Tyne and Wear Fire and Rescue Authority
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TYNE & WEAR FIRE AND RESCUE AUTHORITY

MEETING: 14TH MARCH 2022

SUBJECT: TREASURY MANAGEMENT POLICY AND STRATEGY 2022/2023, INCLUDING PRUDENTIAL 'TREASURY MANAGEMENT' INDICATORS FOR 2022/2023 TO 2025/2026

REPORT OF THE FINANCE DIRECTOR

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1. **Purpose of the Report**

1.1 Members to approve the proposed Treasury Management Policy and Strategy (including both borrowing and investment strategies) for 2022/2023 and also to approve the Prudential 'Treasury Management' Indicators for 2022/2023 to 2025/2026 taking into account any feedback or comments provided by the Governance Committee who scrutinised the Treasury Management Policy and Strategy at their meeting held on 7th March 2022.

2. **Treasury Management**

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

2.2 The Treasury Management function is a specialist service that is carried out by Sunderland City Council on behalf of the Authority as part of a Service Level Agreement.

3. **Statutory requirements**

3.1 The Local Government Act 2003 (the Act) requires the Authority to:

- 'have regard to' the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice to set Prudential Indicators including specific Treasury Management Indicators) for a minimum period of three years to ensure that the Authority's capital investment plans are affordable, prudent and sustainable. These are detailed at Appendix 1.
- adopt a Treasury Management Policy Statement (detailed in Appendix 2), and
- to set out its Treasury Management Strategy Statement comprising the Authority's strategy for borrowing and the Authority's policies for managing its investments and giving priority to the security and liquidity of those investments (set out in Appendix 3)

3.2 The DLUHC 'Statutory Guidance on Local Government Investments' was updated in February 2018 and CIPFA updated its Treasury Management in the Public Services Code of Practice in December 2021. The Authority is statutorily required to have regard to this advice when setting its Treasury Management Policy Statement and Treasury Management Strategy.

3.3 Changes to the DLUHC investment guidance focused particularly on non-treasury commercial investments which are reported within the Commercial Activity – Investment Strategy section of the Capital Strategy rather than in the Treasury Management Strategy. This ensures the separation of the core treasury function where investments are made under security, liquidity and yield principles, and non-treasury commercial and strategic investments.

4. CIPFA requirements

4.1 The Authority continues to fully adopt and to re-affirm annually its adherence to the updated CIPFA Code of Practice on Treasury Management.

The primary requirements of the Code include that:

1. The Authority will create and maintain, as the cornerstones for effective treasury management:

    - a treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities;
    - suitable Treasury Management Practices (TMP's), setting out the way the Authority will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.
    - investment management practices (IMPs) for investments that are not for treasury management purposes.

    The content of the treasury management policy statement is detailed in Appendix 2 and the TMP's follow the recommendations contained in Sections 6 and 7 of the Code, subject only to minor variations where necessary to reflect the particular circumstances of the Authority, and these do not result in the Authority materially deviating from the Code's key principles.

2. The Authority will receive reports on treasury management policies, practices and activities, including, as a minimum, an annual strategy and plan, in advance of the year ahead, a mid-year review and an annual report after its close, in the form prescribed in its TMP's.

3. The Authority delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to this Committee, and for the execution and administration of treasury management decisions to the Finance Director, who acts in accordance with the organisation's Policy Statement, TMPs and CIPFA's Standard of Professional Practice on Treasury Management.

4. The Authority has previously nominated the Governance Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

5 **Treasury Management Strategy Statement for 2022/2023**

5.1 The Treasury Management Strategy Statement comprises a Borrowing and an Investment Strategy. These set out the Authority's policies for managing its borrowing and investments in 2022/2023.

5.2 There are no major changes being proposed to the overall Treasury Management Strategy in 2022/2023, which maintains the careful and prudent approach adopted by the Authority in previous years. Areas that inform the strategy include the extent of potential borrowing included in the Authority's Capital Programme, the availability of borrowing and the current and forecast world and UK economic positions, in particular forecasts relating to interest rates and security of investments.

5.3 The proposed Treasury Management Strategy Statement for 2022/2023 is set out in Appendix 3 and is based upon the views of the Finance Director, supplemented with market data, market information and leading market forecasts and views provided by the Authority's treasury adviser, Link Asset Services.

5.4 The Authority's Treasury Management Practices are subject to regular review to ensure compliance to the agreed treasury management strategy and that the strategy adapts to changing financial markets as appropriate so that the Lead Authority, on behalf of this Authority, can take a view on the optimum time to carry out further borrowing or debt rescheduling.

6. **Recommendation**

6.1 Authority is requested to approve the:

- Annual Treasury Management Policy and Strategy for 2022/2023 (including specifically the Annual Borrowing and Investment Strategies) and,
- The Prudential 'Treasury Management' Indicators 2022/2023 to 2025/2026.

Appendix 1

Prudential 'Treasury Management' Indicators 2022/2023 to 2025/2026

The indicators below relate to Treasury Management (all indicators relating to capital financing have been removed for clarity and can be found in the Capital Programme 2022/2023 including Prudential Indicators for 2022/2023 to 2025/2026 report presented to the Authority on 14th February 2022).

P5 In respect of its external debt, it is recommended that the Authority approves the following authorised limits for its total external debt (gross of investments) for the next four financial years. These limits must separately identify borrowing from other long-term liabilities such as PFI schemes and finance leases. The Authority is asked to approve these limits and to delegate authority to the Finance Director, within the total limit for any individual year, to effect movement between the separately agreed limits for borrowing and other long-term liabilities, in accordance with option appraisal and best value for the Authority. Any such changes made will be reported to the Authority at the next meeting following the change.

Authorised Limit for External Debt

	2021/2022 £'000	**2022/2023 £'000**	**2023/2024 £'000**	**2024/2025 £'000**	**2025/2026 £'000**
Borrowing	27,650	**38,359**	38,758	40,535	43,244
Other long-term liabilities	15,818	**14,457**	13,032	11,297	9,468
Total	43,468	**52,816**	51,790	51,832	52,712

The above authorised limits are consistent with the Authority's current commitments, existing plans within the recently approved Capital Programme 2022/2023 to 2025/2026 which set out its agreed capital expenditure and financing, and with its proposed treasury management policy statement and practices. The Finance Director also confirms they are based on the estimate of most likely, prudent, but not worst-case scenario, with, in addition, sufficient headroom over and above this to allow for operational management, for example unusual cash movements. Risk analysis and risk management strategies have been taken into account, as have plans for capital expenditure, estimates of the Capital Financing Requirement and estimates of cash flow requirements for all purposes.

In taking its decisions on the Revenue Budget and Capital Programme for 2022/2023, the Authority has already agreed the authorised limit determined for 2022/2023 (see P5 above) will be the statutory limit determined under section 3(1) of the Local Government Act 2003.

P6 The Authority has also agreed to the following operational boundary for external debt for the same time period as part of the Capital programme 2022/2023 to 2025/2026 report. The operational boundary for external debt is based on the same estimates as the authorised limit, but reflects directly the estimate of the most likely, prudent but not worst-case scenario level, without the additional headroom included within the authorised limit to allow, for example, for unusual cash flow movements. It equates to the projected maximum external debt and represents a key management tool for in-year monitoring. Within the operational boundary, figures for borrowing and other long-term liabilities are separately identified.

The Authority is also requested to delegate authority to the Finance Director, within the total operational boundary for any individual year, to effect movement between the separately agreed figures for borrowing and other long-term liabilities, similar to the authorised limit set out in P5.

The operational boundary limit will be closely monitored and a report will be made to the Authority if it is exceeded at any point in the financial year ahead. It is generally only expected that the actual debt outstanding will approach the operational boundary when all of the long-term borrowing has been undertaken for that particular year and will only be exceeded temporarily as a result of the timing of debt rescheduling.

Operational Boundary for External Debt

	2021/2022 £'000	**2022/2023 £'000**	**2023/2024 £'000**	**2024/2025 £'000**	**2025/2026 £'000**
Borrowing	22,650	**33,359**	33,758	35,535	38,244
Other long term liabilities	15,818	**14,457**	13,032	11,297	9,468
Total	38,468	**47,816**	46,790	46,832	47,712

P7 The Authority's actual external debt at 31st March 2021 was £28.167 million (calculated on the basis that all Authority debt is classed as external) and was made up of actual borrowing of £11.227 million and £16.940 million in respect of other long-term liabilities.

The Authority includes an element for long-term liabilities relating to PFI schemes and leases in its calculation of the operational and authorised boundaries to allow further flexibility over future financing. It should be noted that actual external debt is not directly comparable to the authorised limit and operational boundary, since the actual external debt reflects the position at any one point in time and allowance needs to be made for borrowing and cash flow variations.

P8 Sunderland City Council, on the Authority's behalf, is no longer required to formally indicate if it has adopted the CIPFA Code of Practice on Treasury Management. However, the revised Code was adopted on 3rd March 2010 and is re-affirmed annually.

The objective of the Prudential Code is to provide a clear framework for local authority capital finance that will ensure for individual local authorities that:

(a) capital expenditure plans are <u>affordable;</u>
(b) all external borrowing and other long-term liabilities are within <u>prudent and sustainable levels</u>;
(c) treasury management and investment decisions are taken in accordance with professional good practice and in full understanding of the risks involved;

and that in taking decisions in relation to (a) to (c) above the local authority is: <u>accountable</u>, by providing a clear and transparent framework.

Further, the framework established by the Code should be consistent with and support:

(a) local strategic planning;
(b) local asset management planning;
(c) proper options appraisal.

In exceptional circumstances the objective of the Code is to provide a framework that will demonstrate that where there is a danger of not ensuring the above, the Authority can take timely remedial action.

CIPFA Treasury Management in the Public Services Code of Practice - Indicators 2022/2023 to 2025/2026

P9 It is recommended that the Authority sets upper and lower limits for the maturity structure of its borrowings, consistent with Sunderland City Council's policy, as follows:

Amount of projected borrowing that is fixed rate maturing in each period expressed as a percentage of total projected borrowing that is fixed rate at the start of the period:

	Upper limit	Lower limit
Under 12 months	50%	0%
12 months and within 24 months	60%	0%
24 months and within 5 years	80%	0%
5 years and within 10 years	100%	0%
10 years and over	100%	0%

P10 A maximum maturity limit of £75 million is set for each financial year (2022/2023, 2023/2024, 2024/2025 and 2025/2026) for long-term investments (those over 365 days). This gives additional flexibility to the Authority in undertaking its Treasury Management function. It is proposed that Authority funds may be invested within the limits set by Sunderland City Council as set out in the Annual Investment Strategy (Appendix 3).

Appendix 2

1. Treasury Management Policy Statement

1.1 In line with CIPFA recommendations, the Authority adopted the following Treasury Management Policy Statement, which defines the policies and objectives of its treasury management activities:

- The Authority defines its treasury management activities as: “The management of the Authority’s investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks”.
- The Authority regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.
- The Authority acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

1.2 These principles are intended to provide a working document that forms a detailed framework for treasury management activities. The policy fully encompasses CIPFA’s Code of Practice. In addition, the policy fully takes account of the requirements of the Prudential Code for Capital Finance in Local Authorities and the guidance issue by the DLUHC supporting Part 1 of the Local Government Act 2003 in respect of local authority investments.

1.3 The Authority re-affirms its commitment to the Treasury Management Policy and Strategy Statement in 2022/2023 as it does every year.

Appendix 3

1. **Treasury Management Strategy Statement for 2022/2023**

1.1 **Introduction**

1.2 The Local Government Act 2003 and subsequent guidance requires the Authority to set out its Treasury Management Strategy for Borrowing and to prepare an Annual Investment Strategy. This sets out the Authority's policies for managing both its borrowing and its investments, which gives priority to the security and liquidity of those investments over yield.

1.3 The suggested strategy for 2022/2023 is set out below and is based upon the Finance Director's views on interest rates, supplemented with leading market forecasts and other financial data available and advice provided by the Authority's treasury adviser, Link Asset Services.

1.4 In December 2017, and more recently in December 2021 CIPFA issued a revised Treasury Management Code of Practice and Cross-Sectoral Guidance Notes, and a revised Prudential Code. In February 2018 DLUHC revised their Guidance on Local Government Investments and also their Statutory Guidance on Minimum Revenue Provision. A particular focus of these revised codes is how to deal with local authority investments which are non-treasury type investments e.g. by investing in a property portfolio in order to generate income for the authority at a higher level than can be attained by vanilla treasury investments. This report deals solely with financial investments managed by the lead authority's Treasury Management function as this Authority has no such investments. Non-treasury investments are therefore covered separately in the lead authority's Capital Strategy which was approved by Council in November 2021. This ensures the separation of the core treasury function where investments are made under security, liquidity and yield principles, and non-treasury commercial and strategic investments.

1.5 The treasury management strategy covers the:

- current treasury management position;
- treasury indicators and limits;
- prospects for interest rates;
- borrowing strategy;
- policy on borrowing in advance of need;
- policy on debt rescheduling;
- investment policy and management of risk;
- creditworthiness policy;
- outlook and proposed treasury investment strategy;
- policy on the use of external service providers; and
- non-treasury investments.

1.6 As noted, CIPFA published revised codes for Treasury Management and Prudential Borrowing on 20th December 2021. The changes made to the Prudential Code apply with immediate effect, except that the new revised reporting requirements do not need to be introduced until the 2023/2024 financial year. Unlike the Prudential Code, there is no effective date within the new edition of the Treasury Management Code, which is market guidance and has no statutory underpinning. The Authority has to have regard to these codes of practice when it prepares the Treasury Management Strategy Statement and the Annual Investment Strategy. In summary, the revised codes have the following implications:

Prudential Code

- Strong reinforcement that local authorities must not borrow to invest primarily for financial return, this applies with immediate effect;
- Objectives continue to focus on; Capital plans and investments plans must be affordable and proportionate, all borrowing / other long-term liabilities are within prudent and sustainable levels; risks associated with investments are proportionate to financial capacity and treasury management decisions are in accordance with good professional practice;
- Further strengthening on matters to be taken into account when setting and revising prudential indicators. In particular decision making on capital investment, determining a capital strategy, prudence and affordability;
- Expansion of Environmental, Social and Governance (ESG) within the Capital Strategy, addressing environmental sustainability in a manner which is consistent with the Authority's policies on the issue. This will be addressed when the Capital Strategy is refreshed later in 2022;
- Investment in commercial properties, the code makes clear that any historical asset base is not impacted by the restrictions now in place and any plans to divest should be part of an annual review.
- CIPFA leaves any decision to maintain long term Treasury Investments to each local authority to justify and any longer term Treasury Investment to be linked to the Business Model; and
- The gross debt and the capital financing requirement remain key indicators with a small change which means the inclusion of Heritage Assets. It has been noted that the CFR can be a negative figure.

Treasury Management Code

- Investment Management Practices (IMPs) have now been introduced for Non-Treasury Investment and are expected to follow the same format used for Treasury Management Practices (TMPs);
- The requirement for TMP10 has been strengthened and a requirement to retain an aims and objectives schedule included;
- Reporting should set out Service and Commercial investment risks especially where this is supported by borrowing / leverage, with a proportionate level of any borrowing which is a decision for the S151 Officer. Emphasis also placed on "Local Authorities" so that they must not borrow to invest primarily for the purpose of financial return;
- Treasury Management reports to be produced annually before the financial year, mid-year and after the year-end; and
- The introduction of a Liability Benchmark, which will be included in updated reporting for 2023/2024.

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

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

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

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

The Authority already currently adheres to the majority of the above amendments, and will comply with the remaining new reporting standards by the prescribed date of 2023/2024.

2. Treasury Management Strategy

Borrowing

2.1 Current Treasury Management Position

The treasury portfolio position at 31st December 2021 for Sunderland City Council, which the Fire and Rescue Authority forms part of, is set out in the table overleaf. For information the Authority held £11.227 million of borrowing and investments totalling £27.514 million.

		Principal (£m)	Total (£m)	Average Rate (%)
Treasury external borrowing				
Fixed Rate Funding	PWLB	434.6		
	Market	39.6		
	Other	11.3	485.5	2.68
Variable Rate Funding	Temporary / Other		27.6	0.72
Total Borrowing			**513.1**	**2.54**
Total Investments				
	In house – short term		**294.3**	**0.16**
Net treasury borrowing			**218.8**	

Currently there is a net deficit of £218.8m which represents the difference between gross debt and total investments and is significantly lower than the lead authority's capital financing requirement (capital borrowing need).

2.2 Treasury Indicators and Limits

2.2.1 Prudential and Treasury Indicators (as set out in Appendix 1) are a requirement of the CIPFA Prudential Code and are relevant for the purposes of setting an integrated treasury management strategy and to ensure that treasury management decisions are taken in accordance with good professional practice. It is a statutory duty under Section 3 of the Local Government Act 2003 and supporting regulations, for the Authority to determine and keep under review how much it can afford to borrow. The amount so determined is termed the "Affordable Borrowing Limit". In England and Wales the Authorised Limit represents the legislative limit specified in the Act.

2.2.2 The Authority must have regard to the Prudential Code when setting the Authorised Limit, which essentially requires it to ensure that total capital investment remains within sustainable limits and, in particular, that the impact upon its future council tax is 'acceptable'.

2.2.3 The "Affordable Borrowing Limit" comprises of the capital plans to be considered for inclusion in corporate financing by both external borrowing and other forms of liability, such as credit arrangements. The Authorised Limit is set, on a rolling basis, for the forthcoming financial year and three successive financial years and details can be found in Appendix 1 (P5) of this report. The Authority is requested to note these already agreed limits and to delegate authority to the Finance Director, within the total limit for any individual year, to action movement between the separately agreed limits for borrowing and other long-term liabilities where this would be appropriate. Any such changes made will be reported to the Authority at their next meeting following the change.

2.2.4 Also, the Authority is requested to note the already agreed Operational Boundary Limit (P6) which is included in the Prudential Indicators set out in Appendix 1. This operational boundary represents a key management tool for in-year monitoring. Within the operational boundary, figures for borrowing and other long-term liabilities are separately identified and the Authority is also asked to delegate authority to the Finance Director, within the total operational boundary for any individual year, to action movement between the separately agreed figures for borrowing and other long-term liabilities, in a similar fashion to the authorised limit.

2.2.5 The requirement for the Authority to indicate it has adopted the CIPFA Code of Practice on Treasury Management was removed in the revised 2017 edition of the code. However, this is still considered to be good practice. The original 2001 Code was adopted on 20th November 2002. The Authority re-affirms its full adherence to the latest 2017 edition of the Code and will continue to do so annually (as set out in Appendix 2). The additional reporting elements of the December 2021 code which aren't required until 2023/2024 will be adhered to in that financial year.

2.3 **Prospects for Interest Rates**

2.3.1 Over the last two years, the coronavirus outbreak has resulted in significant economic damage to the UK and to economies around the world. After the Bank of England's Monetary Policy Committee (MPC) took emergency action in March 2020 to cut the Bank Rate to 0.10%, it left the rate unchanged at its subsequent meetings until raising it to 0.25% at its meeting on 16th December 2021 and then to 0.50% at its meeting on 2nd February 2022. This was primarily in response to rising inflation which the BoE now expects to peak at 7.25% in April 2022, well above its 2% target.

2.3.2 As for the timing of the next increase in Bank Rate, the Authority's treasury advisor believes the MPC will announce a further 0.25% increase in March, followed by a similar rise in May and then rising to 1.25% in November 2022. The impact of the Omicron variant is expected to result in GDP remaining flat in Quarter 1 of 2022 and the hit to household income from higher inflation has led the BoE to revise down it GDP growth forecast for 2022 from 3.75% to 3.25%.

2.3.3 Since the start of 2021, there has been significant volatility in gilt yields, and hence PWLB rates. As the interest forecast table for PWLB certainty rates below shows, there is forecast to be a steady, but slow, rise in rates during the forecast period to March 2025, though there will doubtless be unpredictable volatility during this forecast period.

2.3.4 The following table shows the average PWLB rates for Quarters 1, 2 and 3 and the figures for Quarter 4 to 16th February 2022.

2021/2022	**Qtr 1 (Apr - Jun) %**	**Qtr 2 (Jul - Sep) %**	**Qtr 3 (Oct – Dec) %**	**Qtr 4 (Jan – 16th Feb) %**
7 days notice	-0.08	-0.08	-0.06	0.20#
1 year	0.81*	0.87*	1.11*	1.59*
5 year	1.18*	1.15*	1.47*	1.90*
10 year	1.68*	1.52*	1.75*	2.08*
25 year	2.14*	1.90*	1.99*	2.25*
50 year	1.94*	1.68*	1.68*	1.93*

*rates take account of the 0.2% discount to the PWLB rates available to eligible authorities that came into effect on 1st November 2012.

#Figures for the 7-Day LIBID rate, used by the Authority to benchmark its performance, ceased being published at the end of 2021. From January 2022, the over-night SONIA (Sterling Over Night Indexed Average) is now used for comparison purposes. For Q4, the rate shown reflects the average to the end of January 2022.

2.3.5 The Link Asset Services forecast in respect of interest rates for loans charged by the PWLB was updated on 7th February 2022 as follows:-

Date	**Bank Rate %**	**PWLB Borrowing Rates (including certainty rate adjustment) %**		
		5 year	**25 year**	**50 year**
March 2022	0.75	2.20	2.40	2.20
June 2022	1.00	2.30	2.50	2.30
Sept 2022	1.00	2.30	2.50	2.30

Date	Bank Rate %	PWLB Borrowing Rates (including certainty rate adjustment) %		
		5 year	25 year	50 year
Dec 2022	1.25	2.30	2.60	2.40
March 2023	1.25	2.30	2.60	2.40
June 2023	1.25	2.30	2.60	2.40
Sept 2023	1.25	2.30	2.60	2.40
Dec 2023	1.25	2.30	2.60	2.40
March 2024	1.25	2.30	2.60	2.40
June 2024	1.25	2.30	2.60	2.40
Sept 2024	1.25	2.30	2.60	2.40
Dec 2024	1.25	2.30	2.60	2.40
March 2025	1.25	2.30	2.60	2.40

2.3.6 The main sensitivities of the forecast are likely to be, if it were felt that there was a significant risk of a much sharper rise in long and short term rates than that currently forecast, perhaps arising from an acceleration in the rate of increase in central rates in the US and UK, then the portfolio position will be re-appraised with the likely action that fixed rate borrowing will be undertaken whilst interest rates are still lower than they will be in the next few years.

2.4 Borrowing Strategy

2.4.1 The Authority's strategy for 2021/2022 was to adopt a pragmatic approach in identifying the low points in the interest rate cycle at which to borrow and to respond to any changing circumstances to seek to secure benefit for the Authority. A benchmark financing rate of 2.60% for long-term borrowing was set considering the views prevalent at the time the Treasury Management policy was set in March 2021.

2.4.2 The basis of the agreed Borrowing Strategy for 2022/23 is to:

- continuously monitor prevailing interest rates and forecasts;
- secure long-term funds to meet the Authority's future borrowing requirement when market conditions are considered favourable;
- current (January 2021) long term PWLB rates (50 years) are around 1.80%. It is forecast that this will rise over the financial year 2022/23 with target rates being, 1.80% Q1, 1.90% Q2, 1.90% Q3 and 2.00% Q4. Should interest rates fall below these targets borrowing should be considered, with preference given to terms which ensure a balanced profile of debt maturity. The current average interest rates forecast across this financial year for various borrowing periods are as follows:

  10 years – 1.85%
  25 years – 2.10%
  50 years – 1.90%

2.4.3 As announced by the Chancellor in November 2020, a prohibition was introduced that denies access to any new borrowing from the PWLB for a local authority that has plans to purchase investment assets "primarily for yield". When applying for PWLB borrowing authorities must now submit a high-level description of their capital spending and financing plans for the following three years. In addition, the lead authority's Section 151 Officer (Executive Director of Corporate Services) must confirm that there is no intention to buy investment assets primarily for yield at any point in the next three years. This assessment will be based on the Section 151 Officer's professional interpretation of guidance issued along with PWLB lending terms.

2.4.4 Due to the overall financial position and the underlying need to borrow for capital purposes (the Capital Financing Requirement – CFR), new borrowing of £100m was undertaken in December from the PWLB at a historically low rate of 1.4%. Borrowing at this low rate has reduced the average cost of borrowing across the portfolio.

2.4.5 The low PWLB interest rates are likely to make this the cheapest option available to the Council to fund the large borrowing requirement needed to support the capital programme and it will benefit the Authority's revenue budget over the longer term. The Treasury Management team continues to closely monitor interest rates to assess the value of possible further new borrowing in line with Capital Programme requirements. Consideration will also be given to various other funding options, including taking out shorter term borrowing, utilising investment balances and use of other financial institutions to provide borrowing facilities.

2.4.6 There are currently seven market Lender's Option / Borrower's Option (LOBO) loans totalling £39.5 million. The lender has the option to alter the rate on these loans at set intervals and theses can either be accepted at the new rate or repaid without penalty. The following table shows the four LOBOs that were subject to a potential rollover in 2021/2022. No changes to loan rates have been received and so these arrangements will continue.

Roll Over Dates	**Lender**	**Amount £m**	**Rate %**	**Roll Over Periods**
21/04/2021 and 21/10/2021	Barclays	5.0	4.37	Every 6 months
29/09/2021	Dexia Credit Local	5.0	4.45	Every 3 years
03/02/2022	Dexia Credit Local	5.0	4.37	Every 3 years
22/02/2022	Dexia Credit Local	5.0	4.38	Every 3 years
Total		**20.0**		

2.4.7 The potential borrowing requirement for Sunderland City Council, which the Fire and Rescue Authority forms part of, is as follows:

		2022/23 £m	**2023/24 £m**	**2024/25 £m**	**2025/26 £m**
1.	Capital Programme Borrowing	**183.6**	**176.2**	**86.6**	**11.8**
2.	Replacement borrowing (PWLB)	**5.0**	**0.0**	**0.0**	**0.0**
3.	Replacement LOBO	**10.0**	**19.5**	**20.0**	**10.0**
TOTAL:		**198.6**	**195.7**	**106.6**	**21.8**

2.4.8 Currently there is a deficit of £218.8m which represents the difference between gross debt and total investments. This means that the capital borrowing need (the capital financing requirement) has not been fully funded with loan debt, as cash supporting the lead authority's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and it also reduces counterparty risk. Consideration will be given by the lead authority to continue utilising some investment balances to fund the borrowing requirement in 2022/2023. This position will be carefully reviewed to avoid incurring higher borrowing costs over the long-term whilst ensuring that financing is available to support capital expenditure plans.

2.4.9 There are a number of risks and benefits associated with having both a large amount of debt whilst at the same time having a considerable number of investments.

2.4.10 Benefits of having a high level of investments are;

- liquidity risk – having a large amount of investments means that the Authority is at less of a risk should money markets become restricted or borrowing less generally available, this mitigates against liquidity risk;
- interest is received on investments which helps support the Authority's overall budget position; and
- of more importance, the Authority has greater freedom in the timing of its borrowing as it can afford to wait until the timing is right rather than be subject to the need to borrow at a time when interest rates are not advantageous.

2.4.11 Risks associated with holding a high level of investments are;

- the counterparty risk – institutions cannot repay the Authority investments placed with them; and
- interest rate risk – the rate of interest earned on the investments will be less than that paid on debt, thus causing a loss to the Authority.

2.4.12 The Authority has mitigated these risks by having a risk averse Treasury Management Investment Strategy and by detailed monitoring of counterparties through its borrowing and investment strategies and treasury management working practices and procedures.

2.4.13 A Municipal Bonds Agency, set up by the Local Government Association, has begun to offer bonds to local authorities. The rates offered by the Agency will be assessed and use made of this, and any other new sources of funding that may become available, where it is considered advantageous.

2.4.14 The need to adapt to changing circumstances and revisions to profiling of capital expenditure is required when considering borrowing opportunities, and flexibility needs to be retained to adapt to any changes that may occur.

2.4.15 The Authority, taking advice from its treasury advisers, will continue to monitor rates closely, and whilst implementing the borrowing strategy, will adopt a pragmatic approach in identifying the low points in the interest rate cycle at which to borrow, wherever possible.

2.4.16 Taking into account potential market volatility and the advice of the Authority's treasury adviser, alongside potential Bank of England base rate increases, a benchmark financing rate of 3.00% for any further long-term borrowing for 2022/2023 is considered to be appropriate.

2.5 **Policy on Borrowing in Advance of Need**

2.5.1 The Authority will not borrow more than or in advance of its needs purely to profit from treasury investments of the extra sums borrowed. Any decision to borrow in advance will be assessed within forward approved Capital Financing Requirement estimates, with regard to current policies, and will be considered carefully to ensure value for money can be demonstrated and that the Authority can ensure the security of such funds.

2.5.2 Risks associated with any borrowing in advance of activity will be subject to appraisal and any borrowing undertaken will be reported to the Authority as part of the agreed treasury management reporting arrangements.

2.6 **Policy on Debt Rescheduling**

2.6.1 The reasons for any rescheduling of debt will include:

- the generation of cash savings at minimum risk;
- in order to help fulfil the Treasury Management Strategy; and
- in order to enhance the balance of the long-term portfolio (by amending the maturity profile and/or the balance of volatility).

2.6.2 In previous years, debt rescheduling has achieved significant savings in interest charges and discounts and these interest savings have been secured for many years to come. However, the very low underlying rate of long-term borrowing together with the current spread between the rates applied to new PWLB borrowing and repayment of PWLB debt means that PWLB debt restructuring is much less attractive. Consideration will also be given to other options where interest savings may be achievable by using LOBO (Lenders Option Borrowers Option) loans, and / or other market loans, in rescheduling exercises rather than solely using PWLB borrowing as the source of replacement financing but this would only be the case where this would represent best value to the Authority.

2.6.3 Following consultation and advice from the Authority's treasury advisors the Authority has taken the decision to borrow over longer-term periods and much of the existing borrowing is for periods over 40 years and on a fixed interest rate basis. This borrowing has been taken out where it offers good value and to allow for the potential to benefit from refinancing debt in the future. A further benefit is that it reduces risk by giving certainty of borrowing rates over the long-term.

2.6.4 The Authority is keeping a watching brief on market conditions in order to secure further debt rescheduling when, and if, appropriate opportunities arise. The timing of all borrowing and investment decisions inevitably includes an element of risk, as those decisions are based upon expectations of future interest rates. The policy to date has been very firmly one of risk spread and this prudent approach will be continued.

2.6.5 Any rescheduling undertaken will be reported to the Authority, as part of the agreed treasury management reporting arrangements.

Annual Investment Policy and Strategy

2.7 **Investment Policy and Management of Risk**

2.7.1 When considering its investment policy and objectives, the Authority has regard to the DLUHC Guidance on Local Government Investments (“the Guidance”), CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017 (“the CIPFA TM Code”). Consideration has also been given to the refreshed Code published in December 2021, with full adoption required by 2023/2024.

2.7.2 The DLUHC and CIPFA have extended the meaning of investments to include both financial and non-financial investments. This report deals solely with financial investments (as managed by the lead authority’s Treasury Management function).

2.7.3 The Authority’s investment objectives are: -

(a) the security of capital, and
(b) the liquidity of its investments.

2.7.4 The Authority also aims to achieve the optimum return on its investments, but this is commensurate with proper levels of security and liquidity.

2.7.5 In the current economic climate, it is considered appropriate to keep investments short term to cover cash flow needs. However, where appropriate the Authority will also consider the value available in placing investments for longer periods with high credit rated financial institutions, as well as wider range fund options.

2.7.6 The guidance from the DLUHC and CIPFA places a high priority on the management of risk. The Authority has adopted a prudent approach to managing risk and in order to minimise the risk to investments, the Authority will;

- apply minimum acceptable credit criteria (detailed in Appendix 5) in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of risk. The risk appetite of the Authority is regarded as low in order to give priority to security of its investments.
- monitor credit ratings daily. The Authority has access to all three credit ratings agencies and is alerted to changes through its use of Link Asset Services counterparty service. If a counterparty’s rating is downgraded with the result that it no longer meets the Authority’s minimum criteria, the Authority will cease to place funds with that counterparty. If a counterparty’s rating is downgraded with the result that their rating is still sufficient for the counterparty to remain on the Approved Lending List, then the counterparty’s authorised investment limit will be reviewed accordingly. A downgraded credit rating may result in the lowering of the counterparty’s investment limit and vice versa;
- not use ratings as the sole determinant of the quality of an institution. The Authority will 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 Authority will engage with its advisors to monitor market pricing such as “credit default swaps” and overlay that information on top of the credit ratings provided.

- use other information sources including 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.

- define the type of investment instrument that the treasury management team are authorised to use. The Authority is allowed to invest in two types of investment, namely Specified Investments and Non-specified investments:

  - Specified Investments are sterling investments that are for a period of not more than one-year maturity, or those which could be for a longer period but where the Authority has the right to be repaid within 12 months if it wishes. These are placed with high rated counterparties and are considered low risk assets where the possibility of loss of principal or investment income is small. Within these bodies and in accordance with the Code, the Authority has set additional criteria to limit the time and amount of monies that will be invested with these bodies
  - Non-Specified Investments are any investments which are not classified as specified investments. As the Authority only uses investment grade high credit rated counterparties for treasury management investments this means in effect that any investments placed with those counterparties for a period over one year will be classed as Non-specified Investments. A limit on the amount of investments which can be invested for longer than 365 days is set in the Authority's creditworthiness policy.

- the type of investments to be used by the in-house treasury management team will be limited to Certificates of Deposit, variable term deposits, fixed term deposits, interest bearing accounts, Money Market Funds, Government debt instruments, floating rate notes, corporate bonds, municipal / local authority bonds, bond funds, gilt funds, and gilt-edged securities and will follow the criteria as set out in Appendix 5.

- assess the risk of default and if any of the Authority's investments appear 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), then the lead authority will make revenue provision of an appropriate amount in accordance with proper accounting practice or any prevailing government regulations, if applicable. The lead authority mitigates this risk with its prudent investment policy;

- set an approved lending list which shows lending limits and the maximum duration of any investment for each counterparty (detailed in Appendix 6). These are set using the agreed lending list criteria (detailed in Appendix 5).

- only place investments with counterparties from countries with a specified minimum sovereign rating as set out in the agreed lending list criteria (detailed in Appendix 5). Should the UK Government AA- sovereign rating be withdrawn the Authority's Investment Strategy and Lending List criteria will be reviewed and any changes necessary will be reported to the Authority; and

- engage external consultants to provide expect advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of this authority in the context of the expected level of cash balances and need for liquidity throughout the year.

2.7.7 In accordance with accounting standard IFRS9**,** the authority considers the implications of investment instruments which could result in an adverse movement in the value of the amount invested and lead to resultant charges at the end of the year to the General Fund. In November 2018 DLUHC concluded a consultation for a temporary override to allow English Local Authorities time to adjust their portfolio of all pooled investments by announcing a statutory override for five years ending 31st March 2023.

2.7.8 The prudential code states that authorities must not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed.

2.8 **Creditworthiness Policy**

2.8.1 The creditworthiness policy adopted by the Authority takes into account the credit ratings issued by all three credit rating agencies (Fitch, Moody’s and Standard & Poor’s). Credit rating information is supplied by Link Asset Services, our treasury advisors, on all active counterparties that comply with the Authority’s counterparty criteria.

2.8.2 Significant levels of downgrades to Short and Long-Term credit ratings have not materialised since the crisis in March 2020. In the main, where they did change, any alterations were limited to future outlooks for counterparties. However, as economies are beginning to reopen, there have been some instances of previous lowering of future outlooks being reversed.

2.8.3 Although bank Credit Default Swap (CDS) prices, (these are market indicators of credit risk), spiked upwards at the end of March / early April 2020 due to the heightened market uncertainty and ensuing liquidity crisis that affected financial markets, they have returned to more average levels since then. However, sentiment can easily shift, so it will remain important to undertake continual monitoring of all aspects of risk and return in the current circumstances.

2.8.4 While the Authority understands changes that have taken place to reduce ratings, it will specify a minimum sovereign rating of AA-. This is due to the fact that the underlying domestic and where appropriate, international, economic and wider political and social background will still have an influence on the ratings of a financial institution. It is important to stress the ongoing regulatory changes made in the UK and the rest of Europe are designed to make the financial system sounder. Banks are now expected to have sufficiently strong balance sheets to be able to withstand foreseeable adverse financial circumstances without government support. In many cases, the balance sheets of banks are now much more robust than they were before the 2008 financial crisis when they had higher ratings than now

2.8.5 In keeping with the agencies’ new methodologies, the rating element of the Authority’s credit assessment process now focuses solely on the Short and Long Term ratings of an institution.

2.8.6 One of the recommendations of the Code is that local authorities should set limits for the amounts of investments that can be placed with institutions by country, sector and group. These limits are applied in the lead authority's Counterparty criteria set out in Appendix 5. Given the need for increased PWLB borrowing to fund the Capital Financing Requirement and the associated cash holding requirement, the Money Market Funds limit within Appendix 5 has been increased from £120m to £250m.

2.8.7 Set out in Appendix 6 is the detailed criteria that will be used, subject to approval, in determining the level of investments that can be invested with each counterparty or institution. Where a counterparty is rated differently by any of the 3 rating agencies, the lowest rating will be used to determine the level of investment. If the lead authority's own banker, National Westminster Bank plc, should fail to meet the minimum credit criteria to allow investments from the Authority then balances will be minimized as far as possible.

2.8.8 The Finance Director will monitor long-term investment rates and identify any investment opportunities if market conditions change. It is proposed that delegated authority continues for the Finance Director to vary the Lending List Criteria and Lending List itself should circumstances dictate, on the basis that changes be reported to the Authority retrospectively, in accordance with normal treasury management reporting procedures.

2.9 **Outlook and Proposed Treasury Investment Strategy**

2.9.1 Based on its cash flow forecasts, the Authority together with the City Council anticipates its fund balances in 2022/2023 are likely to range between £50 million and £250 million. This represents a cautious approach and provides for funding being received in excess of the level budgeted for, and also for unexpected and unplanned levels of capital underspending in the year or reprofiling of spend into future years. In 2021/2022 short-term interest rates have been materially below long-term rates and some investment balances have been used to fund some long-term borrowing requirements. It is likely that this will continue into 2022/2023 with investment balances being used to fund some long-term borrowing or used for debt rescheduling. Such funding is wholly dependent upon market conditions and will be assessed and reported to the Authority if and when the appropriate conditions arise.

2.9.2 Activities likely to have a significant effect on investment balances are):

- Capital expenditure during the financial year, (dependent upon timing) will affect cash flow and short-term investment balances;
- Any reprofiling of capital expenditure from, and to, other financial years will also affect cash flow (no reprofiling has been taken into account in current estimates);
- Any unexpected capital receipts or other income;
- Timing of new long-term borrowing to fund capital expenditure;
- Possible funding of long-term borrowing from investment balances (dependent upon appropriate market conditions).

2.9.3 Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months). Greater returns are usually obtainable by investing for longer periods. While most cash balances are required in order to manage the ups and downs of cash flow where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer term investments will be carefully assessed.

2.9.4 The minimum amount of overall investments that will be held in short-term investments (less than one year) is £50 million. As the lead authority has decided to restrict most of its investments to term deposits, it will maintain liquidity by having a minimum of 30% of the total value of short-term investments maturing within 6 months.

2.9.5 A maximum limit of £75 million is to be set for in-house Non-Specified Investments over 365 days up to a maximum period of 2 years (excluding non-treasury management investments and all other investments defined as capital expenditure). This amount has been calculated by reference to the lead authority's cash flows, including the potential use of earmarked reserves.

2.9.6 The Authority is not committed to any investments which are due to commence in 2022/2023 (i.e. it has not agreed any forward deals).

2.9.7 The Finance Director, in conjunction with the Authority's treasury adviser Link Asset Services, and taking into account the minimum amount to be maintained in short-term investments, will continue to monitor investment rates closely and to identify any appropriate investment opportunities that may arise.

2.9.8 During 2021/2022 the Authority did not employ any external fund managers; all funds being managed by the lead authority's in-house team. The performance of the fund is shown below and compares favourably with the relevant benchmarks:

Return	**2020/21 Benchmark %**	**2020/21 Return %**	**To date 2021/22 Benchmark %**	**To date 2021/22 %**
Performance	-0.07	0.13	-0.07*	0.01

* the Benchmark rate is set at 0.125% less than the corresponding 7-Day LIBOR rate which due to the fall in gilts means the benchmark rate in 2020/21 has become negative.

Investment returns are likely to remain low during 2022/2023 despite the increases to the Bank Base Rate in December 2021 and February 2022.

2.9.9 During 2022/2023 the Authority will continue to review the optimum arrangements for the investment of its funds whilst fully observing the investment strategy in place. The Authority uses the 7-day London Interbank Bid (LIBID) rate as a benchmark for its investments. Performance is significantly above the benchmark rate, whilst still adhering to the prudent policy agreed by the Authority, in what remains a very challenging market. The Authority's treasury management advisor reports the rate of return achieved compares favourably with their other local authority clients.

2.10 **Policy on the Use of External Service Providers**

2.10.1 At present the Authority does not employ any external fund managers.

2.10.2 Should the Authority appoint any external fund managers in the future, they will have to agree to strict investment limits and investment criteria. These will be reported to the Authority prior to any fund manager being appointed.

2.10.3 The Authority uses Link Asset Services as its external treasury management advisors. The Authority recognises that responsibility for treasury management decisions remain with the Authority at all times and will ensure that undue reliance is not placed upon our external service providers.

2.10.4 It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Authority will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subject to regular review.

2.11 Non-Treasury Investments

2.11.1 The Authority may make other type of investments (usually defined by regulation as capital expenditure) that are not part of treasury management activity. Treasury management investment activity covers those investments which arise from the Authority's cash flows and debt management activity, and ultimately represent balances which need to be invested until the cash is required for use in the course of business.

2.11.2 Investments that may be made for policy reasons outside of normal treasury management activities may include Investments that may be made for policy reasons outside of normal treasury management activities may include: service investments held clearly and explicitly in the course of the provision, and for the purposes, of operational services, including regeneration. This may include loans to local enterprises as part of a wider strategy for local economic growth.

2.11.3 The Finance Director will maintain a schedule setting out a summary of existing material investments, subsidiaries, joint ventures and liabilities including financial guarantees and the Authority's risk exposure.

2.11.4 Investment objectives in relation to these types of investments will still be primarily security and liquidity but with the understanding that the liquidity for these types of investments may be less than those for treasury management activities and that these may be subject to higher levels of risk. When non-treasury management investments are considered due diligence will take place with all proposed investments being subjected to a detailed financial appraisal that will include financial sustainability of the investment and the identification of risk to both capital and returns. An assessment against loss will be carried out periodically and if the value of non-financial investments is no longer sufficient to provide security against loss mitigating actions will be taken. Decisions relating to non-treasury management investments will follow appropriate governance arrangements.

2.11.5 Non-treasury investments are covered within the Capital Strategy.

3. Scheme of Delegation

3.1 The Treasury Management Strategy Statement has been prepared in accordance with the revised Code. Accordingly, the Authority's Treasury Management Strategy (TMS) is approved annually by the Authority. In addition, the Governance Committee receives, as a minimum, a mid-year TMS report and an annual Treasury Management outturn report for the previous year by no later than the 30th September of the following year. The aim of these reporting arrangements is to ensure that those with ultimate responsibility for the treasury management function appreciate fully the implications of treasury management policies and activities, and that those implementing policies and executing transactions have properly fulfilled their responsibilities with regard to delegation and reporting.

3.2 The Authority has the following reporting arrangements in place in accordance with the requirements of the Code:

Area of Responsibility	Council/ Committee/ Officer	Frequency
Treasury Management Policy Statement	Full Authority	Reaffirmed annually and updated as appropriate
Treasury Management Strategy / Annual Investment Strategy	Full Authority	Annually before the start of the year
Treasury Management Strategy / Annual Investment Strategy –mid-year report	Full Authority	Mid-year
Treasury Management Strategy / Annual Investment Strategy – updates or revisions at other times	Full Authority	As appropriate
Treasury Management Practices	Finance Director	Annually
Scrutiny of Treasury Management Strategy	Governance Committee	Annually before Full Authority
Scrutiny of Treasury Management Performance	Governance Committee	Quarterly
Annual Treasury Management Outturn Report	Full Authority	Annually by 30/9 after the end of the financial year

4. The Treasury Management Role of the Section 151 Officer

4.1 The Finance Director is the Authority's Section 151 Officer and has specific delegated responsibility in the Authority's Constitution to manage the borrowing, financing, and investment requirements of the Authority in accordance with the Treasury Management Policy agreed by the Authority. This includes:

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance;
- submitting regular treasury management policy reports;
- submitting budgets and budget variations;
- receiving and reviewing management information reports;
- reviewing the performance of the treasury management function;
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
- ensuring the adequacy of internal audit, and liaising with external audit;
- recommending the appointment of external service providers;
- preparing a capital strategy to include capital expenditure, capital financing, non-financial investments and treasury management, with a long-term timeframe;
- ensuring that the capital strategy is prudent, sustainable, affordable and prudent in the long-term and provides value for money;

- ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the Authority;
- ensuring that the Authority has the appropriate legal powers to undertake expenditure on non-financial assets and their financing;
- ensuring the proportionality of all investments so that the Authority does not undertake a level of investing which exposes the Authority to an excessive level of risk compared to its financial resources;
- ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long-term liabilities;
- providing to members 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 Authority; and
- ensuring that the Authority has adequate expertise, either in house or externally provided, to carry out the above.

Appendix 4

1. Interest Rate Forecasts

1.1 The data set out overleaf shows a variety of forecasts published by Link Asset Services and Capital Economics (an independent forecasting consultancy). PWLB forecasts shown below have taken into account the 20 basis point certainty rate reduction effective as of the 1st November 2012. There are no changes to these forecasts as at 17th Febuary 2022.

1.2 The forecast within this strategy statement has been drawn from these diverse sources and officers' own views.

Link Group Interest Rate View as at 7.2.22						Capital Economics forecasts as at 10.2.22							
	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25
BANK RATE	0.75	1.00	1.00	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25
3 month av. earnings	0.80	1.00	1.00	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20
6 month av. earnings	1.00	1.10	1.20	1.30	1.30	1.30	1.30	1.30	1.30	1.30	1.30	1.30	1.30
12 month av. earnings	1.40	1.50	1.60	1.70	1.70	1.60	1.60	1.50	1.40	1.40	1.40	1.40	1.40
5 yr PWLB	2.20	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30
10 yr PWLB	2.30	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40
25 yr PWLB	2.40	2.50	2.50	2.60	2.60	2.60	2.60	2.60	2.60	2.60	2.60	2.60	2.60
50 yr PWLB	2.20	2.30	2.30	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40
Bank Rate													
Link	0.75	1.00	1.00	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25
Capital Economics	0.75	1.00	1.25	1.25	1.50	1.75	2.00	2.00	-	-	-	-	-
5yr PWLB Rate													
Link	2.20	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30
Capital Economics	2.20	2.30	2.40	2.50	2.60	2.80	2.90	3.00	-	-	-	-	-
10yr PWLB Rate													
Link	2.30	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40
Capital Economics	2.30	2.40	2.50	2.60	2.70	2.80	3.00	3.10	-	-	-	-	-
25yr PWLB Rate													
Link	2.40	2.50	2.50	2.60	2.60	2.60	2.60	2.60	2.60	2.60	2.60	2.60	2.60
Capital Economics	2.50	2.60	2.70	2.80	2.90	3.10	3.20	3.30	-	-	-	-	-
50yr PWLB Rate													
Link	2.20	2.30	2.30	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40
Capital Economics	2.20	2.30	2.50	2.60	2.80	2.90	3.10	3.20	-	-	-	-	-
Capital Economics forecast for Bank of England QE stock													
£bn	895	870	845	805	770	740	705	635	585	-	-	-	-

2. Survey of Economic Forecasts

2.1 HM Treasury February 2022

The current 2022 base rate forecasts are based on samples of both City and non-City forecasters included in the HM Treasury February 2022 report.

BANK RATE FORECASTS	Annual Average Bank Rate				
	Ave. 2022	**Ave. 2023**	**Ave. 2024**	**Ave. 2025**	**Ave. 2026**
Average	0.73%	1.04%	1.20%	1.37%	1.45%
Highest	1.25%	1.75%	2.00%	2.00%	2.25%
Lowest	0.10%	0.16%	0.50%	0.75%	0.75%

Source: HM Treasury: Forecasts for the UK Economy Feb. 2022 (No.415, Table M4)

Appendix 5

Lending List Criteria

1. Counterparty Criteria

1.1 The lead authority takes into account not only the individual institution's credit ratings issued by all three credit rating agencies (Fitch, Moody's and Standard & Poor's), but also all available market data and intelligence, the level of government support and advice from its Treasury Management advisers.

1.2 Set out below are the criteria to be used in determining the level of funds that can be invested with each institution. Where an institution is rated differently by the rating agencies, the lowest rating will determine the level of investment.

Fitch Long-Term Rating	Fitch Short-Term Rating	Moody's Long-Term Rating	Moody's Short-Term Rating	S&P's Long-Term Rating	S&P's Short-Term Rating	Maximum Deposit £m	Maximum Duration
AAA	F1+	Aaa	P-1	AAA	A-1+	120	2 Years
AA+	F1+	Aa1	P-1	AA+	A-1+	100	2 Years
AA	F1+	Aa2	P-1	AA	A-1+	80	2 Years
AA-	F1+	Aa3	P-1	AA-	A-1+	75	2 Years
A+	F1+	A1	P-1	A+	A-1	70	365 days
A+	F1	A1	P-1	A+	A-1	70	365 days
A	F1	A2	P-1	A	A-1	65	365 days
A-	F1	A3	P-1	A-	A-1	50	365 days
A-	F2	A3	P-2	A-	A-2	50	365 days
Local Authorities (limit for each local authority)						30	2 years
UK Government (including debt management office, gilts and treasury bills)						300	2 years
Money Market Funds (CNAV, LVNAV and VNAV) Maximum amount to be invested in Money Market Funds is £250m with a maximum of £50m in any one fund.						250	Liquid Deposits
Local Authority controlled companies						40	20 years

1.3 Where the UK Government holds a shareholding in an institution the UK Government's credit rating of AA- will be applied to that institution to determine the amount the lead authority can place with that institution for a maximum period of 2 years.

1.4 The Code of Practice for Treasury Management in the Public Services recommends that consideration should also be given to country, sector, and group limits in addition to the individual limits set out above. These limits are as follows:

2. Country Limit

2.1 It is proposed that only non-UK countries with a minimum sovereign credit rating of AA+ by all three rating agencies will be considered for inclusion on the Approved Lending List.

2.2 It is also proposed to set a total limit of £50m which can be invested in other countries provided they meet the above criteria. A separate limit (excluding money market funds) of £300m will be applied to the United Kingdom and is based on the fact that the government has done and is willing to take action to protect the UK banking system.

Country	**Limit £m**
UK	300
Non-UK	50

3. Sector Limit

3.1 The Code recommends a limit be set for each sector in which the Council can place investments. These limits are set out below:

Sector	**Limit £m**
Central Government	300
Local Government	300
UK Banks	300
Money Market Funds	250
UK Building Societies	100
Foreign Banks	50

4. Group Limit

4.1 Where institutions are part of a group of companies e.g. Lloyds Banking Group, Santander and RBS, the total limit of investments that can be placed with that group of companies will be determined by the highest credit rating of a counterparty within that group, unless the government rating has been applied. This will apply provided that:

- the UK continues to have a sovereign credit rating of AA-; and
- that market intelligence and professional advice is taken into account.

4.2 Proposed group limits are set out in Appendix 6:

Approved Lending List **Appendix 6**

	Fitch		Moody's		Standard & Poor's			
	L Term	S Term	L Term	S Term	L Term	S Term	Limit £m	Max Deposit Period
UK	AA-		Aa3		AA		300	
Lloyds Banking Group							Group Limit 70	
Lloyds Bank Plc (RFB)	A+	F1	A1	P-1	A+	A-1	70	365 days
Lloyds Bank Corporate Markets plc (NRFB)	A+	F1	A1	P-1	A	A-1	70	365 days
Bank of Scotland Plc (RFB)	A+	F1	A1	P-1	A+	A-1	70	365 days
Royal Bank of Scotland Group (See Note 1)							Group Limit 75	
The Royal Bank of Scotland Plc (RFB)	A+	F1	A1	P-1	A	A-1	75	2 years
National Westminster Bank Plc (RFB)	A+	F1	A1	P-1	A	A-1	75	2 years
NatWest Markets plc (NRFB)	A+	F1	A2	P-1	A-	A-2	75	2 years
Santander UK plc	A+	F1	A1	P-1	A	A-1	65	365 days
Barclays Bank plc (NRFB)	A+	F1	A1	P-1	A	A-1	65	365 days
Barclays Bank plc (RFB)	A+	F1	A1	P-1	A	A-1	65	365 days
Clydesdale Bank */**	A-	F2	Baa1	P-2	A-	A-2	0	
Co-Operative Bank Plc **	B+	B	Ba3	NP	-	-	0	
Goldman Sachs International Bank	A+	F1	A1	P-1	A+	A-1	70	365 days
HSBC Bank plc (NRFB)	AA-	F1+	A1	P-1	A+	A-1	70	365 days
HSBC UK Bank plc (RFB)	AA-	F1+	A1	P-1	A+	A-1	70	365 days
Nationwide BS	A	F1	A1	P-1	A+	A-1	65	365 days
Standard Chartered Bank	A+	F1	A1	P-1	A+	A-1	70	365 days
Close Brothers Ltd	A-	F2	Aa3	P-1	-	-	50	365 days
SMBC Bank International Ltd	A	F1	A1	P-1	A	A-1	65	365 days
Top Building Societies (by asset value)								

	Fitch		Moody's		Standard & Poor's			
	L Term	S Term	L Term	S Term	L Term	S Term	Limit £m	Max Deposit Period
Nationwide BS (see above)								
Coventry BS	A-	F1	A2	P-1	-	-	50	365 days
Leeds BS	A-	F1	A3	P-2	-	-	50	365 days
Nottingham BS **			Baa3	P-3	-	-	0	
Principality BS **	BBB+	F2	Baa2	P-2	-	-	0	
Skipton BS	A-	F1	A2	P-1	-	-	50	365 days
West Bromwich BS **			Ba3	NP	-	-	0	
Yorkshire BS	A-	F1	A3	P-2	-	-	50	365 days
Money Market Funds							120	Liquid
Prime Rate Stirling Liquidity	AAA				AAA		50	Liquid
Insight Liquidity Fund	AAA		-		AAA		50	Liquid
Aberdeen Liquidity Fund (Lux)	AAA		AAA		AAA		50	Liquid
Deutsche Managed Sterling Fund	AAA		Aaa		AAA		50	Liquid
Foreign Banks have a combined total limit of £50m								
Australia	AAA		Aaa		AAA		50	
Australia and New Zealand Banking Group Ltd	A+	F1	Aa3	P-1	AA-	A-1+	50	365 days
Commonwealth Bank of Australia	A+	F1	Aa3	P-1	AA-	A-1+	50	365 days
National Australia Bank	A+	F1	Aa3	P-1	AA-	A-1+	50	365 days
Westpac Banking Corporation	A+	F1	Aa3	P-1	AA-	A-1+	50	365 days
Canada	AA+		Aaa		AAA		50	
Bank of Nova Scotia	AA-	F1+	Aa2	P-1	A+	A-1	50	365 days
Royal Bank of Canada	AA-	F1+	Aa2	P-1	AA-	A-1+	50	2 years
Toronto Dominion Bank	AA-	F1+	Aa1	P-1	AA-	A-1+	50	2 years
Denmark	AAA		Aaa		AAA		50	
Danske A/S	A	F1	A2	P-1	A+	A-1	50	365 days
Finland	AA+		Aa1		AA+		50	
OP Corporate Bank plc	WD	WD	Aa3	P-1	AA-	A-1+	50	2 years
Germany	AAA		Aaa		AAA		50	
DZ Bank AG (Deutsche Zentral-Genossenschaftsbank)	AA-	F1+	Aa2	P-1	A+	A-1	50	365 days

	Fitch		Moody's		Standard & Poor's			
	L Term	S Term	L Term	S Term	L Term	S Term	Limit £m	Max Deposit Period
Landwirtschaftliche Rentenbank	AAA	F1+	Aaa	P-1	AAA	A-1+	50	2 years
NRW Bank	AAA	F1+	Aa1	P-1	AA	A-1+	50	2 years
Netherlands	AAA		Aaa		AAA		50	
Bank Nederlandse Gemeenten	AAA	F1+	Aaa	P-1	AAA	A-1+	50	2 years
Cooperatieve Rabobank U.A.	A+	F1	Aa2	P-1	A+	A-1	50	365 days
Nederlandse Waterschapsbank NV			Aaa	P-1	AAA	A-1+	50	2 years
Singapore	AAA		Aaa		AAA		50	
DBS Bank Ltd	AA-	F1+	Aa1	P-1	AA-	A-1+	50	2 years
Oversea Chinese Banking Corporation Ltd	AA-	F1+	Aa1	P-1	AA-	A-1+	50	2 years
United Overseas Bank Ltd	AA-	F1+	Aa1	P-1	AA-	A-1+	50	2 years
Sweden	AAA		Aaa		AAA		50	
Svenska Handelsbanken AB	AA	F1+	Aa2	P-1	AA-	A-1+	50	2 years
Switzerland	AAA		Aaa		AAA		50	
Credit Suisse AG	A	F1	A1	P-1	A+	A-1	50	365 days
UBS AG	AA-	F1+	Aa2	P-1	A+	A-1	50	365 days
USA	AAA		Aaa		AA+		50	
Bank of New York Mellon	AA	F1+	Aa1	P-1	AA-	A-1+	50	2 years
JP Morgan Chase Bank NA	AA	F1+	Aa1	P-1	A+	A-1	50	365 days
Wells Fargo Bank NA	AA-	F1+	Aa1	P-1	A+	A-1	50	365 days

Notes

Note 1 **Nationalised / Part Nationalised**
The counterparties in this section will have the UK Government's AA- rating applied to them thus giving them a credit limit of £75m.

* The Clydesdale Bank (under the UK section) is owned by National Australia Bank

** These will be revisited and used only if they meet the minimum criteria (ratings of A- and above)

Any bank which is incorporated in the United Kingdom and controlled by the Prudential Regulation Authority (PRA) is classed as a UK bank for the purposes of the Approved Lending List.