

## APPENDIX A

### EXETER CITY COUNCIL

#### TREASURY MANAGEMENT STRATEGY 2024/25

## 1. Introduction

- 1.1. The Council's Treasury Management Strategy (TMS) is based on the requirements of the DLUHC's Guidance on Local Government Investments ("the Guidance"), and CIPFA's Treasury Management Code and Prudential Codes as updated in December 2021. This Authority must have regard to these Codes of Practice when preparing the Treasury Management Strategy Statement including the Annual Investment Strategy, and also related reports during the financial year.

The revised Treasury Management Code requires all investments and investment income to be attributed to one of the following three purposes: -

### **Treasury management**

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

### **Service delivery**

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

### **Commercial return**

Investments held primarily for financial return with no treasury management or direct service provision purpose. Risks on such investments should be proportionate to an authority'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.

## 2. Economic Context

The first half of 2023/24 saw:

- Interest rates rise by a further 100bps, taking Bank Rate from 4.25% to 5.25% and, possibly, the peak in the tightening cycle.
- Short, medium and long-dated gilts remain elevated as inflation continually surprised to the upside.
- CPI inflation falling from 8.7% in April to 6.7% in September, its lowest rate since February 2022, but still the highest in the G7.
- Core CPI inflation declining to 6.1% in September from 7.1% in April and May, a then 31 year high.

- A cooling in labour market conditions, but no evidence yet that it has led to an easing in wage growth (as the 3myy growth of average earnings rose by 7.8% for the period June to August, excluding bonuses).

CPI inflation rose by 3.9% in the 12 months to November 2023, down from 4.6% in October. In its latest monetary policy meeting in December, the Bank of England left interest rates unchanged at 5.25%. The vote to keep rates on hold was a split vote, 6-3. It is clear that some members of the MPC are still concerned about the stickiness of inflation.

### Interest rate forecasts

The Council has appointed Link Group as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. The following table gives Link Group forecast to December 2026.

Link Group Interest Rate View		07.11.23												
		Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
<b>BANK RATE</b>		5.25	5.25	5.25	5.00	4.50	4.00	3.50	3.25	3.00	3.00	3.00	3.00	3.00
3 month ave earnings		5.30	5.30	5.30	5.00	4.50	4.00	3.50	3.30	3.00	3.00	3.00	3.00	3.00
6 month ave earnings		5.60	5.50	5.40	5.10	4.60	4.10	3.60	3.40	3.10	3.10	3.10	3.10	3.10
12 month ave earnings		5.80	5.70	5.50	5.20	4.70	4.20	3.70	3.50	3.30	3.30	3.30	3.30	3.30
5 yr PWLB		5.00	4.90	4.80	4.70	4.40	4.20	4.00	3.80	3.70	3.60	3.50	3.50	3.50
10 yr PWLB		5.10	5.00	4.80	4.70	4.40	4.20	4.00	3.80	3.70	3.70	3.60	3.60	3.50
25 yr PWLB		5.50	5.30	5.10	4.90	4.70	4.50	4.30	4.20	4.10	4.10	4.00	4.00	4.00
50 yr PWLB		5.30	5.10	4.90	4.70	4.50	4.30	4.10	4.00	3.90	3.90	3.80	3.80	3.80

## 3. Current and Expected Treasury Portfolios

### 3.1. Investments

The Council's fixed term deposits held at 31 December 2023 were:

#### Fixed Term Deposits - Current

Amount	Investment	Interest rate	Date Invested	Maturity Date	No. of Days
£5,000,000	London Borough of Barking & Dagenham	5.45%	26/09/23	03/01/24	99
£4,000,000	Cheltenham Borough Council	5.35%	14/22/23	15/01/24	62
£3,000,000	Standard Chartered – Sustainable deposit	5.70%	15/09/23	15/03/24	182
£5,000,000	Suffolk County Council	5.70%	30/11/23	30/01/24	61
£2,000,000	Barclays Green notice account	5.25%	19/07/22	65 day notice	Min: 65
£1,000,000	Barclays Standard notice account	5.25%	19/07/22	65 day notice	Min: 65
<b>£20,000,000</b>					

#### Property Funds

Amount	Investment	Dividend Yield as at Q2
£5,000,000	CCLA – LAMIT Property Fund	5.18%

### Money Market Funds

Amount	Investment	Interest rate*
£10,000,000	Federated Investors	4.94%
£0	CCLA - The Public Sector Deposit Fund	4.83%
£10,000,000	Black Rock Asset Management	4.87%
£3,000,000	Aberdeen Standard Investments	4.91%
<b>£23,000,000</b>		

\* Interest rate is variable (therefore rates quoted are an average to 31<sup>st</sup> December 2023)

### 3.2. Borrowings

The Council's long term borrowing is currently £165.490m (£93.246m General Fund and £72.244m HRA) and there is no short-term borrowing. Details of loans are set out below:

Principal Amount outstanding as at 31 December 2023	Lender	Interest rate	Loan type	Date of repayment
£56,884,000	PWLB maturity (HRA)	3.48%	Maturity	28/03/2062
£1,892,228	PWLB 25 year annuity	2.34%	Annuity	11/01/2044
£1,840,313	PWLB 25 year annuity	2.08%	Annuity	04/04/2044
£4,151,400	PWLB 30 year annuity	1.61%	Annuity	26/09/2049
£8,038,745	PWLB 35 year annuity	1.71%	Annuity	26/09/2054
£34,154,725	PWLB 50 year annuity	1.80%	Annuity	26/09/2069
£15,360,000	PWLB maturity (HRA)	1.31%	Maturity	14/04/2070
£43,168,547	PWLB 50 year annuity	1.78%	Annuity	24/12/2071

### 3.3. Expected changes

The current capital programme indicates a further borrowing requirement of £6.195 million for the General Fund and £3.9 million for the HRA. The decision of whether to take external long-term borrowing will be made in light of current and forecast interest rates and the decision is delegated to the Section 151 Officer and Leader of the Council.

### 3.4. Budget implications

The tables below show the expected interest payments on existing PWLB debt and fleet and other lease arrangements, and budgeted interest on balances for both General Fund and HRA for 2024/25.

If actual levels of investments and borrowing, and actual interest rates differ from those forecast, performance against budget will differ correspondingly.

<b>General fund interest</b>	<b>2024/25 Estimate</b>
Interest payable	£1,841,500
Total Interest receivable	(£1,204,000)
Less interest to HRA and other	£1,006,000
<b>Net interest payable</b>	<b>£1,643,500</b>
CCLA LAPF dividend	(£225,000)
<b>Net interest after dividends</b>	<b>£1,418,500</b>

<b>HRA interest (including COB)</b>	<b>2024/25 Estimate</b>
Interest payable	£2,439,070
Interest receivable	(£1,000,000)
<b>Net interest payable</b>	<b>£1,439,070</b>

The expected Minimum Revenue Provision for repayment of debt for 2024/25 is £1.905 million, which includes £74k in respect of leases under IFRS16.

#### **4. Investment Strategy**

4.1. The Council holds surplus funds, which represent income received in advance of expenditure plus balances and reserves held. Both the CIPFA Code and the DLUHC Guidance require the Council to invest its funds prudently, and to have regard to the **security** and **liquidity** of its investments before seeking the highest rate of return, or **yield**.

#### **4.2. Specified Investments**

Specified investments are those expected to offer relatively high security and liquidity, and can be entered into with the minimum of formalities. The DLUHC Guidance defines specified investments as those:

- denominated in pounds sterling,
- due to be repaid within 12 months of arrangement,
- not defined as capital expenditure by legislation, and
- invested with one of:
  - the UK Government,
  - a UK local authority, parish council or community council, or
  - a body or investment scheme of “high credit quality”.

4.3. The Council defines the following as being of “high credit quality” for making specified investments, subject to the monetary and time limits shown.

<b>In-house investment</b>	<b>Monetary limit<sup>1</sup></b>	<b>Time limit</b>
UK owned banks and building societies holding short-term credit ratings no lower than F1+ and P-1	£4m each	12 months
Foreign owned banks that deal in sterling holding short-term credit ratings no lower than F1+ and P-1	£3m each	9 months
UK owned banks and building societies holding short-term credit ratings no lower than F1 and P-1	£3m each	6 months
Money market funds <sup>2</sup> and similar pooled vehicles holding the highest possible credit ratings (AAA)	£10m each	3 months
Property Funds	£10m each	3 months
UK Central Government	no limit	12 months
UK Local Authorities <sup>3</sup>		
Upper Tier	£5m each	12 months
Lower Tier	£5m each	12 months

<sup>1</sup> banks within the same group ownership are treated as one bank for limit purposes

<sup>2</sup> as defined in the Local Authorities (Capital Finance and Accounting) Regulations 2003

<sup>3</sup> as defined in the Local Government Act 2003

4.4. The maximum that will be lent to any one organisation (other than the UK Government) will be £5 million, with the exception of Property Funds and Money Market Funds where the limit is £10m. For an individual bank, the limit is £4 million. A group of banks under the same ownership will be treated as a single organisation for limit purposes.

#### 4.5. Non specified Investments

No non specified investments will be made by the Council.

#### 4.6. Foreign countries

Investments in foreign countries will be limited to those that hold a AAA or AA+ sovereign credit rating from all three major credit rating agencies, and to a maximum of £3 million per country. Only banks that are domiciled in the UK but are owned in another country will be used and need to meet the rating criteria of and will count against the limit for both countries. There is no limit on investments in the UK.

#### Liquidity management

The Council uses purpose-built cash flow forecasting to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a pessimistic basis, with receipts under-estimated and payments over-estimated to minimise the risk of the Council being forced to borrow on unfavourable terms to meet its financial commitments.

Limits on long-term investments are set by reference to the Council's medium term financial plan and cash flow forecast.

#### 4.7. Credit ratings

The Council uses credit ratings from two main rating agencies Fitch Ratings Ltd and Moody's Investors Service to assess the risk of loss of investments. The lowest available credit rating will be used to determine credit quality.

Credit ratings are obtained and monitored by the Council's treasury advisers, who will notify changes in ratings as they occur. Where an institution has its credit rating downgraded so that it fails to meet the above criteria then:

- no new investments will be made,
- any existing investments that can be recalled at no cost will be recalled, and
- full consideration will be given to the recall of any other existing investments

Where a credit rating agency announces that it is actively reviewing an organisation's credit ratings with a view to downgrading it so that it is likely to fall below the above criteria, then no further investments will be made until the outcome of the review is announced.

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

#### 4.8. Other information on the security of investments

Full regard will be given to other available information on the credit quality of banks and building societies, including credit default swap prices, financial statements and rating agency reports. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the above criteria.

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#### 4.10. Investment instruments

Investments may be made using any of the following instruments:

- interest paying bank accounts
- fixed term deposits
- call or notice deposits (where the Council can demand repayment)
- certificates of deposit
- treasury bills and gilts issued by the UK Government
- bonds issued by multilateral development banks
- shares in money market funds

## 5. Planned investment strategy for 2024/25 – In-House

- 5.1. The cash flow forecast will be used to divide surplus funds into three categories:
- Short-term – cash required to meet known cash outflows in the next month, plus a contingency to cover unexpected cash flows over the same period.
  - Medium-term – cash required to manage the annual seasonal cash flow cycle, including amounts to cover forecast shortages, planned uses of reserves, and a longer-term contingency.
  - Long-term – cash not required to meet cash flows, and used primarily to generate investment income.
- 5.2. The Council's in-house managed funds are based on the likely cash flow position. Investments will be made to ensure that cash flow is protected and borrowing is minimised. In the current economic climate, it is considered appropriate to keep investments short term to cover cash flow needs. However, where appropriate (from an internal as well as external perspective), the Council will also consider investments for a longer period up to 12 months. These are funds which are not required for day-to-day cash management purposes.
- 5.3. The Council will seek to utilise money market funds (Aberdeen, Blackrock, Federated, and CCLA) and use short-dated deposits to ensure liquidity of assets for day-to-day cash flow. Although these are essentially cash, a monetary limit in line with the banks credit rating is retained on the accounts. The Council can also make use of the Government's Debt Management Office to ensure the highest possible security for cash. Additionally, the Council will hold a balance on its general account to cover any payments due. On occasion, to facilitate cash flow requirements, there may be in excess of £3 million in this account.

## 6. Borrowing Strategy

- 6.1. The Council's capital financing requirement (CFR, or underlying need to borrow) as at 31 March 2024 is expected to be £235.12 million, and is forecast to rise to £241.64 million by March 2025 as capital expenditure is incurred.
- 6.2. The maximum expected long-term borrowing requirement for 2024/25 is:

	£m
Borrowed in prior years	93.25
Long term borrowing (HRA)	72.24
Not borrowed in previous years	69.63
Forecast increase in CFR	6.52
<b>TOTAL</b>	<b>241.64</b>

- 6.3. The Council is expected to be in an under-borrowed position as at 31 March 2024. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as borrowing costs remain elevated and to mitigate exposure to counterparty risk.

Against this background and the risks within the economic forecast, caution will be adopted with the 2024/25 treasury operations. The Section 151 Officer will monitor interest rates in financial markets and adopt a pragmatic approach to any change in circumstances.

- 6.4. To reduce risk and minimise cost on the General Fund, it has been decided to defer borrowing where possible, however some targeted long term borrowing may be undertaken in 2024/25, where the costs will be offset against future income streams.
- 6.5. In addition, the Council may borrow for short periods of time (normally up to two years) to cover cash flow shortages.
- 6.6. If borrowing is required advice will be sought from the treasury management advisors in order that the most cost effective form of borrowing can be secured.
- 6.7. Sources of borrowing

The approved sources of long-term and short-term borrowing will be:

- Public Works Loan Board
- any institution approved for investments above
- any other bank or building society on the Financial Services Authority list.

- 6.8. Debt instruments

Loans will be arranged by one of the following debt instruments:

- fixed term loans at fixed or variable rates of interest
- lender's option borrower's option (LOBO) loans.

As an alternative to borrowing loans, the Council may also finance capital expenditure and incur long-term liabilities by means of:

- leases
- Private Finance Initiative.

- 6.9. Borrowing strategy to be followed

With high levels of uncertainty and short-term interest rates currently lower than long-term rates, it continues to be more cost effective in the short-term to not borrow and reduce the level of investments held instead, or to borrow short-term loans. However, with long-term rates not forecast to reduce in the near future, any such short-term savings will need to be balanced against potential longer-term costs.

If required, the council may arrange forward starting loans during 2024/25, where the interest rate is fixed in advance, but the cash is received in a later period.

## **7. Policy on Use of Financial Derivatives**

- 7.1. Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans).
- 7.2. The Localism Bill 2011 includes a general power competence that removes the uncertain legal position over local authorities' use of standalone financial derivatives (i.e. those that



are not embedded into a loan or investment). The latest CIPFA Code requires authorities to clearly detail their policy on the use of derivatives in the annual strategy.

7.3. The Council will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Council is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

7.4. Derivative counterparties

Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit.

7.5. In reality, whilst the Council is required to include the above policy, the only type of transaction that might be used is the forward deal, which means the Council agrees to borrow funds at a set price for a set period, in advance of the date the loan is actually taken. This is done to ensure the availability of funds at the time that they are needed.

## **8. Treasury Management Prudential Indicators**

8.1. The Council sets each year, in February, prudential indicators for Treasury Management, to ensure that proper control of borrowing and investing is maintained. These indicators have been updated to reflect the requirements in the 2021 Code and can be found in the Council's budget book.

8.2. To support the risk management of the capital financing requirement a graphical indication of the Council's borrowing liability and actual loans as a whole and for the General Fund and HRA is shown in Appendix 1 to this report.

## **9. Other Matters**

The revised DLUHC Investment Guidance also requires the Council to approve the following matters each year as part of the investment strategy:

9.1. Investment consultants

The Council uses Link Group, Link Treasury Services Limited as its external treasury management advisors.

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. The services received include:

- advice and guidance on relevant policies, strategies and reports,
- advice on investment decisions,
- notification of credit ratings and changes,
- other information on credit quality,

- advice on debt management decisions,
- accounting advice,
- reports on treasury performance,
- forecasts of interest rates, and
- training courses.

The quality of the advisory service is monitored by the Director Finance.

## 9.2. Training

The CIPFA Treasury Management Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny. A knowledge and skills register for officers and members involved in the treasury management function should be maintained.

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

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

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

- Record attendance at training and ensure action is taken where poor attendance is identified.
- Prepare tailored learning plans for treasury management officers and board/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.”

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

The Director Finance covers treasury management as part of the induction process. The needs of the Council’s members and treasury management staff for training in investment management are assessed annually as part of the appraisal process, and additionally when the responsibilities of individual members of staff change. Staff regularly attend training courses, seminars and conferences provided by Link Group and CIPFA.

A formal record of the training received by officers central to the Treasury function will be maintained by the Section 151 Office. Similarly, a formal record of the treasury management/capital finance training received by members will also be maintained by the Section 151 Office .

### 9.3. Investment of money borrowed in advance of need

The Council may, from time to time, borrow in advance of spending need, where this is expected to provide the best long term value for money. Since amounts borrowed will be invested until spent, the Council is aware that it will be exposed to the risk of loss of the borrowed sums, and the risk that investment and borrowing interest rates may change in the intervening period. These risks will be managed as part of the Council's overall management of its treasury risks.

The total amount borrowed will not exceed the authorised borrowing limit. The maximum periods between borrowing and expenditure is expected to be two years, although the Council does not link particular loans with particular items of expenditure.

### 9.4. The Treasury Management Role of the Section 151 Office

- 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 knowledge 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.
- preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments and treasury management, with a long term timeframe (say 20+ years)
- 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
- ensure that the authority has 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

- provision to members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees
- ensuring that members are adequately informed and understand the risk exposures taken on by an authority
- ensuring that the authority has adequate expertise, either in house or externally provided, to carry out the above
- creation of Treasury Management Practices which specifically deal with how non treasury investments will be carried out and managed, to include the following
  - Risk management (TMP1 and schedules), including investment and risk management criteria for any material non-treasury investment portfolios;
  - Performance measurement and management (TMP2 and schedules), including methodology and criteria for assessing the performance and success of non-treasury investments;
  - Decision making, governance and organisation (TMP5 and schedules), including a statement of the governance requirements for decision making in relation to non-treasury investments; and arrangements to ensure that appropriate professional due diligence is carried out to support decision making;
  - Reporting and management information (TMP6 and schedules), including where and how often monitoring reports are taken;
  - Training and qualifications (TMP10 and schedules), including how the relevant knowledge and skills in relation to non-treasury investments will be arranged.

## 10. Investment Reports

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

- a. Prudential and treasury indicators and treasury strategy** (in budget book) - The first, and most important report is forward looking and covers:
  - the capital plans, (including prudential indicators);
  - a Minimum Revenue Provision (MRP) policy, (how residual capital expenditure is charged to revenue over time);
  - the Treasury Management Strategy, (how the investments and borrowings are to be organised), including treasury indicators; and
  - an Annual Investment Strategy, (the parameters on how investments are to be managed).
- b. A mid-year treasury management report** – This is primarily a progress report and will update members on the capital position, amending prudential indicators as necessary, and whether any policies require revision.
- c. An annual treasury report** – This is a backward-looking review document and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.
- d. Quarterly Treasury Management updates** – reports on progress and performance are not required to be reported to full Council and are included in the Scrutiny Bulletin.

## **Scrutiny**

The above reports a) to c) are required to be adequately scrutinised before being recommended to the Council. This role is undertaken by the Executive Committee.

## **Quarterly reports**

In addition to the three major reports detailed above quarterly reports are not required to be reported to Full Council so are circulated by Scrutiny Bulletin.

DIRECTOR - FINANCE  
JANUARY 2024