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Overview and Scrutiny Select Committee

Thursday, 1 February 2024 at 7.30 pm

Council Chamber - Civic Centre

Members of the Committee

Councillors: J Furey (Chair), N Prescot (Vice-Chair), A Balkan, T Burton, T Gates, L Gillham, A King, S Lewis and M Singh

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 COMMENCES 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 **Democratic Services, Democratic Services Section, Law and Governance Business Centre, Runnymede Civic Centre, Station Road, Addlestone (Tel: Direct Line: 01932 425623). (Email: Democratic.Services@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

Matters involving exempt or confidential information in respect of which reports have not been made available for public inspection.

No reports to be considered

Runnymede Borough Council

Overview and Scrutiny Select Committee

Wednesday, 13 December 2023 at 7.30 pm

Members of the Council present:	Councillors N Prescot (Vice-Chair), A Balkan, T Burton, T Gates, A King, S Lewis, M Singh and S Williams (In place of L Gillham).
Members of the Council absent:	Councillor J Furey (Chair)
In attendance:	Councillors S Jenkins.

11 **Notification of Changes to Committee Membership**

Councillor S Williams substituted for councillor L Gillham.

12 **Minutes**

The Minutes of the meeting held on 5 October 2023 were confirmed and signed as a correct record.

13 **Apologies for Absence**

Apologies for absence were received from councillor J Furey.

14 **Declarations of Interest**

No declarations of interest were made.

15 **Treasury Management Report - Mid Year 2023/24**

The Corporate Head of Finance provided an update on the Council’s treasury management activity and performance in the first half of the 2023/24 financial year focusing on financing and liquidity, cash management and risk management.

The investment and interest rate performance was also noted, with the Council’s short-term investments resulting in a performance of 4.63%, which was encouraging in the context of the rising interest market.

It was confirmed that DLUHC’s consultation process on how the capital risk metrics were calculated was still under consideration. Members asked about the types of companies being invested in, as well as the regularity and safety around borrowing from or lending to other Local Authorities.

16 **Work Programme Items**

16a **Work Programme - Houses in Multiple Occupation (HMOs)**

Planning element

Planning Officers advised that a report had been taken to Planning Committee in March 2023 on this matter setting out the work undertaken to date to consider the introduction of an Article 4 Direction for HMOs in Runnymede. Members of the Planning Committee had agreed that work would remain ongoing to gather evidence on the distribution and impact of HMOs in conjunction with the Local Plan review and that this in the view of the Planning

Committee was the appropriate way forward.

It was confirmed that an Article 4 Direction would not prevent any new HMOs from being made in the Borough. Rather it would mean that the creation of 'small' HMOs of up to six people (C4 use class), would be subject to a planning application (as is the case for larger HMOs with seven or more occupants). Such applications would need to be determined on their own merits and when there was no reasonable grounds for refusal they would still need to be approved. The government rules state that an article 4 direction must be applied to the smallest possible geographical location to address the issue.

In order for an article 4 direction to be justified, the findings of gathered evidence would need to demonstrate that harm was arising to justify a local plan policy. It is possible that such harm could be in areas such as loss of family dwellings, parking or demonstrated loss of amenity. Any future recommendation from officers with regards a future local plan policy or article 4 direction would be an evidence-based piece of work to Planning Committee.

A member expressed concern over applications that sought permission for household extensions that were later converted to HMOs. It was confirmed that applications need to be taken on face value, and the Council could not refuse otherwise acceptable development because of speculation over future uses.

A member highlighted a small error in para 2.4 of the report, confirming that the Council motion relating to the feasibility of Article 4 Directions was amended to include Englefield Green East, as well as Egham Town and Englefield Green West wards.

Given the timescales involved in any potential introduction of an Article 4 Direction, a member asked about the possibility of additional tools such as SPDs to deal with the volume of HMOs, but the Head of Planning confirmed that SPDs could not introduce a new policy, only add clarity to an existing policy.

There was a 12-month lead in time for an Article 4 Direction to be put in place otherwise substantial compensation could be payable. There could however be a degree of twin tracking between a possible article 4 direction being drafted and local plan policy being formulated, as the preparation of an article 4 direction did not necessarily have to wait until the Local Plan had been adopted, provided the evidence was there to support progressing the direction. However if the direction were to be adopted prior to the adoption of a policy it was unlikely to be effective, until policies were in place.

In relation to quantifying impacts of HMOs and the results of an earlier analysis being unclear, officers noted committee's suggestion to liaise with Environmental Health, Community Services and Surrey Police to build up a broader picture. It was also asked that data on antisocial behaviour was collected from Royal Holloway University and the police to ensure as broad an evidence base as possible.

Data on school numbers in areas with high volume HMOs was not currently available, but would be considered as part of the Local Plan review. Anecdotal evidence from other local authorities could also be considered.

A member expressed concerns that bringing in an Article 4 direction could generate a significant quantum of applications for little prevention of the perceived issue. It was noted that this had been the case in some other LPA areas, however others had had greater success. The fine balance between the prospect of an Article 4 Direction and processing additional planning applications – and potentially call-ins – was noted, along with the possibility that it may not provide the desired relief.

It was noted that it would also be challenging for planning decision makers to demonstrate harm from a small, marginal increase in occupants. The evidence base would also require the introduction of the necessary policies to turn down HMO applications where appropriate, whilst recognising that HMOs did have a role to play in the housing mix.

Committee noted concern around parking associated with HMOs and whether mechanisms would exist through an Article 4 Direction to strengthen parking regulations. The Head of Planning advised that this would have be achieved through policy and potentially a parking SPD and the optimum time to review this would be post-adoption of the Local Plan.

It was noted that there may be some conflicts between the desire to provide parking at HMOs against the Council's commitment to tackle climate change and reduce personal vehicle use.

Environment & Housing services element

In response to concerns about transient noise complaints, officers confirmed that these complaints had started to be logged by Environmental Health, however as transient noise was not considered a statutory noise complaint it was unlikely to be able to part of a justifiable evidence base, however officers would look into whether it would provide any weight from any antisocial behaviour perspective.

To address some of the concerns raised by their residents, members enquired about the feasibility of extending licensing arrangements to include small HMOs, as well as more stringent controls around maintenance of gardens, management of waste and antisocial behaviour. Officers advised that the only way of compiling a complete database of HMOs would be to go door-to-door, and in addition to this being an enormous task, the volume of HMOs would be ever-changing and the database would be virtually impossible to keep accurate.

It was added that regardless of whether an HMO was licensed or not, enforcement and proactive work was carried out, along with inspections to ensure properties were up to standard, with improvements to fire safety making up the vast majority of required improvements.

It was also confirmed that it was not possible to charge for enforcement as part of the licensing fees, which was only permitted to cover the cost of administration, and the overwhelming majority of compliant and licensed landlords already met the requirements of them.

Whilst the emphasis would be on a landlord to apply for a license for HMOs involving over five people, there was also an onus on the local authority to ensure information and guidance was available to them, and regularly produced adverts set out the requirements, whilst officers attended freshers events to try and engage students to help set out the requirements of landlords. Members offered to help bridge the gap to circulate the message more widely.

It was conceded that any increase in licensing would not necessarily address the issues the committee had identified due to there being a limit in what is licensable and enforceable, with a change in law needed to address some of the concerns of residents and the committee, whilst additional licensing was unlikely to have a material relief on issues around housing mix and parking.

It was also acknowledged there was a degree of subjectivity to some of the concerns, particularly around untidy gardens, which had a high threshold for breaches under the licensing conditions and would generally involve the presence of rodents or damage to neighbouring or public property. In the vast majority of cases untidy gardens could only be addressed under management regulations.

Officers assured members that whilst not all complaints of this nature would be provided with feedback, they were always followed up and where appropriate brought to landlords' attention. It was confirmed that Digital Services were looking into reporting streams to be able to identify repeat offenders more easily.

Addressing questions about the Council's ability to withhold or not renew a license, officers advised this could only be done in the event of a criminal conviction, however licensing conditions could be used to help address known issues.

The role of a Joint Enforcement Team (JET), similar to what operates in Spelthorne, was explained, and officers advised that the presence of a JET in Runnymede would have a very limited impact on dealing with HMOs, due to their inability to deal with internal issues.

In considering any eventual recommendations from the work, the committee were reminded that Planning Committee had already agreed a resolution for officers to work on an evidence base for HMOs in the wider context of the Local Plan review.

16b **Work Programme - Grounds Maintenance**

Addressing concerns about the availability of equipment, the Corporate Head of Environmental Services advised that the sweepers had been unavailable for periods over the past year due to technical and mechanical issues. This resulted in priority being given to routes that were more slippery and had a higher footfall, and led to an increased volume of complaints from residents about other routes.

Responding to questions about lessons learned from the procurement and management of equipment, it was advised that options around leasing or renting would be considered in future.

Addressing further concern about using contract specification drawn up in the 1990s, officers reassured members that the contract was managed and a contract specification and schedule of works was sufficient to allow appropriate consideration to make the decision to bring the service inhouse.

The Corporate Head of Law and Governance provided an overview of contract management across the Council, with a contract register managed by the procurement team providing a full list of provisions of goods and services. Reminders are sent to contract managers when contracts are up for renewal and advised a procurement exercise would need to be undertaken.

The renewal of contracts was often done on the basis that the specification already served a purpose, whilst the timely operation of contract management clauses meant that the contractor would either have to provide KPIs or the Council would monitor performance and serve improvement notices where needed. The majority of contracts have monthly or quarterly performance meetings.

Responding to a query about a possible recommendation flowing out of the work programme that could involve a recommendation to Standards & Audit Committee to review contracts that the Council were involved in, the Corporate Head of Law and Governance advised that framework would need to be set around the requirements such as volume of improvement notices or scrutinising individual contracts.

Returning to the overall subject, the Vice-Chair concluded that a vast amount of improvement had been noted since the service was first brought inhouse, with complaints from residents significantly lower. He identified that communication to members in the early part of the process had been considered poor but was grateful that had since improved.

16c **Confirmation of Work Programme item - Building Maintenance**

It was explained to committee that the civic centre was designed and constructed in 2006 – 2009 on a bill of quantities contract rather than the now more common design and build contract. This minimises the risk to the contractor and any liability on them would only be around workmanship or using the incorrect materials to what the Council had specified.

Concern was noted about the possibility of leakage from the roof due to the likelihood of the incorrect volume of felt being applied and the lack of specification around the lifetime of the fire doors meaning that the warranty reverted to the manufacturer's warranty.

The Committee were keen to know more about the funding set aside for ongoing maintenance and improvements to the building at the point of construction, how much of this funding had been utilised and reassurance around ensuring the building was sustainable for the future.

It was advised by officers that the committee delving into what other historic bill of quantities contracts had been entered into should be considered a separate piece of work that the committee may choose to take up as part of a future workstream.

Resolved that –

The Overview & Scrutiny Committee confirmed their intention to include building maintenance as part of their work programme, with a particular focus on funding set aside at the point of construction, how much of that funding had been utilised and future sustainability of the building.

17 **Schedule for future meetings**

The committee noted the schedule for future meetings.

(The meeting ended at 9.37 pm.) Chair

Report title	**Treasury Management Strategy 2024/25**
Report author	Paul French, Corporate Head of Finance
Department	Financial Services
Exempt?	No
Exemption type	Not applicable
Reasons for exemption	Not applicable

Purpose of report:

For noting and recommendation

Synopsis of report:

The report sets out the Treasury Management Strategy, Prudential and Treasury Management Indicators, and Minimum Revenue Provision Statement for 2024/25.

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 report highlights changes that have been, or will be, made following the DLUHC Consultation on Local Government capital risk metrics and from the introduction of the new International Financial Reporting Standard on leases. Additional changes have also been included for the proposed new Minimum Revenue Provision (MRP) requirements that need to be in place and approved by full Council by 1 April 2024.

This report should be read in conjunction with the Capital & Investment Strategy report for 2024/25

Recommendation:

The members are invited to note the content of the report and recommend that the Council approve the following:

i) The proposed 2024/25 Treasury Management Strategy encompassing the Annual Investment Strategy

ii) The Prudential and Treasury Management Indicators for 2024/25

iii) The Authorised Limit for external borrowing by the Council in 2024/25, be set at £723,443,000 (this being the statutory limit determined under Section 3 (1) of the Local Government Act 2003.

***iv)* The MRP Policy for 2024/25 as set out in paragraph 7.15**

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 cash flow is adequately planned, with cash being available when it is needed. Surplus cash is managed (invested) according to the Council's risk appetite, prioritising cash security and adequate liquidity over investment returns.

1.2. Another 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 long-term cash flow planning to ensure that the Council can meet its capital spending and financing obligations. This management of long-term cash flow may involve arranging long-term financing (in the form of loans or use of the reserves). On occasion, when it is prudent and economic, any existing debt 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 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".

1.5. The Council's treasury management activity is underpinned by CIPFA's Code of Practice on Treasury Management ("the Code"), and the CIPFA Prudential Code for Capital Finance in Local Authorities ("the Prudential Code").

1.6. Whilst any commercial initiatives or loans to the 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.

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

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:

i) **Prudential and treasury indicators and treasury strategy** (this report) - The first, and most important report which is forward looking and covers:

- the capital expenditure plans and associated 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)

ii) **A 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.

iii) **An 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. The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. Therefore, these reports are required to be adequately scrutinised before being recommended to the Council by the Overview and Scrutiny Select Committee.

2.3. In addition to the three major reports detailed above, additional quarterly reporting (end of June/end of December) is now required. Although these additional reports do not have to be reported to Full Council, they must be reviewed by the Corporate Management and Overview & Scrutiny Committees.

2.4. 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 (s151), who will act in accordance with the Council's Treasury Policy Statement and Treasury Management Practices ("TMPs").

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

3. Treasury Management Strategy for 2024/25

3.1. The strategy for 2024/25 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 include 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. The draft Capital & Investment Strategy for 2024/25 is set out elsewhere on this agenda.

4. Training

4.1. The CIPFA Treasury Management Code (the 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. Training courses on Treasury Management are carried out for the Council members on a bi-annual basis and were last delivered in October 2022 (one arranged by the Council's Finance officers and another one run by the Link Group). In addition to this, further training will be arranged as required. The next series of formal treasury training sessions has been scheduled for October 2024 and will be preceded by a self-assessment questionnaire to ensure training needs are met.

4.4. Relevant training courses, seminars and conferences are provided throughout the year to the Council's staff involved in treasury management activities by a range of organisations including the Link Group and CIPFA.

4.5. A formal record of the training received by officers 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. Link Treasury Services Limited (part of the Link Group) act as the Council's 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 (s151) assessing the quality of advice offered and other services provided by Link. In particular, the Assistant Chief Executive (s151) holds regular meetings with Link (normally twice a year) where, in addition to discussing treasury strategy, the performance of the consultants is reviewed.

6. Capital Prudential Indicators 2024/25 – 2026/27

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 are reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans. The Capital Prudential Indicators for the years 2024/25-2026/27 are included in Appendix B

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.

DLUHC Consultation on Local Government capital risk metrics

6.4. In October 2023, the Government introduced The Levelling Up and Regeneration Act 2023 (LURA), which includes new provisions that expand the government's statutory powers to directly tackle excessive risk within local government capital system. A local authority comes into scope of the new powers when a 'trigger point' is breached with respect to any of the following four capital risk metrics as set out in the LURA.

i. The total of a local authority's debt (including credit arrangements) as compared to the financial resources at the disposal of the authority.

ii. The proportion of the total of a local authority's capital assets which is investments made, or held, wholly or mainly in order to generate financial return.

iii. The proportion of the total of a local authority's debt (including credit arrangements) in relation to which the counterparty is not central government or a local authority.

iv. The amount of minimum revenue provision charged by a local authority to a revenue account for a financial year.

6.5. DLUHC's consultation process on how the above capital risk metrics are calculated was completed at the end of September 2023. To date, the detailed guidance from DLUHC has not been published, however, the metrics requirement becomes effective from 01 April 2024. As these are reporting requirements only, no attempt has been made to include (i) or (ii) in this report, they will instead be reported as part of the quarterly treasury reports to committee once the calculations have been confirmed. However, paragraph 10.7 sets out (iii) the proportion of the total of the Council's debt (excluding credit arrangements) in relation to which the counterparty is not central government or a local authority as a comparator, and (iv) the MRP charged to the General Fund (excluding credit arrangements), is already shown in the Prudential Indicators set out in Appendix B.

6.6. In addition to the above, in late December 2023 the Council received a non-statutory Best Value Notice from DLUHC. This Strategy is consistent with the ongoing dialogue with DLUHC and reflects our interaction with CIPFA (including their report).

Implementation of IFRS16: Leases

6.7. From 1 April 2024 the accounting standard which sets out the guidelines for accounting for leases changes from IAS 17 (International Accounting Standard) to IFRS 16 (International Financial Reporting Standard). This means from this date the way the Council accounts for assets it leases will change.

6.8. The definition of a lease has been adapted for the public sector as being 'a contract, or part of a contract, that conveys the right to use an asset for a period of time.'

6.9. The adoption of IFRS16 will result in bringing more lease liabilities on to the balance sheet (e.g. right of use, embedded, rolling and peppercorn leases) which will have an impact on the Council's Prudential Indicators such as Capital Financing Requirement (CFR), Minimum Revenue Provision (MRP) as well as indicators such as Authorised Borrowing Limit and Operational Boundary etc.

6.10. When any leased asset is recognised in the balance sheet, such as our Community Meals Service fleet or Chertsey Museum, a corresponding liability will then be created, representing the obligation to make lease payments for the life of the contract. When the Council makes a lease payment rather than it showing as an expense against the relevant cost centre, it is split between paying off this liability and interest payments. The asset is depreciated in the same way as similar assets of that class, usually over the life of the lease unless the asset useful life is lower.

6.11. IFRS16 treatments will largely affect indicators for estimates that are subject to monitoring, rather than those that provide limits within which the authority must operate. The impact of IFRS16 implementation can therefore reasonably be reported after the fact as a variation on the original estimates. However, the Authorised Limit is a fixed limit and the Council will be in breach of its statutory powers if this Limit is exceeded.

6.12. The Prudential Code requires the Authorised Limit to be set with components for borrowing and for other long-term liabilities. The limits set for either of these two components can be exceeded, provided that the overall Authorised Limit is not broken. If this happens, the event must be reported to the next meeting of full Council.

6.13. The usual consequence of breaching the Authorised Limit is that the new borrowing or the new or modified credit arrangement that caused the breach would have been entered into unlawfully (sections 2 and 8 of the Local Government Act

2003 respectively). Changes can be made to the Authorised Limit at any time, but timeliness will then be constrained by the Council's administrative process for securing full Council authorisation and the risk that members might not wish to give such authorisation. The complications will therefore be largely administrative and reputational.

6.14. The assessment for the IFRS16 impact is due to be completed by 31 March 2024 however to avoid breaching the Authorised Limit, assumptions as to the effects of these changes has been built into the Prudential Indicators for 2024/25. This has been based on the following:

- an estimate based on the minimum lease payments expected to be recorded in the 2023/24 Statement of Accounts for existing leased assets (approximately £1m)
- a contingent amount of £5m to cover the transition liabilities and any right of use assets (which will be confirmed and reported when they are known)

Should this be inadequate, a further report will be submitted to Full Council to amend the Authorised Limit to avoid a breach which would be unlawful under sections 2 and 8 of the Local Government Act 2003.

7. Minimum Revenue Provision (MRP)

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. The MRP charge must be calculated with respect to all capital expenditure financed by debt (and which has not yet been provided for). The appropriate measure for this is the Capital Financing Requirement (CFR) as, when calculated correctly, this a complete measure of all capital expenditure that has not yet been funded by either capital or revenue resources, and will include capital expenditure financed by external borrowing, internal borrowing and credit arrangements. The CFR is calculated in accordance with the requirements set out in the Prudential Code.

7.4. There is no requirement on the Housing Revenue Account (HRA) to make MRP. This does not remove the requirement for an authority to consider the debt associated with its HRA and ensure sufficient provision is made over the life of the assets to repay debt and make additional charges with respect to MRP if deemed necessary. The HRA Business plan starts making provision for repayment of its loans (over and above the statutory set-aside) from 2031.

7.5. Statutory guidance from the DLUHC requires local authorities to have Full Council approval of a 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 the following options for all unsupported borrowing from April 2008:

- **Asset life method** – MRP will be based on the estimated useful life of the asset. There are two main methods by which this can be achieved:
    a. Equal instalment method
    b. Annuity Method
- **Depreciation Method -** MRP will be equal to the provision required in accordance with depreciation accounting for each asset.
- Another method which the Authority has deemed a more suitable method after having regard to the MRP Guidance

7.6. The Council's current MRP Policy is based on the Asset Life (Annuity) Method.

7.7. Any charges made over the statutory MRP, VRP or overpayments, can, if needed, be reclaimed in later years if deemed necessary or prudent. For these sums to be reclaimed for use in the budget, the Council's MRP policy must disclose the cumulative overpayment made each year. To date the Council had not made such VRP or overpayments.

<u>MRP Consultation and other changes</u>

7.8. As reported in Section 6 above, IFRS16 will have an effect on MRP calculations as the addition of leases and right-of-use assets will need to be included in future capital financing arrangements.

7.9. The Statutory Guidance on MRP has already been amended to extend the treatment previously expected for finance leases to all leases. The MRP charge for the year should be the element of the rent that goes to write down the lease liabilities. As this is generally the only element of the rent that has not already been charged to revenue, it is basically an instruction for the total charge to the General Fund Balance to equal the rents payable for the year. The Council's MRP policy will need to be updated to reflect the new requirements.

7.10. On 21 December 2023 the government issued a further consultation document on proposed changes to the MRP Regulations building on the consultations carried out from November 2021 to February 2022 and June to July 2022 on proposals to strengthen the duty to make MRP with the objective of eradicating imprudent MRP policies relating to investment properties, capital loans and abatement by capital receipts. The latest proposed draft regulations remain substantively the same as previously consulted on in the June-July 2022 consultation, with some minor changes to reflect responses. This consultation closes on 16 February 2024 with the proposed revised regulations due to come into effect from 1 April 2024.

7.11. The revised regulations provide that:

- Capital receipts may not be used in place of the revenue charge for MRP
- Prudent MRP must be determined with respect to the authority's total Capital Financing Requirement
- capital loans can be excluded from the MRP requirement (if they are not made for commercial reasons) but a charge must be made for expected credit losses.

7.12 Whilst, from a Runnymede perspective, there are no substantive changes to the Regulations, the proposed Statutory Guidance that accompanies them has also been amended. This includes a new paragraph setting out the minimum expectations for the contents of the MRP Statement, including such things as to how the authority has considered the Statutory Guidance and any departures made.

Proposed new MRP Policy Statement

7.13 The proposed new MRP Policy Statement takes into account all the requirements of the new MRP guidance and the introduction of IFRS16. This includes policies on areas that the Council has no intention on utilising, such as capital directives, but which need to be included for completeness.

7.14 Another issue expected to be covered by the MRP Statement is how capital receipts will be used to reduce indebtedness and the impact on the MRP charge.

7.15 The Council has considered the requirements set out in statute and the proposed MRP Guidance amendments are the resulting proposed MRP Policy for 2024/25 will be as follows:

- ***The Council will use the asset life (annuity) 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 redevelopment schemes, we will start setting aside an MRP provision from the date that the asset becomes operational and/or revenue income is generated***

- ***The Council will apply the asset life method for any expenditure capitalised under a Capitalisation Direction***

- ***Where the Council has acquired assets under leases, an MRP charge will be made for the amount by which the liabilities recognised for rents due over the remaining terms of the leases have been reduced by payments of rent in the financial year. The overall impact of this policy is that the annual charge against the General Fund Balance for leases will be the rents payable for each financial year.***

- ***For capital expenditure on loans to third parties where the principal element of the loan is being repaid in annual instalments, the capital receipts arising from the principal loan repayments will be used to reduce the CFR instead of MRP. Where no principal repayment is made in a given year, MRP will be charged at a rate in line with the life of the assets funded by the loan.***

Capital receipts generated from the sale of investment properties funded by borrowing will be used to reduce the Council's overall CFR by the outstanding borrowed amounts against each property sold.

There are currently no plans to make any Voluntary Revenue Provision (VRP) payments or general MRP overpayments in 2024/25.

8. Economic Data

Interest Rates

8.1. The Council has appointed Link Group as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. Link provided the following forecasts on 07 November 2023. These are forecasts for Bank Rate, average earnings and PWLB certainty rates:

Link Group Interest Rate View	07.11.23												
	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
BANK RATE	5.25	5.25	5.25	5.00	4.50	4.00	3.50	3.25	3.00	3.00	3.00	3.00	3.00
3 month ave earnings	5.30	5.30	5.30	5.00	4.50	4.00	3.50	3.30	3.00	3.00	3.00	3.00	3.00
6 month ave earnings	5.60	5.50	5.40	5.10	4.60	4.10	3.60	3.40	3.10	3.10	3.10	3.10	3.10
12 month ave earnings	5.80	5.70	5.50	5.20	4.70	4.20	3.70	3.50	3.30	3.30	3.30	3.30	3.30
5 yr PWLB	5.00	4.90	4.80	4.70	4.40	4.20	4.00	3.80	3.70	3.60	3.50	3.50	3.50
10 yr PWLB	5.10	5.00	4.80	4.70	4.40	4.20	4.00	3.80	3.70	3.70	3.60	3.60	3.50
25 yr PWLB	5.50	5.30	5.10	4.90	4.70	4.50	4.30	4.20	4.10	4.10	4.00	4.00	4.00
50 yr PWLB	5.30	5.10	4.90	4.70	4.50	4.30	4.10	4.00	3.90	3.90	3.80	3.80	3.80

8.2. Our central forecast for interest rates was previously updated on 25 September and reflected a view that the MPC would be keen to further demonstrate its anti-inflation credentials by keeping Bank Rate at 5.25% until at least the second half (H2) of 2024. We expect rate cuts to start when both the CPI inflation and wage/employment data are supportive of such a move, and that there is a likelihood of the overall economy enduring at least a mild recession over the coming months, although most recent GDP releases have surprised with their on-going robustness.

8.3. Naturally, timing on this matter will remain 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. 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 also international factors such as policy development in the US and Europe, the provision of fresh support packages to support the faltering recovery in China as well as the on-going conflict between Russia and Ukraine, and Gaza and Israel.

8.5. On the positive side, consumers are still anticipated to be sitting on some excess savings left over from the pandemic, which could cushion some of the impact of the above challenges and may be the reason why the economy is performing somewhat better at this stage of the economic cycle than may have been expected. However, most of those excess savings are held by more affluent households whereas lower income families already spend nearly all their income on essentials such as food, energy and rent/mortgage payments.

PWLB rates

8.6. Gilt yield curve movements have broadened since our last Newsflash. The short part of the curve has not moved far but the longer-end continues to reflect inflation concerns. At the time of writing there is 60 basis points difference between the 5 and 50 year parts of the curve.

8.7. The balance of risks to the UK economy: - The overall balance of risks to economic growth in the UK is to the downside.

8.8. Downside risks to current forecasts for UK gilt yields and PWLB rates include: -

- 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, could keep gilt yields high for longer).

- The Bank of England has increased Bank Rate too fast and too far over recent months, and subsequently brings about a deeper and longer UK recession 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, the Middle East, China/Taiwan/US, Iran and North Korea, which could lead to increasing safe-haven flows.

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

- Despite the recent tightening to 5.25%, the Bank of England proves too timid in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to remain elevated for a longer period within the UK economy, which then necessitates Bank Rate staying higher for longer than we currently project.

- The pound weakens because of a lack of confidence in the UK Government's pre-election fiscal policies, resulting in investors pricing in a risk premium for holding UK sovereign debt.

- Longer-term US treasury yields rise strongly if inflation remains more stubborn there than the market currently anticipates, consequently pulling gilt yields up higher. (We saw some movements of this type through October although generally reversed in the last week or so).

- Projected gilt issuance, inclusive of natural maturities and QT, could be too much for the markets to comfortably digest without higher yields compensating.

8.10. We now expect the MPC will keep Bank Rate at 5.25% for the remainder of 2023 and the first half of 2024 to combat on-going inflationary and wage pressures. We do not think that the MPC will increase Bank Rate above 5.25%, but it is possible.

8.11. Further economic background data can be found in Appendix C

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 rules for access to PWLB lending 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 (s151) 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 the long-term borrowing (over 12 months) could be summarised as follows:

Sources of borrowing
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 may be considered during the year in which case they 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.

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.

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 2024/25

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 other financial investments also require careful management and discusses those 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 SLY 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 2023/24 in February 2023. There are no proposed changes to the Strategy for 2024/25.

<u>2024/25 Treasury Activity</u>

10.5. 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	
2024/25	4.70%
2025/26	3.20%
2026/27	3.00%
2027/28	3.25%
Years 6 to 10	3.25%

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

10.6. The Council's treasury investments as of 31 December 2023 is comprised of:

Total Investments	31 Mar 23 £'000	**31 Dec 23 £'000**
Specified Investments		
Banking sector	25,000	39,000
Building societies	6,000	0
Local Authorities	26,000	5,000
Money Market Funds	12,000	17,500
Unspecified Investments		
Pooled Funds & Collective Investment Schemes	4,000	4,000
Funding Circle	42	23
Total Investments	**73,042**	**65,523**

10.7. The Council's borrowings as of 31 December 2023 is comprised of:

Total Borrowing	31 Mar 23 £'000	**31 Dec 23 £'000**
Central government or a local authority		
PWLB	599,000	589,000
Local Authorities	5,000	0
Other		
Pheonix Life	39,181	38,900
Trusts and Charities (RPG, Cabrera Trust etc)	391	377
Total Borrowing	**643,572**	**628,277**
The proportion of the Council's debt which is not central government or a local authority	**7%**	**6%**

The proportion of the Council's debt which is not central government or a local authority is one of the new capital metrics as set out in paragraph 6.4 above.

10.8. Investments will be made with reference to the systemic balances and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months). Greater returns are usually obtainable by investing for longer periods. The current shape of the yield curve suggests that is the case at present, but there is the prospect of Bank Rate having peaked at the end of 2023 and possibly reducing as early as the second half of 2024 so an agile investment strategy would be appropriate to optimise returns. The Council manages its treasury investments to maximise investment income, whilst managing its exposure to risk and maintaining appropriate liquidity to meet its needs.

10.9. Based on the above forecasts, the 2024/25 estimate for investment income split between the General Fund and Housing Revenue Account (HRA) is as follows:

	General Fund £'000	**HRA £'000**	**Total £'000**
Gross external investment income	3,565	1,220	4,785
Interest on loans to RBC companies	2,117	0	2,117

Dividend income	160	0	160
Interest paid on deposits and balances	(25)	0	(25)
Net Investment Income	**5,817**	**1,220**	**7,037**
Debt Interest	(12,909)	(3,379)	(16,288)
Net Investment Income / (Debt interest)	**(7,092)**	**(2,159)**	**(9,251)**

10.10. The estimate is based on achieving the assumed interest rates set out in paragraph 10.5 above and using the level of revenue and capital reserves for 2024/25 as set out in the latest capital and revenue budgets contained in the Medium-Term Financial Strategy and HRA Business Plan.

10.11. Further details for counterparty limits and Council's investment strategy in 2024/25 are detailed in Appendix D.

Interest charge to the Housing Revenue Account (HRA)

10.12 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.

10.13 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.

Pooled Funds & Collective Investment Schemes

10.14 The Council invests in two Pooled Funds (operated by CCLA (Churches, Charities and Local Authorities) Investment Management Limited). 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 relatively strong levels of interest (in the form of dividends). However, the capital values of these assets can be subject to large fluctuations (both up and down) over relatively short time frames.

10.15 The differences between the original sums invested and the values at the year-end are held on the Council's Balance Sheet in the Pooled Investments Adjustment Account. Normal accounting convention would mean that under IFRS9: Financial Instruments, movements in the value of the amount invested should be charged directly to the General Fund, however, in November 2018, the then MHCLG, concluded a consultation for a temporary override to allow English local authorities time to adjust their portfolio of all pooled investments by announcing a statutory override to delay implementation of IFRS9 for five years ending 31 March 2023. More recently, a further extension to the over-ride to 31 March 2025 has been agreed by the Government.

11. Treasury Risk Management

11.1. The Council's updated Risk Management framework was approved by Full Council in October 2023 and sets out the processes and procedures for the identification and evaluation of risks and opportunities and the cost-effective control of risks to ensure that they are reduced to an acceptable level and any impact on delivery of objectives is minimised.

11.2. Risks are assessed continually from both an operational and financial perspective. Under the Risk Management Framework for 2024/25, the Council has adopted a "Cautious" approach for financial risks, which means "*Seeking safe delivery options with little residual financial loss only if it could yield upside opportunities*". Our Treasury Management approach is cautious as cash reserves are managed carefully using SLY principles to avoid risky investments.

11.3. In varying degrees and in the course of the normal business, the Council will have exposures to counterparty credit, interest rate, foreign exchange, commodity price or other market events which could have significant effects on financial results if movements occur. The elimination of all risks and resultant income volatility is neither possible nor desirable. The management of the risks that the Council chooses to accept lies at the heart of the treasury risk management. The effective identification of exposures and management of these risks are integral to the Council's treasury management objectives. All treasury activity needs to be managed with the view to reduce the level of risk that remains over and above that the Council chooses to accept as part of its normal activities.

11.4. Overall responsibility for management of treasury risks (including funding and liquidity) always remains with the Council. 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.

11.5. As for the investment exposures, 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. 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).

11.6. The Prudential and Treasury Codes set the security of funds as a prime policy objective for cash management, 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.

11.7. In accordance with the TM Code, the key treasury risks are discussed in detail in the Council's Treasury Management Practices (TMPs).

12. Non-Treasury Investments

12.1. Investment in non-financial (or non-treasury) investments, e.g. investment in property, do not form part of treasury management activities carried out by the treasury management team of the Council, and typically relate to either Service Type Investments or Commercial Type Investments. Non-financial investments, essentially the purchase of income yielding assets and service investments, are covered in the Capital & Investment Strategy Report submitted to the Corporate Management Committee in January 2024.

12.2. *Service type investments* are where capital or revenue cash is advanced for a specific council objective and will be approved directly through committee. This may be an advance to a third party for economic regeneration, or for maintaining a community asset that meets the Council's own objectives.

12.3. *Commercial type investments* are where the objective is primarily to generate capital or revenue resources. The resources generated would then help facilitate local authority services.

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

14.1. 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.

14.2. 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 its green credentials, but which may turn a blind eye and invest in companies that have a poor attitude to labour and the working process.

14.3. 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.

14.4. The Council's Treasury Policy Statement and Treasury Management Practices (TMPs) refer to ESG principles in investing.

15. Timetable for Implementation

15.1. This report was considered by the Corporate Management Committee on 18 January 2024 and following the review by this committee will be referred to full Council for approval. Once approved it will take effect from the 1 April 2024.

16. Conclusions

16.1. 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 in conjunction with the Council's Corporate Business Plan, Medium Term Financial Strategy, Capital & Investment Strategy and Treasury Management Strategy.

16.2. With higher interest rates, increasing global political risks, potential recessions in 2024, sustained cost of living crisis, high inflation, potential financing constraints and more budget pressures, the investment policy and borrowing must remain prudent and affordable in combination with rigorous risk management practices.

17. 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
- The Levelling Up and Regeneration Act 2023
- DLUHC Consultation on changes to statutory guidance and regulations: Minimum Revenue Provision

18. Appendices

- Appendix A – Glossary of Terms
- Appendix B – Prudential and Treasury Management Indicators 2024/25
- Appendix C – Economic Date
- Appendix D – Annual Investment Strategy 2024/25

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. 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.
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.
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).

CAPITAL & AFFORDABILITY RELATED INDICATORS

The Council's capital expenditure plans are one of the key drivers 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.

Capital Expenditure	2022/23 Actual £000s	2023/24 Revised £000s	2024/25 Estimate £000s	2025/26 Estimate £000s	2026/27 Estimate £000s
HRA	6,459	11,249	28,549	18,912	13,662
General Fund	18,048	15,326	6,466	7,593	4,761
Leased assets (IFRS16)	0	0	6,000		
Non-Financial Investments*	11,838	0	0	0	0
Total	**36,345**	**26,575**	**41,015**	**26,505**	**18,423**
Financed by:					
Capital Receipts	13,948	12,565	1,567	3,580	2,260
Earmarked Reserves	355	9,387	14,319	12,591	11,337
Capital Grants & Contributions	3,878	2,428	11,037	1,027	1,244
Revenue	5,907	2,195	8,092	9,307	3,562
Total	**24,088**	**26,575**	**35,015**	**26,505**	**18,403**
Net financing need for the year**	**12,257**	**0**	**6,000**	**0**	**0**

* 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 in the table below.

** The borrowing in 2024/25 relates solely to the inclusion of leased assets being brought onto the balance sheet in order to comply with new International Financial Reporting Standards.

Capital Expenditure – Non-Financial Investments	2022/23 Actual £000s	2023/24 Revised £000s	2024/25 Estimate £000s	2025/26 Estimate £000s	2026/27 Estimate £000s
Capital expenditure	11,838	0	0	0	0
Financing costs met	11,838	0	0	0	0
Net financing need for the year	**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:

Capital Financing Requirement	2022/23 Actual £000s	2023/24 Revised £000s	2024/25 Estimate £000s	2025/26 Estimate £000s	2026/27 Estimate £000s
HRA	100,000	100,000	100,000	100,000	100,000
General Fund	145,470	161,971	160,827	165,640	164,404
Non-Financial Investments	454,016	445,481	441,718	437,803	433,732
CFR at 1 April	**699,486**	**707,452**	**702,545**	**703,443**	**698,136**
Net financing need for the year	12,257	0	6,000	0	0
Less: MRP/VRP	(4,291)	(4,907)	(5,102)	(5,307)	(5,519)
CFR at 31 March	**707,452**	**702,545**	**703,443**	**698,136**	**692,617**

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

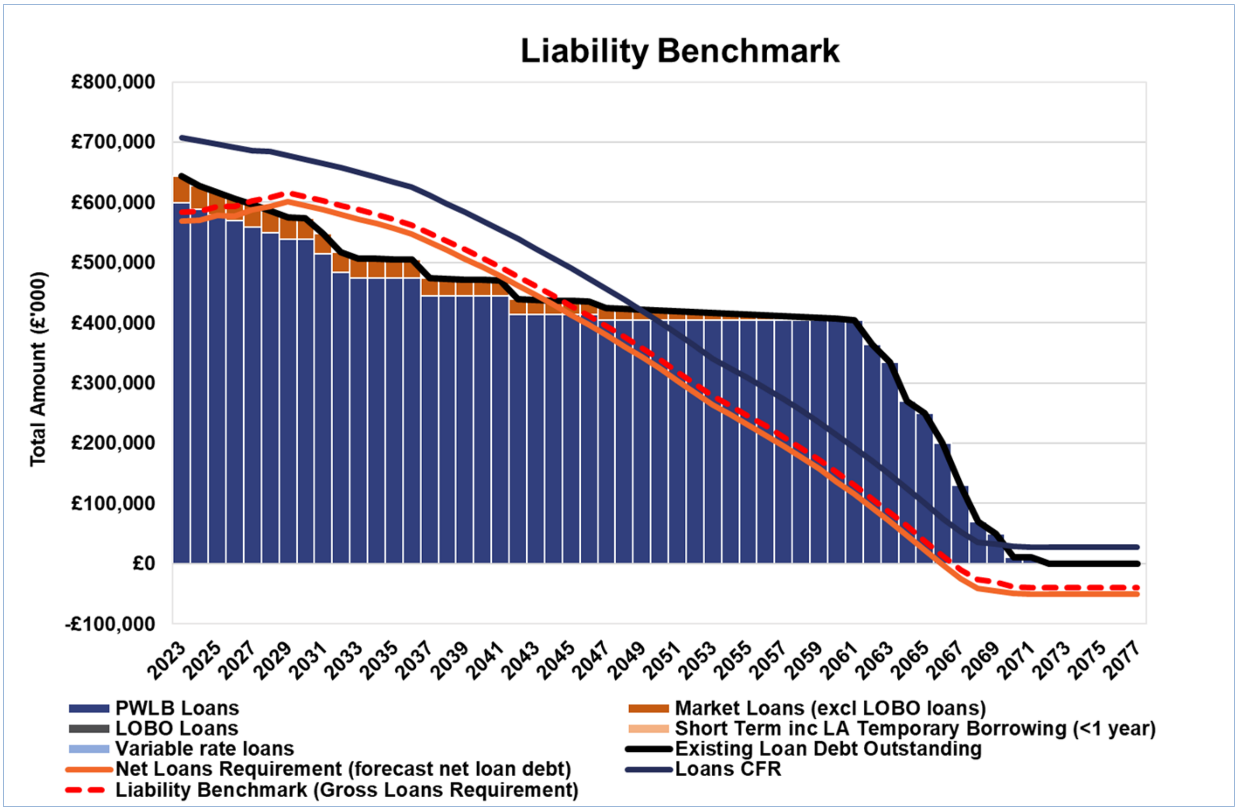
The Council is required to estimate and measure the Liability Benchmark for the forthcoming financial year and the following two financial years, as a minimum and should ideally cover the full debt maturity profile of a local authority. The liability benchmark model only includes the approved capital 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.

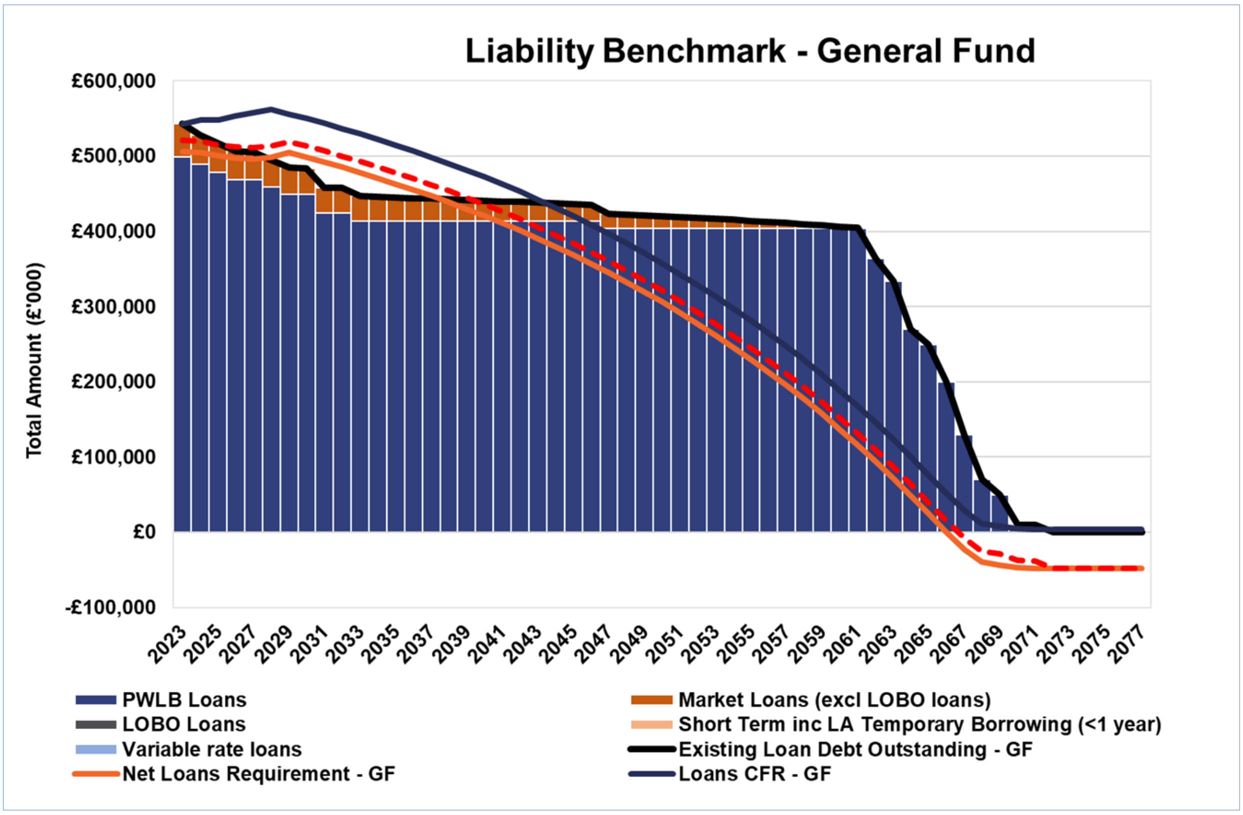


The above chart shows the overall Council position taking both HRA and General Fund debt together. The overall position starts initially as being £74m over the liability benchmark and by 2027 shows a forecast net loans requirement which then increases each year as the PWLB loans mature (the model assumes loans are repaid without replacement).

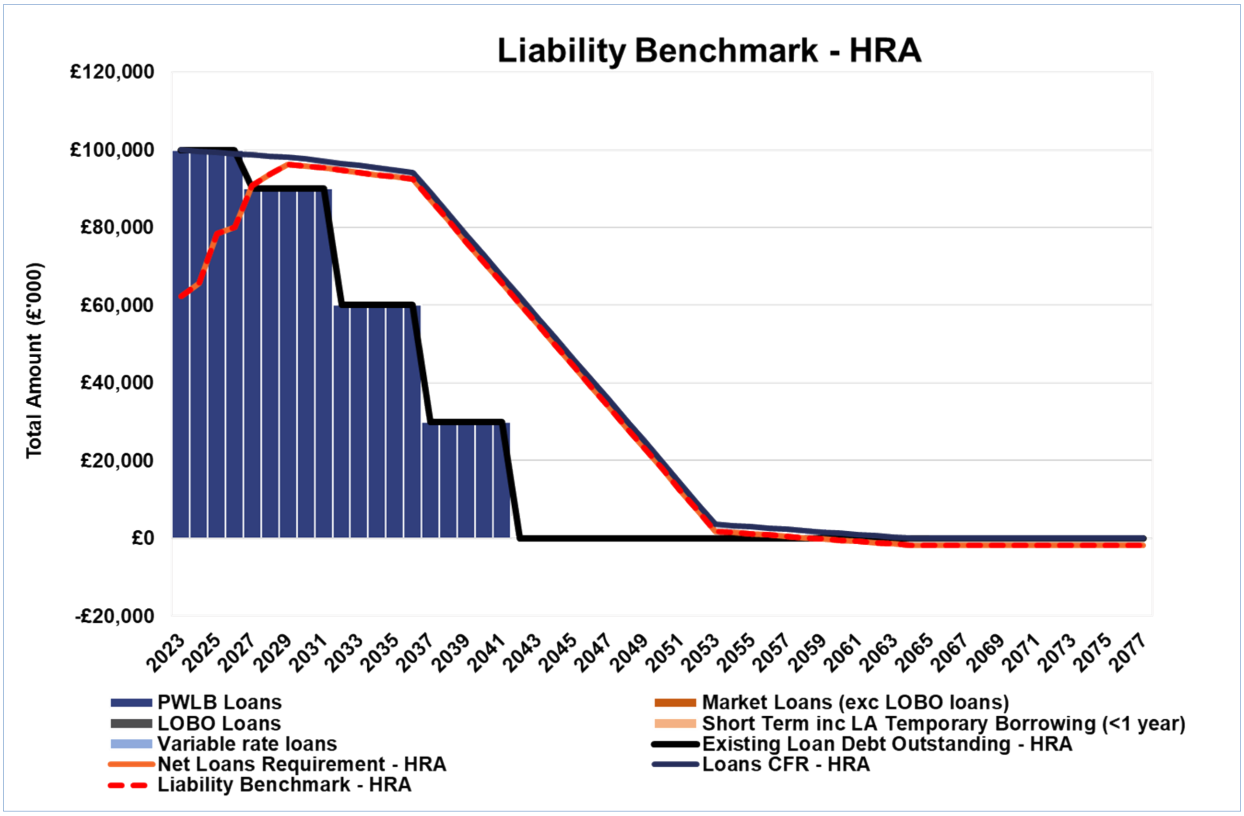
The overall position has a liquidity allowance of £15m, which sets the liability benchmark meaning the authority plans (as per liability benchmark model only) to utilise all but £15m of internal borrowing capacity (i.e. defer borrowing by utilising Balance Sheet cash resources such as reserves & working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

Where the actual loans outstanding exceed the benchmark, this represents an overborrowed position, which will result in excess cash requiring investment. Officers will keep an eye on this and may look to repay some loans early if it is prudent to do so. Alternatively, depending on Council finances at the time, 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.

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



The GF forecast liability benchmark shows that by 2027 there will be a need to temporarily borrow to repay some loans as they mature due to the running down of balances and reserves. The liability benchmark by 2040 shows outstanding borrowing that is over the forecast liability benchmark. By 2070 all debt has been repaid.



The HRA has been financed with PWLB debt that is relatively short dated with regular maturities from 2027 (year 5) onwards. The HRA is not required to make MRP. The 30 year HRA Business plan agreed by Committee in March 2023 starts to make a voluntary set aside of £250,000 a year from 2031 increasing to £5m from 2037 to repay debt. Although the HRA starts off over the Liability Benchmark indicator due to investment balances held, by 2028 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.

Expected Investment Balances	2022/23 Actual £000s	2023/24 Revised £000s	2024/25 Estimate £000s	2025/26 Estimate £000s	2026/27 Estimate £000s
General Fund Reserves	51,313	48,183	47,933	45,652	41,446
HRA Reserves	37,684	35,632	23,619	20,919	16,355
Capital Reserves	17,258	11,528	15,835	12,484	7,294
Total Core Funds	**106,255**	**95,343**	**87,387**	**79,055**	**65,095**
Working Capital*	32,162	39,867	29,223	25,229	18,758
Under/Over Borrowing**	(63,880)	(74,101)	(64,582)	(59,874)	(59,971)
Expected Investments at year end	**74,537**	**61,109**	**52,028**	**44,410**	**23,882**

* Working capital balances shown are estimated year-end; these may be higher mid-year
** Under/Over Borrowing is set out in 6.1 below

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.

Ratio of financing costs to net revenue stream	2022/23 Actual %	2023/24 Revised %	2024/25 Estimate %	2025/26 Estimate %	2026/27 Estimate %
Ratio of Net Financing Costs to Net Revenue Stream	**59.41%**	**38.56%**	**39.88%**	**47.60%**	**53.83%**
General Fund	247.23%	111.51%	100.57%	123.43%	153.99%
Housing Revenue Account	2.71%	-2.10%	0.45%	2.50%	2.45%

The General Fund percentage is high due to past borrowing to fund the former Property Investment Strategy and regeneration schemes. 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:

Investment Limit	2022/23 Actual £000s	2023/24 Revised £000s	2024/25 Estimate £000s	2025/26 Estimate £000s	2026/27 Estimate £000s
Upper limits on Principal sums invested for over 365 days	0	3,000	3,000	3,000	3,000

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.

Current Portfolio position	2022/23 Actual £000s	2023/24 Revised £000s	2024/25 Estimate £000s	2025/26 Estimate £000s	2026/27 Estimate £000s
External Debt at 1 April	654,084	643,572	628,444	638,861	638,262
Expected change in Debt	(10,512)	(15,128)	10,417	(599)	(5,616)
Actual gross debt at 31 March	**643,572**	**628,444**	**638,861**	**638,262**	**632,646**
Capital Financing Requirement	707,452	702,545	703,443	698,136	692,617
Under / (over) borrowing	**63,880**	**74,101**	**64,582**	**59,874**	**59,971**

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:

Current Portfolio position – Non-Financial Investments	2022/23 Actual £000s	2023/24 Revised £000s	2024/25 Estimate £000s	2025/26 Estimate £000s	2026/27 Estimate £000s
Overall Debt at 31 March	643,572	628,444	638,861	638,262	632,646
Outstanding Non-Financial Instrument Debt	445,481	441,718	437,803	433,732	429,498
Percentage of total external debt	**69%**	**70%**	**69%**	**68%**	**68%**

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 2023/24 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.

The Operational Boundary	2022/23 Actual £000s	2023/24 Revised £000s	2024/25 Estimate £000s	2025/26 Estimate £000s	2026/27 Estimate £000s
General Fund	-	528,444	527,861	527,262	526,646
Housing Revenue Account	-	100,000	100,000	100,000	90,000
Internal Borrowing	-	74,101	64,582	59,874	59,971
IFRS16: Existing leases	-	-	1,000	1,000	1,000
IFRS16: Provision for new leases	-	-	5,000	5,000	5,000
Total Operational Boundary	**695,710**	**702,545**	**698,443**	**693,136**	**682,617**

Two new sections have been added to both the Operational Boundary and Authorised Limit indicators from 2024/25 to account for the introduction of International Financial reporting Standard 16: Leases (IFRS16). As set out in the main report, this brings all leases onto the Balance Sheet from 1 April. These figures are shown in the CFR elsewhere in this report but have been extracted in these figures for transparency.

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:

The Authorised Limit	2022/23 Actual £000s	2023/24 Revised £000s	2024/25 Estimate £000s	2025/26 Estimate £000s	2026/27 Estimate £000s
General Fund	-	528,444	527,861	527,262	526,646
Housing Revenue Account	-	110,000	110,000	110,000	99,000
Internal Borrowing	-	74,101	64,582	59,874	59,971
IFRS16: Existing Leases	-	-	1,000	1,000	1,000
IFRS16: Provision for new Leases	-	-	5,000	5,000	5,000
Other (Temporary borrowing etc)	-	5,000	15,000	15,000	15,000
Total Authorised Limit	**720,710**	**717,545**	**723,443**	**718,136**	**706,617**

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).

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:

Interest Rate exposure	2022/23 Actual £000s	2023/24 Revised £000s	2024/25 Estimate £000s	2025/26 Estimate £000s	2026/27 Estimate £000s
Upper limits on **fixed** interest rates based on net debt	658,191	666,436	681,415	683,726	692,735
Upper limits 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.

6.5. Maturity structure of borrowing (Upper Limit)

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.

Maturity structure borrowing 2024/25	FIXED RATE Lower Limit	FIXED RATE Upper Limit	FIXED RATE Lower Limit	FIXED RATE Upper Limit
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%

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

The concept of proportionality was introduced 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.

Proportionality	2022/23 Actual £000s	2023/24 Revised £000s	2024/25 Estimate £000s	2025/26 Estimate £000s	2026/27 Estimate £000s
Total Non-Financial Investments Income	28,066	25,972	26,034	27,354	27,545
Total Revenue	69,576	68,656	70,484	71,021	68,935
Non-financial investments as a percentage of total income	**40%**	**38%**	**37%**	**39%**	**40%**

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 Asset Management Strategy.

Economic Background

(as provided by Link Asset Services)

The first half of 2023/24 saw:

- Interest rates rise by a further 100 basis points, taking Bank Rate from 4.25% to 5.25% and, possibly, the peak in the tightening cycle.
- Short, medium and long-dated gilts remain elevated as inflation continually surprised to the upside.
- Consumer Price Index ("CPI") inflation falling from 8.7% in April to 6.7% in September, its lowest rate since February 2022, but still the highest in the G7.
- Core CPI inflation declining to 6.1% in September from 7.1% in April and May, a then 31 years high.
- A cooling in labour market conditions, but no evidence yet that it has led to an easing in wage growth (as the 3myy growth of average earnings rose by 7.8% for the period June to August, excluding bonuses).

The registering of 0% GDP for Q3 suggests that underlying growth has lost momentum since earlier in the year. Some of the weakness in July was due to there being almost twice as many working days lost to strikes in July (281,000) than in June (160,000). But with output falling in 10 out of the 17 sectors, there is an air of underlying weakness.

The fall in the composite Purchasing Managers Index from 48.6 in August to 46.7 in September left it at its lowest level since COVID-19 lockdowns reduced activity in January 2021. At face value, it is consistent with the 0% q/q rise in real GDP in the period July to September, being followed by a contraction in the next couple of quarters.

The 0.4% m/m rebound in retail sales volumes in August is not as good as it looks as it partly reflected a pickup in sales after the unusually wet weather in July. Sales volumes in August were 0.2% below their level in May, suggesting much of the resilience in retail activity in the first half of the year has faded.

As the growing drag from higher interest rates intensifies over the next six months, we think the economy will continue to lose momentum and soon fall into a mild recession. Strong labour demand, fast wage growth and government handouts have all supported household incomes over the past year. And with CPI inflation past its peak and expected to decline further, the economy has got through the cost-of- living crisis without recession. But even though the worst of the falls in real household disposable incomes are behind us, the phasing out of financial support packages provided by the government during the energy crisis means real incomes are unlikely to grow strongly. Higher interest rates will soon bite harder too. We expect the Bank of England to keep interest rates at the probable peak of 5.25% until the second half of 2024. Mortgage rates are likely to stay above 5.0% for around a year.

The tightness of the labour market continued to ease, with employment in the three months to July falling by 207,000. The further decline in the number of job vacancies from 1.017m in July to 0.989m in August suggests that the labour market has loosened a bit further since July. That is the first time it has fallen below 1m since July 2021. At 3.0% in July, and likely to have fallen to 2.9% in August, the job vacancy rate is getting closer to 2.5%, which would be consistent with slower wage growth. Meanwhile, the 48,000 decline in the supply of workers in the three months to July offset some of the loosening in the tightness of the labour market. That was due to a 63,000 increase in inactivity in the three months to July as more people left the labour market due to long term sickness or to enter education. The supply of labour is still 0.3% below its pre-pandemic February 2020 level.

But the cooling in labour market conditions still has not fed through to an easing in wage growth. The headline 3myy rate rose 7.8% for the period June to August, which meant UK wage growth remains much faster than in the US and in the Euro-zone. Moreover, while the Bank of England's closely watched measure of regular annual average total pay growth for the private sector was 7.1% in June to August 2023, for the public sector this was 12.5% and is the highest total pay annual growth rate since comparable records began in 2001. However, this is affected by the NHS and civil service one-off non-consolidated payments made in June, July and August 2023. The Bank of England's prediction was for private sector wage growth to fall to 6.9% in September.

CPI inflation declined from 6.8% in July to 6.7% in August and September, the lowest rate since February 2022. The biggest positive surprise was the drop in core CPI inflation, which declined from 6.9% to 6.1%. That reverses all the rise since March.

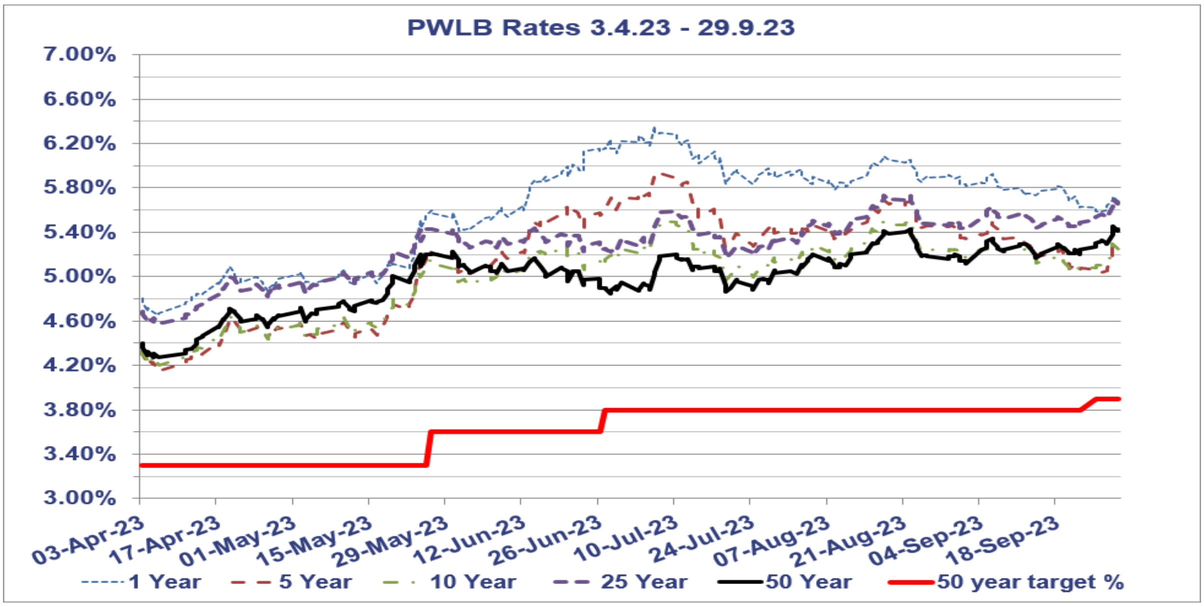
In its latest monetary policy meeting on 06 November, the Bank of England left interest rates unchanged at 5.25%. The vote to keep rates on hold was a split vote, 6-3. It is clear that some members of the MPC are still concerned about the stickiness of inflation.

Like the US Federal Reserve, the Bank of England wants the markets to believe in the higher for longer narrative. In terms of messaging, the Bank once again said that “further tightening in monetary policy would be required if there were evidence of more persistent inflationary pressures”, citing the rise in global bond yields and the upside risks to inflation from “energy prices given events in the Middle East”. So, like the Fed, the Bank is keeping the door open to the possibility of further rate hikes. However, it also repeated the phrase that policy will be “sufficiently restrictive for sufficiently long” and that the “MPC’s projections indicate that monetary policy is likely to need to be restrictive for an extended period of time”. Indeed, Governor Bailey was at pains in his press conference to drum home to markets that the Bank means business in squeezing inflation out of the economy.

This narrative makes sense as the Bank of England does not want the markets to decide that a peak in rates will be soon followed by rate cuts, which would loosen financial conditions and undermine its attempts to quash inflation. The language also gives the Bank of England the flexibility to respond to new developments. A rebound in services inflation, another surge in wage growth and/or a further leap in oil prices could conceivably force it to raise rates in the future.

the table below, the rise in gilt yields across the curve as a whole in 2023/24, and therein PWLB rates, is clear to see.

PWLB RATES 01.04.23 - 29.09.23



HIGH/LOW/AVERAGE PWLB RATES FOR 01.04.23 – 29.09.23

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	4.65%	4.14%	4.20%	4.58%	4.27%
Date	06/04/2023	06/04/2023	06/04/2023	06/04/2023	05/04/2023
High	6.36%	5.93%	5.51%	5.73%	5.45%
Date	06/07/2023	07/07/2023	22/08/2023	17/08/2023	28/09/2023
Average	5.62%	5.16%	5.01%	5.29%	5.00%
Spread	1.71%	1.79%	1.31%	1.15%	1.18%

The peak in medium to longer dated rates has generally arisen in August and September and has been primarily driven by continuing high UK inflation, concerns that gilt issuance may be too much for the market to absorb comfortably, and unfavourable movements in US Treasuries.

The S&P 500 and FTSE 100 have struggled to make much ground through 2023.

CENTRAL BANK CONCERNS

Currently, the US Federal Reserve has pushed up US rates to a range of 5.25% to 5.5%, whilst the MPC followed by raising Bank Rate to 5.25%. Eurozone rates have also increased to 4% with further tightening a possibility.

Ultimately, however, from a UK perspective 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 2023/24 on 09 February 2023.

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 sub-investment 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	30, 37	AAA	£1.0m	3 years

b) A financial institution that is guaranteed by the United Kingdom Government		N/A	£1.0m	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

<u>(Negative) Rating Watch – Fitch Ratings</u>
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.

Report title	**Work Program – Houses in Multiple Occupation (HMOs)**
Report author	Andrew Finch
Department	Democratic Services
Exempt?	No

Purpose of report:

- **For information**

Synopsis of report:

At its meeting on 5 October 2023 the Overview & Scrutiny Committee decided upon its work plan for 2023/24.

One of the topics of focus of the workplan was Houses in Multiple Occupation (HMOs), in particular the regulatory regime and the policies which the Council currently operate.

The committee expressed an interest to hear from Royal Holloway, University of London at a future meeting, and following a willingness to engage with the committee in writing by Royal Hollway, a number of questions proposed by committee were sent to representatives of the university on 20 December 2023 (appendix A). Their response is attached (appendix B).

The committee will have the opportunity to consider the response from Royal Holloway, as well as debate the information provided by officers at the previous committee in order to help shape any recommendations.

Appendix A

Overview & Scrutiny Committee

Questions for Royal Holloway

Student Numbers:

i. Details of expansion in student numbers year on year from current 12,000 to 15,000 total by 2030.
ii. The anticipated numbers of students that will be living on campus/studying remotely/housed in the local community in each of those years.

Car Parking:

i. Parking strategy for the additional car parking spaces that will be required by students living in the local area and how those spaces will be provided.
ii. Parking Strategy for car parking spaces required by students commuting daily/frequently/occasionally to the campus and how those spaces will be provided.
iii. Parking Strategy for car parking spaces required by staff working at the campus and how those spaces will be provided.

Accommodation:

i. Update on Rusham Park development for purpose-built student accommodation for 1,400 study bedrooms (see below)
ii. Update of Student Accommodation Policy and Residential Provision Document (https://docs.runnymede.gov.uk/PublicAccess_Live/Document/ViewDocument?id=3D7059D11A9A11EBB8EB16CB3B4C08ED)
iii. What consideration has been given by RHUL to the possible impact of an Article 4 Direction being made by RBC to limit numbers or concentration of HMOs in the areas surrounding RHUL campus?

Community Engagement:

i. What additional provision will be made to support engagement with the local community and mitigate any adverse impacts resulting from the growth in student numbers?

Updates on the following:

RHUL 2030 Plan

Work recently started on a new RHUL 2030 Plan which will include updates on projected student numbers and accommodation strategy. This will enter a consultation phase in January with RBC and the local Community.

The Rusham Park Scheme

The Rusham Park Scheme, designed to accommodate 1400 students, is entering a 'reflective phase' with work paused for an indeterminate time. Delays to this scheme may impact the number of students that are required to be housed in the community.

Support to HMO Landlords

RHUL plans to offer support to HMO Landlords to protect them from negative impacts of the Rent Reform Bill which may prompt an exodus from the students HMO accommodation sector. The support would take the form of RHUL taking on a Head Lease and sub-letting properties back to landlords, which would offer them some level of commercial surety and thereby stabilising the supply of HMOs in the area.

Appendix B

Royal Holloway, University of London, in response to Runnymede Borough Council - Overview & Scrutiny Committee

Royal Holloway, University of London, is in the early stages of developing its new strategy, RH2030s which will help the University to decide its ambitions for the next decade and shape it for future generations. Consultation around the development of the strategy will commence in 2024. There will be engagement opportunities for the local community.

The University will continue to update the local community on the strategy development through the Royal Holloway and Runnymede Group Forum meetings.

Student numbers: Royal Holloway currently has 11,844 FTE students across its Egham (Surrey) and Bedford Square (London) sites. All further and supporting information on any student growth targets will be provided in the new strategy once complete in 2024. Currently 39% of the University's students commute to campus (mostly by public transport) and it is likely that this number will increase over the course of the next strategy.

Car parking: Royal Holloway manages its parking areas (in and around its campus in Egham) through the application of parking permits for eligible staff and students and advanced visitor booking. Students who reside in halls on site are prevented from bringing a car onto campus.

The preparation and mobilisation of a Green Travel Plan (GTP) is a key element of emergent sustainable operational project planning, a process currently underway, with an objective delivery date of the end of 2025. This document will set modal split targets for reduced vehicle movements and particularly single car usage, with the support of Runnymede Borough Council (RBC) and Surrey County Council (SCC).

Whilst control of parking in the local area is the remit of the council, the University is committed to working with RBC and SCC to reduce the impact of car movements accessing and egressing car parks in neighbouring residential areas. Over the last decade the University has been working with RBC and SCC on parking in the local area, contributing approximately £50,000 to RBC through a planning condition for the council to deliver Controlled Parking Zones in Egham and Englefield Green.

The University already has a Car Park Management Plan (CPMP) prepared in support of the Rusham Park development that has been circulated to RBC and SCC as statutory agencies. The CPMP will need to be aligned with the GTP and will be reviewed whenever the University undertakes any major development planning application.

Accommodation: The development of a student village at Rusham Park in Egham has been paused until further notice to enable Royal Holloway to review the original plans and objectives for the site.

We are working with our construction partners, Balfour Beatty UK, to ensure that the essential works required to maintain, manage and secure the site are in place.

We are currently able to service all needs for university accommodation from new students on our Egham campus and continue to review all our options for the development of new student accommodation and the upgrade of our existing student accommodation in future.

At the November 2023 meeting of the Royal Holloway and Runnymede Group Forum, it was referenced that the University is exploring a potential head lease scheme to give landlords and students more security and stability for accommodation. This is very much in the early stages of consideration and no plans have been made.

The University will be interested to hear more detail from RBC about its the plans for an Article 4 Direction when these are available.

There is no update to the Student Accommodation Policy and Residential Provision Document. The University will continue to update the community on plans to develop its historic estate through the Royal Holloway and Runnymede Group Forum meetings, the Community Matters newsletter and on the local community pages of its website.

Community engagement: The University's relationship with its wider community is important and as a university of social purpose this will be a key consideration in the development of the new strategy, RH2030s.

The University will continue to update the local community on the strategy development through the Royal Holloway and Runnymede Group Forum meetings.

Report title	**Work Programme – Grounds Maintenance**
Report author	Andrew Finch
Department	Democratic Services
Exempt?	No

Purpose of report:

- **For information**

Synopsis of report:

At its meeting on 5 October 2023 the Overview & Scrutiny Committee decided upon its work plan for 2023/24.

One of the topics of focus of the workplan was the operation of the new inhouse grounds maintenance service for the period October 2022 – summer 2023 and any lessons learned.

The committee received a briefing from the corporate head of environmental services at the previous meeting, and this will be the opportunity to debate what they heard and form some conclusions.

Report title	**Work Programme item – Building Maintenance**
Report author	Andrew Finch
Department	Democratic Services
Exempt?	No

Purpose of report:

- **For information**

Synopsis of report:

At its meeting on 5 October 2023 the Overview & Scrutiny Committee decided upon its work plan for 2023/24.

At the following meeting on 13 December 2023 building maintenance was requested due to concerns about major works being required to a relatively young building and queries about allocated budgets for ongoing maintenance, as well as what money had been spent on.

Officers are in the process of pulling the information together to bring a report to the next meeting of this committee on 28 March 2024. Committee are invited to set out any further requirements they require for the report.