APPENDIX 19 – TREASURY MANAGEMENT STRATEGY

1. INTRODUCTION

1.1 The Treasury Management service is an important part of the overall financial management of the Council's affairs. At 31 March 2021 the Council had £94m of investments which need to be safeguarded, £141m of long term debt, which has been accrued over the years to help to fund the Council's capital investment programmes, and £10m of short term debt. The Council is also the lead authority responsible for the administration of the debt of the former Greater Manchester County Council on behalf of all ten Greater Manchester Metropolitan Authorities. As at 31 March 2021, this represented a further £21m of debt. The significant size of these amounts requires careful management to ensure that the Council meets its balanced budget requirement under the Local Government Finance Act 1992. Generating good value for money is therefore essential, in terms of both minimising the cost of borrowing and maximising the return on investments.

1.2 Under the Local Government Act 2003, the Department for Communities and Local Government issued in March 2010 revised "Guidance on Local Government Investments". The 2003 Act requires an authority "to have regard" to this guidance. Part of this guidance is that "A local authority shall, before the start of each financial year, draw up an Annual Investment Strategy for the following financial year, which may vary at any time. The strategy and any variations are to be approved by the full Council and are to be made available to the public." This strategy is set out in **Appendix 19A**.

1.3 A revised edition of the CIPFA Prudential Code and CIPFA Treasury Management Code of Practice was produced in November 2011. The guidance arising from this Code has been incorporated within this report. In 2017, CIPFA published further updated versions of these Codes which have applied from the 2019/20 financial year, and require a Capital Strategy report to be produced in addition to the Treasury Management Strategy. The Capital Strategy is the Council's framework for the allocation and management of capital resources, taking into account the Council's Corporate Plan. It aims to provide a long term context in which capital decisions are made, the approach for governance for those decisions, and information on the Council's approach towards treasury management and other investments.

1.4 The Treasury Management Strategy also sets out the estimated borrowing requirement for both Tameside MBC and the Greater Manchester Metropolitan Debt Administration Fund (GMMDAF), together with the strategy to be employed in managing the debt position.

1.5 The Local Government Act 2003 is the major legislation governing borrowing and investments by local authorities. Under the Act a Local Authority may borrow money:

(a) For any purpose relevant to its functions under any enactment; or

(b) For the purposes of the prudent management of its financial affairs.

1.6 The Council is only permitted to borrow to finance its capital investment programme, and cannot borrow to fund on-going day to day expenditure, which must be funded from day to day income sources such as council tax, business rate income, government grant or reserves. If an authority does borrow for capital investment purposes it has a duty to ensure that its borrowing is affordable, sustainable and prudent, and must set its own limits on how much it may borrow. The method of doing this is set out in the Prudential Code for Capital Finance in Local Authorities.

1.7 The borrowing limits set by the Council are based on the possibility of borrowing in advance of need, should interest rates be such that it is advantageous to do so. The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (as measured by the Capital Financing Requirement), has not been fully funded with loan debt as surplus cash balances have been utilised instead. This strategy is prudent as investment returns are low and interest rates on borrowing are comparatively high, thus creating a high cost of carry[1] for any borrowing taken up. The Council, along with its advisors, Link Group, will closely monitor rates and take up borrowing at the most advantageous time possible.

1.8 Against this background and the continuing risks within the economic forecast, caution will be adopted with the 2022/23 treasury operations. The Section 151 Officer will monitor interest rates in financial markets and adopt a pragmatic approach in changing circumstances. Borrowing will be undertaken on an assessment of the situation at the time.

2. CODES OF PRACTICE

2.1 The Council's treasury activities are strictly regulated by statutory requirements and a professional code of practice (the CIPFA Code of Practice on Treasury Management – revised 2017) and the Prudential Code. The Council has adopted the CIPFA Code of Practice on Treasury Management. Part of this code is for the Council to set out Treasury Management Practices (TMPs). These are in place and are being adhered to.

2.2 The key objectives of the Prudential Code are to ensure, within a clear framework, that the capital plans of local authorities are affordable, prudent and sustainable and to ensure that treasury management decisions are taken in accordance with good professional practice and in a manner that supports these objectives.

2.3 To demonstrate that local authorities have fulfilled these objectives the Prudential Code sets out the indicators that should be used, and the factors that must be taken into account. The Code does not include suggested indicative limits or ratios as these are for the local authority to set itself. The Prudential Indicators required by the Code are designed to support local decision making and are not comparative indicators.

2.4 This report recommends specific indicators for approval and an affordable borrowing limit for 2022/23. It also recommends an affordable borrowing limit for the Greater Manchester Metropolitan Debt Administration Fund.

2.5 Where appropriate the Council may undertake borrowing for external organisations, and this will be on the basis that the revenue costs are fully reimbursed. This will be done purely for policy reasons.

2.6 Prudential Indicators have been set with regards to: affordability, prudence, sustainability, and value for money, stewardship of assets, service objectives and practicality.

2.7 Local authorities are required to encompass all aspects of the Prudential Code that relate to affordability, sustainability and prudence. When making a decision to invest in capital assets, the Council must ensure that it can meet both the immediate and long-term costs to ensure the long-term sustainability.

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[1] Cost of carry is the difference between the rate of interest paid on a loan against the rate of return received by investing that money. Therefore if a Council has cash balances already, and then takes some long term borrowing, the impact will be to increase the level of cash balances in the short term. For Tameside a 25 year loan would cost c2.1% but could only be invested at around 0.4% resulting in a cost of carry of 1.7% per annum. Whilst cash balances are high it is more prudent to utilise cash balances to fund capital schemes and delay the decision to borrow.

2.8 The Prudential Code requires local authorities to consider wider management processes i.e. option appraisal, asset management planning, strategic planning and achievability in accordance with good professional practice. The Strategic Planning and Capital Monitoring Panel and Executive Cabinet are responsible for these areas.

Setting of Prudential Indicators

2.9 The Prudential Indicators for 2022/23 and the following two years must be set before the beginning of the forthcoming year and requires approval by Council as part of the budget approval process. The Section 151 Officer is responsible for ensuring that all matters required to be taken into account are reported to the Council for consideration.

2.10 The system requires a process for controlling prudential borrowing to ensure that all council borrowing remains affordable. The Section 151 Officer is responsible for the centralised control and recommendations for borrowing. The Council is currently in an 'under-borrowed' position meaning that capital expenditure funded from borrowing exceeds the actual level of debt taken up. During 2019/20 £30m of additional prudential borrowing was taken up in accordance with the planned strategy. No further long-term borrowing has been taken up since this, however the proposed capital financing budget assumes a further £30m of borrowing is taken up in 2022/23. The Council's current projected under-borrowed position is £60m, which provides an estimated annual saving of £1m in interest costs at prevailing rates. This is further detailed later in paragraph 11.1.

2.11 The planned Prudential Borrowing of £30m in 2022/23 is provisional as the Council will review its available resources on a regular basis throughout the year. The financing of the capital programme at the end of the financial year takes into account an assessment of the capital grants, contributions and capital receipts available at that time which may provide a more cost effective method of financing the Council's capital expenditure. The Council will endeavour to keep Prudential Borrowing and the associated costs to a minimum by utilising other available resources.

Required indicators

2.12 The required Prudential Indicators are set out in **Appendix 19E** together with the methodology used to calculate them. The Prudential Indicators have been based on the planned level of borrowing set out above.

2.13 The monitoring frequency for each Prudential Indicator is determined individually. Some are monitored daily as treasury management transactions take place and others less frequently. For some indicators e.g. net external borrowing, trigger points will be set within the monitoring process to highlight when the indicator limits could be breached and allow corrective action to be taken

2.14 The Section 151 Officer will report to Members on the performance of all Prudential Indicators as part of the Capital Programme monitoring process. Some of the Prudential Indicators may need to be revised during the year and these will require approval by the Audit Panel. The indicators will continually change due to factors other than the level of borrowing e.g. – capital expenditure will change when additional grant resources are received.

3. NEED TO BORROW

3.1 The Council's long term borrowing requirement in any year depends on the following factors:-

(a) Existing loans which are due to mature during the year. These will include external loans, and any reduction of internal resources that are temporarily being used to finance capital expenditure.

(b) The amount of capital expenditure that the Council has determined should be financed by borrowing. Under the Prudential Code on Borrowing the Council may determine its own levels of borrowing and is set by the Council as part of the main budget process. The Council is able to borrow in advance of its requirements, when it is considered beneficial to do so.

(c) The amount of outstanding debt required to be repaid during the year, including the "Minimum Revenue Provision" (MRP) and additional voluntary MRP to repay prudential borrowing.

3.2 The Council has some flexibility to borrow funds for use in future years. The Section 151 Officer may do this under delegated power where, for instance, a sharp rise in interest rates is expected, and so borrowing early at fixed interest rates will be economically beneficial or meet budgetary constraints.

3.3 Any borrowing in advance undertaken will be made within the constraints of the Prudential Code. Risks associated with any advance borrowing activity will be subject to appraisal in advance and subsequent reporting through the annual reporting mechanism (the operational limit). The Council may also borrow on a short term basis to finance temporary shortfalls in cash flow.

3.4 In addition to this, the Council can fund capital expenditure by using internal cash balances. Although borrowing is not undertaken to meet this expenditure, it has the effect of reducing the Council's investments, and therefore changing the net interest payable.

3.5 The decision to borrow and make investments day to day is delegated to the Section 151 Officer within the limits set by the Treasury Management Strategy and the Prudential Code. This includes any debt rescheduling or refinancing decisions, including PFI. All routine investment decisions are reported in retrospect as part of the statutory reporting requirements that require Members to receive a minimum of three reports per annum.

4. TYPES AND DURATION OF LOANS

4.1 There are various types of loan available:-

(a) Short term fixed.
These are loans of less than one year duration where the interest rate is agreed at the start of the loan and remains the same until the loan matures. The duration may last from 1 day to 364 days.

(b) Short term variable.
Less than one year, but the interest rate may change during the life of the loan, usually in line with the market.

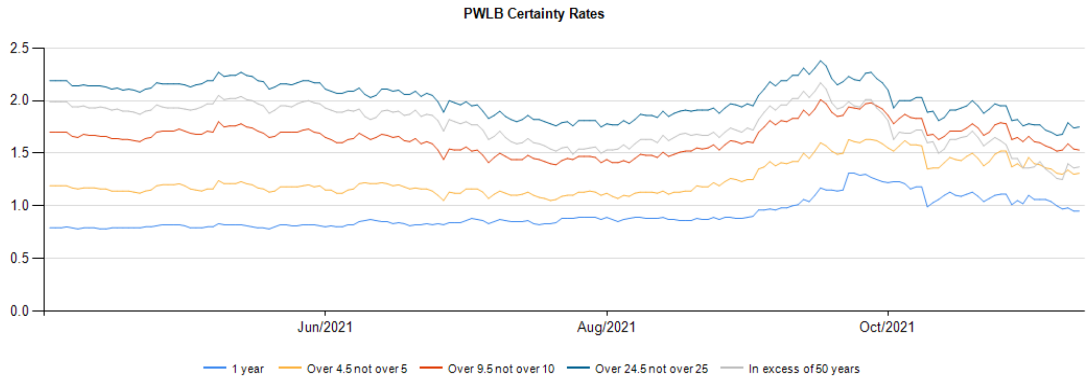
(c) Long term fixed
As (a), but greater than one year (may be up to 50 years).

(d) Long term variable
As (b), but life normally between 1 and 10 years.

(e) LOBOs (Lender's Option Borrower's Option)
These are bank loans where the interest rate is fixed for a number of years (often with an automatic increase built in). At the end of this fixed rate period, the bank may (at

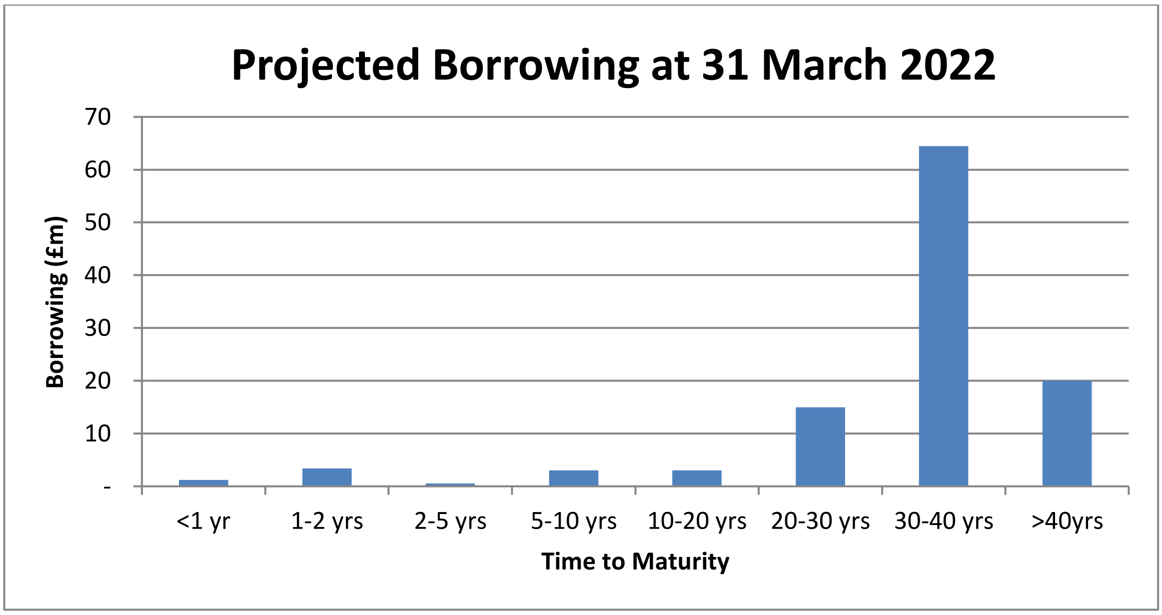
pre-set anniversaries) take up an option to change the interest rate. The borrower (Tameside) then has the option to repay the loan if it does not want to pay the new interest rate. The Council can only repay the loan prior to the maturity date without penalty if the lender has taken up their option.

4.2 Interest rates are continually changing and are determined by economic and market conditions. Short term variable rates tend to reflect the current Bank of England Minimum Lending Rate (Bank Rate), but can vary (sometimes by more than 1%) due to market conditions. The on-going uncertainty in the financial markets has caused considerable volatility.



4.3 Long term fixed rates are based on Government Gilts (Bonds issued by the Government which pay a fixed rate of interest) and reflect the future expectations of base rates, inflation and risks within the general economy. They may be markedly different from short term rates, and they may also be volatile. At present interest rates on longer term loans are higher than short term rates due to the relatively low Base Rate, implemented by the Monetary Policy Committee of the Bank of England. The programme of “quantitative easing” undertaken by the Bank of England and the “safe haven” status of the UK continues to restrict gilt interest rates.

4.4 Tameside’s loan portfolio as at 31st March 2022, assuming no further borrowing is taken, will contain £101m of long term fixed loans from the PWLB, £10m long term fixed bank loans, £30m of LOBOs, and £10m of short term borrowing. The following graph outlines the maturity profile, which shows that there is currently no refinancing risk borne by the Council, whereby it would have to repay any of its existing loans



5. SOURCES OF BORROWING

5.1 Loans to fund the borrowing requirement may be raised from any source approved by the Local Government Act 2003.

The main sources currently available to Tameside are:-

a. The Public Works Loan Board (PWLB) (£101m at 31st March 2022)
b. European Investment Bank (EIB) (no current or planned borrowing)
c. Banks, Building Societies and other financial institutions (£40m at 31st March 2022)
d. Other Local Authorities (nil at 31st March 2021)
d. Internal cash funds and balances (£60m at 31st March 2021).

Of these, by far the greatest proportion of borrowing taken up is normally obtained from the PWLB.

5.2 The PWLB is, in effect, the Government, and loans raised from this source are generally the cheapest available for their type and duration. Although loans from the PWLB may be obtained at a variable rate of interest, Tameside has normally borrowed at fixed rates and holds no variable PWLB debt.

5.3 Whilst the Public Works Loan Board, part of HM Treasury, is the primary lender to local authorities, the European Investment Bank (EIB) will also provide support for funding infrastructure projects throughout the EU. This source of funding is priced in a similar way to the PWLB, but requires applications for specific projects. These projects must further EU policy requirements and be financially, technically and environmentally viable. They are particularly aimed at regional development issues.

5.4 Borrowing for fixed periods means that the average rate payable is not subject to large year on year volatility which could occur if rates were linked to the base rate of interest.

5.5 Internal funds, such as the Insurance Fund, are paid interest in line with short term rates.

5.6 Traditionally the strategy employed by Tameside and most other Local Authorities is to borrow long term at fixed rates of interest.

5.7 Where appropriate the Council may undertake borrowing for external organisations for policy reasons, and this will be on the basis that the revenue costs are fully reimbursed.

6. RESCHEDULING OF LONG TERM DEBT

6.1 Rescheduling involves the early repayment and re-borrowing of different term PWLB loans, or converting fixed rate loans to variable and vice versa. This can involve paying a premium or receiving a discount, but is intended to reduce the overall interest burden, since the replacement loan (or reduction of investment) is normally borrowed at a lower interest rate.

6.2 The use of rescheduling has traditionally been a valuable tool for the Council, but its success depends on the frequent movement of interest rates, and therefore it cannot be easily estimated for. It will continue to be used when suitable opportunities arise, in consultation with our treasury management advisors, although such opportunities may not occur.

6.3 The changes made by the PWLB in 2010 to introduce separate rates for the premature repayment of debt and the increase in the cost of new PWLB borrowing by approximately 1%, has significantly reduced the ability to re-schedule debt. No re-scheduling has been undertaken by the Council since these changes occurred.

6.4 However, the PWLB has continued a scheme to allow a 0.20% reduction on the published borrowing rates, known as the "certainty rate", for Councils that provide indicative borrowing requirements for the next 3 years. The Council has provided this information and has therefore protected its eligibility for the certainty rate. This does not however commit the Council to a particular course of action.

6.5 With the current yield curve, debt restructuring is likely to focus on switching from longer term fixed rates to cheaper shorter term debt, although the Section 151 Officer and our treasury management advisors will monitor prevailing rates for any opportunities during the year.

6.6 Although a pro-active approach is taken to identify opportunities to re-schedule debt, no such an opportunities have arisen so far in 2021/22, or are foreseen for long term loans in 2022/23 with the current interest rate climate. Current market conditions suggest that refinancing gains may be achieved on PFI debt during 2022/23, taking advantage of more favourable market conditions since the initial debt was secured.

6.7 Consideration will also be given to identify if there is any potential for making savings by utilising cash balances to repay debt prematurely, as short term rates on investments are likely to be lower than rates paid on current debt.

7. CURRENT POSITION – 2021/22

7.1 The original estimate of interest payable for the 2021/22 financial year was £6.116m. It is anticipated that the outturn position for the year will be £0.355m below this budget, as no additional borrowing has been taken up in year.

8. TAMESIDE MBC'S ESTIMATED NET DEBT POSITION AT 31 MARCH 2022

8.1 Following transactions and activity expected prior to the financial year end it is anticipated that at the end of the current financial year, the Council's net borrowing position will be:-

	£m
PWLB	100.640
Market Loans (incl. LOBOs)	40.000
Total External Borrowing	140.640
Less Sports Trust Debt	-0.589
Less Airport Debt	-0.550
Less Trust Funds, Contractor Deposits etc	-0.153
Less Investments (est.)	-100.000
Net Debt Outstanding	39.348

8.2 The estimated position assumes the Council will not take up any further borrowing during 2021/22, to meet the forecast outstanding borrowing requirement as at 31 March 2022 (£60m) and no advanced borrowing for 2022/23 or future years. By postponing borrowing and utilising cash balances, the Council reduces counterparty risk and the financial impact of the current low level of investment returns.

8.3 Prudential borrowing of £4.280m was taken up on 25 July 2008 from the PWLB on behalf of the Tameside Sports Trust, to enable facility improvements. The costs related to this borrowing are met by reducing the annual Council's grant paid to the Sports Trust by an equal amount. The outstanding amount at 31 March 2022 will be £0.589m.

8.4 The Council's total estimated net debt is £39.348m

9. 2022/23 BORROWING REQUIREMENT

9.1 As stated earlier the authorised limits for debt under the Prudential Code allow for borrowing in advance. This will only be done if interest rates for longer term loans are advantageous to the Council and the counterparty risk to the Council on investments is acceptable, or such borrowing will afford an opportunity for debt rescheduling.

9.2 During 2022/23 it is estimated that the following requirement will be needed in respect of the general fund:-

	£m
Capital expenditure (financed by loan)	0.000
Loans maturing	1.222
	1.222
Less MRP repayments	-5.129
Total potential borrowing requirement	-3.907

9.3 Therefore the additional outstanding capital borrowing need of the Council will reduce by £3.907m (capital expenditure less provision for debt repayments) during 2022/23.

9.4 The budget for 2022/23 shows that loans and investments outstanding during the year will generate estimated gross interest charges of £5.854m. Under current Local Government accountancy rules no interest is payable in respect of the Council's capital receipts and revenue balances. This has no net effect on the overall finances of the Council.

10. GREATER MANCHESTER METROPOLITAN DEBT ADMINISTRATION FUND (GMMDAF) REQUIREMENT

10.1 Unlike Tameside MBC the GMMDAF incurs no capital expenditure, and therefore the total debt outstanding reduces annually by the amount of debt repaid by the constituent authorities. However, loans are raised to replace those maturing during the year and also for cash-flow purposes.

10.2 During 2021/22 it is estimated that the total interest payments to the Fund will be £1.282m at an average interest rate of 6.67%. This compares with 6.47% in 2020/21 and 5.65% in 2019/20.

10.3 GMMDAF is scheduled to come to an end in 2021/22 and as such no further payments are due from districts. A small number of the historic GMMDAF PWLB loans have expiration dates beyond the life of the Fund (£4.257m maturing in 2022/23 and £2.852m in 2027/28). A provision has been built up to deal with the interest and principal repayment of these loans.

11. BORROWING STRATEGY

11.1 The Council has the following anticipated borrowing requirement:-

	2021/22 £m	2022/23 £m
Opening CFR	203.741	199.265
Opening Outstanding Borrowing Requirement	53.866	59.759
Capital Expenditure Financed by Borrowing	0.502	0
Loans Maturing	10.369	1.222
MRP	-4.978	-5.063
Annual Requirement	5.893	-3.841
New Borrowing in Year	0	30
Closing CFR	199.265	194.202
Closing Outstanding Requirement	59.759	25.918
Estimated Annual Cost*	1.037	0.450

*note: Estimated cost is the net of interest charges from PWLB less interest earned on cash balances. This is only incurred if borrowing is undertaken.

11.2 As shown above, the Council is currently maintaining an under-borrowed position estimated to be £60m at 31st March 2022. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash has been used. This strategy is prudent as investment returns are low and counterparty risk is high. The Council continues to have a high level of investments, and it is expected that these will continue during the next financial year. The Council will seek to maintain levels of external debt as low as possible, consistent with a consideration of wider risks and benefits. As illustrated in the table above, the Council will save an estimated £0.956m in 2021/22 and £0.415m in 2022/23 as a result of not taking up this borrowing.

11.3 The uncertainty over future interest rates and concerns over counterparty credit worthiness increases the risks associated with treasury activity. The Section 151 Officer will monitor interest rates in financial markets and adopt a pragmatic approach in changing circumstances. PWLB loans may be borrowed in order to reschedule debt or meet the outstanding borrowing need as is felt to be appropriate. The possibility of deferring borrowing until later years to reduce our level of investments and associated counterparty risk will be considered.

11.4 As a result the Council will take a cautious approach to its borrowing strategy and all opportunities explored in conjunction with our treasury management advisors. Borrowing decisions will be based on the circumstances prevailing at the time.

11.5 Long-term fixed interest rates are at risk of being higher over the medium term, and short term rates are expected to rise, although more modestly. The Section 151 Officer, under delegated powers, will take the most appropriate form of borrowing depending on the prevailing interest rates at the time, taking into account the risks outlined above. It is likely that shorter term fixed rates may provide lower cost opportunities in the short/medium term.

11.6 The borrowing rules for the PWLB mean that we are able to borrow our full requirement from them. However, if interest rates in respect of LOBOs, or other market loans are sufficiently attractive, these may be used for Tameside. The length of loans required for LOBOs mean they are unsuitable for the GMMDAF.

12. INTEREST RATES

12.1 The borrowing and investment strategy outlined in the report is based on the following central view forecast, provided by our treasury management advisors (Link Group), showing the movement in longer term interest rates for borrowing and movement in shorter term interest rates for investments.

Link Group Interest Rate View	20.12.21									
	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
BANK RATE	0.25	0.25	0.50	0.50	0.50	0.75	0.75	0.75	0.75	1.00
3 month ave earnings	0.20	0.30	0.50	0.50	0.60	0.70	0.80	0.90	0.90	1.00
6 month ave earnings	0.40	0.50	0.60	0.60	0.70	0.80	0.90	1.00	1.00	1.10
12 month ave earnings	0.70	0.70	0.70	0.70	0.80	0.90	1.00	1.10	1.10	1.20
5 yr PWLB	1.40	1.50	1.50	1.60	1.60	1.70	1.80	1.80	1.80	1.90
10 yr PWLB	1.60	1.70	1.80	1.80	1.90	1.90	2.00	2.00	2.00	2.10
25 yr PWLB	1.80	1.90	2.00	2.10	2.10	2.20	2.20	2.20	2.30	2.30
50 yr PWLB	1.50	1.70	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10

12.2 Link Group have also provided the following economic update:

Over the last two years, the coronavirus outbreak has done huge economic damage to the UK and to economies around the world. After the Bank of England took emergency action in March 2020 to cut Bank Rate to 0.10%, it left Bank Rate unchanged at its subsequent meetings until raising it to 0.25% at its meeting on 16th December 2021.

As shown in the forecast table above, the forecast for Bank Rate now includes four increases, one in December 2021 to 0.25%, then quarter 2 of 2022 to 0.50%, quarter 1 of 2023 to 0.75%, quarter 1 of 2024 to 1.00% and, finally, one in quarter 1 of 2025 to 1.25%.

The overall balance of risks to economic growth in the UK is now to the downside, including risks from Covid and its variants - both domestically and their potential effects worldwide.

Gilt yields and PWLB rates.
Since the start of 2021, we have seen a lot of volatility in gilt yields, and hence PWLB rates. As the interest forecast table for PWLB certainty rates above shows, there is forecast to be a steady, but slow, rise in both Bank Rate and gilt yields during the forecast period to March 2025, though there will doubtless be a lot of unpredictable volatility during this forecast period.

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 our 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 our forecasts for longer term PWLB rates. However, gilt yields and treasury yields do not always move in unison.

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.

There is likely to be exceptional volatility and unpredictability in respect of gilt yields and PWLB rates due to the following factors: -

- *How strongly will changes in gilt yields be correlated to changes in US treasury yields (see below). Over 10 years since 2011 there has been an average 75% correlation between movements in US treasury yields and gilt yields. However, from time to time these two yields can diverge. Lack of spare economic capacity and rising inflationary pressures are viewed as being much greater dangers in the US than in the UK. This could mean that central bank rates will end up rising earlier and higher in the US than in the UK if inflationary pressures were to escalate; the consequent increases in treasury yields could well spill over to cause (lesser) increases in gilt yields. There is, therefore, an upside risk to forecasts for gilt yields due to this correlation. The Link Group forecasts have included a risk of a 75% correlation between the two yields.*

- *Will the Fed take action to counter increasing treasury yields if they rise beyond a yet unspecified level?*

- *Would the MPC act to counter increasing gilt yields if they rise beyond a yet unspecified level?*

- *How strong will inflationary pressures actually turn out to be in both the US and the UK and so put upward pressure on treasury and gilt yields?*

- *How will central banks implement their new average or sustainable level inflation monetary policies?*

- *How well will central banks manage the withdrawal of QE purchases of their national bonds i.e., without causing a panic reaction in financial markets as happened in the "taper tantrums" in the US in 2013?*

- *Will exceptional volatility be focused on the short or long-end of the yield curve, or both?*

As the US financial markets are, by far, the biggest financial markets in the world, any upward trend in treasury yields will invariably impact and influence financial markets in other countries. Inflationary pressures and erosion of surplus economic capacity look much stronger in the US compared to those in the UK, which would suggest that Fed rate increases eventually needed to suppress inflation, are likely to be faster and stronger than Bank Rate increases in the UK. This is likely to put upward pressure on treasury yields which could then spill over into putting upward pressure on UK gilt yields.
The forecasts are also predicated on an assumption that there is no break-up of the Eurozone or EU within the forecasting period, despite the major challenges that are looming up, and that there are no major ructions in international relations, especially between the US and Russia, China / North Korea and Iran, which have a major impact on international trade and world GDP growth.

The balance of risks to medium to long term PWLB rates: -
There is a balance of upside risks to forecasts for medium to long term PWLB rates.

Investment and borrowing rates

- ***Investment returns*** *are expected to improve in 2022/23. However, while markets are pricing in a series of Bank Rate hikes, actual economic circumstances may see the MPC fall short of these elevated expectations.*

- ***Borrowing interest rates*** *fell to historically very low rates as a result of the COVID crisis and the quantitative easing operations of the Bank of England and still remain at historically low levels. The policy of avoiding new borrowing by running down spare cash balances has served local authorities well over the last few years.*

On 25.11.20, the Chancellor announced the conclusion to the review of margins over gilt yields for PWLB rates; the standard and certainty margins were reduced by 1% but a prohibition was introduced to deny access to borrowing from the PWLB for any local authority which had purchase of assets for yield in its three year capital programme. The current margins over gilt yields are 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)*

13. INVESTMENTS

13.1 The primary objectives of the Council's investment strategy are safeguarding the re-payment of the principal and interest of its investments on time, then ensuring adequate liquidity, with the investment rate of return being the final consideration. The current investment climate continues to have one over-riding risk, counterparty risk. As a result of these underlying concerns officers are implementing a risk averse operational investment strategy.

13.2 The 2017 revised CIPFA Treasury Management Code and the DCLG Investment Guidance requires the consideration and approval of security and liquidity benchmarks. Yield benchmarks are currently widely used to assess investment performance. Discrete security and liquidity benchmarks are a requirement to Member reporting, although the application of these is more subjective in nature. Additional background on the approach taken is attached at **Appendix 19C**.

13.3 These benchmarks are not limits and so may be breached from time to time, depending on movements in interest rates and counterparty criteria. The purpose of the benchmark is that officers will monitor the current and trend position and amend the operational strategy depending on any changes. Any breach of the benchmarks will be reported, with supporting reasons in the Annual Report.

Security - The Council's maximum security risk benchmark for the current portfolio, when compared to these historic default tables, is:

- 0.04% historic risk of default when compared to the whole portfolio.

Liquidity – In respect of this area the Council seeks to maintain:

- Bank overdraft - £1.60m
- Liquid short term deposits of at least £5m available with a week's notice.

Yield - Local measures of yield benchmark is:

- Investments – Internal returns have previously been benchmarked against the 7 day LIBID rate. However, with the replacement of LIBOR/LIBID with SONIA, this will be replaced with the equivalent SONIA rate
- And in addition that the security benchmark for each individual year is:

	1 year	2 years	3 years	4 years	5 years
Maximum	0.05%	0.14%	0.26%	0.38%	0.54%

Note: This benchmark is an average risk of default measure, and would not constitute an expectation of loss against a particular investment.

13.4 Normally when the Council has surplus cash, this is invested to try to ensure that interest earned is optimised with minimal risk of capital loss. Higher interest rates are earned by investing any large amounts on the London money markets, rather than by leaving such sums with the Council's own bank. The Investment Strategy sets out the type of institutions with which the Council may deposit funds for this purpose. The list has been compiled to reflect the creditworthiness of these banks and building societies, rather than the rates of interest payable, as the safety of the asset is the most important consideration. Nonetheless, the interest received from these institutions is competitive.

13.5 The ongoing financial uncertainty has reinforced the need for the Council to ensure it adopts a security based approach to investment strategy.

13.6 The policy allows strategic investments up to £30m for more than 12 months, as reported in **Appendix 19A.** Although this policy has not changed, the Council has made efforts to use more of this allocation in order to increase returns.

13.7 In recent years the Council has had a high level of investments and therefore the investment strategy has been aligned with our debt strategy. The strategy for repayment of debt has been dependent on the movement of long term interest rates, and in favourable circumstances this could mean the repayment of tranches of debt. Investments have therefore been managed in-house in order to finance any repayments if necessary. It is expected that this strategy will continue.

13.8 As established in the Mid-Year Treasury Management Activities Report, the Council 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 to give early warning of likely changes in credit ratings;
- Sovereign ratings to select counterparties from only the most creditworthy countries.

13.9 The Council also holds investments in Money Market Funds (MMFs) which are AAA rated and act, in a similar way to unit trusts, to spread the risk of default across a number of underlying institutions. This type of fund is tightly regulated and viewed as a safe investment.

13.10 EU reform means that the current class of MMF used by the Council - Constant Net Asset Value (CNAV) - were replaced by a new Low Volatility Net Asset Value (LVNAV) class of fund from 21 January 2019. LVNAV funds operate under stricter conditions than the existing

CNAV funds, meaning the underlying investments must be valued within a smaller “collar” than with CNAV funds, and also have shorter liquidity limits. This has had no impact on how the Council uses such funds, and no negative impact on their security.

13.11 The Council has a deposit account with the Government Debt Management Office (DMO). As this facility is underwritten by the government, the rates of interest offered by the DMO are substantially below the current market rates. This facility has not been used in 2019/20.

13.12 If concerns over counterparty risk reduce and market conditions are judged suitable, long term borrowing may be taken up by the Council in advance of when it is required for capital purposes. In these circumstances the excess cash will be invested in line with the Council’s prudent investment objectives, with security of the asset the highest priority. However, the Council is not allowed to borrow for the express purpose of reinvesting this cash in money market investments to make a return.

13.13 Although security and liquidity are both given priority over yield, the Council still manages to achieve a higher rate of return than the 7 day LIBID benchmark. In 2020/21 the Council achieved a return of 0.69% versus a LIBID of -0.07%, a gain of £724k. In 2021/22 to December 31, a return of 0.29% has been earned against a LIBID of -0.07%. This represents a total yield of £288k and a gain of £380k.

14 INVESTMENTS – PROPOSED CHANGES

14.1 There are no proposed changes to the Council’s investment strategy for 2022/23.

15 TREASURY MANAGEMENT ADVISORS

15.1 The Council uses Link Group as its treasury management advisors. Link provides a range of services which include:

- Technical support on treasury matters and capital finance issues;
- Economic and interest rate analysis;
- Debt services which includes advice on the timing of borrowing;
- Debt rescheduling advice surrounding the existing portfolio;
- Generic investment advice on interest rates, timing and investment instruments; and
- Credit ratings/market information service comprising the three main credit rating agencies.

15.2 Whilst the advisers provide support to the internal treasury function, under current market rules and the CIPFA Code of Practice, the final decision on treasury matters remains with the Council. This service is subject to regular review.

15.3 Link Group are currently engaged on a contract which runs to 31 March 2022 with an option to extend to 31 March 2023, following a re-procurement exercise in 2019/20

16. Greater Manchester Pension Fund

16.1 The Council also carries out treasury management activities on behalf of Greater Manchester Pension Fund (GMPF). GMPF holds cash in accordance with its strategic asset allocation as determined by the GMPF Management Panel which may be increased or decreased on a tactical basis by the external investment managers within risk parameters also set by the Panel. As at 31st December 2021 the Pension Fund cash totalled around £486m.

16.2 The GMPF counterparty list mirrors that of Tameside MBC, along with the following operating constraints:

a) The maximum duration for an investment is 1 year.
b) The maximum investment per counterparty is £75m

16.3 Along with these limits, further constraints are in place for the different categories of cash. The bulk of the fund managers' allocations must be available at short notice; therefore the following constraints are enforced:

a) 35% must be available within one week
b) 70% must be available within two weeks

16.4 Additionally, any strategic allocation to in-house cash must be kept entirely liquid and immediately available.

17. RECOMMENDATIONS

17.1 That the Treasury Management Strategy be noted and the proposed borrowing strategy be supported.

17.2 That the Annual Investment Strategy (Appendix 19A) be recommended for approval by the full Council

17.3 That the MRP policy (Appendix 19D) be recommended for approval by full Council.

APPENDIX 19A

ANNUAL INVESTMENT STRATEGY: FINANCIAL YEAR 2022/23

The Council's investment policy has regard to the CLG's Guidance on Local Government Investments ("the Guidance") and the revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). The Council's investment priorities will be security first, liquidity second, and then return.

In accordance with the above guidance from the CLG and CIPFA, and in order to minimise the risk to investments, the Council applies minimum acceptable credit criteria 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.

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.

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

Investment Objectives:

The aim of the strategy is to generate a list of highly creditworthy counterparties which will also enable diversification and thus avoidance of concentration risk.

All investments will be in sterling. The general policy objective for this Council is the prudent investment of its treasury balances. This includes monies borrowed for the purposes of expenditure in the reasonably near future (i.e. borrowed 12-18 months in advance of need). The Council's investment priorities are

(a) the **security** of capital and
(b) **liquidity** of its investments.
(c) **optimum return** on its investments commensurate with (a) and (b).

The former Office of the Deputy Prime Minister regulations stated that the borrowing of monies purely to invest or on-lend and make a return is unlawful, and therefore this Council will not engage in such activity.

Creditworthiness policy

This 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;
- CDS spreads to give early warning of likely changes in credit ratings;
- sovereign ratings to select counterparties from only the most creditworthy countries.

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 (UK Government debt or equivalent.
- Dark pink 5 years for Enhanced money market funds (EMMFs) with a credit score of 1.25
- Light pink 5 years for Enhanced money market funds (EMMFs) with a credit score of 1.5
- Purple 2 years
- Blue 1 year (only applies to nationalised or semi nationalised UK Banks)
- Orange 1 year
- Red 6 months
- Green 100 days
- No colour not to be used

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

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

Typically the minimum credit ratings criteria the Council use will be a Short Term rating (Fitch or equivalents) of F1 and a Long Term rating of A-. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

All credit ratings will be monitored regularly. The Council is alerted to changes to ratings of all three agencies through its use of Link Group's creditworthiness service.

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

- in addition to the use of credit ratings the Council will be advised of information in movements in credit default swap spreads against the iTraxx benchmark and other market data on a daily basis via its Passport website, provided exclusively to it by Link Group. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

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

All institutions which meet the criteria **may** be included on our lending list at the discretion of the Section 151 Officer, although meeting the criteria does not guarantee this.

The criteria may only be changed by the Executive Cabinet.

Monitoring of credit ratings and other market information:

All credit ratings will be monitored regularly. The Council is alerted to changes to ratings of all three agencies through its use of Link Group's creditworthiness service.

If a counterparty or investment scheme's rating is downgraded with the result that it no longer meets the Council's minimum criteria or other market information leads the concerns over the credit quality of that entity, then the further use of that counterparty/investment scheme as a new investment will be withdrawn immediately (however, existing fixed investments must remain in place until they mature).

If a counterparty is upgraded so that it fulfils the Council's criteria, its inclusion may be considered by the Section 151 Officer for approval.

Institutional Limits for Investments:
The Council has previously set limits on investments with individual institutions. These have been set for the Council and the Pension Fund combined. These limits (which will remain in force unless changed by the Executive Cabinet) are:

Currently the overall limit invested by Tameside, the GM Pension Fund and the GMMDAF in one institution should not exceed a combined amount of £95m. Of this £95m, a maximum of £75m may be invested by the Pension Fund, £15m by Tameside and £5m by the GMMDAF.

At any time the maximum should not exceed 20% of the total amount available for investment (at the time of the investment - individually for the Council and the Pension Fund), or the above limits, whichever is less. However, where total investments are less than £100m for the Pension Fund and £25m for Tameside, the upper limits will be £20m and £5m respectively.

The counterparty limit for UK Government bodies (e.g. local authorities and other similar bodies) is £50m. Any such investment would still be highly secure due to the Government-backed nature of these entities.

Investments defined as capital expenditure:
The acquisition of share capital in any body corporate is defined as capital expenditure under Section 16(2) of the Local Government Act 2003. Such investments will have to be funded out of capital or revenue resources and will be classified as 'non-specified investments'. The acquisition of loan capital in a body corporate has recently been relaxed so that it is not treated as capital expenditure and can be used for treasury management activities.

A loan or grant by this Council to another body for capital expenditure by that body is also deemed by regulation to be capital expenditure by this Council. It is therefore important for this Council to clearly identify if the loan has made for policy reasons (e.g. to a registered social landlord for the construction/improvement of dwellings) or an investment for treasury management purposes. The latter will be governed by the framework set by the Council for 'specified' and 'non-specified' investments.

The Council provided a loan of £4.280m (funded by Prudential Borrowing) to the Tameside Sports Trust in 2008/09, to invest in the refurbishment of three existing Leisure Centres within the Borough. This loan was for policy reasons and not for treasury management purposes. The Council also has an investment in Manchester Airport as outlined below. These investments were not part of the Treasury Management strategy.

During 2009/10, Manchester Airport re-negotiated the terms of its loan arrangement with the 10 Greater Manchester Districts; as a result of this agreement the 10 Districts have taken responsibility to service the former Manchester Airport share of the GMMDAF and Terminal 2 Loan Debt. The Airport pays the Districts an annual fixed interest of 12% on the outstanding balance at 9 February 2010. The Airport has agreed to repay the loan to the Council by the end of the agreement in 2055. The re-negotiated loan arrangement was not for treasury management purposes.

Manchester Airport
The Council has an historic 3.22% shareholding in Manchester Airport Group. This shareholding has been valued at £32m as at 31 March 2021. Prior to the COVID-19 pandemic, the Council was receiving significant dividend income from this investment (£6.4m in 2019) which was a key item in the Council's Medium Term Financial Strategy.

In recent years, further additional investment in Manchester Airport has been approved:

- A capital investment of £11.3m in Manchester Airport was approved by Executive Cabinet in February 2018. The investment takes the form of a shareholder loan which was funded from reserves. Interest will be paid at a rate of 10% per annum, which will generate a revenue stream for the Council of approximately £1m (after allowing for the loss of interest earned on cash used to fund the investment) which will support the revenue budget.

- In February 2019, Executive Cabinet approved an equity investment of £5.6m in Manchester Airport funded by prudential borrowing. The investment is expected to generate revenue income through returns of around 3.25% (after taking account of borrowing costs and debt repayment). It was originally envisaged that this income would begin to be received from 2021/21 onwards, although no amounts are yet assumed in the Medium Term Financial Plan (MTFP). The economic impact of COVID-19 is likely to mean that income from this investment will not be generated for a number of years and will be dependent on the speed and scale of recovery in the Aviation Sector

- In April 2020, Executive Cabinet approved a further investment of £9.7m in Manchester Airport in the form of an equity loan, which will be funded by prudential borrowing. The loan is intended to provide financial stability to Manchester Airport Group and ensure it is best-placed to react and rebuild business operations as Covid restrictions are lifted. The investment completed in June 2020 and will generate revenue income through interest earned of 10% per annum

The COVID-19 pandemic has had a significant impact on the Aviation Industry. Whilst the expectation is that interest on loans and investments will continue to be accrued, the annual dividend is not expected to be payable for a number of years, placing a £6.4m pressure on the revenue budget.

Provisions for Credit-related losses
If any of the Council's investments appeared at risk of loss due to default (i.e. a credit-related loss, and not one resulting from a fall in price due to movements in interest rates) the Council will make revenue provision of an appropriate amount.

Investment Strategy to be followed:
Based on its cash flow forecasts, the Council anticipates its fund balances in 2022/23 to range between £60m and £150m.

Use of investments for rescheduling purposes, or deferring borrowing could substantially reduce these holdings, whereas borrowing earlier than required could increase them.

The minimum percentage of its overall investments that the Council will hold in short-term investments is 50%.

The current financial climate provides operational difficulties. Ideally investments would be invested longer to secure better returns, however uncertainty over counterparty creditworthiness suggest shorter dated investments would provide better security.

The money market interest rates will be constantly monitored, and with the advice of our treasury advisors, the length of investments will be determined in accordance with our own views of future rate movements. In this way we would hope to optimise our investment returns.

Use of Specified and Non-Specified Investments during the Financial Year

There are a number of types of investments which the Council could use. These are outlined in the following tables

Specified investments:
All such investments shall be in sterling with a maximum maturity of 1 year with institutions of high credit quality.

	Minimum Credit Criteria
Term Deposits (including bank cancellable deposits and certificates of deposit) with credit – rated deposit takers (banks and building societies) *	Per Link Group
Term Deposits with the UK Government including Treasury Bills or other Local Authorities	N/A
Money Market Funds	AAA
Debt Management Agency Deposit Facility	N/A

*If forward deposits are made, these will be for a maximum of 1 year from the date of the deal.

Bank cancellable deposits cover a variety of bank deposits where the bank holding the deposit, has the option of repaying at pre-specified times. Such investments normally attract a higher original interest rate.

Non – Specified Investments:
A maximum of 50% (at the time the investments are made) will be held in aggregate in non – specified investments The only types of non-specified investments, with high credit quality, that the Council may use during 2021/22 are:

	Minimum Credit Criteria
Term Deposits exceeding 1 year (including bank cancellable deposits) with credit – rated deposit takers (banks and building societies)	Per Link Group
Term Deposits with the UK Government or other Local Authorities exceeding 1 year	N/A
UK nationalised and part nationalised banks (currently Lloyds Banking Group and Royal Bank of Scotland Group) – investments will be limited to a maximum period of 12 months	N/A
The Council's own bankers if they fail to meet the basic credit criteria.	N/A
Alternative (asset backed) Investments	N/A

Investments of this nature will only be made with the approval of the Section 151 Officer and in line with our treasury management advisors' investment recommendations.

Alternative Investments

A new class of "alternative investments" was added to the Council's list of non-specified investment instruments.

The motivation for this is increased diversification from the current concentration of credit risk on financial institutions, along with the potential for increased returns in the current low interest rate environment whilst still meeting the DCLG requirements regarding security, liquidity, and yield.

A variety of products are available that are secured against real assets such as green energy, timber, leisure, commercial property and private real estate. Thorough due diligence will need to be undertaken on any such products before any investment is made.

The available products fall within two categories; asset backed securities and asset backed pooled investment funds.

Asset backed securities are typically bespoke structures and can be unrated. This increases the need for due diligence, which will likely involve legal advice and also that of external auditors. Asset backed pooled investment funds involve the purchase of shares in a pooled fund or “fund of funds”. These are less bespoke and require less due diligence.

APPENDIX 19B

Credit and Counterparty Risk Management

Specified Investments:
All such investments will be sterling denominated, with maturities up to maximum of 1 year, meeting the minimum 'high' quality criteria where applicable.

Non-Specified Investments:
These are any investments which do not meet the specified investment criteria or exceeding one year, as outlined in the body of the report. A maximum of 50% will be held in aggregate in non-specified investment

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

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

	Minimum credit criteria / colour band	**Max. maturity period**
DMADF – UK Government	N/A	**6 months**
UK Government gilts	UK sovereign rating	12 months
UK Government Treasury bills	UK sovereign rating	12 months
Bonds issued by multilateral development banks	AAA	6 months
Money market funds	AAA	Liquid
Enhanced money market funds with a credit score of 1.25	AAA	Liquid
Enhanced money market funds with a credit score of 1.5	AAA	Liquid
Local authorities	N/A	12 months
Term deposits with banks and building societies	Blue Orange Red Green No Colour	12 months 12 months 6 months 100 days Not for use
CDs or corporate bonds with banks and building societies	Blue Orange Red Green No Colour	12 months 12 months 6 months 100 days Not for use
Gilt funds	UK sovereign rating	

APPENDIX 19C

Security, Liquidity and Yield Benchmarking

These benchmarks are targets and so may be breached from time to time. Any breach will be reported, with supporting reasons in the Annual Treasury Report.

Yield – This benchmarks is currently widely used to assess investment performance.

- Investments – Internal returns have previously been benchmarked against the 7 day LIBID rate. However, with the replacement of LIBOR/LIBID with SONIA, this will be replaced with the equivalent SONIA rate

Security and liquidity benchmarks are already intrinsic to the approved treasury strategy through the counterparty selection criteria and some of the prudential indicators.

Liquidity – This is defined as “having adequate, though not excessive cash resources, borrowing arrangements, overdrafts or standby facilities to enable it at all times to have the level of funds available to it which are necessary for the achievement of its business/service objectives” (CIPFA Treasury Management Code of Practice). In respect of this area the Council seeks to maintain:

- Bank overdraft - £1.600m
- Liquid short term deposits of at least £5m available with a week’s notice.

Security of the investments – In context of benchmarking, assessing security is a much more subjective area to assess. Security is currently evidenced by the application of minimum credit quality criteria to investment counterparties, primarily through the use of credit ratings supplied by the three main credit rating agencies (Fitch, Moody’s and Standard and Poor’s). Whilst this approach embodies security considerations, benchmarking levels of risk is more problematic. One method to benchmark security risk is to assess the historic level of default against the minimum criteria used in the Council’s investment strategy. The table beneath shows average defaults for differing periods of investment grade products for each Fitch/Moody’s Standard and Poor’s long term rating category within each year according to the maturity of the investment.

Years	1	2	3	4	5
AAA	0.04%	0.09%	0.17%	0.26%	0.35%
AA	0.02%	0.04%	0.09%	0.16%	0.23%
A	0.05%	0.14%	0.26%	0.38%	0.54%

As set out earlier, the Council’s minimum long term rating will typically be “A-” meaning the average expectation of default for a one year investment in a counterparty with a “A” long term rating would be 0.05% of the total investment (e.g. for a £1m investment the average loss would be £500). This is only an average - any specific counterparty loss is likely to be higher - but these figures do act as a proxy benchmark for risk across the portfolio.

APPENDIX 19D

Minimum Revenue Position (MRP) Policy

The Council is required to pay off an element of the accumulated General Fund capital spend each year through a revenue charge (the Minimum Revenue Provision - MRP), although it is also allowed to undertake additional voluntary payments (VRP).

Regulations require Full Council to approve an MRP Statement in advance of each year. The Council is recommended to approve the following MRP Statement. *Additions to the previous policy are in italics.*

Borrowing taken up prior to 1 April 2015 will be provided for using a straight-line method of calculating MRP. £185.215m will be provided for in equal instalments over 50 years, which will result in an annual charge of £3.704m. The debt will be extinguished in full by 31 March 2065. If the Council elects to make additional voluntary MRP then the annual charge will be adjusted accordingly.

For borrowing taken up on or after 1 April 2015, MRP is to be provided for based upon the average expected useful life of the assets funded by borrowing in the previous year. The debt will be repaid on a straight-line basis over the average useful life calculated, meaning the debt will be fully extinguished at the end of period. If the Council elects to make additional voluntary MRP then the annual charge will be adjusted accordingly.

For certain investment projects it may be deemed more prudent to use the asset life annuity method in order to calculate MRP. In this case the Council will use the annuity method, with the MRP based on the prevailing PWLB interest rate for a loan with a term equal to the estimated life of the project. If the Council uses capital receipts to repay borrowing for the year then the value of MRP which would have otherwise been set aside to repay borrowing will be reduced by the this amount. The level of capital receipts to be applied to redeem borrowing will be determined annually by the Section 151 Officer, taking into account forecasts for future expenditure and the generation of further receipts.

For any leases and any on-balance sheet Public Finance Initiative (PFI) schemes, the MRP charge will be equal to the principle repayment during the year, calculated in accordance with proper practices. *In previous years only finance leases were on balance sheet and contributed towards the MRP. However, following the adoption of IFRS 16 in April 2022, all leases will fall on balance sheet and impact the MRP calculation. The full impact of this change is yet to be determined but updates will be provided as part of the regular Treasury Management reporting process.*

There will be no MRP charge for any cash backed Local Authority Mortgage Scheme (LAMS) that the Council operates. As for this type of scheme, any future debt liability would be met from the capital receipt arising from the deposit maturing after a five year period. Any repossession losses for this type of scheme would be charged to a LAMS reserve.

The Council has considered the Statutory Guidance, which recommends a 25 year repayment charge for loans to third parties, and concluded that this provision is not necessary where there is a realistic expectation that the loan will be repaid. The Council considers an MRP charge is not necessary in respect of any loans made to third parties as the debt liability is covered by the existence of a debtor; typically long term depending on the life of the loan. The only expenditure consequence of a loan for an authority is the interest on its cash shortfall whilst the loan is outstanding, so provision for the principal amount would be over-prudent until such time as the assumption has to be made that the loan will not be repaid.

For any Equity Investment or other investments not specified above, the Council will have regard to the MHCLG Statutory Guidance on Minimum Revenue Provision.

The revised MHCLG MRP Guidance provides a disclosure item for any revenue resources over and above of the required MRP applied to capital expenditure within the MRP Policy. The disclosure of the amounts applied allows some flexibility in financing future capital programmes and the implications on the budget. Revenue resources applied to 31 March 2021 as overpayments or VRP were £101.8m

APPENDIX 19E

Prudential Indicators

1. Ratio of Financing Costs to Net Revenue Stream

Limit/Indicator	2022/23 %	2023/24 %	2024/25 %
Ratio of financing costs to net revenue stream	4.6	4.8	4.8

This ratio represents the total of all financing costs e.g. interest payable and minimum revenue provision (MRP) that are charged to the revenue budget as a percentage of the amount to be met from Government grants and taxpayers (net revenue stream).

This ratio has been calculated based on the future year's level of borrowing.

2. Capital Financing Requirement (CFR)

Limit/indicator	2022/23 £000	2023/24 £000	2024/25 £000
Core Capital Financing Requirement	199,265	194,202	189,139
Other long term liabilities (e.g. PFI and leases)	93,207	89,080	84,388
Total Capital Financing Requirement	292,472	283,282	273,527

The Capital Financing Requirement is aimed to represent the underlying need to borrow for a capital purpose and is calculated from the aggregate of specified items on the balance sheet. The opening balance at 1 April 2022 has been estimated together with the movement in the Capital Financing Requirement for future years.

Following accounting changes the Capital Financing Requirement now includes any other long term liabilities (e.g. PFI schemes and leases) brought onto the balance sheet. Whilst this increases the Capital Financing Requirement, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility and so the Council is not required to separately borrow for these schemes.

From the 2022/23 financial year a new accounting standard on leases (IFRS16) is to be implemented. This will result in a number of leases that would previously have been classified as operating leases being moved on to the Council's balance sheet. This in turn will result in an increase in the level of other long term liabilities and the total CFR. As the Council is still in the data gathering stage of implementing this new standard the level of this increase is not yet know. This indicator will therefore be updated mid-year as part of the regular Capital and Treasury Management reporting process.

The CFR increases by the value of capital expenditure not immediately financed (i.e. borrowing) and is reduced by the annual MRP repayment.

3. Capital Expenditure

Limit/indicator	2022/23 £000	2023/24 £000	2024/25 £000
Capital expenditure	37,558	0	0

This is the estimate of the total capital expenditure to be incurred (from all funding sources) for future years and recommended for approval.

This estimate will continue to be updated as part of the monitoring process as new resources are subsequently identified.

4. Incremental Impact of Capital Investment Decisions

Limit/indicator	2022/23 £000	2023/24 £000	2024/25 £000
For the Band D Council Tax	3	9	9

This is the estimate of the net incremental impact of the capital investment decisions, based on the level of borrowing set out in the report and reflects the total cost of this additional borrowing (interest payments and minimum revenue provision), as a cost on Council Tax. The actual cost will depend on final funding. For every £1 increase on Band D properties, approximately £0.065m would be raised.

5. Operational Boundary and Authorised Limit on External Debt and Other Long Term Liabilities

Limit/indicator	2022/23 £000	2023/24 £000	2024/25 £000
Operational Boundary for external debt	206,642	213,832	215,457
Authorised Limit for external debt	226,642	233,832	235,457

These limits include provision for borrowing in advance of our requirement for future capital expenditure. This may be carried out if it is thought to be financially advantageous to the Council.

The limits are made up as follows:

Limit/indicator	2022/23 £000	2023/24 £000	2024/25 £000
Estimated 31 March 2021	140,640		
Previous year Operational Boundary		206,642	213,832
Add debt maturing in year	1,222	3,393	0
Add borrowing for 2021/22 and previous years' requirement not taken up	59,759		
Add borrowing in advance for 2022/23 and future years	10,000	10,000	10,000
Less already borrowed in advance for future years			
Less previous year maturing fall out		(1,222)	(3,393)
Less MRP	(4,978)	(4,982)	(4,982)
Operational Boundary - borrowing	**206,642**	**213,832**	**215,457**
Add allowances for cash flow etc.	20,000	20,000	20,000
Authorised Limit - borrowing	**226,642**	**233,832**	**235,457**

The allowance for cash flow is made up of 2 elements. (a). it is possible that a rescheduling exercise where we borrow prior to repayment could take place. We have allowed £10 million for this. (b). Normally the amount of investments that we currently hold would mean that there would be no need to borrow, however, an allowance of £10 million has been made for liquidity purposes.

We are also required to set operational boundaries and authorised limits for Other Long Term Liabilities (e.g. PFI schemes and finance leases), which are now shown on balance sheet, following recent accounting changes. The table below includes all current PFI schemes and finance leases in place, with an allowance of £1 million for any new agreements that may arise.

Limit/indicator	2022/23 £000	2023/24 £000	2024/25 £000
Operational Boundary for other long term liabilities	93,207	89,080	84,388
Add allowance for new agreements	1,000	1,000	1,000
Authorised Limit for other long term liabilities	94,207	90,080	85,388

The total authorised limit of £226 million (including both external borrowing and other long term liabilities) should be set as the Council's affordable borrowing limit for 202/23 as required under the provisions of the Local Government Act 2003.

6. Gross Debt and the Capital Financing Requirement.

Limit/indicator	2022/23 £000	2023/24 £000	2024/25 £000
Core capital financing requirement	199,265	194,202	189,139
Gross borrowing	199,265	194,202	189,139

To ensure that medium term debt will only be for a capital purposes, the Council will ensure that the gross external borrowing does not, except in the short term, exceed the highest forecast capital financing requirement (CFR) in any one year.

7. Upper and lower limits on Interest Rate Exposures

Limit/indicator	2022/23 £000	2023/24 £000	2024/25 £000
Upper limit for fixed interest rate exposure	199,265	194,202	189,139
Upper limit for variable interest rate exposure	66,422	64,734	63,046

These limits are in respect of our exposure to the effects of changes in interest rates.

The limits reflect the net amounts of fixed/variable rate debt (i.e. fixed/variable loans less fixed/variable investments).

8. Maturity Structure of Borrowing for the Forthcoming Financial Year

These limits set out the amount of projected borrowing that is fixed rate maturing in each period expressed as a percentage of total projected borrowing that is fixed rate.

		Upper %	Lower %
Upper/lower limit for maturity structure	Under 12 months	15	0
	12 months and within 24 months	15	0
	24 months and within 5 years	30	0
	5 years and within 10 years	40	0
	10 years and above	100	50

Future fixed rate borrowing will normally be for periods in excess of 10 years, although if longer term interest rates become excessive, shorter term borrowing may be used. Given the low current long term interest rates, we feel that it is acceptable to have a long maturity debt profile.

9. Limit for Total Principal Sums Invested for Periods Longer than 364 days

2022/23 £m	2023/24 £m	2024/25 £m
30	30	30

The Council can invest for periods greater than one year providing the counterparty is of sufficient credit quality as per the Link Group credit methodology. It is felt that the amounts shown above should be the limits maturing in future years.

10. Borrowing Limits in Respect of GMMDAF

Operational Boundaries and authorised Limits must also be set for the Greater Manchester Debt Fund. The recommended limits are:

	2022/23 £000	2023/24 £000	2024/25 £000
Operational Boundary – borrowing	0	0	0
Authorised Limit – borrowing	15,000	15,000	15,000

The difference between the operational boundary and authorised limit allows for temporary cash flow shortages and debt rescheduling where loans are borrowed in advance. The authorised limit of £15m should be set as the affordable borrowing limit for the GMMDAF for 2021/22 as required under the Local Government Act 2003.

The Code also requires compliance with the CIPFA Code of Practice for Treasury Management in the Public Services. The Council has adopted and adheres to this Code.