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Overview and Scrutiny Select Committee

Thursday, 2 February 2023 at 7.30 pm

Council Chamber - Civic Centre

Members of the Committee

Councillors: J Furey (Chairman), S Lewis (Vice-Chairman), M Darby, R Davies, L Gillham, N Prescot, S Ringham, S Saise-Marshall and S Williams

In accordance with Standing Order 29.1, any Member of the Council may attend the meeting of this Committee, but may speak only with the permission of the Chairman of the Committee, if they are not a member of this Committee.

(N.B PLEASE NOTE, THIS MEETING WILL COMMENCE UPON THE CONCLUSION OF THE CRIME AND DISORDER COMMITTEE MEETING WHICH STARTS AT 7.30.PM.)

AGENDA

1) Any report on the Agenda involving confidential information (as defined by section 100A(3) of the Local Government Act 1972) must be discussed in private. Any report involving exempt information (as defined by section 100I of the Local Government Act 1972), whether it appears in Part 1 or Part 2 below, may be discussed in private but only if the Committee so resolves.

2) The relevant 'background papers' are listed after each report in Part 1. Enquiries about any of the Agenda reports and background papers should be directed in the first instance to **Mr Andrew Finch, Democratic Services Section, Law and Governance Business Centre, Runnymede Civic Centre, Station Road, Addlestone (Tel: Direct Line: 01932 425623). (Email: Andrew.Finch@runnymede.gov.uk).**

3) Agendas and Minutes are available on a subscription basis. For details, please contact Democratic.Services@runnymede.gov.uk or 01932 425620. Agendas and Minutes for all the Council's Committees may also be viewed on www.runnymede.gov.uk.

4) In the unlikely event of an alarm sounding, members of the public should leave the building immediately, either using the staircase leading from the public gallery or following other instructions as appropriate.

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Filming should be limited to the formal meeting area and not extend to those in the public seating area.

The Chairman will make the final decision on all matters of dispute in regard to the use of social media audio-recording, photography and filming in the Committee meeting.

List of matters for consideration Page

Part I

Matters in respect of which reports have been made available for public inspection

Part II

There are no part II (Exempt) items on this agenda

Runnymede Borough Council

Overview and Scrutiny Select Committee

Thursday, 7 July 2022 at 8.30 pm

Members of the Committee present:	Councillors J Furey (Chairman), R Davies, L Gillham, S Ringham, J Wilson (Substitute, in place of S Saise-Marshall) and S Williams.
Members of the Committee absent:	Councillors S Lewis (Vice-Chairman), M Darby, N Prescot.

130 **Minutes**

The minutes of the meeting from 3 February 2022 were confirmed and signed as a true record.

131 **Apologies for Absence**

Apologies were received from Cllrs S. Lewis and N. Prescot.

132 **Declarations of Interest**

No declarations of interest were made.

133 **Treasury Management Annual Report**

The Corporate Head of Finance advised that the report set out the treasury performance of the Council during the last financial year. Members of the Committee had the opportunity to make any recommendations ahead of the report being presented to the following week's Corporate Management Committee.

The Corporate Head of Finance advised that the Council's underlying need to borrow was known as the Capital Financing Requirement and represented the level of unfinanced capital expenditure. Part of the Council's treasury activity was to address the funding requirements for this borrowing need and organise the Council's cash position to ensure that sufficient cash was available to meet capital plans and cash flow requirements.

Last year, the Council maintained an under-borrowed position, meaning that the borrowing need was not fully funded with loan debt, as cash supporting the Council's reserves, balances and cash flows, was used as an interim measure, which was known as "internal borrowing".

By using Internal Borrowing, at the year end the Council was "under borrowed" by £47m saving the Council approximately £1m in loan interest payments over the last 12 months.

During the year the Council repaid a £40m loan to the PWLB and replaced it with the prearranged £40m annuity loan at 2.88% with Phoenix Life as agreed by Corporate Management Committee in 2018. This represented the Council's first and only Annuity loan which repays an element of the principal sum borrowed each year rather than repayment of all the principal at the loan maturity date.

In total the Council took out additional loans of £30million during the year which were used to fund the Magna Square development.

The Corporate Head of Finance added that general return on the Council's investment

remained low with the bank Base Rate remaining at 0.1% until December when following a series of increases, it settled at 0.75% at the end of the year.

Investment balances had been kept to a minimum through the agreed strategy of using reserves and balances to support internal borrowing, rather than borrowing externally from the financial markets. Such an approach had provided benefits in terms of reduced interest payments and reducing counterparty risk exposure, by having fewer investments placed in the financial markets

The Council's interest rate performance during last year, was 0.36% which compared favourably with the Council's benchmark rates, and was largely thanks to investment in its two Pooled Funds. These funds were long-term in nature and over long-term horizons they provided investors with strong levels of interest in the form of dividends

Another good performer for the Council had been its investment with the Funding Circle, a platform for lending to small businesses. This investment vehicle had averaged a 5% return over the life of the investments, but unfortunately it was now being wound down for retail investors – of which the Council is one.

Investments to the value of £229m were made during the year with a year-end balance of £77m.

Taking both borrowing and investment together overall the Council made a £2.4m betterment on its original Net debt forecast for the year.

The Council's treasury advisors were anticipating that the bank base rate would continue to increase throughout the year to end at 2.75% by the end of March 2023.

All the Council's borrowings were at fixed rates of interest so there would be no fluctuation. The Council had £10m of borrowing maturing this year which would be repaid using investment balances rather than taking out a replacement loan at an increased cost.

The Corporate Head of Finance concluded that last year could be considered a good year, with the Council operating within the boundaries set out in the Treasury Strategy, and investment returns and borrowing rates were better than anticipated with no additional risk to the Council.

The Corporate Head of Finance would be arranging two training sessions for Members on Treasury Management in October, one internal, and one provided by the Council's treasury advisors. The Committee chair asked that these sessions took place in person rather than virtually, and should be compulsory for Members of the Committee.

In response to a Member's question about keeping a minimum level of reserves, the Corporate Head of Finance confirmed that whilst there was a minimum level of around £3m, there were also earmarked reserves available for investment property income and property repairs.

Furthermore, borrowing was taken out on a maturity loan, meaning that whilst interest was repaid the principal sum was not repaid until the loan matured. This resulted in Minimum Revenue Provision, which set aside money each year to ensure the loan could be repaid. As the sum builds up the cash becomes available but could not be used, only invested, so the Council's Finance Team utilise this to avoid taking out more borrowing.

The Corporate Head of Finance confirmed that whilst the reserves did not have to be stress tested, CIPFA provided a resilience index.

A Member asked about the impact on the Council's finances with the cost of living going up, and the Corporate Head of Finance admitted there were challenges ahead, which affected

things such as fuel costs and contracts. This led to further questions about the prospect of electrifying the Council's fleet, however this would be considered over a longer-term basis. Currently the cost of an electric refuse vehicle was around double that of a diesel vehicle, with battery-life technology not yet sufficiently advanced to be viable.

The Committee chair made Councillors aware of ongoing enquiries by the Department of Levelling Up, Housing and Communities into a number of Councils' borrowing levels, including Runnymede. The Committee chair felt that the levels of borrowing were justified by the investments the Council had made over a number of years which had enabled it to maintain and expand both the compulsory and discretionary services it provided to residents.

134 **Annual Report of the Overview & Scrutiny Function**

The Council's constitution states that Overview & Scrutiny Select Committee must report annually to full Council. The Democratic Services Officer presented the annual report that for Committee's consideration to recommend to July's full Council meeting.

The Select Committee had considered a number of items over the previous twelve months, including two call ins relating to the PSPO in Egham and the appointment to outside bodies.

Other items on the Select Committee's agenda had been related to Treasury Management and progress towards savings, with a further update on progress towards savings expected at October's Committee meeting.

A Member queried the wording around the call-in relating to outside bodies, believing that Members had not misinterpreted advice around not being able to make a speech in support of their own nomination, but rather they had been told they were unable to do so.

It was agreed to tweak this wording for the Chair's consideration, who would decide whether he was supportive of an amendment to the report at full Council.

Another Member asked about the regularity of Treasury Management training for Members. Whilst it was agreed at a previous meeting that training would take place every other year, this would be kept under review given the potential annual turnover of membership of the Committee.

Recommended to full Council that –

the Overview & Scrutiny Select Committee annual report be received and adopted

(The meeting ended at 9.13 pm.) Chairman

Treasury Management Mid-Year Report 2022/23 (Paul French – Corporate Head of Finance)

Synopsis of report:

The report sets out the treasury activity for the first six months of the 2022/23 financial year.

Recommendations:

For information

1 Context of report

1.1 The Prudential and Treasury Management Codes, issued by the Chartered Institute of Public Finance and Accountancy (CIPFA), require all local authorities to prepare Treasury Management and Capital Strategies.

1.2 The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.

1.3 The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure that the Council can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses, and on occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

1.4 CIPFA define treasury management as:

> *"The management of the local authority's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."*

1.5 The Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals. These are:

- Prudential and Treasury Indicators and Treasury Management Strategy (TMS)
- A mid year Treasury Management Report (this report)
- An annual Treasury Management Report

1.6 The Council has delegated responsibility for the implementation and regular monitoring of its treasury managemnet policies and practices to the Corporate Management Committee, and for the execution and administration of treasury management decisions to the Assistant Chief Executive, who will act in accordance with the Council's Treasury Policy Statement and Treasury Management Practices (TMP).

1.7 These reports are required to be adequately scrutinised before being recommended to the Council. This role is undertaken by the Overview and Scrutiny Select Committee.

1.8 The Council has adopted both the CIPFA Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes – 2021 Edition (the TM Code) and the Prudential Code and this report fulfils the Council's legal obligation under the *Local Government Act 2003* to have regard to both the relevant CIPFA Codes and Department for Levelling Up, Housing and Communities (DLUHC - formerly MHCLG) Guidance.

1.9 The Council's Treasury Management Strategy, Annual Investment Strategy and Prudential indicators for 2022/23 were considered by the Corporate Management Committee at its meeting held on 20 January 2022, and the Overview and Scrutiny Select Committee at its meeting on 3 February 2022 before final approval by full Council on 10 February 2022.

2. Economy and Outlook for Interest Rates

Treasury Management Consultants

2.1 The Council recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. Following a tendering exercise, Link Group (Link) were awarded a new contract from September 2021. This contract is for the period of three years (with an option to further extend for additional two years). Although Link provide advice to the Council, responsibility for final decision making always remains with the Council and its officers.

Economic Update

2.2 The Council's treasury advisor, Link Asset Services, has provided the economic update in the following paragraphs (it should be noted that this was prior to the resignation of Liz Truss as Prime Minister and the installation of Jeremy Hunt as Chancellor of the Exchequer):

2.3 The first half of 2022/23 saw:

- GDP revised upwards in Q2 2022/23 to +0.2% quarter on quarter from -0.1% (in Q1 2022/23), which means the UK economy has avoided recession for the time being;
- Signs of economic activity losing momentum as production fell due to rising energy prices;
- CPI inflation ease to 9.9% year on year in August, having been 9.0% in April, but domestic price pressures showing little sign of abating in the near-term;
- The unemployment rate fall to a 48-year low of 3.6% due to a large shortfall in labour supply;
- Bank Rate rise by 100bps over the quarter, taking Bank Rate to 2.25% with further rises to come;
- Gilt yields surge and sterling fall following the "fiscal event" of the new Prime Minister and Chancellor on 23rd September.

2.4 The UK economy grew by 0.2% quarter on quarter in Q2 2022/23, though revisions to historic data left it below pre-pandemic levels.

2.5 There are signs of higher energy prices creating more persistent downward effects in economic activity. Both industrial production (-0.3% m/m) and construction output (-0.8% m/m) fell in July 2022 for a second month in a row. Although some of this was probably due to the heat wave at the time, manufacturing output fell in some of the most energy intensive

sectors (e.g., chemicals), pointing to signs of higher energy prices weighing on production. With the drag on real activity from high inflation having grown in recent months, GDP is at risk of contracting through the autumn and winter months.

2.6 The fall in the composite PMI from 49.6 in August to a 20-month low preliminary reading of 48.4 in September points to a fall in GDP of around 0.2% quarter on quarter in Q3 and consumer confidence is at a record low. Retail sales volumes fell by 1.6% m/m in August, which was the ninth fall in 10 months. That left sales volumes in August just 0.5% above their pre-Covid level and 3.3% below their level at the start of the year. There are also signs that households are spending their excess savings in response to high prices. Indeed, cash in households' bank accounts rose by £3.2bn in August, which was below the £3.9bn rise in July and much smaller than the 2019 average monthly rise of £4.6bn.

2.7 The labour market remained exceptionally tight. Data for July and August provided further evidence that the weaker economy is leading to a cooling in labour demand. Labour Force Survey (LFS) employment rose by 40,000 in the three months to July (the smallest rise since February). But a renewed rise in inactivity of 154,000 over the same period meant that the unemployment rate fell from 3.8% in June to a new 48-year low of 3.6%. The single-month data showed that inactivity rose by 354,000 in July itself and there are now 904,000 more inactive people aged 16+ compared to before the pandemic in February 2020. The number of vacancies has started to level off from recent record highs but there have been few signs of a slowing in the upward momentum on wage growth. Indeed, in July, the 3my/y rate of average earnings growth rose from 5.2% in June to 5.5%.

2.8 CPI inflation eased from 10.1% in July to 9.9% in August, though inflation has not peaked yet. The easing in August was mainly due to a decline in fuel prices reducing fuel inflation from 43.7% to 32.1%. And with the oil price now just below $90pb, we would expect to see fuel prices fall further in the coming months.

2.9 However, utility price inflation is expected to add 0.7% to CPI inflation in October when the Ofgem unit price cap increases to, typically, £2,500 per household (prior to any benefit payments). But, as the government has frozen utility prices at that level for two years, energy price inflation will fall sharply after October and have a big downward influence on CPI inflation.

2.10 Nonetheless, the rise in services CPI inflation from 5.7% year on year in July to a 30-year high of 5.9% year on year in August suggests that domestic price pressures are showing little sign of abating. A lot of that is being driven by the tight labour market and strong wage growth. CPI inflation is expected to peak close to 10.4% in November and, with the supply of workers set to remain unusually low, the tight labour market will keep underlying inflationary pressures strong until early next year.

2.11 During the first half of the year 2022, there has been a change of both Prime Minister and Chancellor. The new team (Liz Truss and Kwasi Kwarteng) have made a step change in government policy. The government's huge fiscal loosening from its proposed significant tax cuts will add to existing domestic inflationary pressures and will potentially leave a legacy of higher interest rates and public debt. Whilst the government's utility price freeze, which could cost up to £150bn (5.7% of GDP) over 2 years, will reduce peak inflation from 14.5% in January next year to 10.4% in November this year, the long list of tax measures announced at the "fiscal event" adds up to a loosening in fiscal policy relative to the previous government's plans of £44.8bn (1.8% of GDP) by 2026/27. These included the reversal of April's national insurance tax on 6th November, the cut in the basic rate of income tax from 20p to 19p in April 2023, the cancellation of next April's corporation tax rise, the cut to stamp duty and the removal of the 45p tax rate, although the 45p tax rate cut announcement has already been reversed.

2.12 Fears that the government has no fiscal anchor on the back of these announcements has meant that the pound has weakened again, adding further upward pressure to interest rates. Whilst the pound fell to a record low of $1.035 on the Monday following the government's "fiscal event", it has since recovered to around $1.12. That is due to hopes that the Bank of England will deliver a very big rise in interest rates at the policy meeting on 3rd November and the government will lay out a credible medium-term plan in the near term. This was originally expected as part of the fiscal statement on 23rd November but has subsequently been moved forward to an expected release date in October. Nevertheless, with concerns over a global recession growing, there are downside risks to the pound.

2.13 The MPC has now increased interest rates seven times in as many meetings in 2022 and has raised rates to their highest level since the Global Financial Crisis. Even so, coming after the Fed and ECB raised rates by 75 basis points (bps) in their most recent meetings, the Bank of England's latest 50 basis points hike looks relatively dovish. However, the UK's status as a large importer of commodities, which have jumped in price, means that households in the UK are now facing a much larger squeeze on their real incomes.

2.14 Since the fiscal event on 23rd September, we now expect the Monetary Policy Committee (MPC) to increase interest rates further and faster, from 2.25% currently to a peak of 5.00% in February 2023. The combination of the government's fiscal loosening, the tight labour market and sticky inflation expectations means we expect the MPC to raise interest rates by 100bps at the policy meetings in November (to 3.25%) and 75 basis points in December (to 4%) followed by further 50 basis point hikes in February and March (to 5.00%). Market expectations for what the MPC will do are volatile. If Bank Rate climbs to these levels the housing market looks very vulnerable, which is one reason why the peak in our forecast is lower than the peak of 5.50% - 5.75% priced into the financial markets at present.

2.15 Throughout 2022/23, gilt yields have been on an upward trend. They were initially caught up in the global surge in bond yields triggered by the surprisingly strong rise in CPI inflation in the US in May. The rises in two-year gilt yields (to a peak of 2.37% on 21st June) and 10-year yields (to a peak of 2.62%) took them to their highest level since 2008 and 2014 respectively. However, the upward trend was exceptionally sharply at the end of September as investors demanded a higher risk premium and expected faster and higher interest rate rises to offset the government's extraordinary fiscal stimulus plans. The 30-year gilt yield rose from 3.60% to 5.10% following the "fiscal event", which threatened financial stability by forcing pension funds to sell assets into a falling market to meet cash collateral requirements. In response, the Bank did two things. First, it postponed its plans to start selling some of its quantitative easing (QE) gilt holdings until 31st October. Second, it committed to buy up to £65bn of long-term gilts to "restore orderly market conditions" until 14th October. In other words, the Bank is restarting QE, although for financial stability reasons rather than monetary policy reasons.

2.16 Since the Bank's announcement on 28th September, the 30-year gilt yield has fallen back from 5.10% to 3.83%. The 2-year gilt yield dropped from 4.70% to 4.30% and the 10-year yield fell back from 4.55% to 4.09%.

2.17 There is a possibility that the Bank continues with QE at the long-end beyond 14th October or it decides to delay quantitative tightening beyond 31st October, even as it raises interest rates. So far at least, investors seem to have taken the Bank at its word that this is not a change in the direction of monetary policy nor a step towards monetary financing of the government's deficit. But instead, that it is a temporary intervention with financial stability in mind.

2.18 After a shaky start to the year, the S&P 500 and FTSE 100 climbed in the first half of Q2 2022/23 before falling to their lowest levels since November 2020 and July 2021 respectively. The S&P 500 is 7.2% below its level at the start of the quarter, whilst the FTSE 100 is 5.2% below it as the fall in the pound has boosted the value of overseas earnings in the index. The decline has, in part, been driven by the rise in global real yields and the resulting downward pressure on equity valuations as well as concerns over economic growth leading to a deterioration in investor risk appetite.

Outlook for Interest Rates

2.19 Part of Link Asset Services' service is to assist the Council in formulating a view on interest rates. The latest forecast on 27 September 2022 (see below) sets out a view that both short and long-dated interest rates will be elevated for some little while, as the Bank of England seeks to squeeze inflation out of the economy, whilst the government is providing a package of fiscal loosening to try and protect households and businesses from the ravages of ultra-high wholesale gas and electricity prices.

2.20 The increase in PWLB rates reflects a broad sell-off in sovereign bonds internationally but more so the disaffection investors have with the position of the UK public finances after September's "fiscal event". To that end, the MPC has tightened short-term interest rates with a view to trying to slow the economy sufficiently to keep the secondary effects of inflation – as measured by wage rises – under control.

Link Group Interest Rate View	27.09.22											
	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25
BANK RATE	4.00	5.00	5.00	5.00	4.50	4.00	3.75	3.25	3.00	2.75	2.75	2.50
3 month ave earnings	4.50	5.00	5.00	5.00	4.50	4.00	3.80	3.30	3.00	2.80	2.80	2.50
6 month ave earnings	4.70	5.20	5.10	5.00	4.60	4.10	3.90	3.40	3.10	3.00	2.90	2.60
12 month ave earnings	5.30	5.30	5.20	5.00	4.70	4.20	4.00	3.50	3.20	3.10	3.00	2.70
5 yr PWLB	5.00	4.90	4.70	4.50	4.20	3.90	3.70	3.50	3.40	3.30	3.20	3.20
10 yr PWLB	4.90	4.70	4.60	4.30	4.10	3.80	3.60	3.50	3.40	3.30	3.20	3.20
25 yr PWLB	5.10	4.90	4.80	4.50	4.30	4.10	3.90	3.70	3.60	3.60	3.50	3.40
50 yr PWLB	4.80	4.60	4.50	4.20	4.00	3.80	3.60	3.40	3.30	3.30	3.20	3.10

3 Debt Management Strategy

3.1 The Council's underlying need to borrow, known as the Capital Financing Requirement (CFR), represents the level of unfinanced capital expenditure. Part of the Council's treasury activity is to address the funding requirements for this borrowing need.

3.2 During last year, the Council maintained an under-borrowed position. This means that the borrowing need, was not fully funded with loan debt, as cash supporting the Council's reserves, balances and cash flow, was used as an interim measure - This is known as "internal borrowing"

3.3 The policy of avoiding new borrowing by running down spare cash balances, has served well over the last few years and in the last year in particular it has made sense to use our spare balances in this way as investment rates have been close to zero. With £51m under borrowed at the end of last year, this effectively saved the council £1m a year in loan interest payments.

3.5 Total borrowing as at 30 September 2022 was as follows:

Investment Sector	Outstanding at 1 April 2022	New Borrowing	Borrowing Repaid	Outstanding at 30 Sep 2022
	£000	£000	£000	£000
HRA - PWLB	100,000	-	-	100,000
General Fund – PWLB	499,000	-	-	499,000
General Fund – Non PWLB	54,731	-	273	54,458-
	653,731	**-**	**273**	**653,458**

3.6 A full list of borrowings held at the 30 September is set out at Appendix A

4 Annual Investment Strategy

4.1 The Treasury Management Strategy Statement (TMSS) for 2022/23, which includes the Annual Investment Strategy sets out the Council's investment priorities as being:

- Security of capital;
- Liquidity; and
- Yield.

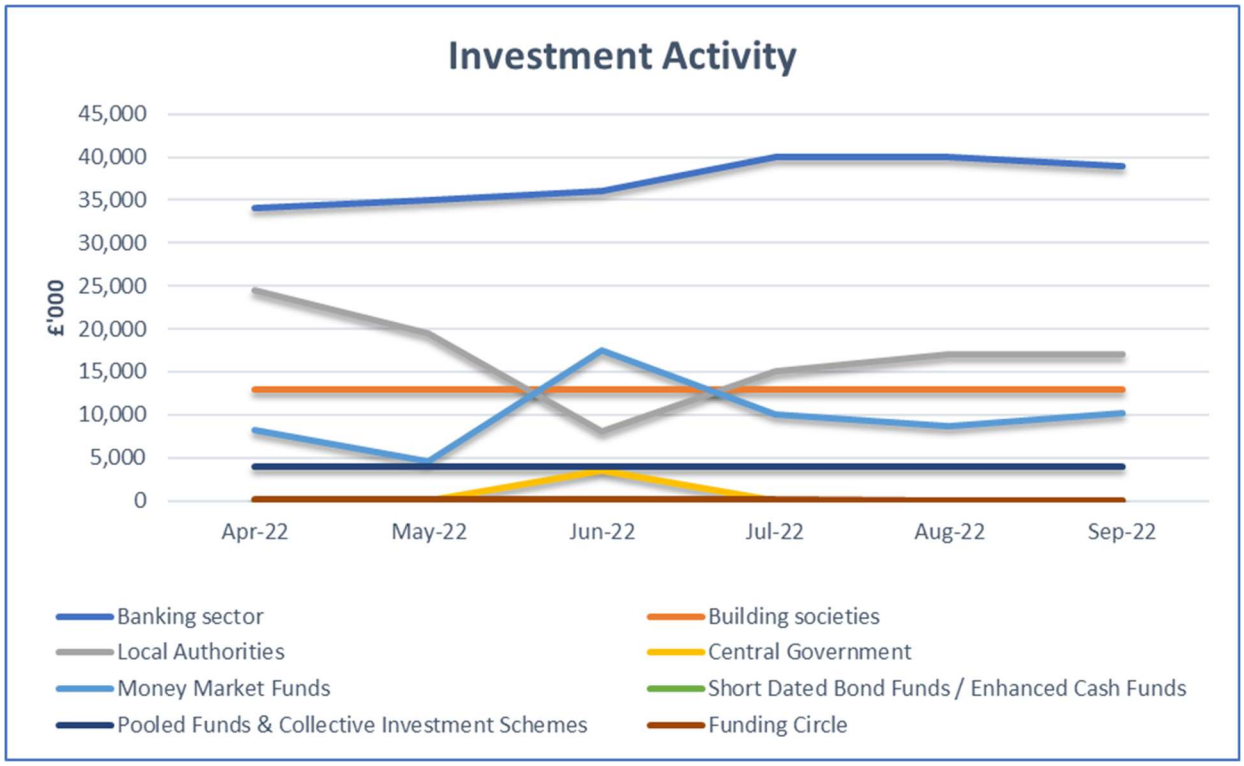
4.2 The Council's investment policy is governed by DLUHC investment guidance and is reflected in the Annual Investment Strategy approved by the Council each year. This policy sets out the approach for choosing investment counterparties and is based on credit ratings provided by the three main credit rating agencies, supplemented by additional market data, (such as rating outlooks, credit default swaps, bank share prices etc.).

4.3 The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity. In the current economic climate, it is considered appropriate to keep investments short term to cover cash flow needs, but also to seek out value available in periods up to 12 months with highly credit rated financial institutions.

4.4 The Council held £83.3m of investments at 30 September 2022 and the investment activity during the first six months of the year, which has been principally driven by the availability of counterparties that meet the criteria set out in the Annual Investment Strategy, can be seen from the table below:

Investment Sector	Outstanding at 1 April 2022	New Investments	Investments Recalled	Outstanding at 30 Sep 2022
	£000	£000	£000	£000
Specified Investments				
Banking sector	23,000	37,000	21,000	39,000
Building societies	16,000	22,000	25,000	13,000
Local Authorities	24,500	17,000	24,500	17,000
Central Government	0	3,500	3,500	0
Money Market Funds	9,820	45,750	45,370	10,200
Unspecified Investments				
Pooled & Collective Investment Schemes	4,000	0	0	4,000
Funding Circle	104	0	28	76
	77,424	**125,250**	**119,398**	**83,276**

4.5 The monthly movement in balances between these categories is set out in Table 6 below and reflects the available counterparties and investment rates at that time.



4.6 A full list of investments held at the 30 September is set out at Appendix A.

4.7 The Council's cash balances comprise revenue and capital resources and cash flow monies (creditors etc) and the level of funds available is mainly dependent on the timing of precept payments, receipt of grants and progress on the capital programme. Traditionally the amount of income the council has to invest increases during the year before dropping back down in February and March. This is predominantly due to Council Tax and Business

Rates being collected over ten monthly instalments but paid over to preceptors over a 12month cycle.

Breach of Counterparty limits

4.8 On Friday 30 September the Council invested in a £1million Certificate of Deposit (CD) with Credit Suisse for the duration of 3 months. Unfortunately, one of the three ratings agencies downgraded Credit Suisse's rating to bbb+ in August, which is below Council's minimum rating level for this type of institution, but our treasury system did not remove the counterparty as a lending option as expected when the new credit ratings were uploaded into Treasury Management System. As the Council's risk management policy is to take the lowest of the three credit ratings, this investment did not meet the Council's criteria at the time of the investment and therefore a breach occurred which was reported to Council Members in accordance with our treasury procedures.

4.9 When the error was discovered, officers considered an option of selling the CD in the second hand market at a marginal loss (confirmed by the market brokers). However, taking into account the size and short-term nature of the investment, the probability of risk of non-recovery was deemed as low, especially taking comfort that two other credit rating agencies still rate the bank the equivalent of A- which still meets Council's short-term investment criteria. Based on that, it was concluded to do nothing for the time being – i.e. to continue to hold the investment until maturity.

4.10 At the start of November, S&P Global Ratings (S&P) downgraded the Long Term of Credit Suisse AG to 'A-' from 'A'. At the same time, the Outlook on the Long Term Rating was changed to Stable from Negative. S&P notes that the Stable Outlooks reflect the rating agency's expectation that Credit Suisse will maintain robust capital, funding, and liquidity positions to mitigate the risks inherent in the implementation of the new strategy. S&P expect the bank will steadily execute its transformation plan, delivering on the targets that are fully within its control (such as cost cutting) and applying strong risk management and governance to the investment bank downsizing.

4.11 Since this error was picked up, officers have been in contact with the treasury system suppliers to establish what went wrong and new preventive controls and procedures have now been introduced to ensure that this does not happen again.

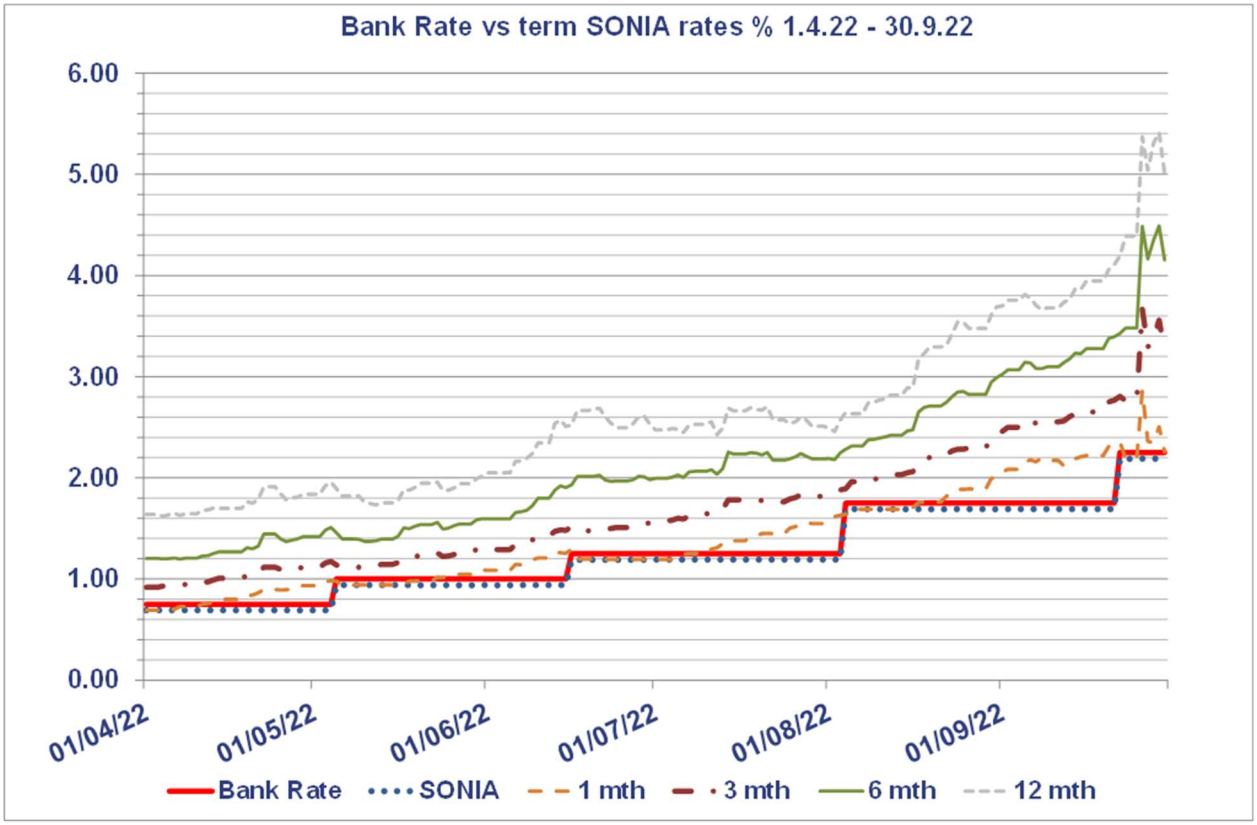
4.12 The current investment counterparty criteria selection approved in the TMSS is currently meeting the requirements of the treasury management function, however, with the build up of Minimum Revenue Provision balances being set aside in an unusable reserve to repay future debt liabilities when they become due, officers will be recommending changes in the Treasury Management Strategy for 2023/24 when it is reported in January.

Investment income and debt interest

4.13 Aside from the parameters set in the Annual Investment Strategy, the main factors that determine the amount of investment income gained by the Council are the level of interest rates, cash flow and the level of reserves and balances. The impact of capital cash flows – receipts from sales, and timing of capital projects – also has a significant impact on cash flows.

4.14 The original estimate for investment income for 2022/23 was based on the Council achieving an average interest rate of 0.50%. Currently the Council is at 1.10%, and it is likely to increase further in the year with the anticipated rises of base rate.

4.15 The average rate of interest generated is in line with the Council's benchmark rates which follows a similar pattern as follows:



NB: SONIA (Sterling Overnight Index Average) is based on actual transactions and reflects the average of the interest rates that banks pay to borrow sterling overnight from other financial institutions and other institutional investors

QUARTER ENDED 30/9/2022

	Bank Rate	SONIA	1 mth	3 mth	6 mth	12 mth
High	2.25	2.19	2.86	3.67	4.49	5.41
High Date	22/09/2022	30/09/2022	26/09/2022	26/09/2022	29/09/2022	29/09/2022
Low	0.75	0.69	0.69	0.92	1.20	1.62
Low Date	01/04/2022	28/04/2022	01/04/2022	01/04/2022	07/04/2022	04/04/2022
Average	1.28	1.22	1.39	1.70	2.12	2.62
Spread	1.50	1.50	2.17	2.75	3.29	3.79

The table above, for completeness, covers both the first and second quarters of 2022/23.

4.16 By way of comparison the Council's investment performance month by month for the year to date is set out below. This shows the average interest rates achieved from our investments each month and reflects the value in keeping investments short in an unpredictable rising market.

Month	**Interest Rate (%)**
April 2022	0.61
May 2022	0.75
June 2022	0.87
July 2022	1.19

August 2022	1.42
September 2022	1.72
Average Rate YTD	**1.10**

4.17 Included in the above table are our investments in two CCLA Pooled Funds. These allow the Council to diversify into asset classes other than cash without the need to own and manage the underlying investments. Investments in these funds are long term in nature and over long term horizons they provide investors with strong levels of interest (in the form of dividends) relative to other forms of investment. However past performance has also shown that the capital values of these assets can be subject to volatility over relatively short time frames. The movement in these funds during the year has been as follows:

	Original Investment £'000	**Value 31 March 2022 £'000**	**Value 31 Sep 2022 £'000**	**Average Dividend Return %**
CCLA Property Fund	2,000	2,710	2,731	4.80
CCLA Diversified Income Fund	2,000	2,079	1,901	3.10

The differences between the Original Sums invested and the Values at 31 March each year are held on the Council's Balance Sheet in the Pooled Investments Adjustment Account.

4.18 In addition to the normal money markets, the Council also invests in its own companies by way of loans provided to them for the purchase of assets from the Council (that the Council cannot hold itself) and via working capital loans. All such Loan Agreements have been approved by Full Council. The table below sets out these loans and the expected income to the Council in a full year.

Loan Type	**Original Investment £'000**	**Annual Interest £'000**	**Interest Rate %**
Development Loans - AddlestoneOne	25,326	1,276	5.04
Development Loans – Magna Square	11,838	500	4.22
Development Loans - Other	1,000	49	4.86
Working Capital Loans	445	34	7.54
Working Capital Loans	300	22	7.36
Working Capital Loans	1,800	133	7.40
Totals	**40,709**	**2,014**	

4.19 The estimate for investment income and debt interest for the current year at the start of the year was as follows:

	General Fund £'000	HRA £'000	Total £'000
Gross external investment income	347	96	443
Interest on loans to RBC companies	1,862	0	1,862
Dividend income	120	0	120
Interest paid on deposits and other balances	(1)	0	(1)

Net Investment Income	**2,328**	**96**	**2,424**
Debt Interest	(13,480)	(3,379)	(16,859)
Management Expenses	(27)	0	(27)
Net Investment Income / (Debt interest)	**(11,179)**	**(3,283)**	**(14,462)**

4.20 Based on current predictions using the data set out in the above paragraphs, the revised figures for 2022/23 are assumed to be as follows:

	General Fund £'000	HRA £'000	Total £'000
Gross external investment income	2,169	738	2,907
Interest on loans to RBC companies	1,806	-	1,806
Dividend income	120	-	120
Interest paid on deposits and other balances	(6)	-	(6)
Net Investment Income	**4,089**	**738**	**4,827**
Debt Interest	(13,469)	(3,379)	(16,848)
Management Expenses	(28)	-	(28)
Net Investment Income / (Debt interest)	**(9,408)**	**(2,641)**	**(12,049)**

5. Treasury Management Indicators

5.1 The CIPFA Code on Treasury Management requires the Council to approve a set of treasury management indicators by which the Council can measure its exposure to risk. The Council's treasury indicators were approved by Council on 10 February 2022.

5.2 During the financial year to date, the Council has operated within the treasury and prudential indicators set out in the Council's Treasury Management Strategy Statement and in compliance with the Council's Treasury Management Practices. The following paragraphs show the position as at 30 September against each of the indicators.

Interest rate exposures

5.3 This indicator is set to control the Council's net exposure (taking borrowings and investments together) to interest rate risk. The upper limits proposed on fixed and variable rate interest rate exposures, expressed as the principal sums outstanding are:

Upper limits proposed on fixed and variable rate interest rate exposures expressed as the principal sums outstanding in respect of borrowing		
	Target £'000	**Actual £'000**
Upper limit on fixed interest rate exposures	693,570	643,458
Upper limit on variable interest rate exposures	0	(73,276)

5.4 Fixed rate investments and borrowings are those where the rate of interest is fixed for the whole financial year. Instruments that mature during the financial year are classed as variable rate. If it is not clear whether an instrument should be treated as fixed or variable rate, then it is treated as variable rate.

5.5 The variable rate upper limit of zero means that the Council is minimising its exposure to uncertain future interest rates on its debt. As most of the Council's investments mature within the financial year, GBP73.3mln are classed as variable rate investments. The Council has no variable rate borrowings to offset these against, hence the negative target figure in the table above.

Maturity structure of borrowing

5.6 This indicator is set to control the Council's exposure to refinancing risk. The upper limits on the maturity structure of fixed rate borrowing are set at their maximum because it is important to maintain this flexibility to allow the optimum debt structure to be put in place for any future redevelopment schemes.

Proposed upper and lower limits on the maturity structure of fixed rate borrowing			
	Upper	**Lower**	**Actual**
Under 12 months	25%	0%	1.53%
12 months and within 24 months	25%	0%	2.30%
24 months and within five years	25%	0%	1.53%
Five years and within 10 years	50%	0%	14.54%
10 years and above	100%	0%	80.11%

5.7 Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

Principal sums invested for periods longer than 364 days

5.8 The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The proposed limits on the total principal sum invested to final maturities beyond the period end are:

Principal sums invested for periods longer than 364 days		
	Target £'000	**Actual £'000**
Limit on principal invested beyond one year	3,000	0

Borrowing limits

5.9 The Council's borrowing limits were set at the start of the financial year and are as follows:

Borrowing Limits	
	Target £'000
Approved Authorised Limit	720,710
Approved Operational Boundary	695,710
Actual borrowing as at 30 September	**653,458**

5.10 The Authorised Limit is a limit on the maximum amount the authority expects to borrow at any one point in time. The limit includes short-term borrowing. The Operational Boundary is the term used to describe the most likely scenario of cash flow movements and equates to the maximum level of external debt projected by the authority's estimates. The Authorised Limit differs in that it provides over and above the operational boundary for unusual cash movements (hence, one is a limit, the other a boundary).

6. Other Treasury Related Items

6.1 One of the requirements of the new CIPFA Treasury Codes is to ensure that Members and Officers undertaking treasury functions or scrutiny are adequately trained. Two training courses were made to the Council members relating to Treasury Management were undertaken in the first half of Oct 2022, one run by the Council's Finance officers and another one run by Link Asset Services).

7. Legal Implications

7.1 The powers for a local authority to borrow and invest are governed by the Local Government Act 2003 and associated Regulations. A local authority may borrow or invest for any purpose relevant to its functions, under any enactment, or for the purpose of the prudent management of its financial affairs. The Regulations also specify that authorities should have regard to the CIPFA Treasury Management Code when carrying out their treasury management functions.

7.2 Section 15 of the Local Government Act 2003 provides the power for the Government to issue guidance about investments to which authorities are to have regard. This report takes account of the current and proposed guidance issued by the Government.

7.3 The Government has issued Regulations to require investment in share capital to be treated as capital expenditure. The Government state that this acts as a disincentive to local authorities to make such investments, as they would consume the authority's capital resources. However, the Government has excluded investments in money market funds, multilateral development banks and real estate investment trusts (REITs) from this definition, as it has no wish to deter authorities from considering these investments.

8. Environmental/Sustainability/Biodiversity implications

8.1 Ethical or Sustainable investing is becoming a more commonplace discussion within the wider investment community. There are currently a small, but growing number of financial institutions and fund managers promoting Environmental, Social and Governance (ESG) products however the types of products we can invest in are constrained to those set out in our Investment Strategy which is driven by investment guidance, both statutory and from CIPFA, making it clear that all investing must adopt SLY principles – security, liquidity and yield: ethical issues must play a subordinate role to those priorities.

8.2 The Council does not invest directly in any companies – other than our own - and our investments are limited to investments with the banking sector (term deposits etc) and investments in property (our investment properties). We do have £4million split between two pooled funds both managed by the CCLA and their approach to ESG can be found on their website: https://www.ccla.co.uk/sustainability/corporate-governance/approach-esg

9. Conclusion

9.1 With continued UK economic uncertainties, the Ukraine conflict, pan-European energy crisis, global recessions, and global market uncertainty generally, investment rates have been increasing throughout the first half of year 2022-23. An increasing base rate is hard to keep up with, especially given so much uncertainty as to when and how high increases in rates are likely to be. For this reason, officers are keeping investments short term to ensure that

the time lag between increasing rate changes and reinvestment of maturities are kept to a minimum.

9.2 With the exception of one breach in counterparty limits, during the period the Council has operated within all the other treasury and prudential indicators set out in the Council's Treasury management Strategy and in compliance with its Treasury Management Practices.

(For Information)

Borrowings as at 30 Sep 2022

	Principal Sum £'000	Original Term (Years)	Annual Interest £	MATURITY	%
Housing Revenue Account					
PWLB - 500495	10,000	15	301,000	28 Mar 2027	3.01%
PWLB - 500498	10,000	20	332,000	29 Mar 2032	3.32%
PWLB - 500500	10,000	20	332,000	29 Mar 2032	3.32%
PWLB - 500501	10,000	20	332,000	29 Mar 2032	3.32%
PWLB - 500493	10,000	25	344,000	27 Mar 2037	3.44%
PWLB - 500496	10,000	25	344,000	27 Mar 2037	3.44%
PWLB - 500503	10,000	25	344,000	27 Mar 2037	3.44%
PWLB - 500494	10,000	30	350,000	28 Mar 2042	3.50%
PWLB - 500497	10,000	30	350,000	28 Mar 2042	3.50%
PWLB - 500499	10,000	30	350,000	28 Mar 2042	3.50%
	100,000		**3,379,000**	**Average Rate:**	**3.38%**
General Fund					
London Borough of Sutton	5,000	1	7,500	18 Oct 2022	0.15%
London Borough of Barking & Dagenham	5,000	3	90,000	20 Dec 2022	1.80%
PWLB - 507919	10,000	5	195,000	17 Oct 2023	1.95%
Sheffield Combined Authority	5,000	2	25,000	19 Oct 2023	0.50%
PWLB - 507920	10,000	6	205,000	17 Oct 2024	2.05%
PWLB - 504312	10,000	10	256,000	17 Aug 2025	2.56%
PWLB - 506855	10,000	10	219,000	23 Jan 2028	2.19%
PWLB - 505012	4,000	12	86,400	08 Jun 2028	2.16%
PWLB - 507919	6,000	9	150,000	22 Dec 2028	2.50%
PWLB - 504520	15,000	15	414,000	04 Dec 2030	2.76%
PWLB - 176998	10,000	11	226,000	30 Mar 2031	2.26%
PWLB - 410351	10,000	11	167,000	28 Sep 2032	1.67%
PWLB - 505233	10,000	30	244,000	12 Jul 2046	2.44%
Phonenix Life Limited	39,458	40	1,141,830	02 May 2061	2.88%
PWLB - 505335	20,000	45	376,000	01 Sep 2061	1.88%
PWLB - 508328	10,000	43	247,000	31 Dec 2061	2.47%
PWLB - 508377	10,000	43	249,000	18 Jan 2062	2.49%
PWLB - 505968	15,000	45	351,000	04 Apr 2062	2.34%
PWLB - 505969	15,000	45	351,000	04 Apr 2062	2.34%
PWLB - 505972	20,000	46	470,000	05 Apr 2063	2.35%
PWLB - 505433	10,000	47	207,000	29 Sep 2063	2.07%
PWLB - 508192	10,000	45	243,000	12 Dec 2063	2.43%
PWLB - 508226	10,000	45	239,000	13 Dec 2063	2.39%
PWLB - 505434	14,000	48	289,800	29 Sep 2064	2.07%
PWLB - 505668	20,000	48	514,000	20 Jan 2065	2.57%
PWLB - 507420	40,000	47	980,000	29 May 2065	2.45%
PWLB - 507145	10,000	48	228,000	27 Mar 2066	2.28%
PWLB - 507416	40,000	48	984,000	25 May 2066	2.46%
PWLB - 505611	20,000	50	524,000	16 Dec 2066	2.62%
PWLB - 506991	10,000	50	240,000	05 Mar 2067	2.40%
PWLB - 507425	20,000	49	480,000	30 May 2067	2.40%
PWLB - 506125	10,000	50	230,000	12 Jun 2067	2.30%
PWLB - 506887	15,000	50	367,500	08 Feb 2068	2.45%
PWLB - 506888	15,000	50	367,500	08 Feb 2068	2.45%
PWLB - 507407	20,000	50	490,000	23 May 2068	2.45%
PWLB - 177081	40,000	50	932,000	30 Mar 2070	2.33%
PWLB - 434500	10,000	50	167,000	09 Nov 2071	1.67%
	553,458		**12,786,530**	**Average Rate:**	**2.31%**
Total Borrowings	**653,458**		**16,165,530**	**Annual Interest**	

	£'000	
Authorised Borrowing Limit 2022/23	720,710	(approved 10 Feb 2022 - Full Council)
Borrowing to date	(653,458)	
Authorised Borrowing remaining	**67,252**	

Investments as at 30 Sep 2022

	£'000		ORIGINAL TERM	MATURITY	%
Banks					
Access Accounts					
Santander Business Reserve Account	4,000		**** 95 Day Notice A/C ****		0.930
Term Deposits					
Goldman Sachs International Bank	5,000		6 mth	10 Oct 2022	1.305
National Bank of Kuwait	4,000		5 mth	18 Oct 2022	1.550
DBS Bank	1,000		4 mth	18 Nov 2022	2.100
SMBC	4,000		4 mth	18 Nov 2022	1.970
Al Rayan Bank	5,000		3 mth	22 Nov 2022	1.850
Landesbank Hessen Thuringen Girozentrale - London	1,000		3 mth	20 Dec 2022	2.565
Certificates of Deposit					
Nat West Bank	2,000		1 yr	19 Dec 2022	1.950
Lloyds Bank	5,000		6 mth	22 Dec 2022	2.010
Credit Suisse	1,000		3 mth	04 Jan 2023	3.730
Nat West Bank	1,000		9 mth	17 Feb 2023	1.700
Toronto Dominion Bank	1,000		10 mth	27 Feb 2023	1.920
Standard Chartered Bank	5,000		1 yr	13 Apr 2023	1.910
Total Banks	**39,000**	**47%**			
Building Societies					
Coventry BS	3,000		3 mth	10 Oct 2022	1.300
Yorkshire BS	3,000		3 mth	31 Oct 2022	1.550
Nationwide BS	4,000		3 mth	09 Dec 2022	2.230
Leeds BS	3,000		3 mth	20 Dec 2022	2.250
Total Building Society	**13,000**	**16%**	(50% Limit)		
Local Authorities					
Plymouth City Council	5,000		11 mth	14 Oct 2022	1.420
Birmingham City Council	5,000		3 mth	19 Oct 2022	1.450
Merthyr Tydfil County Borough	2,000		3 mth	02 Nov 2022	1.620
North Lanarkshire	5,000		11mth	12 Jun 2023	1.900
Total Local Authorities	**17,000**	**20%**			
Money Market Funds					
Aberdeen Liquidity Sterling Fund	-		********** On Call **********		Variable
Aviva Investors Sterling Liquidity Fund - Class 3	200		********** On Call **********		Variable
Insight Liquidity Fund PLC	10,000		********** On Call **********		Variable
Total Money Market Funds	**10,200**	**12%**			
Pooled Funds & Collective Investment Schemes					
CCLA Property Fund	2,000		**** 3 mth settlement ****		Variable
CCLA Diversified Income Fund	2,000		**** 3 mth settlement ****		Variable
Total Pooled Funds	**4,000**	**5%**			
Funding Circle					
Lending to small and medium sized companies	76		**** up to 5 years ****		Variable
Total Other Investments	**76**	**0%**	(with the ability to sell loans)		
Total Investments	**83,276**				

2023/24 Treasury Management Strategy, Annual Investment Strategy, Prudential and Treasury Management Indicators and Minimum Revenue Provision (Paul French – Corporate Head of Finance)

Synopsis of report:

The report sets out the Treasury Management Strategy, Prudential and Treasury Management Indicators, and Minimum Revenue Provision Statement for 2023/24.

All the information required under the relevant legislation and professional codes of practice is set out in the report including:

- **training requirements**
- **the policy on use of external service providers**
- **the Council's prudential indicators**
- **the minimum revenue provision (MRP) policy**
- **the current treasury position**
- **prospects for interest rates**
- **the borrowing strategy**
- **policy on borrowing in advance of need**
- **debt rescheduling**
- **the investment strategy**

The Council currently invests between £70m-£90m and finding suitable homes for this money is becoming more difficult. Section 10 of the report therefore requests amending the counterparty limits set out in the Investment Strategy.

The updated Treasury Management Code has introduced a requirement to set out Liability Benchmark and Proportionality indicators so that members and officers can easily see the borrowing commitments the Council has and the extent to which the Council is reliant on its property related income. These are set out in Appendix C.

This report should be read in conjunction with the Capital Strategy report set out elsewhere on this agenda

Recommendations to Full Council on 9 February 2023:

i) The proposed 2023/24 Treasury Management Strategy encompassing the Annual Investment Strategy as set out in this report be approved

ii) The Prudential and Treasury Management Indicators for 2023/24 set out in this report be approved

iii) The revised Treasury Management Policy Statement and Treasury Management Practices set out in the Appendices be approved

iv) The authorised limit for external borrowing by the Council in 2023/24, be set at £700,613,000 (this being the statutory limit determined under Section 3 (1) of the Local Government Act 2003.

v) The Council's MRP statement for 2023/24 remain as follows:

"The Council will use the asset life method as its main method for calculating MRP.

In normal circumstances, MRP will be set aside from the date of acquisition. However, in relation to capital expenditure on property purchases and/or development, we will start setting aside an MRP provision from the date that the asset becomes operational and/or revenue income is generated".

I. GENERAL

1. Context of report

1.1 The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.

1.2 The second main function of the treasury management function is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure that the Council can meet its capital spending obligations. This management of longer-term cash flow may involve arranging long or short term loans or using longer term cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet Council risk or cost objectives.

1.3 The contribution the treasury management function makes to the authority is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.

1.4 The Council recognises that effective financial planning, option appraisal, risk management and governance processes are essential in achieving a prudent approach to capital expenditure, investment and debt. Therefore, all investment decisions (treasury and non-treasury) are taken in light of the Council's Corporate Business Plan, Medium Term Financial Strategy, Capital Strategy and Treasury Management Strategy.

1.5 The Chartered Institute of Public Finance and Accountancy (CIPFA) defines treasury management as:

"The management of the local authority's borrowing, investments and cashflows, 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".

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

2. Treasury reporting requirements

2.1 The Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals. These are:

a) Prudential and treasury indicators and treasury strategy (this report) - The first, and most important report is forward looking and covers:
   - the capital plans, (including prudential indicators)
   - a minimum revenue provision (MRP) policy, (how residual capital expenditure is charged to revenue over time)
   - the Treasury Management Strategy, (how the investments and borrowings are to be organised), including treasury indicators; and
   - an Annual Investment Strategy, (the parameters on how investments are to be managed)

b) Mid-year treasury management report – This is primarily a progress report and will update members on the capital position, amending prudential indicators as necessary, and whether any policies require revision. In addition, for next year, the Corporate Management and Overview & Scrutiny Committees will receive quarterly update reports.

c) Annual treasury report – This is a backward-looking review document and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

2.2 In addition to the three major reports detailed above, from 2023/24 quarterly reporting (end of June/end of December) is also required. Although these additional reports do not have to be reported to Full Council, they must be adequately scrutinised.

2.3 The Council has delegated responsibility for the implementation and regular monitoring of its treasury management policies and practices to the Corporate Management Committee, and for the execution and administration of treasury management decisions to the Assistant Chief Executive, who will act in accordance with the Council's Treasury Policy Statement and Treasury Management Practices (TMP).

2.4 These reports are required to be adequately scrutinised before being recommended to the Council. This role is undertaken by the Overview and Scrutiny Select Committee which will be considering this report at its meeting on 2 February 2023.

2.5 A glossary of treasury terms has been included at Appendix "A" to assist Members with understanding some of the terms used in this report.

3. Treasury management strategy for 2023/24

3.1. The strategy for 2023/24 covers the requirements of the Local Government Act 2003, DLUHC Investment Guidance, DLUHC MRP Guidance, the CIPFA Prudential Code and the CIPFA Treasury Management Code.

3.2. The CIPFA Prudential and Treasury Management Codes require all local authorities to prepare a Capital Strategy report which will provide the following:

- a high-level long term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
- an overview of how the associated risk is managed
- the implications for future financial sustainability

3.3. The aim of the Capital Strategy is to ensure that all elected members on the full council fully understand the overall long-term policy objectives and resulting Capital Strategy requirements, governance procedures and risk appetite.

3.4. The Council's Capital & Investment Strategy is reported separately from the Treasury Management Strategy Statement to ensure the separation of the core treasury function under security, liquidity and yield principles, and the policy and commercial investments usually driven by expenditure on an asset.

3.5. To demonstrate the proportionality between the treasury operations and the non-treasury operation, high-level comparators are shown throughout this TMS report.

4. Training

4.1. The CIPFA Treasury Management Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny.

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

4.3. The scale and nature of this depends on the size and complexity of the organisation's treasury management needs. It is up to councils to consider how to assess whether treasury management staff and members have the required knowledge and skills to undertake their roles and whether they have been able to maintain those skills and keep them up to date.

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

- Record attendance at training and ensure action is taken where poor attendance is identified.
- Prepare tailored learning plans for treasury management officers and council members.
- Require treasury management officers and council members to undertake self-assessment against the required competencies.
- Have regular communication with officers and members, encouraging them to highlight training needs on an ongoing basis."

4.5. In further support of the revised training requirements a self-assessment by members responsible for the scrutiny of treasury management has been created and is set out in Appendix B. This was sent to Members of the Overview and Scrutiny Committee in December for their comments in order to create an Action Plan to improve/develop their understanding.

4.6. Two training courses on Treasury Management have been carried out for the Council members in October 2022 (one arranged by the Council's Finance officers and another one run by the Link Group). 15 Members attended one or both of the sessions. Further training will be arranged as required.

4.7. The needs of the Council's treasury management staff for training in investment management are assessed every year as part of the staff appraisal process, and additionally when the responsibilities of individual members of staff change. Relevant training courses, seminars and conferences are provided by a range of organisations including Link and CIPFA.

4.8. A formal record of the training received by officers central to the Treasury function is maintained by the Corporate Head of Finance. Similarly, a formal record of the treasury management/capital finance training received by Council members is maintained by Democratic Services.

5. Treasury management consultants

5.1. The Council Link Treasury Services Limited (part of the Link Group) as its external treasury management advisor.

5.2. The Council recognises that responsibility for treasury management decisions always remains with the organisation and will ensure that undue reliance is not placed upon the services of the external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisers.

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

5.4. The quality of this service is controlled by the Assistant Chief Executive assessing the quality of advice offered and other services provided by Link. In particular, the Assistant Chief Executive holds regular meetings with Link (normally 3 times a year) where, in addition to discussing treasury strategy, the performance of the consultants is reviewed

6. Capital Prudential Indicators 2023/24 – 2025/26

6.1. The Authority's capital expenditure plans are the key driver of treasury management activity and are set out in the Capital & Investment Strategy report presented to the Corporate Management Committee each January. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans. These are set out in Appendix C

6.2. The Code requires all local authorities to look at capital expenditure and investment plans in light of the overall organisational strategy and resources and make sure that decisions are being made with sufficient regard to the long run financial implications and potential risks to the authority. The key objectives of the Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable; that treasury management decisions are taken in accordance with good professional practice; and that local strategic planning, asset management planning and proper option appraisal are supported.

6.3. The Council recognises that effective financial planning, option appraisal, risk management and governance processes are essential in achieving a prudent approach to capital

expenditure, investment and debt. Therefore, all investment decisions (treasury and non-treasury) are taken in light of the Council's Corporate Business Plan, Medium Term Financial Strategy, Capital & Investment Strategy, Asset Management Strategy and Treasury Management Strategy.

7. Minimum Revenue Provision (MRP) Policy Statement

7.1. When a Council funds capital expenditure by borrowing, the costs are charged to the Council Taxpayers in future years, reflecting the long-term use of the assets. Unlike a mortgage where amounts of principal are repaid each month, the borrowing undertaken by a Council is usually repayable on maturity at an agreed future date. The interest on borrowing is charged in the year it is payable.

7.2. To reflect this, the Council is required to pay off an element of the accumulated General Fund capital spend each year through a revenue charge (the Minimum Revenue Provision – MRP), although it is also allowed to undertake additional voluntary payments if required (Voluntary Revenue Provision – VRP). The MRP exists as a charge to revenue each year in order to have sufficient monies set aside to meet the future repayment of principle on any borrowing undertaken. There isn't an earmarked reserve for MRP, it is represented in the accounts as increased cash.

7.3. There is no requirement on the Housing Revenue Account (HRA) to make MRP.

7.4. Revised statutory guidance from the DLUHC requires local authorities to have Full Council approval of MRP Policy Statement in advance of each year. The aim of the DLUHC Investment Guidance is to ensure that debt is repaid over a period that is commensurate with that over which the capital expenditure provides benefits. The guidance recommends four options for calculating a prudent MRP as follows:

1. Regulatory Method
2. CFR Method
3. Asset Life Method (repayment over the useful life of the asset)
4. Depreciation Method (cost less estimated residual value)

Options 1 and 2 should normally only be used for Government-supported borrowing with options 3 and 4 being used for self-financed borrowing.

7.5. In December 2014 the Council set an MRP Statement to relate to prudent provisions and the relevant useful lives of assets, these will be unique to each asset borrowed against and as such will not affect the overall method chosen for calculating MRP. The current MRP Policy is as follows:

"The Council will use the asset life method as its main method for calculating MRP.

In normal circumstances, MRP will be set aside from the date of acquisition. However, in relation to capital expenditure on property purchases and/or development, we will start setting aside an MRP provision from the date that the asset becomes operational and/or revenue income is generated".

7.6. Any charges made over the statutory MRP, VRP or overpayments, can, if needed, be reclaimed in later years if deemed necessary or prudent. In order for these sums to be reclaimed for use in the budget, the Council's MRP policy must disclose the cumulative overpayment made each year. Up until the 31 March 2021 the Council had made no such VRP overpayments.

8. Economic data

Interest Rates

8.1. Part of Link Group's service is to assist the Council to formulate a view on interest rates. Link provided the following forecasts on 08.11.22. These are forecasts for certainty rates, gilt yields plus 80 basis points.

Link Group Interest Rate View	08.11.22												
	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
BANK RATE	3.50	4.25	4.50	4.50	4.50	4.00	3.75	3.50	3.25	3.00	2.75	2.50	2.50
3 month ave earnings	3.60	4.30	4.50	4.50	4.50	4.00	3.80	3.30	3.00	3.00	2.80	2.50	2.50
6 month ave earnings	4.20	4.50	4.60	4.50	4.20	4.10	3.90	3.40	3.10	3.00	2.90	2.60	2.60
12 month ave earnings	4.70	4.70	4.70	4.50	4.30	4.20	4.00	3.50	3.20	3.10	3.00	2.70	2.70
5 yr PWLB	4.30	4.30	4.20	4.10	4.00	3.90	3.80	3.60	3.50	3.40	3.30	3.20	3.10
10 yr PWLB	4.50	4.50	4.40	4.30	4.20	4.00	3.90	3.70	3.60	3.50	3.40	3.30	3.20
25 yr PWLB	4.70	4.70	4.60	4.50	4.40	4.30	4.10	4.00	3.90	3.70	3.60	3.50	3.50
50 yr PWLB	4.30	4.40	4.30	4.20	4.10	4.00	3.80	3.70	3.60	3.40	3.30	3.20	3.20

Additional notes by Link on this forecast table:

8.2 Our central forecast reflects a view that the MPC will be keen to demonstrate its anti-inflation credentials by delivering a succession of rate increases. This has happened throughout 2022, but the new Government's policy of emphasising fiscal rectitude will probably mean Bank Rate does not now need to increase to further than 4.5%.

8.3 Further down the road, we anticipate the Bank of England will be keen to loosen monetary policy when the worst of the inflationary pressures have lessened – but that timing will be one of fine judgment: cut too soon, and inflationary pressures may well build up further; cut too late and any downturn or recession may be prolonged.

8.4 The CPI measure of inflation will peak at close to 11% in Q4 2022. Despite the cost-of-living squeeze that is still taking shape, the Bank will want to see evidence that wages are not spiralling upwards in what is evidently a very tight labour market. Wage increases, excluding bonuses, are currently running at 5.7%.

8.5 Regarding the plan to sell £10bn of gilts back into the market each quarter (Quantitative Tightening), this has started but will focus on the short to medium end of the curve for the present. This approach will prevent any further disruption to the longer end of the curve following on from the short-lived effects of the Truss/Kwarteng unfunded dash for growth policy.

8.6 In the upcoming months, our forecasts will be guided not only by economic data releases and clarifications from the MPC over its monetary policies and the Government over its fiscal policies, but the on-going conflict between Russia and Ukraine. (More recently, the heightened tensions between China/Taiwan/US also have the potential to have a wider and negative economic impact.)

8.7 On the positive side, consumers are still estimated to be sitting on over £160bn of excess savings left over from the pandemic so that will cushion some of the impact of the above challenges. However, most of those are held by more affluent people whereas lower income families already spend nearly all their income on essentials such as food, energy and rent/mortgage payments.

PWLB rates

8.8 Yield curve movements have become less volatile under the Sunak/Hunt government. PWLB 5 to 50 years Certainty Rates are, generally, in the range of 3.75% to 4.50%. The

medium to longer part of the yield curve is currently inverted (yields are lower at the longer end of the yield curve compared to the short to medium end).

8.9 Link view the markets as having built in, already, nearly all the effects on gilt yields of the likely increases in Bank Rate and the poor inflation outlook but markets are volatile and further whipsawing of gilt yields across the whole spectrum of the curve is possible.

The balance of risks to the UK economy:

- The overall balance of risks to economic growth in the UK is to the downside. Indeed, the Bank of England projected two years of negative growth in their November Quarterly Monetary Policy Report.

Downside risks to current forecasts for UK gilt yields and PWLB rates:

- Labour and supply shortages prove more enduring and disruptive and depress economic activity (accepting that in the near-term this is also an upside risk to inflation and, thus, rising gilt yields).
- Bank of England acts too quickly, or too far, over the next two years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- UK / EU trade arrangements – if there was a major impact on trade flows and financial services due to complications or lack of co-operation in sorting out significant remaining issues.
- Geopolitical risks, for example in Ukraine/Russia, China/Taiwan/US, Iran, North Korea and Middle Eastern countries, which could lead to increasing safe-haven flows.

Upside risks to current forecasts for UK gilt yields and PWLB rates:

- Bank of England is too slow in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to build up too strongly and for a longer period within the UK economy, which then necessitates an even more rapid series of increases in Bank Rate faster than we currently expect.
- UK Government acts too slowly to increase taxes and/or cut expenditure to balance the public finances, in the light of the cost-of-living squeeze.
- The pound weakens because of a lack of confidence in the UK Government's fiscal policies, resulting in investors pricing in a risk premium for holding UK sovereign debt.
- Longer term US treasury yields rise strongly, if inflation numbers disappoint on the upside, and pull gilt yields up higher than currently forecast.

8.10 Further economic background data can be found in Appendix D

9. Borrowing Strategy

9.1. The Prudential Code considers that legitimate examples of prudent borrowing include:

- financing capital expenditure primarily related to the delivery of a local authority's functions
- temporary management of cash flow within the context of a balanced budget
- securing affordability by removing exposure to future interest rate rises
- refinancing current borrowing, including replacing internal borrowing, to manage risk or reflect changing cash flow circumstances.

9.2. The Prudential Code determines certain acts or practices that are not prudent activity for a local authority and incurs risk to the affordability of local authority investment. To this extent the guidance states "An authority **must not** borrow to invest for the primary purpose of commercial return". These principles apply to prudential borrowing for capital financing, such as externalising internal borrowing for the primary purpose of commercial return.

9.3. Access to the PWLB is essential for the Council to ensure liquidity and cheap borrowing. The Government's new rules for access to PWLB lending introduced at the start of 2021 require statutory Chief Finance Officers to certify that their Council's capital spending plans do not include the acquisition of assets primarily for yield, reflecting the view that local authority borrowing powers are granted to finance direct investment in local service delivery (including housing, regeneration and local infrastructure) and for cash flow management rather than to add gearing to return-seeking investment activity. Local authorities should not borrow to finance acquisitions where obtaining commercial returns is a primary aim.

9.4. In general, the Council will borrow for one of two purposes – to finance cash flow in the short term or to fund capital investment over the longer term. The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is still an issue that needs to be considered.

9.5. A key aim of the Treasury Management Strategy is to minimise the cost of the Council's loan portfolio whilst ensuring that the obligation to repay the loan is spread over a period. This reduces the impact on the revenue budget of interest payments.

9.6. The Council's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period which the funds are required. Against this background and the risks within the economic forecast, caution will be adopted with the 2023/24 treasury operations. The Assistant Chief Executive will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances.

9.7. Short term borrowing is the cheapest option but leaves the Council exposed to refinancing risk, which can be divided into interest rate risk (the risk that rates will rise) and availability risk (the risk that no-one will lend to the Council).

9.8. The Council's strategy for long term borrowing is currently as follows:

<u>Sources of borrowing</u>
The approved sources of long-term and short-term borrowing will be:

- Public Works Loan Board (PWLB)
- any institution approved for investments
- any other bank or building society approved by the Financial Conduct Authority
- UK public and private sector pension funds and Insurance Companies (except the Surrey Pension Fund)
- Capital market bond investors
- UK Municipal Bond Agency plc and other special purpose companies created to enable joint local authority bond issues (subject to committee report).

Other sources of borrowing will be investigated during the year and will be the subject of future committee reports before being submitted for approval at full Council.

Debt instruments

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

- fixed term loans at fixed or variable rates of interest, subject to the limits in the treasury management indicators
- bonds

9.9. Any proposed borrowing will only be undertaken on a phased basis in accordance with agreed plans and requirements at that time. The borrowing of money purely to invest or lend-on to make a return is unlawful.

Policy on Borrowing in Advance of Need

9.10. The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the sums borrowed. Any decision to borrow in advance will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

9.11. Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism. In determining whether borrowing will be 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 portfolio which supports the need to take funding in advance of need.
- Ensure the ongoing revenue liabilities created, and the implications for the future plans and budgets 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.

9.12. The total amount borrowed will not exceed the authorised borrowing limit. The maximum period between borrowing and expenditure is expected to be no more than six months, although the Council does not link particular loans with particular items of expenditure.

Debt restructuring

9.13. From time to time there may be potential opportunities to generate savings by switching from long term debt to short term debt and vice versa. Any such debt restructuring will need to be considered in the light of the current treasury position and the size of the cost of debt repayment (premiums incurred).

9.14. The reasons for any rescheduling to take place will include:

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

9.15. All rescheduling will be reported to the Council, at the earliest meeting following its action.

10. Annual Investment Strategy

10.1. DLUHC and CIPFA have extended the meaning of 'investments' to include both financial and non-financial investments (see section 12 below). This report deals solely with financial investments. Non-financial investments are held for two purposes, to generate income and to meet a strategic priority. These are entered into outside of normal treasury management activities, but nevertheless the TMS comes into play in their financing. The Council recognises that investment in other financial investments taken for non-treasury management purposes, requires careful investment management and all such investments are covered in the Capital & Investment Strategy.

10.2. Local authorities must draw up an "Annual Investment Strategy" for the following financial year. This strategy may be revised at any time, but full Council must approve the revisions. Both the TM Code and the DLUHC Investment Guidance place a high priority on the management of risk and require the Council to invest its funds prudently and to have regard to the security and liquidity of its investments before seeking high returns (yield). This approach is inherent in our treasury management strategy.

10.3. In accordance with the above guidance, and in order to minimise the risk to investments, the Council applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of concentration of risk.

10.4. The DLUHC Investment Guidance requires local authorities to cover a number of issues in their Annual Investment Strategy and the Council's strategy fully complies with these requirements. The Council approved its Annual Investment Strategy for 2022/23 in February 2022 and an updated Strategy for 2023/24 (taking account of the suggested changes set out below) is set out at Appendix E.

10.5. The Council's cash balances will increase over time as money is set aside in MRP. The knock-on effects of this is that there is more money to invest until the principal sums borrowed are due for repayment which means the Council needs to increase its counterparty limits and/or seek additional investment vehicles for its money. Estimated cumulative MRP balances built up over the next couple of years are anticipated to be as follows:

MRP cumulative balance at 31 March	£'000
2023	20,922
2024	25,534
2025	30,396

10.6. As previously reported to Members, with the increased MRP balances, the existing counterparty list is proving to be inadequate, and the Council has struggled to find homes for its investments in the last year. Officers have been in discussions with Link as to the best way to overcome this. Extending the number of counterparties by adding a lower credit rating band to the Investment Strategy, thereby increasing the potential risk of default, is not recommended. Officers are therefore requesting that the £Limits placed with the existing bands for Specified Investments" be increased as follows:

Fitch Long term Rating (or equivalent)	Current £ Limit	Current Duration	Proposed £ Limit	Proposed Duration
AA- or higher	-	-	**£7.5m**	**365 days**
A+	£5.0m	365 days	**£6.0m**	365 days
A	£4.0m	189 days	**£5.0m**	189 days
A-	£3.0m	98 days	**£4.0m**	**100 days**

10.7. Having discussed this proposal with our Treasury advisors, Link stated that "the Council has c£80m of investments so using a maximum cap of c£8m for any one high credit quality counterparty does not seem unreasonable".

10.8. In addition to this, the Council is currently limited to placing a maximum of £1 million to be placed with any non-UK country (which has a minimum sovereign long term rating of AAA or AA+) at any one time. Again, this is proving too restrictive and the Council is missing out several counterparties that have high quality credit ratings because of it. Officers are therefore proposing that the current limit to place a maximum of £1 million to be placed with a non-UK countertparty (with the country sovereign rating of AA- or higher) be increased to £3million but that the £Limits for each rated bank be as follows:

Fitch Long term Rating (or equivalent)	Current £ Limit	Current Duration	Proposed £ Limit	Proposed Duration
AA- or higher	-	-	**£3.0m**	**365 days**
A+	£1.0m	365 days	**£2.0m**	365 days
A	£1.0m	189 days	£1.0m	189 days
A-	£1.0m	98 days	£1.0m	**100 days**

2023/24 Treasury Activity

10.9. Link's suggested budgeted earnings rates for investments up to about three months' duration in each financial year are as follows:

Average earnings in each year	
2023/24	4.40%
2024/25	3.30%
2025/26	2.60%
2026/27	2.50%
Years 6 to 10	2.80%

As there are so many variables at this time, caution must be exercised in respect of all interest rate forecasts.

10.10. The Council's treasury portfolio position as at 31 December 2022 comprised of:

	31 Mar 22 £'000	**31 Dec 22 £'000**
Borrowing		
Fixed Rate - PWLB	599,000	599,000
Fixed Rate - Money Market	54,731	44,181
TOTAL BORROWING	**653,731**	**643,181**
Specified Investments		
Banking sector	23,000	33,000
Building societies	16,000	13,000
Local Authorities	24,500	12,000
Money Market Funds	9,820	25,700
Unspecified Investments		
Pooled Funds & Collective Investment Schemes	4,000	4,000
Funding Circle	104	58
TOTAL INVESTMENTS	**77,424**	**87,758**
NET BORROWING	**576,307**	**555,423**

10.11. All Investments are made with reference to the Council's core balances and cash flow requirements which are derived from the annual budget, the Medium Term Financial Strategy, the Capital Programme and Capital & Investment Strategy, and the outlook for short-term interest rates (i.e. rates for investments up to 12 months). Greater returns are usually obtainable by investing for longer periods. While most cash balances are required in order to manage the ups and downs of cash, where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer term investments will be carefully assessed.

10.12. It is important that the Council manages its treasury management activities to maximise investment income and reduce debt interest, whilst managing its exposure to risk and maintaining appropriate liquidity to meet its needs. Based on the above forecasts, the 2023/24 estimate for investment income and debt interest split between the General Fund and Housing Revenue Account (HRA) is as follows:

	General Fund £'000	HRA £'000	Total £'000
Gross external investment income	3,517	1,239	4,756
Interest on loans to RBC companies	2,036	0	2,036
Dividend income	120	0	120
Interest paid on deposits and other balances	(11)	0	(11)
Net Investment Income	**5,662**	**1,239**	**6,901**
Debt Interest	(13,351)	(3,379)	(16,730)
Management Expenses	(26)	0	(26)
Net Investment Income / (Debt interest)	**(7,715)**	**(2,140)**	**(9,855)**

10.13. The estimate is based on achieving the assumed interest rates set out in paragraph 10.9 above and using the level of revenue and capital reserves for 2023/24 as set out in the latest capital and revenue budgets contained in the Medium Term Financial Strategy and HRA Business Plan.

Interest charge to the Housing Revenue Account (HRA)

10.14 The Council operates a two-pooled approach to its loans portfolio, which means we separate HRA and General Fund long-term loans. Interest payable and other costs or income arising from long-term loans (for example premiums and discounts on early redemption) are charged or credited to the respective revenue account.

10.15 Differences between the value of the HRA loans pool and the HRA's underlying need to borrow (adjusted for HRA balance sheet resources available for investment) will result in a notional cash balance which may be positive or negative. We will calculate an average balance for the year and interest will be transferred between the General Fund and HRA at the Council's weighted average return on all its investments, adjusted for credit risk. This credit risk adjustment reflects the risk that any investment default will be a charge to the General Fund regardless of whether it was HRA cash that was lost.

11 Treasury Management Risks

11.1 Treasury management activity involves risks which cannot be eliminated but need to be managed. Treasury management risks could be defined as: The ongoing activity of adjusting the authority's treasury exposures due to changing market or domestic circumstances, to manage risks and achieve better value in relation to the authority's objectives. The effective identification and management of these risks are integral to the Council's treasury management objectives. All treasury activity needs to be managed to maximise investment income and reduce debt interest whilst maintaining the Council's exposure to risk.

11.2 Overall responsibility for treasury management risk remains with the Council at all times. None of the regulations or guidance prescribes any particular treasury management strategy for local authorities to adopt. The Council's lending & borrowing list is regularly reviewed during the financial year and credit ratings are monitored throughout the year to minimise future risks.

11.3 DLUHC issued revised statutory guidance on Local Government Investments in 2018, the DLUHC Investment Guidance, and this forms the structure of the Council's policies. The key intention of the DLUHC Investment Guidance is to maintain the current requirement for councils to invest prudently, and that priority is given to security and liquidity before yield. This means that first and foremost the Council must ensure the security of the principal sum invested (i.e. ensure the full investment is returned), then ensure that we have the liquidity we need (i.e. ensure we have the funds available when we need them), and only then should the yield on return be considered. In order to facilitate this objective, the DLUHC Investment Guidance requires this Council to have regard to the CIPFA publication Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes (2021 Edition) (TM Code).

11.4 The Prudential and Treasury Codes set as a prime policy objective the security of funds, and the avoidance of exposing public funds to unnecessary or unqualified risk. All authorities should consider a balance between security, liquidity and yield which reflects their own appetite, but which prioritises security over yield.

11.5 In accordance with the TM Code, the key treasury risks are discussed in detail in the Council's Treasury Management Practices (TMPs) and an updated version of both the Council's Treasury Management Policy Statement and the Council's TMPs, taking in the

required changes from the latest TM Code is set out in Appendix F with the changes highlighted.

12 Non-Treasury Management Investment

12.1 The Prudential and Treasury codes state that all investments and investment income must be attributed to one of the following three purposes:

- Treasury Management
- Service Delivery
- Commercial return

Treasury Management

12.2 Treasury Management income arises from the Council's cash flows or treasury risk management activity, this type of investment represents balances which are only held until the cash is required for use. Treasury investments may also arise from other treasury risk management activity which seeks to prudently manage the risks, costs or income relating to existing or forecast debt or treasury investments. This is what the Treasury Management Strategy is designed to cover. Explanations of the other two areas are set out below.

Service Investments

12.3 The Council may lend money to its subsidiaries, its suppliers, local businesses, local charities or housing associations etc. to support local public services and stimulate local economic growth. Returns on this category of investment which are funded by borrowing are permitted only in cases where the income is "either related to the financial viability of the project in question or otherwise incidental to the primary purpose". Such loans are treated as capital expenditure for accounting purposes. The rules and risks surrounding these are set out in the Council's Capital & Investment Strategy.

Commercial Investments

12.4 Investments held primarily for financial return with no treasury management or direct service provision purpose. Risks on such investments should be proportionate to a council's financial capacity – i.e., that 'plausible losses' could be absorbed in budgets or reserves without unmanageable detriment to local services. "An authority must not borrow to invest primarily for financial return".

12.5 Although it has done so in the past, the Council no longer invests in new commercial property if it is held primarily to generate income. The Council will invest in the commercial property only where the main purposes are to regenerate areas of the borough, encourage private investment and to create or retain local jobs. The rules and risks surrounding these are set out in the Council's Capital & Investment Strategy and Asset management Strategy.

13 Legal Implications

13.1 The powers for a local authority to borrow and invest are governed by the Local Government Act 2003 (LGA 2003) and associated Regulations. A local authority may borrow or invest for any purpose relevant to its functions, under any enactment, or for the purpose of the prudent management of its financial affairs. The Regulations also specify that authorities should have regard to the CIPFA Treasury Management Code and the DLUHC Investment Guidance when carrying out their treasury management functions.

13.2 Part 1 of the LGA 2003 established the legislative framework for the prudential capital finance system for local authorities.

13.3 The LGA 2003 requires each Council to set an affordable borrowing limit. The Full Council must carry out this duty; it cannot be delegated. Having set this limit the Council may not exceed it except for specified temporary purposes. However, the Council can make a new limit at any time.

13.4 Regulations require local authorities to have regard to The Prudential Code when carrying out their duties under Part 1 of the LGA 2003. The Code requires that all prudential indicators are set, and revised, only by the Full Council. This is because the need for Members to approve prudential indicators for capital finance is regarded as an important part of the governance responsibilities of a local authority.

13.5 The LGA 2003 provides the Government with reserve powers to set borrowing limits for local authorities that override their locally determined limits. This could be in the form of a national limit – this can only be imposed for national economic reasons – or a specific limit to prevent an individual authority borrowing more than it could afford.

13.6 The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 (as amended) state:

"A local authority shall determine for the current financial year an amount of minimum revenue provision which it considers to be prudent."

14 Environmental/Sustainability/Biodiversity implications

14.6 Ethical or Sustainable investing is becoming a more commonplace discussion within the wider investment community. There are currently a small, but growing number of financial institutions and fund managers promoting Environmental, Social and Governance (ESG) products however the types of products we can invest in are constrained to those set out in our Investment Strategy which is driven by investment guidance, both statutory and from CIPFA, making it clear that all investing must adopt SLY principles – Security, Liquidity and Yield: ethical issues must play a subordinate role to those priorities.

14.7 ESG investing means different things to different people and can be highly subjective. For instance, some funds may invest in products that are known to be harmful, such as tobacco and alcohol but will not touch those that engage in other legal but morally ambiguous products. Likewise, gas or electricity companies may be shunned by a fund that does not like it's green credentials, but which may turn a blind eye and invest in companies that have a poor attitude to labour and the working process.

14.8 As well as establishing what funds invest in, before investing in an ESG product, one of the most important issues is to understand the ESG "risks" that an entity is exposed to and evaluating how well it manages these risks which is not something that officers have the experience or available capacity to undertake. This is why, the Council predominantly invests in fixed term deposits with banks, building societies and other local authorities and uses Money Market Funds that predominantly do the same but on a much larger scale. However, all the rating agencies are now extoling how they incorporate ESG risks alongside more traditional financial risk metrics when assessing counterparty ratings and in using these, the Council is by default already using ESG metrics in its ordinary course of business.

14.9 The Council's Treasury Policy Statement and Treasury Management Practices (TMPs) have been amended to make reference to ESG principles in investing and these are set out in Appendix F.

15 Conclusions

15.1 The Council recognises that effective financial planning, option appraisal, risk management and governance processes are essential in achieving a prudent approach to capital expenditure, investment, and debt. Therefore, all investment decisions (treasury and non-treasury) are taken considering the Council's Corporate Business Plan, Medium Term Financial Strategy, Capital & Investment Strategy and Treasury Management Strategy.

15.2 We remain in a very difficult investment environment with several unknowns. Interest rates and market sentiment has still been subject to bouts of volatility and economic forecasts abound with uncertainty. You only need to look to 2022 to show just how quickly circumstances can change.

15.3 With rising interest rates, increasing global political risks and expected recessions in 2023, the investment policy and borrowing shall remain prudent in combinaiton with rigorous risk management practices.

(To recommend to Full Council on 9 February 2023)

Background Papers

- Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes – 2021 Edition
- The Prudential Code for finance in local authorities - 2021 Edition
- Ministry for Housing, Communities and Local Government – MHCLG) Guidance on Local Authority Investments
- Local Authorities (Capital Finance and Accounting) (England) Regulations 2003

Glossary

Term	Definition
Basis Point	1/100th of 1%, i.e. 0.01%
The Bank of England	The central bank of the United Kingdom and the model on which most modern central banks have been based.
Call Accounts	Deposit accounts with banks and building societies that provide same day access to invested balances. Interest paid is usually linked to the level of the official base rate.
CFR – Capital Financing Requirement	The underlying need to borrow for capital purposes
CDs – Certificates of Deposit	Negotiable time deposits issued by banks and building societies which can pay either fixed or floating rates of interest. They can be traded on the secondary market, enabling the holder to sell the CD to a third party to release cash before the maturity date.
CPI – Consumer Price Index	This is a measure of the general level of price changes for consumer goods and services but excludes most owner occupier housing costs such as mortgage interest payments, council tax, dwellings insurance, rents etc.
Corporate bonds	Corporate bonds are those issued by companies. Generally, however, the term is used to cover all bonds other than those issued by governments. The key difference between corporate bonds and government bonds is the risk of default.
Cost of Carry	Costs incurred as a result of an investment position, for example the additional cost incurred when borrowing in advance of need, if investment returns don't match the interest payable on the debt.
Counterparties	These are the organisations responsible for repaying the Council's investment upon maturity and making interim interest payments.
CDS – Credit Default Swaps	A swap designed to transfer the credit exposure of fixed income products between parties. The buyer of a credit swap receives credit protection, whereas the seller of the swap guarantees the credit worthiness of the product. By doing this, the risk of default is transferred from the holder of the fixed income security to the seller of the swap.
DMADF – Debt Management Agency Deposit Facility	An investment facility run by part of the HM Treasury taking deposits at fixed rates for up to 6 months.

Diversification / diversified exposure	The spreading of investments among different types of assets or between markets in order to reduce risk.
Derivatives	Financial instruments whose value, and price, are dependent on one or more underlying assets. Derivatives can be used to gain exposure to, or to help protect against, expected changes in the value of the underlying investments. Derivatives may be traded.
DMO – Debt Management Office	An Agency of HM Treasury whose responsibility includes debt and cash management for the UK Government, lending to local authorities and managing certain public sector funds.
ECB – European Central Bank	Sets the central interest rates in the European Monetary Union area. The ECB determines the targets itself for its interest rate setting policy; this is to keep inflation within a band of 0 to 2%
EIP – Equal Instalments of Principal	A repayment method whereby a fixed amount of principal is repaid at regular intervals with interest being calculated on the principal outstanding.
Fixed Deposits	These are loans to banks, building societies or other local authorities which are for a fixed period and at a fixed rate of interest.
FRN – Floating Rate Notes	Debt securities with payments that are reset periodically against a benchmark rate, such as the three month London inter-bank offer rate (LIBOR). FRNs can be used to balance risks incurred through other interest rate instruments in an investment portfolio.
Gilts / Gilt Edged Securities	These are issued by the UK Government in order to finance public expenditure. Gilts are generally issued for a set period and pay a fixed rate of interest. At the end of the set period the investment is repaid (at face value) by the Government. However, during the life of a gilt it will often be traded (bought and sold) at a price decided by the market.
LIBID – London Interbank BID Rate	The interest rate at which London banks are willing to borrow from one another.
LIBOR – London Interbank Offer Rate	The interest rate at which London banks offer one another. Fixed every day by the British Bankers Association to five decimal places. This has been replaced by SONIA on 1 January 2022 (see below)
Maturity loans	A repayment method whereby interest is repaid throughout the period of the loan and the principal is repaid at the end of the loan period.

MMF – Money Market Funds	Externally managed pooled investment schemes investing in short term cash instruments.
MRP – Minimum Revenue Provision	The minimum amount which must be charged to an authority's revenue account each year and set aside towards repaying borrowing.
MPC – Monetary Policy Committee	The MPC (Monetary Policy Committee of the Bank of England) is a group of nine individuals who, independently of government, set short term interest rates. Their primary target is to keep inflation within plus or minus 1% of a central target of 2.5% in two years time from the date of the monthly meeting of the Committee. Their secondary target is to support the Government in maintaining high and stable levels of growth and employment.
Multilateral Investment banks	International financial institutions that provide financial and technical assistance for economic development.
Municipal Bonds Agency	An independent body owned by the local government sector that seeks to raise money on the capital markets at regular intervals to on-lend to participating local authorities.
Pooled Funds	Investments made with an organisation who pool together investments from other organisations and apply the same investment strategy to the portfolio. Pooled fund investments benefit from economies of scale, which allows for lower trading costs per pound, diversification and professional money management.
Prudential Code	A governance procedure for the setting and revising of prudential indicators. Its aim is to ensure, within a clear framework, that the capital investment plans of the Council are affordable, prudent and sustainable and that treasury management decisions are taken in accordance with good practice.
PWLB – Public Works Loans Board	A central government agency which provides long- and medium-term loans to local authorities at interest rates only slightly higher than those at which the Government itself can borrow. Local authorities are able to borrow to finance capital spending from this source.
Repo – Reverse Repurchase Agreements	An agreement to purchase a security from a counterparty, typically a bank, and then sell the security back to the bank on a predetermined date for the principal amount plus interest. The security is collateral to be used in the event of a default by the counterparty.

SONIA – Sterling Overnight Index Average	SONIA is based on actual transactions and reflects the average of the interest rates that banks pay to borrow sterling overnight from other financial institutions and other institutional investors. SONIA replaced LIBOR from 1 January 2022
Supranational Bonds	These are very similar in nature to gilts except that rather than being issued by the UK Government they are issued by supranational bodies supported by more than one national government such as the European Investment Bank which is supported by all of the EU member states.
Treasury Bills	Tradable debt securities issued by the UK Government with a short term maturity (3 months to 1 year) issued at a discount. The income from these is in the form of a capital gain rather than interest income.
TMP – Treasury Management Practices	Schedule of treasury management functions and how those functions will be carried out.
TMS – Treasury Management Schedules	More detailed schedules supporting the TMP at a detailed operational level specifying the systems and routines to be employed and the records to be maintained in fulfilling the Council's treasury functions
VRP - Voluntary Revenue Provision	A voluntary amount charged to an authority's revenue account and set aside towards repaying borrowing.
Working Capital	Timing differences between income and expenditure (debtors and creditors).

Aspects of delivering effective Scrutiny	Yes	No	Partly	Comments / Examples	Action Plan to Improve / Develop
Clearly Defined Responsibility					
Has the Council nominated a committee to be responsible for scrutiny in compliance with the CIPFA Code of Practice?	✓			Overview and Scrutiny Select Committee	
Has the committee responsible for scrutiny appropriate and up to date terms of reference outlining its role in relation to treasury management?	✓			Embedded in the Constitution	
Knowledge & Training					
Do those responsible for scrutiny have an appropriate level of knowledge of the following areas:				Note: Training to be undertaken every two years as agreed at Overview & Scrutiny Committee in February 2022	
- Regulatory requirements	✓			Covered in Members Training in Oct 2022	
- Treasury risks	✓			Covered in Members Training in Oct 2022	
- Council's Treasury management strategy	✓			Covered in Members Training in Oct 2022	
- Council's policies and procedures in relation to treasury management	✓			Covered in Members Training in Oct 2022	
Have committee members been provided with training on their role?	✓			Covered in Members Training in Oct 2022	
Support for Effective Scrutiny					
Has adequate time been made on the committee agenda to allow sufficient scrutiny to take place?	✓			Committee papers sent out at least 5 working days prior to meeting	
Have reports and briefings been provided in good time to committee members?	✓			Committee papers sent out at least 5 working days prior to meeting	
Have reports and briefings been presented to the committee with adequate explanations and minimal jargon.	✓			Presented at Committee where Members have the chance to ask questions. Jargon kept to a minimum and Glossary of terms included in agenda pack.	

Aspects of delivering effective Scrutiny	Yes	No	Partly	Comments / Examples	Action Plan to Improve / Develop
				Training provided to Members in Oct 2022.	
Coverage of the Required Areas					
During the past year has the committee undertaken scrutiny in the following areas:					
· Reviewed adequacy of policy and procedures	✓			Treasury Strategy, Mid-year Treasury Report, Annual Treasury Report	
· Received regular briefings on performance, issues and trends affecting treasury management	✓			Performance reported in Mid-year Report and in Annual Treasury report	Quarterly reports from 2023/24
· Reviewed the LA's risk profile and treasury risks	✓			Treasury risks covered in training and reported in Treasury Strategy.	
· Reviewed the role of external advisors	✓			Role of external advisors reported in Treasury Strategy. Performance reviewed by the CFO.	
· Reviewed assurances on treasury management, including internal audit reports and management reports.	✓			"Substantive Assurance" level given in last Internal Audit review (March 2022)	
During the past year has the committee scrutinized how effectively other council bodies are performing their roles? e.g. does the committee know if the nominated body responsible for implementation and monitoring has carried this role out satisfactorily?	✓			Treasury reports are reviewed by the Overview and Scrutiny Select Committee and the Corporate Management Committee prior to being submitted to the Council for approval.	
Quality of Scrutiny					
Is the committee able to demonstrate its					

Aspects of delivering effective Scrutiny	Yes	No	Partly	Comments / Examples	Action Plan to Improve / Develop
effectiveness in providing scrutiny in any of the following ways?					
- Questioning and constructive challenge	✓			Questioning and constructive challenge demonstrated at Committee meetings	
- Recommendations for additional actions	✓			Any additional actions followed up by officers and reported at the next meeting.	
- Ensuring that adequate plans are in place to provide assurance	✓			Work Plan is in place which details dates of all Treasury Management reports. Regular reports submitted to Committee in accordance with the CIPFA Code of Practice on Treasury Management	
- Follow up of recommendations or action plans	✓			Recommendations/actions from the previous Committee are followed up at the next meeting.	
- Providing a report to full council on the scrutiny undertaken	✓			Annual report submitted to Council which provides assurance on the effectiveness and performance of the Treasury Management function.	
- Other examples					

Impact of Scrutiny					
Is the committee able to demonstrate the impact of undertaking scrutiny? Examples might include: · Improvements in internal controls as a result of scrutiny of policies and procedures				Assurance provided by TIAA audit that internal controls are Substantial which provides assurances to the Standards & Audit Committee.	
Improvements made to reports to make them more understandable				Glossary included and jargon minimised	
Members of full council are more able to understand the risks shaping the LA's treasury strategy	✓			Training was deferred during the Covid pandemic, and a new bi-annual training programme began in October 2022. All Members were invited to attend	

CAPITAL & AFFORDABILITY RELATED INDICATORS

The Council's capital expenditure plans are the key driver of treasury management activity. The Capital Programme is set out in detail in the Capital Strategy. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

1. Capital Expenditure

This prudential indicator is a summary of the Council's capital expenditure plans, and financing requirements which have been updated in line with the phased borrowing requirements of the new property investment plans. Any shortfall of resources results in a funding borrowing need.

	Actual 21/22	Probable 22/23	Estimate 23/24	Estimate 24/25	Estimate 25/26
	£000	£000	£000	£000	£000
Capital Expenditure					
Housing Revenue Account	5,696	9,187	26,102	17,865	17,966
General Fund	29,688	19,213	18,356	4,141	6,862
Non-Financial Investments	-	-	-	-	-
- Investment Properties	0	0	0	0	0
- Capital loans	0	11,838	0	0	0
	35,384	**40,238**	**44,458**	**22,006**	**24,828**
Financed by:					
Capital Receipts	2,279	20,654	10,185	2,226	5,315
Earmarked Reserves	331	9,872	11,957	3,213	5,039
Capital Grants & Contributions	1,203	4,105	7,889	2,019	965
Revenue	5,029	607	6,824	14,548	8,509
	8,842	**35,238**	**36,855**	**22,006**	**19,828**
Net Financing Need for the Year	**26,542**	**5,000**	**7,603**	**0**	**5,000**

* Non-financial Investments relate to areas such as capital expenditure on Investment Properties, Loans to third parties etc. The net financing need for non-financial investments included in the above table against expenditure is shown below:

	Actual 21/22	Probable 22/23	Estimate 23/24	Estimate 24/25	Estimate 25/26
	£000	£000	£000	£000	£000
Non-financial investments					
Capital expenditure from above	0	11,838	0	0	0
Financing Costs met	0	11,838	0	0	0
Net Financing Need for the Year	**0**	**0**	**0**	**0**	**0**
Percentage of individual net financing need	**0%**	**0%**	**0%**	**0%**	**0%**
Percentage of total net financing need	**0%**	**0%**	**0%**	**0%**	**0%**

2. The Council's borrowing need (the Capital Financing Requirement)

The Council's Capital Financing Requirement (CFR) is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR.

The CFR does not increase indefinitely, as the Minimum Revenue Provision (MRP) is a statutory annual revenue charge which broadly reduces the borrowing need in line with each assets life and so charges the economic consumption of capital assets as they are used.

The CFR includes any other long term liabilities (e.g. PFI schemes, finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of schemes include a borrowing facility and so the Council is not required to separately borrow for these schemes. The Council currently has no such schemes.

The Council is asked to approve the CFR projections below:

	Actual 21/22	Probable 22/23	Estimate 23/24	Estimate 24/25	Estimate 25/26
	£000	£000	£000	£000	£000
CFR at start of year					
- HRA	101,956	100,000	100,000	100,000	100,000
- General Fund	144,322	157,221	166,351	173,022	171,987
- Non-financial investments	432,661	442,178	433,724	430,044	426,217
	678,939	**699,399**	**700,075**	**703,066**	**698,204**
Net Financing Need for the Year	**26,542**	**5,000**	**7,603**	**0**	**5,000**
Less MRP/VRP	-4,126	-4,324	-4,612	-4,862	-5,122
Less Capital receipts to reduce debt	-1,956	0	0	0	0
CFR at end of year	**699,399**	**700,075**	**703,066**	**698,204**	**698,082**

A key aspect of the regulatory and professional guidance is that elected members are aware of the size and scope of any commercial activity in relation to the authority's overall financial position. The capital expenditure figures shown in section 1 and the details above demonstrate the scope of this activity and, by approving these figures, members consider the scale proportionate to the Authority's remaining activity.

3. Liability Benchmark

A new prudential indicator for 2023/24 is the Liability Benchmark (LB). The Council is required to estimate and measure the LB for the forthcoming financial year and the following two financial years, as a minimum and should ideally cover the full debt maturity profile of a local authority. The liability benchmark model only includes the approved capital expenditure (as per the CIPFA Treasury Management Code) and so does not reflect the financing of future capital ambitions

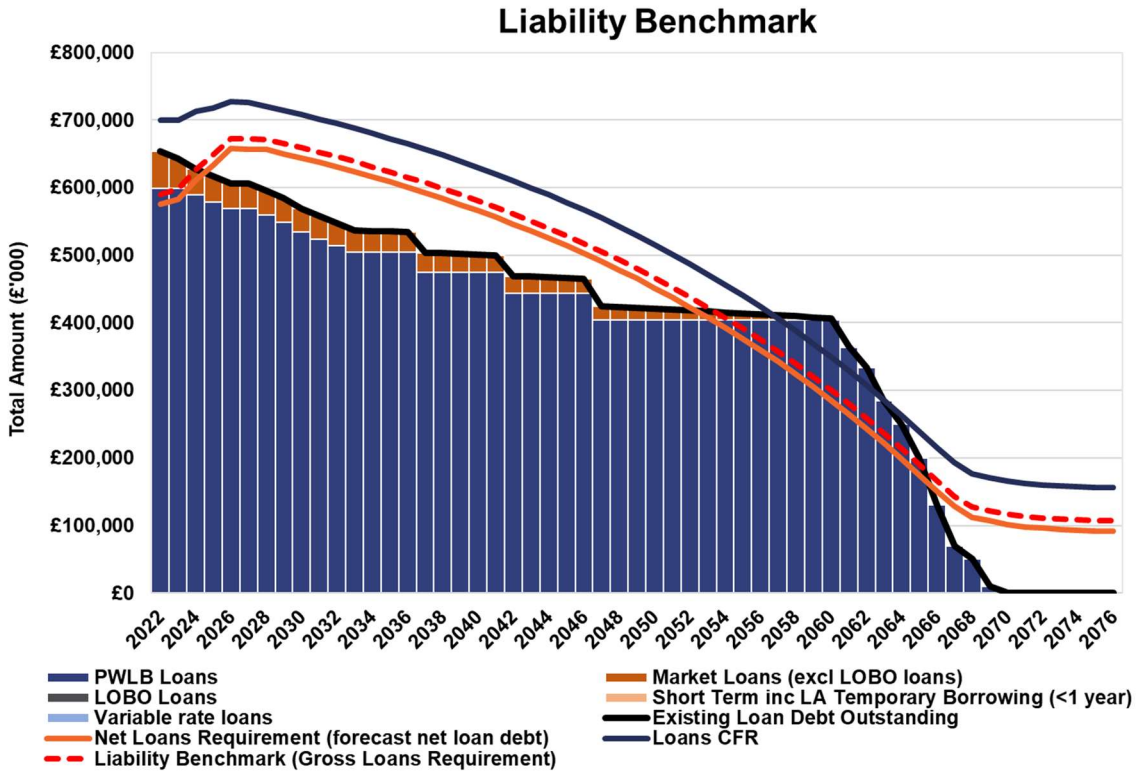
There are four components to the Liability Benchmark: -

- **Existing loan debt outstanding**: the Authority's existing loans that are still outstanding.
- **Loans CFR**: this is calculated in accordance with the loans CFR definition in the Prudential Code and projected into the future based on approved prudential borrowing and planned MRP.
- **Net loans requirement**: this will show the Authority's gross loan debt less treasury management investments at the last financial year-end, projected into the future and based on its approved prudential borrowing, planned MRP and any other major cash flows forecast.
- **Liability benchmark** (or gross loans requirement): this equals net loans requirement plus short-term liquidity allowance.

The Treasury Management Code states that: *"The liability benchmark should be analysed as part of the annual treasury management strategy, and any substantial mismatches between actual loan debt outstanding and the liability benchmark should be explained. Any years where actual loans are less than the benchmark indicate a future borrowing requirement; any years where*

actual loans outstanding exceed the benchmark represent an overborrowed position, which will result in excess cash requiring investment."

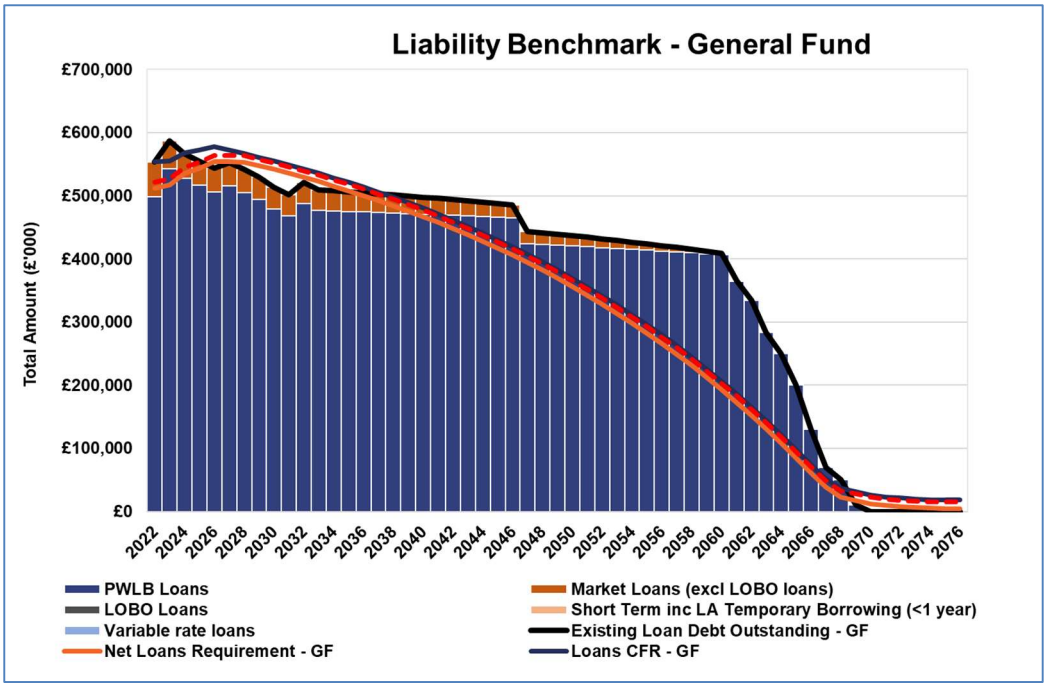
The liability benchmark starting position is based on a snapshot at the last Balance Sheet date. It is not unusual or necessarily an issue to be under / over the benchmark, the liability benchmark is intended to be used as a tool along with other factors used to feed into the authorities ongoing borrowing decisions.



The above chart shows the overall Council position taking both HRA and General Fund debt together. The overall position starts initially as being £64m over the liability benchmark and by 2025 shows a forecast borrowing requirement of £30m which then increases each year as the PWLB loans mature (the model assumes loans are repaid without replacement).

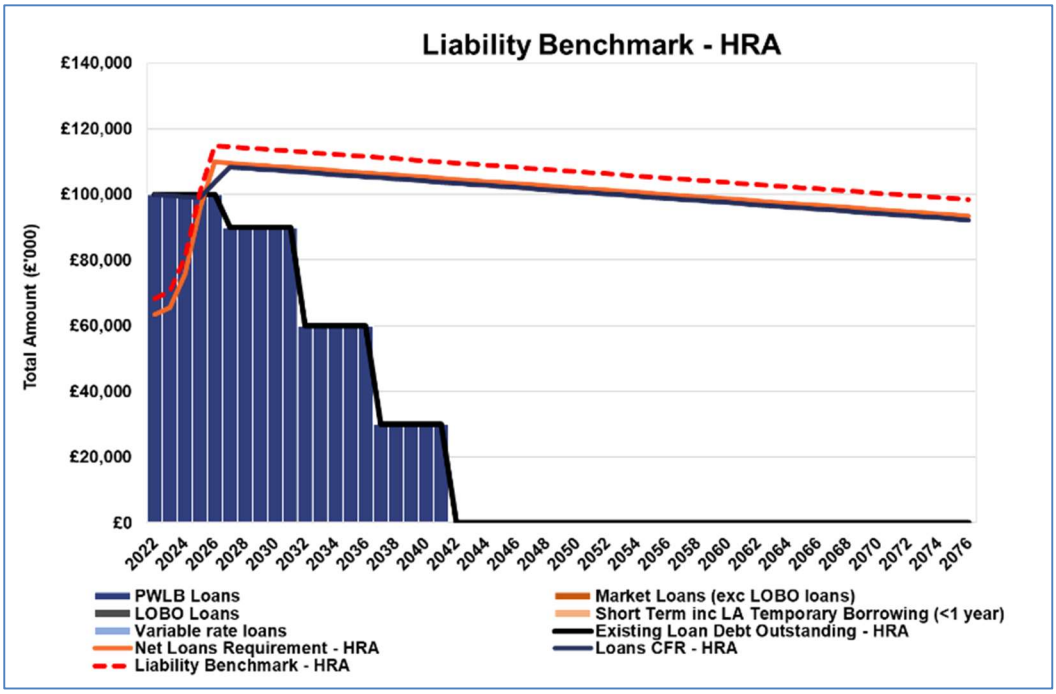
The overall position has a liquidity allowance of £15m, which sets the liability benchmark meaning the authority plans (as per liability benchmark model only) to utilise all but £15m of internal borrowing capacity (i.e. defer borrowing by utilising Balance Sheet cash resources such as reserves & working capital) to finance the CFR before taking on further PWLB or other external loan debt.

Breaking the Benchmark down into separate HRA and General Fund graphs produces the following results:



The GF forecast liability benchmark remains broadly in line with the forecast actual balance of external debt for the next 20 years. The liability benchmark by 2037 (year 15) shows outstanding borrowing that is over the forecast liability benchmark. By 2070 all debt has been repaid.

Where the actual loans outstanding exceed the benchmark, this represents an overborrowed position, which will result in excess cash requiring investment (unless any currently unknown future borrowing plans increase the benchmark loan debt requirement). Officers will keep an eye on this and may look to repay some loans early if it is prudent to do so. Alternatively, it may be possible to switch the loans to HRA loans when the HRA loans are due for repayment if it is both prudent and affordable to both the GF & HRA.



The HRA is not required to make MRP and is relying on the minimal use of capital receipts to repay the HRA CFR. It can be seen from the graph that the HRA CFR remains broadly the same ranging between £99m - £110m. The HRA in this case has been financed with PWLB debt that is relatively short dated with regular maturities from 2027 (year 5) onwards. Although the HRA starts off over the Liability Benchmark indicator due to investment balances held, by 2026 (year 4) the model shows a forecast borrowing requirement (the gap between the actual loans and the net loans required) that increases each year as the PWLB loans mature so have exposure to potentially higher interest rates when refinancing the maturing debt.

4. Core Funds and Expected Investment Balances

The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.). Detailed below are estimates of the year end balances based on assumed cash movements in the MTFS and Capital Programme.

	Actual 21/22	Probable 22/23	Estimate 23/24	Estimate 24/25	Estimate 25/26
	£000	£000	£000	£000	£000
Reserves / Balances					
General Fund Balance	18,194	18,673	14,746	13,036	7,731
Housing Revenue Account	32,634	29,421	23,509	8,960	451
HRA Major Repairs Reserve	4,003	4,683	0	0	0
Earmarked reserves / other balances	33,267	27,568	26,108	26,045	24,695
Capital Receipts Reserve	7,600	1,372	4,332	5,557	2,442
Capital Grants Unapplied	9,249	3,800	0	0	0
Expected Investments at year end	**104,947**	**85,517**	**68,695**	**53,598**	**35,319**

5. Affordability Prudential Indicators

The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances.

5.1. Ratio of financing costs to net revenue stream

This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream. The net revenue stream is a term used to describe the amount in the General Fund to be met from Government grant and local taxpayers. For the HRA it is the total HRA income shown in the accounts i.e. rent and other income.

	Actual 21/22	Probable 22/23	Estimate 23/24	Estimate 24/25	Estimate 25/26
	%	%	%	%	%
Ratio of Net Financing Costs to Net Revenue Stream	**54.45%**	**50.95%**	**42.85%**	**49.45%**	**58.88%**
General Fund	**119.14%**	**137.77%**	**117.98%**	**124.43%**	**173.59%**
Housing Revenue Account	**7.67%**	**3.24%**	**0.94%**	**4.69%**	**6.66%**

The General Fund percentage is high due to past borrowing to fund the former Property Investment Strategy and ongoing property developments. These costs are fully met by additional revenue income rather than Government grant and local taxpayers, however this

income is not allowed to be included in this calculation. Including the income generated by the Investment Strategy in the calculations turns the General Fund figure into a negative figure (a net contributor).

5.2. Investment treasury indicator and limit

Total principal funds invested for greater than 365 days. These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end. The upper limit for principal sums invested for longer than 365 days is set at:

	2021/22 Actual £000s	2022/23 Probable £000s	2023/24 Estimate £000s	2025/25 Estimate £000s	2025/26 Estimate £000s
Principal sums invested for longer than 365 days	0	3,000	5,000	5,000	10,000

5.3. Investment risk benchmarking

The Council will use an investment benchmark to assess the investment performance of its investment portfolio of 7 day, 90 day and 365 day backward looking SONIA (Sterling Overnight Index Average rate).

6. Borrowing

The capital expenditure plans set out in the Capital Programme and Capital & Investment Strategy approved by the Council in February each year provide details of the service activity of the Authority

The treasury management function ensures that the Council's cash is organised in accordance with the the relevant professional codes, so that sufficient cash is available to meet this service activity. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of approporiate borrowing facilities. The strategy covers the relevant treasury/ prudential indicators, the current and projected debt positions and the annual investment strategy.

6.1. Current portfolio position

The table shows the actual external debt (the treasury management operations), against the underlying capital borrowing need (Capital Financing Requirement – CFR), highlighting any over or under borrowing.

	Actual 21/22	Probable 22/23	Estimate 23/24	Estimate 24/25	Estimate 25/26
	£000	£000	£000	£000	£000
External Debt					
Debt at 1 April	627,629	654,084	648,075	650,613	650,613
Expected Chage in debt	26,455	- 6,009	2,538	-	5,000
Actual gross debts at 31 March	**654,084**	**648,075**	**650,613**	**650,613**	**655,613**
CFR	699,399	700,075	703,066	698,204	698,082
Under / (Over) Borrowing	**45,315**	**52,000**	**52,453**	**47,591**	**42,469**

The positive balances show that the Council is under borrowing (i.e. borrowing internally using cash balances).

Within the above figures the level of debt relating to non-financial investment is:

	Actual 21/22	Probable 22/23	Estimate 23/24	Estimate 24/25	Estimate 25/26
	£000	£000	£000	£000	£000
Non-Financial Investment Debt					
Overall Debt at 31 March	654,084	648,075	650,613	650,613	655,613
Oustanding Non-Financial Instrument Debt	442,178	433,724	430,044	426,217	422,237
Percentage	**68%**	**67%**	**66%**	**66%**	**64%**

Within the prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2022/23 and the following three financial years. This allows some flexibility for limited early borrowing for future years but ensures that borrowing is not undertaken for revenue purposes.

The Assistant Chief Executive reports that the Council has so far complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in the budget report.

6.2. The operational boundary

This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt.

	Actual 21/22	Probable 22/23	Estimate 23/24	Estimate 24/25	Estimate 25/26
	£000	£000	£000	£000	£000
Operational Boundary					
General Fund	-	548,075	550,613	550,613	550,613
HRA	-	100,000	100,000	100,000	105,000
Crystalising Internal Borrowing	-	-	10,000	20,000	30,000
Other (eg Temporary Borrowing; Leasing)	-	15,000	15,000	15,000	15,000
Operational Boundary	**653,731**	**663,075**	**675,613**	**685,613**	**700,613**

6.3. The authorised limit for external debt

A further key prudential indicator represents a control on the maximum level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

- This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.

- The Council is asked to approve the following authorised limit:

	Actual 21/22	Probable 22/23	Estimate 23/24	Estimate 24/25	Estimate 25/26
	£000	£000	£000	£000	£000
Authorised Limit					
General Fund	-	548,075	550,613	550,613	550,613
HRA	-	110,000	110,000	110,000	115,500
Crystalising Internal Borrowing	-	-	10,000	20,000	30,000
Other (eg Temporary Borrowing; Leasing)	-	30,000	30,000	30,000	30,000
Authorised Limit	**653,731**	**688,075**	**700,613**	**710,613**	**726,113**

This limit includes a "cushion" to allow for the non repayment of any borrowing at the required time and headroom for rescheduling of debts (i.e. borrowing new money in advance of repayment of existing). The "Other" row also includes a figure for the potential for new leases being brought onto the balance sheet.

6.4. Treasury Management Limits on Activity

There are three debt related treasury activity limits. The purpose of these are to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set to be too restrictive they will impair the opportunities to reduce costs / improve performance. The indicators are:

- Upper limits on variable interest rate exposure. This identifies a maximum limit for variable interest rates based upon the debt position net of investments;
- Upper limits on fixed interest rate exposure. This is similar to the previous indicator and covers a maximum limit on fixed interest rates; and
- Maturity structure of borrowing. These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing and are required for upper and lower limits.

The Council is asked to approve the following treasury indicators and limits:

	Actual 21/22	Probable 22/23	Estimate 23/24	Estimate 24/25	Estimate 25/26
Interest Rate Exposure UPPER Limits	£000	£000	£000	£000	£000
on **fixed** interest rates based on net debt	**585,488**	**632,109**	**656,857**	**677,092**	**705,749**
on **variable** interest rates based on net debt	**-**	**-**	**-**	**-**	**-**

The Upper Limit on fixed interest rates is calculated using the maximum allowed debt (The Authorised Borrowing Limit) less Fixed Term investments. The Council heavily uses Money Market Funds whose rates change daily therefore it has been assumed that of the Expected Investments balance shown above, £10m will be invested at variable rates, the rest as fixed term investments.

As the Council does not borrow at variable interest rates, the upper limit on this type of debt will always be nil.

Maturity structure of interest rate borrowing 2023/24				
	FIXED interest		**VARIABLE interest**	
	Lower	**Upper**	**Lower**	**Upper**
Under 12 months	0%	25%	0%	0%

12 months to 2 years	0%	25%	0%	0%
2 years to 5 years	0%	25%	0%	0%
5 years to 10 years	0%	50%	0%	0%
10 years and above	0%	100%	0%	0%
20 years to 30 years	0%	100%	0%	0%
30 years to 40 years	0%	100%	0%	0%
40 years to 50 years	0%	100%	0%	0%

This indicator is set to control the Council's net exposure (taking borrowings and investments together) to interest rate risk. Its intention is to ensure that the Council is not exposed to interest rate rises which could adversely impact the revenue budget. The upper limits proposed on fixed and variable rate interest rate exposures, expressed as the principal sums outstanding in respect of borrowing.

Fixed rate investments and borrowings are those where the rate of interest is fixed for the whole financial year. Instruments that mature during the financial year are classed as variable rate. If it is not clear whether an instrument should be treated as fixed or variable rate, then it is treated as variable rate.

The variable rate upper limit of zero means that the Council is minimising its exposure to uncertain future interest rates on its debt. This will still allow a proportion of the debt to be taken as variable as fixed term investments maturing within one year are classified as variable for the purposes of this indicator.

7. Proportionality

Another new requirement from the Prudential and Treasury Management Codes is the concept of proportionality to ensure that the level of debt and aggregate risk are proportionate to the size of the authority.

The Council has therefore created a prudential indicator to measure the proportion of the income from commercial and/or service investments to the revenue stream (or in other words a % of non-financial investment income as a contribution to the revenue budget). This takes account of General Fund income only and includes all taxation, grants and other income that goes to pay for General Fund services.

	Actual 21/22	Probable 22/23	Estimate 23/24	Estimate 24/25	Estimate 25/26
	£000	£000	£000	£000	£000
Total Non-Financial Investments Income	26,370	28,454	28,884	29,136	29,404
Total Revenue	78,658	74,981	77,747	78,042	74,907
Non-financial investments as a percentage of total income	**34%**	**38%**	**37%**	**37%**	**39%**

This shows that nearly 40% of all the Council's General Fund income comes from Non - Financial Investment income. Ensuring that these types of investments are managed effectively and addressing the risks associated with them is key to the authority. For this reason the key risks and additional reporting and monitoring of data is set out in both the Investment Management Practices (IMP) in the Capital & Investment Strategy and the new Asset Management Strategy.

Reporting on this type of income will be developed in 2023/24 and reported either as part of the Quarterly Treasury Management Report or as part of the Quarterly Budget Monitoring reports.

Economic Background
(as provided by Link Asset Services)

Against a backdrop of stubborn inflationary pressures, the easing of Covid restrictions in most developed economies, the Russian invasion of Ukraine, and a range of different UK Government policies, it is no surprise that UK interest rates have been volatile right across the curve, from Bank Rate through to 50-year gilt yields, for all of 2022.

Market commentators' misplaced optimism around inflation has been the root cause of the rout in the bond markets with, for example, UK, EZ and US 10-year yields all rising by over 200bps since the turn of the year. The table below provides a snapshot of the conundrum facing central banks: inflation is elevated but labour markets are extra-ordinarily tight, making it an issue of fine judgment as to how far monetary policy needs to tighten.

	UK	Eurozone	US
Bank Rate	3.0%	1.5%	3.75%-4.00%
GDP	-0.2%q/q Q3 (2.4%y/y)	+0.2%q/q Q3 (2.1%y/y)	2.6% Q3 Annualised
Inflation	11.1%y/y (Oct)	10.0%y/y (Nov)	7.7%y/y (Oct)
Unemployment Rate	3.6% (Sep)	6.6% (Sep)	3.7% (Aug)

Q2 of 2022 saw UK GDP revised upwards to +0.2% q/q, but this was quickly reversed in the third quarter, albeit some of the fall in GDP can be placed at the foot of the extra Bank Holiday in the wake of the Queen's passing. Nevertheless, CPI inflation has picked up to what should be a peak reading of 11.1% in October, although with further increases in the gas and electricity price caps pencilled in for April 2023, and the cap potentially rising from an average of £2,500 to £3,000 per household, there is still a possibility that inflation will spike higher again before dropping back slowly through 2023.

The UK unemployment rate fell to a 48-year low of 3.6%, and this despite a net migration increase of c500k. The fact is that with many economic participants registered as long-term sick, the UK labour force actually shrunk by c£500k in the year to June. Without an increase in the labour force participation rate, it is hard to see how the UK economy will be able to grow its way to prosperity, and with average wage increases running at 5.5% - 6% the MPC will be concerned that wage inflation will prove just as sticky as major supply-side shocks to food and energy that have endured since Russia's invasion of Ukraine on 22nd February 2022.

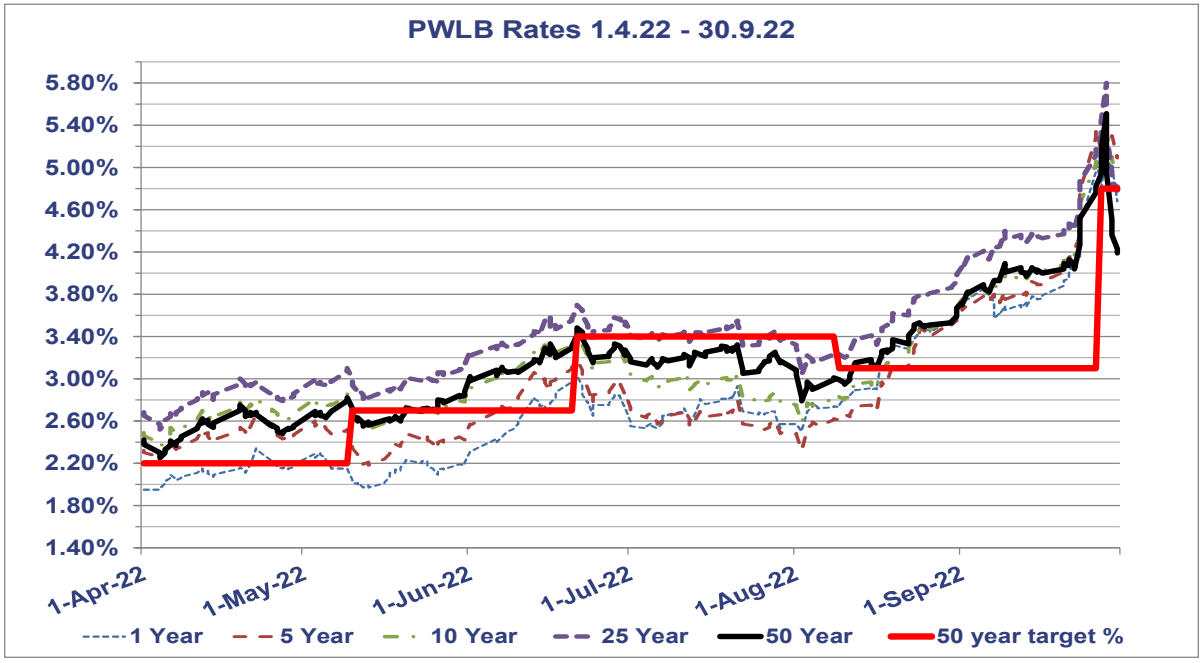
Throughout Q3 Bank Rate increased, finishing the quarter at 2.25% (an increase of 1%). Q4 has seen rates rise to 3% in November and the market expects Bank Rate to hit 4.5% by May 2023.

Following a Conservative Party leadership contest, Liz Truss became Prime Minister for a tumultuous seven weeks that ran through September and December. Put simply, the markets did not like the unfunded tax-cutting and heavy spending policies put forward by her Chancellor, Kwasi Kwarteng, and their reign lasted barely seven weeks before being replaced by Prime Minister Rishi Sunak and Chancellor Jeremy Hunt. Their Autumn Statement of 17th November gave rise to a net £55bn fiscal tightening, although much of the "heavy lifting" has been left for the next Parliament to deliver. However, the markets liked what they heard, and UK gilt yields have completely reversed the increases seen under the previous tenants of No10/11 Downing Street.

Globally, though, all the major economies are expected to struggle in the near term. The fall below 50 in the composite Purchasing Manager Indices for the UK, US, EZ and China all point to at least one if not more quarters of GDP contraction. In November, the MPC projected eight quarters of negative growth for the UK lasting throughout 2023 and 2024, but with Bank Rate set to peak at lower levels than previously priced in by the markets and the fiscal tightening deferred to some extent, it is not clear that things will be as bad as first anticipated by the Bank.

The £ has strengthened of late, recovering from a record low of $1.035, on the Monday following the Truss government's "fiscal event", to $1.20. Notwithstanding the £'s better run of late, 2023 is likely to see a housing correction of some magnitude as fixed-rate mortgages have moved above 5% and affordability has been squeezed despite proposed Stamp Duty cuts remaining in place.

In the table below, the rise in gilt yields, and therein PWLB rates, through the first half of 2022/23 is clear to see.



However, the peak in rates on 28th September as illustrated in the table covering April to September 2022 below, has been followed by the whole curve shifting ever lower. PWLB rates at the front end of the curve are generally over 1% lower now whilst the 50 years is over 1.75% lower.

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	1.95%	2.18%	2.36%	2.52%	2.25%
Date	01/04/2022	13/05/2022	04/04/2022	04/04/2022	04/04/2022
High	5.11%	5.44%	5.35%	5.80%	5.51%
Date	28/09/2022	28/09/2022	28/09/2022	28/09/2022	28/09/2022
Average	2.81%	2.92%	3.13%	3.44%	3.17%
Spread	3.16%	3.26%	2.99%	3.28%	3.26%

After a shaky start to the year, the S&P 500 and FTSE 100 have climbed in recent weeks, albeit the former is still 17% down and the FTSE 2% up. The German DAX is 9% down for the year.

CENTRAL BANK CONCERNS – NOVEMBER 2022

At the start of November, the Fed decided to push up US rates by 0.75% to a range of 3.75% - 4%, whilst the MPC followed a day later by raising Bank Rate from 2.25% to 3%, in line with market expectations. EZ rates have also increased to 1.5% with further tightening in the pipeline.

Having said that, the press conferences in the US and the UK were very different. In the US, Fed Chair, Jerome Powell, stated that rates will be elevated and stay higher for longer than markets had expected. Governor Bailey, here in the UK, said the opposite and explained that the two economies are positioned very differently so you should not, therefore, expect the same policy or messaging.

Regarding UK market expectations, although they now expect Bank Rate to peak within a lower range of 4.5% - 4.75%, caution is advised as the Bank of England Quarterly Monetary Policy Reports have carried a dovish message over the course of the last year, only for the Bank to have to play catch-up as the inflationary data has proven stronger than expected.

In addition, the Bank's central message that GDP will fall for eight quarters starting with Q3 2022 may prove to be a little pessimistic. Will the £160bn excess savings accumulated by households through the Covid lockdowns provide a spending buffer for the economy – at least to a degree? Ultimately, however, it will not only be inflation data but also employment data that will mostly impact the decision-making process, although any softening in the interest rate outlook in the US may also have an effect (just as, conversely, greater tightening may also).

Introduction

1. The Council's investment policy has regard to the DLUHC's Guidance on Local Government Investments (3rd Edition) ("the Guidance") and the revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes (2021 Edition) ("the TM Code"). The Council's investment priorities will be security first, liquidity second, then return.

2. This strategy applies to both in-house and externally managed funds. Where used, managers of External funds must confirm the acceptability of a counterparty before an investment is made.

3. The Council approved the Annual Investment Strategy for 2022/23 in February 2022.

Investment Policy

4. In accordance with the above guidance from the DLUHC and CIPFA, and in order to minimise the risk to investments, the Council has below clearly stipulated the minimum acceptable credit quality of counterparties for inclusion on the lending list. The creditworthiness methodology used to create the counterparty list fully accounts for the ratings, watches and outlooks published by all three ratings agencies with a full understanding of these reflected in the eyes of each agency. Using our treasury advisers ratings service, potential counterparty ratings are monitored on a real time basis with knowledge of any changes notified electronically as the agencies notify modifications.

5. Further, the Council's Officers recognise that ratings should not be the sole determinant of the quality of an institution and that it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To this end the Council will engage with its advisers to maintain and monitor market pricing such as "credit default swaps" and overlay that information on top of the credit ratings.

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

7. The aim of the strategy is to generate a list of highly creditworthy counterparties which will also enable diversification and thus avoidance of concentration of risk.

8. The intention of the strategy is to provide security of investment and minimisation of risk.

Creditworthiness Policy

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

    - It maintains a policy covering the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security; and

    - It has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may

prudently be committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested.

10. The Assistant Chief Executive will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to Council for approval as necessary. These criteria are separate to that which determines which types of investment instrument are either specified or non-specified as it provides an overall pool of counterparties that are considered high quality which the Council may use, rather than defining what types of investment instruments are to be used.

11. The minimum rating criteria uses the lowest common denominator method of selecting counterparties and applying limits. This means that the application of the Council's minimum criteria will apply to the lowest available rating for any institution. For instance, if an institution is rated by two agencies and one meets the Council's criteria, and the other does not, the institution will fall outside the lending criteria. Credit rating information is supplied by Link Asset Services, the Council's treasury advisers, on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. Any rating changes, rating watches (notification of a likely change), rating outlooks (notification of a possible longer term change) are provided to Officers almost immediately after they occur and this information is considered before dealing.

12. Additional requirements under the Code require the Council to supplement credit rating information. Whilst the above criteria relies primarily on the application of credit ratings to provide a pool of appropriate counterparties for Officers to use, additional operational market information will be applied before making any specific investment decision from the agreed pool of counterparties. This additional market information (for example Credit Default Swaps, negative rating watches/outlooks) will be applied to compare the relative security of differing investment counterparties.

Investment criteria and limits

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

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

The Council defines the following as being of "high credit quality" (as per the Guidance), subject to the monetary and time limits shown.

Specified investments				
	Paragraph (where applicable)	**Fitch Long term Rating (or equivalent)**	**£ Limit**	**Duration**

UK Banks 1	16	AA- or higher A+ A A-	£7.5m £6.0m £5.0m £4.0m	365 days 365 days 189 days 100 days
Non-UK Banks 1	16	AA- or higher A+ A A-	£3.0m £2.0m £1.0m £1.0m	365 days 365 days 189 days 100 days
Banks 2 (Part nationalised)	17	N/A	£3.0m	365 days
Banks 3 (Council's own bankers)	18	N/A	£1.0m	1 business day
Building Societies	19	A+ A A-	£5.0m £4.0m £3.0m	365 days 189 days 100 days
UK Central Government (DMADF – Debt Management Agency Deposit Facility)		UK sovereign rating	Unlimited	189 days
Local, Police, Fire, Civil Defence & Transport Authorities		N/A	£5.0m	365 days
Money Market Funds (CNAV / LVNAV)	20	AAA	£10.0m	Liquid
Government bonds (gilts) and treasury bills	21	N/A	No limit	365 days
Multinational Development Banks		AAA	£1.0m	365 days

14. Investments in any parent and its wholly owned subsidiaries are to be aggregated for the purpose of calculating the limit of investment to that parent or its subsidiaries.

15. With the exception of investments with the UK Government, no investment with any one provider/organisation will exceed £7.5m in total.

Banks

16. **Banks 1** – Banks will be regarded as having high credit quality if they meet the following criteria:

    i) are UK banks (no country limit will apply to investments in the UK, irrespective of the sovereign credit rating); and/or
    ii) are non-UK and domiciled in a country which has a minimum sovereign long term rating of AAA or AA+

    and have, as a minimum, the following Fitch, Moody's and Standard and Poors credit ratings (where rated):

    i) Short term – F1 / P-1 / A-1
    ii) Long term – A- / A3 / A-

17. **Banks 2** – Part nationalised UK banks. These banks can be included if they continue to be part nationalised or they meet the ratings in Banks 1 above.

18. **Banks 3** – The Council's own banker for transactional purposes if the bank falls below the above criteria. This is because it is needed to facilitate short term liquidity requirements (overnight and weekend) and to provide business continuity.

Building societies

19. The Council will use all building societies with assets in excess of £1bn which meet the ratings for banks outlined above.

Money market funds

20. Money market funds are pooled investment vehicles consisting of instruments similar to those used by the Council. They have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager. Fees of between 0.10% and 0.20% per annum are deducted from the interest paid to the Council. The Council will only use Money Market Funds with a Constant or Low Volatility Net Asset Value (CNAV / LVNAV).

Government bonds (gilts) and treasury bills (T-bills)

21. Conventional gilt is a liability of the Government which guarantees to pay the holder of the gilt a fixed cash payment (coupon) every six months until the maturity date, at which point the holder receives the final coupon payment and the return of the principal.

22. T-Bills are short term securities issued by HM Treasury on a discount basis. For example, a £100 coupon will be issued below its value to the investor and on maturity the investor will receive £100. The difference will be the capital gain received. The security can also be cashed before maturity in the active secondary market giving the lending party more freedom to cash in the T-bill before maturity date.

Foreign countries

23. The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA+ from Fitch (or equivalent). This list will be added to, or deducted from, by Officers should ratings change in accordance with this policy.

24. Due care will be taken to consider the country, group and sector exposure of the Council's investments. In part, the country selection will be chosen by the credit rating of the sovereign state in Banks 1 (paragraph 17) above and will be limited to a maximum of £3 million to be placed with any non-UK country at any time;

25. Sovereign credit rating criteria and foreign country limits will not apply to investments in multilateral development banks (e.g. the European Investment Bank and the World Bank) or other supranational organisations (e.g. the European Union).

Non-specified investments

26. Any investment not meeting the definition of a specified investment (see paragraph 13) is classed as non-specified. The Council does not intend to make any investments

denominated in foreign currencies, nor any with low credit quality bodies. 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.

27. The limit on the amount that may be held in non-specified investments, these being long-term investments only, at any time in the financial year is £3 million (excluding any accrued interest).

28. The advice of our treasury management consultants will be sought prior to making any long-term investment as to the appropriateness of the investment.

Non Specified investments				
	Paragraph (where applicable)	**Fitch Long term Rating (or equivalent)**	**£ Limit**	**Duration**
Any bank or building society (including forward deals in excess of one year from inception to repayment).	37	AAA AA+ AA AA-	£1.0m £1.0m £1.0m £1.0m	3 years 3 years 3 years 2 years
Gilt edged securities.	37	N/A	£1.0m	3 years
Supranational bonds greater than 1 year to maturity a) Multilateral development bank bonds b) A financial institution that is guaranteed by the United Kingdom Government	30, 37	AAA N/A	£1.0m £1.0m	3 years 3 years
Short Dated Bond Funds / Enhanced Cash Funds	30, 37	N/A	£2.0m per fund £6m in total	2 years
Pooled Funds and Collective Investment Schemes	31	N/A	£2.0m per fund £6m in total	N/A
UK Small & Medium Sized Enterprises via the Funding Circle	32	N/A	£5,000 per organisation (subject to an overall limit of £0.5m)	N/A

Investment in Property	33	Subject to the limits set out in the Capital Strategy		

Supranational bonds

29. The Council will invest in two types of bonds:

    a) **Multilateral development bank bonds** are bonds defined as an international financial institution having as one of its objects economic development, either generally or in any region of the world (e.g. European Investment Bank etc.).

    b) **A financial institution that is guaranteed by the United Kingdom Government** (e.g. The Guaranteed Export Finance Company {GEFCO}). The security of interest and principal on maturity is on a par with the Government and so very secure. These bonds usually provide returns above equivalent gilt edged securities. However the value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity.

Short Dated Bond Funds / Enhanced Cash Funds

30. Short dated Bond Funds / Enhanced Cash Funds are pooled investment vehicles with an average duration of between 3 months and 2 years with a variable net asset value (NAV) meaning their values can go down as well as up. They have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager and should be looked at as short to medium term investments.

Pooled Funds and Collective Investment Schemes

31. The Council will use pooled funds, for example pooled bond, equity and property funds that offer enhanced returns over the longer term but are potentially more volatile over the shorter 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 stability in meeting the Council's investment objectives will be monitored regularly.

UK Small & Medium Sized Enterprises via the Funding Circle

32. The Council has in the past made loans for periods of up to three years to small and medium sized enterprises (SME) in the UK that have been independently assessed as being of suitable credit quality. This will be done via the Funding Circle peer-to-peer lending platform. The Funding Circle have now ceased allowing further retail investments and as such the Council can no longer re-invest maturities in the Fund. These investments are now winding down but will remain in the investment Strategy until all the outstanding loans have been repaid.

Non-Treasury Investments

33. In addition to traditional treasury investments, the Council may also invest in property and make loans and investments for financial return and/or for service or policy purposes. Such investments will be subject to the Council's normal approval processes for revenue and capital expenditure and controls around their use are included in the

Council's Capital & Investment Strategy and therefore do not comply with this Treasury Management Strategy.

Liquidity Management

34. Liquidity is defined by the CIPFA Treasury Code of Practice as "having adequate, though not excessive, cash resources, borrowing arrangements, overdrafts or standby facilities to enable the Council at all times to have the level of funds available to which are necessary for the achievement of its business/service objectives"

35. The proportion of the in-house portfolio that may be held in short-term and long-term investments will vary at any one time dependant on the cash flow position of the Council. The Council uses a manual cash book and spreadsheets to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a pessimistic basis, with receipts under-estimated and payments over-estimated to minimise the risk of the Council being forced to borrow on unfavourable terms to meet its financial commitments.

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

37. The amount of investments (both managed in house and externally) that may be held in long-term investments will be, measured on a rolling basis, at any point in time:

    - No more than £3 million of outstanding investments are to be over 3 years until maturity, and
    - No more than £3 million of outstanding investments are to be over 1 year until maturity.

38. The maximum term of any one investment is 3 years with the exception of those loans invested via the Funding Circle (see paragraph 32).

Planned Investment Strategy for 2023/24

39. Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months). The cash flow forecast will be used to divide surplus funds into three categories:
    - Short-term – cash required to meet known cash outflows in the next month, plus a contingency to cover unexpected cash flows over the same period.
    - Medium-term – cash required to manage the annual seasonal cash flow cycle, including amounts to cover forecast shortages, planned uses of reserves, and a longer-term contingency.
    - Long-term – cash not required to meet cash flows and therefore liquidity is of lesser concern and a greater yield can be achieved.

40. Short-term funds are required to meet cash flows occurring in the next month or so, and the preservation of capital and liquidity is therefore of paramount importance. Generating investment returns is of limited concern here, although it should not be ignored. Instant access AAA-rated money market funds and bank deposit accounts will be the main methods used to manage short-term cash.

41. Medium-term funds which may be required in the next one to twelve months will be managed concentrating on security, with less importance attached to liquidity but a slightly higher emphasis on yield. The majority of investments in this period will be in the

form of fixed term deposits with banks and building societies. A wide spread of counterparties and maturity dates will be maintained to maximise the diversification of credit and interest rate risks; this may be achieved by the use of suitable medium-term money market funds. Deposits with lower credit quality names will be made for shorter periods only, while deposits with higher quality names can be made for longer durations.

42. Cash that is not required to meet any liquidity need can be invested for the longer term with a greater emphasis on achieving returns that will support spending on local authority services. Security remains important, as any losses from defaults will impact on the total return, but fluctuations in price and even occasional losses can be managed over the long term within a diversified portfolio. Liquidity is of lesser concern, although it should still be possible to sell investments, with due notice, if large spending commitments arise unexpectedly. A wider range of instruments, including structured deposits, certificates of deposit, gilts and corporate bonds will be used to diversify the portfolio. The Council will consider employing external fund managers that have the skills and resources to manage the risks inherent in a portfolio of long-term investments.

Forward deals up to one year

43. Forward deals may be entered into with banks and building societies that meet the appropriate credit rating criteria for specified investments where the total period of the investment (i.e. negotiated deal period plus period of deposit) is less than one year.

Markets in Financial Instruments Directive (MiFID)

44. The Council has opted up to professional client status with its providers of financial services, including advisers, banks, brokers and fund managers, allowing it access to a greater range of services but without the greater regulatory protections afforded to individuals and small companies. Given the size and range of the Council's treasury management activities, the Section 151 Officer believes this to be the most appropriate status.

Annex A

Credit ratings and definitions

The Council uses long-term credit ratings from the three main rating agencies Fitch Ratings Ltd, Moody's Investors Service Inc and Standard & Poor's Financial Services LLC to assess the risk of investment default.

Table A: Comparison of long-term credit ratings		
Moody's	**S&P**	**Fitch**
Investment grade		
Aaa	AAA	AAA
Aa1	AA+	AA+
Aa2	AA	AA
Aa3	AA-	AA-
A1	A+	A+
A2	A	A
A3	A-	A-
Baa1	BBB+	BBB+
Baa2	BBB	BBB
Baa3	BBB-	BBB-
Speculative grade		
Ba1	BB+	BB+
Ba2	BB	BB
Ba3 and below	BB- and below	BB- and below

(Negative) Rating Watch – Fitch Ratings
Rating Watches indicate that there is a heightened probability of a rating change and the likely direction of such a change. These are designated as "Positive", indicating a potential upgrade, "Negative", for a potential downgrade, or "Evolving", if ratings may be raised, lowered or affirmed. However, ratings that are not on Rating Watch can be raised or lowered without being placed on Rating Watch first, if circumstances warrant such an action.

Review for possible downgrade – Moody's (Standard & Poor's is very similar)
Moody's uses the 'Watchlist' to indicate that a rating is under review for possible change in the short-term. A rating can be placed on review for possible upgrade (UPG), on review for possible downgrade (DNG), or more rarely with direction uncertain (UNC). A credit is removed from the Watchlist when the rating is upgraded, downgraded or confirmed.

(Negative) Rating Outlook – Fitch Ratings (Moody's and Standard & Poor's are similar)
Rating Outlooks indicate the direction a rating is likely to move over a one- to two-year period. They reflect financial or other trends that have not yet reached the level that would trigger a rating action, but which may do so if such trends continue. The majority of Outlooks are generally Stable, which is consistent with the historical migration experience of ratings over a one- to two-year period. Positive or Negative rating Outlooks do not imply that a rating change is inevitable and, similarly, ratings with Stable Outlooks can be raised or lowered without a prior revision to the Outlook, if circumstances warrant such an action. Occasionally, where the fundamental trend has strong, conflicting elements of both positive and negative, the Rating Outlook may be described as Evolving.

RUNNYMEDE BOROUGH COUNCIL

TREASURY MANAGEMENT POLICY STATEMENT

Introduction

The Council's Treasury Management Policy Statement follows the recommendations set out in the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes* (2021 Edition).

Whilst Full Council receives reports on treasury and investment management policies, practices, and activities it has delegated responsibility for the implementation and regular monitoring of Council's treasury management policies and practices to Council's Corporate Management Committee.

The Assistant Chief Executive (and S151 Officer) is delegated with the execution and administration of treasury management decisions in accordance with this Policy Statement and the Council's Treasury Management Practices and Investment Management Practices.

The Council has nominated the Overview and Scrutiny Select Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

Treasury Management Activities

The Council defines its treasury management activities as: the management of the Council'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.

The prime objectives of Council's treasury management activities are the effective management and control of financial risks.

Statement of Policies

Risk management
The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.

Value for money
The Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

Borrowing policy

The Council greatly values revenue budget stability and will therefore borrow the majority of its long-term funding needs at long-term fixed rates of interest. Short-term and variable rate loans will only be borrowed to the extent that they either offset short-term and variable rate investments or can be shown to produce revenue savings.

The Council will set an affordable borrowing limit each year in compliance with the *Local Government Act 2003*, and will have regard to the *CIPFA Prudential Code for Capital Finance in Local Authorities* when setting that limit. It will also set limits on its exposure to changes in interest rates and limits on the maturity structure of its borrowing in the treasury management strategy report each year.

Investment policy

The Council's primary objectives for the investment of its surplus funds are to protect the principal sums invested from loss, and to ensure adequate liquidity so that funds are available for expenditure when needed. The generation of investment income to support the provision of local authority services is an important, but secondary, objective.

The Council will have regard to the Communities and Local Government Guidance on Local Government Investments and will approve an investment strategy each year as part of the treasury management strategy. The strategy will set criteria to determine suitable organisations with which cash may be invested, limits on the maximum duration of such investments and limits on the amount of cash that may be invested with any one organisation.

Policy on Environmental, Social and Governance issues

The Council is supportive of the Principles for Responsible Investment and will seek to bring ESG (Environmental, Social and Governance) factors into the decision-making process for investments where possible. Within this, the Council is also appreciative of the Statement on ESG in Credit Risk and Ratings which commits signatories to enhance systematic and transparent consideration of ESG factors in the assessment of creditworthiness. The Council uses ratings from Fitch, Moody's and Standard & Poor's (who are signatories to www.unpri.org statement on ESG in Credit Risk and Ratings and include analysis of ESG factors when assigning ratings) to support its assessment of suitable counterparties.

RUNNYMEDE BOROUGH COUNCIL
TREASURY MANAGEMENT PRACTICES

The CIPFA Code of Practice on Treasury Management in the public Services (the Code) requires the setting out of the responsibilities and duties of Councillors and officers, allowing a framework for reporting and decision making on all aspects of treasury management. The Code recommends the creation and maintenance of:

- A Treasury Management Policy Statement outlining the policies, objectives and approach to risk management of Council's treasury management activities,
- Treasury Management Practices (TMPs) setting out the way in which the Council will seek to achieve those policies and objectives and prescribing how it will manage and control those activities.

Practice	Title
TMP1	**Risk Management**
TMP2	**Performance measurement**
TMP3	**Decision making and analysis**
TMP4	**Approved instruments, methods and techniques**
TMP5	**Organisation, clarity and segregation of responsibilities, and dealing arrangements**
TMP6	**Reporting requirements and management information arrangements**
TMP7	**Budgeting, accounting and audit arrangements**
TMP8	**Cash and cash flow management**
TMP9	**Money laundering**
TMP10	**Training and qualifications**
TMP11	**Use of external service providers**
TMP12	**Corporate governance**

Schedules supporting these practices and other documents held at an operational level specify the systems and routines to be employed and the records to be maintained in fulfilling the Council's treasury functions

Version updated January 2023.

TMP 1
Risk Management

General Statement

All treasury management activities involve both risk and the pursuit of reward or gain for the Council. The council's policies and practices emphasise that the effective identification, management and containment of risk are the prime objectives of treasury management activities.

The following risks are relevant:

- credit and counterparty risk
- liquidity risk
- interest rate risk
- exchange rate risk
- Inflation risk
- refinancing risk
- legal and regulatory risk
- fraud, error and corruption and contingency management
- price / market risk

The Council regards a key objective of its treasury management and other investment activities to be the security of the principal sums it invests. Accordingly, it will ensure that robust due diligence procedures covering all external investment including investment properties.

The Assistant Chief Executive and S151 Officer will design, implement and monitor all arrangements for the identification, management and control of treasury management risk. The Assistant Chief Executive and S151 Officer will report at least annually on the suitability of these arrangements and will report, as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the Council's objectives in this respect, all in accordance with the procedures set out in TMP6 *Reporting requirements and management information systems*. In respect of each of the following risks, the arrangements will seek to ensure compliance with these objectives.

The investment and risk management criteria for any material non-treasury investments will be clearly set out in the Capital Strategy and Asset Management Strategy as appropriate.

1. Credit and counterparty risk management

Credit and Counterparty risk is the risk of failure by a third party to meet its contractual obligations to the Council under an investment, borrowing, capital, project or partnership financing, particularly as a result of the third party's diminished creditworthiness, and the resulting detrimental effect on the Council's capital and revenue resources.

The Council regards a key objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, it will ensure that its counterparty lists and limits reflect a prudent attitude towards organisations with whom funds may be deposited, and will limit investment activities to the instruments, methods, and techniques referred to in TMP4 Approved instruments methods and techniques and listed in the schedule to this document. It also recognises the need to have, and will therefore maintain, a formal counterparty policy

in respect of those organizations from which it may borrow, or with whom it may enter into other financing arrangements.

In assessing Credit and counterparty risk the Council will use the lowest common denominator approach which uses the lowest minimum acceptable credit rating from any of the three rating agencies (Fitch, Moody's and Standard& Poor's). Full details of how we use these ratings and what other processes we use to assess and limit these risks (e.g. diversification, sector limits, country limits etc) are set out in our Annual Investment Strategy.

The Council has set out its policy on Environmental, Social and Governance (ESG) considerations with respect to credit and counterparty risk management for investments in its Treasury Management Policy Statement.

This is a developing area (CIPFA is still working on this after the 2021 revisions to the Code) and it is not implied that the Council's ESG policy will currently include ESG scoring or other real-time ESG criteria at individual investment level. Instead, the Council may evaluate additional ESG-related metrics and assessment processes that it could incorporate into its investment process which consequently will update accordingly.

In practice, the Council uses ratings from Fitch, Moody's and Standard & Poor's that include analysis of ESG factors when assigning ratings to support its assessment of counterparties.

Examples of typical ESG factors being considered by the rating agencies are as follows:

- *Environmental:* Emissions and air quality, energy and waste management, waste and hazardous material, exposure to environmental impact;
- *Social:* Human rights, community relations, customer welfare, labour relations, employee wellbeing, exposure to social impact;
- *Governance:* Management structure, governance structure, group structure, financial transparency etc.

2. Liquidity Risk Management

Liquidity risk is the risk that cash will not be available when it is needed, that ineffective management of liquidity creates additional unbudgeted costs, and that the Council's business objectives will therefore be compromised.

The Assistant Chief Executive and S151 Officer will ensure that the Council has adequate though not excessive cash resources, borrowing arrangements, overdraft or standby facilities to enable it at all times to have the level of funds available to it which are necessary for the achievement of its business and service objectives. The use callable deposits, including Money Market Funds, will be used for short-term cash requirements in the first instance.

The Council will only borrow in advance of need where there is a clear business case for doing so and will only do so for the following reasons:

- to fund the current capital programme
- to finance future debt maturities; or
- to ensure an adequate level of short-term investments to provide liquidity.

3. Interest Rate Risk Management

Interest Rate risk is the risk that fluctuations in the levels of interest rates create an unexpected or unbudgeted burden on the Council's finances, against which the Council has failed to protect itself adequately.

The Council will manage its exposure to fluctuations in interest rates with a view to containing its interest costs, or securing its interest revenues, in accordance with its Treasury Management Policy Statement and Annual Treasury Management Strategy and any amounts are provided in its budgetary arrangements as amended in accordance with TMP6 *Reporting requirements and management information systems*.

It will achieve this by the prudent use of its approved financing and investment instruments, methods and techniques, primarily to create stability and certainty of costs and revenues, but at the same time retaining a significant degree of flexibility to take advantage of the unexpected, potentially advantageous changes in the level or structure of interest rates. This should be the subject to the consideration and, if required, approval of any policy or budgetary implications.

It will ensure that any hedging tools such as derivatives are only used for the management of risk and the prudent management of financial affairs and that the policy for the use of derivatives is clearly detailed in the annual strategy. Consideration will also be given to dealing from forward periods dependent upon market conditions.

4. Exchange Rate Risk Management

Exchange rate risk is the risk that fluctuations in foreign exchange rates create an unexpected or unbudgeted burden on the organisation's finances, against which the organisation has failed to protect itself adequately.

The Council will manage its exposure to exchange rates so as to minimise any detrimental impact on its budgeted income/expenditure levels.

5. Inflation Risk Management

Inflation risk, also called purchasing power risk, is the chance that the cash flows from an investment won't be worth as much in the future because of changes in purchasing power due to inflation.

The Council will keep under review the sensitivity of its treasury assets and liabilities to inflation and will seek to manage the risk accordingly in the context of the whole organisation's inflation exposures.

6. Refinancing Risk Management

Refinancing risk is the risk that maturing borrowings, capital, project or partnership financings cannot be refinanced on terms that reflect the provisions made by the organisation for those refinancing, both capital and current (revenue), and/or that the terms are inconsistent with prevailing market conditions at that time.

The Council will ensure that its borrowing, private financing and partnership arrangements are negotiated, structured and documented, and the maturity profile of the monies so raised are managed, with a view to obtaining offer terms for renewal or refinancing, if required,

which are competitive and as favourable to the organisation as can reasonably be achieved in the light of market conditions prevailing at the time.

The Council will actively manage its relationships with its counterparties in these transactions in such a manner as to secure this objective and will avoid overreliance on any one source of funding if this might jeopardise achievement of the above.

6.1 Debt/Other Capital Financing and Maturity Profiling: The Council will establish through its Prudential and Treasury Indicators the amount of debt maturing in any year/period. Any debt rescheduling will be considered when the difference between the refinancing rate and the redemption rate is most advantageous, and the situation will be continually monitored in order to take advantage of any perceived anomalies in the yield curve. The reasons for any rescheduling to take place will include:

a) the generation of cash savings at minimum risk;
b) to reduce the average interest rate;
c) to amend the maturity profile and /or the balance of volatility of the debt portfolio.

Rescheduling will be reported to the Corporate Management Committee in the annual Review Report.

6.2 Projected Capital Investment Requirements: The Financial Services section will prepare, as a minimum, a three-year plan for capital expenditure for the Council. This plan will be used as a basis to prepare a three-year budget for all lines and forms of financing costs and charges.

In addition, a capital strategy report will be drawn up that will outline a longer term view (beyond three years).

6.3 Limits on Affordability and Revenue Consequences of Capital Financing: In considering the affordability of its capital plans, the Council will consider all the resources currently available/estimated for the future in conjunction with its capital investment plan, latest view on revenues and expenditure for the forthcoming year and budgeted information for the two following years, and the impact these will have on council tax and housing rents.

It will also consider affordability beyond this three-year period and assess the risks and rewards associated with the major investments to ensure the long-term sustainability of the Council.

7. Legal and Regulatory Risk Management

This is the risk that the Council, or a third party with which it is dealing in its treasury management activities, fails to act in accordance with its legal powers or regulatory requirements, and that the Council suffers losses accordingly.

The Council will ensure that all of its treasury management activities comply with its statutory powers and regulatory requirements. It will demonstrate such compliance, if required to do so, to all parties with whom it deals in such activities. In framing its credit and counterparty policy under *TMP1 Credit and counterparty risk management*, it will ensure that there is evidence of counterparties' powers, authority and compliance in respect of the transactions they may effect with the Council, particularly with regard to duty of care and fees charged.

The Council recognises that future legislative or regulatory changes may impact on its treasury management activities and, so far as it is reasonably able to do so, will seek to minimise the risk of these impacting adversely on the organisation.

The treasury management activities of the Council shall comply fully with legal statute, guidance, Codes of Practice and the regulations of the Council. The monitoring officer (the Corporate Head of Law and Governance) has the duty to ensure that the treasury management activities of the Council are lawful. The Chief Financial Officer (Assistant Chief Executive and S151 Officer) has the duty to ensure that the financial affairs of the Council are conducted in a prudent manner and to make a report to the Council if he has concerns as to the financial prudence of its actions or its expected financial position

8. Fraud, error and corruption, and contingency management

This is the risk that the Council fails to identify the circumstances in which it may be exposed to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings, and fails to employ suitable systems and procedures and maintain effective contingency management arrangements to these ends. It includes the area of risk commonly referred to as operational risk.

The Council will ensure that it has identified the circumstances which may expose it to the risk of loss through inadequate or failed internal processes, people and/or systems or from external events in its treasury management dealings. Accordingly, it will employ suitable systems and procedures, and will maintain effective contingency management arrangements, to these ends.

The Council will, therefore:-

a) seek to ensure an adequate division of responsibilities and maintenance at all times of an adequate level of internal check which minimises such risks.
b) Fully document all its treasury management activities so that there can be no possible confusion as to what proper procedures are.
c) Staff will not be allowed to take up treasury management activities until they have had proper training in procedures and are then subject to an adequate and appropriate level of supervision.
d) Records will be maintained of all treasury management transactions so that there is a full audit trail and evidence of the appropriate checks being carried out.

9. Price / Market risk management

This is the risk that, through adverse market fluctuations in the value of the principal sums the Council borrows and invests, its stated treasury management policies and objectives are compromised, against which it has failed to protect itself adequately.

The Council will seek to ensure that its stated treasury management policies and objectives will not be compromised by adverse market fluctuations in the value of the principal sums it invests, and will accordingly seek to protect itself from the effects of such fluctuations.

TMP 2
Performance measurement

The Council is committed to the pursuit of Value for Money in its treasury management activities, and to the use of performance methodology in support of that aim, within the framework set out in its Treasury Management Policy Statement.

Accordingly, the treasury management function will be the subject of ongoing analysis of the value it adds in support of the Council's stated business and service objectives. It will be the subject of regular examination of alternative methods of service delivery, of the availability of fiscal or other grant or subsidy incentives, and of the scope for other potential improvements. The performance of the treasury management function will be measured using the criteria set out in the Schedule to this document.

The methodology and criteria for assessing the performance and success of non-treasury investments will be clearly set out in the Capital Strategy and Asset Management Strategy as appropriate.

TMP 3
Decision making and analysis

The Council will maintain full records of its treasury management decisions, and of processes and practices applied in reaching those decisions, both for the purpose of learning from the past and for demonstrating that all reasonable steps were taken to ensure that all issues relevant to those decisions were taken into account at that time. The issues to be addressed and processes and practices to be pursued in reaching decisions are detailed in the Treasury Management Schedule.

TMP 4
Approved instruments, methods and techniques

The Council will undertake its treasury management activities by employing only those instruments, methods and techniques detailed in the Treasury Management Schedule and Annual Investment Strategy, and within the limits and parameters defined in TMP1 *Risk management*.

Where the Council intends to use derivative instruments for the management of risks, these will be limited to those set out in the annual treasury strategy. The Council will seek proper advice and will consider that advice when entering into arrangements to use such products to ensure that it fully understands those products.

The Council has reviewed its classification with financial institutions under the Markets In Financial Instruments Directive 2014 (MIFID II) and has set out in its Annual Treasury Management Strategy those organisations with which it is registered as a professional client and those with which it has an application outstanding to register as a professional client.

TMP 5
Organisation, clarity and segregation of responsibilities, and dealing arrangements

The Council considers it essential for the purposes of effective control and monitoring of its treasury management activities, for the reduction of risk of fraud or error, and for the pursuit of optimum performance, that these activities are structured and managed in a fully

integrated manner and that there is at all times a clarity of treasury management responsibilities.

The principle on which this is based is a clear distinction between those charged with setting treasury management policies and those charged with implementing and controlling those policies, particularly with regard to the execution and transmission of funds, the recording and administering of treasury management decisions, and the audit and review of the treasury management function.

If and when the Council intends, as a result of a lack of resources or other circumstances, to depart from these principles, the Assistant Chief Executive and S151 Officer will ensure that the reasons are properly reported in accordance with TMP6 Reporting requirements and management information arrangements, and the implications properly considered and evaluated.

The Assistant Chief Executive and S151 Officer will ensure that there are clear written statements of the responsibilities for each post engaged in treasury management, and the arrangements for absence cover. The Assistant Chief Executive and S151 Officer will also ensure that at all times those engaged in treasury management will follow the policies and procedures set out. The present arrangements are detailed in the Treasury Management Schedule.

The Assistant Chief Executive and S151 Officer will ensure that there is proper documentation for all deals and transactions, and that procedures exist for the effective transmission of funds. The present arrangements are detailed in the Treasury Management Schedule.

The delegations to the Assistant Chief Executive and S151 Officer in respect of treasury management are set out in the Treasury Management Schedule. The Assistant Chief Executive and S151 Officer will fulfill all such responsibilities in accordance with the Council's policy statement and TMPs and, if a CIPFA member, the Standard of Professional Practice on Treasury Management.

The governance requirements for decision making and arrangements to make sure that appropriate due diligence is carried out to support the decision making in relation to non-treasury investments will be clearly set out in the Capital Strategy and Asset Management Strategy as appropriate.

TMP 6
Reporting requirements and management information arrangements

The Council will ensure that regular reports are prepared and considered on the implementation of the treasury management policies; on the effects of decisions taken and transactions executed in pursuit of those policies; on the implications of changes, particularly budgetary, resulting from the regulatory, economic, market or other factors affecting its treasury management activities; and on the performance of the treasury management function.

As a minimum the Council will receive:

- An annual report on the strategy and plan to be pursued in the coming year
- A mid-year review

- An annual report on the performance of the treasury management function, on the effects of the decisions taken and the transactions executed in the past year, and on any circumstances of non-compliance with the Council's Treasury Management Policy Statement and TMPs.

The Corporate Management Committee will receive regular monitoring reports on treasury management activities and risks.

The Overview and Scrutiny Select Committee will have responsibility for the scrutiny of treasury management policies and practices.

The Council will receive a report on the treasury management indicators set out in the CIPFA Code and associated guidance.

The present arrangements and the form of these reports are detailed in the Treasury Management Schedule.

The reporting and management information requirements for non-treasury investments will be clearly set out in the Capital Strategy and Asset Management Strategy as appropriate, along with where and how often monitoring reports are taken.

TMP 7
Budgeting, accounting and audit arrangements

The Assistant Chief Executive and S151 Officer will prepare, and the Council will approve and, if necessary, from time to time will amend, an annual budget for treasury management which will bring together the costs of running the treasury management function, together with associated income. The matters to be included in the budget will at minimum be those required by statute or regulation, together with such information as will demonstrate compliance with TMP1 Risk management, TMP2 Performance management, and TMP4 Approved instruments, methods and techniques. The Assistant Chief Executive and S151 Officer will exercise effective controls over the budget, and will report on changes required in accordance with TMP6 Reporting requirements and management information arrangements.

The Council will account for its treasury management activities, for decisions made and transactions executed, in accordance with appropriate accounting practices and standards, and with statutory and regulatory requirements in force for the time being.

The Council will ensure that its auditors, and those charged with regulatory review, have access to all information and papers supporting the activities of the treasury management function as are necessary for the proper fulfilment of their roles, and that such information and papers demonstrate compliance with external and internal policies and approved practices.

TMP 8
Cash and cash flow management

Unless statutory or regulatory requirements demand otherwise, all monies in the hands of the Council will be under control of the Assistant Chief Executive and S151 Officer and will be aggregated for cash flow and investment management purposes. Cash flow projections will be prepared on a regular and timely basis, and the Assistant Chief Executive and S151

Officer will ensure that they are adequate for the purposes of monitoring liquidity in compliance with TMP1*(2) Liquidity* r*isk management*. The present arrangements for preparing cash flow projections are set out in the Treasury Management Schedule.

TMP 9
Money Laundering

The Council is alert to the possibility that it may become the subject of an attempt to involve it in a transaction involving the laundering of money. Accordingly, it will maintain procedures for verifying and recording the identity of counterparties and reporting suspicions, and will ensure that staff involved in this are properly trained. The present arrangements, including the name of the officer to whom reports should be made, are detailed in the Treasury Management Schedule.

TMP 10
Training and qualifications

The Council recognises the importance of ensuring that all staff involved in the treasury management function are fully equipped to undertake the duties and responsibilities allocated to them. It will therefore seek to appoint individuals who are both capable and experienced and will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills. The Assistant Chief Executive and S151 Officer will recommend and implement the necessary arrangements.

The Assistant Chief Executive and S151 Officer will ensure that Council Members tasked with treasury management responsibilities, including those responsible for scrutiny, have access to training relevant to their needs and responsibilities.

Those charged with governance (Councillors) should recognise their individual responsibility to ensure that they have the necessary skills to complete their role effectively.

The present arrangements are set out in the Treasury Management Schedule.

Training and qualification requirements, including how relevant knowledge and skills in relation to how non-treasury investments will be arranged will be clearly set out in the Investment Management Practices contained in the Capital & Investment Strategy and in the Corporate Asset Management Strategy as appropriate.

TMP 11
Use of external service providers

The Council recognises that responsibility for treasury management decisions remains with the Council at all times. It recognises that there may be potential value of employing external providers of treasury management services, in order to acquire access to specialist skills and resources. When it employs such service providers it will ensure it does so for reasons which have been submitted to a full evaluation of costs and benefits. It will also ensure that the terms of appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review. And it will ensure, where feasible and necessary, that a spread of service providers is used, to avoid over reliance on one or a small number of companies. Where services are subject to formal tender or re-tender arrangements, legislative requirements will always be observed. The

monitoring of such arrangements rests with the Assistant Chief Executive and S151 Officer and details of the current arrangements are set out in the Treasury Management Schedule.

TMP 12
Corporate Governance

The Council is committed to the pursuit of proper corporate governance throughout its business and services, and to establishing the principles and practices by which this can be achieved. Accordingly, the treasury management functions and activities will be undertaken with openness and transparency, honesty, integrity and accountability.

The Council has adopted and implemented the key principles of the Code. This, together with the other arrangements detailed in the Treasury Management Schedules, are considered vital to the achievement of proper corporate governance in treasury management and the Assistant Chief Executive and S151 Officer will monitor and, if and when necessary, report upon the effectiveness of these arrangements.