



Lewes District Council

**Treasury Management Strategy,
Annual Investment Strategy,
Capital Strategy and
Minimum Revenue Provision Policy**

2022/23

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1. INTRODUCTION

The Treasury Management Policy and Strategy is one of the Council's key financial strategy documents and sets out the Council's approach to the management of its treasury management activities.

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 operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.

The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially 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 debt previously drawn may be restructured to meet Council risk or cost objectives.

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. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.

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

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."

The Local Government Act 2003 and supporting regulations require the Council to 'have regard to' the CIPFA Prudential Code and the Treasury Management Code of Practice to set Prudential and Treasury Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable.

The Act therefore requires the Council to set out its treasury management strategy for borrowing and to prepare an Annual Investment Strategy. This sets out the Council's policies for managing investments and for giving priority to the security and liquidity of those investments.

This strategy is updated annually to reflect changes in circumstances that may affect the strategy.

2. TREASURY MANAGEMENT REPORTING

The Council/Members are required to receive and approve, as a minimum, 3 reports annually which incorporate a variety of policies, forecasts and actuals as follows;

- a. **Annual treasury strategy** (issued February and includes);
 - a. A Minimum Revenue Provision (MRP) policy (this reflects capital expenditure previously financed by borrowing and how the principal element is charged to revenue over time);
 - b. The treasury management strategies (how the investments and borrowings are to be organised) including treasury prudential indicators and limits;
 - c. An investment strategy (the parameters on how investments are to be managed).
- b. **Mid-year update** – (issued November / December and provides);
 - a. an update for members with the progress of the treasury management activities undertaken for the period April to September and
 - b. an opportunity for amending prudential indicators and any policies if necessary.
- c. **Annual outturn** – (issued June and contains);
 - a. details of actual treasury operations undertaken in the previous financial year.

Each of the above 3 reports are required to be adequately scrutinised by the Lewes District Council Audit and Standards Committee before being recommended to the Cabinet and Council for final approval. This Council delegates responsibility for implementation and monitoring treasury management to Cabinet and responsibility for the execution and administration of treasury management decisions to the Section 151 Officer;

The Council has adopted the Chartered Institute of Public Finance and Accountancy's Code of Practice on Treasury Management (Revised 2018) including the creation and maintenance of a Treasury Management Policy Statement stating the policies, objectives and approach to risk management of the Council's treasury management activities.

3. TREASURY MANAGEMENT POLICY STATEMENT

The policies and objectives of the Council's treasury management activities are as follows:

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

4. CAPITAL STRATEGY

The CIPFA Prudential and Treasury Management Codes require all local authorities to prepare a capital strategy report (Appendix E) 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 this capital strategy is to ensure that all elected members on the full council fully understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite.

This capital strategy is reported separately from the Treasury Management Strategy Statement; non-treasury investments will be reported through the former. This ensures the separation of the core treasury function under security, liquidity and yield principles, and the policy and commercialism investments usually driven by expenditure on an asset. The capital strategy will show:

- The corporate governance arrangements for these types of activities;
- Any service objectives relating to the investments;
- The expected income, costs and resulting contribution;
- The debt related to the activity and the associated interest costs;
- The payback period (MRP policy);
- For non-loan type investments, the cost against the current market value;
- The risks associated with each activity.

Where a physical asset is being bought, details of market research, advisers used, (and their monitoring), ongoing costs and investment requirements and any credit information will be disclosed, including the ability to sell the asset and realise the investment cash.

Where the Council has borrowed to fund any non-treasury investment, there should also be an explanation of why borrowing was required and why the Department for Levelling Up, Housing and Communities (DLUHC) Investment Guidance, CIPFA Prudential Property Investment and CIPFA Prudential Code have not been adhered to. If any non-treasury investment sustains a loss during the final accounts and audit process, the strategy and revenue implications will be reported through the same procedure as the capital strategy.

Most of the capital expenditure incurred by authorities requires risks to be managed, particularly in relation to whether the assets acquired will provide the benefits projected for them and whether estimates of acquisition and running costings and income generation will be reliable. These considerations will impact on decisions regarding whether it would be prudent to borrow to fund such expenditure. Reductions in government funding have meant that local authorities have been under growing pressure to incur capital expenditure with the objective of generating revenue income that will compensate for reductions in government funding.

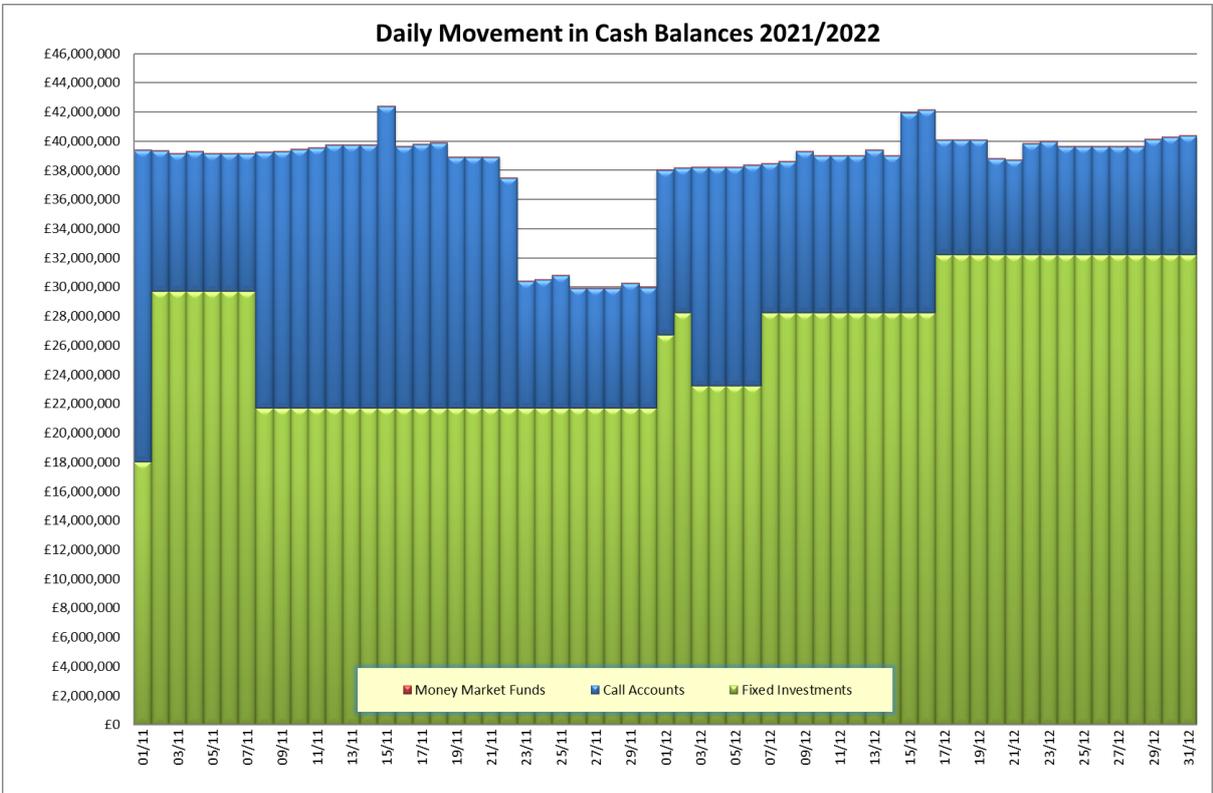
CIPFA concerns relating to the rapid expansion of acquisitions of commercial property and its relationship with CIPFA's statement in its Prudential Code that authorities must not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed. Where authorities exceed the limits of the Prudential Code and the wider Prudential Framework this places a strain on the credibility of the Prudential Framework to secure the prudent management of local authority finances.

The Prudential Framework (including statutory guidance and the Prudential Code itself) allows local authorities the flexibility to take their own decisions; provided that the decisions taken are prudent, affordable and sustainable and that they have regard to the statutory guidance. However, local authorities will need to ensure if they acquire commercial property (without borrowing from the PWLB) with substantial investment returns that they have a clear rationale for such acquisitions. If after having regard to the statutory guidance and the Prudential Code local authorities decide to depart from such guidance, they can only do so where a robust and reasonable argument can be put that an alternative approach will still meet the authority's various duties under Chapter 1 of the Local Government Act 2003.

5. TREASURY MANAGEMENT STRATEGY STATEMENT FOR 2022/23

5.1 Current Investment & Borrowing Position

The General Fund and Housing Revenue Account (HRA) long term borrowing are sourced mainly through the Public Works Loan Board (PWLB) with only one commercial loan. The PWLB allows local authorities to repay loans early and either pay a premium or obtain a discount according to a formula based on current interest rates. The chart below summarises the Council's investment position over the period 1 November to 31 December 2021. It shows the total sums invested each day as Fixed Term deposits, amounts held in Deposit accounts and Money Market Funds.



Key: Blue = Tradeable/Call Accounts, Green = Fixed Investments, Red = Money Market Funds (Note – none in this period).

5.2 Prospects for Interest Rates

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. Link provided the following forecasts on 20th December 2021. These are forecasts for certainty rates, gilt yields plus 80 bps.

Link Group Interest Rate View 20.12.21														
	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25
BANK RATE	0.25	0.25	0.50	0.50	0.50	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.25
3 month ave earnings	0.20	0.30	0.50	0.50	0.60	0.70	0.80	0.90	0.90	1.00	1.00	1.00	1.00	1.00
6 month ave earnings	0.40	0.50	0.60	0.60	0.70	0.80	0.90	1.00	1.00	1.10	1.10	1.10	1.10	1.10
12 month ave earnings	0.70	0.70	0.70	0.70	0.80	0.90	1.00	1.10	1.10	1.20	1.20	1.20	1.20	1.20
5 yr PWLB	1.40	1.50	1.50	1.60	1.60	1.70	1.80	1.80	1.80	1.90	1.90	1.90	2.00	2.00
10 yr PWLB	1.60	1.70	1.80	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.10	2.20	2.30
25 yr PWLB	1.80	1.90	2.00	2.10	2.10	2.20	2.20	2.20	2.30	2.30	2.40	2.40	2.50	2.50
50 yr PWLB	1.50	1.70	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.20	2.20	2.30	2.30

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

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

Significant risks to the forecasts

- **Mutations** of the virus render current vaccines ineffective, and tweaked vaccines to combat these mutations are delayed, or cannot be administered fast enough to prevent further lockdowns. 25% of the population not being vaccinated is also a significant risk to the NHS being overwhelmed and lockdowns being the only remaining option.
- **Labour and supply shortages** prove more enduring and disruptive and depress economic activity.
- **The Monetary Policy Committee** acts too quickly, or too far, over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- **The Monetary Policy Committee** tightens monetary policy too late to ward off building inflationary pressures.
- **The Government** acts too quickly to cut expenditure to balance the national budget.
- **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.
- **Longer term US treasury yields** rise strongly and pull gilt yields up higher than forecast.
- **Major stock markets** e.g., in the US, become increasingly judged as being over-valued and susceptible to major price corrections. Central banks become increasingly exposed to the “moral hazard” risks of having to buy shares and corporate bonds to reduce the impact of major financial market selloffs on the general economy.
- **Geopolitical risks**, for example in Ukraine, Iran, North Korea, but also in Europe and Middle Eastern countries; on-going global power influence struggles between Russia/China/US. These could lead to increasing safe-haven flows.

The balance of risks to the UK economy: -

- The overall balance of risks to economic growth in the UK is now to the downside, including risks from COVID-19 and its variants - both domestically and their potential effects worldwide.

5.3 Forecasts for Bank Rate

It is not expected that Bank Rate will go up fast after the initial rate rise as the supply potential of the economy is not likely to have taken a major hit during the pandemic: it should, therefore, be able to cope well with meeting demand after supply shortages subside over the next year, without causing inflation to remain elevated in the medium-term, or to inhibit inflation from falling back towards the MPC's 2% target after the spike up to around 5%. The forecast includes four increases in Bank Rate over the three-year forecast period to March 2025, ending at 1.25%. However, it is likely that these forecasts will need changing within a relatively short timeframe for the following reasons: -

- We do not know how severe an impact Omicron could have on the economy and whether there will be another lockdown or similar and, if there is, whether there would be significant fiscal support from the Government for businesses and jobs.
- There were already increasing grounds for viewing the economic recovery as running out of steam during the autumn and now into the winter. And then along came Omicron to pose a significant downside threat to economic activity. This could lead into stagflation, or even into recession, which would then pose a dilemma for the MPC as to whether to focus on combating inflation or supporting economic growth through keeping interest rates low.
- Will some current key supply shortages spill over into causing economic activity in some sectors to take a significant hit?
- Rising gas and electricity prices in October and next April and increases in other prices caused by supply shortages and increases in taxation next April, are already going to deflate consumer spending power without the MPC having to take any action on Bank Rate to cool inflation.
- On the other hand, consumers are sitting on over £160bn of excess savings left over from the pandemic so when will they spend this sum, in part or in total?
- It looks as if the economy coped well with the end of furlough on 30th September. It is estimated that there were around 1 million people who came off furlough then and there was not a huge spike up in unemployment. The other side of the coin is that vacancies have been hitting record levels so there is a continuing acute shortage of workers. This is a potential danger area if this shortage drives up wages which then feed through into producer prices and the prices of services i.e., a second-round effect that the MPC would have to act against if it looked like gaining significant momentum.
- We also recognise there could be further nasty surprises on the COVID-19 front beyond the Omicron mutation.
- If the UK invokes article 16 of the Brexit deal over the dislocation in trading arrangements with Northern Ireland, this has the potential to end up in a no-deal Brexit.

In summary, with the high level of uncertainty prevailing on several different fronts, we expect to have to revise our forecasts again - in line with whatever the new news is. It should also be borne in mind that Bank Rate being cut to 0.25% and then to 0.10%, were emergency measures to deal with the COVID-19 crisis hitting the UK in March 2020. At any time, the MPC could decide to simply take away such emergency cuts on no other grounds than they are no longer warranted, and as a step forward in the return to normalisation. In addition, any Bank Rate under 1% is both highly unusual and highly supportive of economic growth.

5.4 Forecasts for PWLB rates and gilt and treasury yields

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

While monetary policy in the UK will have a major impact on gilt yields, there is also a need to consider the potential impact that rising treasury yields in America could have on our gilt yields. As an average since 2011, there has been a 75% correlation between movements in US 10-year treasury yields and UK 10-year gilt yields. This is a significant UPWARD RISK exposure to our forecasts for longer term PWLB rates. However, gilt yields and treasury yields do not always move in unison.

There are also possible DOWNSIDE RISKS from the huge sums of cash that the UK populace have saved during the pandemic; when savings accounts earn little interest, it is likely that some of this cash mountain could end up being invested in bonds and so push up demand for bonds and support their prices i.e., this would help to keep their yields down. How this will interplay with the Bank of England eventually getting round to not reinvesting maturing gilts and then later selling gilts, will be interesting to monitor.

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

- How strongly will changes in gilt yields be correlated to changes in US treasury yields (see below). Over 10 years since 2011 there has been an average 75% correlation between movements in US treasury yields and gilt yields. However, from time to time these two yields can diverge. Lack of spare economic capacity and rising inflationary pressures are viewed as being much greater dangers in the US than in the UK. This could mean that central bank rates will end up rising earlier and higher in the US than in the UK if inflationary pressures were to escalate; the consequent increases in treasury yields could well spill over to cause (lesser) increases in gilt yields. There is, therefore, an upside risk to forecasts for gilt yields due to this correlation. The Link Group forecasts have included a risk of a 75% correlation between the two yields.
- Will the Fed take action to counter increasing treasury yields if they rise beyond a yet unspecified level?
- Would the MPC act to counter increasing gilt yields if they rise beyond a yet unspecified level?
- How strong will inflationary pressures actually turn out to be in both the US and the UK and so put upward pressure on treasury and gilt yields?
- How will central banks implement their new average or sustainable level inflation monetary policies?
- How well will central banks manage the withdrawal of QE purchases of their national bonds i.e., without causing a panic reaction in financial markets as happened in the “taper tantrums” in the US in 2013?
- Will exceptional volatility be focused on the short or long-end of the yield curve, or both?

As the US financial markets are, by far, the biggest financial markets in the world, any upward trend in treasury yields will invariably impact and influence financial markets in other countries. Inflationary pressures and erosion of surplus economic capacity look much stronger in the US compared to those in the UK, which would suggest that Fed rate increases eventually needed to suppress inflation, are likely to be faster and stronger than Bank Rate increases in the UK. This is likely to put upward pressure on treasury yields which could then spill over into putting upward pressure on UK gilt yields.

The forecasts are also predicated on an assumption that there is no break-up of the Eurozone or EU within the forecasting period, despite the major challenges that are looming up, and that there are no major ructions in international relations, especially between the US and Russia, China / North Korea and Iran, which have a major impact on international trade and world GDP growth.

The balance of risks to medium to long term PWLB rates: -

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

5.5 A new era for local authority investing – a fundamental shift in central bank monetary policy

One of the key results of the pandemic has been a fundamental rethinking and shift in monetary policy by major central banks like the Fed, the Bank of England and the ECB, to tolerate a higher level of inflation than in the previous two decades when inflation was the prime target to bear down on so as to stop it going above a target rate. There is now also a greater emphasis on other targets for monetary policy than just inflation, especially on ‘achieving broad and inclusive “maximum” employment in its entirety’ in the US, before consideration would be given to increasing rates.

- The Fed in America has gone furthest in adopting a monetary policy based on a clear goal of allowing the inflation target to be symmetrical, (rather than a ceiling to keep under), so that inflation averages out the dips down and surges above the target rate, over an unspecified period of time.
- The Bank of England has also amended its target for monetary policy so that inflation should be ‘sustainably over 2%’ before starting on raising Bank Rate and the ECB now has a similar policy.
- ***For local authorities, this means that investment interest rates and very short term PWLB rates will not be rising as quickly or as high as in previous decades when the economy recovers from a downturn and the recovery eventually runs out of spare capacity to fuel continuing expansion.***
- Labour market liberalisation since the 1970s has helped to break the wage-price spirals that fuelled high levels of inflation and has now set inflation on a lower path which makes this shift in monetary policy practicable. In addition, recent changes in flexible employment practices, the rise of the gig economy and technological changes, will all help to lower inflationary pressures.
- Governments will also be concerned to see interest rates stay lower as every rise in central rates will add to the cost of vastly expanded levels of national debt; (in the UK this is £21bn for each 1% rise in rates). On the other hand, higher levels of inflation will help to erode the real value of total public debt.

Investment and borrowing rates

- **Investment returns** are expected to improve in 2022/23. However, while markets are pricing in a series of Bank Rate hikes, actual economic circumstances may see the MPC fall short of these elevated expectations.
- **Borrowing interest rates** fell to historically very low rates as a result of the COVID crisis and the quantitative easing operations of the Bank of England and still remain at historically low levels. The policy of avoiding new borrowing by running down spare cash balances has served local authorities well over the last few years.
- On 25.11.20, the Chancellor announced the conclusion to the review of margins over gilt yields for PWLB rates which had been increased by 100 bps in October 2019. The standard and certainty margins were reduced by 100 bps but a prohibition was introduced to deny access to borrowing from the PWLB for any local authority which had purchase of assets for yield in its three-year capital programme. The current margins over gilt yields are as follows: -.

- **PWLB Standard Rate** is gilt plus 100 basis points (G+100bps)
 - **PWLB Certainty Rate** is gilt plus 80 basis points (G+80bps)
 - **PWLB HRA Standard Rate** is gilt plus 100 basis points (G+100bps)
 - **PWLB HRA Certainty Rate** is gilt plus 80bps (G+80bps)
 - **Local Infrastructure Rate** is gilt plus 60bps (G+60bps)
- **Borrowing for capital expenditure.** Our long-term (beyond 10 years), forecast for Bank Rate is 2.00%. As some PWLB certainty rates are currently below 2.00%, there remains value in considering long-term borrowing from the PWLB where appropriate. Temporary borrowing rates are likely, however, to remain near Bank Rate and may also prove attractive as part of a balanced debt portfolio.
 - While this authority will not be able to avoid borrowing to finance new capital expenditure, or to replace maturing debt, there will be a *cost of carry*, (the difference between higher borrowing costs and lower investment returns), to any new borrowing that causes a temporary increase in cash balances.

5.6 Borrowing Strategy for 2022/23

The Council is currently maintaining an under-borrowed position. 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 investment returns are low and counterparty risk is still an issue that needs to be considered.

Against this background and the risks within the economic forecast, caution will be adopted with the 2022/23 treasury operations. The Chief Finance Officer will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- if it was felt that there was a significant risk of a sharp FALL in borrowing rates, then borrowing will be postponed.
- if it was felt that there was a significant risk of a much sharper RISE in borrowing rates than that currently forecast, perhaps arising from an acceleration in the rate of increase in central rates in the USA and UK, an increase in world economic activity, or a sudden increase in inflation risks, then the portfolio position will be re-appraised. Most likely, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.

Any decisions will be reported to the appropriate decision-making body at the next available opportunity.

Capital Investment can be paid for using cash from one or more of the following sources:

- Cash from existing and/or new capital resources (e.g. capital grants, receipts from asset sales, revenue contributions or earmarked reserves);
- Cash raised by borrowing externally;
- Cash being held for other purposes (e.g. earmarked reserves or working capital) but used in the short term for capital investment. This is known as 'internal borrowing' as there will be a future need to borrow externally once the cash is required for the other purposes.

Under the CIPFA Prudential Code an authority is responsible for deciding its own level of affordable borrowing within set prudential indicator limits (see section 6). Borrowing does not have to take place immediately to finance its related capital investment and may be deferred or borrowed in advance of need within policy. The Council's primary objective when borrowing is to strike an appropriately low risk balance between securing low interest rates and achieving cost certainty over the period for which funds are required.

When MRP is not required to repay debt, it will accumulate as cash balances which will then be invested. Investment balances will increase by MRP each year until the debt is repaid. The Council's Draft Revenue Budget and Capital Programme 2022/23 to 2024/25 forecasts £127.8m (HRA of £40.4m and GF of £87.4m) of capital investment over the next three years with £82.8m met from existing or new resources. The amount of new borrowing required over this period is therefore £45.0m (HRA of £7.0m and GF of £38.0m) as shown in Table 2a below.

Table 2a	2021/22	2022/23	2023/24	2024/25
	Estimate	Estimate	Estimate	Estimate
	£m	£m	£m	£m
Capital Expenditure				
GF	15.4	25.5	40.2	17.2
HRA	11.1	12.9	15.5	12.0
GF - Commercial Activities	0.8	3.4	1.1	-
Total	27.2	41.8	56.8	29.2
Financed by:				
HRA				
Capital Receipts	2.0	2.1	2.4	0.6
Capital Grants	1.0	-	1.4	3.1
Major Repairs Reserve	8.1	10.8	6.7	5.8
Revenue Contributions	-	-	0.3	0.2
Borrowing Need HRA	-	-	4.6	2.4
GF				
Capital Reserves	0.4	0.5	0.6	0.6
Capital Grants	9.4	10.3	19.3	8.4
Capital Receipts	-	3.2	6.7	-
Revenue Contributions	-	-	-	-
Borrowing Need GF	6.3	15.0	14.8	8.2

As existing and forecast future resources are insufficient to meet the level of spend, the borrowing need of £45.0m will be met from both internal and external borrowing. This is to use the Council's own surplus funds until external borrowing is required. Internal borrowing reduces borrowing costs and risk as there is less exposure of external investments. The benefits of internal borrowing need to be monitored and weighed against deferring new external borrowing into future years when long-term borrowing rates could rise.

Table 2b Capital Financing Requirement	2021/22	2022/23	2023/24	2024/25
	Estimate	Estimate	Estimate	Estimate
	£m	£m	£m	£m
CFR - GF	15.6	26.9	39.9	47.1
CFR - HRA	71.5	71.5	76.2	78.6
CFR - Commercial Activities	8.1	11.3	12.2	12.0
Total CFR	95.2	109.7	128.3	137.7
Movement in CFR	6	14.5	18.6	9.4
Represented by:				
Net financing need for the year (as above)	6.3	15.0	19.4	10.6
Less: MRP	(0.3)	(0.5)	(0.9)	(1.2)
Movement in CFR	6.0	14.5	18.5	9.4

The amount that notionally should have been borrowed is known as the **capital financing requirement (CFR)**. The CFR and actual borrowing may be different at a point in time and the difference is either an under or over borrowing amount. The Council is required to repay an element of the CFR each year through a revenue charge. This is known as the minimum revenue provision (MRP) and is currently estimated to be £0.53m for 2022/23. MRP will cause a reduction in the CFR annually.

Table 3 below includes the figures from Table 2 and shows the actual external borrowing against the capital financing requirement, identifying any under or over borrowing.

Table 3	2021/22	2022/23	2023/24	2024/25
	Estimate	Estimate	Estimate	Estimate
	£m	£m	£m	£m
GF Borrowing at 1 April	-	6.3	21.3	36.1
HRA Borrowing at 1 April	56.7	56.7	56.7	56.7
Borrowing at 1 April	56.7	63.0	78.0	92.8
GF new borrowing	6.3	15.0	14.8	8.2
HRA new borrowing	5.0	-	8.0	2.0
less loan maturities	(5.0)	-	(8.0)	(2.0)
Net Borrowing Total	6.3	15.0	14.8	8.2
Borrowing at 31 March	63.0	78.0	92.8	101.0
CFR at 1 April	89.3	95.3	109.8	128.4
Net Capital Expenditure	6.3	15.0	19.5	10.6
MRP	(0.3)	(0.5)	(0.9)	(1.2)
CFR at 31 March	95.3	109.8	128.4	137.8
Under borrowing	32.3	31.8	35.6	36.8

The Council is currently maintaining an under-borrowing position. As at the end of 2022/23, the Council is projected to be under borrowed by £31.8m, £35.6m by 2024 and £36.8m by 2025.

5.7 PWLB Loans

It is important to restate that borrowing is only used to fund the capital programme so the level of borrowing should not exceed the CFR for any meaningful amount of time. As previously stated, the CFR (Capital Financing Requirement) is the amount of capital expenditure the Council has financed by internal or external borrowing. The current assumption is that internal borrowing is prioritised over externalising debt, however, officers will monitor external rates of borrowing and the sustainability of using internal borrowing to determine if it becomes more beneficial to externalise the debt and invest core cash in deposits or investment funds.

The PWLB can lend for up to 50 years and also for the short term to Local Government. The PWLB is the source of loans/funds, if no other lender can provide finance. PWLB will not lend to an authority that plans to buy investment assets primarily for yield that is identified in their capital programme. The Chief Finance Officer will be expected by the PWLB to certify that no such purposes are planned.

From a Treasury Management perspective, it is recommended that the PWLB should be retained as a borrowing option and therefore the purchase of investment properties primarily for yield should be excluded from the capital programme.

This is recommended not only due to the reduced rates now available through PWLB but due to the backstop accessibility of this source of borrowing. The Council will not pursue a deliberate strategy of using private borrowing or internal borrowing to support investment in an asset that the PWLB would not support and then refinancing or externalising this with PWLB loans. Under the prudential code, local authorities cannot borrow from the PWLB or any other lender for speculative purposes and must not use internal borrowing to temporarily support investments purely for yield.

If the Council wishes to on-lend money to deliver objectives in an innovative way, the government would expect that spending to be reported in the most appropriate category (service spending, housing, economic regeneration, preventative action, or treasury management) based on the eventual use of the money.

5.8 Borrowing other than with the PWLB

The Council has previously borrowed mainly from the PWLB, but will continue to investigate other sources of finance, such as local authority loans and bank loans, that may be available at more favourable rates. Any new borrowing taken out will be completed with regard to the limits, indicators, the economic environment, the cost of carrying this debt ahead of need, and interest rate forecasts. The S151 Officer will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances.

The UK Municipal Bond Agency hopes that the borrowing rates will be lower than those offered by the Public Works Loan Board (PWLB). This Authority may make use of this new source of borrowing as and when appropriate.

5.9 Policy on Borrowing in Advance of Need

The Council will not borrow purely in order to profit from investment of extra sums borrowed. Any decision to borrow in advance will be within 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. 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.

5.10 Debt Rescheduling

Officers continue to regularly review opportunities for debt rescheduling, but there has been a considerable widening of the difference between new borrowing and repayment rates, which has made PWLB debt restructuring now much less attractive. Consideration would have to be given to the large premiums (cash payments) which would be incurred by prematurely repaying existing PWLB loans. It is very unlikely that these could be justified on value for money grounds if using replacement PWLB refinancing. However, some interest savings might still be achievable through using other market loans, in rescheduling exercises rather than using PWLB borrowing as the source of replacement financing.

Rescheduling of current borrowing in our debt portfolio is unlikely to occur as the 100 bps increase in PWLB rates only applied to new borrowing rates and not to premature debt repayment rates.

The reasons for any rescheduling to take place will include:

- the generation of cash savings and / or discounted cash flow savings;
- helping to fulfil the treasury strategy;
- enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

5.11 New financial institutions as a source of borrowing

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

- Local authorities (primarily shorter dated maturities out to 3 years or so – still cheaper than the Certainty Rate).
- Financial institutions (primarily insurance companies and pension funds but also some banks, out of forward dates where the objective is to avoid a “cost of carry” or to achieve refinancing certainty over the next few years).
- Municipal Bonds Agency (possibly still a viable alternative depending on market circumstances prevailing at the time).

Therefore, the strategy is to continue to seek opportunity to reduce the overall level of Council’s debt where prudent to do so, thus providing in future years cost reduction in terms of lower debt repayments costs, and potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt. All rescheduling will be agreed by the S151 Officer, and our advisors will keep us informed as to the relative merits of each of these alternative funding sources.

5.12 Continual Review

Treasury officers continue to review the need to borrow taking into consideration the potential increases in borrowing costs, the need to finance new capital expenditure, refinancing maturing debt, and the cost of carry that might incur a revenue loss between borrowing costs and investment returns. Against this background and the risks within the economic forecast, caution will be adopted with the 2022/23 treasury operations. The Chief Finance Officer will continue to monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- if it was felt that there was a significant risk of a sharp fall in long and short term rates (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.

If it was felt that there was a significant risk of a much sharper rise in long and short term rates than that currently forecast, perhaps arising from an acceleration in the start date and in the rate of increase in central rates in the USA and UK, an increase in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates are still lower than they will be in the next few years.

6. PRUDENTIAL AND TREASURY INDICATORS 2021/22 to 2024/25

6.1 Prudential and Treasury Indicators

The Council's capital expenditure plans are a key driver of treasury management activities. The output of the capital expenditures plan are reflected in prudential indicators. Local Authorities are required to 'have regard to' the Prudential Code and to set Prudential Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable. The Code sets out the indicators that must be used but does not suggest limits or ratios as these are for the authority to set itself.

The Prudential Indicators for 2021/22 to 2024/25 are set out in **Table 4** below:

Table 4	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
Capital Expenditure (gross) Council's capital expenditure plans (including HRA)	£27.2m	£41.8m	£56.8m	£29.3m
Capital Financing Requirement Measures the underlying need to borrow for capital purposes	£95.2m	£109.7m	£128.3m	£137.7m
Ratio of financing costs to net revenue stream - General Fund Identifies the trend in the cost of capital (borrowing and other long-term obligation costs net of investment income) against net revenue stream	2.0%	4.2%	9.2%	13.2%

The Treasury Management Code requires that Local Authorities set a number of indicators for treasury performance in addition to the Prudential Indicators which fall under the Prudential Code. The Treasury Indicators for 2021/22 to 2024/25 are set out in **Table 5** below:

Table 5	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
Authorised Limit for external debt	£m	£m	£m	£m
Borrowing – GF & HRA	115.6	128.1	147.5	158.0
Borrowing – Commercial Activities	11.1	14.6	15.6	15.4
Other long-term liabilities	0.3	0.3	0.2	0.2
Total	127.1	143.0	163.3	173.6
<p>The Authorised Limit - The authorised limit represents a limit beyond which external debt is prohibited and it is the maximum amount of debt that the Council can legally owe. This limit is set by Council and can only be revised by Council approval. It reflects the level of external borrowing which, while not desirable, could be afforded in the short term, but is not sustainable in the longer. The current limit is set at 10% above the Operational Boundary.</p> <p><i>Note – excludes any required allowances for IFRS 16 – Leasing change from 2022/23.</i></p>				

Table 5	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
Operational boundary for external debt	£m	£m	£m	£m
Borrowing – GF & HRA	105.1	116.4	134.0	143.7
Borrowing – Commercial Activities	10.1	13.3	14.2	14.0
Other long-term liabilities	0.3	0.3	0.2	0.2
Total	115.5	130.0	148.5	157.9
The Operational Boundary - This is the expected borrowing position of the Council during the year, taking account of the timing of various funding streams. The operational boundary is based on the Council's estimate of most likely (i.e. prudent but not worst case) scenario for external debt. It links directly to the Council's estimates of capital expenditure, the capital financing requirement and cash flow requirements, and is a key management tool for in-year monitoring. This indicator may be breached temporarily for operational reasons.				
Upper limit for fixed interest rate exposure* Identifies a maximum limit for fixed interest rates for borrowing and investments.	100%	100%	100%	100%
Upper limit for variable interest rate exposure* Identifies a maximum limit for variable interest rates for borrowing and investments.	20%	20%	20%	20%
Maturity Structure of Borrowings* The Council needs to set upper and lower limits with respect to the maturity structure of its borrowing:				
Upper limit for under 12 months	25%	25%	25%	25%
Lower limit for under 12 months	0%	0%	0%	0%
Upper limit for 12 months to 2 years	40%	40%	40%	40%
Lower limit for over 12 months to 2 years	0%	0%	0%	0%
Upper limit for 2 years to 5 years	50%	50%	50%	50%
Lower limit for 2 years to 5 years	0%	0%	0%	0%
Upper limit for 5 years to 10 years	75%	75%	75%	75%
Lower limit for 5 years to 10 years	0%	0%	0%	0%
Upper limit for over 10 years	100%	100%	100%	100%
Lower limit for over 10 years	25%	25%	25%	25%

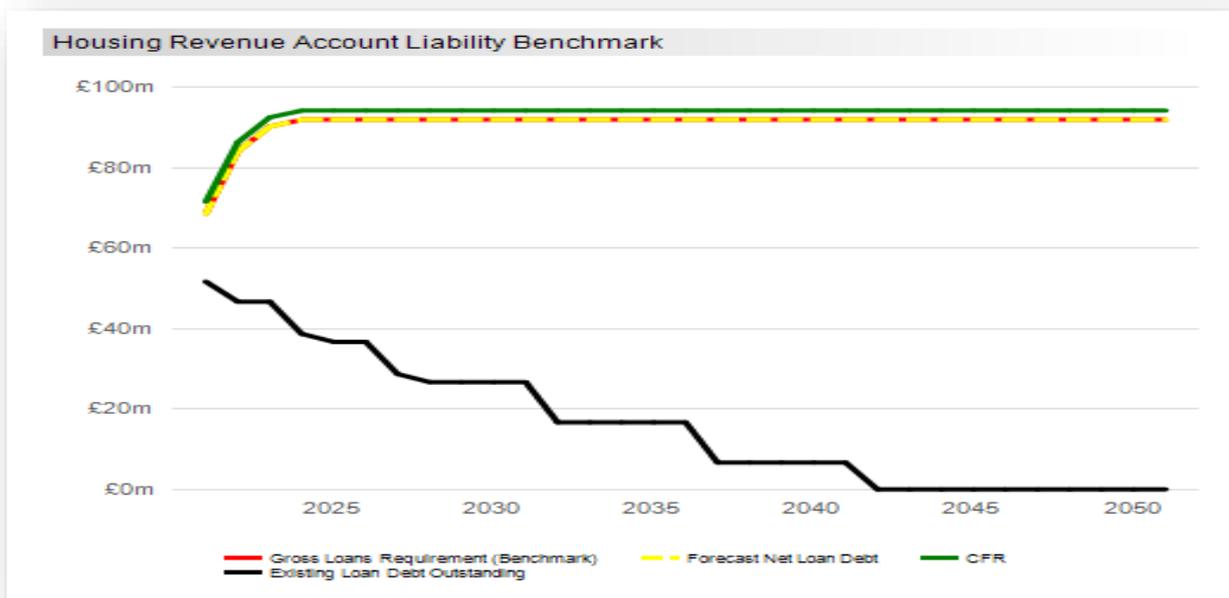
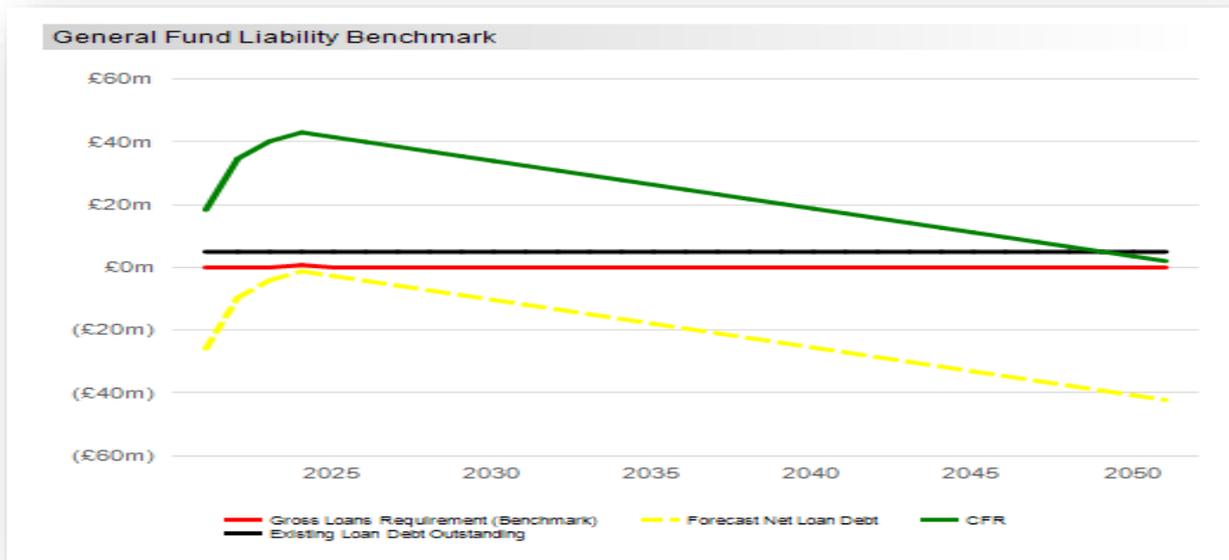
Note-

**the Treasury Indicators above have been calculated and determined by Officers in compliance with the Treasury Management Code of Practice.*

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. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities.

6.2 Liability Benchmark

Changes to the Prudential Code for Capital Finance in Local Authorities were consulted on in 2021. The Liability Benchmark / Gross Loans Requirement is determined by taking the projected Net Loans Requirement, then adding an element representing the average balance that the Council need to keep liquid to meet the peaks and troughs of the Cashflow movements. It is an additional prudential indicator introduced in the updated code to identifies the minimum future borrowing needs, compared to the capital financing requirement and the actual level of external debt.



The GF and HRA liability benchmark (graph above as at 31 March 2021) show the level of expected external borrowing given current projections for capital investment up to year 2024/25. The projected borrowing levels show what the Council expects it level to be. Where the aggregate borrowing level is below the benchmark, the Council will be in an under-borrowed position, and when it is above it will be over-borrowed. This makes assumptions regarding repayment dates and this can be used as a tool for scheduling future borrowing requirements.

7. ANNUAL INVESTMENT STRATEGY

7.1 Investment Policy

The DLUHC and CIPFA have extended the meaning of 'investments' to include both financial and non-financial investments. This report deals solely with financial investments, (as managed by the treasury management team). Non-financial investments, essentially the purchase of income yielding assets, are covered in the Capital Strategy, (Appendix E). The Council's investment policy has regard to the following: -

- DLUHC's Guidance on Local Government Investments ("the Guidance");
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017 ("the Code");
- CIPFA Treasury Management Guidance Notes 2018;
- CIPFA Prudential Property Investment.

The Council's investment priorities will be security first, portfolio liquidity second, then yield, (return) and the social impact. The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and with the Council's risk appetite. 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 the value available in periods up to 12 months with high credit rated financial institutions, as well as wider range fund options.

The above guidance from the DLUHC and CIPFA place a high priority on the management of risk. This authority has adopted a prudent approach to managing risk and defines its risk appetite by the following means: -

- Minimum acceptable credit criteria are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short term and long-term ratings.
- Other information: ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets.

To achieve this consideration the Council will engage with its advisors to maintain a monitor on market pricing such as "credit default swaps" and overlay that information on top of the credit ratings.

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

7.2 Investment Strategy for 2022/23

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

- If it is thought that Bank Rate is likely to rise significantly within the time horizon being considered, then consideration will be given to keeping most investments as being short term or variable.
- Conversely, if it is thought that Bank Rate is likely to fall within that period, consideration will be given to locking in higher rates currently obtainable, for longer periods.

7.3 Investment returns expectations.

The current forecast shown in paragraph 5.2, includes a forecast for a first increase in Bank Rate in quarter 2 of 2022. However, the September 2021 MPC meeting minutes indicated that their concerns over the sudden recent rise in multiple inflationary pressures could well mean that an earlier increase in Bank Rate is now possible ahead of the start of the financial year covered by this Strategy. The suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year, (based on a first increase in Bank Rate in quarter 2 of 2022), are as follows.:

Average earnings in each year	
2021/22	0.10%
2022/23	0.25%
2023/24	0.50%
2024/25	0.50%
2025/26	1.00%
Long term later years	2.00%

The overall balance of risks to economic growth in the UK is probably now skewed to the upside but is subject to major uncertainty due to the virus and how quickly successful vaccines may become available and widely administered to the population.

7.4 Investment treasury indicator and limit

Total principal funds invested for greater than 365 days. These limits are set regarding 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.

Upper limit for principal sums invested for longer than 365 days			
	2022/23	2023/24	2024/25
Principal sums invested for longer than 365 days	£4m	£4m	£4m

For its cash flow generated balances, the Council will seek to utilise its current account, call accounts and short-dated deposits (overnight to three months) to benefit from the compounding of interest.

7.5 Specified and Non-Specified Investments

This authority has defined the list of **types of investment instruments** that the treasury management team are authorised to use, under the categories of 'specified' and 'non-specified' investments.

- **Specified investments** are those with a high level of credit quality and subject to a maturity limit of 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. Once an investment is classed as non-specified, it remains non-specified all the way through to maturity i.e. an 18-month deposit would still be non-specified even if it has only 11 months left until maturity.

An investment is a **specified investment** if all of the following apply:

- the investment is denominated in sterling and any payments or repayments in respect of the investment are payable only in sterling;
- the investment is not a long-term investment (i.e. up to 365 days);
- the making of the investment is not defined as capital expenditure by virtue of regulation 25(1)(d) of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 [SI 3146 as amended];
- the investment is made with a body or in an investment scheme of high credit quality (i.e. a minimum credit rating as outlined in this strategy) or with one of the following public-sector bodies:
 - The United Kingdom Government;
 - A local authority in England or Wales (as defined under section 23 of the 2003 Act) or a similar body in Scotland or Northern Ireland;

As a result of the change in accounting standards under IFRS 9, this 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. The Department for Levelling Up, Housing and Communities, [DLUHC], enacted a statutory over-ride from 1 April 2018 for a five-year period until 31 March 2023 following the introduction of IFRS 9 over the requirement for any unrealised capital gains or losses on marketable pooled funds to be chargeable in year. This has the effect of allowing any unrealised capital gains or losses arising from qualifying investments to be held on the balance sheet until 31 March 2023 with an intention to allow councils to initiate an orderly withdrawal of funds if required.

7.6 Creditworthiness Policy

The Treasury Management Strategy needs to set limits on the amount of money and the time period the Council can invest with any given counterparty. In order to do this the Council uses the Credit Rating given to the counterparty by the three main Credit Rating Agencies (Fitch, Moody's and Standard and Poor's). This forms part of the consistent risk based approach that is used across all of the financial strategies.

Treasury Officers regularly review both the investment portfolio and counterparty risk and make use of market data to inform their decision making. The officers are members of various benchmarking groups to ensure the investment portfolio is current and performing as other similar sized Local Authorities.

The Council as part of its due diligence in managing creditworthiness, uses amongst other information, a tool provided by treasury management advisors. This service employs a sophisticated modelling approach utilising credit ratings from the three credit rating agencies and by using a risk weighted scoring system, does not give undue reliance to just one agency's ratings.

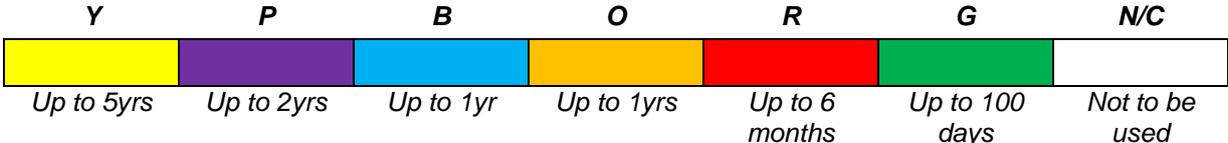
This modelling approach combines credit ratings with the following overlays:

- 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 counterparties from only the most creditworthy countries.

This weighted scoring system then produces an end product of a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the suggested duration for investments.

The Council (in addition to other due diligence consideration) will use counterparties within the following durational bands provided they have a minimum AA+ sovereign rating from three rating agencies:

- Yellow 5 years
- Purple 2 years
- Blue 1 year (only applies to nationalised or semi nationalised UK Banks)
- Orange 1 year
- Red 6 months
- Green 100 days
- No Colour Not to be used.



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

The primary principle governing the Council's investment criteria is the security of its investments, although the return on the investment is also a key consideration. After this main principle, the Council will ensure that:

- It maintains a policy covering both the categories of investment types it will invest in and the criteria for choosing investment counterparties with adequate security, and monitoring their security;
- It has sufficient liquidity in its investments.

All credit ratings are monitored daily. The Council is alerted to changes to ratings of all three agencies through its use of a treasury management advisors service. If a downgrade results in the counterparty or investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.

In addition to the use of credit ratings, the Council will be advised of information re 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.

The counterparties in which the Council will invest its cash surpluses is based on officer's assessment of investment security, risk factors, market intelligence, a diverse but manageable portfolio and their participation in the local authority market.

Table 7 below summarises the types of specified investment counterparties available to the Council, and the maximum amount and maturity periods placed on each of these. Further details are contained in Appendix C.

7.7 Criteria for Specified Investments:

Table 7	Country/ Domicile	Instrument	Maximum investments	Max. maturity period	
Debt Management and Deposit Facilities (DMADF)	UK	Term Deposits (TD)	unlimited	1 yr	
Government Treasury bills	UK	TD	unlimited	1 yr	
UK Local Authorities	UK	TD	£10m	1 yr	
Lloyds Banking Group • Lloyds Bank • Bank of Scotland	UK	TD (including callable deposits), Certificate of Deposits (CD's)	£5m	1 yr	
RBS/NatWest Group • Royal Bank of Scotland • NatWest	UK		£5m	1 yr	
HSBC	UK		£5m	1 yr	
Barclays	UK		£5m	1 yr	
Santander	UK		£5m	6 mths	
Goldman Sachs Investment Bank	UK		£5m	6 mths	
Standard Chartered Bank	UK		£5m	6 mths	
Nationwide Building Society	UK		£5m	6 mths	
Coventry Building Society	UK		£5m	6 mths	
Money Market Funds (MMF)	UK/Ireland/ EU domiciled		AAA rated Money Market Funds	£10m per fund	Instant access
<i>Counterparties in select countries (non-UK) with a Sovereign Rating of at least AA+</i>					
Australia & New Zealand Banking Group	Australia	TD / CD's	£5m	1 yr	
Commonwealth Bank of Australia	Australia	TD / CD's	£5m	1 yr	
National Australia Bank	Australia	TD / CD's	£5m	1 yr	
Westpac Banking Corporation	Australia	TD / CD's	£5m	1 yr	
Royal Bank of Canada	Canada	TD / CD's	£5m	1 yr	
Toronto-Dominion Bank	Canada	TD / CD's	£5m	1 yr	

Table 7	Country/ Domicile	Instrument	Maximum investments	Max. maturity period
Development Bank of Singapore	Singapore	TD / CD's	£5m	1 yr
Overseas Chinese Banking Corp	Singapore	TD / CD's	£5m	1 yr
United Overseas Bank	Singapore	TD / CD's	£5m	1 yr
Svenska Handelsbanken	Sweden	TD / CD's	£5m	1 yr
Nordea Bank AB	Sweden	TD / CD's	£5m	1 yr
ABN Amro Bank	Netherlands	TD / CD's	£5m	1 yr
Cooperative Rabobank	Netherlands	TD / CD's	£5m	1 yr
ING Bank NV	Netherlands	TD / CD's	£5m	1 yr
DZ Bank AG	Germany	TD / CD's	£5m	1 yr
UBS AG	Switzerland	TD / CD's	£5m	1 yr
Credit Suisse AG	Switzerland	TD / CD's	£5m	1 yr
Danske Bank	Denmark	TD / CD's	£5m	1 yr

7.8 Non-Specified investments are any other types of investment that are not defined as specified. The identification and rationale supporting the selection of these other investments and the maximum limits to be applied are set out in **Table 8** below:

Table 8	Minimum credit criteria	Maximum investments	Period
UK Local Authorities	Government Backed	£2m	2 years
Green Energy Bonds	Internal and External Due Diligence	£2m	2-5 years

The maximum amount that can be invested will be monitored in relation to the Council surplus monies and the level of reserves. The approved counterparty list will be maintained by referring to an up-to-date credit rating agency reports, and the Council will liaise regularly with brokers for updates. Counterparties may be added to or removed from the list only with the approval of the Chief Finance Officer. A detailed list of specified and non-specified investments that form the counterparty list is shown in Appendix C.

UK Local Authorities - Should a suitable opportunity in the market occur to lend to other Local Authorities of more than a 1-year duration, at a reasonable level of return the deal would be classed as a low risk Non-Specified Investment.

Alternative investments - it is proposed that a new class of "alternative investments" be added to the Councils list of non-specified investment instruments. The motivation for this is increased diversification from the current concentration of credit risk on financial institutions along with the potential for increased returns in the current low interest rate environment whilst still meeting the DHLUC requirements regarding security, liquidity and yield.

A variety of products are available that are secured against real assets such as green energy, timber, commercial properties, and private real estates. Thorough due diligence will need to be undertaken on any such products before any investment is made. The need for due diligence will likely involve legal advice, the Council treasury management advisors and that of external auditors.

7.9 Non treasury management investments

This Council invests in non-treasury management (policy) investments. These do not form part of the treasury management strategy.

7.10 Risk and Sensitivity Analysis

Treasury management risks are identified in the Council's approved Treasury Management Practices. The main risks to the Council's treasury activities are:

- liquidity risk (inadequate cash resources);
- market or interest rate risk (fluctuations in interest rate levels and thereby in the value of investments);
- inflation risks (exposure to inflation);
- credit and counterparty risk (security of investments);
- refinancing risks (impact of debt maturing in future years); and
- legal and regulatory risk (i.e. non-compliance with statutory and regulatory requirements, risk of fraud).

Treasury Officers, in conjunction with the treasury advisers, will monitor these risks closely and particular focus will be applied to:

- the global economy – indicators and their impact on interest rates will be monitored closely. Investment and borrowing portfolios will be positioned according to changes in the global economic climate;
- Counterparty risk – the Council follows a robust credit worthiness methodology and continues to monitor counterparties and sovereign ratings closely particularly within the Eurozone.

7.11 Lending to third parties

The Council has the power to lend monies to third parties subject to several criteria. These are not treasury type investments rather they are policy investments. Any activity will only take place after relevant due diligence has been undertaken. Loans of this nature will be approved by Cabinet. The primary aims of the Investment Strategy are the security of its capital, liquidity of its capital and to obtain a return on its capital commensurate with levels of security and liquidity. These aims are crucial in determining whether to proceed with a potential loan. In order to ensure security of the Council's capital, extensive financial due diligence must be completed prior to any loan or investment being agreed. The Council will use specialist advisors to complete financial checks to ascertain the creditworthiness of the third party. Where necessary, additional guarantees deemed will be sought. This will be via security against assets and/or through guarantees from a parent company.

7.12 The Climate Change and Sustainability Strategy

The Climate Change and Sustainability Strategy was produced following the Climate Emergency declaration made at Full Council in July 2019 and sets out the district wide strategy and vision for a net zero carbon district by 2030. The visions and actions contained within the strategy have been developed in response to the urgency of the climate emergency being faced. The strategy will enable the Council to work with the community to co-ordinate its response into meaningful and long-lasting action. With limited financial resources the Council needs to ensure it prioritises the right actions to have a lasting positive impact on the district in relation to carbon reduction, sustainability, and a green economic recovery.

The current Corporate Plan prioritises Sustainability and Community Wealth Building. Community wealth building is a key part of the sustainability strategy and forms part of action area 7 Circular Economy and Community Wealth. The Council is considered 'an anchor institution' and can use its substantial spending power and influence to drive investment into the local economy to enable a green economic recovery and local job creation and retention. Community wealth is a thread that runs throughout the climate change and sustainability strategy particularly in relation to procurement but also training and skills. The action plan and strategy refer directly to the 'Reimagining Lewes District Action Plan' that was subject to a cabinet paper in December 2020.

7.13 The Council's Approach to Ethical Investments

Ethical investing is a term used to describe an investment process which takes environmental, social and governance (ESG) or other ethical considerations into account and is a topic of increasing interest within treasury management. Investment guidance, both statutory and from CIPFA, makes clear however that all investment must adopt the principals of security, liquidity, yield, and that ethical issues must play a subordinate role to those priorities.

Historically, the council has not included ethical criteria when determining its investment criteria. The investment environment can be very fast moving, so there is a need to ensure that any investment criteria are objective, such as credit ratings. It is difficult to gain an objective assessment of the ethical standing of a potential counterparty, particularly to a tight timescale.

Ethical considerations are difficult to evaluate subjectively and would also need to be applied to the counterparty list after taking into account security and liquidity issues. The council's current counterparty list is, due to the high credit quality criteria used by the council, very small, and therefore does not encompass solely those organisations which promote themselves as ethical. However, none of the organisations on the counterparty list have given cause for concern regarding the ethical nature of their business.

Furthermore, the council will not knowingly invest directly in businesses whose activities and practices pose a risk of serious harm to individuals or groups, or whose activities are inconsistent with the council's mission and values. This would include avoiding direct investment in institutions with material links to:

- Human rights abuse (e.g. child labour, political oppression);
- Environmentally harmful activities (e.g. pollutions, destruction of habitat, fossil fuels);
- Socially harmful activities (e.g. tobacco, gambling).

A small, but growing, number of financial institutions are promoting ESG products and Link Asset Services are currently looking at how these can be incorporated into its creditworthiness assessment service. This is still very much an evolving area and should any investment in ESG products be undertaken by the Council, this would require to be within the approved counterparty

and creditworthiness criteria, and with regard to the views of our treasury advisors on any proposals.

ESG criteria attached to investments can include a range of different factors depending on the region where their core activities take place and the commercial sector they occupy. The following are criteria that the Fitch Rating Agency takes into consideration:

- **Environmental Category:** Emissions and Air Quality; Energy and Waste Management; Waste and Hazardous Material; Exposure to Environmental Impact;
- **Social Category:** Human Rights; Community Relations; Customer Welfare; Labour Relations; Employee Wellbeing; Exposure to Social Impacts;
- **Governance Category:** Management Structure; Governance Structure; Group Structure; Financial Transparency.

The Council does not invest in equities and therefore does not have influence over the activities of companies that part-ownership might provide. However, as an investor the council can take the following approach:

- a. For direct investments, the Council will seek to ensure that counterparties (excluding the UK Government and other UK Local Authorities) have 'Responsible Investment Policies or Environmental, Social and Governance (ESG) policies' in place prior to investing.
- b. For indirect investments, the council will seek to ensure that any fund managers used have their own responsible investment policies or have signed up to widely recognised policies such as the United Nations Principles for Responsible Investment.
- c. The Council recognises that it has no control or influence over where its counterparties themselves lend money or invest once an investment has been made by the Council.

The investment guidance, both statutory and from CIPFA, makes clear that all investing must adopt SLY principles – security, liquidity, and yield: ethical issues must play a subordinate role to those priorities. Link is looking at ways to incorporate these factors into their creditworthiness assessment service, but with a lack of consistency, as well as coverage, Link continue to review the options and will update the Council as progress is made.

8. MINIMUM REVENUE PROVISION POLICY STATEMENT 2022/23

The statutory requirement for local authorities to charge the Revenue Account each year with a specific sum for debt repayment. A variety of options is provided to councils to determine for the financial year an amount of minimum revenue provision (MRP) that it considers to be prudent. This replaces the previous requirement that the minimum sum should be 4% of the Council's Capital Financing Requirement (CFR).

A Statement on the Council's policy for its annual MRP should be submitted to the Full Council for approval before the start the financial year to which the provision relates. The Council is therefore legally obliged to have regard to DLUHC MRP guidance in the same way as applies to other statutory guidance such as the CIPFA Prudential Code, the CIPFA Treasury Management Code and the DLUHC guidance on Investments.

The MRP guidance offers four options under which MRP might be made, with an overriding recommendation that the Council should make prudent provision to redeem its debt liability over a period which is commensurate with that over which the capital expenditure is estimated to provide benefits (i.e. estimated useful life of the asset being financed).

The guidance also requires an annual review of MRP policy being undertaken and it is appropriate that this is done as part of this annual Treasury Management Policy and Strategy.

The International Financial Reporting Standards (IFRS) involves some leases (being reclassified as finance leases instead of operating leases) coming onto the Council's Balance Sheet as long-term liabilities. This accounting treatment impacts on the Capital Financing Requirement with an annual MRP provision being required. To ensure that this change has no overall financial impact on Local Authorities, the Government has updated their "Statutory MRP Guidance" which allows MRP to be equivalent to the existing lease rental payments and "capital repayment element" of annual payments.

The policy from 2022/23 and in future years is therefore as follows: -

For borrowing incurred before 1 April 2008, the MRP policy will be:

- Annuity basis over a maximum of 50 years.

From borrowing incurred after 1 April 2008, the MRP policy will be:

- Asset Life Method (annuity method) – MRP will be based on the estimated life of the assets, in accordance with the proposed regulations. A maximum useful economic life of 50 years for land and 50 years for other assets. This option will also be applied for any expenditure capitalised under a capitalisation directive.

For leases that come onto the Balance Sheet, the MRP policy will be:

- Asset Life Method (annuity method) - The MRP will be calculated according to the flow of benefits from the asset, and where the principal repayments increase over the life of the asset. Any related MRP will be equivalent to the "capital repayment element" of the annual charge payable.

There is the option to charge more than the prudent provision of MRP each year through a Voluntary Revenue Provision (VRP).

These options provide for a reduction in the borrowing need over approximately the asset's life. There is no requirement on the HRA to make a minimum revenue provision but there is a requirement for a charge for depreciation to be made (although there are transitional arrangements in place). Repayments included in finance leases are applied as MRP. It is important to note that changes in the Local Government Financial Regulations means that in the future operating leases will be treated in a manner consistent with financial leases.

For loans to third parties that are being used to fund expenditure that is classed as capital in nature, the policy will be to set aside the repayments of principal as capital receipts to finance the initial capital advance in lieu of making an MRP.

In view of the variety of different types of capital expenditure incurred by the Council, which is not in all cases capable of being related to an individual asset, asset lives will be assessed on a basis which most reasonably reflects the anticipated period of benefit that arises from the expenditure. Also, whatever type of expenditure is involved, it will be grouped together in a manner which reflects the nature of the main component of expenditure.

This approach also allows the Council to defer the introduction of an MRP charge for new capital projects/land purchases until the year after the new asset becomes operational rather than in the year borrowing is required to finance the capital spending. This approach is beneficial for projects that take more than one year to complete and is therefore included as part of the MRP policy.

Half-yearly review of the Council's MRP Policy will be undertaken and reported to Members as part of the Mid-Year Treasury Management Strategy report.

9. SCHEME OF DELEGATION

9.1 Full Council

In line with best practice, Full Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals. These reports are:

i. Treasury Management Policy and Strategy Report

The report covers:

- the capital plans (including prudential indicators);
- a Minimum Revenue Provision 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).

ii. A Mid-Year Review Report and a Year End Stewardship Report

These will update members with the progress of the capital position, amending prudential indicators as necessary, and indicating whether the treasury strategy is meeting the strategy or whether any policies require revision. The reports also provide details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

9.2 Cabinet

- Approval of the Treasury Management quarterly update reports;
- Approval of the Treasury Management outturn report.

9.3 Lewes District Council Audit and Standards Committee

- Scrutiny of performance against the strategy.

9.4 Training

Treasury Management training for committee members will be delivered as required to facilitate more informed decision making and challenge processes. The Council further acknowledges the importance of ensuring that all Members and staff involved in the treasury management function receive adequate training and are fully equipped to undertake the duties and responsibilities allocated to them. To assist with this undertaking, a Member training event was provided in October 2021 and similar events will be provided when required. Officers will continue to attend courses/seminars presented by CIPFA and other suitable professional organisations.

10. OTHER TREASURY ISSUES

10.1 Banking Services

Lloyds Bank currently provides banking services for the Council.

10.2 Policy on the use of External Service Providers

The Council uses Link Asset Services as its external treasury management advisors. The Council recognises that responsibility for treasury management decisions remains with the Council at all times and will ensure that undue reliance is not placed upon our external service providers. It also recognises that there is value in employing external providers of treasury management services 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, documented, and subjected to regular review.

The Treasury Management Role of the Section 151 Officer

The S151 (responsible) officer -

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance;
- submitting regular treasury management policy reports;
- submitting budgets and budget variations;
- receiving and reviewing management information reports;
- reviewing the performance of the treasury management function;
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
- ensuring the adequacy of internal audit, and liaising with external audit;
- recommending the appointment of external service providers.

Role extended by the revised CIPFA Treasury Management and Prudential Codes 2017 as set out below:

- preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments, and treasury management, with a long-term timeframe;
- ensuring that the capital strategy is prudent, sustainable, affordable and prudent in the long term and provides value for money;
- ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the 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.

APPENDIX 'C' - COUNTERPARTY LIST

2022/23 Counterparty/Bank List	Fitch Rating Long Term Status	Long Term	Short Term	Viability	Moody's Ratings Long Term Status	Long Term	Short Term	S&P Ratings Long Term Status	Long Term	Short Term	Suggested Duration	Suggested Duration (Watch/Outlook Adjusted)	CDS Price	1 Month % Change	3 Month % Change	6 Month % Change	Invest. Limit
Australia	SB	AAA			SB	Aaa		SB	AAA		Not Applicable	Not Applicable	14.37	0.06%	-13.84%	-7.64%	
Australia and New Zealand Banking Group Ltd.	SB	A+	F1	a+	SB	Aa3	P-1	SB	AA-	A-1+	O - 12 mths	O - 12 mths	25.95	-18.29%	-0.65%	11.90%	£5m
Commonwealth Bank of Australia	SB	A+	F1	a+	SB	Aa3	P-1	SB	AA-	A-1+	O - 12 mths	O - 12 mths	32.21	-1.31%	25.91%	36.65%	£5m
Macquarie Bank Ltd.	SB	A	F1	a	SB	A2	P-1	SB	A+	A-1	R - 6 mths	R - 6 mths					£5m
National Australia Bank Ltd.	SB	A+	F1	a+	SB	Aa3	P-1	SB	AA-	A-1+	O - 12 mths	O - 12 mths	34.28	-1.21%	29.01%	39.91%	£5m
Westpac Banking Corp.	SB	A+	F1	a+	SB	Aa3	P-1	SB	AA-	A-1+	O - 12 mths	O - 12 mths	35.17	-1.34%	27.75%	37.75%	£5m
Belgium	SB	AA-			SB	Aa3		SB	AA		Not Applicable	Not Applicable	7.02	-2.36%	1.44%	-5.26%	£5m
BNP Paribas Fortis	SB	A+	F1	a	SB	A1	P-1	SB	A+	A-1	R - 6 mths	R - 6 mths					£5m
KBC Bank N.V.	SB	A+	F1	a	SB	A1	P-1	SB	A+	A-1	R - 6 mths	R - 6 mths					£5m
Canada	SB	AA+			SB	Aaa		SB	AAA		Not Applicable	Not Applicable	38.60	-0.05%	-0.10%	0.80%	£5m
Bank of Montreal	NO	AA-	F1+	aa-	SB	Aa2	P-1	SB	A+	A-1	O - 12 mths	O - 12 mths					£5m
Bank of Nova Scotia	NO	AA-	F1+	aa-	SB	Aa2	P-1	SB	A+	A-1	O - 12 mths	O - 12 mths					£5m
Canadian Imperial Bank of Commerce	SB	AA-	F1+	aa-	SB	Aa2	P-1	SB	A+	A-1	O - 12 mths	O - 12 mths					£5m
National Bank of Canada	SB	A+	F1	a+	SB	Aa3	P-1	SB	A	A-1	R - 6 mths	R - 6 mths					£5m
Royal Bank of Canada	SB	AA-	F1+	aa-	PW	Aa2	P-1	SB	AA-	A-1+	O - 12 mths	O - 12 mths					£5m
Toronto-Dominion Bank	SB	AA-	F1+	aa-	SB	Aa1	P-1	SB	AA-	A-1+	O - 12 mths	O - 12 mths					£5m
Denmark	SB	AAA			SB	Aaa		SB	AAA		Not Applicable	Not Applicable	6.33	0.47%	8.57%	8.20%	£5m
Danske A/S	SB	A	F1	a	SB	A2	P-1	NO	A+	A-1	R - 6 mths	R - 6 mths	31.69	-1.85%	9.84%	2.22%	£5m

2022/23 Counterparty/Bank List	Fitch Rating Long Term Status	Long Term	Short Term	Viability	Moody's Ratings Long Term Status	Long Term	Short Term	S&P Ratings Long Term Status	Long Term	Short Term	Suggested Duration	Suggested Duration (Watch/Outlook Adjusted)	CDS Price	1 Month % Change	3 Month % Change	6 Month % Change	Invest. Limit
Finland	SB	AA+			SB	Aa1		SB	AA+		Not Applicable	Not Applicable	7.91	0.76%	0.76%	41.25%	£5m
Nordea Bank Abp	SB	AA-	F1+	aa-	SB	Aa3	P-1	SB	AA-	A-1+	O - 12 mths	O - 12 mths					£5m
OP Corporate Bank plc		WD	WD		SB	Aa3	P-1	SB	AA-	A-1+	O - 12 mths	O - 12 mths					£5m
France	NO	AA			SB	Aa2		SB	AA		Not Applicable	Not Applicable	9.09	-0.21%	-12.08%	-7.52%	£5m
BNP Paribas	SB	A+	F1	a+	SB	Aa3	P-1	SB	A+	A-1	O - 12 mths	O - 12 mths	36.00	-1.34%	-0.08%	6.69%	£5m
Credit Agricole Corporate and Investment Bank	SB	A+	F1	WD	SB	Aa3	P-1	SB	A+	A-1	O - 12 mths	O - 12 mths	24.00	-13.82%	-10.64%	-8.98%	£5m
Credit Agricole S.A.	SB	A+	F1	a+	SB	Aa3	P-1	SB	A+	A-1	O - 12 mths	O - 12 mths	32.00	-4.42%	-0.83%	7.59%	£5m
Credit Industriel et Commercial	SB	A+	F1	a+	SB	Aa3	P-1	SB	A+	A-1	O - 12 mths	O - 12 mths					£5m
Societe Generale	SB	A-	F1	a-	SB	A1	P-1	SB	A	A-1	R - 6 mths	R - 6 mths	37.95	-3.77%	6.18%	7.72%	£5m
Germany	SB	AAA			SB	Aaa		SB	AAA		Not Applicable	Not Applicable	7.10	-0.28%	-3.40%	-9.43%	£5m
Bayerische Landesbank	SB	A-	F1	bbb	SB	Aa3	P-1		NR	NR	R - 6 mths	R - 6 mths					£5m
Commerzbank AG		WD	WD	WD	SB	A1	P-1	NO	BBB+	A-2	G - 100 days	G - 100 days	45.02	-4.13%	4.16%	5.45%	£5m
Deutsche Bank AG	PO	BBB+	F2	bbb +	PO	A2	P-1	SB	A-	A-2	G - 100 days	G - 100 days	45.95	-2.06%	1.54%	4.00%	£5m
DZ BANK AG Deutsche Zentral-Genossenschaftsbank	SB	AA-	F1+		SB	Aa2	P-1	SB	A+	A-1	O - 12 mths	O - 12 mths					£5m
Landesbank Baden-Wuerttemberg	SB	A-	F1	bbb	SB	Aa3	P-1		NR	NR	R - 6 mths	R - 6 mths					£5m
Landesbank Berlin AG					SB	Aa2	P-1				O - 12 mths	O - 12 mths					£5m
Landesbank Hessen-Thuringen Girozentrale	SB	A+	F1+		SB	Aa3	P-1	SB	A-	A-2	R - 6 mths	R - 6 mths	58.98	0.01%	0.00%	3.92%	£5m
Landwirtschaftliche Rentenbank	SB	AAA	F1+		SB	Aaa	P-1	SB	AAA	A-1+	P - 24 mths	P - 24 mths					£5m

2022/23 Counterparty/Bank List	Fitch Rating Long Term Status	Long Term	Short Term	Viability	Moody's Ratings Long Term Status	Long Term	Short Term	S&P Ratings Long Term Status	Long Term	Short Term	Suggested Duration	Suggested Duration (Watch/Outlook Adjusted)	CDS Price	1 Month % Change	3 Month % Change	6 Month % Change	Invest. Limit
Nordeutsche Landesbank Girozentrale	SB	A-	F1	bb	SB	A3	P-2		NR	NR	G - 100 days	G - 100 days					£5m
NRW.BANK	SB	AAA	F1+		SB	Aa1	P-1	SB	AA	A-1+	P - 24 mths	P - 24 mths					£5m
Netherlands	SB	AAA			SB	Aaa		SB	AAA		Not Applicable	Not Applicable	7.77	-1.27%	-1.01%	9.59%	£5m
ABN AMRO Bank N.V.	SB	A	F1	a	SB	A1	P-1	SB	A	A-1	R - 6 mths	R - 6 mths					£5m
Bank Nederlandse Gemeenten N.V.	SB	AAA	F1+		SB	Aaa	P-1	SB	AAA	A-1+	P - 24 mths	P - 24 mths					£5m
Coöperatieve Rabobank U.A.	SB	A+	F1	a+	SB	Aa2	P-1	SB	A+	A-1	O - 12 mths	O - 12 mths	23.74	0.00%	-3.25%	10.77%	£5m
ING Bank N.V.	SB	AA-	F1+	a+	SB	Aa3	P-1	SB	A+	A-1	O - 12 mths	O - 12 mths	24.96	-1.88%	0.04%	11.22%	£5m
Nederlandse Waterschapsbank N.V.					SB	Aaa	P-1	SB	AAA	A-1+	P - 24 mths	P - 24 mths					£5m
Qatar	SB	AA-			SB	Aa3		SB	AA-		Not Applicable	Not Applicable	45.55	6.74%	1.08%	12.24%	£5m
Qatar National Bank	NW	A+	F1	bbb+	SB	Aa3	P-1	SB	A	A-1	R - 6 mths	R - 6 mths	75.38	1.94%	0.31%	-6.03%	£5m
Singapore	SB	AAA			SB	Aaa		SB	AAA		Not Applicable	Not Applicable					£5m
DBS Bank Ltd.	SB	AA-	F1+	aa-	SB	Aa1	P-1	SB	AA-	A-1+	O - 12 mths	O - 12 mths					£5m
Oversea-Chinese Banking Corp. Ltd.	SB	AA-	F1+	aa-	SB	Aa1	P-1	SB	AA-	A-1+	O - 12 mths	O - 12 mths					£5m
United Overseas Bank Ltd.	SB	AA-	F1+	aa-	SB	Aa1	P-1	SB	AA-	A-1+	O - 12 mths	O - 12 mths					£5m
Sweden	SB	AAA			SB	Aaa		SB	AAA		Not Applicable	Not Applicable	7.53	-0.39%	-0.92%	6.20%	£5m
Skandinaviska Enskilda Banken AB	SB	AA-	F1+	aa-	SB	Aa3	P-1	SB	A+	A-1	O - 12 mths	O - 12 mths					£5m
Svenska Handelsbanken AB	SB	AA	F1+	aa	SB	Aa2	P-1	SB	AA-	A-1+	O - 12 mths	O - 12 mths					£5m
Swedbank AB	PO	A+	F1	a+	NW	Aa3	P-1	SB	A+	A-1	O - 12 mths	O - 12 mths					£5m

2022/23 Counterparty/Bank List	Fitch Rating	Long Term	Short Term	Viability	Moody's Ratings	Long Term	Short Term	S&P Ratings	Long Term	Short Term	Suggested Duration	Suggested Duration (Watch/Outlook Adjusted)	CDS Price	1 Month % Change	3 Month % Change	6 Month % Change	Invest. Limit
	Long Term Status				Long Term Status			Long Term Status									
Switzerland	SB	AAA			SB	Aaa		SB	AAA		Not Applicable	Not Applicable	19.00	0.00%	0.00%	0.00%	£5m
Credit Suisse AG	NO	A	F1	a-	SB	A1	P-1	NO	A+	A-1	R - 6 mths	R - 6 mths	57.94	-2.89%	0.90%	-2.49%	£5m
UBS AG	SB	AA-	F1+	a+	SB	Aa2	P-1	SB	A+	A-1	O - 12 mths	O - 12 mths	34.48	-5.45%	7.85%	9.56%	£5m
United Arab Emirates	SB	AA			SB	Aa2		SB	AA		Not Applicable	Not Applicable	44.58	-0.15%	0.08%	-2.04%	£5m
First Abu Dhabi Bank PJSC	SB	AA-	F1+	a-	SB	Aa3	P-1	SB	AA-	A-1+	O - 12 mths	O - 12 mths					£5m
United Kingdom	SB	AA-			SB	Aa3		SB	AA		Not Applicable	Not Applicable	6.52	-0.30%	-3.26%	-18.09%	£5m
Collateralised LA Deposit*											Y - 60 mths	Y - 60 mths					£5m
Debt Management Office											Y - 60 mths	Y - 60 mths					£5m
Multilateral Development Banks											Y - 60 mths	Y - 60 mths					£5m
Supranationals											Y - 60 mths	Y - 60 mths					£5m
UK Gilts											Y - 60 mths	Y - 60 mths					£5m
Al Rayan Bank Plc					SB	A1	P-1				R - 6 mths	R - 6 mths					£5m
Bank of Scotland PLC (RFB)	SB	A+	F1	a	SB	A1	P-1	SB	A+	A-1	R - 6 mths	R - 6 mths	49.70	-0.08%	-0.10%	0.02%	£5m
Barclays Bank PLC (NRFB)	SB	A+	F1	a	SB	A1	P-1	PO	A	A-1	R - 6 mths	R - 6 mths	53.92	2.88%	14.87%	21.33%	£5m
Barclays Bank UK PLC (RFB)	SB	A+	F1	a	SB	A1	P-1	PO	A	A-1	R - 6 mths	R - 6 mths					£5m
Close Brothers Ltd	SB	A-	F2	a-	NO	Aa3	P-1				R - 6 mths	R - 6 mths					£5m
Clydesdale Bank PLC	SB	A-	F2	bbb+	SB	Baa1	P-2	SB	A-	A-2	G - 100 days	G - 100 days					£5m
Co-operative Bank PLC (The)	SB	B+	B	b	PO	Ba3	NP				N/C - 0 mths	N/C - 0 mths					£5m
Goldman Sachs International Bank	SB	A+	F1		SB	A1	P-1	SB	A+	A-1	R - 6 mths	R - 6 mths	65.22	8.48%	18.71%	21.72%	£5m

2022/23 Counterparty/Bank List	Fitch Rating	Long Term	Short Term	Viability	Moody's Ratings	Long Term	Short Term	S&P Ratings	Long Term	Short Term	Suggested Duration	Suggested Duration (Watch/Outlook Adjusted)	CDS Price	1 Month % Change	3 Month % Change	6 Month % Change	Invest. Limit
	Long Term Status				Long Term Status			Long Term Status									
Handelsbanken Plc	SB	AA	F1+					SB	AA-	A-1+	O - 12 mths	O - 12 mths					£5m
HSBC Bank PLC (NRFB)	NO	AA-	F1+	a	SB	A1	P-1	SB	A+	A-1	O - 12 mths	O - 12 mths	33.50	-15.06%	-10.57%	4.68%	£5m
HSBC UK Bank Plc (RFB)	NO	AA-	F1+	a	SB	A1	P-1	SB	A+	A-1	O - 12 mths	O - 12 mths					£5m
Lloyds Bank Corporate Markets Plc (NRFB)	SB	A+	F1		SB	A1	P-1	SB	A	A-1	R - 6 mths	R - 6 mths					£5m
Lloyds Bank Plc (RFB)	SB	A+	F1	a	SB	A1	P-1	SB	A+	A-1	R - 6 mths	R - 6 mths	34.49	-2.76%	4.51%	4.54%	£5m
National Bank Of Kuwait (International) PLC	NO	AA-	F1+					NO	A	A-1	O - 12 mths	O - 12 mths					£5m
NatWest Markets Plc (NRFB)	SB	A+	F1	WD	PO	A2	P-1	SB	A-	A-2	R - 6 mths	R - 6 mths	48.46	-3.86%	4.30%	10.13%	£5m
Santander Financial Services plc (NRFB)	SB	A+	F1		SB	A1	P-1	SB	A-	A-2	R - 6 mths	R - 6 mths					£5m
Santander UK PLC	SB	A+	F1	a	SB	A1	P-1	SB	A	A-1	R - 6 mths	R - 6 mths					£5m
SMBC Bank International Plc	NO	A	F1		SB	A1	P-1	SB	A	A-1	R - 6 mths	R - 6 mths	30.16	1.00%	1.20%	7.14%	£5m
Standard Chartered Bank	NO	A+	F1	a	SB	A1	P-1	SB	A+	A-1	R - 6 mths	R - 6 mths	34.98	-11.28%	-6.62%	14.68%	£5m
Coventry Building Society	SB	A-	F1	a-	SB	A2	P-1				R - 6 mths	R - 6 mths					£5m
Leeds Building Society	SB	A-	F1	a-	SB	A3	P-2				G - 100 days	G - 100 days					£5m
Nationwide Building Society	SB	A	F1	a	SB	A1	P-1	SB	A+	A-1	R - 6 mths	R - 6 mths					£5m
Nottingham Building Society					SB	Baa3	P-3				N/C - 0 mths	N/C - 0 mths					£5m
Principality Building Society	SB	BBB+	F2	bbb+	SB	Baa2	P-2				N/C - 0 mths	N/C - 0 mths					£5m
Skipton Building Society	SB	A-	F1	a-	SB	A2	P-1				R - 6 mths	R - 6 mths					£5m
West Bromwich Building Society					SB	Ba3	NP				N/C - 0 mths	N/C - 0 mths					£5m

2022/23 Counterparty/Bank List	Fitch Rating Long Term Status	Long Term	Short Term	Viability	Moody's Ratings Long Term Status	Long Term	Short Term	S&P Ratings Long Term Status	Long Term	Short Term	Suggested Duration	Suggested Duration (Watch/Outlook Adjusted)	CDS Price	1 Month % Change	3 Month % Change	6 Month % Change	Invest. Limit
Yorkshire Building Society	SB	A-	F1	a-	SB	A3	P-2				G - 100 days	G - 100 days					£5m
National Westminster Bank PLC (RFB)	SB	A+	F1	a	SB	A1	P-1	SB	A	A-1	B - 12 mths	B - 12 mths					£5m
The Royal Bank of Scotland Plc (RFB)	SB	A+	F1	a	SB	A1	P-1	SB	A	A-1	B - 12 mths	B - 12 mths					£5m
United States	NO	AAA				Aaa		SB	AA+		Not Applicable	Not Applicable	5.50	-61.07%	-1.96%	-1.96%	£5m
Bank of America N.A.	SB	AA	F1+	aa-	PO	Aa2	P-1	PO	A+	A-1	O - 12 mths	O - 12 mths					£5m
Bank of New York Mellon, The	SB	AA	F1+	aa-	SB	Aa1	P-1	SB	AA-	A-1+	P - 24 mths	P - 24 mths	40.35	0.00%	0.00%	0.00%	£5m
Citibank N.A.	SB	A+	F1	a	SB	Aa3	P-1	SB	A+	A-1	O - 12 mths	O - 12 mths	57.72	4.71%	18.93%	14.91%	£5m
JPMorgan Chase Bank N.A.	SB	AA	F1+	aa-	SB	Aa1	P-1	PO	A+	A-1	O - 12 mths	O - 12 mths					£5m
Wells Fargo Bank, NA	NO	AA-	F1+	a+	NO	Aa1	P-1	SB	A+	A-1	O - 12 mths	O - 12 mths	51.68	4.67%	14.18%	9.07%	£5m

Yellow	Purple	Blue	Orange	Red	Green	No Colour
Up to 5yrs	Up to 2yrs	Up to 1yr (semi nationalised UK bank NatWest/RBS)	Up to 1yr	Up to 6 months	Up to 100 days	Not to be used

Watches and Outlooks: SB- Stable Outlook; NO- Negative Outlook; NW- Negative Watch; PO- Positive Outlook; PW- Positive Watch; EO- Evolving Outlook; EW- Evolving Watch; WD- Rating Withdrawn.

Non-Specified Investments:			
	Minimum credit Criteria	Maximum Investments	Period
UK Local Authorities	Government Backed	£2m	2 years
Green Energy Bonds	Internal and External Due Diligence	£2m	2-5 years

Link Treasury Services Limited Economic Background & Interest Rate Forecast

COVID-19 vaccines

These were the game changer during 2021 which raised high hopes that life in the UK would be able to largely return to normal in the second half of the year. However, the bursting onto the scene of the Omicron mutation at the end of November, rendered the initial two doses of all vaccines largely ineffective in preventing infection. This has dashed such hopes and raises the spectre again that a fourth wave of the virus could overwhelm hospitals in early 2022. What we now know is that this mutation is very fast spreading with the potential for total case numbers to double every two to three days, although it possibly may not cause so much severe illness as previous mutations. Rather than go for full lockdowns which heavily damage the economy, the government strategy this time is focusing on getting as many people as possible to have a third (booster) vaccination after three months from the previous last injection, as a booster has been shown to restore a high percentage of immunity to Omicron to those who have had two vaccinations.

There is now a race on between how quickly boosters can be given to limit the spread of Omicron, and how quickly will hospitals fill up and potentially be unable to cope. In the meantime, workers have been requested to work from home and restrictions have been placed on large indoor gatherings and hospitality venues. With the household saving rate having been exceptionally high since the first lockdown in March 2020, there is plenty of pent-up demand and purchasing power stored up for services in sectors like restaurants, travel, tourism and hotels which had been hit hard during 2021, but could now be hit hard again by either, or both, of government restrictions and/or consumer reluctance to leave home. Growth will also be lower due to people being ill and not working, similar to the pingdemic in July. The economy, therefore, faces significant headwinds although some sectors have learned how to cope well with Covid.

However, the biggest impact on growth would come from another lockdown if that happened. The big question still remains as to whether any further mutations of this virus could develop which render all current vaccines ineffective, as opposed to how quickly vaccines can be modified to deal with them and enhanced testing programmes be implemented to contain their spread until tweaked vaccines become widely available.

A SUMMARY OVERVIEW OF THE FUTURE PATH OF BANK RATE

- In December, the Bank of England became the first major western central bank to put interest rates up in this upswing in the current business cycle in western economies as recovery progresses from the Covid recession of 2020.
- The next increase in Bank Rate could be in February or May, dependent on how severe an impact there is from Omicron.
- If there are lockdowns in January, this could pose a barrier for the MPC to putting Bank Rate up again as early as 3rd February.
- With inflation expected to peak at around 6% in April, the MPC may want to be seen to be active in taking action to counter inflation on 5th May, the release date for its Quarterly Monetary Policy Report.
- The December 2021 MPC meeting was more concerned with combating inflation over the medium term than supporting economic growth in the short term.
- Bank Rate increases beyond May are difficult to forecast as inflation is likely to drop sharply in the second half of 2022.

- However, the MPC will want to normalise Bank Rate over the next three years so that it has its main monetary policy tool ready to use in time for the next down-turn; all rates under 2% are providing stimulus to economic growth.
- We have put year end 0.25% increases into Q1 of each financial year from 2023 to recognise this upward bias in Bank Rate - but the actual timing in each year is difficult to predict.
- Covid remains a major potential downside threat in all three years as we ARE likely to get further mutations.
- How quickly can science come up with a mutation proof vaccine, or other treatment, – and for them to be widely administered around the world?
- Purchases of gilts under QE ended in December. Note that when Bank Rate reaches 0.50%, the MPC has said it will start running down its stock of QE.

MPC MEETING 16th DECEMBER 2021

- The Monetary Policy Committee (MPC) voted 8-1 to raise Bank Rate by 0.15% from 0.10% to 0.25% and unanimously decided to make no changes to its programme of quantitative easing purchases due to finish in December 2021 at a total of £895bn.
- The MPC disappointed financial markets by not raising Bank Rate at its November meeting. Until Omicron burst on the scene, most forecasters, therefore, viewed a Bank Rate increase as being near certain at this December meeting due to the way that inflationary pressures have been comprehensively building in both producer and consumer prices, and in wage rates. However, at the November meeting, the MPC decided it wanted to have assurance that the labour market would get over the end of the furlough scheme on 30th September without unemployment increasing sharply; their decision was, therefore, to wait until statistics were available to show how the economy had fared at this time.
- **On 10th December we learnt of the disappointing 0.1% m/m rise in GDP** in October which suggested that economic growth had already slowed to a crawl even before the Omicron variant was discovered in late November. Early evidence suggests growth in November might have been marginally better. Nonetheless, at such low rates of growth, the government's "Plan B" COVID-19 restrictions could cause the economy to contract in December.
- **On 14th December, the labour market statistics** for the three months to October and the single month of October were released. The fallout after the furlough scheme was smaller and shorter than the Bank of England had feared. The single-month data were more informative and showed that LFS employment fell by 240,000, unemployment increased by 75,000 and the unemployment rate rose from 3.9% in September to 4.2%. However, the weekly data suggested this didn't last long as unemployment was falling again by the end of October. What's more, the 49,700 falls in the claimant count and the 257,000 rise in the PAYE measure of company payrolls suggests that the labour market strengthened again in November. The other side of the coin was a further rise in the number of vacancies from 1.182m to a record 1.219m in the three months to November which suggests that the supply of labour is struggling to keep up with demand, although the single-month figure for November fell for the first time since February, from 1.307m to 1.227m.
- These figures by themselves, would probably have been enough to give the MPC the assurance that it could press ahead to raise Bank Rate at this December meeting.

However, the advent of Omicron potentially threw a spanner into the works as it poses a major headwind to the economy which, of itself, will help to cool the economy. The financial markets, therefore, swung round to expecting no change in Bank Rate.

- **On 15th December we had the CPI inflation** figure for November which spiked up further from 4.2% to 5.1%, confirming again how inflationary pressures have been building sharply. However, Omicron also caused a sharp fall in world oil and other commodity prices; (gas and electricity inflation has generally accounted on average for about 60% of the increase in inflation in advanced western economies).
- **Other elements of inflation are also transitory** e.g., prices of goods being forced up by supply shortages, and shortages of shipping containers due to ports being clogged have caused huge increases in shipping costs. But these issues are likely to clear during 2022, and then prices will subside back to more normal levels. Gas prices and electricity prices will also fall back once winter is passed and demand for these falls away.
- Although it is possible that the Government could step in with some **fiscal support for the economy**, the huge cost of such support to date is likely to pose a barrier to incurring further major economy wide expenditure unless it is very limited and targeted on narrow sectors like hospitality, (as announced just before Christmas). The Government may well, therefore, effectively leave it to the MPC, and to monetary policy, to support economic growth – but at a time when the threat posed by rising inflation is near to peaking!
- This is the adverse set of factors against which the MPC had to decide on Bank Rate. For the second month in a row, the MPC blind-sided financial markets, this time with a **surprise increase in Bank Rate from 0.10% to 0.25%**. What's more, the hawkish tone of comments indicated that the MPC is now concerned that inflationary pressures are indeed building and need concerted action by the MPC to counter. This indicates that there will be more increases to come with financial markets predicting 1% by the end of 2022. The 8-1 vote to raise the rate shows that there is firm agreement that inflation now poses a threat, especially after the CPI figure hit a 10-year high this week. The MPC commented that “there has been significant upside news” and that “there were some signs of greater persistence in domestic costs and price pressures”.
- On the other hand, it did also comment that “**the Omicron variant is likely to weigh on near-term activity**”. But it stressed that at the November meeting it had said it would raise rates if the economy evolved as it expected and that now “these conditions had been met”. It also appeared more worried about the possible boost to inflation from Omicron itself. It said that “the current position of the global and UK economies was materially different compared with prior to the onset of the pandemic, including elevated levels of consumer price inflation”. It also noted the possibility that renewed social distancing would boost demand for goods again, (as demand for services would fall), meaning “global price pressures might persist for longer”. (Recent news is that the largest port in the world in China has come down with an Omicron outbreak which is not only affecting the port but also factories in the region.)
- On top of that, there were no references this month to inflation being expected to be below the **2% target in two years' time**, which at November's meeting the MPC referenced to suggest the markets had gone too far in expecting interest rates to rise to over 1.00% by the end of the year.
- These comments indicate that there has been a material reappraisal by the MPC of the inflationary pressures since their last meeting and the Bank also increased its forecast for inflation to peak at 6% next April, rather than at 5% as of a month ago. However, as the Bank retained its guidance that only a “**modest tightening**” in policy will be required, it cannot be thinking that it will need to increase interest rates that much more. A typical policy tightening cycle has usually involved rates rising by 0.25% four times in a year.

“Modest” seems slower than that. As such, the Bank could be thinking about raising interest rates two or three times next year to 0.75% or 1.00%.

- In as much as a considerable part of the inflationary pressures at the current time are indeed **transitory**, and will naturally subside, and since economic growth is likely to be weak over the next few months, this would appear to indicate that this tightening cycle is likely to be comparatively short.
- As for the timing of the next increase in Bank Rate, the MPC dropped the comment from November’s statement that Bank Rate would be raised “in the coming months”. That may imply another rise is unlikely at the next meeting in February and that May is more likely. However, much could depend on how adversely, or not, the economy is affected by Omicron in the run up to the next meeting on 3rd February. Once 0.50% is reached, the Bank would act to start shrinking its stock of QE, (gilts purchased by the Bank would not be replaced when they mature).
- **The MPC’s forward guidance on its intended monetary policy** on raising Bank Rate versus selling (quantitative easing) holdings of bonds is as follows: -
 - Raising Bank Rate as “the active instrument in most circumstances”.
 - Raising Bank Rate to 0.50% before starting on reducing its holdings.
 - Once Bank Rate is at 0.50% it would stop reinvesting maturing gilts.
 - Once Bank Rate had risen to at least 1%, it would start selling its holdings.
- **US.** Shortages of goods and intermediate goods like semi-conductors, have been fuelling increases in prices and reducing economic growth potential. In November, **CPI inflation hit a near 40-year record level of 6.8%** but with energy prices then falling sharply, this is probably the peak. The biggest problem for the Fed is the mounting evidence of a strong pick-up in cyclical price pressures e.g., in rent which has hit a decade high.
- **Shortages of labour** have also been driving up wage rates sharply; this also poses a considerable threat to feeding back into producer prices and then into consumer prices inflation. It now also appears that there has been a sustained drop in the labour force which suggests the pandemic has had a longer-term scarring effect in reducing potential GDP. Economic growth may therefore be reduced to between 2 and 3% in 2022 and 2023 while core inflation is likely to remain elevated at around 3% in both years instead of declining back to the Fed’s 2% central target.
- Inflation hitting 6.8% and the feed through into second round effects, meant that it was near certain that the **Fed’s meeting of 15th December** would take aggressive action against inflation. Accordingly, the rate of tapering of monthly \$120bn QE purchases announced at its November 3rd meeting. was doubled so that all purchases would now finish in February 2022. In addition, Fed officials had started discussions on running down the stock of QE held by the Fed. Fed officials also expected three rate rises in 2022 of 0.25% from near zero currently, followed by three in 2023 and two in 2024, taking rates back above 2% to a neutral level for monetary policy.
- The first increase could come as soon as March 2022 as the chairman of the Fed stated his view that the economy had made rapid progress to achieving the other goal of the Fed – “maximum employment”. The Fed forecast that inflation would fall from an average of 5.3% in 2021 to 2.6% in 2023, still above its target of 2% and both figures significantly up from previous forecasts. What was also significant was that this month the Fed dropped its description of the current level of inflation as being “transitory” and instead referred to “elevated levels” of inflation: the statement also dropped most of the language around the flexible average inflation target, with inflation now described as having exceeded 2 percent “for some time”.

It did not see Omicron as being a major impediment to the need to take action now to curtail the level of inflationary pressures that have built up, although Fed officials did note that it has the potential to exacerbate supply chain problems and add to price pressures.

- **EU.** The slow roll out of vaccines initially delayed **economic recovery** in early 2021 but the vaccination rate then picked up sharply. After a contraction of -0.3% in Q1, Q2 came in with strong growth of 2%. With Q3 at 2.2%, the EU recovery was then within 0.5% of its pre Covid size. However, the arrival of Omicron is now a major headwind to growth in quarter 4 and the expected downturn into weak growth could well turn negative, with the outlook for the first two months of 2022 expected to continue to be very weak.
- **November's inflation figures** breakdown shows that the increase in price pressures is not just due to high energy costs and global demand-supply imbalances for durable goods as services inflation also rose. Headline inflation reached 4.9% in November, with over half of that due to energy. However, oil and gas prices are expected to fall after the winter and so energy inflation is expected to plummet in 2022. Core goods inflation rose to 2.4% in November, its second highest ever level, and is likely to remain high for some time as it will take a long time for the inflationary impact of global imbalances in the demand and supply of durable goods to disappear. Price pressures also increased in the services sector, but wage growth remains subdued and there are no signs of a trend of faster wage growth which might lead to *persistently* higher services inflation - which would get the ECB concerned. The upshot is that the euro-zone is set for a prolonged period of inflation being above the ECB's target of 2% and it is likely to average 3% in 2022, in line with the ECB's latest projection.
- **ECB tapering.** The ECB has joined with the Fed by also announcing at its meeting on 16th December that it will be reducing its QE purchases - by half from October 2022, i.e., it will still be providing significant stimulus via QE purchases for over half of next year. However, as inflation will fall back sharply during 2022, it is likely that it will leave its central rate below zero, (currently -0.50%), over the next two years. The main struggle that the ECB has had in recent years is that inflation has been doggedly anaemic in sticking below the ECB's target rate despite all its major programmes of monetary easing by cutting rates into negative territory and providing QE support.
- The ECB will now also need to consider the impact of **Omicron** on the economy, and it stated at its December meeting that it is prepared to provide further QE support if the pandemic causes bond yield spreads of peripheral countries, (compared to the yields of northern EU countries), to rise. However, that is the only reason it will support peripheral yields, so this support is limited in its scope.
- The EU has entered into a **period of political uncertainty** where a new German government formed of a coalition of three parties with Olaf Scholz replacing Angela Merkel as Chancellor in December 2021, will need to find its feet both within the EU and in the three parties successfully working together. In France there is a presidential election coming up in April 2022 followed by the legislative election in June. In addition, Italy needs to elect a new president in January with Prime Minister Draghi being a favourite due to having suitable gravitas for this post. However, if he switched office, there is a significant risk that the current government coalition could collapse. That could then cause differentials between Italian and German bonds to widen when 2022 will also see a gradual running down of ECB support for the bonds of weaker countries within the EU. These political uncertainties could have repercussions on economies and on Brexit issues.

- **CHINA.** After a concerted effort to get on top of the virus outbreak in Q1 2020, economic recovery was strong in the rest of **2020**; this enabled China to recover all the initial contraction. During 2020, policy makers both quashed the virus and implemented a programme of monetary and fiscal support that was particularly effective at stimulating short-term growth. At the same time, China's economy benefited from the shift towards online spending by consumers in developed markets. These factors helped to explain its comparative outperformance compared to western economies during 2020 and earlier in 2021.
- However, the pace of economic growth has now fallen back in **2021** after this initial surge of recovery from the pandemic and looks likely to be particularly weak in 2022. China has been struggling to contain the spread of the Delta variant through using sharp local lockdowns - which depress economic growth. Chinese consumers are also being very wary about leaving home and so spending money on services. However, with Omicron having now spread to China, and being much more easily transmissible, this strategy of sharp local lockdowns to stop the virus may not prove so successful in future. In addition, the current pace of providing boosters at 100 billion per month will leave much of the 1.4 billion population exposed to Omicron, and any further mutations, for a considerable time. The **People's Bank of China** made a start in December 2021 on cutting its key interest rate marginally so as to stimulate economic growth. However, after credit has already expanded by around 25% in just the last two years, it will probably leave the heavy lifting in supporting growth to fiscal stimulus by central and local government.
- Supply shortages, especially of coal for power generation, were causing widespread power cuts to industry during the second half of 2021 and so a sharp disruptive impact on some sectors of the economy. In addition, recent regulatory actions motivated by a political agenda to channel activities into officially approved directions, are also likely to reduce the dynamism and long-term growth of the Chinese economy.
- **WORLD GROWTH.** World growth was in recession in 2020 but recovered during 2021 until starting to lose momentum in the second half of the year, though overall growth for the year is expected to be about 6% and to be around 4-5% in 2022. Inflation has been rising due to increases in gas and electricity prices, shipping costs and supply shortages, although these should subside during 2022. While headline inflation will fall sharply, core inflation will probably not fall as quickly as central bankers would hope. It is likely that we are heading into a period where there will be a **reversal of world globalisation** and a decoupling of western countries from dependence on China to supply products, and vice versa. This is likely to reduce world growth rates from those in prior decades.
- **SUPPLY SHORTAGES.** The pandemic and extreme weather events, followed by a major surge in demand after lockdowns ended, have been highly disruptive of extended worldwide supply chains. Major queues of ships unable to unload their goods at ports in New York, California and China built up rapidly during quarters 2 and 3 of 2021 but then halved during quarter 4. Such issues have led to a maldistribution of shipping containers around the world and have contributed to a huge increase in the cost of shipping. Combined with a shortage of semi-conductors, these issues have had a disruptive impact on production in many countries. The latest additional disruption has been a shortage of coal in China leading to power cuts focused primarily on producers (rather than consumers), i.e., this will further aggravate shortages in meeting demand for goods. Many western countries are also hitting up against a difficulty in filling job vacancies. It is expected that these issues will be gradually sorted out, but they are currently contributing to a spike upwards in inflation and shortages of materials and goods available to purchase.

Capital Strategy

1) Introduction

1.1 This Capital Strategy provides high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services in Lewes District Council (LDC), along with an overview of how associated risk is managed and the implications for future financial sustainability. It has purposely been written in an accessible style to enhance understanding of what can be very technical areas, and the key objectives are to deliver a capital programme that:

- Ensure the Council's capital assets are used to support the Council's vision;
- Reduce ongoing commitments/schemes;
- Reduce the current and projected level of borrowing;
- Reduce borrowing impacts on the Council's revenue budget;
- Increase capital programme partnership/support opportunities;
- Links with the Council's asset management/disposal plan;
- Is affordable, financially prudent and sustainable;
- Ensure the most cost-effective use of existing assets and new capital investment.

1.2 The Capital Strategy is a 'living document' and will be periodically, usually annually, updated to reflect changing local circumstances and other significant developments. The Strategy outlines the council's approach to capital investment, ensuring that it is in line with the council's corporate priorities. It is good practice that capital strategy and asset management/disposal plans are regularly reviewed and revised to meet the changing priorities and circumstances of the Council.

1.3 The strategy provides an important link between the ambitions set out in the Council's longer-term vision and Council Plan and the important investment in infrastructure that will help turn that vision into a reality. The economic climate and financial challenges due to COVID-19 are thought-provoking. However, the Council is committed to investing now for the longer term and financing that commitment will be made possible by the Council's financial resilience that continue to be developed through various themes and ongoing initiatives, including –

- Recovery and Reset Programme/Best use of Assets review;
- Medium Term Financial Strategy;
- Prudential Code/Treasury Management Strategy

2. Capital Expenditure and Financing

2.1 Expenditure

2.1.1 Capital expenditure occurs when the Council spends money on assets such as property or vehicles, which will be used for more than one year. In local government this includes spending on assets owned by other bodies, and loans and grants to other bodies enabling them to buy assets. The Council has some limited discretion on what counts as capital expenditure, for example assets costing below a de-minimis level are not capitalised and are charged to revenue in year.

2.1.2 Further details on the capitalisation policy can be found in the Council’s Statement of Accounts.

2.1.3 In 2022/23, the Council is planning capital expenditure of £41.8 million and £127.8 million over the next three years as summarised in Table 1 below:

Table 1: Prudential Indicator: Estimates of Capital Expenditure

Capital Expenditure	2021/22 budget	2022/23 budget	2023/24 budget	2024/25 budget
	£m	£m	£m	£m
General Fund	15.4	25.5	40.2	17.2
HRA	11.1	12.9	15.5	12.0
Commercial Activities	0.8	3.4	1.1	-
TOTAL	27.2	41.8	56.8	29.2

2.1.4 The main General Fund capital projects scheduled for 2022/23+ are as follows:

- New Business Unit, Newhaven;
- Newhaven Town Centre;
- UTC, Newhaven;
- Local Energy Schemes;
- New Crematorium.

2.1.5 The main Commercial Activity capital projects scheduled for 2022/23+ are as follows:

- The Friars, Lewes;
- Caburn House, Lewes;
- Newhaven Square, Newhaven

2.1.6 The Housing Revenue Account (HRA) is a ring-fenced account which ensures that the Council’s housing does not subsidise, or is itself subsidised, by other local services. HRA capital expenditure is therefore recorded separately.

2.2 Governance

2.2.1 The evaluation, prioritisation and acceptance of capital schemes onto the Capital Programme is carried out in accordance with strict criteria that ensures that added schemes reflect Council priorities and can be delivered within available resources (e.g. due priority is given to schemes yielding savings and/or generating income as well as meeting a Council priority).

2.2.2 The draft Capital Programme is subject to formal scrutiny prior to setting the budget (and followed by Cabinet and Full Council approval).

2.3 Financing

2.3.1 All capital expenditure must be financed, either from external sources (Government grants and other contributions), the Council’s own resources (revenue, reserves and capital receipts) or debt (borrowing and leasing). The planned financing of the above expenditure is presented in **Table 2** below.

Table 2: Capital Financing Sources

	2021/22 budget	2022/23 budget	2023/24 budget	2024/25 budget
	£m	£m	£m	£m
External sources	10.4	10.3	20.6	11.5
Own resources	10.5	16.5	16.7	7.2
Debt	6.3	15.0	19.5	10.5
TOTAL	27.2	41.8	56.8	29.2

- 2.3.2 Debt is only a temporary source of finance, since loans and leases must be repaid, and this is therefore replaced over time by other financing, usually from revenue which is known as “Minimum Revenue Provision” (MRP). Alternatively, proceeds from selling capital assets (known as capital receipts) may be used to replace debt finance. Planned MRP and use of capital receipts are presented in **Table 3** below.

Table 3: Repayment of Debt Finance

	2021/22 budget	2022/23 budget	2023/24 budget	2024/25 budget
	£m	£m	£m	£m
Own resources	0.3	0.5	0.9	1.2

- 2.3.3 The Council’s annual MRP statement can be found within **Appendix A (Section 8)** above.
- 2.3.4 The Council’s cumulative outstanding amount of debt finance is measured by the Capital Financing Requirement (CFR). This increases with new debt-financed capital expenditure and reduces with MRP and capital receipts used to replace debt. The CFR is expected to increase by £14.5 million in 2022/23. Based on the above figures for expenditure and financing, the Council’s estimated CFR is presented in **Table 4** below.

Table 4: Prudential Indicator: Estimates of Capital Financing Requirement (CFR)

	31 March 2022	31 March 2023	31 March 2024	31 March 2025
	£m	£m	£m	£m
General Fund	15.6	26.9	39.9	47.1
HRA	71.6	71.5	76.2	78.6
Commercial Activities	8.1	11.3	12.2	12.0
TOTAL CFR	95.2	109.7	128.3	137.7

3. Asset Management

3.1 Asset Management Strategy

3.1.1 The Council recognises the importance of ensuring that capital assets continue to be of long-term use especially in a rapidly changing operational and technological backdrop. Consequently, at the time of preparing this Capital Strategy, a new Asset Management Strategy (AMS) is under development. Led by the Asset Management team and backed by a comprehensive review of Council assets, the AMS will take a longer-term view comprising:

- 'Good' information about existing assets;
- The optimal asset base for the efficient delivery of Council objectives;
- The gap between existing assets and optimal assets;
- Strategies for purchasing and constructing new assets, investment in existing assets, transferring of assets to other organisations and the disposal of surplus assets; and
- Plans for individual assets.

3.2 Asset Disposals

3.2.1 When a capital asset is no longer needed, it may be sold so that the proceeds (known as capital receipts) can be spent on new assets or to repay debt. The Council is also permitted to spend capital receipts on service transformation projects until 2022/23. Repayments of capital grants, loans and investments also generate capital receipts. The Council takes a prudent approach of assuming future capital receipts only when there is a high probability of realisation.

4. Treasury Management

4.1 Introduction

4.1.1 Treasury management is concerned with keeping sufficient but not excessive cash available to meet the Council's spending needs, while managing the risks involved. Surplus cash is invested until required, while a shortage of cash will be met by borrowing, to avoid excessive credit balances or overdrafts in the bank current account. The Council is not cash rich as it utilises all its available cash before borrowing which in the current climate is more economic.

4.1.2 As at 31 December 2021, the Council had borrowing of £56.7 million at an average interest rate of 3.08% and cash balances of £40.4 million including money market funds, local authority and bank deposits deposit's with rates in the range of 0.02% - 0.11%.

4.2 Borrowing

4.2.1 The Council's main objectives when borrowing is to achieve a low but certain cost of finance while retaining flexibility should plans change in the future. These objectives are often conflicting, and the Council therefore seeks to strike a balance between cheap short-term loans (currently around 1.4%) and long-term fixed rate loans where the future cost is known but higher (e.g. 2.1% for a 25 year term).

4.2.2 Projected levels of the Council’s total outstanding debt (which comprises borrowing and leases) are shown below in **Table 5**, compared with the Capital Financing Requirement (Table 4 above).

Table 5: Prudential Indicator: Estimates of Gross Debt and the Capital Financing Requirement

	31 March 2022	31 March 2023	31 March 2024	31 March 2025
	£m	£m	£m	£m
External Debt	63.0	78.0	92.8	101.0
Capital Financing Requirement	95.2	109.7	128.3	137.7

4.2.3 Statutory guidance is that debt should remain below the Capital Financing Requirement, except in the short-term. As can be seen from **Table 5**, the Council expects to comply with this in the medium term.

Affordable Borrowing Limit

4.2.4 The Council is legally obliged to set an affordable borrowing limit (also termed the “Authorised Limit” for external debt) each year. In line with statutory guidance, a lower “Operational Boundary” is also set as a warning level should debt approach the limit.

Table 6: Prudential Indicators: Authorised Limit and Operational Boundary for External Debt

	2021/22 limit	2022/23 limit	2023/24 limit	2024/25 limit
	£m	£m	£m	£m
Authorised limit	127.1	143.0	163.3	173.6
Operational boundary	115.5	130.0	148.5	157.9

4.2.5 Further details on borrowing are contained in the Treasury Management Strategy.

4.3 PWLB Loan

4.3.1 The government recognises the valuable contribution that local authorities make to the social and economic infrastructure and supports local investment in part by offering low cost loans to local authorities through the Public Works Loan Board (PWLB).

4.3.2 In compliance with the HM Treasury guidance, the Council need to ensure that the capital programme/investments are compliant with the ongoing access to the PWLB lending terms, which include an assurance from the Chief Finance Officer (Section 151 Officer) that **the Council is not borrowing in advance of need and does not intend to buy investment assets primarily for yield.**

4.3.4 The purpose of the PWLB is to offer long-term, affordable loans to support local authority investment in the following areas –

- Service spending, i.e. activities that would normally be captured in the following areas in the DLUHC Capital Outturn Return (COR): culture & related services, environmental & regulatory services, etc.
- Housing, i.e., activities normally captured in the HRA and General Fund housing sections of the COR, or housing delivered through a local authority housing company.

- Regeneration projects would usually have one or more of the following characteristics:
 - the project is addressing an economic or social market failure by providing services, facilities, or other amenities;
 - the Council is making a significant investment in the asset beyond the purchase price:
 - the project involves or generates significant additional activity that would not otherwise happen without the Council's intervention;
 - the project may generate rental income, these rents are recycled within the project or applied to related regeneration projects, rather than being applied to wider services.
 - Preventative action with the following characteristics - intervention that prevents a negative outcome, there is no realistic prospect of support from a source other than the Council; has an exit strategy, and does not propose to hold the investment for longer than is necessary; the intervention takes the form of grants, loans, sale and leaseback, equity injections, or other forms of business support that generate a balance sheet asset.
 - Treasury management covers refinancing or extending existing debt from any source, and the externalisation of internal borrowing.
- 4.3.5 Individual projects and schemes may have characteristics of several different categories. In these cases, the CFO would use professional judgment to assess the main objective of the investment and consider which category is the best fit.
- 4.3.6 If the Council wishes to on-lend money to deliver objectives in an innovative way, the government expects that spending to be reported in the most appropriate category based on the eventual use of the money. The Council must not pursue a deliberate strategy of using private borrowing or internal borrowing to support investment in an asset that the PWLB would not support and then refinancing or externalising this with PWLB loans.
- 4.3.7 Under the prudential code, the Council cannot borrow from the PWLB or any other lender for speculative purposes, and must not use internal borrowing to temporarily support investments purely for yield, which would usually have one or more of the following characteristics:
- buying land or existing buildings to let out at market rate;
 - buying land or buildings which were previously operated on a commercial basis which is then continued by the local authority without any additional investment or modification;
 - buying land or existing buildings other than housing which generate income and are intended to be held indefinitely.
- 4.3.8 The decision over whether a project complies with the terms of the PWLB is for the Chief Finance Officer. This decision will be final unless the Treasury has concerns that issuing the loan is incompatible with HM Treasury's duty to Parliament to ensure that public spending represents good value for money to the Exchequer and aligns with relevant legislation. In practice such an eventuality is highly unlikely and would only occur after extensive discussion with the local authority in question – but a safeguard is necessary to protect the taxpayer.

4.4 Investments

- 4.4.1 Treasury investments arise from receiving cash before it is paid out again. Investments made for service reasons or for pure financial gain are not generally considered to be part of treasury management.
- 4.4.2 The Council's Investment Strategy is to prioritise security and liquidity over yield and social/ethical impact, focussing on minimising risk rather than maximising returns. Cash that is likely to be spent in the near term is invested securely in selected high-quality banks, to minimise the risk of loss.

4.5 The Climate Change and Sustainability Strategy

- 4.5.1 The Climate Change and Sustainability Strategy was produced following the Climate Emergency declaration made at Full Council in July 2019 and sets out the district wide strategy and vision for a net zero carbon district by 2030. The visions and actions contained within the strategy have been developed in response to the urgency of the climate emergency being faced. The strategy will enable the Council to work with the community to co-ordinate its response into meaningful and long-lasting action. With limited financial resources the Council needs to ensure it prioritises the right actions to have a lasting positive impact on the district in relation to carbon reduction, sustainability and a green economic recovery.
- 4.5.2 The current Corporate Plan prioritises Sustainability and Community Wealth Building. Community wealth building is a key part of the sustainability strategy and forms part of action area 7 Circular Economy and Community Wealth. The Council is considered 'an anchor institution' and can use its substantial spending power and influence to drive investment into the local economy to enable a green economic recovery and local job creation and retention. Community wealth is a thread that runs throughout the climate change and sustainability strategy particularly in relation to procurement but also training and skills.
- 4.5.3 The policy framework below provides insight into major pieces of policy and how they link to our climate change and sustainability strategy.



4.6 The Council's Approach to Ethical Investments

- 4.6.1 Ethical investing is a term used to describe an investment process which takes environmental, social and governance (ESG) or other ethical considerations into account and is a topic of increasing interest within treasury management. Investment guidance, both statutory and from CIPFA, makes clear however that all investment must adopt the principals of security, liquidity, yield and that ethical issues must play a subordinate role to those priorities.
- 4.6.2 Furthermore, the council will not knowingly invest directly in businesses whose activities and practices pose a risk of serious harm to individuals or groups, or whose activities are inconsistent with the council's mission and values. This would include avoiding direct investment in institutions with material links to:
- Human rights abuse (e.g. child labour, political oppression);
 - Environmentally harmful activities (e.g. pollutions, destruction of habitat, fossil fuels);
 - Socially harmful activities (e.g. tobacco, gambling).
- 4.6.3 The investment guidance, both statutory and from CIPFA, makes clear that all investing must adopt SLY principles – security, liquidity and yield: ethical issues must play a subordinate role to those priorities. Link is looking at ways to incorporate these factors into their creditworthiness assessment service, but with a lack of consistency, as well as coverage, Link continue to review the options and will update the Council as progress is made.

4.7 Governance

- 4.7.1 Treasury management decisions are made daily and are therefore delegated to the CFO, who must act in line with the Treasury Management Strategy approved by the Council. Annual outturn reports on treasury management are also approved by the Council (following recommendation from Audit and Standard Committee), whereas mid-year updates are reported exclusively to the Audit and Standard Committee. Quarterly performance reports are also submitted to Cabinet.

5. Investments for Service Purposes

- 5.1 The Council will sometimes make investments for service delivery purposes where there is a strategic case for doing so, for example the new Waste Company. Given its public service objectives, the Council is willing to take more risk than with treasury investments, nevertheless the arrangements feature cost reduction incentives, from which the Council will benefit.
- 5.2 Decisions on service investments are made by the Council's Cabinet and require the support of a full business case.

6. Commercial Investments

- 6.1.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) defines investment property as property held solely to earn rentals or for capital appreciation or both. Returns from property ownership can be both incomes driven (through the receipt of rent) and by way of appreciation of the underlying asset value (capital growth). The combination of these is a consideration in assessing the attractiveness of a property for acquisition. In the context of the Capital Strategy, the council is using capital to invest in property to provide a positive surplus/financial return.

- 6.1.2 Local authorities will be prohibited from accessing the PWLB if they plan debt-for-yield commercial investments in any of the three years. Commercial activity must be secondary priority to economic regeneration and housing provision. There will be more monitoring of what it is that local authorities are delivering by way of a capital scheme and Section 151 officers are required to formally validate those policies to HM Treasury/PWLB.
- 6.1.3 The Council can fund the purchase of investment property through various means **excluding borrowing** money, normally from the Debt Management Office as part of HM Treasury. The rental income paid by the tenant/annual surplus then supports the council's budget position and enables the council to continue to provide services for local people. The reasons for buying and owning property investments are primarily
- Financial returns to fund services to residents
 - Market and economic opportunity.
 - Economic development and regeneration activity in the District.
- 6.1.4 Historically, property has provided strong investment returns in terms of capital growth generation of stable income. Property investment is not without risk as property values can fall as well as rise and changing economic conditions could cause tenants to leave with properties remaining vacant. The strategy makes it clear that the council will continue to invest prudently on a commercial basis and to take advantage of opportunities as they present themselves, supported by our robust governance process.

6.2 Current Investments

- 6.2.1 In recent years, the Council has invested in commercial property in the District on a selective basis, usually where there is a fit with corporate priorities and a positive financial return that can be used to contribute towards the protection of local services.

6.3 Commercial Investment Strategy

- 6.3.1 However, in recognition of the continued shortfall in local government funding and commitments, the Council Commercial Investment Strategy will support achieving a step change increase in commercial investment and trading by the Council.
- 6.3.2 CIPFA's has made clear that Councils should not borrow to invest commercially, and their Capital Investment Strategy must make it clear as to where they depart from this principle and why. However, it has been recognised that local investments that are primarily designed for regeneration or service delivery purposes and which have a knock-on positive impact to the revenue budgets are not intended to be covered by this principle.
- 6.3.3 Councils must demonstrate that such investments are "proportionate" to their resources. The Council's approach will incorporate the revised CIPFA guidance when it is published; this will enhance the other risk management features that are being developed, which includes a strict governance framework, the use of real estate investment experts and diversified portfolios. The aim is to offset principle risks such as falling capital values and 'voids'. However, (within a tightly controlled framework) the Council ultimately accepts a higher risk on commercial investments compared to its prudent treasury investment that has primarily focused to date on protecting the principal.

6.3.4 The Council considers investing in housing properties and commercial investments within the District to be related to its temporary accommodation strategy and local regeneration. It will invest commercially but in relation to the services it provides or to build and strengthen the local economy, with the related benefit of increased business rates.

6.4 Governance

6.4.1 The Governance arrangements are stipulated within the Commercial Investment Strategy.

7. Other Liabilities

7.1 Outstanding Commitments

7.1.1 The Council also has the following outstanding commitments:

- The Council has also set aside £0.33million at 31st March 2021 to cover the financial risk associated with Business Rates appeals lodged with the Valuation Office Agency (VOA).

7.2 Guarantees

7.2.1 A 30-year Business Plan for the Council's HRA has been developed, which is currently generating sufficient rental income each year to run an efficient and effective housing management service, whilst at the same time servicing the outstanding debt. However, if the HRA is unable to repay the outstanding debt at any point in the future, the Council (through its General Fund) is liable to repay any remaining balance. The remaining balance on HRA debt as at 31st March 2021 was £56.7 million).

7.3 Governance

7.3.1 Decisions on incurring new discretionary liabilities are taken by Directors and Heads of Service in consultation with the CFO. For example, in accordance with the Financial Procedure Rules credit arrangements, such as leasing agreements, cannot be entered into without the prior approval of the CFO.

8. Revenue Implications

8.1 Financing Cost

8.1.1 Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue, offset by any investment income receivable. The net annual charge is known as financing costs; this is compared to the net revenue stream i.e. the amount funded from Council Tax, Business Rates and general Government grants.

Table 7: Prudential Indicator: Estimate of Proportion of Financing Costs to Net Revenue Stream (General Fund)

	2021/22	2022/23	2023/24	2024/25
	£m	£m	£m	£m
Financing Costs (£m)	0.3	0.6	1.3	1.9
Proportion of Net Revenue Stream	2.0%	4.2%	9.2%	13.2%

Table 8: Prudential Indicator: Estimate of Proportion of Financing Costs to Net Revenue Stream (HRA)

	2021/22	2022/23	2023/24	2024/25
	£m	£m	£m	£m
Financing Costs (£m) [excl. depreciation]	1.7	1.7	1.7	1.7
Proportion of Net Revenue Stream	11.1%	11.0%	10.8%	10.3%

8.1.2 Due to the very long-term nature of capital expenditure and financing, the revenue budget implications of expenditure incurred in the next few years will extend for many years into the future.

8.2 Prudence, Affordability and Sustainability

8.2.1 The CFO is satisfied that the proposed Capital Programme (Section 2) is prudent, affordable and sustainable based on the following:

Prudence

- Prudential indicators 7 and 8 presented above (Paragraph 8.1.1) are within expected and controllable parameters. Thus:
 - *Prudential Indicator 7 (General Fund) - Proportion of Financing Costs to Net Revenue Stream* – the growth in financing costs reflects the Council’s ambitions for capital investment in its strategic priorities over the medium-term.
 - *Prudential Indicator 8 (HRA) - Proportion of Financing Costs to Net Revenue Stream* – the indicator profile mirrors the HRA 30-Year Business Plan.
- *Underlying Prudent Assumptions* – a prudent set of assumptions have been used in formulating the Capital Programme. This is illustrated in the approach to capital receipts whereby the proceeds are not assumed within projections until the associated sale is completed and the money received by the Council; and
- *Repairs and Maintenance* – the approach to asset maintenance is professionally guided with assets maintained in a condition commensurate with usage and expected life, addressing those items that could affect ongoing and future maintenance, in the most appropriate and cost effective manner.

Affordability

- The estimated ‘revenue consequences’ of the Capital Programme (£127.8 million over three years) have been included in the 2022/23 Budget and Medium-Term Financial Strategy (MTFS), extending to 2024/25; and
- The MTFS includes a reserves strategy, which includes contingency funds in the event that projections are not as expected (further supported by CFO report to Council under Section 25 of the Local Government Act 2003 on the robustness of estimates and the adequacy of financial reserves and balances).

Sustainability

- Capital schemes that are expected to deliver long-term revenue savings/generate income are given due priority.
- As explained in Section 3.1 above, the Asset Management Strategy will represent an enhancement to the Council approach to asset planning through (especially) taking a longer-term view. This includes providing for future operational need, balancing the requirement to achieve optimal performance, whilst taking account of technological change and managing the risk of obsolescence.

9. Prioritisation Principles and Obligations to deliver a scheme

- 9.1 The capital investment process is to ensure that money available for capital expenditure is prioritised in the way that best meets the Council's objectives and must be achieved within the constraints of the capital funding available. The Council need to demonstrate that it uses a clear, understandable method of comparing projects in order to prioritise expenditure and continue to allow schemes to be ranked according to Council's need, while ensuring the best allocation of the Council scarce resources in the most efficient/sustainable way and thus ensuing value for money.
- 9.2 Therefore, it is important that there is a strict definition of what is included within the scheme. Demand for capital resources to meet investment needs and aspirations will exceed the resources available to the Council and rolling programme items are the first call on available resources to ensure that existing approved service levels can continue to be delivered. New resource development bids will need to be prioritised as follows:

Projects Prioritisation for Capital Programme Inclusion	
Priority 1	Projects which enable compliance with Health & Safety and the Council's legal/statutory duties including projects which address any infrastructure deficits related to statutory compliance.
Priority 2	Projects that generate revenue savings through the delivery of a new business strategy or service transformation proposals or invest to save and cost avoidance.
Priority 3	Projects where a major proportion of the capital funding from external sources will be lost if the project fails to go ahead but subject to consideration of future revenue requirements.
Priority 4	Projects that contribute to the delivery of a smaller property portfolio through increased co-location or space utilisation or adaptation of new ways of working.
Priority 5	Projects that facilitate improvement, economic development, regeneration and housing growth
Priority 6	Projects that address cross-cutting issues, facilitate joint-working with partners or generate new/additional income.

- 9.3 The Council's financial and service planning process need to ensure decisions about the allocation of capital and revenue resources are taken to achieve a corporate and consistent approach. The funding of capital schemes is via the following hierarchy:
- External grants and contributions;
 - Capital receipts from the disposal of fixed assets;
 - Leasing finance; (where applicable);
 - Revenue contributions;
 - External Borrowing.
- 9.4 The strategy will be to employ 'Whole Life Costing' that will demonstrate the systematic consideration of all relevant costs and revenues associated with the acquisition and ownership of an asset, i.e., encourages decision-making that takes account of the initial capital cost, running cost, maintenance cost, refurbishment requirements and disposal cost.

10. Knowledge and Skills

10.1 Officers

- 10.1.1 The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. Most notably:
- *Finance* - the Chief Finance Officer (CFO) and the Deputy Chief Finance Officers (DCFO's) are qualified (ACCA/ CIPFA) accountants with many years of public and private sector experiences. The Council sponsors junior staff to study for relevant professional qualifications including AAT, CIPFA and ACCA. The Council also supports training courses and conferences across all aspects of accounting.
 - *Property* – the Head of Property and Facilities Shared Service (PFSS) – a qualified property expert - is responsible for Asset Management within the Council. PFSS comprises the Asset Development, Building and Maintenance, Corporate Landlord and development functions of the Council. Each area has appropriately qualified professionals within their individual specialism. The Head of PFSS plays a key role in the Council's approach to commercial investment and trading (highlighted above in Section 6).
- 10.1.2 The Council also has a separate Housing team that is responsible for overseeing social housing developments within the District.

10.2 External Advisors

- 10.2.1 Where the Council does not have the relevant knowledge and skills required, judicious use is made of external advisers and consultants that are experts/specialists in their field. The Council currently employs Link Asset Services as advisers, and the Asset Management team will commission advisers as appropriate (e.g. development managers, valuers etc.) to support their work where required to ensure that the Council has access to knowledge and skills commensurate with risk.

10.3 Councillors

10.3.1 May 2023 is the next date for district council elections. Duly elected councillors will receive training appropriate to their role in the new Council.

10.3.2 Specifically with regard to Treasury Management, the Council acknowledges the importance of ensuring that members have appropriate capacity, skills and information to effectively undertake their role. To this end, newly elected Lewes councillors with Treasury Management responsibilities will receive tailored training sessions from the Council's Treasury Management advisors (Link Asset Services).

11. CFO Statement on the Capital Strategy

11.1 Prudential Code

11.1.1 Paragraph 24 of the recently updated Prudential Code determines that...." the Chief Finance Officer should report explicitly on the affordability and risk associated with the Capital Strategy".

11.1.2 Accordingly, it is the opinion of the CFO that the Capital Strategy as presented is affordable, and associated risk has been identified and is being adequately managed.

11.2 Affordability

11.2.1 The Capital Strategy is affordable and there is a range of evidence to support this assertion, including:

- *Capital Programme* – the Programme as presented above (in Section 2.1) is supported by a robust and resilient MTFS extending through until 2024/25 that contains adequate revenue provision, including sufficient reserves in the event that plans and assumptions do not materialise as expected.
- *Asset Management* – as presented above (in Section 3.1) a new Asset Management Strategy is under development, which is taking a strategic longer-term (i.e. beyond 2024/25) view of the Council's asset base. A fundamental aim of the Strategy is to achieve the optimum balance between future operational need and affordability, which will be reflected in its component parts including strategies for purchasing and constructing new assets, investment in existing assets, transferring of assets to other organisations and the disposal of surplus assets.
- *Commercial Investment* – as presented above (in Section 6.3) the Commercial Investment Strategy is also under development. The primary aim of the Strategy long-term is income generation to replace the shortfall in Government funding. The Strategy is progressing positively towards the delivery stage and its success will be critical to the long-term affordability of the Capital Strategy.

11.3 Risk

11.3.1 The risk associated with the Capital Strategy has been identified and is being adequately managed. Evidence to support this assertion includes:

- *Treasury Management Strategy* – the Council will formally approve the Treasury Management Strategy for 2022/23, at the Lewes District Council – Full Council meeting on 21 February 2022, in accordance with CIPFA's "Treasury Management in the Public Services: Code of Practice 2017". That Strategy was developed by the Council's (professionally qualified and experienced) Finance team and informed by specialist advisors Link Asset Services and other relevant and extant professional guidance.

- *Investment Strategy* – the Council will also formally approve an Investment Strategy for 2022/23, at the Council meeting on 21 February 2022, in accordance with DLUHC’s “Statutory Guidance on Local Government Investments (3rd Edition) 2017”. As with the Treasury Management Strategy, the Investment Strategy was developed by the Finance team and informed by specialist advisors Link Asset Service and other relevant and extant professional guidance.
- *Commercial Activities* – as noted above (in Paragraph 6.2) the Council is committed to significantly expanding the scale of its commercial activities in the medium-term as part of its Commercial Investment Strategy. It is recognised and accepted that increased commercial activity brings with its additional risk. The Strategy is therefore being developed in accordance with contemporary best practice. This includes the engagement of professional advisors on the commercial, financial and legal aspects of the project and the preparation of full supporting business cases prior to the commencement of both in-house and arm’s length trading activities, strictly in accordance with HM Treasury’s ‘five-case model’ (“The Green Book: Central Government Guidance on Appraisal and Evaluation”).