Chippenham Town Council Treasury Management Strategy Statement 2024/25

Introduction

Treasury management is the management of the Council's cash flows, borrowing and investments, and the associated risks. Treasury risk management at the Council is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2021 Edition* (the CIPFA Code) which requires the Council to approve a treasury management strategy before the start of each financial year. This report fulfils the Council's legal obligation under the *Local Government Act 2003* to have regard to the CIPFA Code.

National Context

Economic background: The impact on the UK from higher interest rates and inflation, a weakening economic outlook, an uncertain political climate due to an upcoming general election, together with war in Ukraine and the Middle East, will impact on the Council's treasury management strategy for 2024/25.

The Bank of England (BoE) maintained the Bank Rate at 5.25% in January 2024. The November quarterly Monetary Policy Report (MPR) forecast a prolonged period of weak Gross Domestic Product (GDP) growth. The Office for National Statistics (ONS) figures showed CPI inflation was 3.9% in November 2023. Looking ahead, the BoE expects CPI inflation to continue falling slowly, but taking until early 2025 to reach the 2% target before dropping below target during the second half 2025 and into 2026.

Credit outlook: The institutions on our adviser Arlingclose's counterparty list remain well-capitalised and their counterparty advice on both recommended institutions and maximum duration remain under constant review and will continue to reflect economic conditions and the credit outlook.

Interest rate forecast (December 2023): Although UK inflation and wage growth remain elevated, the Council's treasury management adviser Arlingclose forecasts that the Bank Rate has peaked at 5.25%. The Bank of England's Monetary Policy Committee will start reducing rates in 2024 to stimulate the UK economy. Arlingclose sees rate cuts from Q3 2024 to a low of around 3% by early-mid 2026.

Local Context

On 31st December 2023, the Council held £424k of borrowing and £3.2m of treasury investments. This is set out in further detail at ***Appendix A***.

Borrowing Strategy

The Council currently holds £424k of loans, a decrease of £38k on the previous year (as the capital is paid off), as part of its historical strategy of funding previous years' capital programmes through borrowing.

Objectives: The Council's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should the Council's long-term plans change is a secondary objective.

Strategy: In recent years the Council has used retained Capital Ear Marked Funds (C/EMF) and Capital Infrastructure Levy (CIL) income to finance its capital programme. Full Council has approved a much reduced C/EMF expenditure programme for 2024/25 based on the current financial position and level of reserves. The Council has set up a Working Party to look at how it can achieve net zero for carbon emissions by 2030. There may be a future requirement for borrowing depending on the options taken and the investment required, particularly with respect to energy efficiency improvements to the Council's buildings and replacement of vehicles with electric versions.

Short-term interest rates are currently at a 15-year high but are expected to fall in the coming years and it is therefore likely to be more cost effective over the medium-term to either use internal resources where possible.

The Council has previously raised all of its long-term borrowing from the PWLB but may consider long-term loans from other sources including banks, pensions and local authorities, in order to lower interest costs and reduce over-reliance on one source of funding in line with the CIPFA Code. Full Council will continue to make all decisions on future borrowing.

Treasury Investment Strategy

The Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Council's treasury investment balance has ranged between £3.2 and £4.9 million, and similar levels are expected to be maintained in the forthcoming year.

Objectives: The CIPFA Code requires the Council 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 Council'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. Where balances are expected to be invested for more than one year, the Council will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested. The Council aims to be a responsible investor and will consider environmental, social and governance (ESG) issues when investing.

Strategy:

The Council expects to be a long-term investor and treasury investments will therefore include both short-term low risk instruments to manage day-to-day cash flows and longer-term instruments where limited additional risk is accepted in return for higher investment income to support local public services.

The CIPFA Code does not permit local authorities to both borrow and invest long-term for cash flow management.

ESG policy: Environmental, social and governance (ESG) considerations are increasingly a factor in global investors' decision making, but the framework for evaluating investment opportunities is still developing and therefore the Council's ESG policy does not currently include ESG scoring or other real-time ESG criteria at an individual investment level. When investing in banks and funds, the Council will prioritise banks that are signatories to the UN Principles for Responsible Banking and funds operated by managers that are signatories to the UN Principles for Responsible Investment, the Net Zero Asset Managers Alliance and/or the UK Stewardship Code.

Approved counterparties: The Council may invest its surplus funds with any of the counterparty types in table 3 below, subject to the limits shown.

Table 3: Treasury investment counterparties and limits

Sector	**Time limit**	**Counterparty limit**
The UK Government	5 years	Unlimited
Local authorities & other government entities	2 Years	£2m
Secured investments *	1 Year	£1m
Money market funds *	n/a	£3m
Banks (unsecured) *	1 year	£10m
Building societies (unsecured) *	1 Year	£1m
Strategic Pooled Funds (e.g. CCLA Pty Fund)	n/a	£1m

This table must be read in conjunction with the notes below and indicates the risk nature of the type of investment i.e. the least risky investments are at the top, with a greater investment time limit allowed for these investments.

*** 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-. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account. For entities without published credit ratings, investments may be made where external advice indicates the entity to be of similar credit quality.

Government: Investments with the UK Government are deemed to be very low credit risk due to its ability to create additional currency. These investments can include loans to, and 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.

Whilst Arlingclose are happy to recommend a time limit of 50 years for investment with the UK Government and 25 years for Local Authorities (indicating the low level of risk), a limit of 5 years is included in the Council's investment strategy for UK Government and 2 Years for Local Authorities, for practical purposes.

Arlingclose's initial recommendation is that the Council invests in the UK Government's Debt Management Account Deposit Facility (DMADF). Here the UK Government allows Local Authorities to invest short term with deposits for a variety of maturity dates up to 6 months. The minimum investment for between 15 days and 6 months is £250k, for 8 days and 14 days months is £500k, and for overnight investment, the minimum investment level is £1m.

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.

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. The Council will take care to diversify its liquid investments over a variety of providers to ensure access to cash at all times.

Banks and building societies (unsecured): Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies. 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. See below for arrangements relating to operational bank accounts.

Operational bank accounts: The Council may incur operational exposures, for example though current accounts, to any UK bank with credit ratings no lower than A- and with assets greater than £25 billion. These are not classed as investments but are still subject to the risk of a bank bail-in. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Council maintaining operational continuity.

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 Council 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 Council's investment objectives will be monitored regularly. The Council currently has an investment of c£200k in a CCLA Property Investment Fund.

Risk assessment and credit ratings: Credit ratings are obtained and monitored by the Council's treasury advisers, who will notify changes in ratings as they occur. The credit rating agencies in current use are Moodys, Fitch and S&P. 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.

The Council 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, 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.

When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008, 2020 and 2022, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Council 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.

Appendix A – Existing Investment & Debt Portfolio Position

	31/3/23 Actual portfolio £k	**31/3/23 Average rate %**
External borrowing:		
Public Works Loan Board	**£424k**	**LRC 3.81%**
Total external borrowing	**£424k**	**Neeld 2.94%**
Total gross external debt	**£424k**	
Treasury investments:		
The UK Government	Nil	
Local authorities	Nil	
Secured investments	Nil	
Banks (unsecured)	**£3,001k**	**1.83%**
Building societies (unsecured)	Nil	
Money market funds	Nil	
Strategic Pooled Investments (CCLA)	**£214k**	**Income return 4.74%**
Other investments	Nil	
Total treasury investments	**£3,215k**	
Net investment	**£2,791k**	