

Treasury Management Strategy 2023/24

1. Background

In accordance with the County Council's Treasury Management Practices (TMPs) and The Chartered Institute of Public Finance and Accountancy's (CIPFA) Treasury Management in the Public Services: Code of Practice the County Council is required to approve the Treasury Management Strategy and Annual Investment Strategy for 2023/24. The Treasury Management Strategy is reflected in the Personal Assurance Statement given by the Chief Financial Officer concerning the 2023/24 budget calculations.

- **Managing cashflow**

The County Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash spent in that period. Thus, the first aim of the function of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed; and to ensure that surplus monies are invested in assessed risk counterparties or instruments commensurate with the County Council's risk appetite, providing adequate liquidity initially before considering investment return.

The Chief Financial Officer reports that the County Council had no difficulty meeting this requirement for 2022/23, nor, despite the inflationary challenges we face, are any difficulties envisaged for the current or future years. This view considers all plans and commitments included in the 2023/24 budget policy.

- **Managing capital financing**

The second main function of the treasury management service is the funding of the County Council's capital plans. These capital plans provide a guide to the borrowing need of the County Council, essentially the longer-term cash flow planning, to ensure that it can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans or using longer-term cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet risk or cost objectives.

The contribution the treasury management function makes to the County Council is critical, as the balance of debt and investment operations ensure liquidity, or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.

- **Maintaining professional advice**

Treasury management is undertaken by a small team of professionally qualified staff within financial services. In addition, the County Council uses Link Group, Link Treasury Services Limited as its external treasury management advisors.

The County Council recognises that responsibility for treasury management decisions always remains with the organisation and will ensure that undue reliance is not placed upon the services of our external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisor's advice.

The County Council also recognises that there is value in employing external providers of treasury management services to acquire access to specialist skills and resources. The County

Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented and subjected to regular review. The advisors have been engaged on a fixed term basis after a tendering procedure completed in August 2020. The contract is due for renewal in August 2023.

Relevant information is also obtained from other financial commentators, the press and seminars arranged by other organisations, for example CIPFA and the Local Government Association. Information received from these different sources is compared to ensure all views are considered and there are no significant differences or omissions from information given by the County Council's advisors.

All Treasury Management employees take part in the County Council's Staff Review and Development scheme, where specific individual development needs are highlighted training in Treasury Management activities and networking opportunities provided by both professional and commercial organisations taken up where appropriate.

- **Investments over 2022/23**

During 2022/23 the County Council has invested its surplus cash with selected Banks, AAA-rated Money market and cash-plus funds, the UK Debt Management Office and with other local authorities.

Treasury Management Strategy for 2023/24

The strategy for 2023/24 covers two main areas:

Capital issues

- the capital expenditure plans and the associated prudential indicators
- the Minimum Revenue Provision (MRP) policy

Treasury management issues

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

These elements cover the requirements of the Local Government Act 2003, The Department of Levelling Up, Housing and Communities (DLUHC) Investment Guidance, DLUHC MRP Guidance, the CIPFA Prudential Code and the CIPFA Treasury Management Code. CIPFA's required changes, to be implemented in 2023/24, which were announced in 2021, can be seen in Appendix 1. They have all been incorporated within this and/or other relevant reports.

Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activities, (arising usually from capital expenditure), and are separate from the day-to-day treasury management activities.

Reporting Requirements

• Treasury Management Reporting

The County Council is currently required to receive and approve, as a minimum, three main treasury reports each year, which incorporate a variety of policies, estimates and actuals.

- I. **Prudential and treasury indicators and treasury strategy** (this report) - The first, and most important report is forward looking and covers: -
 - the capital plans, (including prudential indicators)
 - a minimum revenue provision (MRP) policy, (how residual capital expenditure is charged to revenue over time)
 - the Treasury Management Strategy, (how the investments and borrowings are to be organised), including treasury indicators; and
 - an Annual Investment Strategy, (the parameters on how investments are to be managed)
- II. **A mid-year treasury management report** – This is primarily a progress report and will update members on the capital position, amending prudential indicators as necessary, and whether any policies require revision.
- III. **An annual treasury report** – This is a backward-looking review document and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

• Scrutiny

The above reports are required to be adequately scrutinised before being recommended to the Full County Council. This role is undertaken by the Cabinet.

• Quarterly reports

In addition to the three major reports detailed above, from 2023/24 quarterly reporting (end of June/September/December) is also required. However, these additional reports do not have to be reported to Full County Council but do require to be adequately scrutinised. This role is undertaken by the Cabinet. (The reports, specifically, should comprise updated Treasury/Prudential Indicators.)

• Training

The CIPFA Treasury Management Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny.

Furthermore, pages 47 and 48 of the Code state that they expect “all organisations to have a formal and comprehensive knowledge and skills or training policy for the effective acquisition and retention of treasury management knowledge and skills for those responsible for management, delivery, governance, and decision making.

The scale and nature of this will depend on the size and complexity of the organisation’s treasury management needs. Organisations should consider how to assess whether treasury management staff and board/ County Council members have the required knowledge and skills to undertake their roles and whether they have been able to maintain those skills and keep them up to date.

As a minimum, authorities should carry out the following to monitor and review knowledge and skills:

- Record attendance at training and ensure action is taken where poor attendance is identified.
- Prepare tailored learning plans for treasury management officers and board/County Council members.
- Require treasury management officers and board/County Council members to undertake self-assessment against the required competencies (as set out in the schedule that may be adopted by the organisation).
- Have regular communication with officers and board/County Council members, encouraging them to highlight training needs on an ongoing basis.”

In further support of the revised training requirements, CIPFA’s Better Governance Forum and Treasury Management Network have produced a ‘self-assessment by members responsible for the scrutiny of treasury management’, which is available from the CIPFA website to download.

Training will be arranged for Spring / early Summer for members.

The training needs of treasury management officers are periodically reviewed as part of the Finance Workforce Strategy, with investment identified in 2022/23 that will roll forward to 2023-25.

A formal record of the training received by officers central to the Treasury function will be maintained by the Treasury Manager. Similarly, a formal record of the treasury management/capital finance training received by members will also be maintained by the Treasury Manager.

Economic Commentary

Against a backdrop of inflationary pressures, the easing of Covid restrictions in most developed economies, the Russian invasion of Ukraine, and a range of different UK Government policies, UK and other countries interest rates have been volatile, from Bank Rate through to 50-year gilt yields, for all of 2022.

The table below provides a snapshot of the conundrum facing central banks: inflation is elevated but labour markets are tight, making it an issue of fine judgment as to how far monetary policy needs to tighten.

Dec 2022	UK	Eurozone	US
Bank Rate	3.5%	2.0%	4.25%-4.50%
GDP	-0.2%q/q Q3 (2.4%/y/y)	+0.2%q/q Q3 (2.1%/y/y)	2.6% Q3 Annualised
Inflation	10.7%/y/y (Nov)	10.1%/y/y (Nov)	7.1%/y/y (Nov)
Unemployment Rate	3.7% (Oct)	6.5% (Oct)	3.7% (Nov)

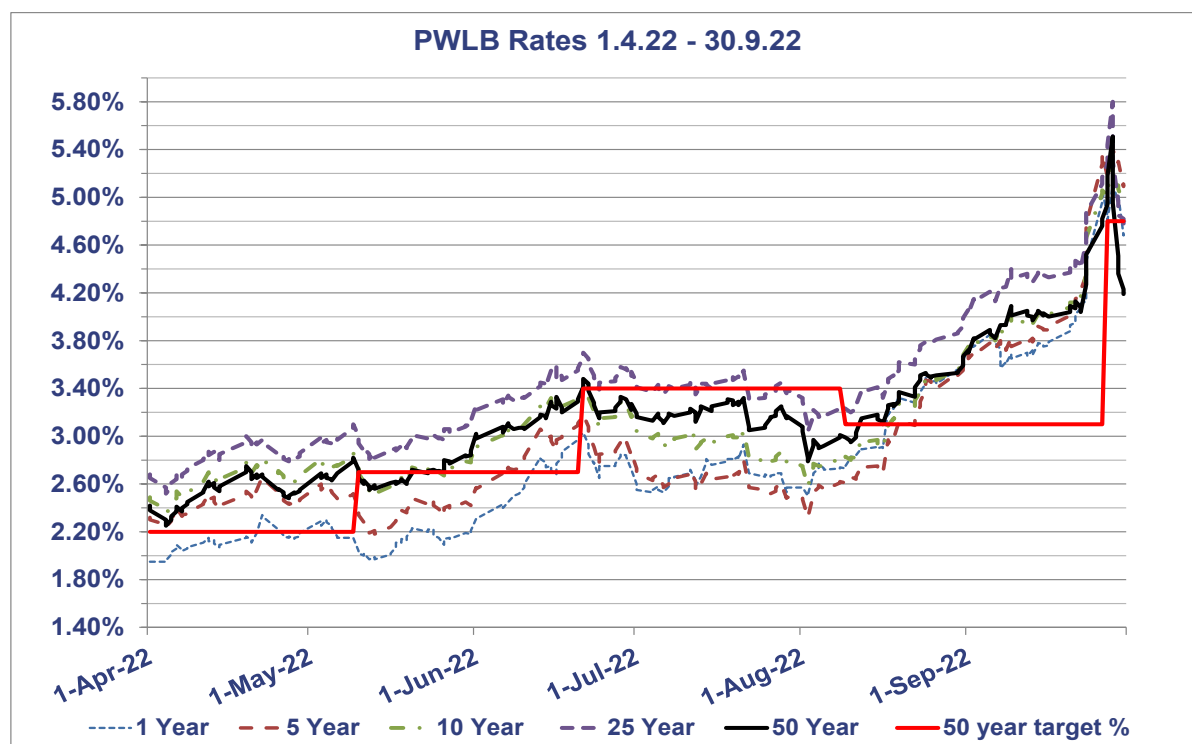
Quarter 2 of 2022 saw UK GDP revised upwards to +0.2%, but this was quickly reversed in the third quarter, albeit some of the fall in GDP can be placed at the foot of the extra Bank Holiday in the wake of the Queen’s passing. Nevertheless, CPI inflation has picked up to what should be a peak reading 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.

Throughout Quarter 3 of 2022 Bank Rate increased, finishing the quarter at 2.25% (an increase of 1%). Quarter 4 has seen rates rise to 3.5% in December and the market forecasts Bank Rate to hit 4.5% by May 2023.

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 Gross Domestic Product (GDP) contraction. In November, the Monetary Policy Committee (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 Pound has strengthened of late. Notwithstanding the Pounds better run of late, 2023 is likely to see a housing correction as fixed-rate mortgages have moved above 5% and affordability has been squeezed despite proposed Stamp Duty cuts remaining in place.

As a consequence of this economic position the cost of borrowing and investment is likely to see a change across the coming months. 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 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. The following table highlights the volatility if the lowest and highest rates are compared.

	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%

Prospects for Interest Rate.

The County Council has appointed Link Group as its treasury advisor and part of their service is to assist the County Council to formulate a view on interest rates. Link provided the following forecasts on 19 December 2022. These are forecasts for certainty rates, (gilt yields plus 80 bps).

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

Our central forecast for interest rates was updated on 19 December and reflected a view that the MPC would be keen to further demonstrate its anti-inflation credentials by delivering a succession of rate increases. Bank Rate stands at 3.5% currently but is expected to reach a peak of 4.5% in the first half of 2023.

Further down the road, we anticipate the Bank of England will be keen to loosen monetary policy when the worst of the inflationary pressures are behind us – but that timing will be one of fine judgment: cut too soon, and inflationary pressures may well build up further; cut too late and any downturn or recession may be prolonged.

The CPI measure of inflation looks to have peaked at 11.1% in Q4 2022 (currently 10.7%). Despite the cost-of-living squeeze that is still taking shape, the Bank will want to see evidence that wages are not spiralling upwards in what is evidently a very tight labour market.

Regarding the plan to sell £10bn of gilts back into the market each quarter (Quantitative Tightening), this has started and will focus on the short, medium, and longer end of the curve in equal measure now that the short-lived effects of the 2022 fiscal event are firmly in the rear-view mirror.

In the upcoming months, our forecasts will be guided not only by economic data releases and clarifications from the MPC over its monetary policies and the Government over its fiscal policies, but the on-going conflict between Russia and Ukraine. (More recently, the heightened tensions between China/Taiwan/US also have the potential to have a wider and negative economic impact.)

PWLB RATES

The yield curve movements have become less volatile of late and PWLB 5 to 50 years Certainty Rates are, generally, in the range of 4.10% to 4.80%.

We view the markets as having built in, already, nearly all the effects on gilt yields of the likely increases in Bank Rate and the elevated inflation outlook.

The balance of risks to the UK economy: -

The overall balance of risks to economic growth in the UK is to the downside.

Downside risks to current forecasts for UK gilt yields and PWLB rates include: -

Labour and supply shortages prove more enduring and disruptive and depress economic activity (accepting that in the near-term this is also an upside risk to inflation and, thus, rising gilt yields).

The Bank of England acts too quickly, or too far, over the next year to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.

UK / EU trade arrangements – if there was a major impact on trade flows and financial services due to complications or lack of co-operation in sorting out significant remaining issues.

Geopolitical risks, for example in Ukraine/Russia, China/Taiwan/US, Iran, North Korea and Middle Eastern countries, which could lead to increasing safe-haven flows.

Upside risks to current forecasts for UK gilt yields and PWLB rates: -

The Bank of England is too slow in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to build up too strongly and for a longer period within the UK economy, which then necessitates Bank Rate staying higher for longer than we currently project or even necessitates a further series of increases in Bank Rate.

The Government acts too quickly to cut taxes and/or increases expenditure considering the cost-of-living squeeze.

The pound weakens because of a lack of confidence in the UK Government's fiscal policies, resulting in investors pricing in a risk premium for holding UK sovereign debt.

Longer term US treasury yields rise strongly and pull gilt yields up higher than currently forecast. Projected gilt issuance, inclusive of natural maturities and Quantitative Tightening, could be too much for the markets to comfortably digest without higher yields consequently.

2. THE CAPITAL PRUDENTIAL INDICATORS 2023/24 – 2025/26

The County Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans. The following paragraphs / sections summarises Worcestershire County Council's forecasts for the coming years against those indicators.

• Capital Expenditure and Financing

This prudential indicator is a summary of the County Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. Members are asked to approve the capital expenditure forecasts: -

Capital expenditure £m	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25+ Estimate
Total	110.6	178.8	113.9	120.7

Other long-term liabilities - the above financing need excludes other long-term liabilities, such as PFI and leasing arrangements that already include borrowing instruments. The levels in later years are lower due to the lack of certainty over funding and schemes and is likely to change in due course.

The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need.

Financing of capital expenditure £m	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25+ Estimate
Capital receipts	1.5	0	0	0
Capital grants	53.0	66.2	51.1	50.4
Capital reserves	0.5	15.6	5.3	0
Third Party Contribution	4.9	19.4	0.1	0
Revenue	0	1.0	0	0
Total non-borrowing	59.9	102.2	56.5	50.4
Net financing need for the year	50.7	76.6	57.4	70.3
Total Capital Expenditure	110.6	178.8	113.9	120.7

- **The County Council's Borrowing Need (the Capital Financing Requirement - CFR)**

The second prudential indicator is the County Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the County Council's indebtedness and so its underlying borrowing need. Any capital expenditure above, which has not immediately been paid for through a revenue or capital resource, will increase the CFR.

The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the indebtedness in line with each asset's life, and so charges the economic consumption of capital assets as they are used.

The CFR includes any other long-term liabilities (e.g., PFI schemes, finance leases). Whilst these increase the CFR, and therefore the County Council's borrowing requirement, these types of schemes include a borrowing facility by the PFI, PPP lease provider and so the County Council is not required to separately borrow for these schemes. The County Council currently has £155m of such schemes within the CFR. It is customary to deduct the PFI schemes from the County Councils CFR to give the underlying need to borrow, the underlying need to borrow is used for the remainder of this report.

The County Council is asked to approve the following CFR projections:

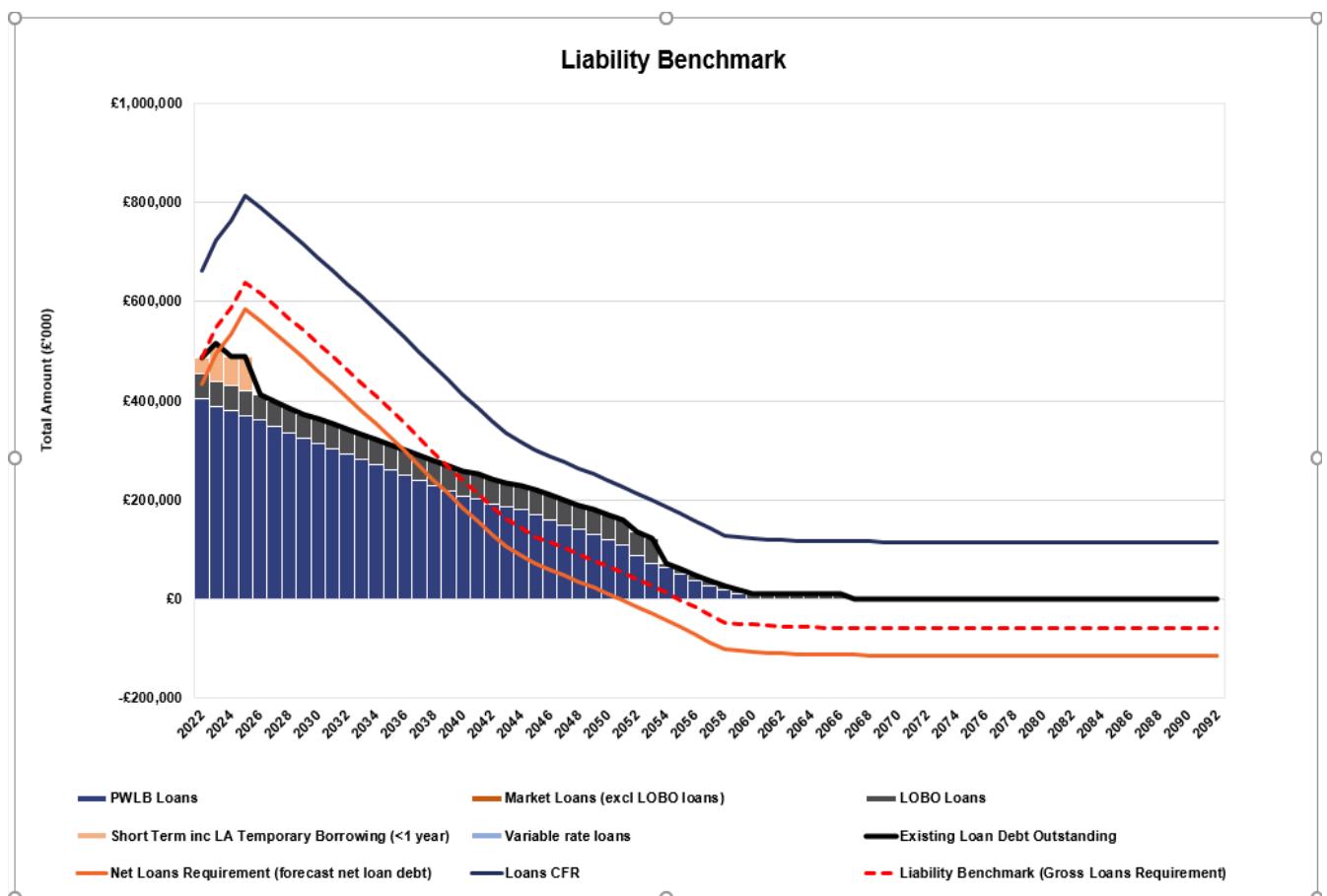
£m	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25+ Estimate
Capital Financing Requirement				
Total CFR	661.1	723.0	762.6	812.7
Movement in CFR	37.1	61.9	39.6	50.1
Movement in CFR represented by				
Net financing need for the year (above)	50.7	76.6	57.4	70.3
Less MRP/VRP and other financing movements	-13.6	-14.7	-17.7	-20.2
Movement in CFR	37.1	61.9	39.7	50.1

- **Liability Benchmark**

A third and new prudential indicator for 2023/24 is the Liability Benchmark (LB). The County Council is required to estimate and measure the LB for the forthcoming financial year and the following two financial years, as a minimum. However, CIPFA recommends that a minimum of 10 years is covered. Whilst this is beyond the time limits of this report, it does give a better feel for the direction of travel of the County Councils borrowing needs.

There are four components to the LB: -

- **Existing loan debt outstanding:** the County Council's existing loans that are still outstanding in future years.
- **Loans CFR:** this is calculated in accordance with the loans CFR definition in the Prudential Code and projected into the future based on approved prudential borrowing and planned MRP. It should be noted that only approved borrowing is included. This practice will mean that the County Councils loan CFR will peak during the next 4 years. This is an anomaly, as all other inputs are estimated for 50 years+. It should also be noted that estimates beyond the next 4 years are subject to annual change.
- **Net loans requirement:** this will show the County Council's gross loan debt less treasury management investments at the last financial year-end, projected into the future and based on its approved prudential borrowing, planned MRP and any other major cash flows forecast.
- **Liability benchmark (or gross loans requirement):** this equals net loans requirement plus short-term liquidity allowance.



CIPFA notes on page 13 of the 2021 TM Code: “The liability benchmark should be analysed as part of the annual treasury management strategy, and any substantial mismatches between actual loan debt outstanding and the liability benchmark should be explained.”

The above graph shows that Existing Loan Debt Outstanding (bold black line) is below the Liability Benchmark (dotted red line), which indicates a borrowing need. This borrowing need has been factored into the Treasury Management Strategy.

It is not until about 2039 (which is outside CIPFA’s 10-year minimum requirement), that the outstanding debt figure meets the Liability Benchmark, which is an indicator of an overborrowed County Council. It would therefore be prudent to ensure any new debt matures prior to that date, to avoid any debt repayment penalties. Prior to 2039 the County Council is forecast to remain significantly under borrowed, as a means of minimising debt interest costs.

However, as previously stated any estimate beyond the term covered by the current TMSS is subject to many changes.

- Core Funds and Expected Investment Balances

The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.).

Detailed next are estimates of the year-end balances for each resource and anticipated day-to-day cash flow balances: -

Year End Resources £m	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
Fund balances / reserves	172	155	141	128
Capital receipts	3	0	0	0
Provisions	-24	-20	-20	-20
Other	64	57	52	46
Total core funds	215	193	173	155
Working capital	1	1	1	1
Under/over borrowing	175	191	194	196
Expected investments	54	3	-20	-41

Note: whilst the strategy of being under borrowed will minimise debt interest costs, what the above table shows is that the current levels of under borrowing cannot be sustained beyond next year. At some point during 2023/24 a proportion of the under borrowing will need to be externalised, to replenish the cash currently being used to support the position.

- Affordability Prudential Indicators

The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the County Council’s overall finances. The County Council is asked to approve the following indicators: -

Ratio of Financing Costs to Net Revenue Stream

This indicator identifies the trend in the cost of capital, (borrowing and other long-term obligation costs net of investment income), against the net revenue stream.

%	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
Total	28.8	29.6	34.2	36.4

The estimates of financing costs include current commitments and the proposals in this budget report.

Maturity Structure of Borrowing

Maturity structure of borrowing. These gross limits are set to reduce the County Council's exposure to large, fixed rate sums falling due for refinancing, and are required for upper and lower limits. The actual percentages and amounts outstanding as at 31/12/22 have been added to the table to show that we are currently well within all the limits.

The County Council is asked to approve the following treasury indicators and limits: -

Maturity structure of fixed interest rate borrowing 2023/24

	Lower	Upper	Actuals %	Actuals £m
Under 12 months	0%	25%	9.33%	51
12 months to 2 years	0%	25%	3.66%	20
2 years to 5 years	0%	50%	7.98%	44
5 years to 10 years	0%	75%	5.29%	29
10 years to 50+ years	25%	100%	73.74%	403
Total			100%	547

3. BORROWING

The capital expenditure plans set out in Section 2 provide details of the service activity of the County Council. The treasury management function ensures that the County Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity and the County Council's Capital Strategy. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions, and the Annual Investment Strategy.

- Current Portfolio Position

The overall treasury management portfolio as at 31 March 2022 and for the position as at 31 December 2022 are shown in the following table for both borrowing and investments.

	TREASURY PORTFOLIO			
	actual	actual	current	current
	31.3.22	31.3.22	31.12.22	31.12.22
Treasury investments	£000	%	£000	%
Banks		0%	5,000	16%
Building societies - unrated		0%		0%
Building societies - rated		0%		0%
Local authorities	8,000	15%		0%
DMADF (H.M.Treasury)		0%	14,050	44%
Money Market Funds	29,950	56%	2,950	9%
Certificates of Deposit		0%		0%
Total managed in house	37,950	70%	22,000	69%
Bond Funds	16,000	30%	10,000	31%
Property Funds		0%		0%
Total managed externally	16,000	30%	10,000	31%
Total treasury investments	53,950	100%	32,000	100%
Treasury external borrowing				
Local Authorities	32,500	6%	71,766	14%
PWLB	421,611	84%	389,540	76%
LOBOs	50,000	10%	50,000	10%
Total external borrowing	504,111	100%	511,306	100%
Net treasury investments / (borrowing)	-450,161	0	-479,306	0

The County Council's forward projections for borrowing are summarised below. The table shows the actual external debt, against the underlying capital borrowing need, (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

£m	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
External Debt				
Debt at 1 April	527.8	486.2	532.2	568.5
Expected change in Debt	-41.6	46.0	36.3	46.8
Actual gross debt at 31 March	486.2	532.2	568.5	615.3
The Capital Financing Requirement	661.1	723.0	762.6	812.7
Under / (over) borrowing	174.9	190.8	194.1	197.4

Within the range of prudential indicators there are several key indicators to ensure that the County Council operates its activities within well-defined limits. One of these is that the County Council needs to ensure that its gross debt does not, except in the short-term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2023/24 and the following two financial years. This allows some flexibility for limited early borrowing for future years but ensures that borrowing is not undertaken for revenue or speculative purposes.

The Chief Financial Officer reports that the County Council complied with this prudential indicator in the current year and, being significantly under borrowed, does not envisage difficulties for the future. This view takes account of current commitments, existing plans, and the proposals in this budget report.

Treasury Indicators: Limits to Borrowing Activity

- The Operational Boundary.

This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt and the ability to fund under-borrowing by other cash resources.

Operational Boundary £m	2021/22 Actuals	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
Debt	525.0	585.0	625.0	675.0
Other long-term liabilities	155.0	155.0	155.0	155.0
Total	680.0	740.0	780.0	830.0

- The Authorised Limit for external debt.

This is a key prudential indicator and represents a control on the maximum level of borrowing. This represents a legal limit beyond which external debt is prohibited, and this limit needs to be set or revised by the Full County Council. It reflects the level of external debt which, while not desired, could be afforded in the short-term, but is not sustainable in the longer-term.

This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all local County Council plans, or those of a specific County Council, although this power has not yet been exercised.

The County Council is asked to approve the following Authorised Limit:

Authorised Limit £m	2021/22 Actuals	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
Debt	660.0	660.0	660.0	700.00
Other long-term liabilities	158.0	158.0	158.0	158.0
Total	818.0	818.0	818.0	858.0

Link Borrowing advice:

Our long-term (beyond 10 years) forecast for Bank Rate stands at 2.5%. As all PWLB certainty rates are currently above this level, borrowing strategies will need to be reviewed in that context. Better value can generally be obtained at the shorter end of the curve and short-dated fixed LA to LA monies should be considered. Temporary borrowing rates are likely, however, to remain near Bank Rate and may also prove attractive whilst the market waits for inflation, and therein gilt yields, to drop back later in 2023.

Our interest rate forecast for Bank Rate is in steps of 25 bps, whereas PWLB forecasts have been rounded to the nearest 10 bps and are central forecasts within bands of + / - 25 bps. Naturally, we continue to monitor events and will update our forecasts as and when appropriate.

Borrowing Strategy

The County Council is currently maintaining an under-borrowed position. This means that the underlying borrowing need, (the Capital Financing Requirement), has not been fully funded with external loan debt as cash supporting the County Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as medium and longer dated borrowing rates are expected to fall from their current levels once prevailing inflation concerns are addressed by tighter near-term monetary policy. That is, Bank Rate increases over the remainder of 2022 and the first half of 2023.

Against this background and the risks within the economic forecast, caution will be adopted with the 2023/24 treasury operations. The Chief Financial Officer will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances: The opportunity may be taken to reschedule any outstanding debt, if rates become favourable to delivering savings in the revenue budget. The cost of external interest of maintaining the County Council debt is estimated to be £18.6 million in 2023/24.

Policy on Borrowing in Advance of Need

The County Council will not borrow more than or in advance of its needs purely to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates and will be considered carefully to ensure that value for money can be demonstrated and that the County Council can ensure the security of such funds.

Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

Rescheduling

Rescheduling of current borrowing in our debt portfolio is unlikely to occur as there is still a large difference between premature redemption rates and new borrowing rates. If rescheduling is to be undertaken, it will be reported to the Cabinet, at the earliest meeting following its action.

Financial Institutions as a Source of Borrowing and / or Types of Borrowing

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

Local authorities (primarily shorter dated maturities out to 3 years or so – generally still cheaper than the Certainty Rate).

Financial institutions (primarily insurance companies and pension funds but also some banks, out of forward dates where the objective is to avoid a “cost of carry” or to achieve refinancing certainty over the next few years).

Our advisors will keep us informed as to the relative merits of each of these alternative funding sources.

Approved Sources of Long and Short-term Borrowing

On Balance Sheet	Fixed	Variable
PWLB	●	●
UK Municipal Bond Agency	●	●
Local Authorities	●	●
Banks	●	●
Pension Funds	●	●
Insurance Companies	●	●
UK Infrastructure Bank	●	●
Market (long-term)	●	●
Market (temporary)	●	●
Market (LOBOs)	●	●
Local Temporary	●	●
Overdraft		●
Internal (capital receipts & revenue balances)	●	●
Finance Leases	●	●

4. ANNUAL INVESTMENT STRATEGY

Investment Policy – Management of Risk

DLUHC – (this was formerly the Ministry of Housing, Communities and Local Government (MHCLG)) and CIPFA have extended the meaning of ‘investments’ to include both financial and non-financial investments. This report deals solely with treasury (financial) investments, (as managed by the treasury management team). Non-financial investments, essentially the purchase of income yielding assets and service investments, are covered in the Capital Strategy, (a separate report).

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

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

The policy objective for the County Council is the prudent investment of its cash balances. The investment priorities are firstly the security of capital (protecting sums from capital loss) and secondly the liquidity of investments (ensuring cash is available when required). Only when these two priorities are met will the third of achieving the optimum return on investments, be considered. These objectives have driven our risk and credit view set out below.

The County Council will not borrow money purely to invest. The County Council will only borrow up to 2 years in advance of cash being required to fund its capital expenditure and the amount borrowed will not exceed the annual borrowing requirement.

The investments, which the County Council can use for the prudent management of cash balances are categorised as ‘Specified Investments’ and ‘Non-Specified Investments’.

A Specified Investment offers high security and high liquidity, must be in sterling and have a maturity date of less than a year. Any Specified Investment must be with the United Kingdom Government, a local authority in England or Wales or a similar body in Scotland or Northern Ireland, a parish or community County Council, a AAA-rated Money Market Fund, a bank which is part-owned by the UK Government, or with a body of high credit quality. The County Council defines a body of high credit quality as counterparties who satisfy the criteria as described below:

For overnight investments, or money placed in instant access accounts and Notice Accounts, the County Council defines a body of high credit quality as firstly having the below Short-Term ratings:

Agency:	Short-Term rating:
Fitch	F1
Moody’s	P-1
Standard and Poor’s	A-1

For **unsecured** term deposits between 2 and 364 days, the County Council will firstly define a body of high credit quality as having the below Long-term ratings:

Agency:	Long-Term rating:
Fitch	A+
Moody’s	A1
Standard and Poor’s	A+

The County Council will undertake continued due diligence and will not automatically lend to Counterparties that merely satisfy the above criteria. As additional consideration, the County Council will assess for each:

- Environmental, Social & Governance (ESG) considerations.
- Input from Treasury Advisors.
- Other market data from a reputable source.
- Press coverage.
- Market presence by the Counterparty.
- Availability of suitable products from the Counterparty.
- Ease of execution with the Counterparty.
- Level of Customer service from the Counterparty.

The above list is not exhaustive, the County Council may at any time exclude a Counterparty should it perceive any reasonable doubt concerning its Creditworthiness; the 2011 Code and subsequent revisions advise that subjective criteria may be used, in line with the County Council's risk appetite.

Environmental, Social & Governance (ESG) Considerations

This topic is becoming a more commonplace discussion within the wider investment community, including Local Authorities. While around two thirds of County Councils have declared a “climate emergency” to date, this has not translated into the incorporation of something more formal within their treasury-related Annual Investment Strategy.

Following changes to the CIPFA TM Code 2021 the County Council has incorporated ESG considerations into Treasury Management Practice 1 (page 24 below).

For **secured** term deposits, the County Council defines high credit quality as an **instrument** that has the above ratings with every agency that rates it.

Enhanced Money Market funds or Cash Plus funds, which carry a AAA-rating from at least one rating agency.

Non-Specified Investments have a range of vehicles not covered by the definition of Specified Investments, which are set out in the Treasury Management Practices (TMPs) and generally carry more risk.

The only types of non-specified investments the County Council will enter into or hold during the coming financial year are as below:

A routine term deposit with a counterparty as described above for Specified Investments, for a period of more than 1 year. This type of investment will be considered when rates are favourable and cash balances allow. The County Council's prudential indicators allow no more than £10 million to be invested in this category.

Investments in Pooled Property Funds, these will be considered as having a 5 to 10-year term.

The credit ratings of Fitch, Moody's and Standard and Poor's are monitored at least weekly, ratings-watches and downgrades are acted upon immediately. Any other information that is deemed relevant to the creditworthiness of any Counterparty will be acted upon, in line with the 2009 code revision.

The County Council may hold cash within its current account overnight as a transactional control to mitigate the risk of going overdrawn and incurring penalty and interest charges. The County

Council may also leave funds in this account when it is impractical and/or not economically feasible to invest elsewhere. These balances are considered as cash or cash equivalents and not investments.

The County Council will aim to have not less than 50% of its investments returnable within 28 days with at least 20% within 7 days.

Changes in risk management policy from last year.

The above criteria are unchanged from last year.

Investment Performance / Risk Benchmarking

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

End of Year Investment Report

At the end of the financial year, the County Council will report on its investment activity as part of its Annual Treasury Report.

Markets in Financial Instruments Directive (MIFID II)

The County Council has elected to opt-up to Professional Client status for most of its Counterparties, on the grounds of the typical size of its investment portfolio and the volume of transactions on the relevant market. This was primarily concerned with maintaining access to the financial instruments used. A few selected Counterparties indicated that the County Council would not need to opt-up to Professional Client status to continue service.

A schedule of the County Council's status with its Counterparties (Retail or Professional) is maintained as part of the Treasury Management Practices and will be reviewed annually and/or when a counterparty is added or removed.

Non-Treasury Investments

The County Council recognises that investment in other financial assets and property primarily for financial return, taken for non-treasury management purposes, requires careful investment management. Such activity includes loans supporting service outcomes, investments in subsidiaries, and investment property portfolios.

The County Council will ensure that all the organisation's investments are covered in the capital strategy, investment strategy or equivalent, and will set out, where relevant, the County Council's risk appetite and specific policies and arrangements for non-treasury investments. It will be recognised that the risk appetite for these activities may differ from that for treasury management. For instance, liquidity shall ordinarily not be a consideration for such investments, since the monies invested are pursuant to a service outcome and yield may comprise intangible elements such as Economic and Social Development and expansion of the tax base.

The County Council will maintain a schedule setting out a summary of existing material investments, subsidiaries, joint ventures, and liabilities including financial guarantees and the organisation's risk exposure.

Below is a schedule for current approved non-treasury investments, other than Energy from waste, which is discussed later in this document:

Borrower	Amount	Date Lent	Terms
Malvern Hills SciencePark	£4.4m at cost. Carried at £3.0m Fair Value.	Various tranches 29/10/1998 to 15/10/2014	Preference Shares, with a semi-annual coupon based on cost, as follows: £944k at 3% £3,500k at 6.37% Note: As these shares carry no voting rights, this holding does not constitute a joint venture or subsidiary.

In managing these Investments, the Chief Financial Officer shall be responsible for:

- preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments, and treasury management, with a long-term timeframe
- ensuring that the capital strategy is prudent, sustainable, affordable, and prudent in the long term and provides value for money
- ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the County Council
- ensure that the County Council has appropriate legal powers to undertake expenditure on non-financial assets and their financing
- ensuring the proportionality of all investments so that the County Council does not undertake a level of investing which exposes the County Council to an excessive level of risk compared to its financial resources
- ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long-term liabilities
- provision to members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans, and financial guarantees
- ensuring that members are adequately informed and understand the risk exposures taken on by the County Council
- ensuring that the County Council has adequate expertise, either in house or externally provided, to carry out the above

West Mercia Energy

Regarding the joint ownership of West Mercia Energy, the County Council may, if deemed in the best interest of prudent management of the West Mercia business, undertake transactions pertaining to foreign currencies, such as foreign exchange deals and investments. Such dealings must have relevance to the course of business of West Mercia Energy. These dealings will be classified as Non-specified Investments as they are not sterling denominated.

Energy from Waste

In partnership with Herefordshire County Council, the County Council provided finance to Mercia Waste for the building of an Energy from Waste Plant, which they are operating for a period determined by the existing PFI contract. At the end of the contract, the ownership of the plant will revert to the County Councils. The construction phase commenced on the 21st May 2014;

Mercia took control of the plant from the contractor at the beginning of March 2017.

Worcestershire County and Herefordshire County Councils provided the finance on a 758:252 split, by granting loans on a commercial basis, in accordance with the agreed timetable. Loans

granted to Mercia Waste for this purpose will be considered separately to normal Treasury Management investment activity. All costs and income related to this scheme shall be ringfenced for budget monitoring purposes and the loans granted are being considered as Capital Expenditure under the 2003 Regulations and is carried at Amortised cost.

As at the 31 March 2022, the carrying value of the loan to Mercia Waste was £106m, repayments of Principal and Interest to date have proceeded to schedule.

Extension of Mercia Loan facility

WCC and HC have agreed, a proposal from Mercia to extend the current waste management services arrangements by 5 years (to expire on 11th January 2029) on the following terms:

WCC and HC have agreed in principle, a proposal from Mercia to extend the current waste management services arrangements by 5 years (to expire on 11th January 2029) on the following terms:

WMSC term extended by 5 years but with a reduction in the unitary payment by WCC and HC by the following amounts:

- £2.5m on the date of signature of the extension
- £4.5m per calendar year, from 1st January 2022 to 31 December 2023.
- £6m per annum, from 1st January 2024 to the end of extension period (i.e. + 5 years) which together are referred to as "M" in the proposal.

The impact of extending the WMSC will be that repayment of Facility B will also be extended by 5 years as it is linked to the Expiry Date of the WMSC. However, Mercia proposes that the bullet payment amounts due from Mercia under the Funding Agreements and from the WCC and HC under the WMSC are reduced to £106m. It is understood that this is to reflect a reduction in the projected value of the EfW facility at the end of the extended period. Mercia will pay to the County Council a level of principal payments on Facility B, equivalent to the balance in the proposed reduction to the bullet payment amounts i.e. £22m.

5. ANNUAL MINIMUM REVENUE PROVISION (MRP) STATEMENT

Introduction

On the 28 February 2008 the Department for Communities and Local Government issued statutory guidance under the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 that came into force on 31 March 2008.

The statutory guidance recommends that before the start of each financial year a local County Council prepares a statement of its policy on making MRP in respect of that financial year and submits it to full County Council. The statement should indicate how it is proposed to discharge the duty to make prudent MRP in the financial year.

The MRP is an amount of revenue money set aside each year for the repayment of external borrowing required to finance capital expenditure.

Capital expenditure incurred during 2022/23 will not be subject to an MRP charge until 2023/24, or in the year after the asset becomes operational

MRP in respect of assets acquired under Finance Leases or PFI will be charged at an amount equal to the principal element of the annual repayment;

For capital expenditure on loans to third parties where the principal element of the loan is being repaid in annual instalments, the capital receipts arising from the principal loan repayments will be used to reduce the CFR instead of MRP.

Where no principal repayment is made in a given year, MRP will be charged at a rate in line with the life of the assets funded by the loan.

The regulations include a change to the way MRP is calculated by replacing the detailed formulae for calculating MRP with a duty to make an amount of MRP which the County Council considers "prudent".

Meaning of "Prudent Provision"

The broad aim of prudent provision is to ensure that debt is repaid over a period that is reasonably commensurate with that over which the capital expenditure provides benefits or, in the case of borrowing supported by Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant.

The guidance specifies four options as methods of making prudent provision as follows:

Option 1: Regulatory Method - where debt is supported by Revenue Support Grant, authorities will be able to continue using the current methodology. As a transitional measure this option is also available for all capital expenditure incurred prior to 1 April 2008.

Option 2: CFR Method - multiplying the Capital Financing Requirement at the end of the preceding year by 4%

Option 3: Asset life Method - amortising expenditure over an estimated useful life for the relevant assets created.

Option 4: Depreciation Method – making charges to revenue based on proper accounting practices for depreciation as they apply to the relevant assets.

Options 1 and 2 may only be used in relation to capital expenditure incurred before 1 April 2008 and capital expenditure incurred on or after that date which forms part of supported capital expenditure.

For unsupported capital expenditure incurred on or after 1 April 2008 Options 3 and 4 apply and can be applied to all capital expenditure, whether or not supported and whenever incurred.

MRP Policy relating to capital expenditure financed from borrowing

Taking into the need to make prudent provision the Chief Financial Officer recommends that Option 3 is used for all capital expenditure financed by borrowing for the calculation of MRP commencing from 1 April 2017. The calculation is to be made using the annuity method. This is the Option currently applied.

MRP Overpayments - Under the MRP guidance, any charges made in excess of the statutory MRP can be made, known as voluntary revenue provision (VRP).

VRP can be reclaimed in later years if deemed necessary or prudent. In order for these amounts to be reclaimed for use in the budget, this policy must disclose the cumulative overpayment made each year.

Cumulative VRP overpayments made to date are £0.

Minimum Revenue Provision (MRP) consultation

In addition, the DLUHC is currently conducting a consultation on amending the MRP rules for England that will also come into effect, if agreed, on the 1 April 2023. Members will be briefed on the outcome of this consultation, but it could have a negative revenue impact for capital loans to third parties. At this stage our view is that the guidelines will be tightened to ensure that Authorities are charging MRP on all debt, which should reduce the more speculative borrowing to invest schemes, however, this isn't an area that this Authority has been, or plans to be active in, so there should be no impact on us.

6. TREASURY MANAGEMENT PRACTICE (TMP1) – CREDIT AND COUNTERPARTY RISK MANAGEMENT

Based on the current economic view and budget setting assessment the Council's Section 151 Officer suggests no changes to the policy and as such the following paragraphs set out that management of credit risk.

SPECIFIED INVESTMENTS: All such investments will be sterling denominated, with **maturities up to a maximum of 1 year**, meeting the minimum 'high' quality criteria where applicable. (Non-specified investments which would be specified investments apart from originally being for a period longer than 12 months, will be classified as being specified once the remaining period to maturity falls to under twelve months.)

NON-SPECIFIED INVESTMENTS: These are any investments which do not meet the specified investment criteria. A maximum of £10 million 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.

This County Council applies the creditworthiness service provided by the Link Group. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's, and Standard & Poor's.

The credit ratings of counterparties are supplemented with the following overlays: -

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

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

Yellow	5 years *
Dark pink	5 years for Ultra-Short Dated Bond Funds with a credit score of 1.25
Light pink	5 years for Ultra-Short Dated Bond Funds with a credit score of 1.5
Purple	2 years
Blue	1 year (only applies to nationalised or semi nationalised UK Banks)
Orange	1 year
Red	6 months
Green	100 days
No colour	not to be used

The Link creditworthiness service uses a wider array of information other 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 Authority uses will be a short-term rating (Fitch or equivalents) of F1 and a long-term rating of A+. There may be occasions when the

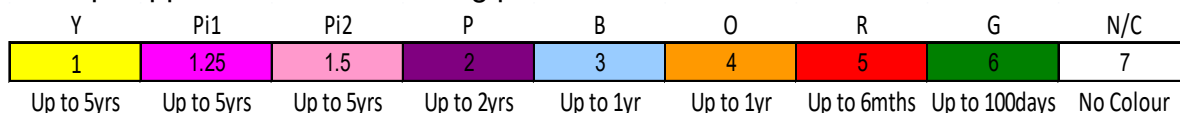
counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances, consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

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

if a downgrade results in the counterparty / investment scheme no longer meeting the Authority's minimum criteria, its further use as a new investment will be withdrawn immediately. In addition to the use of credit ratings the Authority will be advised of information in movements in Credit Default Swap spreads against the iTraxx European Senior Financials benchmark and other market data on a daily basis via its Passport website, provided exclusively to it by Link.

Extreme market movements may result in downgrade of an institution or removal from the Authority's lending list.

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



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

	Minimum credit criteria / colour band	** Max % of total investments / £ limit per institution	Max. maturity period
DMADF – UK Government	Yellow	100%	6 months (max. is set by the DMO*)
UK Gilts	Yellow		5 years
UK Treasury Bills	Yellow		364 days (max. is set by the DMO*)
Bonds issued by multilateral development banks	Yellow		5 years
Money Market Funds CNAV	AAA	100%	Liquid
Money Market Funds LNAV	AAA		Liquid
Money Market Funds VNAV	AAA		Liquid
Ultra-Short Dated Bond Funds with a credit score of 1.25	AAA	100%	Liquid
Ultra-Short Dated Bond Funds with a credit score of 1.5	AAA	100%	Liquid

Local Authorities	Yellow	100%	5 years
Term Deposits with Housing Associations	Blue Orange Red Green No Colour		12 months 12 months 6 months 100 days Not for use
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		

* DMO – is the Debt Management Office of HM Treasury

APPENDIX I

Changes to Codes of Practice and Minimum Revenue Provision Consultation

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

CIPFA published the revised codes on 20th December 2021 and has stated that formal adoption is not required until the 2023/24 financial year. The paper presented seeks to implement these changes.

The revised codes will have the following implications:

- a requirement for the County Council to adopt a new debt liability benchmark treasury indicator to support the financing risk management of the capital financing requirement.
- clarify what CIPFA expects a local authority to borrow for and what they do not view as appropriate. This will include the requirement to set a proportionate approach to commercial and service capital investment.
- address Environmental, Social and Governance (ESG) issues within the Capital Strategy.
- require implementation of a policy to review commercial property.
- create new Investment Practices to manage risks associated with non-treasury investment (like the current Treasury Management Practices).
- ensure that any long-term treasury investment is supported by a business model.
- amendment to Treasury Management Practice Statement 1 to address ESG policy within the treasury management risk framework.
- amendment to the knowledge and skills register for individuals involved in the treasury management function.
- a new requirement to clarify reporting requirements for service and commercial investment, (especially where supported by borrowing/leverage).

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

Treasury management

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

Service delivery

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

Commercial return

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

As this Treasury Management Strategy Statement and Annual Investment Strategy deals solely with treasury management investments, the categories of service delivery and commercial investments will be dealt with as part of the Capital Strategy report.

Members will be updated during the next financial year on how all these changes will impact our current approach and any changes required will be formally adopted within the 2023/24 Treasury Management Strategy report.

Minimum Revenue Provision (MRP) consultation

In addition, the DLUHC is currently conducting a consultation on amending the MRP rules for England that will also come into effect, if agreed, on the 1st April 2023. Members will be briefed on the outcome of this consultation, but it could have a negative revenue impact for capital loans to third parties, thus making it more restrictive.