

Denbighshire County Council

**Treasury Management Strategy Statement
and Investment Strategy 2024/25 to 2026/27**

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Treasury Management Strategy Statement and Investment Strategy 2024/25 to 2026/27

1 Background

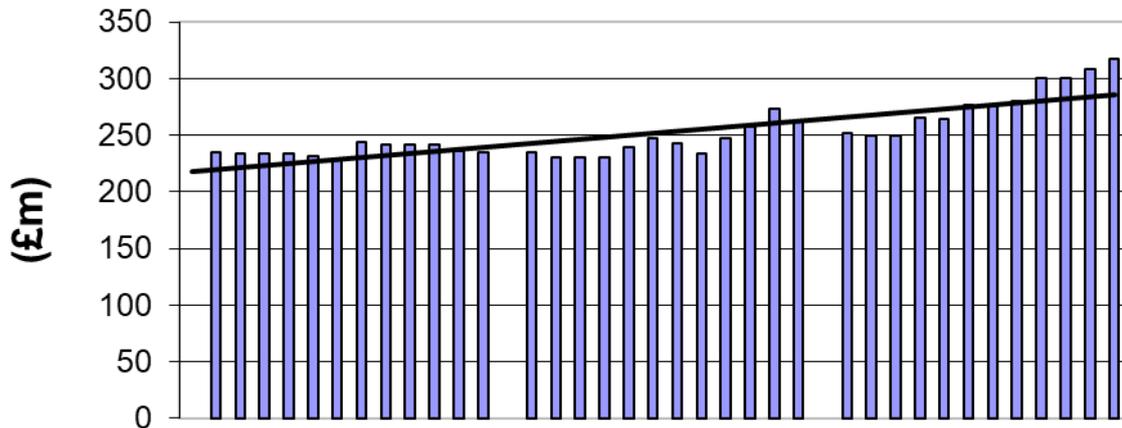
- 1.1 The Council is responsible for its treasury management decisions and activity which involves looking after the Council's cash. This is a vital part of the Council's work because approximately £0.5bn passes through the Council's bank account every year.
- 1.2 In December 2021, CIPFA (Chartered Institute of Public Finance and Accountancy) published its revised Prudential Code and Treasury Management Code of Practice. The Code requires the Authority to approve a Treasury Management Strategy Statement (TMSS) before the start of each financial year. There is also now a requirement to provide quarterly treasury management update reports to members and this has been implemented during the 2023/24 financial year.
- 1.3 In addition, the Welsh Government (WG) issued revised *Guidance on Local Authority Investments* in November 2019 that requires the Authority to approve an investment strategy before the start of each financial year. It also requires the Authority to include details of any investments and loans which are not held for treasury management purposes. Following a review, the Authority has concluded that it doesn't have any non-treasury related arrangements which fall within the scope of this guidance.
- 1.4 This report fulfils the Authority's legal obligation under the *Local Government Act 2003* to have regard to both the CIPFA Code and the WG Guidance.
- 1.5 The purpose of the TMSS is to set the:
- Treasury Management Strategy for 2024/25
 - Annual Investment Strategy for 2024/25
 - Prudential Indicators for 2024/25, 2025/26 and 2026/27 (Annex A)
 - Minimum Revenue Provision (MRP) Statement

2 Treasury Position

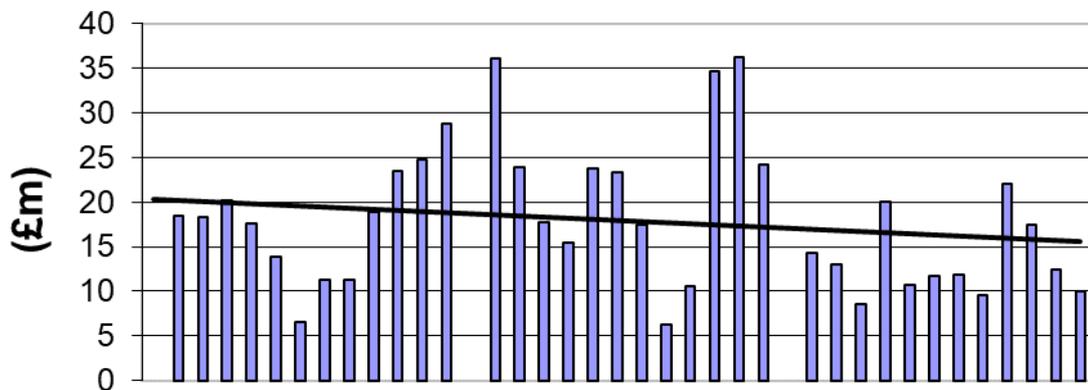
- 2.1 The levels of the Council's borrowing and investment balances over the last three years are shown in the graphs below. The first chart shows the Council's borrowing has increased over this period. The second chart shows a decrease in the amount of money which is available for investment.

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Borrowing Balances (2021/22 - 2023/24)



Investment Balances (2021/22 - 2023/24)



3 Treasury Investment Strategy

3.1 Both the CIPFA Code and the WG Guidance require the Authority to invest its treasury funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Authority’s objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

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- 3.2 Given the ongoing risk and low returns from short-term unsecured bank investments, the Council will continue to hold a minimal amount of investments for short-term cash flow purposes and will continue to place a far greater emphasis on investing with the UK Government's Debt Management Office and other local authorities in order to minimise these risks.
- 3.3 The Authority may invest its surplus funds with any of the counterparty types in Table 1 below, subject to the cash limits (per counterparty) and the time limits shown.

Table 1: Treasury Investment Counterparties and Limits

Sector	Time limit	Counterparty limit
The UK Government	50 years	Unlimited
Local authorities & other government entities	25 years	£10m
Secured investments *	25 years	£10m
Banks (unsecured) *	13 months	£5m
Building societies (unsecured) *	13 months	£5m
Registered providers (unsecured) *	5 years	£5m
Money market funds *	n/a	£10m
Strategic pooled funds	n/a	£10m
Real estate investment trusts	n/a	£10m
Other investments *	5 years	£5m

*** Minimum Credit Rating:** Treasury investments in the sectors marked with an asterisk will only be made with entities whose lowest published long-term credit rating is no lower than A-. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors, including external advice, will be taken into account.

Government: Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk. Investments with the UK Government are deemed to be zero credit risk due to its ability to create additional currency and therefore may be made in unlimited amounts for up to 50 years.

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Secured investments: Investments secured on the borrower's assets, which limits the potential losses in the event of insolvency. The amount and quality of the security will be a key factor in the investment decision. Covered bonds and reverse repurchase agreements with banks and building societies are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used. The combined secured and unsecured investments with any one counterparty will not exceed the cash limit for secured investments.

Banks and Building Societies (Unsecured): Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail.

Registered Providers (Unsecured): Loans and bonds issued by, guaranteed by or secured on the assets of registered providers of social housing and registered social landlords, formerly known as housing associations. These bodies are regulated by the Regulator of Social Housing (in England), the Scottish Housing Regulator, the Welsh Government and the Department for Communities (in Northern Ireland). As providers of public services, they retain the likelihood of receiving government support if needed.

Money Market Funds: Pooled funds that offer same-day or short notice liquidity and very low or no price volatility by investing in short-term money markets. They have the advantage over bank accounts of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a small fee.

Strategic Pooled Funds: Bond, equity and property funds that offer enhanced returns over the longer term but are more volatile in the short term. These allow the Authority to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's investment objectives will be monitored regularly.

Real Estate Investment Trusts: Shares in companies that invest mainly in real estate and pay the majority of their rental income to investors in a similar manner to pooled property funds. As with property funds, REITs offer enhanced returns over the longer term, but are more volatile especially as the share price reflects changing demand for the shares as well as changes in the value of the underlying properties.

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Other investments: This category covers treasury investments not listed above, for example unsecured corporate bonds and company loans. Non-bank companies cannot be bailed-in but can become insolvent placing the Authority's investment at risk.

- 3.4 Natwest is the Council's banker and will continue to be used for operational and liquidity purposes by transferring cash in and out of the instant access account as required even if its credit rating falls below A-.
- 3.5 For a group of banks under the same ownership, the banking group limit is equal to the individual bank limit.
- 3.6 Credit ratings are obtained and monitored by the Authority's treasury advisers, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:
 - no new investments will be made,
 - any existing investments that can be recalled or sold at no cost will be, and
 - full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.
- 3.7 The Authority understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices (the cost of banks insuring themselves against default), financial statements, information on potential government support, reports in the quality financial press and analysis and advice from the Council's treasury management adviser. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may otherwise meet the above criteria.
- 3.8 When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2020, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Authority will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Authority's cash balances, then the surplus will be deposited with the UK Government, via the Debt Management Office or invested in government treasury bills for example, or with other local authorities. This will protect the principal sum invested.

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3.9 **Specified Investments:** The WG Guidance defines specified investments as those:

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

The Authority defines “high credit quality” organisations as those having a credit rating of A- or higher that are domiciled in the UK or a foreign country with a sovereign rating of AA+ or higher.

3.10 **Non-specified Investments:** Any investment not meeting the definition of a specified investment is classed as non-specified. The Authority does not intend to make any investments denominated in foreign currencies. Non-specified investments will therefore be limited to long-term investments, i.e. those that are due to mature 12 months or longer from the date of arrangement and investments with bodies and schemes not meeting the definition of high credit quality. Under this category, the Council has given three loans to Town Councils for capital purposes which are being paid back in instalments over the agreed terms.

Limits on non-specified investments are shown in Table 3 below.

Table 3: Non-Specified Investment Limits

	Cash limit
Total long-term investments	£10m
Total investments without credit ratings or rated below A- (except the UK government and UK local authorities)	£10m
Total investments (except pooled funds) with institutions domiciled in foreign countries rated below AA+	£10m
Total non-specified investments	£30m

4 Borrowing Strategy

4.1 The Council continues to undertake temporary borrowing from other local authorities as required to cover short-term cash flow requirements as this is a good source of readily available cash.

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- 4.2 At the same time, the Council will also continue to monitor its cash position and interest rate levels to ensure that further long-term borrowing is undertaken at the optimal time to fund on-going capital commitments.
- 4.3 The approved sources of borrowing are listed below:
- HM Treasury's PWLB lending facility (formerly the Public Works Loan Board)
 - UK Infrastructure Bank Ltd
 - any institution approved for investments
 - any other bank or building society authorised to operate in the UK
 - any other UK public sector body
 - UK public and private sector pension funds (except Clwyd Pension Fund)
 - capital market bond investors
 - retail investors via a regulated peer-to-peer platform
 - UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues

5 Debt Rescheduling

- 5.1 The Council is able to pay off loans earlier than it has to and to replace them with cheaper loans in order to save money or to reduce the risk to the Council. Sometimes, these loans will be replaced and sometimes not, depending on market conditions and interest rates.
- 5.2 The lower interest rate environment and changes in the rules regarding the premature repayment of PWLB loans has adversely affected the scope to undertake meaningful debt rescheduling although occasional opportunities arise. Regularly updates on this are received from the Council's treasury management advisers so the position is kept under review.

6 Minimum Revenue Provision (MRP) Statement

- 6.1 The Council sets aside money each year to repay debt and this is known as the Minimum Revenue Provision (MRP).
- 6.2 There are four different methods of calculating MRP and the Council needs to say each year which methods it will use. This is known as the MRP Statement.
- 6.3 The MRP Statement is submitted to Council before the start of each financial year. If the terms of the original MRP Statement are revised during the year, a revised statement will be put to Council at that time.

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6.4 MRP Statement

The Council will apply the Asset Life Method to calculate MRP on outstanding supported borrowing incurred up to 31 March 2017 using a straight-line calculation over 50 years.

The Council will apply the Asset Life Method to calculate MRP on supported borrowing incurred on or after 1 April 2017 using a straight-line calculation over an appropriate number of years, dependent on the period of time that the capital expenditure is likely to generate benefits.

The Council will apply the Asset Life Method to calculate MRP on all capital expenditure funded from unsupported borrowing.

These methods represent a continuation of last year's MRP policy.

- 6.5 MRP on housing assets funded through prudential borrowing is charged on a straight-line basis over 20 years for improvement works to comply with the Welsh Housing Quality Standards (WHQS) and for property appropriated by the HRA, and over 50 years for new build properties and for the loans used to buy the HRA out of the government subsidy scheme on 31st March 2015. For capital expenditure incurred before the introduction of the WHQS the authority charges MRP on a 2% reducing balance basis.

7 Reporting Treasury Management Activity

- 7.1 The Section 151 Officer (Chief Finance Officer) will report to the Governance and Audit Committee on treasury management activity / performance as follows:
- (a) The Treasury Management Strategy Statement and Prudential Indicators will be submitted to the Committee in January each year prior to approval by Council.
 - (b) Quarterly treasury management updates will be submitted to the Committee in January, April, July and October each year.
 - (c) An annual report on treasury activity will be submitted to the Committee in July each year for the preceding year prior to approval by Cabinet.

A treasury update showing the latest investment and borrowing position will be included in the monthly Revenue Monitoring report and borrowing will also be reported on in the Capital Plan to Council. The Capital Strategy Report will be reported to Council in February with the Capital Plan.

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8 Other items

8.1 Investment Training

8.1.1 Member Training

The CIPFA Code of Practice on Treasury Management requires the Section 151 Officer to ensure that all members tasked with treasury management responsibilities, including scrutiny of the treasury management function, understand fully their roles and responsibilities. The last treasury management training session for all members was given on 18 January 2024.

The Council has nominated the Governance and Audit Committee as the committee which has responsibility for scrutiny of the treasury management function.

8.1.2 Staff Training

Staff attend training courses, seminars and conferences provided by Arlingclose and CIPFA. There is a team of four members of staff who cover TM duties on a rota basis to ensure that their knowledge is kept up to date. An additional member of staff will be added to the TM rota soon and he will be given full training before he starts his duties. These members of staff are also members of professional accountancy bodies including CIPFA and the Association of Accounting Technicians (AAT). The operational processes which staff must follow are shown within the Treasury Management Practices (TMPs) which have been updated recently.

8.2 Treasury Management Advisers

The Council uses Arlingclose Ltd as treasury management advisers and receives the following services:

- Credit advice
- Investment advice
- Borrowing advice
- Technical accounting advice
- Economic & interest rate forecasts
- Workshops and training events

The Council maintains the quality of the service with its advisers by holding quarterly strategy meetings and tendering every 5 years. The Council's current contract has just been renewed from 1 January 2024.

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8.3 Markets in Financial Instruments Directive (MIFID)

8.3.1 Under the Markets in Financial Instruments Directive (MIFID), local authorities can be classed as professional clients if they have at least a £10m investment balance and staff with relevant experience. Local authorities not meeting the criteria have been reclassified as retail clients. Retail clients have greater protection when placing investments because there is a requirement for firms to ensure that investments are suitable for the client. Professional clients are assumed to have greater knowledge and therefore need less protection.

8.3.2 The Council is not in a position to be classed as a professional client because it does not have an investment balance which is consistently above £10m so it is classified as a retail client. In practice, this does not have an impact on the Council's treasury management activities which consist of cash deposits or loans which are outside the scope of MIFID. The Council's investment advisers, Arlingclose, have continued to advise retail clients as they have a retail adviser who is able to advise on any investment products which come under the scope of MIFID such as shares and bonds.

8.4 Investment of Money Borrowed in Advance of Need

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

The total amount borrowed will not exceed the authorised borrowing limit. The maximum period between borrowing and expenditure is expected to be three years, although the Authority is not required to link particular loans with particular items of expenditure.

8.5 Policy on Use of Financial Derivatives

In the absence of any explicit legal power to do so, the Authority will not use standalone financial derivatives (such as swaps, forwards, futures and options). Derivatives embedded into loans and investments, including pooled funds and forward starting transactions, may be used, and the risks that they present will be managed in line with the overall treasury risk management strategy.

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8.6 Housing Revenue Account (HRA)

The Council operates one loans pool for the Council Fund and the HRA. A proportion of the Council's investment and debt interest is apportioned to the HRA at year end. The amount of HRA investment interest is calculated by applying the Council's average investment interest rate to the HRA's average notional cash balance.