City of
Doncaster
Council

Date: 15th February, 2023

To the Chair and Members of
CABINET

THE TREASURY MANAGEMENT STRATEGY STATEMENT 2023/24 – 2026/27

Relevant Cabinet Member(s)	**Wards Affected**	**Key Decision**
Mayor Ros Jones	All	Yes

EXECUTIVE SUMMARY

1. This report details the strategy for management of the council finances and provides a framework for the operation of the treasury management function within the Council. Treasury management seeks to optimise the council's cash flow and secure the most effective arrangements to support long term funding requirements. Key prudential indicators relating to borrowing limits are contained in the body of the report, with the prudential indicators relating to affordability in Appendix A. The key messages are: -

    a. Borrowing – total borrowing requirement will increase during the period covered by this report but the Council will remain under-borrowed against its total borrowing requirement to avoid the higher cost of carrying debt (Capital Financing Requirement 2023/24 £697m). As borrowing rates are currently at high levels due to the Bank of England base rate increases that have taken place throughout 2022 and are forecast to rise further in the beginning of 2023, the primary borrowing strategy will be to only borrow in the short term primarily for cash flow purposes until the rates start to decrease again. This will minimise the impact on the revenue budget (not only in 2023/24 but in future years), throughout this period of high interest rates, however, it will still mean the Council is under-borrowed. The borrowing strategy is detailed in **paragraphs 26 – 70**.

    b. Investments – securing the return of investment funds remains paramount when selecting counterparties and the strategy reflects this. The Investment Strategy will continue to manage the balances available and support cash flow requirements. The Investment Strategy is a low risk policy with minimal returns in value; this protects the Council from losses caused by financial institutions failing to repay investments when due. This policy allows the Council to spread the risk amongst a number of approved lenders, and financial instruments as outlined in **paragraphs 71 – 115.**

2. The Council has to approve the local policy for approach to debt repayment (Minimum Revenue Provision – MRP) which is detailed in **Appendix B**.

EXEMPT REPORT

3. Not applicable.

RECOMMENDATIONS

4. Cabinet is asked to recommend that Council approves: -
    a. the Treasury Management Strategy Statement 2023/24 – 2026/27 report and the Prudential Indicators included.
    b. the Minimum Revenue Provision (MRP) policy as set out in paragraphs 41- 42 (details in **Appendix B**).

WHAT DOES THIS MEAN FOR THE CITIZENS OF DONCASTER?

5. This Strategy ensures that the Council's Capital Programme borrowing requirement is affordable and further ensures that the borrowing to support the Programme takes place at the best time to protect the on-going revenue budget for the Council. By ensuring that the treasury management function is effective, we can ensure that the right resources are available at the right time to enable the delivery of services.

BACKGROUND

6. The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management function is to ensure that this cash flow is planned, with cash being available when it is needed. Surplus monies are invested in low risk financial institutions and instruments in line with the Council's low risk appetite, providing liquidity before considering investment return. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as this would result in a reduction to the funding available for the Council to spend

7. The second main function of treasury management is the funding of the Council's Capital Programme. The Capital Programme provides a guide to the borrowing need of the Council and the longer-term cash flow planning, to ensure that the Council 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 existing debt may be restructured to reduce Council risk or generate savings.

8. The contribution the treasury management function makes to the authority 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.

9. The Chartered Institute of Public Finance and Accounting (CIPFA) defines treasury management as: -

"The management of the local 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".

10. For the Council to produce a strategy that is compliant with the statutory guidelines, a number of acts and guidance have to be taken into account. Members will recall from the report last February that the CIPFA Code of Practice on Treasury Management has been updated and this report addresses the new requirements of the Code that need to be implemented from 1st April 2023. (These were outlined in Appendix F of the 2022/23 – 2025/26 report).
The CIPFA 2021 Prudential and Treasury Management Codes require all local authorities to prepare a Capital Strategy report which will provide the following: -

- a high-level long-term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
- an overview of how the associated risk is managed
- the implications for future financial sustainability

The aim of the strategy is to ensure that all the Authority's elected members fully understand the overall long-term policy objectives and resulting Capital Strategy requirements, governance procedures and risk appetite.

11. There are five reports containing treasury information each year, which incorporate a variety of policies, estimates and actuals.

a. 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);
- an 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 investment strategy, (the parameters on how investments are to be managed).

b. Finance and Performance Improvement Report – Quarterly report presented to Executive Leadership Team, Executive Board and Cabinet.
- Details Treasury Management position at the end of each quarter
- Interest rate levels
- Under/Over borrowing position
- Associated risks
- Investment profile

Under the new code of Practice referred to in paragraph 10, the second quarterly report referred to in b. will become a mid-year treasury management report, updating members on progress against the Capital Programme and updating prudential indicators if necessary. The final quarterly report will be 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.

12. All the above reports are scrutinised by the Overview and Scrutiny Management Committee.

13. The Treasury Management strategy for 2023/24 – 2026/27 covers two main areas:-

Capital Issues

a) the capital expenditure plans and the associated prudential indicators;
b) MRP policy.

Treasury Management Issues

a) the current treasury position;
b) treasury indicators which limit treasury risk and activities of the Council;
c) prospects for interest rates;
d) the borrowing strategy;
e) policy on borrowing in advance of need;
f) debt rescheduling;
g) the investment strategy;
h) creditworthiness policy; and
i) policy on use of external service providers.

14. These elements cover the requirements of the Local Government Act 2003, CIPFA Prudential Code, DLUHC MRP guidance, the CIPFA Treasury Management Code and the DLUHC Investment Guidance.

Training

15. 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.

16. Furthermore, pages 47 and 48 of the revised 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.

17. 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/council members.
- Require treasury management officers and board/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/council members, encouraging them to highlight training needs on an ongoing basis."

18. In light of the above formal training for all Members is to be arranged throughout 2023/24 to be provided by our advisors (see Paragraph 21) and further support provided by Officers if required.

19. The training needs of treasury management officers are periodically reviewed.

Treasury management consultants

20. The Council uses Link Treasury Services Limited, (known throughout the rest of this report as Link), as its external treasury management advisors.

21. The Council recognises that responsibility for treasury management decisions remains with the organisation at all times 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 advisers.

22. 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 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 Capital Programme Prudential Indicators 2023/24 – 2026/27

23. The Council's Capital Programme is the key driver of treasury management activity. The Prudential Indicators are designed to assist members' overview and confirm capital expenditure plans.

Capital Expenditure

24. The first prudential indicator is a summary of the Council's Capital Programme expenditure plans and funding. It includes existing expenditure commitments, and those included in the 2023/24 – 2026/27 budget cycle.

	Actual	Estimates				
	2021/22 £k	2022/23 £k	2023/24 £k	2024/25 £k	2025/26 £k	2026/27 £k
Capital Expenditure						
General Fund (GF)	**49,408**	**67,955**	**126,784**	**73,686**	**41,504**	**24,087**
HRA	**23,486**	**29,900**	**68,161**	**53,623**	**57,383**	**48,409**
Total	**72,894**	**97,856**	**194,945**	**127,309**	**98,887**	**72,496**

25. The following table summarises the above capital expenditure plans and how capital or revenue resources are financing these plans. Any shortfall of resources results in a funding borrowing need.

	Actual	Estimates				
	2021/22 £k	2022/23 £k	2023/24 £k	2024/25 £k	2025/26 £k	2026/27 £k
Financing of Capital Expenditure						
Capital Receipts	3,253	13,027	11,382	3,479	420	1,845
Capital Grants	35,311	41,918	68,052	50,231	17,392	4,912
Capital Reserves	12,002	12,212	39,899	26,075	25,584	21,020
Revenue	17,709	26,961	7,860	10,517	11,286	11,590
Sub Total	**68,275**	**94,118**	**127,193**	**90,302**	**54,682**	**39,367**
Net Financing Need	**4,619**	**3,737**	**67,752**	**37,007**	**44,205**	**33,129**

Borrowing

26. The capital expenditure plans set out above and detailed in **Appendix 1** provide details of the service activity of the Council. The treasury management function ensures that the 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 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.

The Council's borrowing need (the Capital Financing Requirement (CFR))

27. The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply total historic outstanding capital expenditure that has not been fully funded. It is a measure of the Council's underlying borrowing need.

28. Any capital expenditure above, which has not immediately been paid for through a revenue or capital resource, will increase the CFR.

29. The CFR does not increase indefinitely, as 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.

30. The CFR includes any other long-term liabilities (e.g. Private Finance Initiative (PFI) schemes, finance leases). Whilst these increase the CFR and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility by the PFI, Purchasing Power Parity (PPP) lease provider and so the Council is not required to borrow separately for these schemes. As at 31st March 2022, the Council had £41.8m of such schemes within the CFR:

	Actual	Estimates				
	2021/22 £k	2022/23 £k	2023/24 £k	2024/25 £k	2025/26 £k	2026/27 £k
Capital Financing Requirement						
GF	368,852	367,933	406,617	416,723	429,310	437,649
HRA	266,831	266,831	290,039	308,025	330,456	346,831
Total CFR	**635,683**	**634,764**	**696,656**	**724,748**	**759,766**	**784,480**
Movement in CFR	**-1,795**	**-919**	**61,892**	**28,092**	**35,018**	**24,714**
Represented by						
Net Financing Need (table above)	4,619	3,737	67,752	37,007	44,205	33,129
Less MRP/Other financing adjustment	**-6,414**	**-4,656**	**-5,860**	**-8,915**	**-9,187**	**-8,415**
Movement in CFR	**-1,795**	**-919**	**61,892**	**28,092**	**35,018**	**24,714**

31. The Council is forecast to have borrowed £427.6m as at 31st March 2023 against a forecast CFR (borrowing requirement) of £594.3m after allowing for its other long term liabilities, which means that the Council is currently forecast to be under-borrowed (see paragraphs 35 to 38) by £166.7m. This minimises external interest costs but may not be sustainable long term. Whilst this might seem like a high level of under-borrowing this is consistent with other similar Local Authorities.

Debt Liability Benchmark (LB)

32. This is a new requirement of the 2021 Code of Practice. The Authority is required to estimate and measure the LB for the forthcoming financial year and the following two financial years, as a minimum.

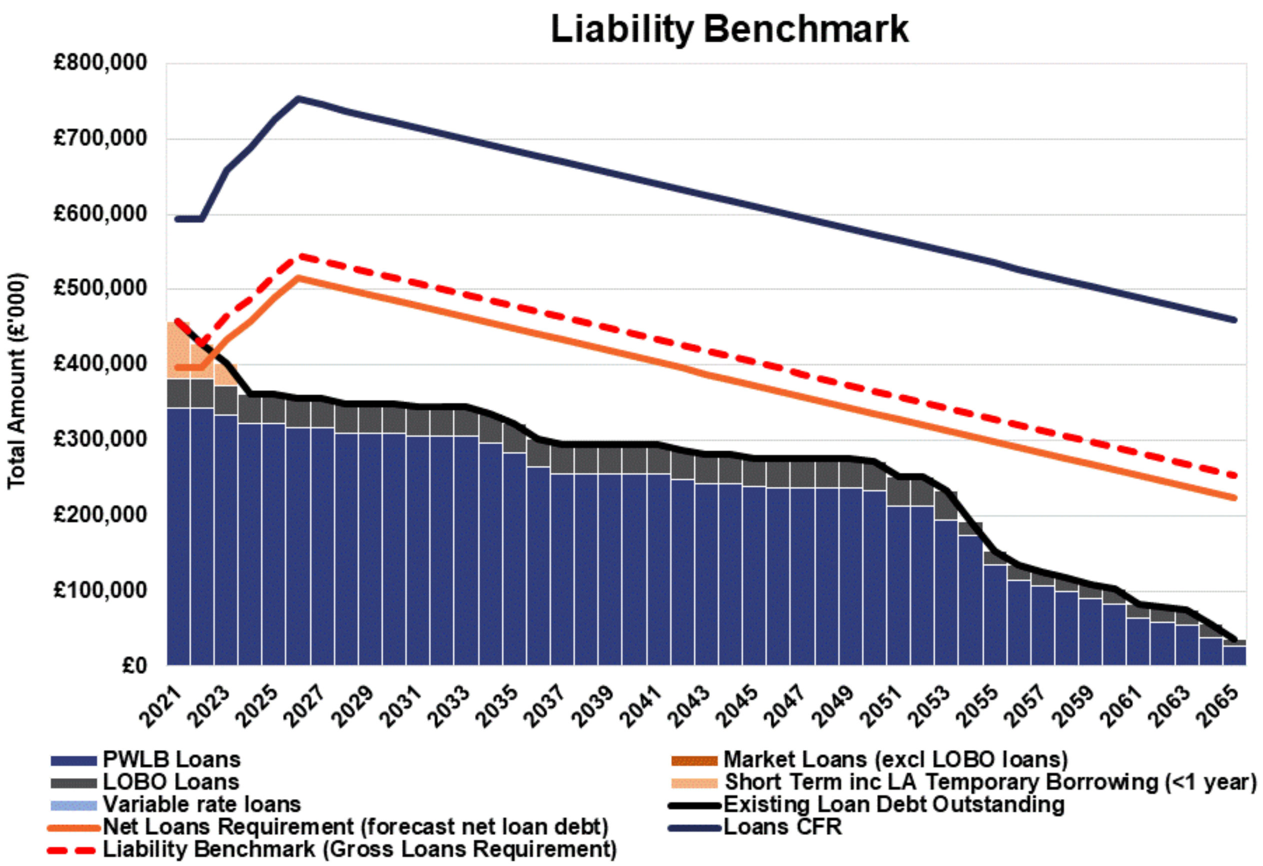
    There are four components to the LB: -

    1. Existing loan debt outstanding: the Authority's existing loans that are still outstanding in future years.
    2. 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.
    3. Net loans requirement: this will show the Authority'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.

4. Liability benchmark (or gross loans requirement): this equals net loans requirement plus short-term liquidity allowance.

33. The liability benchmark is effectively the net borrowing requirement of a local authority plus a liquidity allowance. CIPFA recommends that the optimum position for borrowing should be at the level of the liability benchmark. They also recommend that the benchmark is calculated for the life of the existing debt portfolio but as the Capital Programme (and consequently the approved future borrowing) is only agreed for four years into the future and the detailed cash flow forecast produced over an even shorter period it is felt that the long term view of the benchmark has the potential to be quite misleading.

The LB is shown below:



34. The liability benchmark indicates a future borrowing requirement as the liability benchmark is greater than the actual loans. This is to be expected as the Council is currently maintaining an under-borrowed position (see paragraphs 35-38 below). Link have advised that the way local government finance is structured means that local authorities are unlikely to need to borrow as much as their CFR (in other words an under-borrowed position is expected). As this is a new indicator the base line information for the calculation is the 2021/22 actual information. This explains why

the under borrowing only becomes apparent in future years rather than in 2022/23 even though we have been in an under borrowed position for several years.

Under-Borrowing

35. As detailed above, the Council is currently maintaining an under-borrowed position. This means that the level of actual debt is below the Capital Financing Requirement (the amount the authority needs to borrow for capital purposes) and therefore the Council is using internal resources such as earmarked reserves, unapplied grants and capital receipts, cash balances, etc. to fund some of its unfinanced capital expenditure.

36. This strategy is beneficial because external debt interest payments are minimised during the time when interest rates are increasing, hence protecting the revenue budget. There are obviously risks inherent in this approach on interest rate fluctuations i.e. interest rates don't behave as expected and borrowing has to be undertaken at higher rates, liquidity risks where the current level of internal borrowing is needed for other purposes such as emergency situations where no other funding is available and re-financing risks. The latter is quite a low risk as the majority of our debt is on a fixed term basis.

37. This position cannot be sustained in the long term. The reserves and balances may be needed and consequently the need to borrow will increase. This could be short-term or long-term borrowing. However, whilst interest rates are at their current levels the Council will be adopting a strategy of only utilising short-term borrowing to maintain the cashflow position. This is likely to be from other authorities (who because they have restricted lending lists means they lend at rates lower than the Public Works Loan Board (PWLB) rates). Once interest rates start to fall again then long-term borrowing from the PWLB, will be undertaken in order to remove some interest rate risk.

38. It should also be noted that it is the Council's intention to pre-pay its future service rate pension liabilities, at a discounted rate, for 2023/24 to 2025/26. The prepayment will be funded through short term borrowing and dependent upon the timing of this borrowing could temporarily reduce the under-borrowed position.

Short-Term Borrowing

39. The use of short-term borrowing can make the borrowing portfolio volatile in terms of interest rate and refinancing risk. The benefit to the Council is lower interest costs compared to those that would be incurred if long term borrowing was undertaken, which is also committing the Council to future interest payments at the higher rates which are not forecast to prevail in the long term. .

40. Unless new resources are identified, e.g. grants, asset sales, etc. funding the Capital Programme from balances will decrease investment balances and hence reduce investment income levels but the loss, currently, is more than offset by the interest savings generated by not taking on the full borrowing requirement.

The Minimum Revenue Provision (MRP)

41. Under Regulation 27 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, where the Authority has financed capital expenditure by borrowing it is required to make a provision each year through a revenue charge (MRP). The MRP charge is the means by which capital expenditure, which has been funded by borrowing, is paid for by council taxpayers.

42. The Council's MRP policy is detailed at **Appendix B**. The selected methods are those that are most beneficial in each case and comply with Department for Levelling Up, Housing and Communities (DLUHC) regulations.

Core funds and expected investment balances

43. 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 below are estimates of the year-end balances for each resource and anticipated day-to-day cash flow balances. It should be noted that the use of resources is difficult to predict and a cautious approach is taken.

Year End Resources	Actual	Estimates				
	2021/22 £k	2022/23 £k	2023/24 £k	2024/25 £k	2025/26 £k	2026/27 £k
Reserves balances	141,610	130,610	109,610	106,610	101,610	101,610
Capital receipts	18,713	16,800	10,700	7,000	6,000	4,000
Provisions	17,875	9,875	9,875	9,875	9,875	9,875
Capital Grants Unapplied	22,636	22,636	22,636	22,636	22,636	22,636
Total core funds	**200,834**	**179,921**	**152,821**	**146,121**	**140,121**	**138,121**
Working capital	-4,000	10,000	10,000	10,000	10,000	10,000
Under/over borrowing	136,173	166,700	131,713	124,925	120,064	117,898
Expected investments	**60,661**	**23,221**	**31,108**	**31,196**	**30,057**	**30,223**

Current Portfolio Position

44. There are a number of key prudential indicators to ensure that the Council operates within well-defined limits. One of these is that the Council needs to ensure that its total borrowing does not, except in the short term, exceed the total of the CFR. This helps to ensure that over the medium term borrowing is not undertaken for revenue purposes.

45. The Chief Financial Officer reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this report. As previously stated the Council's external borrowing at 31st March 2023 is expected to be £427.6m. This is split across two pools as shown in the table below. The borrowing need (CFR less long term liabilities) is £594.4m, which highlights that the Council will be under-borrowed by £166.7m (see paragraphs 35 to 38 above).

46. The Council's forward projections for borrowing are summarised below. The table shows the actual external debt, against the underlying capital borrowing need, (the CFR), which is adjusted for any long term liabilities for which we don't have a borrowing requirement for (see paragraph 30 above), highlighting any over or under borrowing.

Portfolio Position	Actual	Estimates				
	2021/22 £k	2022/23 £k	2023/24 £k	2024/25 £k	2025/26 £k	2026/27 £k
CFR General Fund	**368,852**	**367,933**	**406,617**	**416,723**	**429,310**	**437,649**
Other long-term liabilities (OLTL):	**-41,847**	**-40,401**	**-38,281**	**-36,160**	**-34,040**	**-31,919**
External Borrowing	217,238	182,238	261,238	281,238	303,238	317,238
Under-borrowed Position	109,766	145,294	107,098	99,325	92,032	88,492
Ave. Interest Rate	3.40%	3.90%	4.20%	3.50%	3.00%	3.0%
CFR HRA	**266,831**	**266,831**	**290,039**	**308,025**	**330,456**	**346,831**
External Borrowing	240,424	245,424	265,424	282,424	302,424	317,424
Under-borrowed Position *	26,407	21,407	24,615	25,601	28,032	29,407
Average Interest Rate	4.60%	4.80%	4.80%	4.70%	4.40%	4.40%
Total CFR less OLTL	**593,836**	**594,363**	**658,376**	**688,588**	**725,727**	**752,561**
Total External debt	**457,663**	**427,663**	**526,663**	**563,663**	**605,663**	**634,663**
Total Under-borrowing	**136,173**	**166,700**	**131,713**	**124,925**	**120,064**	**117,898**

*As there is no requirement to apply MRP to the Housing Revenue Account (HRA) borrowing, its under-borrowed position would only change because of a strategic change in the Council's borrowing pool makeup or external borrowing position, e.g. increase/decrease in external debt.

47. Both debt pools will see increasing interest rates in the next few years, which should then start to fall towards the end of the period. The average interest rate on HRA debt is higher than the general fund (GF) debt as that pool contains a higher proportion of older debt taken out at higher interest rates.

48. Treasury management decisions on the structure and timing of borrowing will be made independently for the GF and HRA. Interest on loans will be calculated in accordance with proper accounting practices. This will require interest expenditure on external borrowing attributed to HRA loans being allocated to the HRA. Interest expenditure on external borrowing attributed to the GF will be allocated to the GF.

49. Following changes to the DLUHC guidance, the council needs to report debt relating to commercial activities/non-financial investments separately. The Council confirms that we do not currently have any debt relating to commercial activities/non-financial investments and there are no plans for this to change during the term of this report.

Treasury Indicators: Limits to Borrowing Activity

50. These are the 2 overall controls for treasury management external borrowing: -

- The 'operational boundary' for external borrowing; and
- The 'authorised limit' for external borrowing.

Operational Boundary for external borrowing

51. This is the limit beyond which external debt is not normally expected to exceed. For 2023/24, the limit is **£696.7m**. In most cases, this would be a similar figure to the CFR but may be higher or lower depending on the levels of actual debt. For example, in previous year's Doncaster Council's operational boundary included the Metropolitan Debt transferred from South Yorkshire County Council, which has now been repaid.

Operational Boundary	Actual	Estimates				
	2021/22 £k	2022/23 £k	2023/24 £k	2024/25 £k	2025/26 £k	2026/27 £k
CFR/Borrowing	635,683	634,764	696,656	724,748	759,766	784,480
Total	**635,683**	**634,764**	**696,656**	**724,748**	**759,766**	**784,480**

The Authorised Limit for external borrowing

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

53. 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 councils' plans, or those of a specific council, although this power has not yet been exercised.

54. Full Council are asked to approve a limit that allows the Council to borrow in advance of need for future planned expenditure relating solely to unfinanced capital expenditure in any future 3-year period. The Council does not borrow in advance and this would only be considered where interest rates were preferential and to avoid future interest rate risk. This would mean that the council would incur additional interest costs and principal repayments before benefiting from a developed asset. This is highly unlikely to occur given the prevailing high interest rates but the calculation of the indicator is a requirement of the Code. For 2023/24, the limit is **£713.907m.** This is shown in the table below and is calculated by the estimated level of borrowing expected on the 31st March 2023 plus a theoretical amount which represents the unfinanced capital expenditure planned for the next three years as shown in the tables in paragraphs 25 & 30 above.

Authorised limit	Actual	Estimates				
	2021/22 £k	2022/23 £k	2023/24 £k	2024/25 £k	2025/26 £k	2026/27 £k
Borrowing	457,663	427,663	526,663	563,663	605,663	634,663
Other long-term liabilities	41,847	40,401	38,281	36,160	34,040	31,919
Theoretical amount *	0	108,496	148,964	114,341	77,334	33,129
Total	**499,510**	**576,560**	**713,907**	**714,164**	**717,036**	**699,711**

Treasury Management Limits on activity

55. There are three debt related treasury activity limits, shown in **Appendix A**. The purpose of these are to keep the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set to be too restrictive they will impair the opportunities to reduce costs / improve performance.

Prospects for Interest Rates

56. Part of the service provided by Link is to assist the Council to formulate a view on interest rates. **Appendix D** outlines the forecasts for short term (Bank Rate) and longer term fixed interest rates.

57. Over the last year, the Bank of England has increased the base rate every six weeks, taking it from its lowest level ever of 0.1% to 3.5% between December 2021 and December 2022 in an attempt to mitigate inflationary pressures. The coronavirus outbreak has done huge economic damage to the UK and to economies around the world, which have recently been further impacted by the war between Russia and the Ukraine. Whilst the base rate isn't expected to carry on increasing at such levels throughout 2023, further increases are forecast and the general consensus appears to be that the rate will peak at 4.5% in the summer before starting to fall back down. There are a lot of factors to currently consider such as the impact on inflation, and the overall impact on the economy and potential recessions / downturns.

Borrowing Strategy

58. As outlined above (in paragraphs 35-40) the borrowing strategy for the forthcoming period whilst interest rates are at their current levels is to only under take short term borrowing when required for cash flow purposes. This strategy will be revised when rates start to fall back down and stabilise at the lower levels envisaged. This strategy will protect the overall financial position of the Authority in both the short term as interest costs on debt will be minimised as far as possible and in the long term as future debt repayments will be lower. There are risks to this approach as if the current level of under borrowing can no longer be sustained i.e. the reserves and balances (internal borrowing) are no longer available then we will be forced to borrow at these higher interest rates.

59. The strategy agreed as part of this process in 2022/23 of taking both short and long term debt wasn't realised as interest rates started increasing significantly at the beginning of 2022 which increased the cost of borrowing (whether short or long term) beyond that which had been allowed for in the forecast which would have caused a financial pressure for the Council.

60. For example at the interest rate on the 14th January 2022 if we were to have borrowed the £133.5m (forecast under-borrowed amount as at 31st March 2022) from the PWLB over 5 years the interest would have cost £2.3m per annum and over 25 years it would have cost £2.8m per annum. The comparative interest rates on the 13th January 2023 increase that interest cost to £5.4m per annum over 5 years or £6.1m over 25 years.

61. It is normally prudent to borrow long term to support the Capital Programme; however, we have had very unusual market conditions over the last three years resulting in extremely low interest rates which have had to rise significantly to mitigate inflationary pressures. So whilst rates were extremely low we were only borrowing in the short term to benefit from interest rate savings and now we are delaying borrowing whilst interest rates are believed to be artificially high. Also, 58% of the Council's borrowings (as at 31st December 2022) are for terms between 30 and 50 years, which brings certainty of cost and minimises interest rate risk on almost half the portfolio.

62. The Council's current Loans and Investment portfolios are shown in **Appendix C.**

Transfer of Loans between Debt Pools

63. The Council's policy on transferring loans between the HRA and GF debt pools is as follows: -
    - In the case of the HRA/GF having a requirement to fund its CFR, then one debt pool may be used to subsidise another to reduce either the GF or the HRA external borrowing requirement.
    - If this happens, then loans will be transferred between the pools without the need to recognise an internal premium or discount.
    - Similarly, if the HRA and GF wish to swap loans as a result of strategic decisions, this loan swap would also be undertaken at no internal premium or discount.
64. Where the HRA or GF has surplus cash balances, which allow either account to be funded internally, the rate charged on this internal borrowing will be based on the average external rate of interest on the applicable pool at the end of the financial year. This is a reasonable approach providing certainty of charging, protection against short-term increases in market rates and reflects the fact that strategic borrowing decisions will generally be made on an annual basis.

Policy on Borrowing in Advance of Need

65. The Council will not borrow more than, or in advance of its needs, purely in order 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 Council can ensure the security of such funds. At present, the Council does not borrow in advance.
66. Borrowing in advance will be made within the constraints that: -
    - It will be limited to no more than 100% of the expected increase in borrowing need (CFR) over a three year planning period; and
    - Would not look to borrow more than 36 months in advance of need.
67. 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.

Debt Rescheduling

68. 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. Should any rescheduling take place it will reported in the next report following the timetable outlined in paragraph 11 above.

Approved Sources of Long and Short term Borrowing

69. The Chief Financial Officer, under delegated powers, will take the most appropriate form of borrowing depending on the prevailing interest rates at the time taking into account the relevant risks. It is likely shorter term fixed rates may provide lower cost opportunities in the short to medium term.
70. Our advisors will keep us informed as to the relative merits of available funding sources.

Annual Investment Strategy

Investment Policy

71. The Department of Levelling Up, Housing and Communities (DLUHC) and CIPFA have extended the meaning of 'investments' to include both financial and non-financial investments. This report deals solely with treasury (financial) investments. Non-financial investments, essentially the purchase of income yielding assets and service investments, would be covered in the Capital Strategy if the Council were to be entering into any which they are not.

72. The Council's investment policy has regard to the Government DLUHC's Guidance on Local Government Investments ("the Guidance"), the CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2021 ("the CIPFA Code") and the CIPFA Treasury Management Guidance Notes 2021. The Council's investment priorities will be security first, portfolio liquidity second, then return.

73. In order to minimise the risk to investments, the Council has stipulated the minimum acceptable credit quality of financial institutions for inclusion on its lending list. The methodology used to create the lending list takes account of the ratings and watches published by all three ratings agencies, Fitch, Moody's and Standard & Poor's, with a full understanding of what the ratings reflect in the eyes of each agency. Using the Link ratings service, banks' ratings are monitored on a real time basis with knowledge of any changes notified electronically as the agencies notify modifications.

74. The aim of the policy is to generate a list of highly creditworthy financial institutions/products, which will also enable diversification, and thus avoidance of concentration risk.

75. The primary intention of the policy is to provide security of investment and minimisation of risk.

76. Where the HRA or GF has surplus cash balances invested the interest shall be credited based on the relative proportions of the balances. Where an investment is impaired, the charge shall also be shared based on the relative proportions of the balances.

77. Investment instruments identified for use within the financial year are listed in **Appendix E** under the "Specified" and "Non-specified" investment categories. The definition of these categories is as follows:

    Specified investments are those with a high level of credit quality and subject to a maturity limit of one year or have less than a year left to run to maturity, if originally they were classified as being non-specified investments solely due to the maturity period exceeding one year.

    Non-specified investments are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use.

78. As a result of the change in accounting standards for 2022/23 under IFRS 9, the Authority will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. (In November 2018, the MHCLG, 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 to delay implementation of IFRS 9 for five years ending 31st March 2023. At the current

juncture it has not been determined whether a further extension to the over-ride will be agreed by Government.

79. All investments will be denominated in sterling.

80. Even with the restraints of security and liquidity the Authority will still pursue value for money in treasury management and will monitor the yield from investment income against appropriate benchmarks. Regular monitoring and reporting of investment performance will be carried out during the year (see paragraph 11).

81. The above criteria is unchanged from last year.

Environmental, Social & Governance (ESG) Considerations

82. The revised code updated in 2021 introduces the concept of ESG considerations into an Authority's investment strategy as follows: "The organisation's credit and counterparty policies should set out its policy and practices relating to environmental, social and governance (ESG) investment considerations. This is a developing area, and it is not implied that the organisation's ESG policy will currently include ESG scoring or other real-time ESG criteria at individual investment level." As these considerations are still in their infancy within public service organisations there isn't a consistent and developed approach therefore each Authority is recommended to consider their own policies in relation to their own priorities.

83. In setting a policy on ESG the following considerations should be factored in: reporting, metrics, priority, monitoring, rationale and impact. There should be a clear process on deciding on the priority of ESG and as we are investing public money this should never compromise on security or liquidity. Whilst ESG considerations are still in their infancy the proposed policy is that ESG becomes a fourth consideration after security, liquidity and yield (SYL). This means it will only be considered if there are two or more identical investments in terms of SYL and then the Council's priorities on tree planting, green spaces and reducing fleet emissions will be considered against the investment organisations own priorities.

84. This will be reviewed at least annually and if ESG considerations are applied to an investment will be included in the reporting outlined in paragraph 11.

Credit Risk Policy

85. The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating equal to the UK's sovereign rating (minimum rating as confirmed by at least two agencies). The list of countries that qualify using this credit criteria as at the date of this report are shown in **Appendix E**. This list will be amended by officers should ratings change in accordance with this policy. Any changes will be approved by the Chief Financial Officer. Not all counterparties will be active in the market at all times, therefore, it is important to have a good spread of available organisations.

86. The Council applies the credit risk assessment service provided by Link.

87. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies. The credit ratings of financial institutions are supplemented with the following overlays: -

- credit watches and credit outlooks from credit rating agencies;
- Credit Default Swaps (CDS) spreads to give early warning of likely changes in credit ratings;

- Sovereign ratings to select financial institutions from only the most creditworthy countries.

88. The end product of this is a series of bands, which indicate the relative creditworthiness of financial institutions. This is used by the Council to determine the duration of investments. The model will also be used to select institutions with a high level of creditworthiness, based on the following bands. The Council will therefore use financial institutions within the following durational bands.

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

Colour	**Maximum Term**
Yellow	5 Years
Dark pink	5 years for Enhanced money market funds (EMMFs) with a credit score of 1.25
Light Pink	5 years for Enhanced money market funds (EMMFs) with a credit score of 1.5
Purple	2 Years
Blue	1 year (applies to nationalised or semi nationalised UK Banks)
Orange	1 Year
Red	6 Months
Green	100 Days
No Colour	Not to be used

89. **Appendix E** contains a table showing the relative credit worthiness of different financial institutions, maximum terms and maximum investment limits.

90. This methodology is even more cautious than the approach suggested by CIPFA of using the lowest rating from all three rating agencies to determine creditworthy financial institutions. The Link creditworthiness service uses a wider array of information in addition to the primary ratings and by using a risk weighted scoring system, does not give undue weighting to one agency's ratings.

91. Typically the minimum credit ratings criteria the Council use will be a short term rating (Fitch or equivalents) of F1 and a long-term rating of A-. There may be occasions when another rating agency's counterparty ratings may be used that are marginally lower than Fitch's counterparty ratings but in such instances consideration will be given to the whole range of ratings available or other topical market information, to support their use.

92. All credit ratings are monitored weekly and changes to ratings are notified to us by Link creditworthiness service.

93. If a downgrade results in the financial institution / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.

94. In addition to the use of credit ratings the Council will be advised of information in movements in Credit Default Swap against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

UK banks – ring-fencing

95. The largest UK banks, (those with more than £25bn of retail / Small and Medium-sized Enterprise (SME) deposits), were required, by UK law, to separate core retail banking

services from their investment and international banking activities by 1st January 2019. This is known as “ring-fencing”. Whilst smaller banks with less than £25bn in deposits are exempt, they can choose to opt up. Several banks are very close to the threshold already and so may come into scope in the future regardless.

96. Ring-fencing is a regulatory initiative created in response to the global financial crisis. It mandates the separation of retail and SME deposits from investment banking, in order to improve the resilience and resolvability of banks by changing their structure. In general, simpler, activities offered from within a ring-fenced bank, (RFB), will be focused on lower risk, day-to-day core transactions, whilst more complex and “riskier” activities are required to be housed in a separate entity, a non-ring-fenced bank, (NRFB). This is intended to ensure that an entity’s core activities are not adversely affected by the acts or omissions of other members of its group.

97. While the structure of the banks included within this process may have changed, the fundamentals of credit assessment have not. The Council will continue to assess the new-formed entities in the same way that it does others and those with sufficiently high ratings (and any other metrics considered), will be considered for investment purposes.

Investment Strategy

98. 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).

99. The bank base rate is currently 3.5% with forecasts projecting the rate will peak at 4.5% by June 2023 and slowly decrease from 2024 onwards (interest rate forecasts are covered in more detail in appendix D).

100. The suggested budgeted investment earnings rates for returns on investments placed for periods of up to 3 months during each financial year for the next 3 years are based on the base rate forecasts above and are shown in the following summary. These rates have been used to estimate investment interest, over the strategy term.

Average earnings in each year	
2023/24	4.40%
2024/25	3.30%
2025/26	2.60%
2026/27	2.50%

101. The Council will pursue value for money with its investments and to measure this will use the 1 month compounded SONIA (Sterling Overnight Index Average) rate, which is the risk-free rate for sterling markets administered by the Bank of England, as its investment benchmark. We will also continue to use the investment benchmarking service offered by Link to compare our performance against our peers.

102. The overall balance of risks to economic growth in the UK is probably to the downside due to the weight of all the uncertainties over Brexit, as well as a softening global economic picture.

103. The balance of risks to increases in Bank Rate and shorter-term PWLB rates are broadly similarly to the downside. The Bank of England's forward guidance should be a good indicator of where interest rates are going.

104. To bring balance to the portfolio funds generated through the Council's cash flow will be invested on the following basis:-

Liquid Funds (approx. £15m)

105. This part of the portfolio should be managed at around £15m. This allows for the payment of payroll on dates within the year when grants are delayed due to the 15th being on a weekend (April 2023, July 2023, and October 2023).

106. For example, this part of the portfolio should be invested in: -

- bank deposits (main accounts, call accounts, notice accounts); and
- potentially Money Market Funds (subject to due diligence and selection process).

Other Specified Investments (approx. £25m)

107. Once the liquid funds are in place the Council should continue to invest in other slightly less liquid but still secure assets, up to a maximum of 1 year. Examples of these assets are: -

- UK Government Treasury Bills, which will have a maturity date of less than 6 months (the maximum term).
- High quality Certificates of Deposit (rank equally with bank deposits re: bail in) which provides access to a wider range of higher rated banks.
- High quality bonds issued by banks, with a maturity date of less than 1 year.
- Other Corporate Bonds that meet its minimum investment criteria, with a maturity of less than 1 year.
- Collateralised Deposits (repurchase/Reverse Repurchase) arrangements utilising its existing custodial arrangements with King & Shaxson brokers. This is a method of secured deposit with a bank.

108. Repo/Reverse Repo is accepted as a form of securitised lending and should be based on the GMRA 2000 (Global Master Repo Agreement). Should the counterparty not meet our senior unsecured rating then a 102% collateralisation would be required. The acceptable collateral is as follows:

- Index linked Gilts
- Conventional Gilts
- UK Treasury bills
- Corporate bonds

Non-Specified Investments (Maximum £20m)

109. Any core funds that are identified as being available longer term, e.g. reserves, could continue to be invested in suitable longer term assets, examples of which are: -

- fixed deposits with banks in excess of 12 months.
- High quality Certificates of Deposit with a maturity date in excess of 12 months.
- High quality bonds issued by banks, with a maturity date in excess of 12 months.
- Other Corporate Bonds that meet the Councils minimum investment criteria, with a maturity in excess of 12 months.

110. A full list of Specified and Non-Specified investments is shown in **Appendix E.**

111. Any new Non-Specified investment will require authorisation by the Chief Financial Officer. Details of minimum criteria and any additional due diligence required can also be seen in **Appendix E**.

112. Investment treasury indicator and limit - total principal funds invested for greater than 365 days. These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment and are based on the availability of funds after each year-end.

	Maximum principal sums invested > 1 year			
£m	**2021/22**	**2022/23**	**2023/24**	**2024/25**
Principal sums invested > 1 year	£20m	£20m	£20m	£20m

End of year investment report

113. At the end of the financial year, the Council will report on its investment activity as part of the Quarter 4 Finance and Performance Improvement Report

Policy on the use of external service providers

114. The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers.

115. 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 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.

OPTIONS CONSIDERED

116. Other options that have been considered and members need to be aware of, when compiling this report, that would affect the investments and borrowing decisions are as follows: -

Options	Likely impact on Income and Expenditure	Likely impact on risk management
1. Invest in a narrower range of institutions and shorter terms	Interest income will be lower	Reduced risk of losses from credit related defaults, but any single loss could be magnified.
2. Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income. Premium to be paid if debt paid down (avoided if the reduction is done, as planned, by not replacing maturing debt).	Reduced investment balance leading to a lower impact in the event of default, however long term interest costs become less certain.
3. Borrow additional sums at long term fixed interest rates	Debt interest costs will rise, this is unlikely to be offset by higher investment income	Reduced interest rate risk. But higher investment balance could lead to a higher impact in the event of a default.
4. Increase level of borrowing	Additional cost of debt interest is likely to exceed additional investment income received.	Under-borrowing uses a combination of reserves and working capital. Any adverse changes to either could lead to

Options	Likely impact on Income and Expenditure	Likely impact on risk management
		cash not being available to fund expenditure. Leading to increased levels of borrowing.
5. Borrow sufficient funds for under-borrowed position	Additional interest costs of up to £6m per annum.	Reduced interest rate risk, but significantly higher costs. In addition the higher investment balance could lead to a higher impact in the event of a default.

REASONS FOR RECOMMENDED OPTION

117. Option 1 is the recommended option to maximize external interest savings without introducing unacceptable risk.

118. The strategy provides a good balance between our existing, predominantly long maturity profile, to minimise interest costs whilst interest rates are at high levels which protects front line budgets and service provision.

IMPACT ON THE COUNCIL'S KEY OUTCOMES

Great 8 Priority	**Positive Overall**	**Mix of Positive & Negative**	**Trade-offs to consider –** Negative overall	**Neutral or No implications**
Tackling Climate Change				
Developing the skills to thrive in life and in work				
Making Doncaster the best place to do business and create good jobs				
Building opportunities for healthier, happier and longer lives for all				
Creating safer, stronger, greener and cleaner communities where everyone belongs				
Nurturing a child and family-friendly borough				

Building Transport and digital connections fit for the future				
Promoting the borough and its cultural, sporting, and heritage opportunities				
Treasury Management impacts on all the outcomes; it makes sure that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet the Council's activities.				

RISKS AND ASSUMPTIONS

119. This strategy report along with the Council's Treasury Management Practice Statements seeks to limit as far as possible the risks associated with the Council's Treasury function. However, the economic climate and financial markets are dynamic, and, can be prone to sharp unexpected movements. The Chief Financial Officer and the Council's advisors will continually monitor the environment and act as necessary to limit risk and achieve best value for the Council.

120. Key risks and the actions taken to mitigate those risks are: -

    a. The Council could be unable to borrow when funding is required due to adverse market conditions and/or budgetary restraints. This risk is mitigated by maintaining sufficient easily accessible funds. Further mitigating actions could be scaling back or re-profiling capital expenditure plans if necessary.

    b. There could be an increased use of reserves and working capital which is currently used to finance the under borrowed position. This risk is mitigated by regular monitoring of the use of reserves and having a robust cash flow forecast, which is monitored on a daily basis.

    c. Interest rates for borrowing could be higher than forecast. This risk is mitigated by regular monitoring of economic forecasts, consulting with the Council's treasury advisers and reducing the borrowing term. Other sources of borrowing will also be identified if possible.

    d. The Council could receive a lower than forecast return on its investments. This risk is mitigated by regular monitoring of economic forecasts, consulting with the Council's treasury advisers and regular benchmarking. Investment strategies would then be adjusted by the Chief Financial Officer, as appropriate.

    e. An institute with whom the Council has investments could become insolvent. This risk is mitigated by only investing in financial institutions that meet the Council's minimum criteria. The Council will also continually monitor the credit ratings of approved institutions and spread investments across a number of financial institutions and assets.

    f. A financial institution may not repay an investment at maturity date due to an administration error (not insolvency). This is mitigated by maintaining accurate records of all investments placed, including confirmation from the counterparty. Adequate borrowing sources are available to cover any temporary cashflow shortfalls. In addition a proportion of the investments placed will always be instantly accessible.

LEGAL IMPLICATIONS [Officer Initials: SRF Date 23/1/23]

121. The Council's Treasury Management activities are regulated by a variety of professional codes, statutes and guidance: -

    a. Chapter 1 Part 1 of the Local Government Act 2003 (the Act) provides the powers to borrow as well as providing controls and limits on such capital finance and accounts;
    b. the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, as amended, develops the controls and powers within the Act;
    c. the Regulations require local authorities to have regard to the code of practice entitled the Prudential Code for Capital Finance in Local Authorities published by CIPFA when determining their affordable borrowing limit;
    d. the Regulations also require local authorities to operate its overall treasury function having regard to the code of practice contained in the document entitled Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes published by CIPFA;
    e. the Regulations require local authorities, for each financial year, to make a minimum revenue provision, which they consider to be prudent, in respect of the financing of capital expenditure incurred in that and previous years.

122. The Treasury Management function is included in the Chief Financial Officer’s duties under Section 151 of the Local Government Act 1972 to administer the Council's financial affairs.

FINANCIAL IMPLICATIONS [Officer Initials: RI Date 20/01/23]

123. The treasury management budget required for 2023/24 has been reviewed and analysed over the following headings: -

	General Fund £’m
Costs	
Total Borrowing Costs	5.406
Other treasury management expenditure	0.080
Total Costs	**5.486**
Income	
Investment Interest	-0.475
Net Costs	**5.011**

124. The HRA interest costs are included in the separate HRA budget report that will be presented to Full Council. Specific financial information is contained in the body of the report.

HUMAN RESOURCES IMPLICATIONS [Officer Initials: DK Date 24/01/23]

125. There are no specific Human Resources implications to this report

TECHNOLOGY IMPLICATIONS [Officer Initials: ET Date 25/01/23]

126. There are no technology implications in relation to this report.

CONSULTATION

127. The Council obtains advice from specialist organisations in respect of its treasury management activities. The impact of this is then assessed for its effect on the Council and appropriate action taken as necessary. Consultation has taken place with key financial managers and Executive Board.

128. This report has significant implications in terms of the following: -

Procurement		Crime & Disorder	
Human Resources		Human Rights & Equalities	
Buildings, Land and Occupiers		Environment & Sustainability	
ICT		Capital Programme	X

BACKGROUND PAPERS

CIPFA Code of Practice on Treasury Management (Revised 2021).

CIPFA Treasury Management in the Public Services Guidance Notes 2021.

CIPFA Prudential Code for Capital Finance in Local Authorities (Revised 2017).

DLUHC Statutory Guidance Local Government Investments (3rd edition), April 2018.

The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2010 [SI 2010/454] - https://www.legislation.gov.uk/uksi/2010/454/pdfs/uksi_20100454_en.pdf

Localism Act 2011 - https://www.legislation.gov.uk/ukpga/2011/20/contents/enacted

GLOSSARY OF ACRONYMS AND ABBREVIATIONS

Below is a list of all acronyms and abbreviations used throughout the report and their meaning in full.

CDS – Credit Default Swaps

CFR – Capital Financing Requirement

CIPFA - Chartered Institute of Public Finance and Accountancy

DLUHC – Department for Levelling up, Housing and Communities

ESG – Environmental, Social and Governance

GF – General Fund

GMRA – Global Master Repurchase Agreement

HRA – Housing Revenue Account

IFRS 9 – International Financial Reporting Standards – Financial Instruments

MHCLG – Ministry of Housing, Communities and Local Government

MPC – Monetary Policy Committee

MRP – Minimum Revenue Provision

NRFB – Non Ring-Fenced Bank

OLTL – Other long term liabilities

PFI – Private Finance Initiative

PPP – Purchasing Power Parity

PWLB – Public Works Loan Board

RFB – Ring-fenced bank

SLY – Security, Liquidity and Yield

SME – Small and Medium-sized Enterprise

SONIA - Sterling Overnight Index Average

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APPENDIX A

THE CAPITAL PRUDENTIAL AND TREASURY INDICATORS 2023/24 – 2026/27

1) The 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.

Capital Expenditure	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
£m	**Actuals**	**Estimates**				
Adults, Health & Wellbeing	4,703	5,834	7,673	4,982	4,982	4,982
Public Health	3,649	6,410	10,523	2,060	0	0
Corporate Resources	5,878	5,276	30,961	14,152	12,500	13,365
Children, Young People & Families	4,078	7,297	11,223	22,759	1,854	0
Economy & Environment	31,100	43,138	66,405	29,733	22,168	5,739
Non-HRA	**49,408**	**67,955**	**126,784**	**73,686**	**41,504**	**24,087**
HRA	**23,486**	**29,900**	**68,161**	**53,623**	**57,383**	**48,409**
TOTAL	**72,894**	**97,856**	**194,945**	**127,309**	**98,887**	**72,496**

Affordability prudential indicators

2) 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 Council's overall finances.

Ratio of financing costs to net revenue stream

3) 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.

	Actual	Estimates				
%	**2021/22**	**2022/23**	**2023/24**	**2024/25**	**2025/26**	**2026/27**
Non-HRA	1.92%	1.38%	1.30%	1.45%	1.46%	1.46%
HRA	16.75%	16.75%	16.75%	16.09%	15.67%	15.59%

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

HRA ratios

	Actual	Estimates				
	2021/22	**2022/23**	**2023/24**	**2024/25**	**2025/26**	**2026/27**
HRA Debt £m	240,424	245,424	265,424	282,424	302,424	317,424
HRA Revenues	76,540	79,417	84,519	88,083	89,780	91,022
% of Debt to Revenues	31.84%	32.36%	31.84%	31.19%	29.69%	28.68%

	Actual	Estimates				
	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
HRA Debt £m	240,424	245,424	265,424	282,424	302,424	317,424
Number of Dwellings	20,000	19,905	19,816	19,822	19,707	19,587
Debt per Dwelling	12,021	12,330	13,394	14,248	15,346	16,206

Maturity Structure of Borrowing

5) There are three debt related treasury activity limits. The purpose of these are to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set to be too restrictive they will impair the opportunities to reduce costs / improve performance. The indicators are: -

- Upper limits on variable interest rate exposure. This identifies a maximum limit for variable interest rates based upon the debt position net of investments;
- Upper limits on fixed interest rate exposure. This is similar to the previous indicator and covers a maximum limit on fixed interest rates;
- Maturity structure of borrowing. These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing and are required for upper and lower limits.

£m	2022/23	2023/24	2024/25	2025/26	2026/27
Interest rate exposures					
	Upper	**Upper**	**Upper**	**Upper**	**Upper**
Limits on fixed interest rates based on net debt	100%	100%	100%	100%	100%
Limits on variable interest rates based on net debt	30%	30%	30%	30%	30%

Maturity structure of fixed interest rate borrowing 2022/23				
	Lower	**Upper**	**Actuals £k**	**Actuals %**
Under 12 months	0%	30%	35,004	8.19%
12 months to 2 years	0%	50%	10,228	2.39%
2 years to 5 years	0%	50%	33,820	7.91%
5 years to 10 years	0%	75%	5,247	1.23%
10 years and above	10%	95%	343,274	80.28%
Total			**427,573**	**100.00%**

Maturity structure of variable interest rate borrowing 2022/23				
	Lower	**Upper**	**Actuals £k**	**Actuals %**
Under 12 months	0%	30%	0	0
12 months to 2 years	0%	50%	0	0
2 years to 5 years	0%	50%	0	0
5 years to 10 years	0%	75%	0	0
10 years and above	10%	95%	0	0
Total			**0**	**0%**

APPENDIX B

Minimum Revenue Position (MRP) Policy Statement

1) The Council has an annual duty to charge an amount of MRP to the General Fund Revenue Account which it considers to be a prudent provision. The MRP charge is the means by which capital expenditure which has been funded by borrowing is paid for by council tax payers. The guidance on MRP allows different options for the calculation of MRP as below:

- Option 1 - Regulatory method
- Option 2 - CFR method
- Option 3 - Asset Life method, using either
  - a - Equal instalment method
  - b - Annuity method
- Option 4 - Depreciation method

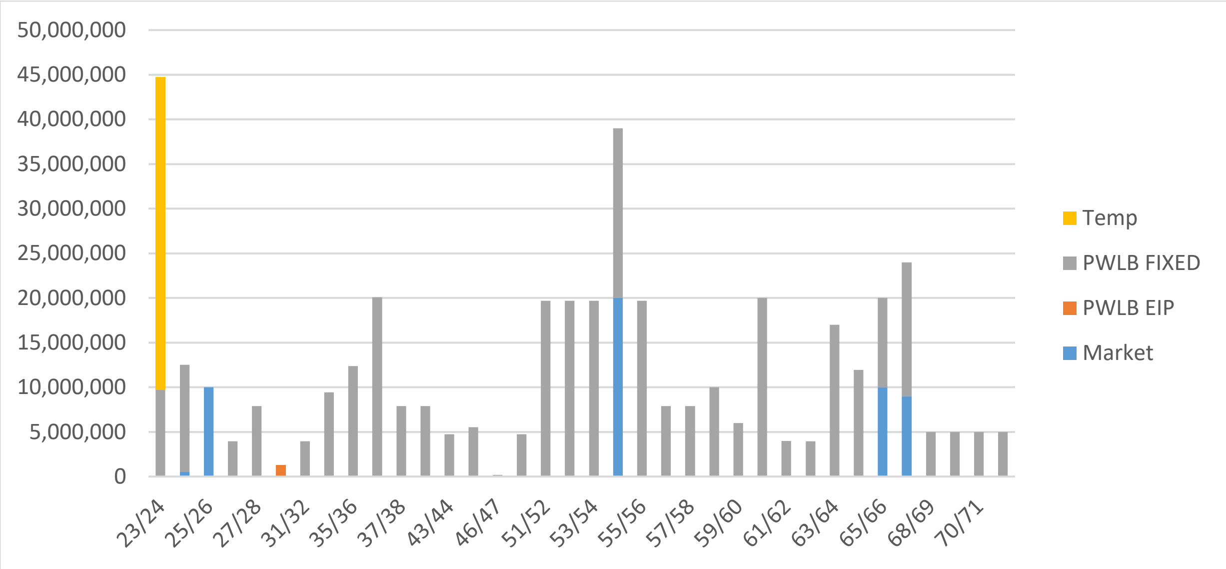
Doncaster Council 2022/23 MRP Policy

2) The Council adopts the most appropriate method of calculating and charging MRP for the specific asset. Methods used include either:

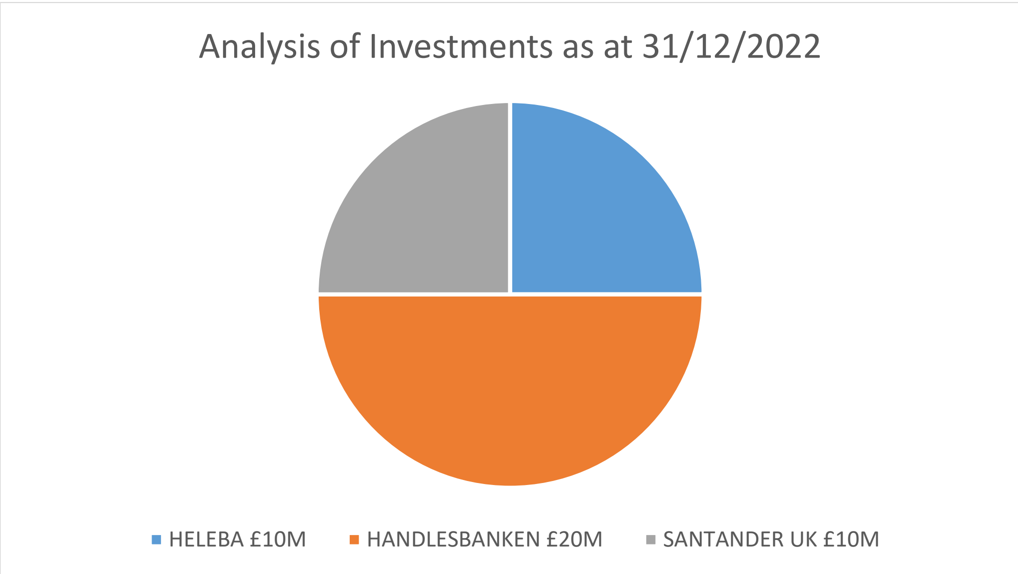
- **Asset Life method – Equal instalment method** (option 3a); or
- **Asset Life method - Annuity method** (option 3b); or
- **Depreciation method** (option 4).

3) **MRP Overpayments** - A change introduced by the revised DLUHC MRP Guidance was the allowance that any charges made over the statutory minimum revenue provision (MRP), voluntary revenue provision or overpayments, can, if needed, be reclaimed in later years if deemed necessary or prudent. In order for these sums to be reclaimed for use in the budget, this policy must disclose the cumulative overpayment made each year. Up until the 31st March 2022, the total MRP overpayments are estimated to be £22.8m.

Analysis of Debt as at 31/12/22



Analysis of Investments as at 31/12/22



APPENDIX D

Interest Rate Forecasts

1. As noted above the Council has appointed Link as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. Link provided the following forecasts in December 2022.

Link Group Interest Rate View	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	4.25	4.5	4.5	4.5	4	3.75	3.5	3.25	3	2.75	2.5	2.5
5 yr PWLB	4.3	4.2	4.1	4	3.9	3.8	3.6	3.5	3.4	3.3	3.2	3.1
10 yr PWLB	4.5	4.4	4.3	4.2	4	3.9	3.7	3.6	3.5	3.4	3.3	3.2
25 yr PWLB	4.7	4.6	4.5	4.4	4.3	4.1	4	3.9	3.7	3.6	3.5	3.5
50 yr PWLB	4.3	4.3	4.2	4.1	4	3.8	3.7	3.6	3.5	3.3	3.2	3.2

2. This forecast reflects the view held by Link that the Monetary Policy Committee (MPC) will be keen to demonstrate its anti-inflation credentials by delivering a succession of rate increases. This has happened throughout 2022, but the new Government's policy of emphasising fiscal rectitude will probably mean Bank Rate does not now need to increase to further than 4.5%.

3. Link anticipate the Bank of England will be keen to loosen monetary policy when the worst of the inflationary pressures have lessened – 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 Bank will also want to see evidence that wages are not spiralling upwards in what is evidently a very tight labour market.

4. Link will continue to update their forecasts regularly which 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.)

5. On the positive side, consumers are still estimated to be sitting on over £160bn of excess savings left over from the pandemic so that will cushion some of the impact of the above challenges. However, most of those are held by more affluent people whereas lower income families already spend nearly all their income on essentials such as food, energy and rent/mortgage payments.

Gilt yields / PWLB rates

6. Yield curve movements have become less volatile under the Sunak/Hunt government. PWLB 5 to 50 years Certainty Rates are, generally, in the range of 3.75% to 4.50%. The medium to longer part of the yield curve is currently inverted (yields are lower at the longer end of the yield curve compared to the short to medium end).

7. Link view the markets as having built in, already, nearly all the effects on gilt yields of the likely increases in Bank Rate and the poor inflation outlook but markets are volatile and further whipsawing of gilt yields across the whole spectrum of the curve is possible.

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 two years 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 an even more rapid series of increases in Bank Rate faster than we currently expect.

- **The Government** acts too slowly to increase taxes and/or cut expenditure to balance the public finances, in the light of 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, if inflation numbers disappoint on the upside, and pull gilt yields up higher than currently forecast.

Investment and borrowing rates

- **Investment returns** are likely to peak in 2023/24 and start to fall relatively steadily throughout the period. The forecast return of 2.5% for investments over the three month period by the end of the period in question (2026/27) is still considerably higher than the returns that have been generated over the last few years.

- **Borrowing interest rates** are currently believed to artificially high compared to the longer term view of interest rates and as a result borrowing at the shorter end of the curve or short-dated fixed LA to LA monies should be considered.

APPENDIX E

TREASURY MANAGEMENT PRACTICE (TMP1) – CREDIT AND COUNTERPARTY RISK MANAGEMENT OPTION 1

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

NON-SPECIFIED INVESTMENTS: These are any investments which do not meet the specified investment criteria. A maximum of 30% of the investment pool will be held in aggregate in non-specified investment

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

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

SPECIFIED INVESTMENTS:

(All such investments will be sterling denominated, with maturities up to maximum of 1 year, meeting the minimum 'high' rating criteria where applicable)

	Minimum 'High' Credit Criteria	Maximum % of total investments or maximum Amount per institution	Max. maturity period
Term deposits and other instruments with local authorities	N/a	£30m (maximum of £10m per authority)	12 months
Term deposits with banks and building societies	Yellow Purple Orange Red Green No Colour	£50m £40m £30m £20m £10m nil	12 months 12 months 12 months 6 months 100 days Not for use
Term Deposits with UK part nationalised banks	Blue	£30m	12 months
Certificates of Deposit or corporate bonds with banks and building societies	Yellow Purple Orange Blue Red Green No Colour	£50m £40m £30m £30m £20m £10m nil	12 months 12 months 12 months 12 months 6 months 100 days Not for use
Bonds issued by multilateral development banks	UK sovereign rating	100%	12 months
UK Government Gilts	UK sovereign rating	100%	12 months
UK Government Treasury Bills	UK sovereign rating	100%	6 months
Debt Management Agency Deposit Facility	--	100%	6 months

	Minimum 'High' Credit Criteria	Maximum % of total investments or maximum Amount per institution	Max. maturity period
Collateralised deposit (Reverse Repurchase) (see note 2)	UK sovereign rating	100%	12 months
Bond issued by a financial institution which is explicitly guaranteed by the UK Government e.g. National Rail	UK sovereign rating	100%	12 months
Sovereign bond issues (other than the UK govt)	UK sovereign rating	100%	12 months
Collective Investment Schemes structured as Open Ended Investment Companies (OEICs): -			
Government Liquidity Funds	AAA MMF rating	100%	Liquid
Money market funds (CNAV/LVNAV or VNAV)	AAA MMF rating	100%	Liquid
Enhanced Cash Funds with a credit score of 1.25	Fitch rating Short term F1, long Term A- or equivalent	100%	Liquid
Enhanced Cash Funds with a credit score of 1.5	Fitch rating Short term F1, long Term A- or equivalent	100%	Liquid
Bond Funds	Fitch rating Short term F1, long Term A- or equivalent	100%	Liquid
Gilt Funds	Fitch rating Short term F1, long Term A- or equivalent	100%	Liquid

Note 1. If forward deposits are to be made, the forward period plus the deal period should not exceed one year in aggregate.

N.B. buy and hold may also include sale at a financial year end and repurchase the following day in order to accommodate the requirements of the Accounting Code of Practice.

Note 2. As collateralised deposits are backed by collateral such as UK Gilts, corporate bonds, etc. this investment instrument is regarded as being a AA rated investment as it is equivalent to lending to the UK Government.

Note 3. The Council's current banker has a one colour band uplift from these ratings with the resulting maximum investment amount and maturity periods applying. This is the only exception applied.

Note 4. Whilst other local authorities are considered high quality names for investments, though not always rated, discretion will be applied to those authorities whose overall financial position is of concern e.g. subject to section 114 notice and the Treasury Manager will keep a list of those Authorities we may wish to avoid lending to.

Accounting treatment of investments. The accounting treatment may differ from the underlying cash transactions arising from investment decisions made by this Council. To ensure that the Council is protected from any adverse revenue impact, which may arise from these differences, we will review the accounting implications of new transactions before they are undertaken.

NON-SPECIFIED INVESTMENTS: A maximum of 30% will be held in aggregate in non-specified investment

Maturities in excess of 1 year

	Minimum 'High' Credit Criteria	Maximum % of total investments or maximum Amount per institution	Max. maturity period
Term deposits and other instruments with local authorities	N/a	£20m (maximum of £10m per authority)	5 years
Term deposits with banks and building societies	Yellow Purple	£50m £40m	5 years 2 years
Term Deposits with UK part nationalised banks	Blue	£30m	5 years
Certificates of Deposit or corporate bonds with banks and building societies	Yellow Purple	£50m £40m	5 years 2 years
Bonds issued by multilateral development banks	UK sovereign rating	£5m	5 years
UK Government Gilts	UK sovereign rating	100%	50 years
Collateralised deposit (Reverse Repurchase)	UK sovereign rating	100%	5 years
Bond issuance issued by a financial institution which is explicitly guaranteed by the UK Government e.g. National Rail	UK sovereign rating	£20m	10 years
Commercial Paper Other	Fitch rating Short term F1, long Term A- or equivalent	£20m	10 years
Corporate Bonds	Fitch rating Short term F1, long Term A- or equivalent	£20m	10 years
Sovereign bond issues (other than the UK govt)	UK sovereign	£20m	5 years
Bond Funds	Fitch rating Short term F1, long Term A- or equivalent	£20m	10 years
Gilt Funds	Fitch rating Short term F1, long Term A- or equivalent	£20m	10 years
Municipal Bonds	UK sovereign rating	£5m	5 years
Floating Rate Notes	Fitch rating Short term F1, long Term A- or equivalent	£5m	5 years
Covered Bonds	Fitch rating Short term F1, long Term A- or equivalent	£5m per bond	10 years
Unrated Bonds	**Non-rated internal due diligence	£5m per bond	10 years

	Minimum ‘High’ Credit Criteria	Maximum % of total investments or maximum Amount per institution	Max. maturity period
Loans to Third Parties	**Non-rated internal due diligence	£5m	50 years
Churches, Charities and Local Authorities (CCLA) Property Fund	**Non-rated internal due diligence	£5m	10 years
Property Funds*	**Non-rated internal due diligence	£5m	10 years

*The use of these instruments can be deemed capital expenditure and as such will be an application (spending) of capital resources. This Authority will seek guidance on the status of any fund it may consider using. Appropriate due diligence will also be undertaken before investment of this type is undertaken.

**Due Diligence will include the following, if available, however the list isn’t intended to be exhaustive: -

Capitalisation of the organisation,

Revenue profits and margin trends,

Competitors and industry,

Valuation multiples e.g. price/earnings ratio,

Management and share ownership and track records,

Balance sheet analysis,

Examination of future plans and expectations,

Stock options and dividend policy.

APPROVED COUNTRIES FOR INVESTMENTS

This list is based on those countries which have higher sovereign ratings than the UK (based on two out of three ratings from the agencies Fitch, Moody’s and S&P) and have banks operating in sterling markets which have credit ratings of green or above in the Link credit worthiness service. The UK is currently rated as AA- but is still an approved country for investments.

AAA	**AA+**	**AA**
Australia,	Finland	France
Netherlands,	Canada	
Germany,		
Norway,		
Singapore		