Manchester City Council
Report for Resolution

Report to: Executive – 14 February 2024
Resources and Governance Scrutiny Committee – 26 February 2024

Subject: Treasury Management Strategy Statement 2024/25, including Borrowing Limits and Annual Investment Strategy

Report of: Deputy Chief Executive and City Treasurer

Summary

To set out the proposed Treasury Management Strategy Statement and Borrowing Limits for 2024/25 and Prudential Indicators for 2024/25 to 2026/27.

Recommendations

The Executive is requested to:

(1) Recommend the report to Council.
(2) Delegate authority to the Deputy Chief Executive and City Treasurer, in consultation with the Executive Member for Finance and Human Resources, to:-
- approve changes to the borrowing figures as a result of changes to the Council's Capital or Revenue budget; and
- submit these changes to Council.

The Resource and Governance Scrutiny Committee is requested to: recommend the report to Council.

The Council is requested to:

(1) Approve the proposed Treasury Management Strategy Statement, the:
- Borrowing Requirement listed in Section 7 of this report;
- Borrowing Strategy outlined in Section 10;
- Annual Investment Strategy detailed in Section 11;
- Prudential and Treasury Indicators listed in Appendix A;
- MRP Strategy outlined in Appendix B;
- Treasury Management Policy Statement at Appendix C; and
- Treasury Management Scheme of Delegation at Appendix D

(2) Delegate to the Deputy Chief Executive and City Treasurer, in consultation with the Executive Member for Finance and Human Resources, the power to pursue any restructuring, rescheduling or redemption opportunities available, including amendments to the Treasury Management Strategy if the changes require it. Any changes required to the Strategy will be reported to members at the earliest opportunity.

Wards Affected - All

Environmental Impact Assessment - the impact of the decisions proposed in this report on achieving the zero-carbon target for the city	Treasury Management activity underpins the Council's finances, and therefore supports projects and initiatives which seek to achieve the Council's zero carbon target.
Equality, Diversity and Inclusion - the impact of the issues addressed in this report in meeting our Public Sector Equality Duty and broader equality commitments	N/A

Our Manchester Strategy outcomes	Contribution to the strategy
A thriving and sustainable city: supporting a diverse and distinctive economy that creates jobs and opportunities	The Treasury Management function supports the whole Council by seeking to ensure that funding is available when required, to fund all the work that the Council undertakes. Therefore, whilst not directly contributing to the strategic aims, the Council's treasury management activity underpins the work taking place elsewhere to achieve the outcomes.
A highly skilled city: world class and home-grown talent sustaining the city's economic success	
A progressive and equitable city: making a positive contribution by unlocking the potential of our communities	
A liveable and low carbon city: a destination of choice to live, visit, work	
A connected city: world class infrastructure and connectivity to drive growth	

Full details are in the body of the report, along with any implications for

- Equal Opportunities Policy
- Risk Management
- Legal Considerations

Financial Consequences – Revenue

The capital financing budget forms a key part of the Council's revenue budget. The activity forecast in this report is affordable within the existing and future capital financing budget (c. £44.9m p.a.), including use of the capital financing reserve.

Financial Consequences – Capital

None – the Council's treasury management activity is not capital expenditure.

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Background documents (available for public inspection):

The following documents disclose important facts on which the report is based and have been relied upon in preparing the report.

- Capital Strategy and Budget 2024/25 - 2026/27 report to Executive 14 February 2024
- CIPFA Prudential Code 2021
- CIPFA Treasury Management Code of Practice 2021

Copies of the background documents are available up to 4 years after the date of the meeting. If you would like a copy, please contact one of the contact officers above.

1. Introduction

1.1 The Treasury Management Strategy Statement sets out the risk framework under which the Council's treasury management function will operate. By detailing the investment and debt instruments to be used during the year the Strategy details the risk appetite of the Authority and how those risks will be managed.

1.2 The Treasury Management Strategy Statement is linked to the Capital Strategy, in that both documents detail the risks that the Council face, but critically the Treasury Management Strategy Statement is focussed on the risks associated with the management of the Council's cash flow and debt, whereas the Capital Strategy looks at capital investment and expenditure decisions.

1.3 The capital budget contains significant priorities for the Council, such as the refurbishment of the Town Hall, which are to be funded from borrowing. This strategy details how decisions will be taken regarding new borrowing and that the over-arching principle is that the borrowing provides value for money for the Council in whatever form it takes. Capital investment decisions are made in line with the economic and regeneration objectives for the city and to support delivery of the agreed capital strategy.

1.4 For treasury management investments the Council holds security and liquidity as paramount. This strategy proposes the use of investment types aimed at ensuring that funds are kept secure and that the Council has access to funds when they are required.

1.5 The work of the Council's treasury management function is impacted by market conditions and significant economic changes, such as the cost-of-living crisis, which create uncertainty in the market. The strategy has been drafted to provide flexibility to manage the risks associated with uncertainties such as interest rate or liquidity challenges.

Treasury Management Strategy for 2024/25

1.6 The suggested strategy for 2024/25 is based upon the treasury officers' views on interest rates, supplemented with market forecasts provided by the Council's treasury advisor, Link Asset Services.

The strategy covers:

Section 1: Introduction
Section 2: CIPFA Definition of Treasury Management
Section 3: Statutory and other Requirements
Section 4: Prudential and Treasury Indicators for 2024/25 to 2026/27
Section 5: Impact of 2012 HRA reform
Section 6: Current Portfolio Position
Section 7: Debt Position and Sector Comparison
Section 8: Prospects for Interest Rates
Section 9: Borrowing Requirement
Section 10: Borrowing Strategy
Section 11: Annual Investment Strategy
Section 12: Non-Treasury Investments and Liabilities

2 CIPFA Definition of Treasury Management

2.1 Treasury management is defined by CIPFA as:
2.2

‘The management of the organisation’s borrowing, investments and cash flows, including 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.’

3 Statutory and other requirements

Statutory requirements

3.1 The Local Government Act 2003 (the Act) and supporting regulations require the Council to ‘have regard to’ the Chartered Institute of Public Finance and Accountancy’s (CIPFA) Prudential Code and the CIPFA 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.

3.2 The Act therefore requires the Council to set out its treasury strategy for borrowing, and to prepare an Annual Investment Strategy. This report sets out the Council’s treasury management strategy and is consistent with the current CIPFA Treasury Management Code of Practice.

3.3 The primary requirements of the Code are as follows:

a) Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council’s treasury management activities;
b) Creation and maintenance of Treasury Management Practices which set out the way the Council will seek to achieve those policies and objectives;
c) Receipt by the full Council of an annual Treasury Management Strategy Statement, including the Annual Investment Strategy and Minimum Revenue Provision Policy for the year ahead, a Mid-year Review Report and an Annual Report covering activities during the previous year;

d) Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions;
e) Delegation by the Council of the role of responsible body for treasury management strategy and practices, budget consideration and approval, monitoring and selection of external service providers to a specific named body. For this Council the delegated body is the Audit Committee.
f) Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body. For this Council the delegated body is the Resource and Governance Scrutiny Committee.

Balanced Budget Requirement

3.4 It is a statutory requirement under Section 33 of the Local Government Finance Act 1992, revised under Section 31 of the Localism Bill 2011, for the Council to produce a balanced budget. Section 31 requires a local authority to calculate its budget requirement for each financial year to include the revenue costs that flow from capital financing decisions. This means that increases in capital expenditure must be limited to a level whereby increases in charges to revenue from:

- increases in interest charges caused by increased borrowing to finance additional capital expenditure;
- increases to the minimum revenue provision; and
- increases in running costs from new capital projects

are limited to a level which is affordable within the projected income of the Council for the foreseeable future.

4 Prudential and Treasury Indicators for 2024/25 to 2026/27

4.1 It is a statutory duty under Section 3 of the Act and supporting regulations that the Council determines and keeps under review how much it can afford to borrow. This amount is termed the 'Affordable Borrowing Limit'. In England this Authorised Limit represents the legislative limit specified in the Act and is one of the key Prudential Indicators identified by the CIPFA Code.

4.2 The Council must have regard to the Prudential Code when setting the Authorised Limit which requires it to ensure that total capital investment remains within sustainable limits.

4.3 Whilst termed an Affordable Borrowing Limit, the capital plans incorporate financing by both external borrowing and other forms of liability such as credit arrangements. The Authorised Limit is to be set on a rolling basis for the forthcoming financial year and two successive financial years.

4.4 The full set of Treasury limits and Prudential Indicators recommended by the Code and used by the Council, together with their suggested levels for 2024/25 is noted in Appendix A of this report.

4.5 It should be noted that the Prudential and Treasury Indicators in this report may be subject to change dependent on decisions taken on the Capital and Revenue budgets which are reported elsewhere on this agenda.

5 The Housing Revenue Account – Impact of 2012 HRA Reform

5.1 The Local Government Finance and Housing Act 1989 requires Councils who own housing they rent out to tenants to separate all the financial activities relating to the Council acting as landlord into a ring-fenced account known as the Housing Revenue Account (HRA). Due to the ring-fence, it is illegal for the Council to subsidise any General Fund (GF) activity from its HRA and vice versa.

5.2 The Treasury Management Strategy for 2013/14 was the first to incorporate the split of the Council's debt portfolio following the HRA debt settlement of March 2012 which ended the previous subsidy system. Details of how the split was calculated and the corresponding effect on treasury management activities are at Appendix I.

5.3 The treasury position of the Council will continue to be monitored at a Council level alongside the separate positions for the GF and the HRA. The HRA is also limited in terms of the treasury activity it can undertake as any temporary borrowing or investing it requires or long-term borrowing will be through the GF. This ensures that the overall Council position is managed as effectively and efficiently as possible.

5.4 To reflect the fact that the HRA now has its own treasury position this report will mention where the HRA treasury strategy may be different to that of the GF. Where the Council strategy is mentioned, this applies to both the GF and the HRA.

6 Current Portfolio Position

6.1 The forecast portfolio position for the end of the current financial year is shown below. The short-term borrowing taken has been refinanced with longer term debt from the PWLB, with further PWLB taken to fund the capital programme.

6.2 The Council's forecast treasury portfolio position at 31st March 2024 is:

Table 1	**Principal**			**Av Rate**
	GF	HRA	**Total**	
	£'m	£'m	**£'m**	%
Long Term Borrowing				
PWLB	755.0	0.0	**755.0**	3.31
Market	330.0	60.7	**390.7**	4.44
Stock	0.9	0.0	**0.9**	4.00
SALIX	3.1	0.0	**3.1**	0.00
HCA	8.5	0.0	**8.5**	0.00
	1,097.5	60.7	**1,158.1**	
Short Term Borrowing				
Other	121.6	0	**121.6**	5.28
Gross Debt	1,219.1	60.7	**1,279.8**	
External Investments	(80.1)	0.0	**(80.1)**	5.33
Internal Balances (GF/HRA)	71.2	(71.2)	0	0.0
Net Debt	1,210.2	(10.5)	**1,199.7**	

6.3 The Capital Financing Requirement measures an Authority's underlying need to borrow or finance by other long-term liabilities for a capital purpose. It represents the amount of capital expenditure that has not yet been resourced absolutely, whether at the point of spend (by capital receipts, capital grants/contributions or from revenue income), or over the longer term by prudent Minimum Revenue Provision (MRP) or voluntary application of capital receipts for debt repayment etc. Alternatively, it provides a figure for the capital expenditure incurred by the Council but not yet provided for.

6.4 The Council's debt is comparatively high in absolute terms compared to other local authorities, due to both the relative size of the authority and the relatively high levels of capital expenditure funded by borrowing in recent years, for example the Our Town Hall refurbishment and the highways maintenance programme. A key element of the treasury management strategy is to ensure that debt levels are both proportional and affordable, so that the debt costs associated with it are contained within existing revenue resources. To achieve this, the Council's balance sheet is monitored throughout the year, with debt management scenarios reviewed to understand the risks to the Council of changes in interest rates, for example. Decisions taken on new debt seek to balance market conditions with long term affordability.

6.5 The long-term forecast for external debt in comparison to the Capital Financing Requirement, known as the Liability Benchmark, is shown at Appendix 1. This highlights the level of internal borrowing, where the council is using its own cashflow and cash backed reserves in lieu of drawing down external debt. However, with the planned use of reserves to support the revenue and capital budgets means this position will change and further external borrowing will be required. External debt peaks as the forecast capital programme for approved schemes ends and will change as further projects are approved and the level of internal borrowing reduced.

6.6 The forecast profile for the Capital Financing Requirement is shown in the table below:

	2023/24	**2024/25**	**2024/25**	**2025/26**	**2026/27**
	£'m				
Opening CFR	1,956,934	2,062,376	2,186,133	2,310,933	2,265,789
New Borrowing	142,424	164,136	167,442		
Additional long-term liabilities [1]	808	737	1,342	1,594	1,725
MRP	(37,790)	(41,116)	(43,984)	(46,738)	(46,532)
Closing CFR	**2,062,376**	**2,186,133**	**2,310,933**	**2,265,789**	**2,220,982**

6.7 The Capital Financing Requirement of the City Council as at 31st March 2024 is forecast to be c. £2.06bn. The difference between this and the actual gross debt of the Council is c. £0.8n which is the amount of funding that the Council has internally borrowed or has been funded through credit arrangements. This reflects the Council's ongoing treasury strategy of using internal cash to reduce the amount of borrowing required rather than holding this cash as investments. However, as reserves are

[1] The additional long term liabilities are likely to increase following the introduction of international Financial Reporting Standard 16, due in April 2024. Work is underway to identify the impact of this, and it will be reported to members in due course, the estimate included in these figures is a c. £20m increase.

used, either for capital or revenue spend, and as the CFR increases the level of external debt will increase, and therefore interest costs are likely to rise.

6.8 Around £310.0m of the outstanding debt consists of Lender Option Borrower Option (LOBO) loans. LOBO loans have options on specific dates that allow the lender to change the interest rate (the lender option), and the borrower can choose to repay the loan if the new rate is unacceptable (the borrower option). The loans have interest rates above 4%, and therefore over the last decade no lender has sought to exercise their option. However, there is a risk that should rates persist at relatively high levels or continue to rise, that lenders could seek to exercise the options, which would represent a refinancing risk to the Council where interest rates could increase on this proportion of debt.

6.9 The portfolio at 31st March 2024 includes Council Stock debt with a value of £0.9m. This Stock debt is attributable to the irredeemable class of stock where stockholders have not taken up the Council's redemption offer made in 2017/18.

7 Debt Position and Sector Comparison

7.1 The CFR and external debt noted above reflect the significant investment made by the Council over time, and remain affordable within the forecast medium term financial plan. However, a number of local authorities have, in recent times, issued Section 114 notices in part because of investment and debt decisions which caused significant additional pressure to revenue budgets.

7.2 Manchester's indebtedness is comparatively high in nominal terms, as it has the 9th highest level of debt of English local authorities, excluding combined authorities and the GLA. However, the ratio of debt to net revenue is 48th amongst English local authorities and the debt per resident is c. £2,050, or 131st.

7.3 OFLOG's Local Authority Data Explorer includes two metrics relating to capital expenditure: debt servicing costs as a percentage of core spending power (12.5%), and total debt as a percentage of core spending power (324.1%). For both metrics Manchester is higher than the median for similar English authorities (9.0% and 226.7% respectively), but it is not an outlier. However, this does mean that the ability to borrow in the future to support major schemes is significantly restricted.

7.4 The affordability of the capital programme and the associated capital financing costs is monitored throughout the financial year, so that any risks can be tackled and mitigated as soon as they become apparent, and to try and ensure that the impact on the Council's revenue budget can be minimised as much as possible. The sustainability of investment and debt therefore forms a significant part of the Council's financial management.

8 Prospects for Interest Rates

8.1 The Council has appointed Link Asset Services as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. Appendix G draws together several current City forecasts for short term (Bank Rate) and longer fixed interest rates. The following gives Link's central view for interest rates at financial year ends (March):

- 2024: 5.25%
- 2025: 3.75%
- 2026: 3.00%

8.2 There is no certainty to these forecasts. A detailed view of the current economic background prepared by Link Asset Services is at Appendix F to this report.

8.3 The Council seeks to maintain a portfolio of debt and investments that is a mix of fixed and variable interest rates. Whilst fixed interest rates give the Council certainty, there is also a risk that prevailing market rates change and there are then opportunities to either increase the rate of return on investments or reduce the rate of interest on debt which could not be taken if the whole portfolio was fixed. Future borrowing decisions will be made with a view to keeping the debt portfolio balanced between fixed and variable debt.

9 Borrowing Requirement

9.1 The potential long-term borrowing requirements over the next three years are:

Table 2	**2024/25**	**2025/26**	**2027/28**
	£'m	**£'m**	**£'m**
	estimate	**estimate**	**estimate**
Planned Capital Expenditure funded by Borrowing	189.1	39.0	0.0
Change in Grants & Contributions	45.7	3.1	
Change in Capital Receipts	26.8	0.4	(8.1)
Change in Reserves	71.7	62.6	51.7
MRP Provision	(40.2)	(43.1)	(46.3)
Refinancing of maturing debt (GF)	100.9	140.7	145.0
Refinancing of maturing debt (HRA)	0.0	0.0	0.0
Movement in Working Capital	-50.0	103.6	
Estimated Borrowing Requirement	**344.0**	**306.3**	**142.3**
Funded by:			
GF	100.9	140.7	145.0
HRA	0.0	0.0	0.0

10 Borrowing Strategy

General Fund

10.1 The proposed Capital Budget, submitted to Executive in February and Council in March, contains significant capital investment across the city. The scale of the investment will mean that the Council will need to undertake external borrowing in the future and will not be able on to rely on internal borrowing alone. Where possible, internal borrowing will remain the first option due to the interest savings generated.

10.2 Under the Prudential Code, the Council must make an annual revenue provision for the repayment of debt, called the minimum revenue provision (MRP), and the policy on MRP is included as an appendix to this report.   When the Council borrows debt externally, this is usually for a fixed period of time with a set maturity date for when the debt is repaid. MRP spreads the cost of repaying the debt for an asset over the useful economic life of the asset. It is a real cost and will impact the revenue budget position each year to provide the cash available for when the associated debts are repaid. The DLUHC MRP guidance is followed, and principles applied. The following asset lives are used when calculating MRP, unless there are asset-specific reasons for deviating from them – such deviation will be guided by qualified valuer's recommendations on maximum useful lives:

- Land: 50 years
- Property: 50 years
- Highways: 25 years
- ICT: 5 years

10.3 The Council's borrowing strategy and profile of actual debt repayments will utilise the annual MRP it is required to make to reduce debt, as if it is. not used to reduce external debt it is held as cash This ensures that MRP is utilised and does not accumulate as cash on the Balance Sheet. Alternatively, MRP could be used to repay existing debt early, but this would be at considerable cost in the current interest rate environment.

10.4 Beyond the forecast period for capital investment and matching to the same principles as above, a prudent strategy is to seek to borrow in the medium term with maturities to match the estimated MRP that is generated in the same period. This avoids an accumulation of cash on the Balance Sheet that would need to be invested at a potential net cost and investment risk to the Council.

10.5 The overall strategy is therefore for the Council to continue to use reserves and provisions to maximise internal borrowing whilst seeking to rebalance the portfolio with more medium-term debt when there is a need to externally borrow. This must be done with a strong focus on achieving value for money on interest costs and balancing the risks to the overall debt portfolio over the long term.

10.6 The Council has a fixed capital financing budget, currently c. £44.9m p.a., to fund interest costs. Any underspends against this budget are used to build up the Capital Financing and Capital Fund reserve, reflecting the impact of internal borrowing allowing the Council to save interest through deferring external borrowing until future years. As the capital programme is reaching maturity and with the use of reserves increased, the level of external debt is increasing, and the existing reserves will be used to mitigate the impact on the revenue budget.

Housing Revenue Account

10.7 The Council's proposed capital budget for 2024/25 and beyond does not contain any requirement for the HRA to borrow additional sums. It is expected that proposals may be brought forward that require funding via borrowing, which would create a borrowing requirement for 2024/25 or future years. The level of borrowing affordable is restrained by the statutory requirement for the HRA Business Plan to avoid going into a deficit, and as such any long-term borrowing that is taken to invest in capital assets would have to generate sufficient income to cover the costs of financing the debt and be supported by a sufficiently robust business case.

10.8 The impact of any required further long-term borrowing on the Business Plan will be reviewed which will inform the borrowing options pursued. Any temporary borrowing required will be sought from the General Fund, as per the pooled funding approach which is discussed further in Appendix I.

10.9 Note, if some of the current debt is required to be repaid, for example if one of the LOBO loans was called, the refinancing arrangements would need to be considered.

Borrowing Options

10.10 The overall forecast for long-term borrowing rates is that they are expected to fall gradually during 2024/25 and will continue to fall in future years but not to their historically low levels. In terms of the Council's borrowing strategy there are three options:

i. Internal borrowing
ii. Short to medium term borrowing
iii. Long term borrowing

The Treasury Management team will continue to monitor and manage the risk of each of the above borrowing options. At such time the Council will need to borrow, the debt market will be actively monitored and the borrowing strategy which delivers the optimum value for money will be chosen. The short-term advantage of internal and short-term borrowing will be weighed against the potential cost if long term borrowing is delayed.

10.11 Some of the expected options for new borrowing are noted below. All options will be evaluated alongside their availability, and which provides best value for money. The options below are not presented in a hierarchical order.

- **Public Works Loan Board (PWLB)**

In February 2020 Parliament reformed the statutory basis of the PWLB, transferring lending powers to HM Treasury. In March 2020 the government consulted on revising the PWLB's lending terms to reflect the new governance arrangements as well as to end the situation in which a minority of local authorities used PWLB loans to fund debt for yield activity via commercial investments. The government published its response to this consultation and implemented these reforms in November 2020.
Additional requirements to borrow from PWLB were introduced. Each local authority that wishes to borrow from the PWLB will need to submit a high-level description of their capital spending and financing plans for the following three years, including their expected use of the PWLB. Any investment assets bought primarily for yield will not be supported by PWLB.

Local Authorities will be asked to:

i. Categorise Capital Spending into: Service Spending, Housing, Regeneration, Preventative Action, Treasury Management, and Debt for Yield activity.
ii. Provide a short description covering at least 75% of the spending in each category.
iii. Provide assurance from the section 151 officer or equivalent that the local authority is not borrowing in advance of need and does not intend to buy investment assets primarily for yield.

PWLB borrowing is available between 1- and 50-year maturities on various bases. This offers a range of options for new borrowing which could spread debt maturities away from a concentration in longer dated debt and allow the Council to align maturities to MRP. Discounted rates are available for housing schemes and infrastructure projects.

The Link forecast for the PWLB Certainty Rate is as follows:

Table 3	**Mar 24**	**Jun 24**	**Sep 24**	**Dec 24**	**Mar 25**	**Dec 25**	**Mar 26**	**Dec 26**
	%							
Bank Rate	5.25	5.25	4.75	4.25	3.75	3.00	3.00	3.00
5 yr PWLB rate	4.50	4.40	4.30	4.20	4.10	3.70	3.60	3.50
10 yr PWLB rate	4.70	4.50	4.40	4.30	4.20	3.90	3.80	3.70
25 yr PWLB rate	5.20	5.10	4.90	4.80	4.60	4.20	4.20	4.10
50 yr PWLB rate	5.00	4.90	4.70	4.60	4.40	4.00	4.00	3.90

A more detailed forecast from Link, the Council's treasury management advisers, is included in Appendix G to this report.

- **Third Party Loans**

These are loans from third parties that are offered at lower than market rates, for example Salix Finance Ltd is offering loans to the public sector at 0% to be used specifically to improve their energy efficiency and reduce carbon emissions.

- **Inter-Local Authority advances**

Both short- and medium-term loans are often available in the inter Local Authority market.

- **Market Loans**

Following the reversal of the PWLB rates noted above, there has been a decrease in market activity relating to local authority debt as the debt pricing and structure offer less value for money compared to PWLB.

Market loans offer forward fixing, which is not an option with PWLB, however as rates are forecast to remain relatively low over the next few years forward fixing brings marginal advantage.

- **UKIB (UK Infrastructure Bank)**

The UK Infrastructure Bank is a government-owned policy bank launched in June 2021, focused on increasing infrastructure investment across the United Kingdom. UKIB mission is to partner with the private sector and local government to increase infrastructure investment in pursuit of our two strategic objectives:

- to help tackle climate change, particularly meeting the government's net zero emissions target by 2050
- to support regional and local economic growth through better connectedness, opportunities for new jobs and higher levels of productivity.

UKIB offers loans to local authorities for infrastructure projects with terms of up to 50 years, with current pricing offer lower than PWLB in most cases. UKIB has issued loans to other local and combined authorities in the past year, and the Council will continue to monitor the UKIB's offer as a competitive option for future borrowing.

10.12 These types of borrowing will need to be evaluated alongside their availability, particularly whilst there is a very limited availability of traditional market loans. Other options, such as the European Investment Bank or the UK Municipal Bond Agency would also be considered.

Sensitivity of the forecast

10.13 In normal circumstances the main sensitivities are likely to be the two scenarios noted below. Council officers in conjunction with the treasury advisors will continually monitor the prevailing interest rates and the market forecast, adopting the following responses to a change of sentiment:

- ***If it were 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.

- ***If it were felt that there was a significant risk of a much sharper RISE in long and short term rates than that current forecast***, perhaps arising from a greater than expected increase in world economic activity or a sudden increase in inflation risks, the portfolio position will be re-appraised. The likely action will be that fixed rate funding will be drawn whilst interest rates remain relatively cheap.

External v. Internal borrowing

10.14 The current borrowing position reflects the historic strong Balance Sheet of the Council as highlighted in Section 6. The policy remains to keep cash as low as possible and minimise temporary investments. Whilst interest rates are forecast to start falling back, they are not expected to return to the historic lows seen in recent years. At Appendix F there is an in-depth analysis of economic conditions provided by Link Asset Services, the Council's independent treasury advisors.

10.15 In this context, the strategy is to maximise internal borrowing and if and when borrowing is required to minimise the Council's exposure to higher rates by borrowing over a short period and refinancing when rates are expected to have fallen. Consideration will also be given to forward fixing rates if rates are favourable, however this has not been exercised given recent high rates.

10.16 Against this background caution will be adopted within 2024/25 treasury operations. The Deputy Chief Executive and City Treasurer will monitor the interest rate market and adopt a pragmatic approach to changing circumstances, reporting any decisions to the appropriate decision-making body at the next available opportunity.

Policy on borrowing in advance of need

10.17 From a statutory point of view a Local Authority has the power to invest for 'any purpose relevant to its functions under any enactment, or for the purposes of the prudent management of its financial affairs.' DLUCH takes an informal view that local authorities should not borrow purely to invest at a profit. This does not prevent the Council temporarily investing funds borrowed for the purpose of expenditure in the reasonable near future.

10.18 This Council will not borrow in advance of need to on-lend and profit from the difference in interest rate. Any decision to borrow in advance in support of strategic and service delivery objectives will be in the context of achieving the best overall value for money, for example to minimise the risk of borrowing costs increasing in the future and that the Council can ensure the security of such funds. In determining whether borrowing is undertaken in advance of need the Council will:

- ensure that there is a clear link between the capital programme and maturity profile of the existing debt profile which supports the need to take funding in advance of need;
- ensure the ongoing revenue liabilities created and implications for future and budget have been considered;
- evaluate the economic and market factors that might influence the manner and timing of any decision to borrow;
- consider the merits and demerits of alternative forms of funding;
- consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use; and
- consider the impact of borrowing in advance temporarily (until required to finance capital expenditure) increasing investment cash balances and the consequent increase in exposure to counterparty risk, and other risks, and the level of such risks given the controls in place to minimise them.
- The total amount of borrowing in advance should not exceed the Council's forecast CFR for the third year of the approved capital programme.

Forward Fixing

10.19 As noted above, the Council will consider forward fixing debt, whereby the Council agrees to borrow at a point in the future at a rate based on current implied market interest rate forecasts. There is a risk that the interest rates proposed would be higher than current rates; however, it can be beneficial as it avoids the need to borrow in advance of need and suffer cost of carry. It can also play an important role in providing certainty of rates as part of the overall portfolio of debt. It may also represent a saving if rates were to rise in the future. Any decision to forward fix will be reviewed for value for money and will be reported to Members as part of the standard treasury management reporting.

Debt Rescheduling

10.20 It is likely that opportunities to reschedule debt in the 2024/25 financial year will be limited due to prevailing debt interest rates being relatively similar to existing debt.

10.21 The debt portfolio following HRA reform consists mainly of LOBOs, and the premia for rescheduling these make it unlikely there will be a cost-effective opportunity to reschedule. The premia relate to the future interest payments associated with the loan and compensation for the lender for the buy-back of the interest rate options the loan has embedded in it.

10.22 The Council will continue to monitor the LOBO market and opportunities to reschedule, redeem or alter the profile of existing LOBO debt. 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 strategy outlined above in this section;
- enhancing the balance of the portfolio (amending the maturity profile and/or the balance of volatility)

10.23 Any restructuring of LOBOs will only be progressed if it provides value for money and reduces the overall treasury risk the Council faces. The Council's Constitution delegates to the Deputy Chief Executive and City Treasurer the authority to pursue any restructuring, rescheduling or redemption opportunities available.

10.24 All rescheduling will be reported to the Executive as part of the normal treasury management activity. If rescheduling requires amendments to the Treasury Management Strategy the Deputy Chief Executive and City Treasurer will be asked to approve them in accordance with the delegated powers accorded to the position and the changes will be reported to Members.

11 Annual Investment Strategy

HRA

11.1 In order to maintain efficient, effective and economic treasury management for the Council as a whole, the HRA will only be able to invest with the General Fund. This is discussed further in Appendix I.

General Fund

Introduction

11.2 The Council will have regard to the MHCLG's Guidance on Local Government Investments (the Guidance) and the 2011 and 2021 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes (the CIPFA TM Code). The Council's investment priorities are:

- The security of capital; and
- The liquidity of its investments.

11.3 The risk appetite of the Council is low in order to give priority to the security of its investments. The Council will aim to achieve the optimum return on its investments commensurate with desired levels of security and liquidity.

11.4 The borrowing of monies by an Authority purely to invest or on-lend and make a return is unlawful and this Council will not engage in such activity. However, the

Council may provide loan finance funded from borrowing to third parties if this supports the achievement of the Council's strategies and service objectives.

11.5 The Council's TMSS focusses solely on treasury management investments. The Council does not hold any commercial investments, and details of strategic capital investments can be found in the Capital Strategy and Budget Report to the Executive.

Investment Policy

11.6 The Council's investment policy is to manage the Council's cash flow through investments in high credit quality.

11.7 As in previous years, the Council will not just utilise ratings as 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. The Council will engage with its advisors to maintain a monitor on market pricing such as 'credit default swaps'[2] and overlay that information on top of the credit ratings.

11.8 In line with the policy adopted in this strategy in previous years, options to diversify the investment portfolio are reviewed by officers and will be introduced into the investment portfolio provided they support the investment policy, and do not introduce unacceptable levels of risk to the Council.

Specified and Non-Specified Investments

11.9 Investment instruments identified for use in the financial year are listed below and are all specified investments. Any proposals to use other non-specified investments will be reported to Members for approval.

11.10 Specified investments are sterling denominated, with maturities up to a maximum of one year and meet the minimum 'high' rating criteria where applicable. Further details about some of the specified investments below can be found in glossary attached in the appendices.

Table 4	**Minimum 'High' Credit Criteria**	**Use**
Term deposits – banks and building societies[3]	See Creditworthiness Policy.	In-house
Term deposits – other Local Authorities	High security. Only few local authorities' credit-rated	In-house

[2] A credit default swap is a financial instrument that effectively provides the holder insurance against a loan defaulting. The CDS spread is the difference between the price at which providers are willing to sell the swap, and the price at which buyers are willing to buy. A relatively high spread may suggest that the loan is more likely to default.

[3] Banks & Building Societies

The Council will keep the investment balance below or at the maximum limit based on the institutions credit rating as detailed in paragraph 10.21-10.22. If this limit is breached, for example due to significant late receipts, the Deputy Chief Executive and City Treasurer will be notified as soon as possible after the breach, along with the reasons for it. Please note this relates to specific investments and not balances held within the Council's bank accounts, including the general bank account.

Debt Management Agency Deposit Facility	UK Government backed	In-house
Certificates of deposit issued by banks and building societies covered by UK Government guarantees	UK Government explicit guarantee	In-house
Money Market Funds (MMFs)	AAA	In-house
Treasury Bills	UK Government backed	In-house
Covered Bonds	AAA	In-house

Creditworthiness Policy

11.11 The Council applies the creditworthiness service provided by Link Asset Services. This service employs a sophisticated modelling approach utilising credit rating from the three main credit rating agencies; Fitch, Moody’s and Standard & Poor’s. Link supplement the credit ratings of counterparties with the following overlays:

- Credit Watches and Credit Outlooks from credit rating agencies
- Credit Default Swap spreads to provide early warning of likely changes in credit ratings
- Sovereign Ratings to select counterparties from only the most creditworthy countries

11.12 The above are combined in a weighted scoring system which is then combined with an overlay of CDS spreads. The product is a series of colour coded bands which indicate the relative creditworthiness of counterparties.

11.13 The Council has regard to Link’s approach to assessing creditworthiness when selecting counterparties as it uses a wider array of information than just primary ratings and by using a risk weighted scoring system does not give undue prominence to just one agency’s ratings.

11.14 In summary the Council will approach assessment of creditworthiness by using the Link counterparty list and then applying its own counterparty limits and durations. All credit ratings will be monitored daily and re-assessed weekly. The Council is alerted to changes to ratings of all three agencies through its use of the Link creditworthiness service.

- if a downgrade results in the counterparty/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 in Credit Default Swap against the iTraxx benchmark[4] and other market data on a weekly basis. Extreme market movements may result in the downgrade of an institution or removal from the Council’s lending list.

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[4] The Markit iTraxx Senior Financials Index is a composite of the 25 most liquid financial entities in Europe. The index is calculated through an averaging process by the Markit Group and is used as the benchmark level of CDS spreads on Link Asset Services’ Credit List.

11.15 Sole reliance will not be placed on the use of this external service. In addition, the Council will also use market data and market information, information on government support for banks and the credit ratings of that government support.

Investment Limits

11.16 In applying the creditworthiness policy, the Council holds the security of investments as the key consideration and will only seek to make treasury investments with counterparties of high credit quality.

11.17 The financial investment limits of financial institutions will be linked to their short and long-term ratings (Fitch or equivalent) as follows:

Long Term	Amount
Fitch AA+ and above	£20 million
Fitch AA/AA-	£15 million
Fitch A+/A	£15 million
Fitch A-	£10 million
Fitch BBB+	£10 million

The Council will only utilise those institutions that have a short-term rating of F2 or higher, (Fitch or equivalent).

UK Government (including the Debt Management Office)	£200 million
Greater Manchester Combined Authority	£200 million
Other Local Authorities (inc. pension funds)	£20 million

11.18 In seeking to diversify the Council will utilise other investment types which are described in more detail below and ensure that the investment portfolio is mixed to help mitigate credit risk. The following limits will apply to each asset type:

Total Deposit	**Amount**
Local Authorities	£250 million
UK Government	£200 million
- Debt Management Office	
- Treasury Bills	
Money Market Funds	£75 million
Certificates of Deposit	£25 million
Covered Bonds	£25 million

11.19 It may be prudent to temporarily increase the limits shown above, if the prevailing economic environment means that it becomes difficult for officers to place funds. If this is the case officers will seek approval from the Deputy Chief Executive and City Treasurer and any increase in the limits will be reported to Members through the normal treasury management reporting process.

Durational Limits

11.20 The Council will invest for up to 364 days provided that such investments form part of the management of the cash flow and not for increased yield. On this basis, such investments will only be made if the cash flow forecast at the time indicates a level of “core” cash which will not be required for the investment period.

Environmental, Social and Governance Investment Policy

11.21 The investment classes detailed in this Strategy are almost exclusively short term in nature, and therefore establishing investment criteria for environmental, social and governance (ESG) factors is challenging.

11.22 There are several approaches to ESG investing, but they all focus on investments which will have a positive return and a long-term impact in people, the environment, and how business is conducted. This is particularly important when the investment takes the form of equity, and therefore the investor can use their influence in corporate matters.

11.23 None of the investment classes contained within this Strategy provide that level of influence. Instead, the treasury management team will continue to screen potential investments to make sure that institutions demonstrate a significant level of commitment to ESG matters, are aligned to the Council's corporate objectives and approaches, and will not invest if there are concerns.

Liquidity

11.24 Based on cash flow forecasts, the level of cash balances in 2024/25 is estimated to range between £0m and £300m. The higher level can arise where for instance large Government grants are received or long-term borrowing has recently been undertaken.

Investment Strategy to be followed in-house

11.25 Link's view of the forecast Bank Rate is noted at Section 9. Link's view is that the Bank Rate will fall during 24/25, following a period of increases in Bank of England rate to tackle inflationary pressures.

11.26 As interest rates have risen, investment rates have increased although there has been a lag following the Bank of England rate rises on some investment instruments. The level of funds available is mainly dependent on the timing of precept payments, the receipt of grants, progress on the capital programme, and working capital. There will remain a potential cost of carry to any new borrowing which causes an increase in investments as this could incur a revenue loss between borrowing costs and investment returns.

11.27 The council will continue to look for opportunities to invest in the short term whilst investment rates are favourable, whilst being in line with cash flow need and within the risk parameters set by the Council.

11.28 For 2024/25 the Council target for investment return on investments placed during the financial year is SONIA. SONIA represents the overnight rate of interest banks pay to borrow sterling overnight, unsecured, from other financial institutions. This reflects the ongoing market uncertainty, and the short-term nature of any cash that the Council holds. For cash flow generated balances, the Council will seek to utilise its business reserve accounts and short-dated deposits (overnight to six months) in order to benefit from the compounding of interest.

11.29 The SONIA rate will also be applied to any transfer rates between the General Fund and the HRA, further details are outlined in Appendix I. Treasury Management will apply mitigating changes to the transfer rates if the benchmark rates were to go into negative territory

End of year Investment Report

11.30 At the end of the financial year, the Council will receive a report on investment activity as part of the Annual Treasury Management Report.

Policy on the use of External Service Providers

11.31 The Council uses Link Asset Services as external treasury management advisors and has access to another provider who is an approved supplier should a second opinion or additional work be required. The Council recognises that responsibility for treasury management decisions always remains with the organisation and will ensure that undue reliance is not placed upon its external service providers.

11.32 The Council recognises there is value in employing external providers of treasury management services to acquire access to specialist skills and resources. It will ensure the terms of the Advisor's appointment and the methods by which their value is assessed are properly agreed and documented and subjected to regular review.

12 Non-Treasury Investments and Liabilities

12.1 CIPFA's revised Prudential and Treasury Management Codes acknowledge that authorities may hold non-treasury investments. These are investments held for service purposes, such as housing or regeneration, or commercial purposes. They are non-treasury because they are not related to the management of the authority's cash flows. Non-treasury investments are classed as capital expenditure.

12.2 The Council has a portfolio of non-treasury investments, including investment property, as outlined below. Such capital investments are regularly reviewed to ensure they continue to perform as expected. Whilst these investments are held for fundamentally different reasons compared to treasury management investments, it is important to set out how they will be managed, and the Council's overall approach.

Approach, Due Diligence and Risk Appetite

12.3 Council investments are managed in line with the Department for Levelling Up, Homes and Communities (DLUHC) investment guidance principles of security, liquidity and yield. The application of these principles will differ when considering capital investment rather than treasury management investment. The risk appetite for these two distinct types of investment may also differ as capital investments also consider the broader strategic and regeneration objectives and benefits.

12.4 Capital investments are considered in line with the Checkpoint process. Schemes could include lending to organisations with low credit ratings if the appropriate security over the organisations assets or guarantees from parent companies or organisations can be given. A key consideration is that income received from the investment covers the capital financing costs incurred.

Summary of material investments, guarantees and liabilities

12.5 The Council has the current historic investments on the balance sheet as at 31st March 2023:

	Value as at 31/3/23
	£m
Long-term debtors	505.5
Long-term investments	161.4
Investment Property	537.4
Total	**1,204.3**

12.6 Long-term debtors are loan finance provided by the Council, including the loans to Manchester Airport (£410.0m), Private Finance Initiative prepayments (£20.1m), Manchester Heat Network (£14.5m) and Manchester College (£8.2m). These loans are regularly reviewed and would be impaired if there was a risk of default.

12.7 Long-term investments are equity investments held including Manchester Airport (£112.4m), a car park at Manchester Airport (£4.3m), Destination Manchester (£10.2m) which is the Council's investment in Manchester Central, Manchester Science Park (£6.2m), Mayfield Developments (£7.2m) and Manchester Heat Network (£6.6m).. Investments are valued on an annual basis.

12.8 Investment property is held on the basis that it will generate a revenue return, for example land at Manchester Airport and at Eastlands. Some of the properties are held for regeneration purposes but as they provide a return they have to be shown as investment property. Investment properties are independently valued on an annual basis.

12.9 The capital programme contains the following which will create either long-term debtors, investments or investment properties:

- Civic Quarter Heat Network - creation of a heat network through a Council-owned company.
- Private Sector Housing Equity Loans - loans to residents to provide housing support
- This City – debt and equity to create a housing company providing affordable housing; and
- Victoria North – loans to support the Victoria North joint venture in acquiring land.

12.10 There may be other projects which become capital investments, such as to support the Eastern Gateway and Victoria North.

12.11 All investments are scrutinised via the capital approval process, including to Executive and Council as required, with independent financial, legal and other relevant advice sought.

12.12 Where investments provide a return through interest or dividends this can be used to support the revenue budget. For example, in 2023/24 c. £1.1m of dividends will be used within the revenue budget. Where investments are funded by borrowing the income received is used to fund the capital financing costs, for example the Airport Strategic Loan.

12.13 All investments are monitored regularly with the frequency based on risk, and any material changes are reported to the Deputy Chief Executive and City Treasurer at the earliest opportunity.

Commercial Investments

12.14 Capital investments are made for strategic or regeneration purposes. The Council will not invest in capital schemes purely for yield, although some schemes will be financed all or in part from returns on investment. Usually, investment will be within the local authority area, although there may be exceptions if it is within the relevant economic area and meets a key regeneration or zero carbon objective.

12.15 It is worth noting that investment property is considered, under CIPFA's Prudential Code, as a commercial investment, and so the Council does have assets of a commercial nature on the balance sheet.

12.16 Following the consultation on the future of the PWLB and the introduction of new terms for accessing PWLB loans, local authorities are actively discouraged from investing in assets primarily for yield. All proposed capital investments will have to be reviewed against PWLB guidance to assess whether they are:

- Service spending;
- Investment in housing;
- Regeneration;
- Investment as preventative action; or
- Investment in assets primarily for yield.

12.17 The decision over whether a project complies with the terms of the PWLB is for the Council's Section 151 officer but may be reviewed by Treasury and external auditors. Where local authorities do invest in assets primarily for yield, irrespective of how such assets are financed, access to the PWLB for new debt will be removed apart from for refinancing existing debt.

12.18 The outcome of the consultation also requires local authorities to only invest within their economic area.

13 Skills and Knowledge

13.13 Information, advice and training on the capital checkpoint processes is available for officers and members. The Capital Programme team use their experience to evaluate new capital investment proposals. All proposals are reviewed by the Senior Management Team, including the Deputy Chief Executive and City Treasurer. Capital investments are reviewed under the same approval process with input from appropriately qualified and skilled Finance professionals and external advisors where required.

13.14 Since January 2018 the Markets in Financial Instruments Directive II (MiFID II) regulations are in force. For the Council to continue to invest as before it is required to opt up to become a "Professional Status" counterparty. Those with responsibility for the delivery of the treasury management function must be able to demonstrate that they have significant skills and experience of working in a market environment. The existing team fulfils this requirement, and the Council currently holds “Professional Status”.

14 **Scheme of Delegation**

14.13 Appendix D describes the responsibilities of Member groups and officers in relation to treasury management.

14.14 Under the Council’s constitution, the Section 151 officer for the Council has delegated responsibility to make all decisions on borrowing, investment or financing on behalf of the Executive, acting in accordance with Prudential Code and the Council’s treasury management strategy.

14.15 Given the volatility in financial markets, and in particular the interest rates, there may be circumstances where the Section 151 officer agrees to seek debt within a range of rates and/or a range of periods, with the final decision on rate or term being taken by an officer within the treasury management team provided the terms are within any such ranges. All borrowing decisions will be reported to members in subsequent treasury management update reports.

15 **Role of the Section 151 Officer**

15.13 Appendix E notes the definition of the role of the Deputy Chief Executive and City Treasurer in relation to treasury management.

16 **Minimum Revenue Provision (MRP) Strategy**

16.13 Appendix B contains the Council’s policy for spreading capital expenditure charges to revenue through the annual MRP charge.

17 **Recommendations**

17.1 Please see the start of the report for the list of recommendations.

18 **Contributing to a Zero-Carbon City**

18.1 Treasury Management activity underpins the Council’s finances, and therefore supports projects and initiatives which seek to achieve the Council’s zero carbon target.

19 **Contributing to the Our Manchester Strategy**

19.1 The Treasury Management function supports the whole Council by seeking to ensure that funding is available when required, to fund all the work that the Council undertakes. Therefore, whilst not directly contributing to the strategic aims, the Council’s treasury management activity underpins the work taking place elsewhere to achieve the outcomes.

20 **Key Policies and Considerations**

(a) Equal Opportunities

20.1 None.

(b) Risk Management

20.2 CIPFA’s Prudential and Treasury Management Codes provide the risk management framework within which the treasury management activities of the Council operate. The Strategy should be the Council’s approach to this framework.

(c) Legal Considerations

20.3 None.