

# Treasury Management Strategy

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## Introduction

The Treasury Management Strategy covers the management of the Council’s cash flows and treasury risk management activity. It covers all cash received whether for the General Fund, Housing Revenue Account or the Trusts for which the Council is Trustee.

## Treasury Management Policy

The Council adopts the key recommendations of the Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management in the Public Services: Code of Practice (the TM Code), which identifies three key principles which Local Authorities should apply:

### Key Principle 1

Public service organisations should put in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management and control of their treasury management activities.

### Key Principle 2

Effective management and control of risk are prime objectives of treasury management activities and that responsibility for this lies clearly within the Council. The Council’s appetite for risk is reflected in the annual strategy. When investing treasury management funds, priority is given to security then liquidity and last to yield.

### Key Principle 3

Treasury management policies and practices reflect the pursuit of value for money in treasury management, and the use of suitable performance measures will be used as valid

and important tools in support of business and service objectives and effective risk management.

CIPFA recommends that all public service organisations adopt the following four clauses:

1. The Council will create and maintain, as the cornerstones for effective Treasury Management:
  - A Treasury Management Policy Statement, stating the policies, objectives and approach to risk management of its treasury management activities.
  - Suitable Treasury Management Practices (TMPs), setting out the manner in which the Council will seek to achieve those policies and objectives and prescribing how it will manage and control those activities.
  - Investment Management Practices (IMPs) for investments which are not for treasury management purposes, i.e., internal borrowing.

The content of the policy, statement and TMPs will follow the recommendations contained in sections 6,7 and 8 of the TM Code, subject only to amendment where necessary to reflect the particular circumstances of this Council. Such amendments will not result in the organisation materially deviating from the TM Code's key principles.

The TMPs are contained in Appendix 1.

The IMPs cover the investment objectives, investment criteria, risk management arrangements, decision-making and reporting arrangements, performance measurement and management, and arrangements for training and qualifications. For the Council the Asset Investment Strategy fulfils the requirements of the IMPs.

2. The Council will receive reports on its treasury management policy and practices and the Executive will receive reports on treasury activities and performance, including, as a minimum, the annual framework in advance of the year, in year monitoring and annual report.
3. The Council delegates responsibility for the regular monitoring of its Treasury Management Policy and practices to the Executive, and for the execution and administration of day-to-day treasury management decisions to the Executive Head of Finance (Section 151 Officer) who will act in accordance with the Council's Policy statement, TMPs and IMPs and CIPFA's Standard of Professional Practice on Treasury Management.
4. Effective scrutiny of the treasury management framework.

## **Treasury Management Policy Statement**

The Council defines its Treasury Management Policy objectives as:

1. The management of the Council's borrowing, Treasury Management investment and cash flows, including its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.

2. The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation.
3. The Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

### **High level policies for Treasury Management:**

#### **Borrowing:**

The Council's borrowing will be affordable, sustainable and prudent and consideration will be given to the management of interest rate risk and refinancing risk. The source from which the borrowing is taken and the type of borrowing should ensure the Council is transparent and has flexibility and control over its debt.

#### **Investment (Cash deposits):**

The Council's primary objective in relation to its cash deposits remains the security of capital. The liquidity or accessibility of the Council's treasury investments followed by the yield earned on investments remain important but are secondary considerations.

#### **Socially Responsible Investment:**

The power to invest must be exercised for investment purposes, and not for any wider purpose. Investment decisions must, therefore, be directed towards what is best for the financial position of the Council. If that is achieved the precise choice of investment may be influenced by wider environmental, social and governance (ESG) considerations, so long as this does not risk significant financial detriment.

The Council will only consider other investments (including those around ESG considerations) if the return is broadly equivalent in terms of Security, Liquidity and Yield. Investment guidance, both statutory and from CIPFA, makes clear that all investing must adopt security, liquidity and yield principles and ethical issues must play a subordinate role to those priorities.

#### **Treasury Management Practices (TMPs):**

The Council's TMPs are included in Appendix 1.

## Treasury Management Strategy-2023-2024

The Council will ensure that all of its capital expenditure, investments and borrowing decisions are prudent and sustainable. In doing so it will take into account its arrangements for the repayment of debt (including through MRP and/or loans fund repayments) and consideration of risk and the impact, and potential impact, on the Council's overall fiscal sustainability.

The Council has an integrated treasury management strategy within which its borrowing and investments are managed.

The Strategy covers the following elements:

1. Capital expenditure plans
2. External Debt and Investments
3. Treasury Management
4. Risk
5. Value for Money

### 1. Capital Expenditure Plans

#### Capital expenditure plans and the associated prudential indicators

- 1.1 The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview, confirm capital expenditure and provide information to support decision making on borrowing, affordability, prudence and sustainability.

#### Prudential indicators for capital expenditure

#### Indicator 1 - Estimate of total capital expenditure to be incurred

- 1.2 The estimates of capital expenditure the Council plans to incur during the forthcoming financial years are:

	2021-22 Actual £'000	2022-23 Estimate £'000	2023-24 Estimate £'000	2024-25 Estimate £'000	2025-26 Estimate £'000
<b>General Fund</b>	1,352	7,424	8,898	3,000	3,000
<b>Housing Revenue Account</b>	9,420	16,354	24,855	20,172	20,765
<b>Total</b>	<b>10,772</b>	<b>23,778</b>	<b>33,753</b>	<b>23,172</b>	<b>23,765</b>

- 1.3 The table below summaries the above capital expenditure plans and how these will be financed by capital or revenue resources. Any shortfall in resources results in a funding or borrowing need.

	<b>2021-22 Actual £'000</b>	<b>2022-23 Estimate £'000</b>	<b>2023-24 Estimate £'000</b>	<b>2024-25 Estimate £'000</b>	<b>2025-26 Estimate £'000</b>
<b>Capital Receipts</b>	1,938	3,442	6,274	3,000	3,000
<b>Capital Grants</b>	1,441	1,838	1,575	2,000	2,000
<b>Major Repairs Reserves</b>	4,589	7,354	10,610	10,172	10,765
<b>Affordable Homes Reserve</b>	2,702	40	0	0	0
<b>Revenue (GF)</b>	102	2,264	2,323	1,000	1,000
<b>Internal Borrowing</b>	0	8,840	3,000	0	0
<b>External Borrowing</b>	0	0	9,971	7,000	7,000
<b>Total</b>	<b>10,772</b>	<b>23,778</b>	<b>33,753</b>	<b>23,172</b>	<b>23,765</b>

#### **Indicator 2 - Capital Financing Requirement (CFR)**

- 1.4 The CFR is the amount of capital spending that has not yet been financed by capital receipts, capital grants or contributions from revenue income. It is a measure of the Council's theoretical indebtedness and so its underlying need to borrow.
- 1.5 The Minimum Revenue Provision (MRP) is a statutory revenue charge that reduces the indebtedness.
- 1.6 The borrowing may not necessarily take place externally if the Council judges it prudent to make use of cash that it has invested to adopt an efficient and effective treasury management strategy. This is known as 'internal borrowing' and means there is no immediate link between the need to borrow to pay for capital spending and the level of external borrowing.
- 1.7 The Housing Revenue Account self-financing debt is deemed to be capital expenditure under the regulations and forms part of the calculation of the CFR, although it doesn't require MRP.

	<b>2021-22 Actual £m</b>	<b>2022-23 Estimate £m</b>	<b>2023-24 Estimate £m</b>	<b>2024-25 Estimate £m</b>	<b>2025-26 Estimate £m</b>
<b>General Fund</b>	13	15	18	18	17
<b>Housing Revenue Account</b>	171	170	171	169	166

## 2. External Debt and Investments

### External Debt

#### Borrowing Strategy

- 2.1 The Council's Borrowing Strategy covers the relevant treasury/prudential indicators and the current and projected debt positions by looking at:
- The long-term projection of debt
  - Provision for the repayment of debt having regard to MRP guidance
  - Authorised limit and operational boundary for the following year (see indicator 4 and 5 below).
- 2.2 When local authorities borrow they must by law have regard to the Prudential Framework as set out by CIPFA, and by the Department for Levelling Up, Housing and Communities (DLUHC).
- 2.3 External borrowing is not associated with particular expenditure or purposes other than required by statute or where it relates to a specific funding source.
- 2.4 The Council, under legislation, can borrow and invest for the following purposes:
- Any function of the authority under any enactment
  - For the prudent management of its financial affairs
  - Financing capital expenditure primarily related to the delivery of a local authority's functions (subject to the considerations set out in the Prudential Code)
  - 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
- 2.5 The Prudential Code determines that certain acts or practices are not prudent activity for a Local Authority and incur risk to the affordability of Local Authority investment:
- An authority must not borrow to invest primarily for financial yield
  - It is not prudent for Local Authorities to make any investment or spending decision that will increase the CFR, and so may lead to new borrowing, unless directly and primarily related to the functions of the authority and where any financial returns are incidental to the financial viability of the project in question or the primary purpose.
- 2.6 The following issues will be considered prior to undertaking any external borrowing:
- Affordability
  - Maturity profile of existing debt
  - Borrowing source
- 2.7 Borrowing source may include inter authority borrowing.

- 2.8 In addition, temporary borrowing for the purposes of financing day-to-day expenditure commitments is allowed for short periods if economic on the day.

### **Borrowing Costs**

- 2.9 The Council will normally recognise borrowing costs as an expense in the year they are incurred. The Council may adopt a policy of capitalising borrowing costs where the asset takes a substantial period of time to get ready for its intended use, if it is identified for sale or where it is evaluated to be viable.

### **PWLB Borrowing:**

- 2.10 The Government's rules for access to PWLB lending require statutory Chief Finance Officers to certify that their Local Authority's capital spending plans for the next three years do not include the acquisition of assets primarily for yield, reflecting a 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 debt leverage to return-seeking investment activity.
- 2.11 Since:
- Access to the PWLB is important to ensure Local Authorities' liquidity in the long term, and
  - Leveraged investment always increases downside risks,
- 2.12 Treasury management includes the refinancing or extending of existing debt from any source, the externalisation of internal borrowing or borrowing to manage cashflow within year, the Council may finance this through PWLB borrowing or other capital resources.
- 2.13 The government recognises the benefits of having ready access to the PWLB for refinancing. The PWLB will therefore lend for this purpose even if the Council is planning activity that makes them otherwise ineligible for PWLB support. Should the Council intend to borrow for refinancing or the externalisation of internal borrowing whilst planning activity that makes it otherwise ineligible for PWLB support it will make this clear on the application to borrow from the PWLB.
- 2.14 The Council will not pursue a deliberate strategy of using private borrowing or internal borrowing to support investment in an asset that the PWLB would not support and then refinancing or externalising with PWLB loans.
- 2.15 Under the Prudential Framework the Council cannot borrow or invest for speculative purposes. Financial investments (i.e. money market deposits) should be made for security, liquidity, and yield in that order. Therefore, the Council will only borrow in advance of capital expenditure for prudent financial management and not for the purpose of securing yield. The Prudential Code considers legitimate examples of prudent borrowing to include:
- financing capital expenditure primarily related to the delivery of a local authority's functions
  - temporary management of cash flow within a balanced budget

- securing affordability by removing exposure to future interest rate rises
- refinancing current borrowing, including adjusting levels of internal borrowing, manage risk, reduce costs or reflect changes in cash flow circumstances
- other treasury management activity that seeks to prudently manage treasury risks without borrowing primarily for financial return

2.16 The Council has an existing commercial property portfolio that it is not required by the Prudential Code to sell. However, should the Council have an expected need to borrow, the Prudential Code requires the Council to review options for exiting commercial property investments where these can be reasonably realised, based on a financial performance appraisal which takes account of financial implications and risk reduction benefits. Options would include using the sale proceeds to repay debt or reduce new borrowing requirements.

2.17 The PWLB rules allow the Council to maximise its investment in commercial land and property including the repair, renewal and updating of its existing commercial properties on the basis this activity does not limit access to the PWLB.

2.18 Should the Council wish to access PWLB borrowing it will comply with the lending terms as assessed by the Section 151 Officer.

### **Borrowing indicators**

#### **Indicator 3 - External Debt**

2.19 The prudential indicator for the authorised level of external debt is the focus of corporate decision making and managerial control as it is the immediate means by which the Council complies with the legislative requirement to keep under review the amount it can afford to borrow.

2.20 The actual external debt is taken from the Council's Balance Sheet.

	<b>2021-22 Actual £m</b>	<b>2022-23 Estimate £m</b>	<b>2023-24 Estimate £m</b>	<b>2024-25 Estimate £m</b>	<b>2025-26 Estimate £m</b>
<b>External Debt at 1 April</b>					
<b>General Fund</b>	0	0	0	0	0
<b>Housing Revenue Account</b>	166	166	158	160	157
<b>Expected change in Debt</b>	0	-8	2	-3	-3
<b>Actual Gross Debt at 31 March</b>	166	158	160	157	154
<b>CFR – GF</b>	13	15	18	18	17
<b>CFR - HRA</b>	171	170	171	169	166
<b>-Under/over external borrowing</b>	-18	-27	-29	-30	-29



2.21 In order to ensure that over the medium-term debt will only be for a capital purpose, external debt should not, except in the short term, exceed the total of the capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years.

#### **Indicator 4 - Authorised limit for external debt**

2.22 The Authorised Limit sets the maximum level of external borrowing, excluding Treasury Management investments, and represents a limit beyond which the Council cannot borrow until the indicator is reviewed or amended. It establishes the upper boundary of borrowing based on a realistic assessment of the risks and reflects a level of borrowing which, while not desirable, could be affordable but may not be sustainable. It provides headroom over the operational boundary sufficient, for example, for unusual cash movements.

2.23 It must also encompass borrowing for temporary purposes. While cash flows are currently managed using treasury management fixed term fixed rate deposits it is possible that short-term borrowing may be necessary but is not currently expected.

2.24 This Prudential Indicator separately identifies borrowing from other long-term liabilities.

	<b>2021-22 Actual £m</b>	<b>2022-23 Estimate £m</b>	<b>2023-24 Estimate £m</b>	<b>2024-25 Estimate £m</b>	<b>2025-26 Estimate £m</b>
<b>General Fund</b>	110	110	110	110	110
<b>Housing Revenue Account</b>	188	188	188	188	188
<b>Total</b>	298	298	298	298	298

#### **Indicator 5 - Operational Boundary**

2.25 This is the Council's estimate of most likely maximum level of external debt and is the limit beyond which external debt is not normally expected to be exceeded. It is a means by which external debt is managed to ensure it remains within the self-imposed limit.

2.26 It is lower than the authorised limit in order to allow for cash flow variations that may lead to the occasional breach of the operational boundary. A breach is highly unlikely but any breach would be reported to Council and corrective action taken.

	<b>2021-22 Actual £m</b>	<b>2022-23 Estimate £m</b>	<b>2023-24 Estimate £m</b>	<b>2024-25 Estimate £m</b>	<b>2025-26 Estimate £m</b>
<b>General Fund</b>	100	100	100	100	100
<b>Housing Revenue Account</b>	188	188	188	188	188
<b>Total</b>	288	288	288	288	288

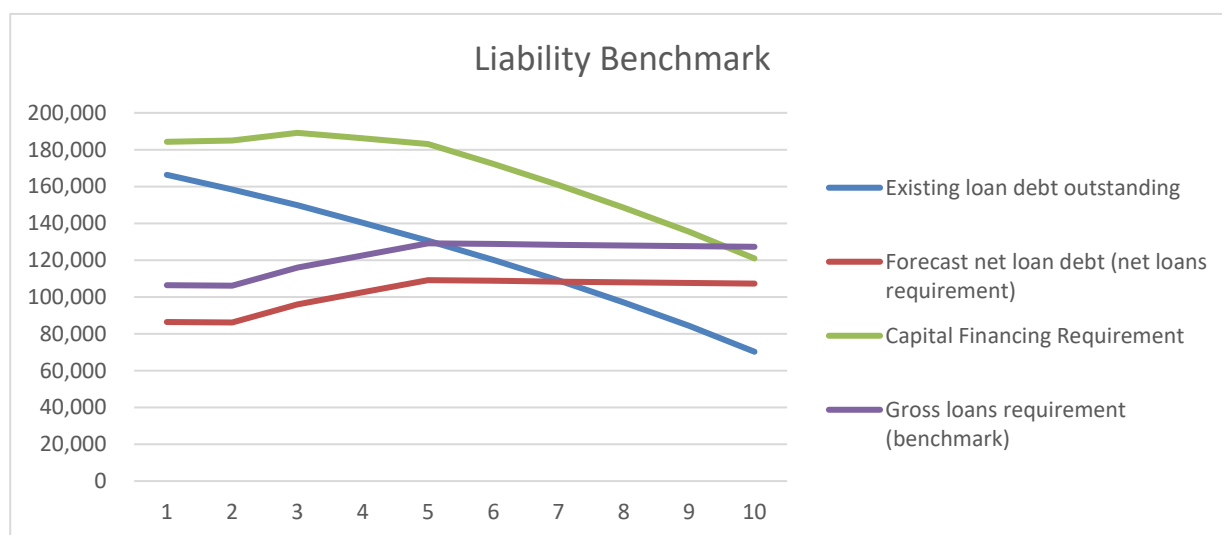
## Indicator 6 – Liability Benchmark

2.27 The liability benchmark is a measure of how well the existing loans portfolio matches the Councils planned borrowing needs. It tells the Council how much it needs to borrow, when, and the maturity of investments needed to match the planned borrowing needs.

2.28 It is a forecast made up of four balances:

- Existing loan debt outstanding
- CFR – projected in to the future
- Net loans requirement – a forecast of the Council’s net loan debt (net of investments for treasury management purposes)
- Gross loans requirement (Liability benchmark) – a forecast of the Council’s gross loan debt

2.29 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. Mismatched positions will be managed through the Treasury Management Strategy.



## Indicator 7 - Financing Costs

2.30 Financing costs are made up of interest paid, interest and investment income and amounts required for the statutory provision of debt (including repayments of principal, interest and MRP).

	2021-22 Actual £m (net -income)/ expense	2022-23 Estimate £m (net -income)/ expense	2023-24 Estimate £m (net income)/ expense	2024-25 Estimate £m (net income)/ expense	2025-26 Estimate £m (net income)/ expense
<b>General Fund</b>	-0.2	-1.1	-1.2	-0.9	-0.7
<b>Housing Revenue Account</b>	9.6	12.8	13.1	14.0	14.2

## Indicator 8 – Net Financing Costs to Net Revenue Stream

- 2.31 Financing costs are the net of any interest on borrowing, interest earned on investments and any amounts made as revenue provision to repay debt. The net revenue stream is the amount to be met from local council taxpayers or, in the case of the HRA, the net amount to be met from rent income.

	2021-22 Actual	2022-23 Estimate	2023-24 Estimate	2024-25 Estimate	2025-26 Estimate
<b>General Fund</b>	-2%	-7%	-9%	-6%	-5%
<b>Housing Revenue Account</b>	32%	41%	41%	42%	41%

## Indicator 9 - Maturity Structure of Borrowing

- 2.32 The Council will set for the forthcoming financial year both upper and lower limits for the maturity structure of its borrowing, calculated as follows:
- Amount of projected borrowing that is maturing in each period
  - Expressed as a percentage of:
  - Total projected borrowing

	Upper Limit	Lower Limit
<b>Up to five years</b>	31%	31%
<b>Five years and within 10 years</b>	44%	44%
<b>10 years and within 20 years</b>	23%	23%
<b>20 years and above</b>	2%	2%

## Borrowing in Advance of Need

- 2.33 The Council must not make any investment or spending decisions that will increase the CFR (leading to new borrowing) unless directly and primarily related to the functions of the Council and where any financial returns are either related to the financial viability of the project in question or otherwise incidental to the primary purpose.
- 2.34 The Council will not borrow more than or in advance of its needs purely to profit from the investment of the extra sums borrowed. Any decision to borrow in advance of expenditure will be within forward approved Capital Financing Requirement estimates based upon capital expenditure plans categorised in line with the Codes definitions of Investments for Treasury Management Purposes or Investments for Service Purposes and certified by the Chief Finance Officer as “not for yield”.
- 2.35 The Code allows borrowing in advance of need (for cash) where it is prudent i.e. in order to reduce financing and interest rate risks. Risks associated with any borrowing in advance of need activity (i.e. prior to expenditure being incurred) will be subject to prior appraisal and subsequent reporting through the year and will be considered

carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds

### **Internal Borrowing**

- 2.36 Internal borrowing, the use of cash rather than external borrowing, may be considered if treasury management fixed term, fixed rate deposit returns are low and counterparty risk is uncertain. The Council may judge it prudent to make use of cash to adopt an efficient and effective treasury management strategy. This practice is common in local authorities and means there is no immediate link between the need to borrow to pay for capital spending and the level of external borrowing.
- 2.37 Borrowing rates will be monitored to assess whether it is prudent to use cash instead of external borrowing.

### **Borrowing position:**

- 2.38 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 treasury management investment returns are low and counterparty risk is still uncertain.
- 2.39 Overall, borrowing will be managed within the Authorised Limit for External Debt (See Prudential Indicator 4).
- 2.40 The Executive Head of Finance (S151 Officer) will monitor interest rates and the borrowing position.
- 2.41 The HRA self-financing implementation required the HRA to pay the Government £189m in March 2012. The Council borrowed £184m in March 2012 for this purpose with £5m being met by an internal loan. The Council adopted a flexible approach to this borrowing in consultation with treasury management advisers. The outstanding debt as at the 31 March 2023 will be £155m, see 2.24.

### **Minimum Revenue Provision (MRP) Policy Statement**

- 2.42 One of the underpinning principles of the Local Authority financial system is that all capital expenditure has to be funded either from capital receipts, capital grants (or other contributions) or eventually from revenue income.
- 2.43 The scheme of MRP is a statutory mechanism which requires Local Authorities to set aside some of their revenues as provision for unfinanced capital spend (the CFR) each year of an amount considered to be 'prudent' having regard to the recommendations in the DLUHC guidance. Prudent provision should ensure there is a balance between matching MRP to a period over which the capital expenditure provides benefits.
- 2.44 DLUHC regulations require Council to approve an MRP Statement in advance of each financial year. Various methods are available so long as there is a prudent provision.

## **The Council's MRP**

- Must not be nil or a negative charge except where the Capital Financing Requirement (CFR) is nil or goes into the negative or to offset a previous overpayment of MRP.
- Where the CFR is nil or negative on the last day of the financial year, indicating the provision of debt is equal to or greater than the debt incurred, no MRP will be made in the following financial year.
- The implications of MRP must be assessed at the point of making a decision to incur capital expenditure.
- The Council must reassess the MRP charge each year.

## **Options for Prudent Provision of MRP**

The methods available to calculate a prudent provision are:

1. Make a provision over the estimated life of the asset for which the borrowing is undertaken, either:
  - Equal instalment method – equal annual amounts over the estimated life of the asset.
  - Annuity method – link MRP to the flow of benefits from an asset where the benefits are expected to increase in later years.

or

2. Match MRP to the depreciation charges that will be generated by the assets that have been acquired
  - MRP continues until the provision made is equal to the original amount of the debt and may then cease.
  - On disposal of the asset the charge will continue until capital receipts or other funding sources can be applied to repay all or part of the outstanding debt.
  - If only part of the expenditure on the asset is financed by debt, the depreciation provision is proportionately reduced.

2.45 The MHCLG guidance allows for limited flexibility in the calculation of MRP. The Council will assess the appropriate option to adopt in advance of the commencement of MRP. However, if the Council departs significantly from the guidance, or if it is a large, complex, novel scheme, legal and external audit will be consulted with the proposed approach as appropriate.

## **Commencement of MRP**

- MRP will normally commence in the financial year following the one in which the unfunded capital expenditure is incurred. In the case of a new asset MRP would begin in the financial year following the one in which the asset becomes operational.
- MRP will not be provided for Assets under Construction. MRP on debt will commence, proportionally, as each stage of the project transfers to Assets in Use.
- When borrowing to provide an asset, the Council may treat the asset life as commencing in the year in which the asset first becomes operational.

Therefore, MRP may be postponed until the financial year following the one in which the asset becomes operational.

### **Estimated Useful life of assets for calculating MRP**

- 2.46 The useful life will not normally exceed a maximum of 50 years. The Council may only exceed this maximum in two scenarios:
- Where it has an opinion from an appropriately qualified professional advisor that the asset will deliver service functionality for more than 50 years. The life suggested by the professional advisor may then be used.
  - For a lease, where the length of the lease exceeds 50 years, the length of the lease may be used.

<b>Unfunded capital expenditure on:</b>	<b>Estimated useful life for MRP</b>
<b>Investment Properties and Buildings</b>	50 years
<b>Land and Heritage assets</b>	50 years
<b>Vehicles and Equipment</b>	7-15 years
<b>IT Equipment</b>	3-10 years
<b>Car Parks</b>	25 years

### **Leases**

- 2.47 For finance leases, or where a right-of-use asset is on the balance sheet, the MRP requirement is met by a charge equal to the element of the rent/charge that goes to write down the balance sheet liability.

### **Housing Assets**

- 2.48 The duty to make MRP does not extend to cover borrowing or credit arrangements used to finance capital expenditure of the HRA. This is because depreciation is a proper charge to the HRA. Capital expenditure on housing outside the HRA is likely to be subject to an MRP charge.

### **Investment Properties**

- 2.49 The duty to make MRP extends to investment properties where their acquisition has been partially or fully financed by an increase in borrowing or credit arrangements.

### **Treasury Management Investments:**

- 2.50 These are covered in the Treasury Management section below:
- arise from the Council's cash flows or treasury risk management activity, and ultimately represent balances which need to be invested until the cash is required for use in the course of business.

- may include an allowance for a reasonable level of short-term treasury investments to provide access to liquidity.
- may also include the investment of borrowing proceeds where it has been prudent to borrow in advance of the need for cash.
- Will be on commercial terms and will rarely constitute capital expenditure for the Council.

### 3. Treasury Management

#### Overall policy

- 3.1 The objective of managing daily cash balances to meet cash flow commitments remains the priority.
- 3.2 The Treasury Management function ensures cash is available to meet service activity and the Council's Capital Strategy. This involves organisation of cash flow and, where capital plans require, the organisation of appropriate borrowing facilities.

#### Annual Investment Strategy – Treasury Management Investments

- 3.3 The DLUHC and CIPFA have extended the meaning of 'investments' to include both financial and non-financial investments. This section deals solely with financial fixed term fixed rate investments (as managed by the Treasury function of the Council).
- 3.4 The Council's policy is to give security a higher priority than rate of return/yield. The Council's strategy and day-to-day practice, therefore, continue to be refined, within the boundaries set out below.
- 3.5 The Council has regard to:
- DLUHC's Guidance on Local Government Investments
  - CIPFA Treasury Management in Public Services Code of Practice
- 3.6 The Council's primary objective in relation to the investment of public funds remains the security of capital. The liquidity or accessibility of investments and the yields earned on investments are important but secondary considerations.
- 3.7 The statutory guidance requires the Council to determine a number of limits and guidelines for its treasury activity including 'specified' and 'non-specified' investments.
- **Specified investments** - are those held in sterling with a maturity of no more than a year and must be with the UK Government, UK local authorities or "high" credit rated institutions.
  - **Non-specified investments** - are any investments that do not meet the above criteria. Given the market conditions the limit of 'non-specified investments' held at any point in time will be £50million as below. Non-specified investments will be non-specified only by virtue of being for one year or more.

- 3.8 To meet the requirements of the Regulations it is proposed that the following policy and limits apply to all of the Council's investment activity in 2023-2024:
- Cash deposits only with UK Local Authorities and the UK Government, Housing Associations and institutions assessed as having a 'high credit quality'.
  - 'High credit quality' means having AAA rating for sterling money market funds or a minimum rating of A- for any banks and building societies, and being considered to have high credit credentials after taking account of the factors listed below.
  - The Council will not make any non-specified cash investments other than when the investment is non-specified by virtue of it being for a period of more than one year. Such an investment will only be with an 'approved counterparty' and will be subject to an assessment of risk.
  - £15 million is the maximum deposit in any single specified organisation at any one time.
  - £20 million is the total deposit with any group - £15m the maximum with any single member of that group.
  - Up to date information gathered by officers, together with specialist advice if appropriate, will be used to ensure compliance with the strategy.
  - The maximum total investment at any one time that can prudently be committed for more than one year is £50 million.
  - The Executive Head of Finance (S151 Officer) can seek the Executive approval to change the above limits during the year if necessary, provided that it is in the best interests of the Council.
- 3.9 Every investment will have a ratings check on the date the investment is agreed and a list of potential counterparties will be prepared and approved by the S151 Officer before 1 April each year and updated throughout the year. Investments have ongoing ratings checks, beyond just the day of investment, and ratings are continually monitored internally and changes reported.
- 3.10 In practice, day-to-day controls are actually tighter, but still within the bounds of the approved policy, in order to create as much security as possible for the Council's fixed term fixed rate investment portfolio. These measures include:
- The major objective of managing daily cash balances to meet cash flow commitments remains the priority although it is recognised that, to some extent, some stability has been evident so longer term investment decisions are now possible subject to consideration of capital spending plans.
  - In addition to the thresholds above, the maximum amount invested in any single specified organisation will generally be restricted to no more than 20%



of the overall total external investments at that time.

- Investments are also monitored on a sector basis and judgments made as to the appropriate level within each sector taking into account appropriate treasury management information.
- Close monitoring of credit ratings at the point of transaction including consideration of the 'future outlook' assessment.
- Increased frequency of updating the list of preferred organisations for investment with reduced working maximum limits for lower rated counterparties.

3.11 In order to diversify a treasury management investment portfolio investments will be placed with a range of approved investment counterparties in order to achieve a diversified portfolio of prudent counterparties, investment periods and rates of return. Maximum investment levels with each counterparty within the limits set out in this Strategy will be set to ensure prudent diversification is achieved. Introductions to new counterparties (within the allowed criteria) will be sought where appropriate and where the Council finds it difficult to find investment counterparties providing acceptable levels of counterparty risk.

3.12 In order to continually review the Council's counterparty list and to make a judgement about whether a counterparty has a 'high credit quality', officers will gather and consider information such as:

- Credit rating 'future outlook' assessments
- Published credit ratings for financial institutions

### **Banking**

3.13 The Council banks with HSBC. At the current time, HSBC meets the minimum credit criteria of 'A' long term. The Council continues to monitor the credit rating of HSBC and would report to Members if any major concerns emerged. If the credit rating falls below the Council's minimum criteria HSBC would have to be used in the short term for business continuity and liquidity requirements.

3.14 However, in practice, it would be impossible to restrict the Council's own bank, HSBC, to the same monetary limits as other investment counterparties because there are many instances when cash in excess of £15m is moving through the Council's HSBC bank accounts. Given also that it is likely that there will often be occasions when the Council has more cash than the total of its approved counterparty limits, it is therefore necessary to specifically exclude HSBC's banking activities from the £15m limit. It should be noted that existing HSBC bank accounts are all instant access.

### **Indicator 10 – Long Term Treasury Management Investments**

3.15 Were the Council to invest, or plan to invest, for periods longer than a year, it has set the following limits for each forward financial year for the maturing of such investments. This allows the Council to contain its exposure to the possibility of loss that might arise as a result of having to borrow short term at higher interest rates or

see early repayment or redemption of principal sums invested. This indicator also demonstrates that the Council is not borrowing more money than it needs, or in advance of need, purely to profit through investment from the extra borrowing.

	2022-23 Estimate £m	2023-24 Estimate £m	2024-25 Estimate £m	2025-26 Estimate £m
<b>The upper limit of principal sums invested for periods of more than 365 days</b>	50	50	50	50

## 4. Risk

4.1 This is covered in TMP1.

### Interest rate exposures

4.2 The Council's strategy for managing interest rate risks is to invest in fixed rate investments for budgetary certainty and the avoidance of yield risk.

### Credit risk

4.3 Credit risk is assessed by looking at the Council's overall credit score, ie the weighted average credit rating of the Council's treasury management investments.

4.4 This is managed through the policy and limits as described in the Cornerstones of Treasury Management as defined in the CIPFA Treasury Management in the Public Services: Code of Practice and clause 1 on page 2 of this document

### Price risk

4.5 The Council's investments materially exposed to movements in fair value are those contained in the commercial property portfolio which is revalued each year end.

## 5. Value for money

5.1 The Council is committed to the pursuit of value for money in its Treasury Management function and to use performance methodology in support of that aim. This will be achieved through the formal reporting process set out in the Treasury Management Practices as well as the use of comparative performance indicators (including Prudential Indicators) for its returns and costs.

5.2 Consideration will also be given to ESG criteria when making investment decisions. As stated under 'Socially Responsible Investment' investment decisions must be directed towards what is best for the financial position of the Council. If that is achieved the precise choice of investment may be influenced by wider ESG considerations and where the nature of counterparty ESG values can be determined.

## TMP1 Risk Management

### General Statement

The Council regards a key objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, it will ensure that robust due diligence procedures cover all treasury management fixed term fixed rate investments.

The Executive Head of Finance, (Section 151 Officer) is responsible for the design, implementation and monitoring of all arrangements for the identification, management and control of treasury management risk, and will report at least annually on the adequacy/suitability thereof, and report as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the Council's objectives in this respect, all in accordance with the procedures set out in *TMP6 Reporting requirements and management information arrangements*.

In respect of each of the following risks, detailed arrangements, which seek to ensure compliance with these objectives, are set out in 'Additional Information' schedules.

#### 1. Credit and Counterparty Risk Management

The key risk in The Council's treasury management activities is the security of the principal sums it invests. Accordingly, it will ensure that its counterparty lists and limits reflect a prudent attitude towards organisations with which funds may be deposited or investments made, and will limit its investment activities to the instruments, methods and techniques referred to in *TMP4 Approved instruments methods and techniques*.

It also recognises the need to have, and will therefore maintain, a formal counterparty policy in respect of those organisations with whom it may transact. This will set out the Council's policy and practices relating to environmental, social and governance (ESG) investment considerations.

#### 2. Liquidity Risk Management

The Council will ensure it has adequate cash resources, borrowing arrangements, overdraft or standby facilities to enable it at all times to have the level of funds available to it which are necessary for the achievement of its business/service objectives.

The Council will not borrow earlier than required to meet cashflow needs unless there is a clear business case for doing so and will only do so for the current capital programme, to fund future debt maturities, or to ensure an adequate level of short-term investments to provide liquidity for the organisation.

#### 3. Interest Rate Risk Management

The Council will manage its exposure to fluctuations in interest rates with a view to containing its net interest costs or revenues in accordance with its treasury

management policy and strategy and in accordance with TMP6 *Reporting requirements and management information arrangements*.

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

#### **4. Exchange Rate Risk Management**

The Council's current approved policy allows cash investments solely in GBP sterling because other currency deals expose the Council to an additional level of risk.

#### **5. Inflation Risk Management**

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

#### **6. Refinancing Risk Management**

The Council will ensure that its borrowing and other long-term liabilities are negotiated, structured and documented, and the maturity profile of the debt is managed with a view to obtaining offer terms for renewal or refinancing, if required, which are competitive and as favourable to the Council as can reasonably be achieved in the light of market conditions prevailing at the time.

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

#### **7. Legal and Regulatory Risk Management**

The Council will ensure that all of its treasury management activities comply with its statutory powers and regulatory requirements. It will demonstrate such compliance, if required to do so, to all parties with whom it deals in such activities. In framing its TMP1[1] *credit and counterparty risk management*, it will ensure that there is evidence of counterparties' powers, authority and compliance in respect of the transactions they may effect with The Council, particularly with regard to duty of care and fees charged.

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

#### **8. Operational Risk, including fraud, error and corruption**

The Council will ensure that it has identified the circumstances, which may expose it to the risk of loss through inadequate or failed processes, people and systems or from

external events. Accordingly, it will employ suitable systems and procedures, and will maintain effective contingency management arrangements, to these ends.

## **9. Price Risk Management**

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

### **TMP2 Performance Measurement**

The Council is committed to the pursuit of value for money in its treasury management activities, and to the use of performance methodology in support of that aim, within the framework set out in its treasury management policy statement.

Accordingly, the treasury management function will be the subject of ongoing analysis of the value it adds in support of the Council's stated business or service objectives. It will be the subject of regular examination of alternative methods of service delivery, of the availability of fiscal or other grant or subsidy incentives, and of the scope for other potential improvements. The performance of the treasury management function will be measured using the criteria set out in the schedule to this document. The criteria will include measures of effective treasury risk management and not only measures of financial performance (income or savings). The performance of the treasury management function is included in the budget monitoring process and annual report to Executive.

### **TMP3 Decision-making and Analysis**

The Council will maintain full records of its treasury management decisions, and of the processes and practices applied in reaching those decisions, both for the purposes of learning from the past, and for accountability, eg demonstrating that reasonable steps were taken to ensure that all issues relevant to those decisions were taken into account at the time.

### **TMP4 Approved Instruments, Methods and Techniques**

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

### **TMP5 Organisation, Clarity and Segregation of Responsibilities, and Dealing**

#### **Arrangements**

The Council considers it essential, for the purposes of the effective control and monitoring of its treasury management activities, for the reduction of the risk of fraud or error, and for the pursuit of optimum performance, that these activities are structured and managed in a fully integrated manner, and that there is at all times clarity of treasury management responsibilities.

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

If the Council has to depart from these principles, the reasons will be reported in accordance with *TMP6 Reporting requirements and management information arrangements* and the implications properly considered and evaluated.

The Executive Head of Finance (S151 Officer) is responsible for ensuring there are clear written statements of the responsibilities for each post engaged in treasury management and the arrangements for absence cover. The responsible officer will also ensure that at all times those engaged in treasury management will follow the policies and procedures set out.

### **TMP6 Reporting Requirements and Management Information Arrangements**

The Executive will receive:

- An annual report on the strategy to be pursued in the coming year
- Monitoring reports during the year on treasury management activities and risks as appropriate within the quarterly Corporate Performance Report to the Resources Overview and Scrutiny committee
- An annual report on the performance of the treasury management function, on the effects of the decisions taken and the transactions executed in the past year, and on any circumstances of non-compliance with the organisation's treasury management policy statement and TMPs.

### **TMP7 Budgeting, Accounting and Audit Arrangements**

Treasury Management budgeting, accounting and audit arrangements will be included in the annual corporate budget process. The matters to be included in the budget will at a minimum be those required by statute or regulation, together with such information as will demonstrate compliance with *TMP1 Risk management*, *TMP2 Performance measurement* and *TMP4 Approved Instruments, methods and techniques*. The Executive Head of Finance (S151 Officer) will exercise effective controls over this budget and will report upon and recommend any changes required in accordance with *TMP6 Reporting requirements and management information arrangements*.

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

### **TMP8 Cash and Cash Flow Management**

Unless statutory or regulatory requirements demand otherwise, all monies in the hands of the Council will be under the control of the Executive Head of Finance (S151 Officer) and will be aggregated for cash flow and investment management purposes. Cash flow projections will be prepared on a regular and timely basis and the Executive Head of Finance (S151 Officer) will ensure that these are adequate for the purposes of monitoring compliance

with TMP1[1] *liquidity risk management*, and for the purpose of identifying future borrowing needs (using a liability benchmark where appropriate).

### **TMP9 Money Laundering**

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

### **TMP10 Training and Qualifications**

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

The Executive Head of Finance (S151 Officer) is responsible for ensuring that Members tasked with treasury management responsibilities, including those responsible for scrutiny, have access to training relevant to their needs and those responsibilities.

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

### **TMP11 Use of External Service Providers**

The Council recognises that responsibility for treasury management decisions remains with the Council at all times. The Council recognises that there may be potential value in employing external providers of treasury management services, in order to acquire access to specialist skills and resources. When it employs such service providers, it will ensure it does so for reasons, which have been submitted to a full evaluation of the costs and benefits. Where services are subject to formal tender or re-tender arrangements, legislative requirements will always be observed. The monitoring of such arrangements rests with the Executive Head of Finance (S151 Officer).

### **TMP12 Corporate Governance**

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

The Council has adopted and has implemented the key principles of the Treasury Management Code. This action, together with the other arrangements detailed in this document, is considered vital to the achievement of proper corporate governance in treasury

management, and the Executive Head of Finance (S151 Officer) will monitor and, if and when necessary, report upon the effectiveness of these arrangements.

## **Glossary**

- CIPFA:** Chartered Institute of Public Finance and Accountancy
- CFR:** Capital Financing Requirement
- DLUHC:** Department for Levelling Up, Housing and Communities (formally Ministry of Housing, Communities and Local Government MHCLG)
- ESG:** Environment, Social and Governance
- HRA:** Housing Revenue Account
- IMP:** Investment Management Practices
- MRP:** Minimum Revenue Provision
- PWLB:** Public Works Loans Board
- TMP:** Treasury Management Practices