies (Fitch, Moody's and Standard & Poor's) and to make decisions based on all ratings. Whilst the Council will have regard to the ratings provided by all three ratings agencies, the Council uses Fitch ratings as the basis by which to set its minimum credit criteria for deposits and to derive its maximum counterparty limits. Counterparty limits and maturity limits are derived from the credit rating matrix as set out in the tables at paragraphs 51 and 52 respectively.

41. The TMST may further reduce the derived limits due to the ratings provided by Moody's and Standard & Poor's or as a result of monitoring additional indicators such as Credit Default Swap rates, share prices, Ratings Watch & Outlook notices from credit rating agencies and quality Financial Media sources.

42. Notification of any rating changes (or ratings watch and outlook notifications) by all three ratings agencies are monitored daily by a member of the Treasury Management Team. Updates are also provided by the Council's Treasury Management advisors Link Treasury Services and reported to TMST. Appropriate action will be taken for any change in rating.

43. Where a change in the Fitch credit rating places a counterparty on the approved lending list outside the credit matrix (as set out in tables at paragraphs 50 and 51), that counterparty will be immediately removed from the lending list.

44. The Authority defines “high credit quality” organisations as those having a credit rating of A- or higher that are domiciled in the UK or a foreign country with a sovereign rating of AA+ or higher with the Fitch ratings agency.

Prior to lending to other local authorities, due diligence is undertaken on their financial resilience. . The council will not arrange investments with local authorities that are deemed to have poor financial management and/or standing, or whose operations are deemed to be inconsistent with the council’s priorities.

Liquidity Management

45. The Council forecasts its cash flow to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a pessimistic basis, with receipts under-estimated and payments over-estimated 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. The Council uses instant access bank deposit accounts and money market funds for balances forecast to be required at short notice to meet commitments due. The TMST will continue to monitor options available to maintain the required liquidity and will open new accounts with approved counterparties as appropriate.

Lending Limits

46. In addition to the limits determined by the credit quality of institutions, the TMST apply further limits to mitigate risk by diversification. These include:

- Limiting the amount lent to banks in any one country (excluding the UK) to a maximum of 20% of the investment portfolio.
- Limiting the amount lent to any bank, or banks within the same group structure to 10% of the investment portfolio.
- Actively seeking to reduce exposure to banks with bail in risk

47. Where the Council has deposits on instant access, this balance may temporarily exceed the 10% bank or group limit. However, the limits as set out in paragraphs 50 and 51 will still apply.

48. Counterparty limits as set out in paragraphs 50 and 51, may be temporarily exceeded by the accrual and application of interest amounts onto accounts such as call accounts, money market funds or notice accounts. Where the application of interest causes the balance with a counterparty to exceed the agreed limits, the balance will be reduced when appropriate, dependent upon the terms and conditions of the account and cashflow forecast.

49. Any changes to the approved lending list will be reported to Cabinet as part of the Business Management and Monitoring Report.

50. The Council also manages its credit risk by setting counterparty limits. The matrix below sets out the maximum proposed limits for 2023/24. The TMST may further restrict lending limits dependent upon prevailing market conditions. BBB+ to BBB- ratings is included for overnight balances with the Council's bank, currently Lloyds Bank Plc. This is for practical purposes should the bank be downgraded.

LENDING LIMITS - Fitch Rating	Short Term Rating	
Long Term Rating	F1+	F1
AAA	£30m	£20m
AA+	£30m	£20m
AA	£25m	£15m
AA-	£25m	£15m
A+	£20m	£15m
A	£20m	£15m
A-	£15m	£10m
BBB+, BBB, BBB- (bank with which the Council has its bank account)	£20m	£20m

51. The Council also manages its counterparty risk by setting maturity limits on deposits, restricting longer term lending to the very highest rated counterparties. The table below sets out the maximum approved limits. The TMST may further restrict lending criteria in response to changing market conditions.

MATURITY LIMITS – Fitch Rating	Short Term Rating	
Long Term Rating	F1+	F1
AAA	3 years	364 days
AA+	2 years	364 days
AA	2 years	9 months
AA-	2 years	9 months
A+	364 days	9 months
A	9 months	6 months
A-	6 months	3 months
BBB+, BBB, BBB- (bank with which the Council has its bank account)	Overnight	Overnight

External Funds

52. The Council uses external fund managers and pooled funds to diversify the investment portfolio through the use of different investment instruments, investment in different markets, and exposure to a range of counterparties. It is expected that these funds should outperform the Council's in-house investment performance over a rolling three-year period. The Council will

have no more than 50% of the total portfolio invested with external fund managers and pooled funds (excluding MMFs). This allows the Council to achieve diversification while limiting the exposure to funds with a variable net asset value. And, in order to ensure appropriate diversification within externally managed and pooled funds these should be diversified between a minimum of two asset classes.

53. As at 30 November 2022, the Council had £97m (original purchase value of £101m) invested in external funds (excluding MMFs), representing 16% of the Council's total investment portfolio. Whilst market volatility has seen the capital value of the funds temporarily decrease from £105m as at 31 March 2022, they are held with a long term view, and there is no intention to divest from any of the funds at present.

54. At present, fluctuations in the value of the external funds do not impact on the council’s revenue account, because they are held in an unusable reserve via the statutory override arrangements set out in IFRS9. A consultation on the future of the override was conducted in the autumn of 2022. The outcome is due to be published in early 2023 If the override is removed or phased out the impact on the revenue budget will need to be considered in the Budget and Business Planning process with variations managed through reserves to smooth the impact over time.

55. The external funds have a higher targeted income return than in house deposits of 3.75% which has been incorporated into the medium-term financial strategy.

56. The performance of the pooled funds is monitored by the TMST throughout the year against the funds’ benchmarks and the in-house investment returns. The TMST will keep the external fund investments under review and consider alternative instruments and fund structures, to manage overall portfolio risk. It is recommended that authority to withdraw, or advance additional funds to/from external fund managers, continue to be delegated to the TMST.

Investment Approach

57. The TMST will aim to maintain the balance between medium and long-term deposits with local authorities and short-term secured and unsecured deposits with high credit quality financial institutions. Money Market Funds will continue to be utilised for instant access cash. This approach will maintain a degree of certainty about the investment returns for a proportion of the portfolio, while also enabling the Treasury Management team to respond to any increases or decreases in interest rates in the short-term.

Treasury Management Indicators for Investments

Upper limit to total of principal sums invested longer than 364 days

58. The purpose of this limit is to contain exposure to the risk of loss that may arise as a result of the Authority having to seek early repayment of the sums invested.

59. The long term lending limit is based on 50% of the forecast average cash balance. Based on forecast balances reducing to £200m over the medium term, the proposed limits for investments longer than 364 day is set out below:

	2023/24 £m	**2024/25 £m**	**2025/26 £m**	**2026/27 £m**	**2027/28 £m**
Upper limit on principal sums invested longer than 364 days	215	145	110	100	100

Other Treasury Management Prudential Indicators

Upper limits on fixed and variable rate interest exposures

60. These indicators allow the Authority to manage the extent to which it is exposed to changes in interest rates.

Fixed interest rate exposure

61. The limits set out offer the Council protection in an uncertain interest rate environment by allowing the majority of the debt portfolio to be held at fixed interest rates, thus not subjecting the Council to rising debt interest.

Upper limit for fixed interest rate exposure	**2022/23**	**2022/23**	**2023/24**	**2024/25**	**2025/26**	**2026/27**
Net principal re fixed rate borrowing / investments	£350m	£350m	£350m	£350m	£350m	£350m

62. Fixed rate investments and borrowings are those where the rate of interest is fixed for at least 12 months, measured from the start of the financial year or the transaction date if later. All other instruments are classed as variable rate.

Variable interest rate exposure

63. The council will maintain a zero (or negative) net variable interest rate exposure. This is maintained by ensuring the Council's variable rate debt is lower than variable rate investments

64. Prudential Indicators are reported to and monitored by the TMST on a regular basis and will be reported to the Audit & Governance Committee and

Cabinet in the quarterly Treasury Management reports and the Treasury Management Annual Performance Report.

Policy on Use of Financial Derivatives

65. 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 will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

66. 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.

67. It is the view of the TMST that the use of standalone financial derivatives will not be required for Treasury Management purposes during 2022/23. The Council will only use derivatives after seeking expertise, a legal opinion and ensuring officers have the appropriate training for their use.

Performance Monitoring

68. The Council will monitor its Treasury Management performance against other authorities through its membership of the CIPFA Treasury Management benchmarking club.

69. Link Treasury Services benchmark the performance of their clients against each other on a quarterly basis, looking at a variety of indicators including investment risk and returns.

70. Latest performance figures will be reported to the Audit & Governance Committee and Cabinet in the quarterly Treasury Management reports and the Treasury Management Annual Performance Report.

Investment Training

71. All members of the Treasury Management Strategy Team are members of CIPFA or other professional accounting bodies. In addition, key Treasury Management officers receive in-house and externally provided training as deemed appropriate and training needs are regularly reviewed, including as part of the staff appraisal process.

72. The Council has opted up to ‘professional client’ categorisation with under the second Markets in Financial Instruments Directive (MiFID II). In order to achieve this, evidence was required that the person(s) authorised to make

investment decisions on behalf of the authority have at least one year's relevant professional experience and the expertise and knowledge to make investment decisions and understand the risks involved. Members of the TMST currently meet these criteria and training needs will be regularly monitored and reviewed to ensure continued compliance.

Financial Implications

73. Interest payable and receivable in relation to Treasury Management activities are included within the overall Strategic Measures budget. In house interest receivable for 2023/34 is budgeted to be £11.02m.

74. Dividends payable from external funds in 2023/34 are budgeted to be £3.81m.

75. Interest payable on external debt in 2023/34 is budgeted to be £13.81m.

Comments checked by: Lorna Baxter, Section 151 Officer,

Legal Implications

76. There are no direct legal implications arising from this report save for the need for ongoing collaborative working between the S151 Officer and the Monitoring Office. CIPFA guidance promotes the need for consultative working and collaboration between these respective roles to promote good organisational governance.

77. The duties of a local authority in relation to Treasury Management are set out in Local Government 2003 as set out in paragraph 8 and 9 above. In addition, the responsibilities of a local authority in monitoring its treasury management are set out in The Treasury Management Code of Practice introduced in 2001/02. Local authorities are required to "have regard" to the code in setting up and approving their Treasury Management arrangements. The Treasury Management Code and the Prudential Code, form two parts of what is known as the Prudential Framework. And includes statutory guidance published by Ministry Housing Communities and Local Government (MHCLG) - Guidance on Local Authority Investments and the Guidance on Minimum Revenue Provision which came into effect from 1 April 2018. The above codes and guidance have been considered in setting the Treasury Management Strategy for 2023/24.

78. The functions of the Audit and Governance Committee include the monitoring of the system for Treasury Management. (CPR Part 5.1A paragraph 1(a) 6)).

Comments checked by:
Kate Charlton, Interim Head of Improvement, Law & Governance,

Sustainability Implications

79. This report is not expected to have any negative impact with regards to the Council's zero carbon emissions commitment by 2030.

80. The Treasury Management Strategy Team will consider investments that may make a positive contribution to the Council's carbon commitment when appropriate opportunities become available. The TMST will continue to explore Ethical, Sustainable and good Governance investment practices.

81. Where the Council has investments in externally managed funds, each of the fund managers is a signatory to the United Nations Principal for Responsible Investment.

82. Furthermore, the Council will not knowingly invest directly in organisations whose activities include practices which are inconsistent with the values of the Council or the Council's zero carbon emissions commitment by 2030.

83. The Treasury Management function is now completely paperless and working in line with the council's agile working policy with a mix of office based and remote working.

Annex 1

5.1 INTEREST RATE FORECASTS 2022-2025

Link Group Interest Rate View	08.11.22												
	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
BANK RATE	3.50	4.25	4.50	4.50	4.50	4.00	3.75	3.50	3.25	3.00	2.75	2.50	2.50
3 month ave earnings	3.60	4.30	4.50	4.50	4.50	4.00	3.80	3.30	3.00	3.00	2.80	2.50	2.50
6 month ave earnings	4.20	4.50	4.60	4.50	4.20	4.10	3.90	3.40	3.10	3.00	2.90	2.60	2.60
12 month ave earnings	4.70	4.70	4.70	4.50	4.30	4.20	4.00	3.50	3.20	3.10	3.00	2.70	2.70
5 yr PWLB	4.30	4.30	4.20	4.10	4.00	3.90	3.80	3.60	3.50	3.40	3.30	3.20	3.10
10 yr PWLB	4.50	4.50	4.40	4.30	4.20	4.00	3.90	3.70	3.60	3.50	3.40	3.30	3.20
25 yr PWLB	4.70	4.70	4.60	4.50	4.40	4.30	4.10	4.00	3.90	3.70	3.60	3.50	3.50
50 yr PWLB	4.30	4.40	4.30	4.20	4.10	4.00	3.80	3.70	3.60	3.40	3.30	3.20	3.20

PWLB forecasts are based on PWLB certainty rates.

ECONOMIC BACKGROUND

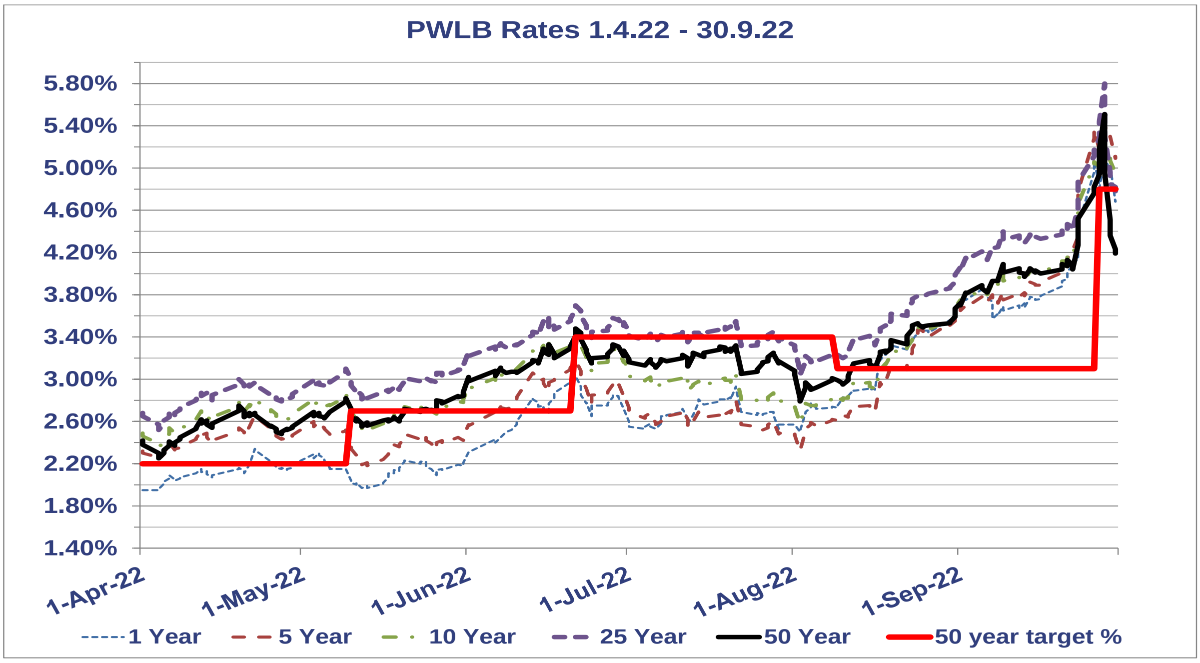
- Against a backdrop of stubborn inflationary pressures, the easing of Covid restrictions in most developed economies, the Russian invasion of Ukraine, and a range of different UK Government policies, it is no surprise that UK interest rates have been volatile right across the curve, from Bank Rate through to 50-year gilt yields, for all of 2022.
- Market commentators' misplaced optimism around inflation has been the root cause of the rout in the bond markets with, for example, UK, EZ and US 10-year yields all rising by over 200bps since the turn of the year. The table below provides a snapshot of the conundrum facing central banks: inflation is elevated but labour markets are extra-ordinarily tight, making it an issue of fine judgment as to how far monetary policy needs to tighten.

	UK	**Eurozone**	**US**
Bank Rate	3.0%	1.5%	3.75%-4.00%
GDP	-0.2%q/q Q3 (2.4%y/y)	+0.2%q/q Q3 (2.1%y/y)	2.6% Q3 Annualised
Inflation	11.1%y/y (Oct)	10.0%y/y (Nov)	7.7%y/y (Oct)
Unemployment Rate	3.6% (Sep)	6.6% (Sep)	3.7% (Aug)

- Q2 of 2022 saw UK GDP revised upwards to +0.2% q/q, but this was quickly reversed in the third quarter, albeit some of the fall in GDP can be placed at the foot of the extra Bank Holiday in the wake of the Queen's passing. Nevertheless, CPI inflation has picked up to what should be a peak reading of 11.1% in October, although with further increases in the gas and electricity price caps pencilled in for April 2023, and the cap potentially rising from an average of £2,500 to £3,000 per household, there is still a possibility that inflation will spike higher again before dropping back slowly through 2023.
- The UK unemployment rate fell to a 48-year low of 3.6%, and this despite a net migration increase of c500k. The fact is that with many economic participants registered as long-term sick, the UK labour force actually shrunk by c£500k in the year to June. Without an increase in the labour force participation rate, it is hard to see how the UK economy will be able to grow its way to prosperity, and with average wage increases running at 5.5% - 6% the MPC will be concerned that wage inflation will prove just as sticky as major supply-side shocks to food and energy that have endured since Russia's invasion of Ukraine on 22nd February 2022.
- Throughout Q3 Bank Rate increased, finishing the quarter at 2.25% (an increase of 1%). Q4 has seen rates rise to 3% in November and the market expects Bank Rate to hit 4.5% by May 2023.
- Following a Conservative Party leadership contest, Liz Truss became Prime Minister for a tumultuous seven weeks that ran through September and December. Put simply, the markets did not like the unfunded tax-cutting and heavy spending policies put forward by her Chancellor, Kwasi Kwarteng, and their reign lasted barely seven weeks before being replaced by Prime Minister Rishi Sunak and Chancellor Jeremy Hunt. Their Autumn Statement of 17th November gave rise to a net £55bn fiscal tightening, although much of the "heavy lifting" has been left for the next Parliament to deliver.

However, the markets liked what they heard, and UK gilt yields have completely reversed the increases seen under the previous tenants of No10/11 Downing Street.

- Globally, though, all the major economies are expected to struggle in the near term. The fall below 50 in the composite Purchasing Manager Indices for the UK, US, EZ and China all point to at least one if not more quarters of GDP contraction. In November, the MPC projected eight quarters of negative growth for the UK lasting throughout 2023 and 2024, but with Bank Rate set to peak at lower levels than previously priced in by the markets and the fiscal tightening deferred to some extent, it is not clear that things will be as bad as first anticipated by the Bank.
- The £ has strengthened of late, recovering from a record low of $1.035, on the Monday following the Truss government's "fiscal event", to $1.20. Notwithstanding the £'s better run of late, 2023 is likely to see a housing correction of some magnitude as fixed-rate mortgages have moved above 5% and affordability has been squeezed despite proposed Stamp Duty cuts remaining in place.
- In the table below, the rise in gilt yields, and therein PWLB rates, through the first half of 2022/23 is clear to see.



- However, the peak in rates on 28th September as illustrated in the table covering April to September 2022 below, has been followed by the whole curve shifting ever lower. PWLB rates at the front end of the curve are generally over 1% lower now whilst the 50 years is over 1.75% lower.

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	1.95%	2.18%	2.36%	2.52%	2.25%
Date	01/04/2022	13/05/2022	04/04/2022	04/04/2022	04/04/2022
High	5.11%	5.44%	5.35%	5.80%	5.51%
Date	28/09/2022	28/09/2022	28/09/2022	28/09/2022	28/09/2022
Average	2.81%	2.92%	3.13%	3.44%	3.17%
Spread	3.16%	3.26%	2.99%	3.28%	3.26%

- After a shaky start to the year, the S&P 500 and FTSE 100 have climbed in recent weeks, albeit the former is still 17% down and the FTSE 2% up. The German DAX is 9% down for the year.

CENTRAL BANK CONCERNS – NOVEMBER 2022

- At the start of November, the Fed decided to push up US rates by 0.75% to a range of 3.75% - 4%, whilst the MPC followed a day later by raising Bank Rate from 2.25% to 3%, in line with market expectations. EZ rates have also increased to 1.5% with further tightening in the pipeline.