AUDIT & GOVERNANCE COMMITTEE

DATE	2 February 2023
REPORT OF	Sharon Wroot, Executive Director, Place & Resources
SUBJECT	Treasury Management Policy and Strategy Statement 2023-24
STATUS	Open

CONTRIBUTION TO OUR AIMS

Effective treasury management will provide support towards the achievement of Council Plan aims and objectives. Treasury management is an integral part of the Council's finances providing for cash flow management and financing of capital schemes. It therefore underpins all the Council's aims.

EXECUTIVE SUMMARY

The Report presents the restated Treasury Policy Statement and the Treasury Management Strategy Statement (TMSS). The Strategy document is informed by guidance and advice provided by the Council's treasury advisors, Link Treasury Services Ltd.

The Council's high level policies for borrowing and investments are:

- 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 allow the Council transparency and control over its debt.

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

The key forecast prudential and treasury indicators detailing the impact of capital expenditure activities during the year, with comparators, are as follows:

Prudential and Treasury Indicators	**31.3.23 Forecast £'m**	**2023/24 Forecast £'m**	**2024/25 Forecast £'m**	**2025/26 Forecast £'m**
Capital Expenditure	**67.3**	**84.4**	**27.7**	**tbc**
Capital Financing Requirement	**209.0**	**245.3**	**263.5**	**278.1**
Authorised Borrowing Limit	**290.0**	**300.0**	**305.0**	**315.0**
Operational Boundary	**250.0**	**250.0**	**260.0**	**270.0**
External Borrowing	**159.6**	**186.1**	**194.5**	**209.0**
Investments >365 days	**0.0**	**21.0**	**21.0**	**21.0**

RECOMMENDATIONS

That Audit & Governance Committee:

1. Consider the content of the report and makes any recommendations to Cabinet as necessary

- the Treasury Management Policy Statement – Appendix 1
- the Treasury Management Strategy Statement and Prudential Indicators for 2023/24 - Appendix 2
- the MRP Policy Statement – Annex 2 of Appendix 2

REASONS FOR DECISION

The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice for Treasury Management in Public Services (the CIPFA TM Code) and the Prudential Code require local authorities to approve their Treasury Management Strategy Statement and Prudential Indicators on an annual basis. This Authority requires the Strategy to be approved by full Council.

Full Council holds responsibility for the implementation and regular monitoring of the organisation's treasury management policies and practices, and delegates the execution and administration of treasury management decisions to The Director of Finance, who will act in accordance with the organisation's policy statement and TMPs and, if he/she is a CIPFA member, CIPFA's Standard of Professional Practice on Treasury Management.

The Council's treasury management activity is guided by CIPFA's Code of Practice on Treasury Management ("the Code"), The Code recommends that members are informed of treasury management activities at least twice a year with interim updates on performance against Prudential Indicators reported quarterly. We therefore report in full after Quarter 2 and year end with Prudential Indicators being reported additionally after Quarters 1 and 3 in the Commissioning and Resource Report.

1. BACKGROUND AND ISSUES

1.1. CIPFA has defined treasury management as:

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

1.2. The Treasury Management Strategy Statement (TMSS) for 2023/24 was developed in consultation with our treasury management advisors, Link Treasury Services Ltd. This statement also incorporates the Investment Strategy.

1.3 Whilst the Council has appointed advisors to support effective treasury management arrangements, the Council is ultimately responsible for its treasury decisions and activity. No treasury activity is without risk. The successful identification, monitoring and control of risk is therefore an important and integral element of treasury management activities.

1.4 The Council has nominated the Audit & Governance Committee as responsible for ensuring effective scrutiny of the treasury management arrangements.

1.5 Key points to note with specific regard to the Treasury Strategy:

- The revised Code of Practice 2021 is fully incorporated into the Treasury Management Strategy (TMSS) for 2023/24 including the formal adoption of the Liability Benchmark as a new Prudential Indicator.

- While there are no wholesale changes to the TMSS for the coming year, performance will be impacted by the new interest rate environment we are now experiencing. Current forecasts predict that short term rates will peak by summer 2023 however the more relevant rates for NELC are longer term gilt rates upon which our borrowing costs are based and there is potential for these to peak earlier as the market looks through the current cycle.

- There are significant borrowing requirements generated by the forecast Capital Programme on top of £25m of existing loan maturities. As all new borrowing will come at higher cost going forward, the efficient structuring of this requirement is met will be a key activity of Treasury in 2023 and beyond.

- In total the Authority will need £79m of new borrowing assuming the Capital Programme is delivered as forecast over the next three years.

- The Treasury Management Strategy covers the Council's treasury aims and principles. The Council also considers direct 'commercial' investments from time-to-time with the aim of generating financial return. Although reference is made to these types of investments in the TMSS' these transactions are guided and limited by the Capital Strategy document.

2. RISKS AND OPPORTUNITIES

2.1 No Treasury activity is without risk. Specific risks include, but are not limited to, Counterparty Credit Risk (the risk of an investment not being repaid), liquidity risk (the risk that the Authority does not have its funds in the right place, at the right time and in the right amount to make it's payments as they fall due), interest rate risk (the risk that future rate movements have a revenue implication for the Authority) and reputational risk (see Section 4 below).

2.2 The attached Appendices define our approach toward mitigating these risks.

2.3 Treasury is an Authority-wide function and its environmental sustainability and equalities implications are the same as for the Council itself.

2.4 The Authority will have regard to the environmental and equality activities of its Counterparties (where reported) but

- Prioritises Security, Liquidity and Yield,
- Recognises that as large, global institutions our high-quality counterparties operate across the full range of marketplaces in which they are legally able to, and such exposures are small parts of their overall business.
- Excluding any one counterparty will likely mean others will similarly have to be avoided and thus impact the Authority's capacity to mitigate risk through diversification.

2.5 **General Data Protection Regulation 2018** – Relationships with external providers covered by the Treasury management Practices are governed by and operated in accordance with the Act.

3. OTHER OPTIONS CONSIDERED

3.1 These are set out on Page 29 of the Treasury Management Strategy Statement.

4. REPUTATION AND COMMUNICATIONS CONSIDERATIONS

4.1 As you would expect, with large sums of public money involved, any treasury activity carries a high degree of reputational risk. Any losses have not just financial but also significant, ongoing resource implications for the Council.

5. FINANCIAL CONSIDERATIONS

5.1 As set out in the Appendices

6. CHILDREN AND YOUNG PEOPLE IMPLICATIONS

6.1. As an Authority-wide corporate function, the immediate impacts of day-to-day Treasury operations on children and young people are the same as for the Council as a whole. However, certain Treasury decisions, most notably those relating to Long-Term Borrowing transactions, will place a greater burden on young residents, over time, relevant to other demographics.

7. CLIMATE CHANGE AND ENVIRONMENTAL IMPLICATIONS

7.1 In line with the Authority's declaration of a Climate Emergency, the S151 Officer will aim to assess and monitor, not just Environmental but all, ESG factors when selecting investment options. Full assessment is however restricted by the fact that, at the time of writing, there is no consistent rating framework with which to measure and benchmark specific counterparty ESG metrics. Until this market data gap is fully resolved, our approach to managing the risks associated with the Environmental activities of our Counterparties is as follows:-

- As the Ratings Agencies headline ratings on our Counterparties now incorporate ESG risk assessments alongside more traditional financial risk metrics and so provide both an holistic risk measure and a proxy for ESG 'scoring' in the absence of anything more robust

- The Council will continue to Prioritise Security, Liquidity and Yield, in that order

- The Council recognises that as large, global institutions our high-quality counterparties operate across the full range of marketplaces in which they are legally able to, and as a result climate change considerations are an increasingly important and heavily-scrutinised part of their overall business.

- Excluding any one counterparty will likely mean others will similarly have to be avoided and thus impact the Authority's capacity to mitigate risk through diversification.

- The Council notes that bonds issued by Supranational institutions offer strong ESG credentials, combined with the explicit underwriting support of all major developed countries. This results in excellent ratings (typically AA+ - AAA) being applied. As such, the Council actively seeks exposure to these assets (commensurate with its investment horizon) and in doing so, contributes to market liquidity and therefore capital raising abilities of these bodies who then deploy that capital in ESG positive schemes.

8. CONSULTATION WITH SCRUTINY

8.1 This Report was taken to Audit and Governance Committee on 3 February 2023 and duly recommended to Cabinet.

9. FINANCIAL IMPLICATIONS

9.1 As set out in the appendix.

10. LEGAL IMPLICATIONS

10.1 There are no direct legal implications arising from the recommendations in this report which are not covered in the body of the report. The Council has complied with its statutory obligations arising from the Local Government Act, the Local Government Finance Act and all relevant CIPFA guidance.

11. HUMAN RESOURCES IMPLICATIONS

11.1 There are no immediate HR implications arising from the recommendations contained in this report.

12. WARD IMPLICATIONS

12.1 All wards indirectly affected

13. BACKGROUND PAPERS

13.1 CIPFA Treasury Management Code and Guidance Notes

14. CONTACT OFFICER(S)

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SHARON WROOT,
EXECUTIVE DIRECTOR PLACE AND RESOURCES

APPENDIX 1

The Treasury Management Policy Statement

1. The Council defines its treasury management activities as:

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

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 Council, and any financial instruments entered into to manage these risks.

3. This 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.

4. The Council's high level policies for borrowing, borrowing in advance and investments.

   - 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 allow the Council transparency and control over its debt.

   - This organisation will only borrow in advance of need where there is a clear business case for doing so and will only do so for the current capital programme or to finance future debt maturities.

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

Appendix 2

Treasury Management Strategy Statement 2023/24

Contents

Abbreviations Used In This Report

- **CFR:** capital financing requirement - the council's annual underlying borrowing need to finance capital expenditure and a measure of the council's total outstanding indebtedness.
- **CIPFA:** Chartered Institute of Public Finance and Accountancy – the professional accounting body that oversees and sets standards in local authority finance and treasury management.
- **Gilts:** gilts are bonds issued by the UK Government to borrow money on the financial markets. The yields on Gilts are (usually) fixed and so will change inversely to the price of gilts i.e. a rise in the price of a gilt will mean that its yield will fall.
- **LOBO:** a loan carrying provision for the lender to periodically amend the interest rate applicable. If the lender chooses to exercise this option the borrow then receives the secondary option to choose to repay the loan without penalty.
- **DLUHC:** the Department for Levelling Up, Housing and Communities - the Government department that directs local authorities in England (previously The Ministry for Housing, Communities and Local Government).
- **MRP:** minimum revenue provision - a statutory annual minimum revenue charge to reduce the total outstanding CFR, (the total indebtedness of a local authority).
- **PWLB:** Public Works Loan Board – the section within H.M. Treasury which provides loans to local authorities to finance capital expenditure.
- **S151 Officer:** an Officer appointed under section 151 of the Local Government Act to carry out the duties of 'Responsible Financial Officer' as defined by CIPFA
- **SONIA:** Sterling Overnight Index Average, the 'risk-free' rate for market transactions.
- **TMSS:** the annual treasury management strategy statement reports that all local authorities are required to submit for approval by the full council before the start of each financial year.

Key Messages:

We continue to mitigate counterparty risk as far as possible, primarily through the use of short-term investments with highly rated counterparties.

We note the Bank of England's view that UK Banks remain well capitalised heading into, what is expected to be, a more volatile economic environment.

Recent rises in interest rates have made our future borrowing more costly. We continue to monitor and reassess our capital spending programmes against the backdrop and will make adjustments as necessary so as to not create unsustainable future revenue pressures.

Section 151 Officer Overview

During 2022/23 our Treasury Management Strategy once again proved robust and, unamended, allowed the Authority sufficient flexibility to successfully manage the combined challenges of widespread inflation and rising rates. The Bank of England's Financial Stability Report (Dec 2022) showed that while the economy is slowing and household/business finances are being stretched by rising costs, major bank balance sheets remain resilient. Even so, monitoring of Counterparty Risk remains a prime focus for the Authority as the weaker economic forecast plays out and lenders' balance sheets are inevitably impacted.

Treasury Risk Appetite

It is my firm view that the priority for Treasury Management at North East Lincolnshire Council is to protect capital rather than to maximise return. This Authority therefore has a low risk appetite. The avoidance of all risk is however neither appropriate or possible yet we will continue to strive for a low risk balance set against a keen responsibility for public money.

NELC is committed to Security, Liquidity, Yield (SLY) principles in all its Investment Activity (Treasury and non-treasury). Preservation of Capital will be our foremost focus, with Liquidity an important secondary consideration. Any yield achieved will be refective of this strategy to prioritise those other factors and the Authority accepts the trade-off accordingly. (See more detail on P16 of this Appendix).

We have a significant forward borrowing requirement necessary to cover both the Capital Programme and maturing debt. Going into 2023/24, this requirement will have to be fulfilled against a rate environment significantly elevated from that to which we have become accustomed to over the last decade or so. The situation is further complicated by financial market lenders choosing not to entertain requests for forward-starting loans from us while our Auditor's Value For Money qualification remains in our Statement of Accounts. Meeting this need, while closely monitoring the continuing appropriateness of our Capital Programme, will therefore be a key focus for all involved during 2023/24.

Sharon Wroot, Section 151 Officer

January 2022

Key Messages:

Approval of an Annual Treasury Management Strategy is a Statutory requirement of the Authority.

The Treasury Team manages the surplus cash and the borrowing activity of the Authority.

Where surplus cash is present the team will invest this with low-risk counterparties for appropriate terms to ensure that the Authority has funds in the right place, in the right size, at the right time, to ensure its payments can be met as they fall due.

Borrowing is taken to fund the Authorities agreed capital expenditure. Care is taken to manage the cost of carry (the difference between what borrowing costs us and what it earns) prior to being spent while, at the same time considering interest rate trends.

Introduction

The Council is required to operate a balanced budget, which broadly means that cash raised during the year will match cash expenditure. Part of treasury management's role is to ensure that this cash flow is adequately planned, with cash being available in the right amount, in the right place at the right time for when it is needed. All surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing strong liquidity initially before considering the need for adequate investment return.

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

The contribution the treasury management function makes to the authority is critical, as the balance of debt and investment operations ensure liquidity, the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operation manages 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.

Whilst any commercial initiatives or loans to third parties will impact on the treasury function, where existing, these activities are classed as non-treasury investments, (arising usually from service related or capital expenditure), and are separate from the day to day treasury management activities. The CIPFA revised 2021 Prudential and Treasury Management Codes require all local authorities to prepare an additional report, 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 risks are managed
- the implications for future financial sustainability

The aim of the capital strategy is to ensure that all elected members fully understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite. The capital strategy is reported within the 2023/24 Finance and Commissioning Plan.

Key Messages:

CIPFA defines treasury management as:

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

In addition to the Annual Treasury Strategy (agreed prior to the start of the financial year), quarterly updates including 2 full in-year reports are provided to Council to report performance against the Strategy.

Scrutiny of the Authority's treasury activities is delegated to the Audit & Governance Committee.

Introduction (contd)

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

This authority has not engaged in any commercial investments primarily for yield and has no material non-treasury investments.

Treasury Management reporting

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

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

b. **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, if applicable. In addition, this Council will receive quarterly update reports.

c. **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.

d. **Additional Updates on performance against Prudential Indicators (specifically)** as at the end of Q1 and Q3 are provided in the Budget Report update to Cabinet.

Scrutiny

The reports are required to be adequately scrutinised before being recommended to the Council. This role is undertaken by the Audit & Governance Committee (with the exception of d) above).

This report (and the subsequent updates above) fulfils the Authority's legal obligation under the Local Government Act 2003 to have regard to both the CIPFA Code and DHULC Guidance.

Key Messages:

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

- **The Treasury Strategy and Treasury Indicators report**
- **A mid-year Treasury report**
- **An annual Treasury Outturn report**

This Strategy attempts to provide the Authority with a low risk, yet suitably flexible, approach to Treasury in a period that may be affected by as yet unknown regulatory and political changes.

Should circumstances change significantly, to a point where the Council's Treasury objectives are impacted a revised Strategy will be presented for approval in-year.

Introduction (contd.)

The Authority has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risks are therefore central to the Authority's treasury management strategy.

Treasury Management Strategy for 2023/24
The strategy for 2023/24 covers two main areas:

Treasury management issues

- the current treasury position;
- treasury indicators which limit the treasury risk and activities of the Council;
- prospects for interest rates;
- the borrowing strategy;
- policy on borrowing in advance of need;
- debt rescheduling;
- the investment strategy;
- creditworthiness policy; and
- the policy on use of external service providers.

Capital issues

- the capital plans and the prudential indicators;
- the minimum revenue provision (MRP) policy.

These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, DLUHC MRP Guidance, the CIPFA Treasury Management Code and DLUHC Investment Guidance.

Revised strategy: In accordance with the DLUHC Guidance, the Authority will be asked to approve a revised Treasury Management Strategy Statement should the assumptions on which this report is based change significantly. Such circumstances would include, for example, a stressed economic environment, or a large increase in the Authority's capital programme or in the level of its investment balance. It should be noted that no such revisions were required during the 2020-2021 Covid-19 period.

Key Messages:

Our advisors, Link Asset Services now predict an increase in Bank Rate to 4.5% by the middle of 2023, as this is projected to be the peak in short-term rates, the rates payable on longer-term borrowing could 'invert' and so potentially offer a small discount to Bank Rates over the next 2 years – though still at much higher levels than were predicted 12 months ago.

There is still the significant potential for short-term volatility in gilt rates (upon which our borrowing tends to be priced).

With the help of our Advisors and market tools now available to us we will remain well informed as the cycle evolves.

External Context

Prospects for interest rates

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. The following table gives their central view at the time of writing (Dec 2022).

	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Mar-25	Dec-25
Bank Rate	4.25%	4.50%	4.50%	4.50%	4.00%	3.00%	2.50%
5 yr PWLB	4.20%	4.20%	4.10%	4.00%	3.90%	3.40%	3.10%
10 yr PWLB	4.40%	4.40%	4.30%	4.10%	4.00%	3.50%	3.30%
25 yr PWLB	4.60%	4.60%	4.50%	4.40%	4.20%	3.70%	3.50%
50Yr PWLB	4.30%	4.30%	4.20%	4.10%	3.90%	3.50%	3.20%

Developed economies, with the important exception of China, have been open for some months now, post-pandemic, but the degree to which inflation has taken root in those economies has demanded central banks tighten monetary policy dramatically compared to the ultra-low interest rate regimes of the past decade. For the UK, fiscal policy tightening is now also underway following the Autumn Statement announcements of 17th November.

After the volatility of early Autumn created by the ill-fated 'mini-budget', movements in financial markets reverted to more familiar triggers such as inflation data, growth projections and geopolitical events through the latter part of 2022. The pace of interest rate increases was kept necessarily swift by the MPC as they played 'catch up' to reign-in rampant inflation, the likes of which had not been seen for four decades. Such has been the progression in rates that, as we head into 2023, we may be nearing terminal rate around the start of the financial year. Whilst this should be caveated with observations around energy prices, slowing housing market and other concerns (see slide 9) it does create the potential for yield curve inversion sometime in 2023, as can be seen in the table above.

Key Messages:

With inflation now the main area of concern for the Bank of England, we expect rates to climb further in early 2023 and remain elevated compared to previous levels, although many factors could influence the pace and scale of those rises inflation.

Investment returns are likely to remain above recent levels during 2023/24 before easing in to 2024 and beyond. The other side to improved rates for investments is higher borrowing costs. As the Authority is a net borrower the impact of higher rates is therefore negative overall.

External Context (contd).

Significant risks to the forecasts

Downside

- Labour and supply shortages prove more enduring and disruptive and depress economic activity (accepting that in the near-term this is also an upside risk to inflation and, thus, rising gilt yields). 2023 recessions are currently the consensus prediction for the major economies.
- The Bank of England acts too quickly, or too far, over the next year in raising Bank Rate causing UK economic growth, to be even weaker than we currently anticipate.
- UK / EU trade arrangements – if there was a major impact on trade flows and financial services due to complications or lack of co-operation in sorting out significant remaining issues.
- Geopolitical risks, for example in Ukraine/Russia, China/Taiwan/US, Iran, North Korea and Middle Eastern countries, which could lead to increasing safe-haven flows.

Upside

- The Bank of England is too slow in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to build up too strongly and for a longer period within the UK economy, which then necessitates Bank Rate staying higher for longer than we currently project or even necessitates a further series of increases in Bank Rate.
- The Government acts too quickly to cut taxes and/or increases expenditure in light of the cost-of-living squeeze.
- The pound weakens because of a lack of confidence in the UK Government's fiscal policies, resulting in investors pricing in a risk premium for holding UK sovereign debt.
- Longer term US treasury yields rise strongly and pull gilt yields up higher than currently forecast.
- Projected gilt issuance could be too much for the markets to comfortably digest without higher yields consequently.

Investment and borrowing rates

Overall we see the balance of risks to the downside but, subject to the influences listed above, we still expect rates to remain elevated compared to recent years during 2023/24 with some small reductions in term rates as the Bank of England's Monetary Policy Committee signals slowdowns/pauses in its hiking cycle as inflation slows beyond base effects in 2023 and beyond. (See P21).

Key Messages:

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 its highest forecast CFR over the next three years.

This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue or speculative purposes.

The S151 Officer reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the forecast period.

Local Context

As at 31.12.2022 the Authority had £154.8m of borrowing and £24m of investments (See Annex 1 for breakdown). Forecast changes in these sums are shown in the balance sheet analysis in table 1 below.

Table 1: Balance Sheet Summary and Forecast

	31.3.22 Actual £m	31.3.23 Estimate £m	31.3.24 Forecast £m	31.3.25 Forecast £m	31.3.26 Forecast £m
Total CFR	**190.3**	**207.4**	**239.6**	**248.0**	**262.5**
Less: Existing External borrowing	154.4	159.6	144.7	137.8	129.9
Borrowing shortfall	**35.9**	**47.8**	**94.9**	**110.2**	**132.6**
Less: Usable reserves	-52.9	-7.5	-12.9	-13.6	-14.9
Less: Working capital	-27.7	-19.9	-19.9	-19.9	-19.9
Investments(-)/New Borrowing	**-44.7**	**20.4**	**62.1**	**76.7**	**97.8**

The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment.

CIPFA's Prudential Code for Capital Finance in Local Authorities recommends that the Authority's total debt should be lower than its highest forecast CFR over the next three years. Table 1 shows that the Authority forecasts that borrowing will peak at around £209m (including all existing borrowing and maintaining min £10m liquid funds) and so expects to comply with this recommendation during 2023/24 and the 2 subsequent periods. This view takes into account current commitments, existing plans, and the proposals in the 2023/24 budget report.

Key Messages:

The Authority has an increasing CFR due to the capital programme, and will therefore need to borrow in 2023/24. Current forecasts suggest new borrowing of up to £79m will be required to deliver the Council's plans over the next 3 years.

In the current interest rate environment it is considered unlikely that lenders will exercise their options under our Lender Option Borrower Option (LOBO) Loans. The Authority is actively considering risk mitigation strategies to deal with the long-term uncertainty such arrangements introduce.

Rescheduling of current debt will be considered where prudent and economic to do so.

Borrowing

The Council is currently maintaining an under-borrowed position subject to a minimum investment balance of £10m. 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 has been a prudent approach as investment returns have been low and counterparty risk is still an issue that needs to be considered, however, this strategy has a limited lifespan and only delays, rather than removes, the borrowing required to support our Capital plans.

Against this background and the risks within the economic forecast, caution will be adopted with the 2023/24 treasury operations. The S151 Officer will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- if it was felt that there was a significant risk of a sharp FALL in borrowing rates, then borrowing will be postponed.

- if it was felt that there was a significant risk of a much sharper RISE in borrowing rates than that currently forecast, perhaps arising from an increase in central rates in the USA and UK, an increase in world economic activity, or a sudden increase in inflation risks, then the portfolio position will be re-appraised. Most likely, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.

All decisions on borrowing are notified through the reporting timetable set out on P5.

Policy on borrowing in advance of need

The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, 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.

Debt rescheduling

Following the rise in rates seen in 2022, consideration will be given restructuring debt previously drawn where it is prudent and economic. One example where this may be possible should rates continue to rise is our LOBO loans, where, if called, our default position is that we would choose to repay without penalty and reschedule to more closely meet risk or cost objectives.

Key Messages:

The Authority continues to utilise it's reserves in place of new borrowing to fund it's capital programme.

In November 2020 the Public Works Loan Board (PWLB) announced some new restrictions on access to borrowing. Whilst we do not believe these will be a limiting factor for NELC, we continue to view other local Authorities and alternative lenders as active options in meeting our overall borrowing requirement as cost effectively as possible.

If our existing LOBO loans were to be called then our default position is we would exercise our option to repay without penalty

Borrowing Strategy (contd)

Our Key Objectives:

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

Strategy: the Council will deliver on its Objectives by:

Our default strategic response to the expected (but far from certain) cyclical adjustment to a lower rate environment is to combine regular short-term borrowing transactions with occasional new longer-term borrowing at relatively steady intervals to average out the cost of borrowing whilst delivering short-term savings and also seeking to limit the cost of carry.

Currently the Public Works Loan Board (PWLB) Certainty Rate is set at gilts + 80 basis points for borrowing. In November 2020 the PWLB announced some new restrictions on access to borrowing and, whilst we believe these will not be prohibitive for NELC, we continue to view other local Authorities and alternative lenders as active options in meeting our overall borrowing requirement as cost effectively as possible.

Consideration will also be given to sourcing funding from the following sources, in addition to PWLB :

- Local authorities (primarily shorter dated maturities out to 3 years or so – still cheaper than the Certainty Rate).
- Financial institutions (primarily insurance companies and pension funds but also some banks, out of forward dates where the objective is to avoid a "cost of carry" or to achieve refinancing certainty over the next few years).

LOBO Loans - If our existing LOBO loans were to be called then our default position is we would exercise our option to repay without penalty and structure the replacement borrowing more efficiently with the Liability Benchmark (see p32).

Key Messages:

Across is a list of the possible sources and types of borrowing that the Authority will consider in 2023/24.

This list is unchanged from 2023/24

All new long-term borrowing is backed by a Borrowing Decision Notice signed in advance by the S151 Officer. The Notice will cover the reason for the amount, term and source of finance among other relevant risk evaluations.

Our Auditor's Value for Money qualification in our latest Statement of Accounts means certain long-term (market) borrowing options are temporarily closed to us. Whilst this restriction has some impact on our ability to proactively manage interest rate risk it is important to note that it does not affect the Authority's ultimate ability to raise finance.

Borrowing Strategy (contd)

Source of Borrowing (On Balance Sheet)	Fixed	Variable
PWLB	●	●
Local Authorities	●	●
Banks (UK and overseas (Sterling only) incl State-owned banks)	●	●
Pension Funds (excl. East Riding Pension Fund)	●	●
Insurance Companies	●	●
Quasi-Governmental bodies (e.g. PPF, UK Infrastructure Bank and similar)	●	●
Type/Structure of Debt		
Market (long-term incl. Bond issuance)	●	
Market (temporary)	●	●
Market – LOBOs (restructuring of existing arrangements only)	●	●
Green Bonds	●	
Local Temporary	●	●
Local Bonds	●	
Local Authority Bills	●	●
Overdraft		●
Negotiable Bonds	●	●
Internal (Capital Receipts and Revenue Balances)	●	
Commercial Paper	●	
Repurchase Agreements	●	
Medium Term Notes	●	
Finance Leases	●	●

Key Messages:

Where the Authority found it necessary to agree with DHLUC a capitalisation directive, which allows exceptional use of borrowing for financing unfunded revenue pressures, any borrowing taken under such an arrangement would have to be obtained from PWLB at an increased margin.

UK Municipal Bonds Agency plc (UKMBNA) was established in 2014 by the Local Government Association as an alternative to the PWLB. In 2020 it finally issued its first two Bonds but only for single entity debt. However, our current understanding remains that this will be a more complicated source of finance than other options. Any decision to borrow from the Agency will therefore be the subject of a separate report to full Council.

Borrowing Strategy (contd)

The Authority has previously raised roughly half its long-term borrowing from the PWLB but continues to closely monitor other sources of finance, such as those listed above.

Where the Authority found it necessary to agree with DHLUC a capitalisation directive, which allows exceptional use of borrowing for financing unfunded revenue pressures, any borrowing taken under such an arrangement would have to be obtained from PWLB and would attract an additional 1% cost premium. Our current understanding is this would include all existing planned borrowing until the Direction is satisfied.

Municipal Bond Agency: UK Municipal Bonds Agency plc (UKMBNA) was established in 2014 by the Local Government Association as an alternative to the PWLB. This Authority chose not to invest directly in the start-up capital of the entity, preferring to take a ‘wait and see’ position.

In 2020 it finally issued its first two Bonds. However, both were single name issues of a size that could equally have been issued outside of UKMBNA. In December 2020 a third prospective single-issuer offering was pulled. As such, we do not consider these transactions offer, as yet, ‘proof of concept’.

Furthermore the Agency’s own 2021 Accounts outlined “a material uncertainty that may cast significant doubt on the company’s ability to continue as a going concern”

This, and our current understanding that UKMBA will be a more complicated source of finance than other options for two main reasons: borrowing authorities will be required to provide bond investors with a proportionate guarantee to refund their investment in the event that the agency is unable to, for any reason; and there will be a lead time of several months between committing to borrow and knowing the interest rate payable means that the Bond Agency is currently excluded from our Approved Lenders list. Any decision to borrow from the Agency will therefore be the subject of a separate report to full Council.

Key Messages:

The Council may seek financial return from investments outside the Treasury Strategy (for example direct property purchases). Whilst the aim of security of capital and a positive return is similar to Treasury activity these investments have can have characteristics very different to what would be a typical treasury investment. As a result, such schemes are placed within the Capital Programme to ensure they are proportional to the level of the Authority's available resources and a separate Capital Strategy governs their approval process.

These schemes also have implications for the Authority's ability to access borrowing from PWLB so require the explicit approval of the S151 Officer.

Borrowing Strategy (contd)

Borrowing for Commercial or Social Return

The Department of Levelling Up, Housing and Communities (DLUHC) and CIPFA have extended the meaning of 'investments' to include both financial and non-financial investments. This report deals solely with treasury (financial) investments, (as managed by the treasury management team). Non-financial investments, essentially the purchase of income yielding assets, are covered in the Capital Strategy, (a separate report).

In order to support frontline services as central Government funding changes over time, Councils have to consider how best they might deploy their resources, knowledge and borrowing capacity to replace lost income. The drivers, characteristics, available credit data and risks associated with such transactions will differ from one scheme to another as well as from general treasury activity. Schemes, for instance, may take into account non-financial 'social' returns alongside pure financial gain. Such activity includes loans supporting service outcomes, investments in subsidiaries, and investment property portfolios where there is a local demand from tenants not being met by private landlords.

The Authority recognises that investment in other financial assets and property primarily for financial return, taken for non-treasury management purposes, requires careful investment management. **The Authority currently has no plans to acquire assets primarily for their yield.**

Common across both 'commercial ' transactions and treasury investments is the need for holistic council-wide planning, robust due diligence and formal oversight processes. New guidance suggests that an Authority's commercial 'risk appetite' is likely comparable to its Treasury Risk appetite. However, an holistic approach to risk could equally allow more risk to be taken on Commercial Investments given that little risk (and therefore return) is carried on the treasury side. NELC's overall risk appetite along with specific policies and arrangements for non-treasury investments is set out in the Capital Strategy document.

The Authority will compile and maintain a schedule setting out a summary of existing material non-treasury investments, subsidiaries, joint ventures and liabilities including financial guarantees and the organisation's risk exposure. This schedule is included with the Capital Strategy report.

Key Messages:

In accordance with guidance from the DHLUC and CIPFA, 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 risk. The key ratings used to monitor counterparties are the Long Term ratings.

Investment Strategy

The Authority holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During 2022/23 investment balances have ranged between £18.6m and £58.4m. Balances were inflated by both our own liquidity protection measures and Central Government support programmes during the Covid-19 pandemic. Balances have now been adjusted are therefore anticipated to be within a lower range in 2023/24.

The Council's investment policy has regard to the following: -

- DLUHC's Guidance on Local Government Investments ("the Guidance")
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2021 ("the Code")
- CIPFA Treasury Management Guidance Notes 2021

Our Key Objectives:
The primary principle governing the Council's investment criteria is the security of its investments, followed by the maintenance of liquidity. An adequate return based on those constrained parameters is our final consideration.

Strategy: the Council will deliver on its Objectives by:

- Maintaining a policy covering the categories of investment types it will invest in, the criteria for choosing investment counterparties with adequate security, and monitoring their security. This is reviewed at least monthly and is set out in the specified and non-specified investment sections below; and

- Setting a Minimum Liquidity level for its investments. This will include determination of the maximum periods for which funds may prudently be committed. These limits form part of the Council's prudential indicators covering the maximum principal sums invested.

The S151 Officer will maintain a counterparty list in compliance with the criteria on Page 17 If changes to criteria are deemed necessary, these will be submitted to Council for approval. Separate criteria determine which types of investment instrument are either specified or non-specified in accordance with the Code of Practice.

Key Messages:

The Table shown lists our Approved Investment Counterparties and Limits.

The limits are derived from an assessment of Available Reserves and our Advisors general guidance.

The Council has determined that it will only use approved counterparties from the UK and/or from countries with a minimum sovereign credit rating of AA-

The limits shown also apply to Council's own bankers in the ordinary course of business, if that bank's lowest rating falls below 'A-' balances will be maintained for operational purposes only and minimised on a daily basis. A non-investment 'operational' limit of £1m will apply in such circum stances.

Investment Strategy (contd.)

Approved Counterparties: The Authority may invest its surplus funds with any of the counterparty types the Table below, subject to the cash limits (per counterparty) and the time limits shown.

Table 2: Approved Investment Counterparties and Limits

Credit Rating	Banks Unsecured	Banks Secured	Government	Corporates	Registered Providers
UK Govt	n/a	n/a	£ Unlimited 50 Years	n/a	n/a
AAA	£3m 5 Years	£6m 20 Years	£5m 20 Years	£2m 5 years	£2m 20 Years
AA+	£3m 5 Years	£6m 10 Years	£5m 10 Years	£2m 5 years	£2m 10 Years
AA	£3m 4 Years	£6m 5 Years	£5m 5 Years	£2m 4 years	£2m 5 Years
AA-	£3m 3 Years	£6m 4 Years	£5m 4 Years	£2m 3 years	£2m 4 Years
A+	£3m 2 Years	£6m 3 Years	£5m 3 Years	£2m 2 years	£2m 3 Years
A	£3m 13 Months	£4m 2 Years	£5m 2 Years	£2m 13 Months	£2m 2 Years
A-	£3m 6 Months	£4m 13 Months	£4m 13 Months	£1m 6 Months	£1m 13 Months
BBB+	£1m 100 Days	£1.5m 6 Months	£1.5m 6 Months	£1m 100 Days	£1m 6 Months
None	n/a	n/a	£5m* 5 Years	£0.1m 5 Years	£1m 100 Days

Pooled Funds (Money Market Funds) – LVNAV or Government CNAV Funds £5m Per Fund but not more than 50% of overall balances in aggregate.

Where the right off set-off is documented and backed by a Legal Opinion in the Authority's name, only the net position will qualify as exposure and a maximum term of 5 years will apply.

*Other Local Authorities – per Authority

Key Messages:

The primary principle governing the Council's investment criteria is the security of its investments. It maintains a policy covering the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and then monitoring their security.

The Council's investment policy has regard to the MHCLG's Guidance on Local Government Investments ("the Guidance") and the revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code").

The Council's investment priorities remain security first, liquidity second, then return.

Investment Strategy (contd.)

Risk Appetite Statement
The guidance from the MHCLG and CIPFA places a high priority on the management of risk. This authority has adopted a prudent approach to managing risk and defines its risk appetite by the following means: -

Credit Rating: Credit rating information is supplied by Link Asset Services, our treasury advisors, on all active counterparties that comply with the criteria in Table 2**.** Investment limits are set by reference to the lowest published long-term credit rating from Fitch, Moody's or Standard & Poor's. However, investment decisions are never made solely based on credit ratings, and other relevant factors including external advice will be taken into account.

Further operational market information will therefore 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), share price information etc will be applied to compare the relative security of differing investment counterparties.

Banks Unsecured: Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. If the Authority's current account bank were to be rated BBB' unsecured balances with that bank will be minimised in both monetary size and time invested.

Banks Secured: Covered bonds, reverse repurchase agreements (Repo) and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. Repo/Reverse Repo is accepted as a form of securitised lending but should be based on the GMRA 2000 or GMRA 2011 (Global Master Repo Agreement). Should the Counterparty not meet our senior unsecured rating then a 102% collateralisation would be required. The acceptable collateral is as follows:

- Index linked Gilts
- Conventional Gilts
- UK Treasury bills
- Delivery By Value (DBV)
- Corporate bonds

Key Messages:

Not all of these options suit our immediate requirements but in the current political environment there is a need to retain some flexibility and we continue to evaluate suitability in conjunction with our advisors.

Some options require the Authority to be classed as a 'Professional' counterparty under MiFID II in order to be able to access them and we have worked with counterparties to ensure relevant access is maintained.

Accounting rules mean that certain financial instruments need to be valued at year end and paper gains/losses at the balance sheet date are charged to the income and expenditure account. Such instruments do not form the mainstay of our Strategy however.

Investment Strategy (contd.)

Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

Some secured bank investments include the option for the issuer to extend the maturity date (most Covered Floating Rate Notes operate in this fashion). When choosing such investments the Authority will apply Non-Specified Investment criteria as if the Bond were to run to its final allowable maturity date. (See P22 for more detail)

Government: Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is an insignificant risk of insolvency. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years.

Corporates: Loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in, but are exposed to the risk of the company going insolvent. Loans to unrated companies will only be made as part of a diversified pool in order to spread the risk widely.

Registered Providers: Loans to, and bonds issued by, guaranteed by, or secured on the assets of Registered Providers of Social Housing (Housing Associations). These bodies are tightly regulated by and, as providers of public services, retain the likelihood of receiving government support if needed.

Pooled Funds: These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Short-term Money Market Funds that offer same-day/2-day liquidity and very low volatility (LVNAV funds) may be used as an alternative to instant access bank accounts. Pooled funds whose value changes with market prices and/or have a notice period could be used for longer investment periods. Bond, equity and property funds offer enhanced returns over the longer term, but are more volatile in the short term. These allow diversification into asset classes other than cash without the need to own and manage the underlying investments. Because Property funds have no defined maturity date and can be deemed capital expenditure, the Authority will seek guidance on the status of any fund it may consider using. The performance and continued suitability of any Fund will be monitored regularly.

Key Messages:

Environmental, Social and Governance(“ESG”) considerations are important considerations when selecting counterparties however Security of public funds, followed by Liquidity and then return remain our primary drivers in line with CIPFA Guidance.

Investment Strategy (contd.)

ESG Policy –Treasury focuses on managing all categories of risk that may impact, first and foremost, the security of any given investment product. From that perspective Environmental, Social and Governance (ESG) considerations are about understanding what ESG risks a Counterparty is exposed to and what they may mean for the Authority’s risk in choosing to make a particular investment.

In line with the Authority’s declaration of a Climate Emergency, we will therefore aim to assess and monitor Environmental, Social and Governance factors when selecting investment options. Specific assessment is however somewhat restricted by the fact that, at the time of writing, there is no consistent rating framework to measure and benchmark specific counterparty ESG metrics. Until this market data gap is fully resolved, our Policy is as follows:-

- We continue to prioritise Security, Liquidity and Yield (in that order) as required by the Code of Practice.
- As large, global institutions our high-quality counterparties operate across the full range of marketplaces in which they are legally able to, and as a result climate change and other ESG considerations are rightly an increasingly important and heavily scrutinised part of their overall business.
- Recognising this, the Ratings Agencies existing headline ratings on our Counterparties now incorporate ESG risk assessments alongside more traditional financial risk metrics and so provide both an holistic risk measure and a proxy for ESG ‘scoring’ in the absence of anything more robust.
- Excluding any one counterparty will likely mean others will similarly have to be avoided and thus impact the Authority’s capacity to mitigate risk through diversification.
- The Council does not have any identified long-term surplus balances with which to consider specific ‘impact’ or ‘sustainable’ investments, so Supra-national counterparties who offer access to high-quality (typically AAA-rated) ESG exposure will continue to proportionately form part of our investment portfolio where Bonds matching our liquidity requirement can be sourced.

Key Messages:

The Council undertakes its own active horizon-scanning of global and national economic data and trends. This work is supported by advice and reporting from our Advisors, Link Asset Services.

Proactive measures will be taken to reduce risk in the light of specific adverse data or on notification from our Advisors.

Rates are likely to remain low and so balances will be kept to a minimum practical level to avoid cost of carry.

The Authority will ensure it has sufficient liquidity across it's investment portfolio and a minimum cash balance of £10m will be maintained.

All investments will be denominated in Sterling.

Investment Strategy (contd.)

Risk Assessment and Credit Ratings: Credit ratings are obtained and monitored by the Authority's treasury advisers, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded, so that it fails to meet the approved investment criteria then:

- no new investments will be made,
- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

Where a rating agency announces that a credit rating is on review for possible downgrade (known as "rating watch negative" or "credit watch negative") so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent rating change.

Other Information on the Security of Investments: The Authority understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support and reports in the quality financial press. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the credit rating criteria.

Given our Strategy of minimizing balances and maintaining short-duration average liquidity the Council will use The Sterling Overnight Index Average, abbreviated as SONIA uncompounded an investment benchmark to assess the performance of its investment portfolio.

Investment returns expectations.
The current forecast shown on Page 7, includes a forecast for further increases in Bank Rate in the first half of 2023. However, signs inflationary pressures are reducing could well mean that Bank Rates peak below levels expected at the time of writing.

Our Investment average return forecasts for financial year ends (March) are:

- 2023/24 3.00%
- 2024/25 2.50%
- 2025/26 2.25%

Key Messages:

For ease of operation investments are split into two categories.

Specified Investments are lower risk (through counterparty credit and/or duration) and can be made by the Authority's dealers under the TMSS without further reference.

Non-Specified Investments are still approved by the TMSS but, due their intrinsic higher risk, require the prior agreement of the S151 Officer before they can be placed.

Though currently unlikely, should a negative rate environment materialise this will not impact our desire to prioritise Security and Liquidity over Yield. Therefore, negative returns will be recorded as interest 'cost' with the principal sum remaining intact.

Investment Strategy (contd.)

When deteriorating financial market conditions rapidly affect the creditworthiness of all organisations, as happened in 2008 and 2020, this is not generally reflected in credit ratings, but can be seen in other market metrics. In these circumstances, the Authority will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent to which these restrictions are applied will be determined by prevailing financial market conditions. This will cause a reduction in the level of investment income earned, but will protect the principal sum invested.

Negative investment rates: During the Covid-19 pandemic, market 'flight to safety' (among other factors) brought about negative returns on some investment products. At the time, bank systems limitations meant negative rates couldn't be applied generally to depositors such as the Authority. However, banks have since confirmed to the Bank of England that should similar market conditions present themselves again in future they do now have the capability to introduce negative rates on customers deposits. Given the re-opening of economies and the resulting inflationary factors being seen, negative returns are now unlikely in the short-term. Should a negative rate environment materialise in the future we will continue to prioritise Security and Liquidity over Yield. Therefore, negative returns will be taken as interest 'cost' with the principal sum remaining intact provided there is no related Credit Event.

This authority has defined the list of types of investment instruments that the treasury management team are authorised to use.

- **Specified investments** are those with a high level of credit quality and subject to a maturity limit of one year (366 days).

The Authority defines "high credit quality" organisations and securities as those having a credit rating of A- or higher that are domiciled in the UK or a foreign country with a sovereign rating of AA+ or higher. For money market funds and other pooled funds "high credit quality" is defined as those having a credit rating of A- or higher.

- **Non-specified investments** are those of lesser credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use.

Key Messages:

Even with the limits, systems and in-house and external knowledge banks we have in place no treasury activity is without risk we therefore set counterparty limits with a link to the authority's reserves so that no specific loss event would be catastrophic enough to jeopardise the operation of the Authority itself.

Limit for Long-Term Investments are unchanged for 2023/24. These limits were, once again, un-utilised during 2022/23 but are retained to allow flexibility for placing offset deposits as part of a LOBO risk mitigation transaction known as 'Defeasement' should an opportunity present itself.

Investment Strategy (contd.)

Non-specified Investments (contd): Any investment not meeting the definition of a specified investment is classed as non-specified. Due care will be taken to consider the exposure of the Council's total investment portfolio to non-specified investments, countries, groups and sectors. The Council has determined that it will limit the maximum total exposure to non-specified investments as follows:-

Table 3: Non-Specified Investment Limits (Unchanged)

	Cash limit
Total long-term investments	£21m*
Total investments without credit ratings or rated below A- (excluding other Local Authorities)	£1.5m
Total investments (except pooled funds) with institutions domiciled in foreign countries rated below AA+	£1.5m
Total non-specified investments	£24m

*The Council has used a significant amount of internal borrowing over the last decade to fund its Capital Programme. This has created a capacity for external borrowing within current limits and Prudential Indicators. With current spending envelope challenges it makes sense for the Authority to look at how externalising this borrowing might be used to generate fiscally-derived revenue savings. Any planned use of long-term investments in this way would be subject to a sound business case and usual governance oversight (See Commercial Plan and Capital Strategy for details)

Investment Limits: The Authority's revenue reserves available to cover investment losses are forecast to be £13 million on 31st March 2024. In order that less than one half of available reserves will be put at risk in the case of a single default, the maximum that will be lent to any one organisation (other than the UK Government) will be £6 million. A group of banks under the same ownership will be treated as a single organisation for limit purposes. Limits are also be placed on fund managers, investments in brokers' nominee accounts, foreign countries and industry sectors as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

Key Messages:

In addition to limits on individual counterparties the Authority also operates within a number of category-based limits to promote diversification of risk.

Investment Strategy (contd.)

Table 4: Investment Limits (Unchanged)

	Cash limit
For durations less than 366 days in any single organisation, except the UK Central Government	£6m each
UK Central Government	unlimited
Any group of organisations under the same ownership	£6m per group
Any group of pooled funds under the same management	£6m per manager
Negotiable instruments held in a Tri-party Agent/broker's nominee account	£25m per broker
Foreign countries (Minimum Sovereign rating AA-)	£5m per country
Registered Providers	£2m in total
Unsecured investments with Building Societies	£2m in total
Loans to unrated corporates	£1m in total
Money Market Funds	50% of overall balances

Liquidity Management: The Authority uses cash flow forecasting to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the Authority being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Authority's medium term financial plan and cash flow forecasts.

IFRS 9: As a result of the change in accounting standards for under IFRS 9, this authority will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. MHCLG (now DLUHC) enacted a statutory over-ride from 1.4.18 for a five-year period until 31.3.23 following the introduction of IFRS 9. This has the effect of allowing any unrealised capital gains or losses arising from qualifying investments to be held on the balance sheet until 31.3.23: this was intended to allow authorities to initiate an orderly withdrawal of funds if required. In addition, IFRS9 impacts the write-down in the valuation of impaired loans.

At the time of writing, we are still waiting to hear whether the application of IFRS9 will be deferred for a further period.

Key Messages:

A series of targets (both voluntary and centrally required) are used to facilitate budget evaluation and performance measurement.

These targets are generally above the minimum levels set elsewhere in the strategy and are reported on twice yearly.

Given the rises in rates seen in 2022/23 we anticipate utilising short-term (<1 year) borrowing to meet our need until the peak in the rate cycle becomes clear to the market and longer-term rates begin to factor in a looser rate environment. This could be before the official bank rate starts to fall, or even before its actual peak, so close monitoring with the support of our Advisors will be maintained.

Treasury Management Indicators

The Authority measures and manages its exposures to treasury management risks using the following indicators.

Security: The Authority has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

	Target
Portfolio average Credit Rating	A

Liquidity: The Authority has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling one month period, without additional borrowing.

	Target
Total cash available within 1 week.	£10m

Upper limits on variable interest rate exposure. This identifies a maximum limit for variable interest rates based upon the debt position net of investments. All borrowing due to mature within 12 months is classed as variable as renewal will be subject to any short term movement in rates.

	2021/22	2022/23	2023/24	2024/25
Upper limit on variable interest rate exposure	£90m	£90m	£90m	£90m

Given the rises in rates seen in 2022 we anticipate utilising short-term borrowing to meet our need until the peak in the rate cycle becomes clear to the market and longer-term rates begin to factor in a looser rate environment. This could be before the official bank rate starts to fall, or even before its actual peak, so close monitoring with the support of our Advisors will be maintained.

Key Messages:

Maintaining a spread of maturities across our borrowing portfolio can assist with managing cash flow and re-finance risk (the risk that replacement loans are not available or that interest rate costs differ significantly from the maturing loans).

Our active investment portfolio does not lend itself to longer term investments and in the ordinary course of business deposits over 365 days wouldn't be entertained. However one option for redressing our LOBO loan risk requires a long-term matching deposit (funded by new borrowing) and so a limit is included here to cover that transaction should it be deemed of positive benefit.

Treasury Management Indicators (contd.)

Upper limits on fixed interest rate exposure. This is similar to the previous indicator and covers a maximum limit on fixed interest rates;

	2022/23	2023/24	2024/25	2025/26
Upper Limit on fixed interest rate exposure (£m)	290	300	300	300

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.

	Upper	Lower
Under 12 months	70%	0%
12 months and within 24 months	30%	0%
24 months and within 5 years	50%	0%
5 years and within 10 years	50%	0%
10 years and within 20 years	75%	0%
20 years and within 30 years	75%	0%
30 years and more	100%	0%

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment. Note: LOBO option dates are included as potential repayment dates, but variable rate borrowing is excluded.

Principal Sums Invested for Periods Longer than 365 days: The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end will be:

	2022/23	2023/24	2024/25	2025/26
Limit on principal invested beyond year end	£21m	£21m	£21m	£21m
Current investments as at 30.12.22 in excess of 1 year	0	0	0	0

Key Messages:

Link Asset Services were appointed as the Authority's Treasury Advisor from January 2021. Their contract runs until the end of 2024.

The Council recognises that responsibility for treasury management decisions remains with the organisation itself. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisers.

Members of the Audit & Governance Committee receive training annually prior to reviewing the Strategy for the following year.

Other Items

There are a number of additional items that the Authority is obliged by CIPFA or DLUHC to include in its Treasury Management Strategy for approval by Full Council.

Policy on Use of Financial Derivatives:
The Authority will not use standalone financial derivatives (such as swaps, forwards, futures and options) . Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the benefits and risks they present will be managed in line with the overall treasury risk management strategy.

Training: The CIPFA Code requires that the S151 officer ensures members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny. Members of the Audit and Governance Committee are provided with timely training prior to reviewing the Strategy in January of each year. This training is provided by our Advisors under the terms of our contract.

The qualification requirements and training needs of treasury management officers are periodically reviewed.

Treasury management consultants
The Council uses Link Asset Services, Treasury solutions as its external treasury management advisors.

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

It also recognises that there is value in employing external providers of treasury management services in order 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.

Key Messages:

New borrowing for the financing of Capital projects means additional cost for the Authority through higher interest payments as our existing loans are not due for repayment for many years. An appropriate budget for this added cost is incorporated in the Medium Term Financial Plan 2023/24.

Our main investment options continue to offer lower returns but the Authority's primary concerns remain Security and Liquidity.

Other Items (contd)

Investment of Money Borrowed in Advance of Need: The Authority may, from time to time, borrow in advance of need, where this is anticipated to provide the best long term value for money. Since amounts borrowed will be invested until spent, the Authority is aware that it will be exposed to the risk of loss on the borrowed sums, and the risk that investment and borrowing interest rates may change in the intervening period. These risks will be managed as part of the Authority's overall management of its treasury risks.

The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates 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.

The total amount borrowed will not exceed the authorised borrowing limit of £290 million. The maximum period between borrowing and expenditure is expected to be two years, although the Authority is not required to link particular loans with particular items of expenditure.

Financial Implications

The budget for investment income in 2023/24 is £0.450 million. The budget for debt interest paid in 2023/24 is £6.6 million, based on an average debt portfolio of £175 million at an average interest rate of 3.75%. If actual levels of investments and borrowing, and actual interest rates differ from those forecast, performance against budget will be correspondingly different.

Benchmarking

This Council will use SONIA uncompounded as an investment benchmark to assess the performance of its investment portfolio and will also evaluate its performance regularly through benchmarking reports provided by both our Treasury Management System (Treasury Live) and our Advisors, Link Asset Services. Updates will be provided to members at the half-year and outturn.

Key Messages:

In arriving at it's annual Treasury Management Strategy the Authority considers the direct relationship between risk and reward on both sides of it's balance sheet.

Other Options Considered

The DLUHC Guidance and the CIPFA Code do not prescribe any particular treasury management strategy for local authorities to adopt. The S151 Officer, having consulted the Portfolio Holder, believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

Alternative	Impact on income and expenditure	Impact on risk management
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses may be greater
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses may be smaller
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs may be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long term costs may be less certain
Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs may be less certain

Key Messages:

The Local Government Act 2003 requires the Authority to have regard to the Chartered Institute of Public Finance and Accountancy's Prudential Code for Capital Finance in Local Authorities (the Prudential Code) when determining how much money it can afford to borrow.

The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that the Authority has fulfilled these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year.

Prudential Indicators 2023/24

Treasury Management Indicators
To demonstrate that the Authority has fulfilled the objectives it lays out, the Prudential Code requires the following indicators to be set and monitored each year.

Estimates of Capital Expenditure: 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 and confirm capital expenditure plans.

Capital Expenditure and Financing	2022/23 Revised £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m
Total Expenditure	67.3	84.4	27.7	tbc
Capital Receipts	0.4	0.4	0.4	tbc
Government Grants	27.2	16.8	6.3	tbc
Ring-fenced External Funding	15.8	27.5	3.7	tbc
Borrowing	23.9	39.8	17.3	tbc
Total Financing	67.3	84.4	27.7	tbc

- Figures may not agree exactly to totals due to rounding

Estimates of Capital Financing Requirement: The Capital Financing Requirement (CFR) measures the Authority's underlying need to borrow for a capital purpose.

Capital Financing Requirement	31.03.22 Actual £m	31.03.23 Estimate £m	31.03.24 Estimate £m	31.03.25 Estimate £m	31.03.26 Estimate £m
Total CFR	190.3	207.4	239.6	248.0	262.5

Key Messages:

Although net indebtedness is forecast to increase over the next 3 years. Total debt is expected to remain below the CFR, the Liability Benchmark and both the Operational and Authorised Borrowing Boundaries during the forecast period.

The table shows a peak change in debt levels of £54.6m over the forecast period during which we also have £24.5m of debt maturities. Total new borrowing required will therefore be around £79m (subject to spend being in line with forecast)

As borrowing arrangements typically form very long term commitments the ability, once drawn, to generate revenue savings from this portion of our spend is very limited. This is an important consideration in all borrowing decisions.

Prudential Indicators (contd.)

Gross Debt and the Capital Financing Requirement: In order to ensure that over the medium term debt will only be for a capital purpose, the Authority should ensure that debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years. This is a key indicator of prudence.

£m	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
External Debt					
Debt at 1 April	149.4	154.4	159.6	186.1	194.5
Expected change in Debt	5.0	5.2	26.5	8.4	14.5
Other long-term liabilities (OLTL)	0.0	0.0	0.0	0.0	0.0
Expected change in OLTL	0.0	0.0	0.0	0.0	0.0
Actual gross debt at 31 March	154.4	159.6	186.1	194.5	209.0
The Capital Financing Requirement	190.3	207.4	239.6	248.0	262.5
Under / (over) borrowing	35.9	47.8	53.5	53.5	53.5

Ratio of Financing Costs to Net Revenue Stream: This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs, net of investment income. As borrowing arrangements typically form very long term commitments, once drawn the ability to generate savings from this portion of Council spend is very limited.

Ratio of Financing Costs to Net Revenue Stream	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
General Fund	6.92%	7.28%	9.31%	9.66%	10.07%

Key Messages:

A minimum cash balance of £10m will be maintained to ensure forecast liquidity needs are met.

The gap between the red and black lines in the Liability Benchmark chart shown here depicts the additional borrowing need the Authority currently projects – a peak requirement of £79m new loans by the end of 2025-26 – including replacement of maturing debt.

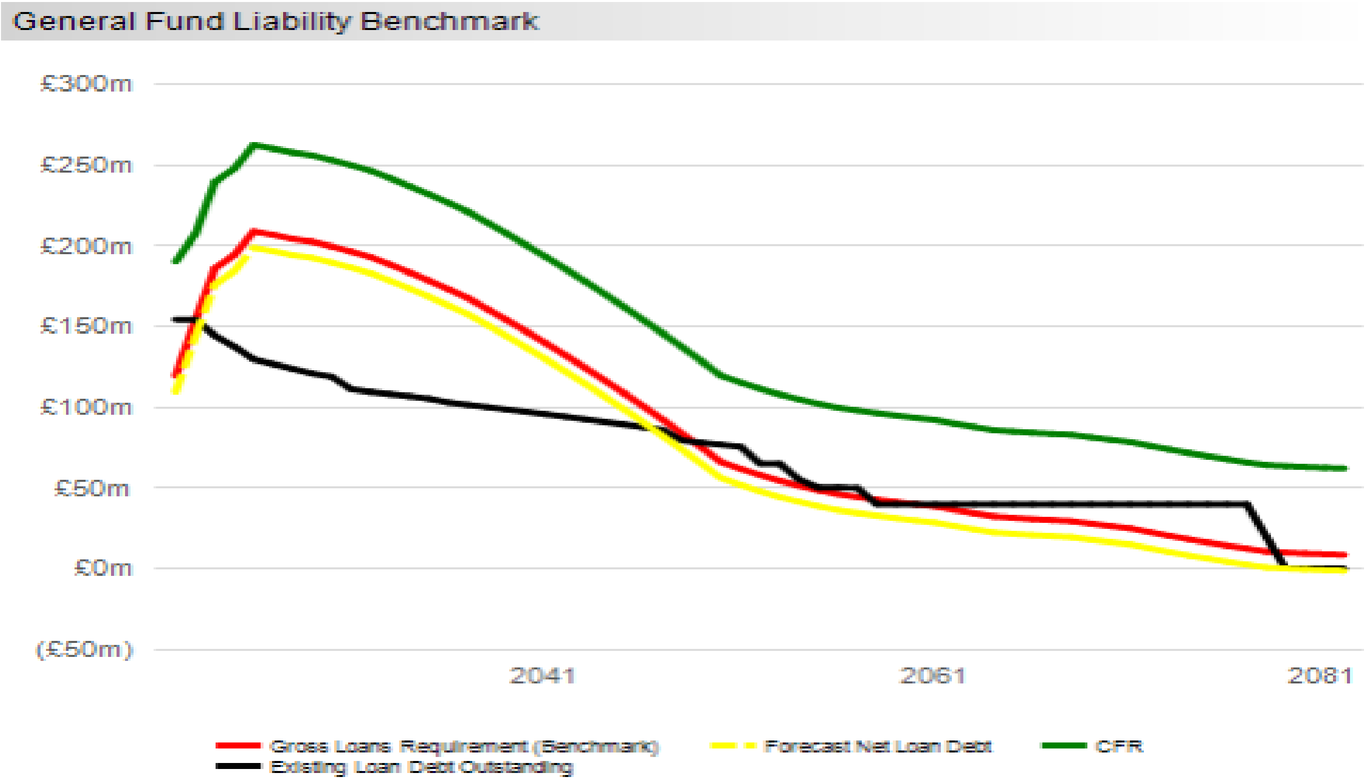
Before new long-term borrowing is entered into the Authority will have regard to the Liability Benchmark and it's underlying assumptions will be assessed for their continuing prudency, with revisions made where necessary.

Prudential Indicators (The Liability Benchmark.)

CIPFA require Authorities to have regard to **Liability Benchmark** tool as a formal Prudential Indicator.

The Benchmark forecasts our need to borrow over a 60 year period. This aids decision making when it comes to the quantum and term to be chosen, the aim being to avoid cost of carry revenue implications and avoid the trap of defaulting to ultra-long tenors just because the yield curve tail slopes downward. It represents the level of our anticipated borrowing and in the ordinary course of business would not be expected to be exceeded. It therefore should closely mirror the Operational Boundary.
The benchmark assumes:

- future capital expenditure beyond the current programme funded by borrowing of c£5m a year on average
- minimum revenue provision on new capital expenditure based on an annuity profile of c30 years average
- No changes to Reserves beyond the current MTFP period (3 years)



Key Messages:

Borrowing remains below control levels as a result of continued internal borrowing support for the Capital Programme.

Capital Prudential Indicators are included here for formal approval by Full Council

Changes to accounting rules for Operating leases from April 2023 will require additional debt obligations to be reflected in our prudential Indicators and limits have been increased in readiness for this change.

Limit levels do not commit the Authority to any increase in actual borrowing.

Other Prudential Indicators

Authorised Limit for External Debt: This is a key prudential indicator represents a control on the maximum level of borrowing. This is a legal limit beyond which external debt is prohibited and can only 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.

The Authorised Limit is a 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.

Council is asked to approve the following Authorised and Operational limits:

Authorised Limit	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m
Borrowing	250	260	265	275
Other long-term liabilities	40	40	40	40
Total Debt	290	300	305	315

Operational Boundary for External Debt: This is the limit beyond which external debt is not normally expected to exceed. (i.e. prudent but not worst case). It links directly to the Authority's estimates of capital expenditure, the capital financing requirement and cash flow requirements, and is a key management tool for in-year monitoring. Other long-term liabilities comprise finance leases and other liabilities that are not traditional loans but still form part of the Authority's debt.

Operational Limit	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m
Borrowing	220	220	230	240
Other long-term liabilities	30	30	30	30
Total Debt	250	250	260	270

Adoption of the CIPFA Treasury Management Code: The Authority adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2017 Edition in February 2018. The latest revision will be formally adopted for the 2023/24 Financial Year.

Key Messages:

The Council has funded it's historic Capital Programme through borrowing. The Council received additional support in addition to taking its own steps to ensure liquidity at the onset of the Covid pandemic. This has resulted in a net indebtedness position of £130.7m as at the period end.

This is an increase of £36m from end 2021, which is reflected in the current reduced investments balance.

Annex 1- Existing Investment & Debt Portfolio Position

	31.12.2022 **Actual Portfolio** **£m**	31.12.2022 **Average Rate** **%**
External Borrowing:		
PWLB – Fixed Rate	**77.0**	**3.52**
PWLB – Variable Rate	**0.0**	**N/A**
Local Authorities	**18.2**	**2.15**
Bank Loans	**38.7**	**3.20**
LOBO Loans	**21.0**	**4.40**
Total Gross External Debt	154.8	3.38
Investments:		
Managed in-house		
Short-term investments	24.1	3.16
Long-term investments	0.0	N/A
Total Investments	20.0	
Net Debt	130.7	

Key Messages:

The Council is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) 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 broad aim of the Minimum Revenue Provision is to ensure that debt is repaid over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant.

Annex 2 – Annual Minimum Revenue Provision Statement

Where the Authority finances capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP). Any remaining balance is known as the Capital Financing Requirement (CFR). Although there has been no statutory minimum since 2008, the Authority is required to have regard to the Department for Levelling Up, Housing and Communities' Guidance on Minimum Revenue Provision (the DLUHC Guidance), most recently issued in 2017.

The DLUHC Guidance requires the Authority to approve an Annual MRP Statement each year and also recommends a number of options for calculating a prudent amount of MRP. **The following statement is the Council's MRP policy** that incorporates options recommended in the Guidance as well as prudent approaches determined locally.

The MRP on the balance of supported debt as at 1st April 2018 is amortised on a straight line basis at 2% per annum.

For unsupported CFR incurred after 31st March 2008, MRP is charged over the expected useful life of the relevant assets, recognising the principal repayment on an annuity interest rate equal to the average relevant PWLB rate for the year of expenditure, starting in the year after the asset becomes operational.

MRP on purchases of (or predominantly of) freehold land will be charged over a maximum period of 50 years, unless it has structures on it with a life of more than 50 years. In which case, the land will be charged over the remaining life of the building/structures themselves. Similarly, capital expenditure on the purchase or improvement of investment property, which is not normally subject to depreciation, will be charged over 50 years. MRP on expenditure not related to fixed assets but which has been capitalised by regulation or direction will be charged over 25 years.

For assets acquired by finance leases, MRP will be determined as being equal to the element of the rent or charge that goes to write down the balance sheet liability. The Council can provide capital loans as part of its capital investment programme. MRP on loans secured against assets will be charged over the life of those assets. MRP on unsecured loans will be charged over the period of the loans.

MRP Overpayments – DLUHC MRP Guidance allows any charges made over the statutory MRP (Voluntary Revenue Provision/overpayments) to be reclaimed in later years if deemed necessary or prudent. The Council's cumulative overpayment (VRP) at 1 April 2019 was £3.477m, which was reclaimed in 2019/20 and set aside to support future transformation proposals. This increased the CFR and the ongoing MRP by £0.070m p.a., which was budgeted for in the Council's Medium Term Financial Plan.

Key Messages:

Where the Authority found it necessary to agree with DHLUC a capitalisation directive, which allows exceptional use of borrowing for financing unfunded revenue pressures. any borrowing taken under such an arrangement would be sufficient to cover repayment over 20 years.

Annual Minimum Revenue Provision Statement - Continued

Where the Authority found it necessary to agree with DLUHC a capitalisation directive, which allows exceptional use of borrowing for financing unfunded revenue pressures, the following additional MRP Policy would apply to any borrowing taken under such an arrangement.

- The Council shall charge annual Minimum Revenue Provision using the asset life method with a proxy ‘asset life’ of no more than 20 years, in accordance with the Department’s Statutory Guidance on Minimum Revenue Provision issued by the Secretary of State under section 21(1A) of the Local Government Act 2003.

AUDIT AND GOVERNANCE COMMITTEE

DATE	02/02/2023
REPORT OF	Executive Director Place and Resources
SUBJECT	Treasury Management Practices
STATUS	Open

CONTRIBUTION TO OUR AIMS

Effective treasury management will provide support towards the achievement of the Council's aims and objectives. Treasury management is an integral part of the Council's finances providing for cash flow management and financing of capital schemes. It therefore underpins all of the Council's aims.

EXECUTIVE SUMMARY

The Council is required to comply with the Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management in the Public Services (The Code) as revised in 2021.

In order to comply with the key requirements of the Code, the Council should create and keep under review

- A Treasury Management Policy Statement, stating the policies and objectives of its treasury management activities, as approved by Council.

- Suitable Treasury Management Practices setting out the manner in which the organisation will seek to achieve those policies and objectives and prescribing how it will manage and control those activities.

Audit & Governance Committee is responsible for ensuring effective scrutiny of the treasury management arrangements.

RECOMMENDATIONS

That the Audit and Governance Committee considers and approves the Treasury Management Practices as revised (Appendix 1).

1. BACKGROUND AND ISSUES

1.1. The Local Government Act 2003 requires local authorities to have regard to such guidance as the Secretary of State may by regulations specify. The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 specify the Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance (The Code) as such guidance.

1.2. CIPFA as adopted the following as its definition of treasury management activities:

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

1.3. The Code identifies three key principles:

The Council 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

The policies and practices make clear that the effective management and control of risk are the prime objectives of treasury management activities and that responsibility for these lies clearly within the Council. The Council's appetite for risk should form part of the annual strategy and should ensure that priority is given to security and liquidity when investing funds.

The pursuit of value for money in treasury management, and the use of suitable performance measures, are important tools in support of business and service objectives; and, within the context of effective risk management, the treasury management policies and practices reflect this.

1.4 Specific details of the systems and routines to be employed in order to comply with the key requirements of the Code and the records to be maintained take the form of Schedules to the TMPs. The TMPs and associated schedules have been reviewed and updated in accordance with current guidance.

1.5 Link Asset Services Ltd were re-appointed as our Treasury Advisors during 2021 and our existing TMPs have been cross-referenced to their guidance with changes only being made where there was material difference with those based on previous advice.

1.6 The CIPFA Treasury Management Code was revised in December 2021 with full implementation expected for 2023-24 Financial Year. Key Changes include:-

- TMP 1 to reference Environmental, Sustainability and Governance (ESG) considerations in credit and counterparty policies
- TMP 10 to include the addition of a Knowledge and Skills Schedule informed by a Member self-assessment exercise.
- The addition of the Liability Benchmark as a formal Prudential Indicator
- A revised definition of 'Investments' to include non-treasury 'service-driven' and commercial activities. These items are covered in a separate Capital Strategy along with applicable Investment Management Principles (IMPs) which a complementary to the TMPs covered here which cover Treasury activity only.

1.7 Only TMP 1(1), covering investment counterparty policy requires approval each year. This is because TMP1 includes how our counterparty framework will be managed and therefore needs Members affirmative action to proceed. Other TMPs focus more on day-to-day operation and general principles and practice which may remain unchanged between years. **However, given the regulatory changes announced this year a full set of (marked up) TMPs are presented for 2023-24.**

2. RISKS AND OPPORTUNITIES

2.1 No treasury activity is risk free. The successful identification, monitoring and control of risk are the prime criteria by which the effectiveness of treasury management activities will be measured. A desktop risk and opportunities assessment has been undertaken in relation to the content of this report. The assessment in relation to three main areas is as follows:-

Equalities - There are no factors within this report that affect equality and access to services.
Strategic environmental issues - Issues in the report support positive effects on the environmental wellbeing of the Borough.
General Data Protection Regulation 2018 – Relationships with external providers covered by the Treasury management Practices are governed by and operated in accordance with the act.

3. OTHER OPTIONS CONSIDERED

3.1 These are workable Practices formulated in consultation with our Advisors, Link Asset Services after reference to the relevant legislation, whilst still recognizing local circumstances (team structures etc.).

4 REPUTATION AND COMMUNICATIONS CONSIDERATIONS

4.1 As you would expect, with large sums of public money involved, any treasury activity carries a high degree of reputational risk. Any losses having not just financial but also significant, ongoing resource implications for the Council.

5. FINANCIAL CONSIDERATIONS

5.1 As set out in the Appendix.

6. CONSULTATION WITH SCRUTINY

6.1 Audit & Governance Committee fulfill the role of scrutiny body for Treasury Management activity.

7 FINANCIAL IMPLICATIONS

7.1 As set out in the appendix.

8 LEGAL IMPLICATIONS

8.1 There are no direct legal implications arising from the recommendations in this report which are not covered in the body of the report. The Council has complied with its statutory obligations arising from the Local Government Act, the Local Government Finance Act and all relevant CIPFA guidance.

9. HUMAN RESOURCES IMPLICATIONS

9.1 There are no human resource implications arising from this report

10. WARD IMPLICATIONS

10.1 All wards affected.

11. BACKGROUND PAPERS

11.1 CIPFA Treasury Management Code and Guidance Notes

12. CONTACT OFFICER(S)

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SHARON WROOT

EXECUTIVE DIRECTOR PLACE AND RESOURCES

Appendix 1

Treasury Management Practices

Version Number	1.0
Issue Date	January 2023

Approved By:	Audit Committee

TREASURY MANGEMENT PRACTICES

PRINCIPLE AND SCHEDULES

Revised January 2023

This document has been prepared in the sequence provided by CIPFA. For ease of use, the key areas for North East Lincolnshire Council treasury operations are referenced below:

TMP1 Schedule 1 - Risk Management

1. Credit and Counterparty Policies

All treasury management activities present risk exposure for the Council. The council's policies and practices emphasise that the effective identification, management and containment of risk are the prime objectives of treasury management activities.

- The Section 151 Officer will formulate suitable criteria for assessing and monitoring the credit risk of investment counterparties in consultation with the Council's advisors.

The criteria will be agreed by Audit Committee.
Investment with government offers the least risk but lower yields

1.1.1 Policy on the use of credit risk analysis techniques

The Council selects countries and the institutions within them for the counterparty list after analysis and careful monitoring of:

- Credit Ratings - the Council will use credit rating criteria as the main means of assessing the creditworthiness of counterparties for placing investments with – where available this Rating information will be supplemented by additional risk indicators such as Credit Default Swap Rates.
- Sovereign credit ratings/sovereign support mechanisms (which now includes resolution mechanisms for failing financial institutions)
- The Council's Treasury Advisor also undertakes analysis on the balance sheet structure of key banking institutions to help inform the potential restructure (i.e. bail-in) of a bank's unsecured liabilities should this be required by the regulatory authorities.
- The credit rating criteria will also apply to securities issued by financial and non-financial institutions, which in some instances, might be higher than that of the issuing institution.
- Financial limits for individual counterparties and sectors will be set to ensure a sound diversification policy.
- Longer term and cash limits may be set for secured investments (e.g., those with underlying collateral or which are by regulation excluded from being bailed-in/restructured in the event of financial distress.)
- Where there is no investment-specific rating, but collateral upon which the investment secured is rated, then the higher of the collateral and counterparty rating will be used to determine time and cash limits.
- Credit Default Swap (CDS) information
- Macro-economic indicators
- Asset values - consideration of the use of building societies that do not meet credit rating criteria for banks may be based on asset size rather than a formal rating.
- Corporate developments, news and articles, market sentiment

Where one or more counterparties are part of a group a limit will be set for the aggregate for all investments with the group.

1.1.2 Treasury Advisors will construct a lending list comprising time, type, sector and specific counterparty limits based on the Councils approved Annual Investment Strategy. The counterparty list will be agreed and confirmed by the Section 151 officer.

- It may be impractical to determine a specific list of non-financial counterparties in whose securities investments might be made. The minimum credit rating criteria and whether the security is secured or unsecured will determine its selection for investment
- The counterparty list will be checked in accordance with the Annual Investment Strategy.
- Credit ratings for individual counterparties can change at any time. The Treasury Advisors notify the Council of credit rate changes which affect the Councils counterparty list and any consequent change in limits. They also provide economic summaries, CDS information (monthly) and share price information.
- In addition, Treasury Management Officers will use their own means to monitor market sentiment (via Treasury Live software) and ratings changes.
- The Section 151 Officer will amend the approved list in line with the policy on criteria for selection of counterparties.
- Where an entity's credit rating is downgraded so that it fails to meet the minimum criteria, then only with the explicit approval of the S151 officer will a lower level of investment be permitted within the non-Specified category. This is particularly apposite for the Council's own bankers where overnight deposits may be required for Operational purposes
- Where a credit rating is placed on review for possible downgrade (also termed 'rating watch negative') so that it may fall below the minimum approved credit criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the rating review has been completed and its outcome known. This will not apply for 'negative outlooks' which indicate a long-term direction of travel rather than a possibility of an imminent downgrade
- Credit ratings will be used as supplied from one or more of the following credit rating agencies

:-

  - Fitch Ratings Ltd
  - Moody's Investors Services
  - Standard & Poor's

- Operationally the Section 151 Officer may take measures to restrict (but not extend) the criteria approved in the Annual Investment Strategy.
- Advisers will be advised of changes to the Counterparty List where necessary.

1.1.3 Policy on environmental, social and governance (ESG) considerations

- The Council is appreciative of the Statement on ESG in Credit Risk and Ratings which commits signatories to incorporating ESG into credit ratings and analysis in a systemic and transparent way. The Council uses ratings from Fitch, Moody's and Standard & Poor's to support its assessment of suitable counterparties. Each of these rating agencies is a signatory to the ESG in credit risk and ratings statement:

- For short term investments with counterparties, this Council utilises the ratings provided by Fitch, Moody's and Standard & Poor's to assess creditworthiness, which do include analysis of ESG factors when assigning ratings. The Council will continue to evaluate additional ESG-related metrics and assessment processes that it could incorporate into its investment process where available in a consistent manner,

1.2 Liquidity Risk Management

- The Council will seek to maintain sufficient cash balances to meet its daily cash requirements without recourse to short-term borrowing, should unforeseen circumstances arise short–term borrowing will be undertaken to ensure liabilities are met as they fall due.
- Approved sources of short-term borrowing are: -
  1.The Council agrees an overdraft facility, if necessary, with its bankers.
  2.The Council accesses temporary loans either through money brokers or directly from financial institutions/other local authorities.
- The Council will only borrow in advance of need where there is a clear business case for doing so and will only do so for the current programme or to finance future debt maturities

The Credit and Investment Manager maintains cash flow forecasts (see TMP8)

1.3 Interest Rate Risk Management

1.3.1 Treasury management strategies are prepared in consultation with treasury advisors where appointed to take account of interest rate forecasts (see TMP6). Trigger points for consideration of borrowing are included within the strategy where appropriate. The treasury management advisors where appointed periodically update the forecasts and any impact on trigger points. The Council may determine it is more cost effective in the short-term to fund its borrowing requirement using internal resources ('internal borrowing') or through borrowing short-term loans. The benefits of such borrowing will be monitored regularly against the potential for incurring additional costs by deferring or refinancing in future years when interest rates are expected to be higher.

1.3.2 For its investments, the Council also considers dealing from forward periods dependent upon market conditions. The Council's counterparty term limits will apply and will include the forward period of the investment.

1.3.3 The Prudential Code requires the Council to determine each year upper limits on net fixed interest rate and net variable interest rate exposures are determined each year as part of the Treasury Management Indicators included in the annual Treasury Management Strategy Statement.

1.3.4 The upper limits on net fixed interest rate and net variable interest rate are reviewed at least annually and are approved by Council within the Treasury Management Strategy reports. The Credit and Investment Manager maintains a spreadsheet to monitor compliance which is subject to regular review as part of the assurance arrangements.

1.3.5 Policies concerning the use of financial derivatives[1] and other instruments for interest rate management are set out in TMP4-

- a. Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g., interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g., LOBO loans and callable deposits). The general power of competence in Section 1 of the Localism Act 2011 removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e., those that are not embedded into a loan or investment). The CIPFA Code requires authorities to clearly detail their policy on the use of derivatives in the annual strategy. The authority does not currently intend to use derivatives. Should this position change, the Council will seek to develop a detailed and robust risk management framework governing the use of derivatives.

- b. Forward Dealing – consideration will be given to forward lending or borrowing for a period up to 12 months in advance of the transaction subject to the Section 151 Officer's approval on each occasion.

- c. Lenders Option/Borrowers Option[2] - no new LOBO loans will be entered into and consideration will be given to any opportunities to exit/cap/reduce potential liability under existing contracts.

1.4 Exchange Rate

- Borrowing and Lending will only be undertaken in £ Sterling.
- The Authority may have some exposure to exchange rate movements from time to time because expenditure or income is denominated in a foreign currency, but these transactions will generally be small and will normally be converted out of or into sterling at the time of the transaction.

1.5 Inflation Risk Management

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

1.6. Refinancing

1.6.1 The Council will seek to limit refinancing exposure by ensuring that only a limited amount of loan debt will mature in any one year. This limit will be kept under review

[1] Derivatives are financial instruments whose value is derived from the value of something else. They generally take the form of contracts under which the parties agree to payments between them based upon the value of an underlying asset or other data at a particular point in time. The main types of derivatives are futures, forwards, options and swaps.

[2] Lender Option Borrower Option (LOBO's) are typically very long-term loans - for example 40 to 60 years - and the interest rate is initially fixed. However, in the LOBO facility the lender has the option to call on the facilities at pre-determined future dates, such as every 6 months after an initial fixed period. On these call dates, the lender can propose or impose a new fixed rate for the remaining term of the facility and the borrower has the 'option' to either accept the new imposed fixed rate or repay the loan facility.

and reported annually as part of the Annual Treasury Strategy. The Prudential Code requires as a specific treasury management indicator, upper and lower limits for the maturity structure of the Council's debt.

The Section 151 Officer will by the 31 March of each year produce a borrowing strategy detailing the projected borrowing requirement for the subsequent year.

1.6.2 The opportunities for debt restructuring will be kept under review in line with market conditions. All loan debt rescheduling will be reported to the Council as part of the outturn report.

1.63 The Section 151 Officer will prepare as a minimum a three-year plan for capital expenditure for the Council. The Capital Investment Strategy and capital programme will be used as a basis for estimating the anticipated financing requirement and a three-year revenue budget for loan charges consisting of principal repayments, interest and expenses as well as loan repayments and forecast interest rates.

1.6.4 The Council sets affordable limits for borrowing to inform the capital investment plans. The main source of borrowing for the authority is the Public Works Loan Board (PWLB) and estimates shall be prepared using forecast PWLB rates.

1.6.5 The Council's debt portfolio includes loans borrowed on a LOBO (Lender's Option Borrower's Option) basis. The call dates for each LOBO loan are referenced in the LOBO documentation. Whilst in the current interest rate environment LOBO calls are considered unlikely the Council will, prior to each call date, evaluate alternative funding sources for comparable interest rates/maturities. This will be discussed at the monthly treasury meeting.

If the Lender exercises the call option (directly or via the broker) for a revision to the terms of the loan, the Council's default position will be to repay the loan and re-finance via a vanilla loan elsewhere.

The importance of remaining within the timescale for the Council to exercise its option should the call be made is acknowledged, but it will not be rushed into a decision.

1.6.6. Policy Concerning Limits on Affordability and Revenue Consequences of Capital Financing

- In considering the affordability of its capital plans, the Council will consider all the resources currently available/estimated for the future together with the totality of its capital plans, revenue income and revenue expenditure forecasts for the forthcoming year and the two following years and the impact these will have on council

- It will also consider affordability in the longer term beyond this three year period and assess the risks and rewards of significant investments to ensure the long-term financial sustainability of the authority. (CIPFA has not defined what longer term means but it is likely to infer 20-30 years in line with the financing time horizon and the expected life of the assets, while medium term financial planning, at a higher level of detail, is probably aimed at around a 10-year time frame and to focus on affordability in particular.)

- The Council will also undertake an annual review of commercial, (debt for yield), investments (where existing) with a view to divest, where appropriate, so as to avoid or minimise additional external borrowing.

- The Council will use the definitions provided in the Prudential Code for borrowing, capital expenditure, capital financing requirement, commercial property, debt, financing costs, investments, net revenue stream, other long term liabilities, treasury management and transferred debt.

i. 1.7 Legal and Regulatory References to Relevant Statutes and Regulations

The treasury management activities of the Council shall comply fully with legal statute, guidance, Codes of Practice and the regulations of the Council. These are:

English Authorities

Statutes

- Local Government Finance Act 1988 section 114 – duty on the responsible officer to issue a report if the Council is likely to get into a financially unviable position.
- Requirement to set a balanced budget - Local Government Finance Act 1992 section 32 for billing authorities and section 43 for major precepting authorities.
- Local Government Act 2003
- S.I. 2003 No.2938 Local Government Act 2003 (Commencement No.1 and Transitional Provisions and Savings) Order 2003 13.11.03
- S.I. 2003 No.3146 Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 and associated commentary 10.12.03
- S.I. 2004 No.533 Local Authorities (Capital Finance) (Consequential, Transitional and Savings Provisions) Order 2004 8.3.04
- S.I. 2004 No.534 Local Authorities (Capital Finance and Accounting) (Amendment) (England) Regulations 2004 8.3.04
- S.I. 2004 no. 3055 The Local Authorities (Capital Finance and Accounting) (Amendment) (England) (No. 2) Regulations 2004
- S.I. 2006 no. 521 Local Authorities (Capital Finance and Accounting) (Amendment) (England) Regulations 2006
- S.I. 2007 no. 573 Local Authorities (Capital Finance and Accounting) (Amendment) (England) Regulations 2007
- Local Government and Public Involvement in Health Act 2007 s238(2) – power to issue guidance; to be used re: MRP
- S.I. 2008 no. 414 Local Authorities (Capital Finance and Accounting) (Amendment) (England) Regulations 2008
- S.I. 2009 no. 321 Local Authorities (Capital Finance and Accounting) (Amendment) (England) Regulations 2009
- S.I. 2009 no. 2272 The Local Authorities (Capital Finance And Accounting) (England) (Amendment) (No.2) Regulations 2009
- S.I. 2009 no. 3093 The Local Government Pension Fund Scheme (Management and Investment of Funds) Regulations 2009
- S.I. 2010 no. 454 (Capital Finance and Accounting) (Amendment) (England) Regulations 2010
- Localism Act 2011
- S.I. 2012 no. 265 Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2012
- S.I. 2012 No. 711 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) (No. 2) Regulations 2012
- S.I. 2012 No. 1324 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) (No.3) Regulations 2012
- S.I. 2012 No. 2269 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) (No. 4) Regulations 2012

- S.I. 2013 no. 476 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2013
- S.I. 2015 no. 234 Accounts and Audit Regulations 2015
- S.I. 2017 no. 536 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2017
- S.I. 2018 no. 1207 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2018
- Statutory Guidance on Investments 2018
- Statutory Guidance on MRP 2018
- 2019 No. 394 Exiting the European Union financial services: The Money Market Funds (Amendment) (EU Exit) Regulations 2019
- S.I. 2019 no. 396 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2019
- S.I. 2020 no. 1212 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2020
- S.I. 2021 no. 611 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2021

Guidance and codes of practice

- CIPFA Local Authority Capital Accounting - a reference manual for practitioners' latest year Edition
- CIPFA Guide for Chief Financial Officers on Treasury Management in Local Authorities 1996
- CIPFA Standard of Professional Practice on Treasury Management 2002
  - CIPFA Standard of Professional Practice on Continuous professional Development 2005
  - CIPFA Standard of Professional Practice on Ethics 2006
  - The Good Governance Standard for Public Services 2004
- CIPFA's Treasury Management Codes of Practice and Guidance Notes 2021,
- CIPFA Prudential Code for Capital Finance in Local Authorities and Guidance Notes revised 2021
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  - LAAP Bulletins
  - IFRS - Code of Practice on Local Authority Accounting in the United Kingdom: A Statement of recommended Practice
  - PWLB circulars on Lending Policy
  - The UK Money Markets Code (issued by the Bank of England)
  - The Council's Standing Orders relating to Contracts
  - The Council's Financial Regulations
  - The Council's Scheme of Delegated Functions

1.7.2 The Council will confirm, if requested to do so by counterparties, the powers and authorities under which the Council effects transactions with them.

1.7.3 Statement on the Council's Political Risks and Management of Same

The responsible officer shall take appropriate action with the Council, the Chief Executive and the Leader of the Council to respond to and manage appropriately political risks such as change of majority group, leadership in the Council, change of Government etc.

1.7.4 Monitoring Officer

The monitoring officer is the Chief Legal Officer the duty of this officer is to ensure that the treasury management activities of the Council are lawful.

1.7.5. Chief Financial Officer/S151 Officer

The Chief Financial Officer is the Executive Director Place, Environment, Economy & Resources the duty of this officer is to ensure that the financial affairs of the Council are conducted in a prudent manner and to make a report to the Council if he has concerns as to the financial prudence of its actions or its expected financial position.

1.7.6 Where required, the Council will also establish the powers of those with whom they enter into transactions, including any compliance requirements in respect of a duty of care and best practice.

1.8 Operational risk, including fraud, error and corruption,

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

This organisation will ensure that it has identified the circumstances which may expose it to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings. Accordingly, it will employ suitable systems and procedures, and will maintain effective contingency management arrangements, to these ends.

1.8.1 TMP5 and TMP6 and supporting Schedules set out the Council's arrangements for clarity of organisation, reporting arrangements, and management information systems and controls.

1.8.2 Emergency and Contingency Planning Arrangements
Disaster Recovery Plan.

Under established agile working practises, all members of the Treasury Management team have remote access to the required systems to enable continuity

- An electronic record is kept of all necessary treasury management data
- CHAPS payments can be given by instruction by hand to the Bank.
- Balances can also be obtained over the telephone
- All computer files are “backed up” to enable files to be accessed from remote sites
- Capability exists to make payments off-site following the adoption of agile working practices.

1.8.3 Details of systems and procedures to be followed:

Authority

- The scheme of delegation to Officers set out the appropriate delegated levels. All loans and investments, including PWLB, are negotiated by authorised persons.

Occurrence

- A detailed register of loans and investments is maintained as part of the treasury management arrangements (Treasury Live). This is confirmed to the ledger balance.

- Adequate and effective cash flow forecasting records are maintained within the treasury management arrangements to support the decision to lend or borrow

- Confirmation of a deal is received from the counterparty or trading portal. This could be in electronic or hardcopy format.

- A broker note showing details of the loan arranged confirming all transactions placed through brokers

Completeness

- The loans register (Treasury Live) is updated to record all lending and borrowing this includes the date of the transaction and its terms.

Measurement

- The calculation of repayment of principal and interest notified by the lender or borrower is checked for accuracy against the amount calculated by the Authority.

Timeliness

- The Treasury Live system highlights when money borrowed or lent is due to be repaid. On a daily basis the Dealer will obtain from the Authority’s bankers the intraday balance and ensure that allowance will be made for the repayment/ receipt of loans/ investment due.

Procedure

- All lending is only made to institutions on the approved list

- All loans raised and repayments made go directly to and from the authority's designated bank account.

- Authorised limits are set for every institution, grouped entities and certain types of instrument.

- Transactions are cross-checked against broker notes, counterparty confirmations and schedules by dates, amounts, interest rates, maturity, interest payment dates, etc.

- Brokers will have a list of named officers authorised to perform loan transactions

- .

- The control totals on the Treasury Live system are reconciled quarterly with the ledger

- There is a clear separation of duties between the authorisation, inputting and releasing a payment processing of a payment and its checking and authorisation

- Bank reconciliation is carried out regularly from bank statement to financial ledger.

Security

- Investment Payments - should only be authorised by an authorised signatory and payments over £3m require a second authorised signatory authoriser.
- Faster Payments –Payments should be authorised by a signatory from HR/Payroll services manager and an authorised signatory
- Cards, PINs and card readers are required for Barclays.net transactions.
- When receiving requests for change of payment details, due care will be exercised to ascertain the bona fide of the request and avoid potential fraud. Additional checks will be made through independently obtained contact details for the payee before altering payment details.

Internal Audit

1.8.4 Internal Audit carries out an annual regulatory review of the treasury management function. (See TMP 7)

1.8.5 The Council has “Crime Stop” insurance cover. This covers the loss of cash by fraud or dishonesty of employees.

1.9 Price Risk Management

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

1.9.1 The Council will from time to time access instruments in which there is an active secondary market (Certificates of Deposit, Treasury Bills etc.). The capital value of these instruments will fluctuate depending on the remaining period to maturity and prevailing market conditions. However, when using such instruments, the Council will always do so on the basis that it intends to hold them to maturity and thereby secure a fixed capital value.

1.9.2 The Council may consider Variable Net Asset Value (VNAV) funds, as appropriate, in line with its TMSS

1.9.3 The method for accounting for unrealised gains or losses on the valuation of financial assets will comply with the Accounting Code of Practice.

1.9 Management practices for non-treasury investments

This organisation recognises that investment in other financial assets and property primarily for financial return, taken for non-treasury management purposes, requires careful investment management. Such activity includes loans supporting service outcomes, investments in subsidiaries, and investment property portfolios.

This organisation will ensure that all the organisation’s investments are covered in the capital strategy, investment strategy or equivalent, and will set out, where relevant, the organisation’s risk appetite and specific policies and arrangements for non-treasury investments. It will be recognised that the risk appetite for these activities may differ from that for treasury management.

The organisation will maintain a schedule setting out a summary of existing material investments, subsidiaries, joint ventures and liabilities including financial guarantees and the organisation’s risk exposure.

Schedule 2 – TMP2 Performance measurement

- Methodology to be applied for Evaluating the impact of Strategic Treasury Management Decisions

  All strategic treasury decisions are to be evaluated to determine:
  - The impact on the Council's finances
  - Any resultant change in the treasury management risk characteristics.

2.1 Methods to be employed for measuring the performance of the authorities Treasury Management activities

- Prudential Indicators are local to the Council and are not intended as a comparator between authorities.

- Benchmarking information can be obtained from Advisors (where applicable), Treasury Live and/or CIPFA.

- The performance review will be made in the light of general trends in interest rates during the year and how the decisions made corresponded with these trends and the Council's agreed strategy, i.e. the Council will avoid hindsight analysis.

  - For debt management the following Performance Indicators (PI's) will be used
  - Average rate on all external debt
  - Average rate on external debt borrowed in previous financial year
  - Average period to maturity of external debt
  - For new borrowing, the average PWLB borrowing rate for the period for the same maturity profile.

- For investments the following performance indicator within the TMSS regarding Security will be monitored - a portfolio credit rating of A and for liquidity total cash available with 3 months of £10m.

2.2 To assist in evaluating the impact of strategic treasury management decisions the following will be carried out

- The Credit and Investment Manager will produce regular updates to the Treasury Management Strategy Group (TMSG).
- Mid-year report to Audit Committee and Cabinet. Annual Report to Council
- Reviews with the treasury management advisors
- Internal audit reviews

2.3 Policy Concerning Methods for Testing Value in Treasury Management

2.3.1 Frequency and Processes for tendering

Banking services and other treasury services provided by external providers shall be subject to review by the Executive Director Place, Environment, Economy & Resources /Section 151 Officer at least every 5 years depending on type of contract

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2.3.2. Banking Services

Banking services will be re-tendered or renegotiated at least every 5 years to ensure that the level of prices reflect efficiency savings achieved by the supplier and current pricing trends

2.3.3. Money Broking Services

Except for approved direct dealing the Council uses money broking services in order to make deposits or to borrow from the market and will establish charges for all services prior to using them.

The Section 151 Officer has established the under noted list of brokers, which takes account of both prices and quality of services, to obtain funds from the money markets and to place investments in accordance with the Approved list.

- Martin Brokers
- Tullett Prebon
- King and Shaxson Limited
- Tradition UK
- BGC Partners
- Munix Limited

This list may be revised at any time by the Section 151 Officer. Use of individual brokers will be determined by the need to access the services which they provide in the first instance and by performance/cost assessment thereafter.

2.3.4 Consultants/Advisors Services

NELC's policy is to appoint full-time professional treasury management advisors; the contract will be reviewed at least every three years.

2.3.5 Policy on External Managers

The Authorities' current policy is not to appoint external investment managers, but this will be kept under review by the Section 151 officer.

Schedule 3 - TMP3 Decision making and analysis

3.1 Funding, Borrowing, Lending, and New Instruments / Techniques

Documents will be retained to evidence the processes and rationale behind all decisions:

3.1.1 Records to be kept. The Treasury team maintains a daily electronic record of bank balances, statements and cash flow calculations and uses specialist computer software to record all cash flow and treasury management transactions which are authorised independently
The record will have the following details relative to each loan or investment.

- Brokers (if applicable)
- Counterparty
- Interest rate
- Repayment date
- Term of loan
- Loan type
- Commission
- Transfer arrangement
- Basis on which a particular deal was judged to be the correct one
- Confirmation of compliance with Counterparty List

In addition, the following records will be kept: -

- Broker Confirmations
- Counterparty Confirmations
- Deal Tickets

3.1.2 Processes to be pursued

- Cash flow forecasting – 6 months ahead (daily breakdown), period of Medium Term Financial Forecast (Monthly breakdown).
- Investment of surplus cash balances
- Temporary borrowing to cover cash deficits
- Long term borrowing to finance capital expenditure
- Obtaining other forms of financing where that offers best value
- Managing the investment and debt portfolio – maturity profile, debt rescheduling opportunities etc.:
- Monitoring of actual against budget for debt charges, interest earnings and debt management expenses

3.1.3 <u>Issues to be addressed</u>

3.1.3.1 In respect of every decision made the Council will have regard to the nature and extent of the risks to which the authority may become exposed

- Be certain about the legality of the decision reached and the nature of the transaction, and that all authorities to proceed have been obtained.
- Be content that the documentation is adequate both to deliver the Authorities objectives and protect the authority's interests, and to deliver good housekeeping
- Ensure that third parties are judged satisfactory in the context of the Authorities creditworthiness policies, and that limits have not been exceeded.
- Be content that the terms of any transactions have been fully checked against market and have been found to be competitive

3.1.3.2 In respect of borrowing and other funding decisions, the S151 Officer will:

- consider the ongoing revenue liabilities created, and the implications for the organisation's future plans and budgets to ensure that Its capital plans and investment plans are affordable, proportionate to the Council's overall financial capacity, and are within prudent and sustainable levels. This evaluation will be carried out in detail for three budget years ahead.
- Less detailed evaluation will also be carried out over a longer period of up to 60 years to ensure that plans continue to be affordable, proportionate, prudent and sustainable in the longer term. *(CIPFA has not defined what longer term means)*
- not borrow to invest primarily for financial return.
- not borrow earlier than required to meet cash flow needs unless there is a clear business case for doing so.
- not borrow unless it is to finance the current capital programme or to fund future debt maturities, or to ensure an adequate level of short-term investments to provide liquidity for the Council.
- increase its CFR and borrowing solely for purposes directly and primarily related to the functions of the authority and where any financial returns are either related to the financial viability of the project in question or otherwise incidental to the primary purpose.
  - undertake an annual review of any investments in commercial (debt for yield) schemes with a view to identify whether such assets should be sold to provide resources to finance capital expenditure plans or refinance maturing debt.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, including funding from revenue, leasing and private partnerships
  - Consider the use of internal resources and/or the most appropriate periods to fund and repayment profiles to use
  - Where applicable, monitor regularly the benefits of internal borrowing against the potential for incurring additional costs by deferring borrowing into future years.
  - ensure that treasury management decisions are made in accordance with good professional practice.

3.1.3.3 In respect of investment decisions, the S151 Officer will:

- Determine that the investment is within the Council's strategy and pre-determined instruments and criteria.
- Consider the optimum period, in the light of cash flow availability and prevailing market conditions

- Consider the alternative investment products and techniques available, especially the implications of using any which may expose the Authority to changes in the value of its capital.
- Evaluate the credit risk associated with unsecured investments with banks and building societies.
- Determine appropriate credit policy limits and criteria to minimise the Authorities exposure to credit worthiness and other investment risks

Schedule 4 - TMP4 Approved instruments, methods and techniques

4.1 Approved activities of the Treasury Management operation

- Borrowing
- Investing
- Capital Financing
- Debt Repayment and rescheduling
- Consideration, approval and use of new financial instruments and treasury management techniques
- Managing the underlying financial risk associated with the Council's capital financing and surplus funds activities
- Managing Cash Flow
- Managing any underlying exchange rate risk associated with the Council's business activities

The above list is not finite, and the Council would, from time to time, consider and determine new financial instruments and treasury management techniques; however, the Council will consider carefully whether the officers have the skills and experience to identify and manage the advantages and risks associated with using the instruments/techniques before undertaking them, more so as some risks may not be wholly or immediately transparent.

4.2 Approved Instruments for Investments

Investments will be with those bodies identified by the Council for use through the Treasury Management Strategy and may include using the following instruments:

- Deposits with the UK government, the Debt Management Agency Deposit Facility (DMADF), and UK local authorities, Term deposits, callable deposits, and forward deals with high rated banks and building societies.
- Treasury Bills, Gilts and other Government issued securities
- Certificates of deposit with high rated banks and building societies.
- AAA-rated Money Market Funds.
- Highly rated corporate bonds
- Covered bonds (i.e. those with underlying collateral)
- Unsecured corporate bonds
- Reverse Repurchase Agreements ('reverse repos')
- Floating Rate Notes

- Pooled funds i.e. Collective Investment schemes meeting the criteria in SI 2004 No 534 and subsequent amendments
- Pooled funds i.e. Collective Investment Schemes which do not meet the definition of Collective Investment Schemes in SI 2004 No 534 and subsequent amendments – these will be capital expenditure investments.

4.2.1 Implementation of MIFID II requirements

From 3 January 2018, UK public sector bodies were defaulted to "retail" status under the requirements of MiFID II. However, for each counterparty it is looking to transact with, (e.g. financial institution, fund management operator, broker), there remains the option to opt up to "professional" status, subject to meeting certain requirements specified by MIFID II and that it has the appropriate level of knowledge and experience and decision making processes in place in order to use regulated investment products.

MIFID II does not cover term deposits so local authorities should not be required to opt up to professional status. However, some non-UK banks do not have the necessary regulatory permissions to deal with retail clients, so opting up to professional status would be required.

For investing in negotiable investment instruments, (e.g. certificates of deposit, gilts, corporate bonds), money market funds and other types of investment funds, which are covered by MIFID II, a schedule is maintained of all counterparties that the treasury management team are authorised to place investments with. This specifies for each investment instrument and for each counterparty, whether the authority has been opted up to professional status. (N.B. some money markets funds will deal with both retail and professional clients.)

A list is maintained for all permissions applied for and received for opt ups to professional status specifying name of the institution (please see below)

SCHEDULE FOR OPT UPS TO PROFESSIONAL STATUS

Banks

None

Money Market Funds

Blackrock

via Mosaic

Goldman Sachs

Insight

Northern Trust

Bond Funds

None

Others

Link Asset Services

King and Shaxson

Tradition UK

BGC Partners

Tullett Prebon

Munix Limited

SCHEDULE FOR EXEMPTIONS

4.3 Approved Techniques include

Forward dealing up to 3 years in advance. All forms of funding will be considered dependent on the prevailing economic climate, regulations and local considerations. The Section 151 Officer has delegated powers in accordance with Financial Regulations, Standing Orders, and the Scheme of Delegation and the Treasury Management Strategy to take the most appropriate form of borrowing from the approved sources.

4.4 Approved Methods and Sources of Raising Capital Finance

Finance will only be raised in accordance with the Local Government Act 2003 and within this limit the Authority has several approved methods and sources of raising capital finance be it for long, short or temporary term. These include:

- Public Works Loan Board (PWLB)
- Any institution approved for investments incl Multi-lateral Agencies
- Any other bank or building society authorised to operate in the UK
- UK public and private pension funds (except East Riding Pension Fund)
- Negotiable Bonds
- Municipal Bonds Agency and other special purpose vehicles created to enable local authority bond issues
- Other local authorities
- Overdraft
- Internal (Capital Receipts, Revenue Balances & use of reserves)
- Private Finance Initiative
- Operating and Finance leases
- Deferred purchase
- Hire Purchase
- Sale and leaseback

Other Methods of Financing include:

- Government and EC capital Grants

- Contributions from other bodies

Use of Derivatives

The authority will not use standalone derivatives

4.5 Investment Limits
The Annual Investment Strategy sets out the limits and the guidelines for use of each type of investment instrument.

4.6 Borrowing Limits
See the Treasury Management Strategy Statement and Prudential and Treasury Indicators.

Schedule 5 - TMP5 Organisation, clarity and segregation of responsibilities and dealing arrangements

5.1 Limits to Responsibilities / Discretion at Authority Level

Council

- Formal Approval of the delegation of responsibilities (Constitution).
- Budget consideration and approval.
- Set the Prudential Indicators and revise them as and when necessary
- Formal Approval of The Treasury Management Strategy Statement, Annual Investment Strategy, Capital Strategy and Prudential Code indicators.
- Receive annual report and mid-year review on treasury management.

Cabinet

- Receive reports on treasury management arrangements and activities and the approval of decisions not reserved to Council

.

- Recommend the annual report and mid-year review on treasury management to Council

Audit Committee

Scrutiny and overview of treasury management arrangements and Treasury Management Activity,
Recommend the Annual Report and mid-year review to Cabinet (as per TMP6).
Recommend the Treasury Management Strategy (TMSS) and Practices (TMPs) and Schedules to Cabinet
Receiving and reviewing internal and external audit reports and reviewing progress on the implementation of recommendations.

Portfolio Holder

- Scrutiny and overview of treasury management activities on a monthly basis in conjunction with the Section 151 Officer.

5.2 Principles and Practices concerning Segregation of Duties.

The following duties must be undertaken by separate officers: -

- Dealing
- Authorisation of deal
- Release payment from online banking system.
- Administration of user profiles on cash management and banking systems

5.3 Treasury Management Organisation Chart

Executive Director Place, Environment, Economy & Resources/Section 151 Officer

Strategic Lead – Financial Planning and Resources

Credit and Investment Manager

Senior Dealer, Dealer and Reserve Dealers

Releasers

5.4 Statement of Duties / Responsibilities for Each Treasury Post

5.4.1 Executive Director Place, Environment, Economy & Resources /Section 151 Officer

- Ensure that at all times those engaged in Treasury Management follow the policies and procedures set out.
- Recommend to Council for adoption, Treasury Management Policy Statement, reviewing the same and monitoring compliance.
- Submit Treasury Management reports as prescribed in TMP6, Reporting Requirements and Management Information Arrangements.
- Set income budget for return on investments
- Submit budgets, budget variations and prudential indicators.
- Receive and review management information reports.
- Ensure the adequacy of treasury management resources and skills and the effective division of responsibilities within the treasury management function.
- Ensure the adequacy of internal audit, and liaison with external audit.
- Approve the appointment of external service providers.
- Recommend to Council the approval of the Treasury Management Strategy Statement including the Annual Investment Strategy and Prudential Code indicators.
- To take the most appropriate form of borrowing from the approved sources and to make the most appropriate form of investments in approved instruments.
- Delegate formally and document his power to borrow and invest to members of his/her staff.
- To ensure that the scheme of Treasury Management responsibilities as set out in this schedule are adhered to.
- Prior to entering into any capital financing, lending or investment transaction, it is the responsibility of the Section 151 Officer to be satisfied, by reference to the Monitoring Officer, the authorities legal department and external advisors as appropriate, that the proposed transaction does not breach any statute, external regulation or the Council's Constitution and Financial Regulations.
- In the role of Money Laundering Reporting Officer ensure compliance with appropriate Money Laundering Regulations.
- It is also the responsibility of the responsible officer to ensure that the Council complies with the requirements of The UK Money Markets Code (formerly known as the Non-Investment

Products Code) for principals and broking firms in the wholesale markets.

5.4.2 Head of Finance & Accountancy (Deputy S151)

To deputise for the Section 151 Officer as required.

5.4.3 Strategic Lead – Financial Planning and Resources

- To lead Treasury Management Operational Group
- Provide oversight of the day to day treasury management operations,
- To undertake the day to day treasury management duties of the Section 151 Officer,
- To ensure that adequate resources are available,
- Ensure Training is up to date for all roles,
- Submitting management information reports to the Section 151 officer / Chief Executive,
- Review compliance with Assurance Targets and report and exceptions to Treasury Management Strategy Group
- Agree reconciliation of Treasury Transactions to the ledger

5.4.4 Credit and Investment Manager

- Oversee the execution of Transactions and ensure adequate recording takes place.
- Adherence to agreed policies and practices on a day by day basis.
- Maintaining relationships with banking and treasury related third parties and external service Providers.
- Monitoring performance on a day to day basis.
- Identifying and recommending opportunities for improved practices.
- Ensure Dealers and Reserve Dealers are kept up to date with market developments
- Horizon scanning for macro-economic factors

5.4.5 Senior Dealer/ Dealer

- Execution of Transactions and their recording.
- Maintenance of Dealer Duties
- The dealer may enter payment details into online banking platforms and transfer funds between the Council's own accounts.

5.4.6 Authoriser

- Authorise deals and reviewing their compliance with treasury management arrangements and strategy.

5.4.7 Funds Releaser

- Authorisation of release of deal via online banking platform.

5.4.8 Monitoring Officer

- Ensuring compliance by the Section 151 Officer with the treasury management policy statement and treasury management practices and that they comply with the law.
- Being satisfied that any proposal to vary treasury policy or practice complies with law or any code of practice.
- Giving advice to the Section 151 Officer when advice is sought.

5.4.9 Internal audit

- To provide management with assurance about the effectiveness of key controls that are operated by the Council and the exposure to risk any control issue may cause.

5.5 Absence cover arrangements

- All roles will be covered by at least two persons who have received sufficient training.

5.6 Dealing limits:

Long term funding and investment (where the period is in excess of 364 days)

All long term funding and investment decisions shall be authorised by the Section 151 Officer either within the minuted forum of Treasury Management Strategy Group or by separate discussion and appropriate (email/Decision notice) confirmation.

Short term funding and investment

In respect of the daily surplus or loan decision required the following limits shall apply to the approval of short term funding and investment decisions.

1. Dealer Decision- up to £5 million

2. Over £5 million and longer than 31 days - approval required from Credit and Investment Manager or above.

5.7 Direct Dealing Practices

Direct dealing is carried out with institutions and with external pooled funds identified on the counterparty list and subject to maturity limits and dealing limits.

Deal Transactions

By telephone, e mail or via online dealing portal

5.8 Settlement Transmission Procedures

The transfer of funds for deals arranged shall normally be made via the Council's online banking platform.

All CHAPS payments relating to settlement transactions require authorisation by at least one bank signatory

All Single CHAPS payments over £3m relating to settlement transactions require authorisation by 2 bank signatories

In times of reduced resource (e.g. during Christmas closure period) an officer of Accountant level or higher with appropriate knowledge and experience may deputise at 'bank signatory' level for Treasury settlement payments but only with the prior time-limited permission of the S151 Officer/Deputy S151 Officer.

Single payments over £3m require 2 individual Releaser confirmations within the Barclays.net system

5.9 Documentation Requirements:

For each deal undertaken the following will be prepared:

Investments
- Investment Deal ticket authorising the investment
- Confirmation from the broker
- Contract notes for purchase and sale of shares/units in pooled funds from the fund's manager/administrator

Loans
- Borrowing Deal ticket with signature to agree loan
- Confirmation from the broker OR
- Confirmation from PWLB/market counterparty

5.10 Arrangements concerning the management of counterparty risk

- The Credit and Investment Manager has responsibility for updating the Council's records with any credit developments

- The Strategic Lead – Financial Planning and Resources is tasked with the responsibility for checking that records have been correctly updated to reflect any credit developments.

TMP 6

Schedule 6 - TMP6 Reporting requirements and management information arrangements

6.1 Annual programme of reporting

a Annual reporting requirements before the start of the year

- Review of the organisation's approved clauses, treasury management policy statement and practices
- Treasury management strategy report on proposed treasury management activities for the year comprising of the Treasury management strategy statement, Annual Investment Strategy (see 6.3) and Minimum Revenue Provision Policy Statement
- Capital strategy to cover the following: -
- Give a long term view of the capital programme and treasury management implications thereof beyond the three year time horizon for detailed planning.
- An overview of treasury and non-treasury investments to highlight the risks and returns involved in each and the balance, (proportionality), between both types of investments.
- The authorities risk appetite and specific policies and arrangements for non-treasury investments
- Schedule of non-treasury investments
-
- Mid-year review Quarterly monitoring via the Budget Report to CabinetAnnual review report after the end of the year (see 6.5)

6.2 Treasury Management Strategy Statement

The Treasury Management Strategy Statement (TMSS) sets out the specific expected treasury activities for the forthcoming financial year. This Strategy will be submitted by the Section 151 Officer to the Council for approval before the commencement of each financial year.

The Treasury Management Strategy is concerned with the following elements:

- The current treasury portfolio position
- The prospects for interest rates
- The expected borrowing strategy
- The expectations for debt rescheduling
- The Annual Investment Strategy (see below) The Prudential Limits placed by the Council on treasury management activities (currently included in the Prudential Indicators report).

6.3 Annual Investment Strategy

As part of its annual TMSS for the following year, the Section 151 Officer will prepare an Annual Investment Strategy covering the identification and approval of the following:

- The strategy guidelines for decision making on investments.
- The maximum periods for which funds can be committed.
- Specified investments the Council will use. These are high security (defined by the Council), and high liquidity investments in sterling and with a maturity of no more than a year.
- Non-specified investments, clarifying the greater risk implications, identifying the general types of investment that may be used and a limit to the overall amount of various categories that can be held at any time.

6.4 Prudential Indicators

Under the prudential system, the Council must determine the level of their affordable borrowing, having regard to the CIPFA Prudential Code.

The prudential indicators for the forthcoming and following years must be set before the beginning of the forthcoming year. These are included as an Appendix to the TMSS.

The Section 151 Officer is responsible for ensuring compliance with these limits. Should it prove necessary to amend these limits, the Section 151 Officer shall submit the changes for approval to Council.

6.5 Annual reporting requirements after the year end

An annual report will be presented to Council at the earliest practical meeting after the end of the financial year, but in any case, by the end of September.

The report will include

- A comprehensive picture for the financial year of all treasury policies, plans, activities and results.
- Report on risk implications of decisions taken and transactions executed.
- Compliance report on approved policy, practices and statutory/regulatory requirements.
- Measurements of performance.
- Report on compliance with CIPFA code recommendations.

6.6 Quarterly and Mid-year reviews

The Council will review its treasury management activities and strategy on a quarterly and six monthly *(or other)* basis. The mid-year review will go to Full Council. This review will consider the following: -

a) activities undertaken
b) variations (if any) from agreed policies/practices
c) interim performance report
d) regular monitoring
e) monitoring of treasury management and prudential indicators

The quarterly review will monitor the treasury management and prudential indicators as part of the authority's general revenue and capital monitoring and be reported to Cabinet.

6.7 Management information requirements

The Credit and Investment Manager will provide to the Strategic Lead (Planning and Resources) in accordance with agreed timetable:

- Monitoring and forecast information in respect of revenue budgets
- Loan and investment balances
- Information demonstrating compliance with prudential indicators.
- Extent of compliance with Treasury Strategy and reasons for variance (if any)

The Credit and Investment Manager will produce for each meeting of the Treasury Management Strategy Group (TMSG) and the Treasury Management Operational Group (TMOG):

- Borrowing and lending balances
- Cash flow report
- Market Intelligence

TMOG will bring any major issues to the attention of the Section 151 Officer.

Schedule 7 – TMP7 Budgeting, accounting and audit Arrangements

7.1 Statutory/Regulatory Requirements

The accounts are drawn up in accordance with the Code of Practice on Local Authority Accounting in Great Britain that is recognised by statute as representing proper accounting practices.
The Council has also adopted in full the principles set out in CIPFA's 'Treasury Management in the Public Services – Code of Practice' (the 'CIPFA Code'), together with those of its specific recommendations that are relevant to this Council's treasury management activities.
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7.2 Budgets/Accounts

The Strategic Lead (Financial Analysis Planning and Resources) in consultation with the Credit and Investment Manager will prepare revenue estimates for treasury management activity and function for the forthcoming year and following two years.

This will bring together all the costs involved in running the function, together with associated income, i.e.:

- Interest payable
- Interest receivable
- Debt management expenses (including bank charges, external advisors etc)

The Credit and Investment Manager will monitor and report on these estimates throughout the year in accordance with the Council's budget monitoring arrangements.

7.3 List of information requirements of External Auditors

- Calculation of the Minimum Revenue Provision
- Copy of report to Members where Council determined Prudential Indicators
- Analysis of cash and bank balances at 31 March
- Year-end bank reconciliations (including cheque book schools)
- Schedule of outstanding borrowing at year end including confirmation from lenders
- Demonstrate compliance with FRS25, FRS 26 & FRS29
- Reconciliation of loan interest, discounts received, and premiums paid to the financial ledger by loan type
- Maturity analysis of loans outstanding
- Reconciliation of loans outstanding in the financial ledger to Treasury Live Calculation of loan interest and debt management expenses
- Schedule of all investments
- Copy of approved lending list
- Details of interest applied to internal investments
- Interest accrual calculation
- Treasury Management Strategy
- Annual Investment Strategy

- Annual treasury report
- Reports from Treasury Live system

Schedule 8 – TMP8 Cash and cash flow management

8.1 Arrangements for preparing /submitting cash flow statements

The Credit and Investment Manager shall keep up to date 3 year annual, and daily rolling cash flow projections.

The projections are prepared from the annual Medium Term Financial Forecast and accumulated knowledge on individual cash flow items, adjusted for known changes in levels of income and expenditure (revenue and capital) and changes in payments and receipts dates.

Daily Cash flow records are maintained on the Treasury Live system.

Analysis of the accuracy of forecasts is monitored by comparing rolling actuals to original projections on a monthly basis and reported to TMOG by the Senior Dealer.

A debt liability benchmark will be created and monitored on a quarterly basis to inform a long-term view of liquidity requirements.

8.2 Bank reconciliation procedure

Bank reconciliations are a key financial control aimed at ensuring:

- All financial transactions through the Council's bank accounts are reflected in the financial ledger
- All income and expenditure are properly and promptly banked and reflected in the appropriate bank account
- All queries are promptly resolved and a record of items that need further investigation
- Evidencing that the reconciliations are undertaken regularly throughout the year and are subject to monitoring and review

Bank reconciliations are carried out by another team within the Accountancy function to ensure clear separation of duties from those responsible for treasury activity.

TMP 9 Money Laundering

9.1 Proceeds of Crime Act 2002

Money laundering has the objective of concealing the origin of money generated through criminal activity. Legislation has given a higher profile to the need to report suspicions of money laundering. The Proceeds of Crime Act (POCA) 2002 established the main offences relating to money laundering. In summary, these are:

- concealing, disguising, converting, transferring or removing criminal property from England and Wales, from Scotland or from Northern Ireland
- being concerned in an arrangement which a person knows, or suspects facilitates the acquisition, retention, use or control of criminal property
- Acquiring, using or possessing criminal property.

These apply to all persons in the UK in a personal and professional capacity. Any person involved in any known or suspected money-laundering activity in the UK risks a criminal conviction. Other offences under the POCA include:

- failure to disclose money-laundering offences
- tipping off a suspect, either directly or indirectly
- Doing something that might prejudice an investigation – for example, falsifying a document.

9.2. The Terrorism Act 2000

- This act made it an offence of money laundering to become concerned in an arrangement relating to the retention or control of property likely to be used for the purposes of terrorism or resulting from acts of terrorism. All individuals and businesses in the UK have an obligation to report knowledge, reasonable grounds for belief or suspicion about the proceeds from, or finance likely to be used for, terrorism or its laundering, where it relates to information that comes to them in the course of their business or employment

9.3 The Money Laundering Regulations, 2012, 2015 and 2017

Organisations pursuing relevant business (especially those in the financial services industry regulated by the FCA) are required to do the following: -

- identify and assess the risks of money laundering and terrorist financing
- have policies, controls and procedures to mitigate and manage effectively the risks of money laundering and terrorist financing identified through the risk assessments
- appoint a nominated officer
- implement internal reporting procedures
- train relevant staff in the subject
- obtain, verify and maintain evidence and records of the identity of new clients and transactions undertaken
- report their suspicions

9.4 Local authorities

Public service organisations and their staff are subject to the full provisions of the Terrorism Act 2000 and may commit most of the principal offences under the POCA but are not legally obliged to apply the provisions of the Money Laundering Regulations,2012, 2015and 2017. However, as responsible public bodies, they should employ policies and procedures which reflect the essence of the UK's anti-terrorist financing, and anti-money laundering, regimes. Accordingly, this Council will do the following: -

a. evaluate the prospect of laundered monies being handled by them
b. determine the appropriate safeguards to be put in place
c. require every person engaged in treasury management to make themselves aware of their personal and legal responsibilities for money laundering awareness
d. make all its staff aware of their responsibilities under POCA
e. Appoint a member of staff to whom they can report any suspicions.
f. in order to ensure compliance is appropriately managed, this Council will require senior management to give appropriate oversight, analysis and assessment of the risks of clients and work/product types, systems for monitoring compliance with procedures and methods of communicating procedures and other information to personnel.
g. The officer responsible for the creation and monitoring the implementation of a corporate anti money laundering policy and procedures is the S151 Officer and it shall be a requirement that all services and departments implement this corporate policy and procedures.

9.5 Procedures for establishing Identity of Lenders/Borrowers

The Council does not accept loans from individuals.

All loans are obtained from the PWLB, other local authorities or from authorised institutions under the Financial Services and Markets Act 2000. This register can be accessed through the FCA website on www.fca.gov.uk.

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The Council will only borrow from permitted sources identified in TMP4

All banking transactions will only be undertaken by the personnel authorised to operate the Council's bank accounts.

When receiving requests for change of payment details due care is exercised to ascertain the bona fide of the request and avoid potential fraud. Checks will be made through pre-existing contact details for the payee before altering payment details.

9.5 Methodologies for identifying deposit takers

In the course of its treasury activities, the council will only lend money to or invest with those counterparties that are on its approved lending list.

Schedule 10 – TMP10 Training and Qualifications

This organisation 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 responsible 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 responsible officer will ensure that board/council members tasked with treasury management responsibilities, including those responsible for scrutiny, have access to training relevant to their needs and those responsibilities.

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

10.2 The Section 151 Officer is committed to professional responsibilities through both personal compliance and by ensuring that relevant staff are appropriately trained. Other staff involved in Treasury Management activities who are members of CIPFA must also comply with the SOPP (Statement of Professional Practice).

10.3 Details of staff training needs will be identified, as part of the training needs analysis undertaken as part of the Council's Performance Management Framework. The present arrangements, including a knowledge and skills schedule, are detailed in the schedule to this document.

10.4 In addition all treasury management staff will receive appropriate training relevant to the requirements and duties of their role prior to undertaking those duties.

10.5 The training needs of each of the following roles is documented, reviewed and delivered by the Credit and Investment Manager or his nominee:

- Dealing staff
- Releasers
- Authorising Staff

10.6 Training updates will be provided as required. Regular meetings will be co-ordinated by the Credit and Investment Manager with Dealing Staff to ensure they are up to date with developments on Treasury issues (e.g., Strategy decisions arising from TMSG).

10.7 Treasury management seminars will be attended as appropriate and will be open to all relevant staff

10.8 The Strategic Lead (Financial Planning and Resources) will ensure that there are sufficient trained staff in each of the roles to ensure:

No disruption of effective treasury management service or standards,

That there is adequate cover and succession arrangements in the event of departure of key staff
That there are opportunities for staff to develop their skills

10.9 Schedule of Knowledge and Skills Requirements for Treasury Roles

The S151 Officer has determined the following minimum competencies for each of the key Treasury Roles.

Role	Min.	Currently Met
Treasury Manager	**Accredited by Assoc. of Corp Treasurers (ACT), actively studying for a ACT qualification or extensive experience financial risk management sufficient to meet MiFID II requirements** **Detailed knowledge of developing investment and treasury management strategies and investment processes.** **• Detailed knowledge of the key risks that the authority is exposed to and how a local authorities' investment/treasury management strategy should be considered in conjunction with these risks.** **• Detailed knowledge of the risk and return characteristics of the main asset classes (deposits, pooled funds, bonds, property), and the need to balance risk versus reward when determining the investment strategy.** **• Detailed knowledge of the local authorities' cashflow requirements and how this impacts on the types on investments considered. pg. 14 Financial markets** **• A strong understanding of the primary importance of the investment strategy decisions.** **• A strong understanding of the workings of the financial markets and of the investment vehicles available to the local authority and the nature of the associated risks.** **• A strong understanding knowledge of the restrictions placed by regulation or case law, on the investment activities of local authorities. Statutory and legislative frameworks** **• A strong understanding of MIFID II requirements.**	

	• A strong understanding of MHCLG Statutory Guidance on Local Government Investments (and the equivalent guidance in Wales). • A strong understanding of Statutory Guidance on Minimum Revenue Provision (note that this would need to be relevant to the jurisdiction in which a treasury manger operates). • A strong understanding of CIPFA's Treasury Management In the Public Services Code Of Practice And Cross-Sectoral Guidance Notes (CIPFA 2017) and the Treasury Management Code of Practice and Treasury Management in the Public Services Guidance Notes for Local Authorities Including Police Forces and Fire and Rescue Authorities 2018 Edition. • A strong understanding of the Prudential Code for Capital Finance in Local Authorities, 2017 Edition and The Prudential Code for Capital Finance in Local Authorities, Guidance Notes for Practitioners, 2018 Edition.	
S151 Officer	Detailed knowledge of Treasury – detailed knowledge in relation to the subject matter.	
Scrutiny Board Member	A general understanding of Treasury – an understanding the basics in relation to the subject matter.	
Council Member	An awareness of Treasury – recognition that the subject matter exists.	

Knowledge and Skills Schedule

Scrutiny Member	Self-Assessment	Last Training Attended	Comments
Cllr Harness (PFH)			
Tim Render (Chair)			
Councillor M Boyd (Dep. Chair)			
Councillor B Parkinson			

Councillor G Astbury			
Councillor J Cairns			
Councillor O Freeston			
Councillor G Reynolds			
Councillor M Patrick			
Councillor M Green			
Councillor S Holland			
Substitute Members: Conservative – Councillors Brookes, Hudson, Dawkins, K. Swinburn, Hasthorpe and Westcott Labour – Councillors Mickleburgh and Shutt			

Schedule 11 - TMP11 Use of external service providers

Responsibility for Treasury management decisions remains with the Council at all times

11.1 Details of Contracts with Service Providers, Including Bankers, Brokers, Consultants, Advisers

This Council will employ the services of other organisations to assist it in the field of treasury management. In particular, it will use external consultants to provide specialist advice in this ever more complex area. However, it will ensure that it fully understands what services are being provided and that they meet the needs of this organisation, especially in terms of being objective and free from conflicts of interest.

It will also ensure that the skills of the in house treasury management team are maintained to a high enough level whereby they can provide appropriate challenge to external advice and can avoid undue reliance on such advice.

Treasury management staff and their senior management will therefore be required to allocate appropriate levels of time to using key various sources of information available to them so that they are able to develop suitable levels of understanding to carry out their duties, especially in challenge and avoiding undue reliance.

11.1.1 Banking Services

Barclays Bank PLC
PO Box No 3333
1 Snow Hill
Snow Hill Queensway
Birmingham
B3 2WN

11.1.2 Money Broking Services

- Tullet Prebon Ltd
  155 Bishopgate
  London
  EC2N 3DA

- King & Shaxson Ltd
  1st Floor
  Cutlers Court
  115 Houndsditch London
  EC3A 7BR

- Martin Brokers (UK) plc
  25 Dowgate Hill
  London
  EC4R 2BB

- Tradition UK
  15 St. Botolph St.

London
EC3A 7QX

- BGC Partners
  One Churchill Place, 18th Floor
  Canary Wharf
  London
  E14 5RD

- Munix Limited
  9 Ainslie Place
  Edinburgh
  EH3 6AT

<u>11.1.3 Treasury Advisers</u>

Link Asset Services
6th Floor
65 Gresham Street
LONDON
EC2V 7NQ

11.1.4 <u>Deals Recording</u>

Public Sector Live
31 Southampton Row
London
WC1B 5HJ30 day

Rolling 30 day contract

11.1.5 Bank Balances
Barclays.net

11.1.6 Money Market Funds Dealing

Mosaic
Goldman Sachs Asset Management
Plumtree Court
25 Shoe Lane
London
EC4A 4AU

Bribery Act

The council is mindful of the requirements of the Bribery Act 2011 in its dealings with external providers.

Schedule 12 – TMP12 Corporate Governance

a) List of Documents to be made available for public inspection

a. Medium Term Financial Forecast
b. Council Approved Capital Programme
c. Prudential Indicators
d. Treasury Management Strategy Statement (including Annual Investment Strategy)
e. Annual Treasury Report
f. Treasury Management Policy Statement (TMPS)
g. Access to Council/Committee minutes on Council's website
h. Annual Accounts

Note that in order to maintain commercial confidentially, requests for more detailed information should be referred to the Council's Freedom of Information Officer.

Management practices for non-treasury investments

This organisation recognises that investment in other financial assets and property primarily for financial return, taken for non-treasury management purposes, would require careful investment management. Such activity includes loans supporting service outcomes, investments in subsidiaries, and investment property portfolios.

This organisation will ensure that all the organisation's investments are covered in the capital strategy, investment strategy or equivalent, and will set out, where relevant, the organisation's risk appetite and specific policies and arrangements for non-treasury investments. It will be recognised that the risk appetite for these activities may differ from that for treasury management.

The organisation will maintain a schedule setting out a summary of existing material investments, subsidiaries, joint ventures and liabilities including financial guarantees and the organisation's risk exposure.

In the absence of specific Investment Management Principles for non-treasury investments, the Authority intends that TMP 1-12 are replicated/applicable as far as this is relevant and practicable to its non-financial investment activity.