APPENDIX B

Charnwood Borough Council

Capital Strategy

2024 – 2025

Foreword

This latest Capital Strategy sets out our plans and aspirations in the areas of capital planning, treasury management and new borrowing. It is essential for the delivery of our corporate plan and is also a key plank in ensuring the ongoing financial sustainability of the Council.

The financial and economic outlook facing the Council remains uncertain, characterised by high interest rates, above target inflation and persistent ‘single-year’ financial settlements. This, on top of a general background of real value reduction in the core funding of councils from central government over the last decade. Further detail on the implications of this uncertainty is provided in the body of this Capital Strategy and the latest version of the Medium Term Financial Outlook which is presented alongside this document.

The extant Capital Plan (2022 – 2025) and (proposed) new Capital Plan (2024 – 2027) demonstrate the Council’s aspirations around climate change and expansion of our housing stock and allocates resources towards the upkeep of the Borough and maintenance of our existing asset portfolio. We have ambition for the improvement and development of the Borough and to enable this, we will create funds earmarked for economic regeneration and investment in the Enterprise Zone. Significantly, there is flexibility within existing earmarked capital reserves and our ability to borrow for capital purposes, which will enable us to take advantage of any opportunities for ambitious redevelopment schemes. Additionally, we will continue to invest the resources required, both financially and in time, to ensure that we maximise the opportunity afforded by the £17m funding available through Loughborough’s Town Deal.

Given the external environment – illustrated by the recent spate of s114 notices, essentially recognising the bankruptcy of a local authority – it is important to note that our proposed strategy is fully consistent with our focus on ensuring that the Council remains on a sustainable financial footing.

A key component of the (proposed) 2024/25 budget are the anticipated investment returns derived from the Council’s significant cash balances. It clear from the proposed 2024/25 budget that the income we can generate from our treasury operations will form a vital component of our funding and we continue to look for ways to refine our treasury operations and to minimise our external borrowing requirement. The Treasury Management Strategy has therefore been reviewed with a view to increasing yields whilst ensuring that security and liquidity will remain the key elements of the Council’s approach to treasury management.

Finally, the forthcoming financial year is the first in which we have to repay or refinance the tranche of HRA loans taken out in 2012 when the government required us to pay them £79m as part of the transition away from the existing housing subsidy arrangements. Our approach to this is an important aspect of this Strategy.

Councillor Ian Ashcroft, Cabinet Lead Member with responsibility for Finance

January 2023

CONTEXT

The Capital Strategy, in common with other strategies produced by the Council supports the overarching Corporate Strategy. A new Corporate Strategy covering the corporate years 2024 – 2028 has been prepared and is due for approval alongside this Capital Strategy at the Council meeting of 26 February 2024. Relevant reports can be found here:

Browse meetings - Council - Charnwood Borough Council (moderngov.co.uk)

The Leader's introduction to the Corporate Strategy sets out the aims and ambitions for the Borough as follows:

'I am proud to present this Corporate Strategy for Charnwood Borough Council which sets out our aims and ambitions for the next four years.

We will help keep our borough clean and green while leading the local charge to a net-zero future.

We will help deliver homes the borough needs while investing in our own properties.

The Council will also create a prosperous local economy that benefits everyone, and we will support communities.

All this will be built on a foundation of high-performing, efficient and effective services.

In this difficult and challenging local government financial landscape, we will manage our budgets carefully and we will not become another Council to spend beyond its means.

The Council will continue to be at the heart of our communities in Charnwood and we will work with residents, communities, local businesses, the voluntary and charity sector, and partners to achieve our ambitions'

In working towards these aims the Council will focus on maximising returns from its treasury operations within the context of a prudent framework that ensures security of investments and liquidity of funds are appropriately considered, alongside an ongoing focus to leverage its own capital resources alongside local partners and the government through schemes such as the Town Deal, Shared Prosperity and Levelling Up Funds.

The Capital Strategy therefore seeks to enable effective treasury operations through the Treasury Management Strategy Statement (see Appendix BB), thereby supporting the Council's revenue expenditure, and ensure that the Council's capital expenditure can be sustainably financed, allowing the planned investment in homes, job creation and green initiatives in line with the overarching corporate aspirations.

CAPITAL STRATEGY (INCLUDING TREASURY MANAGEMENT)

The purpose of the Capital Strategy is to demonstrate that the Council takes capital expenditure and investment decisions in line with service objectives and properly takes account of stewardship, value for money, prudence, sustainability and affordability. It sets out the long term context in which capital expenditure and investment decisions are made and gives due consideration to both risk and reward and impact on the achievement of priority outcomes. The Capital Strategy comprises a number of distinct, but inter-related, elements as follows:

1. **Capital expenditure**; which includes an overview of the governance process for approval and monitoring of capital expenditure, including the Council's policies on capitalisation, and an overview of its capital expenditure and financing plans.

2. **Capital financing and borrowing**; provides a projection of the Council's capital financing requirement, how this will be funded and repaid. It therefore sets out the Council's borrowing strategy and explains how it will make prudent revenue provision for the repayment of debt should any borrowing be required.

3. **Treasury management investments**; explains the Council's approach to treasury management investment activities, including the criteria for determining how and where funds will be invested to ensure that the principal sums are safeguarded from loss and that sufficient liquidity is maintained to ensure that funds are available when needed.

4. **Approach to long term debt repayment**; sets out the short to medium term view on repayment of long term debt falling due for redemption.

5. **Commercial investments**; provides an overview of those of the Council's current and any potential commercial investment activities that count as capital expenditure, including processes, due diligence and defining the Council's risk appetite in respect of these, including proportionality in respect of overall resources.

6. **Knowledge and skills**; summarises the knowledge and skills available to the Council and provides confirmation that these are commensurate with the Council's risk appetite. Further details are provided in the following sections.

7. (Appendix BB). **Treasury management policy statement and practices**; this is presented separately; it updates to the Council's Treasury Management Policy Statement and to its Treasury Management Practices. These set out the Council's policies, objectives and approach to risk management of its treasury management activities, and the manner in which it seeks to achieve its policies and objectives for treasury management.

1. Capital expenditure

Capitalisation policies

Capital expenditure involves acquiring or enhancing non-current assets with a long-term value to the Council, such as land, buildings, and major items of plant and equipment or vehicles, as well as the contribution or payments of grants to others to be used to fund capital expenditure. Capital assets shape the way services are delivered for the long term and may create financial commitments for the future in the form of financing costs and revenue running costs. Subsequent expenditure on existing assets is also classified as capital expenditure if these two criteria below are met.

Expenditure is classified as capital expenditure when the resulting asset:

- Will be held for use in the delivery of services, for rental to others, or for administrative purposes; and
- Is of continuing benefit to the Council for a period extending beyond one financial year.

There may be instances where expenditure does not meet this definition, but would nevertheless be treated as capital expenditure. This is known as 'Capitalisation' and it is the means by which the Government, exceptionally, permits local authorities to treat revenue costs as capital costs. It allows exceptional revenue costs, that should be met from revenue resources to be treated as capital expenditure. Permission is given through capitalisation directions, which the Secretary of State can issue under section 16(2)(b) of the Local Government Act 2003.

The Council operates a de-minimis limit of £10,000 for capital expenditure. This means that items below this limit are charged to revenue rather than capital.

Governance

A three year Capital Plan is prepared by officers and approved by Council. Potential schemes are identified by Officers, in conjunction with Cabinet members, and supported by a Capital Application form, and potentially, depending on the nature and value of the scheme, a business case in support of the application. Following a process of review by senior officers a report is prepared for Cabinet with recommendations as to which schemes to include in the Plan, how the Plan would be funded and other elements such as risk and compliance with the Prudential Code.

Once adopted the three year Capital Plan is formally reviewed by Cabinet at the end of year two when Heads of Service are asked to submit proposals for the following three years. 'Year three' of the current plan would then become 'year one' of the new plan. A new Capital Plan covering the period 1 April 2024 to 31 March 2027 has been prepared and is due for approval alongside this document.

New schemes can only be added outside of this procedure where they are in substitution of existing schemes or have a separate source of funding so that the actual total level of the Plan would not increase.

All procurement and contracting must adhere to the Contract Procedure Rules. The Section 151 Officer (or 's151' – essentially a local authority's Finance Director as defined by Section 151 of the Local Government Act 1972) makes recommendations to Cabinet as to whether funding should be released to allow new schemes to be included in the Capital Plan.

After the end of the financial year an outturn report detailing the total amount of capital expenditure incurred during the year is submitted to Cabinet by the s151 Officer.

Prior to the closure of the Council's accounts a report detailing the proposed method of funding the capital expenditure incurred is submitted to Cabinet by the s151 Officer as required by the Local Government & Housing Act 1989.

#2. Capital Financing Requirement and borrowing

The Council is required by regulation to comply with the CIPFA Prudential Code for Capital Finance in Local Authorities (referred to as the 'Prudential Code') when assessing the affordability, prudence and sustainability of its capital investment plans. Fundamental to the prudential framework is a requirement to set a series of prudential indicators. These indicators are intended to collectively build a picture that demonstrates the impact over time of the Council's capital expenditure plans upon the revenue budget and upon borrowing and investment levels, and explain the overall controls that will ensure that the activity remains affordable, prudent and sustainable.

Regulatory framework

CIPFA published the updated Treasury Management and Prudential Codes on 20 December 2021. The main objective of the 2021 Codes was to respond to the major expansion of local authority investment activity over the past few years into the purchase of non-financial investments, particularly property. Having closed access to PWLB borrowing, DLUHC has tightened up regulations for local authorities financing capital expenditure on investments in commercial projects for yield and the new CIPFA codes have adopted a similar outlook to discourage further capital expenditure on such investments.

Local Authorities have been expected to fully implement the required reporting changes from 1 April 2023.

In theory this does not mean that local authorities do not have the legal powers to undertake such capital expenditure despite such guidance and regulation, but in practice such investment is very likely difficult to justify, and in effect investment financed by borrowing (whether internal or external) purely for yield is no longer a viable activity.

Further discussion of the regulatory environment is set out with Section 5 of this Strategy.

Current and new Capital Plans

The Council has a policy of preparing a three year Capital Plan, and then refreshing this every other year.

The current Capital Plan was prepared covering the financial years 2022/23 to 2024/25. Following approval of the Capital Plan outturn report the final year of this Plan (as agreed for carry forward) will be merged into the new Capital Plan covering the financial years 2024/25 to 2026/27. This latter Plan is due for approval alongside the Capital Staregy at the Council meeting of 26 February 2024.

Naturally, in the course of the three-year plan schemes will be added, deleted or amended through periodic Capital Plan amendment reports. The situation at 1 April 2024 is therefore subject to amendments to the current Capital Plan and approval Based on the reports presented to Cabinet on 14 December 2023 the situation may be illustrated in summay as follows:

In summary the situation may be illustrated as follows:

Illustrative combined Capital Plan 2024 - 2027

	2023/24		**2024/25**		**2025/26**	**2026/27**	
	Est slippage	Current	New	*Sub-total*	New	New	***Total***
	£000	£000	£000	*£000*	£000	£000	***£000***
Live schemes							
General Fund	5,000	2,376	804	*8,180*	1,348	1,530	***11,058***
HRA	0	7,690	5,680	*13,370*	9,905	9,206	***32,481***
	5,000	10,066	6,484	*21,550*	11,253	10,736	***43,539***
Provisional schemes							
General Fund	10,839	87	222	*11,148*	352	129	***11,629***
HRA	0	0	530	*530*	2,623	1,623	***4,776***
	10,839	87	752	*11,678*	2,975	1,752	***16,405***
Third Party schemes							
General Fund	1,855	3,262	0	*5,117*	0	0	***5,117***
HRA	0	0	0	*0*	0	0	***0***
	1,855	3,262	0	*5,117*	0	0	***5,117***
	17,694	**13,415**	**7,236**	***38,345***	**14,228**	**12,488**	**65,061**

It should be stressed that inclusion of the above within the Capital Plan, does not imply that any of the above amounts will ultimately be expended.

It should also be noted that the figures presented above differ from the those used in equivalent analyses contained within the Treasury Management Strategy Statement (appendix BB). The above table differs as it seeks to estimate the 31 March 2024

outturn position for illustrative purposes; the tables in the TMSS are based on figures within formally approved (by Cabinet or Council) reports.

Funding of the Capital Plan

The Capital Plan is funded by a combination of the following sources:

- Capital grants and contributions - amounts awarded to the Council in return for past or future compliance with certain stipulations.
- Capital receipts – amounts generated from the sale of assets and from the repayment of capital loans, grants or other financial assistance.
- Revenue contributions – amounts set aside from the revenue budget.

Prudential borrowing - In addition to the above the Council also has the ability to borrow to fund capital expenditure. At this point in time the Council has been able to finance prudential borrowing internally, taking advantage of cash flows inherent within the Council's operations (ie. cash outgoings typically lag the associated cash inflows, often by months or years). So far it has not been necessary to use external borrowing to fund General Fund capital expenditure but some level of external borrowing may be required if the Council is to complete the delivery its Capital Plan within the projected timescales (and over the medium term as and when the positive cash flow position reverses).

The Council has taken out external borrowing to fund the purchase of its housing stock (held within the Housing Revenue Account) from the Government under the 2012 Self-Financing Regime. This totals £79m. An additional £25m borrowing (internally financed) has been undertaken to finance the commercial property portfolio and a proportion of the refuse collection fleet.

Prudent revenue provision for debt repayment

Borrowing allows the Council to defer the funding of its capital expenditure so that it does not need to fund immediately from existing reserves, but instead charges to the revenue budget over a number of years into the future.

Where borrowing is used to finance capital expenditure within the general fund a Minimum Revenue Provision calculated in line with CIPFA guidance contained within the Prudential Code

3. Treasury management investment

The Treasury Management Code and statutory regulations require the Council to prepare an annual strategy that explains how the Council will invest its funds, giving priority to security and liquidity, and then to yield. This Annual Investment Strategy is set out in full in the Treasury Management Strategy Statement (Appendix BB).

The Council's Treasury Management Strategy Statement (TMSS) covers 'specified investments' and loans to other local authorities. The policies are designed to comply with the Statutory Guidance on Local Government Investments ('the Guidance'), effective from 1 April 2018. The Council manages treasury operations in line with its TMSS, which in turn is in accordance with the guidance. The Council is required to review the TMSS on an annual basis.

The Guidance defines in detail what criteria an investment would meet to be categorised as 'specified' One of the criteria of specified investments is that the local authority has a contractual right to repayment within twelve months. Certain loans to other local authorities made by the Council have a term of up to two years (with an intention to increase the allowed maimum to five years), so do not fall strictly within the definition. However, the Council considers that management of this type of financial instrument should fall within the ambit of the TMSS.

The prolonged and historically low interest rate environment that prevailed since the financial crisis of 2008 now appears over. Base rates are now (January 2024) at thought to have peaked at 5.25% and expected to decrease gradually to an equilibrium rate of around 2.5% (Bank of England forecast) in the medium term. It therefore seems rates will remain well above those that had prevailed into the early months of 2022, which were typically well below 1%. This new economic environment has therefore put even greater emphasis on the importance of the Council's treasury function.

CHANGES TO THE TREASURY MANAGEMENT STRATEGY FOR 2024/25

Investment returns are allocated between the General Fund and Housing Revenue Account (HRA) in proportion to the relative underlying balances associated with each. Historically, risks and returns have been shared equally between the General Fund and HRA but this practice has been reconsidered. Some other local authorities have determined that the HRA should operate at lower risk than the general fund, reflecting that certainty of return is more important for the HRA given the more limited risk management tools (ie. creation, maintenance and use of provisions) available in this area. From 2024/25, therefore this Capital Strategy will introduce the following policy:

- Overall returns for the HRA will be calculated on the proportion of HRA balances within the overall assets under management, using the rates of return offered by the Debt Management Office (DMO); the DMO is part of HM Treasury and returns offered reflect that of a 'risk free' asset

- All risks associated with changes in valuation or transaction losses within the underlying financial instruments undermanagement will be borne by the General Fund

- General Fund returns will be calculated as total returns, less returns due to the HRA, less any adjustment required to relect impairment in the value of financial instruments

More generally, the thrust of the Treasury Management Strategy remains on prioritising the security of public money and ensuring the Council has sufficient day to

day liquidity to meet its payment obligations, However, the increase in interest rates over the past 18 months combined with the ongoing pressure on the Council's revenue budgets increases the focus on investment returns.

At the time of drafting this strategy, the consensus is that interest rates have now peaked and are likely to decline from mid-2024. The implication of this assumption (if correct) is that investments should be made for longer periods (maybe six to 24 months) in order that higher investment returns can be locked in for longer and thereby mitigating the impact of lower returns which are likely to prevail in the near future.

The existing TMSS does offer scope to 'go longer' with investments but it is proposed that the range of allowable investments should be expanded to include Multi-Asset Income Funds. Other changes are also proposed to allow for increasing values of investment in individual counter parties and maturity periods reflecting increasing amount of funds under management and to avoid challenges in being able to place funds effectively. The proposals are detailed within Appendix BB and comprise amendments to the investment limits and acceptable counterparties, countries and brokers, as follows

BB(3) Credit and counterparty risk management

BB(4) Approved countries for investments

BB(5) List of approved brokers for investment

4. Approach to long term debt repayment

General Fund

The General Fund holds an external debt of £2m, taken out in 1984 at a fixed interest rate of 11.625%. This is due for redemption in June 2024 and will create an annual ongoing saving of around £0.2m.

The Council's cash position is such that some ability to borrow internally remains (see the liability benchmark tabulated at within the TMSS) and there is therefore no immediate need to refinance this loan.

Generally, with interest rates thought to have peaked (see the economic outlook within the TMSS) and the significant existing internal borrowing capacity, there are no plans to undertake external borrowing in respect of the General Fund in 2024/25.

Housing Revenue Account

The arrangements for the end of the Housing Subsidy scheme in 2012 required the Council to take out £79.2m in PWLB loans. Rather than a single loan for the full amount, a portfolio of loans were created with varying amounts and repayment dates as tabulated below:

Schedule of HRA loan maturity

Loan Amount	Loan Type		Date of Final Payment	Interest Rate 26/3/2012 (inception)
£1,000,000	Fixed	Maturity	01/10/2024	2.82%
£2,000,000	Fixed	Maturity	01/10/2025	2.92%
£2,000,000	Fixed	Maturity	01/10/2026	3.01%
£2,000,000	Fixed	Maturity	01/10/2027	3.08%
£2,000,000	Fixed	Maturity	01/10/2028	3.15%
£2,000,000	Fixed	Maturity	01/10/2029	3.21%
£2,000,000	Fixed	Maturity	01/10/2030	3.26%
£2,000,000	Fixed	Maturity	01/10/2031	3.30%
£3,000,000	Fixed	Maturity	01/10/2032	3.34%
£3,000,000	Fixed	Maturity	01/10/2033	3.37%
£3,000,000	Fixed	Maturity	01/10/2034	3.40%
£3,000,000	Fixed	Maturity	01/10/2035	3.42%
£3,000,000	Fixed	Maturity	01/10/2036	3.44%
£4,000,000	Fixed	Maturity	01/10/2037	3.46%
£4,000,000	Fixed	Maturity	01/10/2038	3.47%
£4,000,000	Fixed	Maturity	01/10/2039	3.48%
£4,000,000	Fixed	Maturity	01/10/2040	3.49%
£4,000,000	Fixed	Maturity	01/10/2041	3.50%
£5,000,000	Fixed	Maturity	01/10/2042	3.51%
£5,000,000	Fixed	Maturity	01/10/2043	3.52%
£5,000,000	Fixed	Maturity	01/10/2047	3.53%
£4,190,000	Fixed	Maturity	01/10/2052	3.52%
£5,000,000	Fixed	Maturity	01/10/2057	3.50%
£5,000,000	Fixed	Maturity	01/03/2062	3.48%
£79,190,000				

At the time of drafting, all equivalent available PWLB rates exceed 4% (even with the currently available HRA discount). As the HRA Financing fund totalled £16.8m at 31 March 2023,there is no motivation for refinancing any loans within the portfolio at this time.

As will be observed from the table above, the first loan of £1m reaches maturity in October 2024 and it is planned that this will be repaid using the HRA Financing Fund. However, this will reviewed in the light of prevailing interest rates at the redemption date in case there have been changes in the scenario described above.

5. Commercial investments

Regulatory framework

The introduction of the general power of competence (arising from the Localism Act 2011) has given local authorities far more flexibility in the types of activity they can engage in. These changes in the economic and regulatory landscape, combined with significant financial challenges, led many authorities to consider different and more innovative types of investment

CIPFA issues the Treasury Management in the Public Services: Code of Practice and Cross Sectoral Guidance Notes (the Treasury Management Code). One of the main

changes introduced in the most recent update to the Code is to require authorities to incorporate all of the financial and non-financial assets held for financial return in the authorities' annual capital strategies.

Separately, the Ministry of Housing, Communities and Local Government issued Statutory Guidance on Local Government Investments under section 15(1)(a) of the Local Government Act 2003 and effective for financial years commencing on or after 1 April 2018.

As is the case for treasury activities, commercial investment should balance:

- Security – to protect the capital sums invested from loss
- Liquidity – ensuring the funds invested are available for expenditure when needed
- Returns – ensuring that the Council's investment ability is used effectively

Commercial investment may be defined quite widely and could include, for example:

- Commercial property investment held solely for the purposes of generating a financial return
- Investments in wholly owned companies and joint ventures (which maybe in the form of equity or loans)
- Wider scale and more ambitious regeneration projects
- Ad-hoc complex investments

The Statutory Guidance describes non-financial investment as being in non-financial assets held primarily or partially to generate a profit. Usually it will be expected that the underlying asset could be 'realised' to recoup the capital invested.

There are important aspects of financial reporting that Council's must be aware of. In terms of reporting it is necessary to state whether:

- The fair value of non-financial investments is sufficient to provide security against losses, and that the underlying assets provide adequate security for the originating capital investment
- Where the fair value is insufficient, details of mitigating actions should be provided to protect the capital invested
- Additionally, where the fair value assessment recognises a loss in the non-financial investment, the subsequent Capital Strategy will need to reflect the impact of loss of security and the associated revenue consequences
- Fair value accounting in this context is covered by International Financial Reporting Standard 9, as modified by an extended statutory override applicable to local authorities. The implication of the override is that if a local authority

recognises a loss on investment then this will not impact on the general fund, or, therefore, on an authority's ability to set its budget. However, the override is (currently) time limited to 31 March 2025 and a major downturn in the value of specific assets, or the property market generally, represents a clear risk in future financial periods.

This situation will be kept under close review and the Council will consider diverting interest and rental receipts to create a provision to cover any prospective loss on investment.

The Prudential Code is published by CIPFA (the chartered accountancy body which has a public sector focus), and aims to ensure local authorities' financial plans are affordable, prudent and sustainable. The latest (2021) version of this code applied fully from the 2023/24 financial year, which tightens the definition of commercial investment and essentially prevents borrowing to finance the acquisition of assets purely for financial return. Although published by CIPFA, the Prudential Code does carry legal weight as the underpinning government regulations require that due regard is paid to the Code.

Approach for the 2024/25 financial year.

Overview

The Council has successfully developed a well-performing commercial property portfolio but in the current regulatory environment, as observed above, the investment in commercial properties purely for yield has now effectively been outlawed where this activity has to be financed via borrowing.

The Council will however continue to investigate investment opportunities that may have a commercial element alongside attributes supporting other Council objectives, such as regeneration, or the climate change agenda. There are no specific plans at the time of developing this version of the strategy but some £5m within the current Capital Plan is earmarked for regeneration projects and it is anticipated that this will be carried forward into future years if not spent; this will enable an agile response should key sites within the Borough become available. Additionally, over £5m remains within the Capital Plan to support development of the Enterprise Zone sites within the Borough (again, assuming carry forward of unspent amounts into future years). The initiation of such projects is within the gift of site sponsors (ie. Charnwood Campus and Loughborough University).

For the purposes of completing the Treasury Management Strategy Statement it is assumed that the above funding (Regeneration £5m and Enterprise Zone £5.8m) will be fully required in 2024/25 and that this funding would be financed from borrowing rather than the Council's capital reserves. In practice however, no borrowing will be undertaken unless specific projects are identified.

Any investment required over and above these amounts would be need to be approved through updates to the extant Capital Strategy and Capital Plan in accordance with the Council's budgetary and policy framework.

The full details of the Council's Capital Financing Requirement (CFR) position and the limits that have been set for borrowing and all the associated prudential indicators implied by the above are provided In the Treasury Management Strategy Statement (Appendix BB).

Specific approach planned

Commercial Investment properties

The Council has now developed a commercial investment property portfolio totalling £22.5m. No further investments of this type are planned pro tem.

Management of existing portfolio (including risk mitigation)

The Council's commercial investment property portfolio can be summarised as follows:

Location	*Property type*	*Gross acquisition costs (£m)*	*Annual rent (£k)*	*Remaining lease term (at Jan 2024)*
Loughborough	Car showroom	2.4	165	11 years
Banbury	Offices	7.7	540	2 years
Aberdeen	Industrial	3.6	239	7 years
Scunthorpe	Industrial	8.8	600	12 years
		22.5	**1,544**	

The 2024/25 budget for commercial property income is set at £1.1m, being a net figure that allows for charges for interest and Minimum Revenue Provision. A property reserve was created that allows for possible tenant non-payment (considered a very low probablilty based on tenant due diligence performed) and prospective periods of void and dilapidation costs that may arise at the end of the lease term. This reserve is now fully funded to the target amount of £1.5m, calculated in respect of the forthcoming end of lease at Banbury, and no contribution from rental incomes is budgeted in 2024/25. It should be noted that (a) the lease may be renegotiated such that not all of the provision is utilised and (b) that the provision is reviewed on a regular basis to ensure it is maintained at an appropriate level.

Finally, it may also be noted that the commercial property portfolio will be actively managed, to minimise (inter alia) void losses and dilapidation payments.

Reporting and monitoring of the commercial property portfolio is undertaken by the Audit Committee.

Loans to local enterprises and third parties (no change in approach planned)

Loans to local enterprises or partner public sector bodies could be considered, as part of a wider strategy for local economic growth, even though they may not all be seen as prudent if adopting a narrow definition of prioritising security and liquidity. Such loans could be considered as an option to generate a yield. There would need to be a set of criteria drawn up which would need to be met before any loan was given. These might include:

- Whether or not the loan has security
- The term of the loan
- The profile of capital repayments
- The credit rating of the counterparty
- That total financial exposure to this type of loan is proportionate
- An allowed 'expected credit loss' model for assessing credit risk is adopted[1]
- Appropriate credit control arrangements to cover overdue payments are in place
- The local authority has formally agreed the total level of loans by type that it is willing to make, and the total loan book is within that self-assessed limit

The Council will not proactively seek to market loans to third parties but will consider offering loans to local enterprises, local charities, on a case by case basis, as and when approached.

The Council will also consider offering a loan, on a case by case basis, to any subsidiaries that may exist at a point time; in particular, this would apply should the Council have a subsidiary Housing Development Company.

It may be noted that although this strategy allows this sort of arrangement to be considered, there are no plans to enter into any of these type of loan arrangements in 2024/25.

The strategy in this area is set out below.

STRATEGY FOR 2024/25 – LOANS TO THIRD PARTIES AND SUBSIDIARIES

No money will be set aside within the Capital Plan unless and until a specific proposal is available for consideration. Should an opportunity to offer a loan to a third party arise reports will be taken to Cabinet, and Council if required, to seek specific approval for that transaction. All prospective debtor organisations will be either be located, or will have substantial operations, within the Borough.

[1] As defined within International Financial Reporting Standard 9 – in broad terms the likelihood of a creditor defaulting in future must be considered in accounting for impairment (compared to previous Standards in which accounting was based on actually incurred losses)

Any asset created through the loan will be located within the Borough.

The purpose of the loan will support local economic growth as defined within the extant Corporate Plan.

The maximum total loan book the Council would manage will be £10m.

The maximum single loan to an individual organisation will be:

- Secured loan £5m
- Unsecured loan £2m

The maximum total value of unsecured loans will be £4m.

Loans will be offered on a commercial basis with rates offered dependent on risk; unsecured loans will attract higher interest rates. Rates offered will be in accordance with independent professional advice

Due diligence will be carried out on prospective debtor organisations.

Generally, independent professional advice will be taken to ensure that the structure of loan finance offered, and the risk and return associated with that structure is appropriate.

Support for Subsidiaries (no change in approach planned)

The Council does not currently have any wholly owned local trading or property (housing) companies. Should the Council decide to form a subsidiary then Council could decide to provide the funding required to support these organisations. As with providing loans to local enterprises and third parties there would need to be a set of criteria drawn up which would need to be met before any loan was given. This would mitigate the risk of loss to the Council.

Again, it may be noted that although this strategy allows this sort of arrangement to be considered, there are no plans to create in subsidiary companies in 2024/25. However, the creation of a Property Development Company (probably with a housing focus) remains a possible course of action for the Council. It may be appropriate to invest directly in the equity of a Property Development Company, rather than in the form of a loan, as described above. The basis of investment will be equivalent, as described below.

STRATEGY FOR 2024/25 - INVESTMENT IN A PROPERTY DEVELOPMENT COMPANY

No money has been allocated within the capital plan at present.

This funding *may* be in the form of an equity investment in the PDC, upon which dividends or and / or management fees will be due to the Council.

It is assumed that this funding be financed through Council borrowing, as and when investment is required.

At minimum, dividends and management fees will cover all of the Council's borrowing costs, in cases where the subsidiary company is wholly owned by the Council.

At minimum dividends and management fees will cover all of the Council's borrowing costs, plus a margin of in cases where a subsidiary company or joint venture is only partially owned by the Council.

Professional advice will be taken to ensure:

- Any loans are structured in the most advantageous way, having regard to risk, prospective returns, and tax implications
- MRP can be avoided or mitigated through the loan structure

Appropriate due diligence will be carried out on prospective partner organisations.

In total, the maximum investment in a PDC, whether by loan or equity investment, will be an amount of £10m.

Economic development and regeneration

The impact of COVID-19, and subsequent drags on economic prosperity created by events such as the war in Ukraine and the 'mini-budget' of 2022 has created a challenging environment for businesses. In general, the Council would want to consider investment projects that benefit its communities, but it also has the opportunity to invest using the following specific arrangements:

- Town Deal: Loughborough has secured funding of £17m to support improvements to Loughborough town centre; release of some of this funding is facilitated by providing 'match' funding from the Council in respect of Council-led projects[2]
- Other government funding – such as Levelling-Up Funding or the Shared Prosperity Fund: an approach analous to the approach adopted to attract and administer Town Deal funding .
- Enterprise Zone: The Council can support the development of infrastructure on its Enterprise Zone sites by taking out a loan to fund projects, repayable fro future business rates generated

The strategy as related to the these opportunities is set out below:

STRATEGY FOR 2024/25 - INVESTMENT IN THE TOWN DEAL AND REGENERATION PROJECTS

An amount of £5m to fund material investment in regeneration projects will be carried forward into 2024/25 and future years in the Capital Plan 2024-27 (subject to approval by Council). This is in addition to earmarked funding for specific projects such as Bedford Square.

It is assumed that this funding be financed through Council borrowing, as and when investment is required.

Investment in regeneration projects (ie. where funding is to come from this £5m allocation) will be approved by Cabinet, or through an Urgent Decision process, on a case by case basis. In general, it is antipated that such projects will provide a positive financial return to the Council, but that a lower return than may be achievable with pure commercial investment will be acceptable.

[2] Although it should be noted that the Town Deal also strongly encourages participation and investment from the private sector

STRATEGY FOR 2024/25 - INVESTMENT IN THE ENTERPRISE ZONE

An amount of £5.8m to forward fund investment in the Enterprise Zone (EZ) will be carried forward into 2024/25 and future years (subject to approval by Council). To date £6.2m has been allocated being an initial £2m and £4.2m in October 2023 from a £10m allocation (hence £5.8m carry forward).

This total amount will be profiled for the 2024/54 financial year to ensure there is no impediment to investment opportunities.

The mechanism by which the investment will work is as follows:

1. The Council will take out a loan for the amount required to fund the project
2. Funds will be passed to the successor body to the LLEP[3] (from 1 April 2024), who will then make a grant to the site sponsor[4] who will undertake the project delivery
3. The Council will cover the loan costs by retaining business rates generated by the project that would otherwise have been due to the LLEP (the LLEPP share of business rates generated is 85% as set out in the EZ agreement)

MRP treatment – generally, MRP will be calculated using the annuity method reflecting the life of underlying assets being long term and assumed at 40 years. However, where the loan is taken out on a repayment basis (as may be the case) then no MRP charge will be deemed necessary[5].

Forward funding agreements will be:

- Based on business cases supported by the Council and subject to approval by the LLEP Board (where the Council has representation at present)
- Subject to Cabinet approval on a case by case basis

A condition of any forward funding agreement is that the loan will have to be underwritten by the site sponsor.

It is assumed that this forward funding be financed through Council borrowing, as and when investment is required. It is also expected that repayment of the loan via future business rates will create a small 'margin' versus the terms of the loan that will provide a positive contribution to the Council's finances.

Other commercial investments

Investment in other types of asset, or in larger and more complex arrangements, is not considered within this iteration of the Commercial Investment strategy. In practice, should opportunities arise, the Commercial Investment and Capital Strategies could be amended, subject to the approval of full Council, to allow emerging opportunities to be exploited. It can also be assumed that any significant investment would be subject to the specific approval by Cabinet.

5. Knowledge and Skills

The Council recognises the importance of ensuring that all officers involved in the treasury management function (including commercial investment activities) are fully

[3] LEP's all cease from 31 March 2024; it is assumed a local created successor body will fulfil the same function
[4] The site sponsors would be either Charnwood Campus (Jayplas) or Loughbourough University
[5] This is subject to compliance with the new Prudential Code; technical interpretation of relevant sections is still in progress

equipped to undertake the duties and responsibilities allocated to them. The Strategic Director for Corporate Services is responsible for recommending and implementing the necessary arrangements and does this by:

- Appointing individuals who are capable and experienced.
- Providing training and technical guidance to all individuals involved in the delivery of the treasury management function to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills to undertake the duties and responsibilities allocated to them.
- Appointing a treasury management advisor and other professional advisors when required. This ensures that the individuals involved in delivery of the Council's treasury management activities have access to specialist skills and resources. In addition, professional advisors are employed as required to ensure that the Council has access to the specialist skills and resources necessary to undertake commercial investment activities.

Treasury management advisors - The Council employs Link Asset Services (Treasury Solutions) to provide it with treasury management advice. The services provided by Link Asset Services (Treasury Solutions) include advice on treasury matters and capital finance issues, economic and interest rate analysis and creditworthiness information. Notwithstanding this, the final decision on all treasury matters remains vested with the Council. The services received from Link Asset Services (Treasury Solutions) are subject to regular review, including through periodic re-tendering.

6. Treasury management Policy Statement and Treasury Management Practices

The Council's Treasury Management Policy Statement and its Treasury Management Practices have been updated to reflect the requirements of the updated Treasury Management Code. They are presented for approval in the Treasury Management Strategy (Appendix BB)

Charnwood Borough Council

Treasury Management Strategy Statement

Minimum Revenue Provision Policy Statement and Annual Investment Strategy

2024/25

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Key Considerations

2021 revised CIPFA Treasury Management Code and Prudential Code – changes which will impact on future TMSS/AIS reports and the risk management framework

CIPFA published the revised Codes on 20th December 2021 and stated that revisions need to be included in the reporting framework from the 2023/24 financial year. This Council, therefore, has to have regard to these Codes of Practice when it prepares the Treasury Management Strategy Statement and Annual Investment Strategy, and also related reports during the financial year, which are taken to Full Council for approval.

The revised Treasury Management Code required all investments and investment income to be attributed to one of the following three purposes: -

Treasury management

Arising from the organisation's cash flows or treasury risk management activity, this type of investment represents balances which are only held until the cash is required for use. Treasury investments may also arise from other treasury risk management activity which seeks to prudently manage the risks, costs or income relating to existing or forecast debt or treasury investments.

Service delivery

Investments held primarily and directly for the delivery of public services including housing, regeneration and local infrastructure. Returns on this category of investment which are funded by borrowing are permitted only in cases where the income is "either related to the financial viability of the project in question or otherwise incidental to the primary purpose".

Commercial return

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

The revised Treasury Management Code requires an authority to implement the following: -

1. **Adopt a liability benchmark treasury indicator** to support the financing risk management of the capital financing requirement; this is to be shown in chart form for a minimum of ten years, with material differences between the liability benchmark and actual loans to be explained;
2. **Long-term treasury investments**, (including pooled funds), are to be classed as commercial investments unless justified by a cash flow business case;

3. **Pooled funds** are to be included in the indicator for principal sums maturing in years beyond the initial budget year;
4. Amendment to the **knowledge and skills register** for officers and members involved in the treasury management function - to be proportionate to the size and complexity of the treasury management conducted by each Council;
5. **Reporting to members is to be done quarterly.** Specifically, the Chief Finance Officer (CFO) is required to establish procedures to monitor and report performance against all forward-looking prudential indicators at least quarterly. The CFO is expected to establish a measurement and reporting process that highlights significant actual or forecast deviations from the approved indicators. However, monitoring of prudential indicators, including forecast debt and investments, is not required to be taken to Full Council and should be reported as part of the Council's integrated revenue, capital and balance sheet monitoring;
6. **Environmental, social and governance (ESG)** issues to be addressed within an authority's treasury management policies and practices (TMP1).

The main requirements of the Prudential Code relating to service and commercial investments are: -

1. The risks associated with service and commercial investments should be proportionate to their financial capacity – i.e. that plausible losses could be absorbed in budgets or reserves without unmanageable detriment to local services;
2. An authority must not borrow to invest for the primary purpose of commercial return;
3. It is not prudent for local authorities to make any investment or spending decision that will increase the CFR, and so may lead to new borrowing, unless directly and primarily related to the functions of the authority, and where any commercial returns are either related to the financial viability of the project in question or otherwise incidental to the primary purpose;
4. An annual review should be conducted to evaluate whether commercial investments should be sold to release funds to finance new capital expenditure or refinance maturing debt;
5. A prudential indicator is required for the net income from commercial and service investments as a proportion of the net revenue stream;
6. Create new Investment Management Practices to manage risks associated with non-treasury investments, (similar to the current Treasury Management Practices).

An authority's Capital Strategy or Annual Investment Strategy should include:

1. The authority's approach to investments for service or commercial purposes (together referred to as non-treasury investments), including defining the authority's objectives, risk appetite and risk management in respect of these investments, and processes ensuring effective due diligence;
2. An assessment of affordability, prudence and proportionality in respect of the authority's overall financial capacity (i.e., whether plausible losses could be absorbed in budgets or reserves without unmanageable detriment to local services);
3. Details of financial and other risks of undertaking investments for service or commercial purposes and how these are managed;
4. Limits on total investments for service purposes and for commercial purposes respectively (consistent with any limits required by other statutory guidance on investments);
5. Requirements for independent and expert advice and scrutiny arrangements (while business cases may provide some of this material, the information contained in them will need to be periodically re-evaluated to inform the authority's overall strategy);
6. State compliance with paragraph 51 of the Prudential Code in relation to investments for commercial purposes, in particular the requirement that an authority must not borrow to invest primarily for financial return.

As this TMSS and AIS deals solely with treasury management investments, the categories of service delivery and commercial investments should be addressed as part of the Capital Strategy report.

However, as investments in commercial property have implications for cash balances managed by the treasury team, it will be for each authority to determine whether to add a high level summary of the impact that commercial investments have, or may have, if it is planned to liquidate such investments within the three year time horizon of this report, (or a longer time horizon if that is felt appropriate).

1.1 Background

The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that the cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in generally low risk counterparties or instruments commensurate with the Council's risk appetite, ensuring the provision of adequate liquidity (cash balances) initially before considering 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 longer term cash management may involve arranging long or short term loans, or using longer term cash flow surpluses. When prudent and economic any debt previously drawn may be restructured to meet the Council's risk or cost objectives.

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

CIPFA defines treasury management as:

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

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

1.2 Reporting requirements

1.2.1 Capital Strategy

The CIPFA 2021 Prudential and Treasury Management Codes require all local authorities to prepare a Capital Strategy report which will provide the following: -

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

The aim of the strategy is to ensure that all the Council's elected members fully understand the overall long-term policy objectives and resulting Capital Strategy requirements, governance procedures and risk appetite.

1.2.2 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 Annual 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. 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.

Scrutiny

The above reports are required to be adequately scrutinised before being recommended to the Council. This role is undertaken by the Audit Committee and the reports are also available for consideration by the Scrutiny Commission.

Quarterly reports

In addition to the three major reports detailed above, from 2023/24 quarterly reporting (end of June, end of December) is also required. However, these additional reports do not have to be reported to Full Council but do require to be adequately scrutinised. This role is undertaken by the Audit Committee. (The reports, specifically, should comprise updated Treasury/Prudential Indicators).

1.3 Treasury Management Strategy for 2024/25

The strategy for 2024/25 covers two main areas:

Capital issues

- Capital expenditure plans and the associated prudential indicators;
- Minimum revenue provision (MRP) policy.

Treasury management issues

- Current treasury position
- Treasury indicators which limit the treasury risk and activities of the

Council

- Prospects for interest rates
- Borrowing strategy
- Policy on borrowing in advance of need
- Debt rescheduling
- Investment strategy
- Creditworthiness policy; and
- Policy on use of external service providers

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

1.4 Training

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

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

Furthermore, pages 47 and 48 of the Code state that they expect "all organisations to have a formal and comprehensive knowledge and skills or training policy for the effective acquisition and retention of treasury management knowledge and skills for those responsible for management, delivery, governance and decision making.

The scale and nature of this will depend on the size and complexity of the organisations' treasury management needs. Organisations should consider how to assess whether treasury management staff and council members have the required knowledge and skills to undertake their roles and whether they have been able to maintain those skills and keep them up to date.

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

- Record attendance at training and ensure action is taken where poor attendance is identified.
- Prepare tailored learning plans for treasury management officers and council members.
- Require treasury management officers and council members to undertake self-assessment against the required competencies (as set out in the schedule that may be adopted by the organisation).

- Have regular communication with officers and council members, encouraging them to highlight training needs on an ongoing basis."

In further support of the revised training requirements, CIPFA's Better Governance Forum and Treasury Management Network have produced a 'self-assessment by members responsible for the scrutiny of treasury management', which is available from the CIPFA website to download.

The training needs of treasury management officers are periodically reviewed.

Training by the Council's external treasury managament advisors, Link Group, Link Treasury Services Limited has been undertaken for members on 16th January 2024 and further training will be arranged as required.

1.5 Treasury Management Consultants

The Council uses Link Group, Link Treasury Services Limited 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 the services of 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 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.

If the Council are undertaking non-treasury investments, e.g., investment in commercial properties, it would be expected that in undertaking such investing, it would use specialist property advisers.

2. THE CAPITAL PRUDENTIAL INDICATORS 2024/25-2025/26

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 are prudent, affordable and sustainable.

2.1 Capital expenditure

This prudential indicator is a summary of the Councils capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. Members are asked to approve the capital expenditure forecasts:

Capital Expenditure	Actual Spend 31/12/2023 £'000	2023/24 Budget £'000	2024/25 Budget £'000	2025/26 Budget £'000	2026/27 Budget £'000
General Fund - general	2,903	10,151	6,810	2,108	1,659
Enterprise Zone	4,161	10,000	0	0	0
Regeneration	0	5,000	0	0	0
HRA	6,173	13,769	13,900	12,528	10,829
Total	**13,237**	**38,920**	**20,710**	**14,636**	**12,488**

The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need.

Financing of Capital Expenditure	2023/24 Budget £'000	2024/25 Budget £'000	2025/26 Budget £'000	2026/27 Budget £'000
Total Capital Expenditure as per above table	38,920	20,710	14,636	12,488
Financed by:				
GF Revenue Contributions	38	0	0	0
GF Capital Receipts	4,492	2,167	981	532
GF Capital Grants	5,506	4,643	1,127	1,127
GF Capital Plan Reserves	167	0	0	0
HRA MRR & Financing Fund	12,172	13,451	12,078	10,379
HRA Capital Receipts	1,545	449	450	450
Internal /External Borrowing	15,000	0	0	0
Total Funding	**38,920**	**20,710**	**14,636**	**12,488**

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

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

The CFR will not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which reduces the borrowing need in line with each

asset's life, and so charges the economic consumption of capital assets as they are used.

The resultant CFR projections are set out in the table below. These reflect the current (updated) Capital Plan, together with the new Capital Plan(which was due to be approved by Council on 26 February 2024) and the main body of the Capital Strategy report, and comprise:

- 50% funding of the Environmental Services fleet in 2020/21 (£2.4m)
- Purchase Commercial Property (£25m), in 2020/21. No further Commercial activities are planned beyond this date.
- Regeneration fund of £5m to take advantage of opportunities that arise, there are currently no plans in place.
- Enterprise Zone fund of £10m to enable further forward funding within the Enterprise Zone (to be repaid through business rates generated); some £4.2mwas disbursed in October 2023 with plans to carry the balance forward

  (this is not subject to MRP as this is classed a Capital Grant)

(In practice expenditure under the latter two headings may fall into later periods but the presentation assumes the earliest possible spend)

Capital Financing Requirement	**2022/23 Actual £'000**	**2023/24 Original Budget £'000**	**2024/25 Original Budget £'000**	**2025/26 Original Budget £'000**	**2026/27 Original Budget £'000**
CFR (Fleet Less MRP)	1,789	1,491	1,193	895	597
CFR (Commercial Activities Less MRP)	22,422	22,119	21,806	21,483	21,150
CFR (Regeneration Less MRP)	0	5,000	4,937	4,872	4,805
CFR (Enterprise Zone no MRP)	0	10,000	10,000	10,000	10,000
CFR (HRA no MRP)	81,820	81,820	78.820	76,820	74,820
Total CFR	**106,031**	**120,430**	**116,756**	**114,070**	**111,372**
Movement in CFR Represented By	**(591)**	**14,399**	**(3,674)**	**(2,686)**	**(2,698)**
Net Financing Need for the Year (Above)	0	15,000	0	0	0
Repayment of Loans	0	0	(3,000)	(2,000)	(2,000)
Less MRP Charge	(591)	(601)	(611)	(621)	(698)
Movement CFR	**(591)**	**14,399**	**(3,674)**	**(2,686)**	**(2,698)**

2.3 Liability Benchmark

The Council is required to estimate and measure the Liability Benchmark (LB) for the forthcoming financial year and the following two financial years, as a minimum.

There are four components to the LB:

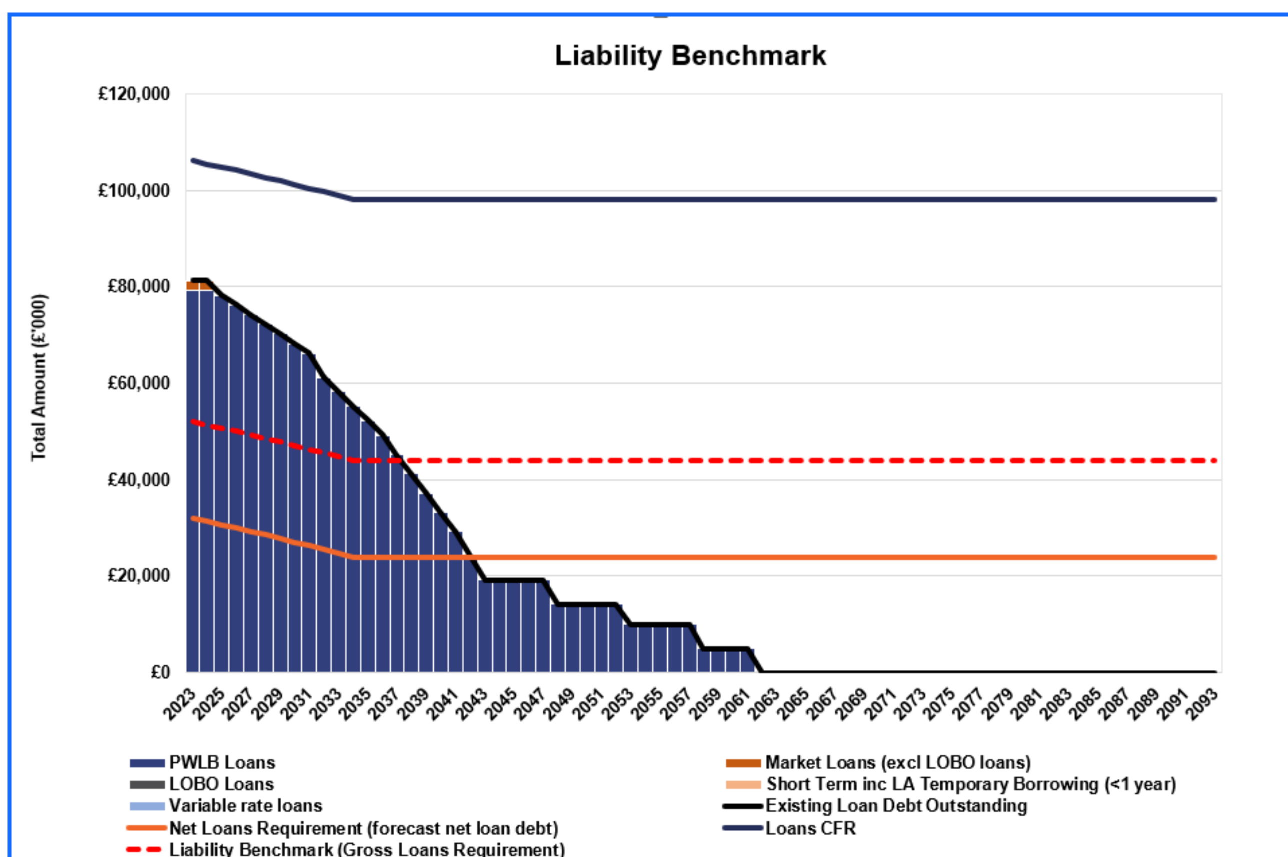
1. **Existing loan debt outstanding:** the Council's existing loans that are still outstanding in future years.
2. **Loans CFR:** this is calculated in accordance with the loans CFR definition in the Prudential Code and projected into the future based on approved prudential borrowing and planned MRP.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

Liability Benchmark	**2023/24 £'000**	**2024/25 £'000**	**2025/26 £'000**	**2026/27 £'000**
Existing Loans				
HRA	79,190	78,190	78,190	76,190
Other Loans	2,000	2,000	0	0
Loans Repaid	0	(3,000)	(2,000)	(2,000)
Total Debt Outstanding	**81,19**	**78,19**	**76,19**	**74,19**
TM Investments Opening Position	(48,700)	(46,301)	(44,912)	(43,533)
Planned Prudential Borrowing	0	0	0	0
Less MRP	(601)	(611	(621	(698)
Net Loans Requirement	**31,889**	**31,278**	**30,657**	**29,959**
Liquidity/Working Capital Allowance	20,00	20,00	20,00	20,00
Liability Benchmark	**51,889**	**51,278**	**50,657**	**49,959**
(Over)/Under Liability Benchmark	**(29,301**	**(26,912**	**(25,533**	**(24,231**

The table above shows the difference between the total Debt outstanding compared to the Liability Benchmark (Net loans requirement plus the liquidity allowance), the Council is currently over the liability benchmark. What this shows is that the Council has more than sufficient external borrowings to maintain its required liquidity and working capital (the cash needed to ensure the Council can meet day to day expenditure such as meeting the payroll and payment of preceptors and suppliers).

The Liability Benchmark perhaps makes more sense when viewed over the longer term. The graph below extrapolates the current situation into the future, and assuming no changes to the underlying metrics, it can be seen that from around 2033 the level

of borrowing falls below the Benchmark (red dotted line), implying that the Council would need to increase external borrowing at this time. This also implies that in the short term, the Council has scope to increase internal borrowing, as the current combination of external loans and treasury balances is well above the benchmark.



2.4 Core Funds and Expected Investment Balances

The application of resources (Capital Plan Reserves, Capital Receipts, HRA Major Repair Reserve, HRA Financing Fund) to finance Capital expenditure will have an ongoing impact on investments unless resources are supplemented each year by new resources (assets sales, grants etc). Detailed below are estimated year end balances held for each resource after funding the current capital programme.

Year End Resources	2022/23 Actual £m	2023/24 Estimat e	2024/25 Estimat e	2025/26 Estimat e	2026/27 Estimat e
Capital Plan Reserves	1,874	1,707	1,707	1,707	1,7
Capital Receipts 1-4-1	4,362	4,687	6,109	7,530	8,951
Other Capital Receipts	9,023	4,531	2,364	1,383	852
HRA MRR	4,475	4,475	0	0	0
HRA Financing Fund	16,793	14,967	12,015	4,937	0
Total Core Funds	**36,527**	**30,367**	**22,195**	**15,557**	**11,510**

The current Capital Plan runs through to 31 March 2025, There is a new Capital Plan for the period 1st April 2024 to 31st March 2027 subject to approval at Council on 26th February 2024. Funding for the plans are tabled above in 2.1. Any additional proposals for capital expenditure will require a capital appraisal and business plan to be considered by Senior Leadership Team and Cabinet approval. The funding position is regularly reviewed and if there is a need to borrow, this will require a further appraisal and a revision to the Capital Programme and the Treasury Management Strategy and will therefore require additional Council approval.

2.5 Minimum Revenue Provision (MRP) Policy Statement

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).

MHCLG regulations have been issued which require the full Council to approve an MRP Statement in advance of each year. A variety of options are provided to councils, so long as there is a prudent provision.

There is no requirement on the HRA to make a minimum revenue provision but there is a requirement for a charge for depreciation to be made (although there are transitional arrangements in place).

MRP Overpayments - A change introduced by the revised MHCLG MRP Guidance was the allowance that any charges made over the statutory minimum revenue provision (MRP), VRP or overpayments, can, if needed, be reclaimed in later years if deemed necessary or prudent. In order for these sums to be reclaimed for use in the budget, this policy must disclose the cumulative overpayment made each year. Up until the 31 March 2023 the total VRP and overpayments were £0m.

The Council has for the General Fund a CFR requirement and therefore will need to make a MRP provision. As the Council is likely to fund capital expenditure for borrowing in the future and as there is a statutory requirement to have an approved MRP Statement in place in advance for each year, an MRP policy has been included in this Treasury Management Strategy as Appendix BB (2). Council is asked to adopt and approve the MRP policy statement.

3 BORROWING

The capital expenditure plans set out in Section 2.1 above provide details of the capital expenditure of the Council over the next 2 years. The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes so that sufficient cash is available to meet this service activity. This will involve both the management of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury/prudential indicators, the current and projected debt positions and the Annual Investment Strategy.

3.1 Current Portfolio Position

One of the key indicators is that the Council's gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2022/23 and the following two financial years. This is to ensure that the Council conducts its activities within well-defined limits. Also the indicator allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes or speculative purpose.

The table below shows the forward projections for external debt against the underlying need to finance capital expenditure through borrowing or other long term liabilities, i.e. the CFR, highlighting any over or under borrowing.

	2022/23 Actual £'000	***2023/24 Estimate £'000***	***2024/25 Estimate £'000***	***2025/26 Estimate £'000***	***2026/27 Estimate £'000***
External Debt at 1 April	81,190	81,190	96,190	93,190	91,190
Expected change in Debt	0	15,000	(3,000)	(2,000)	(2,000)
Actual debt at 31 March	**81,190**	**96,190**	**93,190**	**91,190**	**89,190**
Capital Financing	106,031	120,430	116,756	114,070	111,372
Under borrowing	**24,841**	**24,240**	**23,566**	**22,880**	**22,182**

Within the range of prudential indicators there are several key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short-term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2024/25 and the following two financial 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 Head of Finance reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes account of current commitments, existing plans and the proposals in this budget report.

3.2 Treasury Indicators: Limits to Borrowing Activity

The Operational Boundary

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

depending on the levels of actual debt and the ability to fund under-borrowing by other cash resources.

…..

Operational boundary	***2023/24 Actual £'000***	***2024/25 Estimat e £'000***	***2025/26 Estimate £'000***	***2026/2 7 Estimat***
Debt	81,190	96,190	93,190	91,190
Other long-term liabilities	0	0	0	0
Total	81,190	96,190	93,190	91,190

The Authorised Limit for External Debt

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

This is the statutory limit determined under section 3(1) of the Local Government Act

2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.

It should be noted that the authorised limits (as shown in the table below) has been set based on the current capital expenditure and funding plans within the Capital Strategy, which is the same as last year's limits.

The authorised limits are in line with the Capital Strategy as approved by Council:

Authorised limit	***2023/24 Actual £'000***	***2024/25 Estimate £'000***	***2025/26 Estimate £'000***	***2026/27 Estimate £'000***
Debt	81,190	120,000	120,000	120,000
Other long-term liabilities	0	0	0	0
Total	**81,190**	**120,000**	**120,000**	**120,000**

3.3 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. Link provided the following forecasts on 8th January 2024. These are forecasts for Bank Rate, average earnings and PWLB certainty rates, gilt yields plus 80 bps.

Link Group Interest Rate View 08.01.24													
	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27
BANK RATE	5.25	5.25	4.75	4.25	3.75	3.25	3.00	3.00	3.00	3.00	3.00	3.00	3.00
3 month ave earnings	5.30	5.30	4.80	4.30	3.80	3.30	3.00	3.00	3.00	3.00	3.00	3.00	3.00
6 month ave earnings	5.20	5.10	4.60	4.10	3.70	3.30	3.10	3.10	3.10	3.10	3.10	3.10	3.10
12 month ave earnings	5.00	4.90	4.40	3.90	3.60	3.20	3.10	3.10	3.10	3.10	3.10	3.20	3.20
5 yr PWLB	4.50	4.40	4.30	4.20	4.10	4.00	3.80	3.70	3.60	3.60	3.50	3.50	3.50
10 yr PWLB	4.70	4.50	4.40	4.30	4.20	4.10	4.00	3.90	3.80	3.70	3.70	3.70	3.70
25 yr PWLB	5.20	5.10	4.90	4.80	4.60	4.40	4.30	4.20	4.20	4.10	4.10	4.10	4.10
50 yr PWLB	5.00	4.90	4.70	4.60	4.40	4.20	4.10	4.00	4.00	3.90	3.90	3.90	3.90

Additional notes by Link on this forecast table: -

- Our central forecast for interest rates was previously updated on 7 November and reflected a view that the MPC would be keen to further demonstrate its anti-inflation credentials by keeping Bank Rate at 5.25% until at least H2 2024. We expect rate cuts to start when both the CPI inflation and wage/employment data are supportive of such a move, and when there is a likelihood of the overall economy enduring at least a slowdown or mild recession over the coming months (although most recent GDP releases have surprised with their on-going robustness).
- Naturally, timing on this matter will remain one of fine judgment: cut too soon, and inflationary pressures may well build up further; cut too late and any downturn or recession may be prolonged.
- In the upcoming months, our forecasts will be guided not only by economic data releases and clarifications from the MPC over its monetary policies and the Government over its fiscal policies, but also international factors such as policy development in the US and Europe, the provision of fresh support packages to support the faltering recovery in China as well as the on-going conflict between Russia and Ukraine, and Gaza and Israel.

PWLB RATES

- The short and medium part of the gilt curve has rallied since the start of November as markets price in a quicker reduction in Bank Rate through 2024 and 2025 than held sway back then. This reflects market confidence in inflation falling back in a similar manner to that already seen in the US and the Euro-zone. At the time of writing there is c70 basis points difference between the 5 and 50 year parts of the curve.

The balance of risks to the UK economy:

- The overall balance of risks to economic growth in the UK is even.

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

- **Labour and supply shortages** prove more enduring and disruptive and depress economic activity (accepting that in the near-term this is also an upside risk to inflation and, thus, could keep gilt yields high for longer).

- **The Bank of England** has increased Bank Rate too fast and too far over recent months, and subsequently brings about a deeper and longer UK recession than we currently anticipate.
- **Geopolitical risks,** for example in Ukraine/Russia, the Middle East, China/Taiwan/US, Iran and North Korea, which could lead to increasing safe-haven flows.

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

- Despite the tightening in Bank Rate to 5.25%, the **Bank of England allows inflationary pressures to remain elevated** for a long period within the UK economy, which then necessitates Bank Rate staying higher for longer than we currently project.

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

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

LINK GROUP FORECASTS

We expect the MPC will keep Bank Rate at 5.25% until the second half of 2024, to combat on-going inflationary and wage pressures, even if they have dampened somewhat of late. We do not think that the MPC will increase Bank Rate above 5.25%.

Gilt yields and PWLB rates

The overall longer-run trend is for gilt yields and PWLB rates to fall back over the timeline of our forecasts, as inflation continues to fall through 2024.

Our target borrowing rates are set **two years forward** (as we expect rates to fall back) and the current PWLB (certainty) borrowing rates are set out below:

PWLB debt	Current borrowing rate as at 08.01.24 p.m.	Target borrowing rate now (end of Q4 2025)	Target borrowing rate previous (end of Q3 2025)
5 years	4.53%	3.70%	3.80%
10 years	4.67%	3.90%	3.80%
25 years	5.19%	4.20%	4.20%
50 years	4.97%	4.00%	4.00%

Borrowing advice: Our long-term (beyond 10 years) forecast for Bank Rate remains at 3% and reflects Capital Economics' research that suggests AI and general improvements in productivity will be supportive of a higher neutral interest rate. As all PWLB certainty rates are currently significantly above this level, borrowing strategies will need to be reviewed in that context. Overall, better value can be obtained at the shorter end of the curve and short-dated fixed LA to LA monies should be considered. Temporary borrowing rates will remain elevated for some time to come but may prove the best option whilst the market continues to factor in Bank Rate reductions for 2024 and later.

Our suggested budgeted earnings rates for investments up to about three months' duration in each financial year are set out below.

Average earnings in each year	Now	Previously
2023/24 (residual)	5.30%	5.30%
2024/25	4.55%	4.70%
2025/26	3.10%	3.20%
2026/27	3.00%	3.00%
2027/28	3.25%	3.25%
2028/29	3.25%	3.25%
Years 6 to 10	3.25%	3.25%
Years 10+	3.25%	3.25%

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

Our interest rate forecast for Bank Rate is in steps of 25 bps, whereas PWLB forecasts have been rounded to the nearest 10 bps and are central forecasts within bands of + / - 25 bps. Naturally, we continue to monitor events and will update our forecasts as and when appropriate.

3.4 Borrowing Strategy

The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need, (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Councils's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as medium and longer dated borrowing rates are expected to fall from their current levels once prevailing inflation concerns are addressed by tighter near-term monetary policy. That is, Bank Rate remains elevated through to the second half of 2024.

Against this background and the risks within the economic forecast, caution will be adopted with the 2024/25 treasury operations. The Council will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

The Council's investments in commercial property in the medium term has used internal borrowing as the Council has been able to utilise its cash balances as an alternative to external borrowing. This is considered to be an effective strategy at present as it enables the Council to avoid significant external borrowing costs in the short to medium term (i.e. making it possible to avoid net interest payments); and It mitigates the risks associated with investing cash and the low investment rate returns.

3.5 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.

Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

3.6 Debt Rescheduling

At a point in time, short term borrowing rates may be considerably cheaper than longer term fixed interest rates. In this event there may be potential opportunities to generate savings by switching from long term debt to short term debt. However, these savings will need to be considered in the light of the current treasury position and the size of the cost of debt repayment (premiums incurred).

The reasons for any rescheduling to take place will include:

The generation of cash savings and / or discounted cash flow savings;

Helping to fulfil the treasury strategy;

Enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

Consideration will also be given to identify whether there is any residual potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.

The Council currently has one long term market debt of £2m which matures in June 2024 and it carries a current interest rate of 11.625%. Once this has loan has been repaid then a revenue income stream of £232.5k PA will be available to support the General Fund budget.

The £79.19m of HRA debt is at fixed interest rates and the twenty-four loans are repayable from 2024 to 2061. The first repayment is in 2024/25 of £1m, which has been reflected in the tables above. Their maturity dates are set to match income and

expenditure levels in the HRA Business Plan and they will be reviewed in line with that plan. However, the primary objective of the plan over the next few years is to invest in the Council's housing stock and this position is not expected to change in the near future. Therefore, these debts are unlikely to be rescheduled over the next three years. All rescheduling will be reported to the Cabinet at either the half year or full year report stage.

3.7 New Financial Institutions as a Source of Borrowing and / or Types of Borrowing

Currently the PWLB Certainty Rate is set at gilts + 80 basis points. However, consideration may still need to be given to sourcing funding from the following sources for the following reasons:

- Local authorities (primarily shorter dated maturities out to 3 years or so – generally are 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).

Our advisors will keep us informed as to the relative merits of each of these alternative funding sources. This Council may make use of this new source of borrowing as and when appropriate.

3.8 Approved Sources of Long and Short-term Borrowing

Should the Council require further borrowing in the future then borrowing options will be considered and reported to Cabinet and Council for approval.

4 ANNUAL INVESTMENT STRATEGY

4.1 Investment policy – Management of Risk

The Department of Levelling Up, Housing and Communities (DLUHC - this was formerly the Ministry of Housing, Communities and Local Government (MHCLG)) 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 and service investments, are covered in the Capital Strategy, (a separate report).

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

The Council’s investment priorities will be security first, portfolio liquidity second and then yield (return). The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and with regard to the Council’s risk appetite.

In the current economic climate, it is considered appropriate to maintain a degree of liquidity to cover cash flow needs but to also consider “laddering” investments for periods up to 12 months with high credit rated financial institutions, whilst investment rates remain elevated, as well as wider range fund options.

The above guidance from the DLUHC and CIPFA places a high priority on the management of risk. This Council has adopted a prudent approach to managing risk and defines its risk appetite by the following means: -

1. Minimum acceptable **credit criteria** are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short- term and long-term ratings.
2. **Other information:** ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration the Council will engage with its advisors to maintain a monitor on market pricing such as **“credit default swaps”** and overlay that information on top of the credit ratings.
3. **Other information sources** used will include the financial press, share price and other such information pertaining to the financial sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.
4. This Council has defined the list of **types of investment instruments** that the treasury management team are authorised to use. There is a list in Appendix BB (3) under the categories of ‘specified’ and ‘non-specified’ investments.

   Specified investments are those with a high level of credit quality and subject to a maturity limit of one year or have less than a year left to run to maturity, if originally they were classified as being non-specified investments solely due to the maturity period exceeding one year.

Non-specified investments are those with less high 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.

5. **Non-specified investments limit.** The Council has determined that it will limit the maximum total exposure to non-specified investments limit is £30m.
6. **Lending limits,** (amounts and maturity), for each counterparty will be set as per Appendix BB (3).
7. **Transaction limits** are set for each type of investment in Appendix BB (3).
8. The Council will set a limit for its investments which are invested for **longer than 365 days,** in Appendix BB (3)
9. Investments will only be placed with counterparties from countries with a specified minimum **sovereign rating**, (see paragraph below 4.3).
10. This Council has engaged **external consultants**, (see paragraph above 1.5), to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of the Council in the context of the expected level of cash balances and need for liquidity throughout the year.
11. All investments will be denominated in **sterling**.
12. As a result of the change in accounting standards for 2023/24 under IFRS 9, this Council 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. (In November 2018, the MHCLG, concluded a consultation for a temporary override to allow English local authorities time to adjust their portfolio of all pooled investments by announcing a statutory override to delay implementation of IFRS 9 for five years ending 31 March 2023. More recently, a further extension to the over-ride to 31 March 2025 has been agreed by Government.

However, this Council will also pursue **value for money** in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance, Regular monitoring of investment performance will be carried out during the year.

The principal amendment to the Council's investment strategy versus 2023/24 is the addition of multi-asset funds to the allowable mix of financial instruments; these allow funds to be placed for longer durations which is considered useful in an environment where interest rates are falling. There are also minor changes to certain limits within the overall mix of potential fund investments. Overall however, this does not represent a significant change in the Council's approach to treasury management.

Risk management policy:

Investment instruments identified for use in the financial year are listed in appendix BB (3) under the 'specified' and 'non-specified' investments categories. Counterparty limits will be as set through the Council's treasury management practices.

4.2 Creditworthiness Policy

This Council applies the creditworthiness service provided by the Link Group. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard & Poor's. The credit ratings of counterparties are supplemented with the following overlays: -

1. "watches" and "outlooks" from credit rating agencies;
2. CDS spreads that may give early warning of changes in credit ratings;
3. sovereign ratings to select counterparties from only the most creditworthy countries.

This modelling approach combines credit ratings, and any assigned Watches and Outlooks, in a weighted scoring system which is then combined with an overlay of CDS spreads. The end-product of this is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the suggested duration for investments. The Council will, therefore, use counterparties within the following durational bands.

- Dark pink 5 years for Ultra-Short Dated Bond Funds with a credit score of 1.25
- Light pink 5 years for Ultra-Short Dated Bond Funds with a credit score of 1.5
- Purple 1 year
- Blue 1 year (only applies to nationalised or semi nationalised UK Banks)
- Orange 1 year
- Red 6 months
- Green 100 days
- No colour not to be used

The Link creditworthiness service uses a wider array of information other than just primary ratings. Furthermore, by using a risk weighted scoring system, it does not give undue preponderance to just one agency's ratings.

Typically, the minimum credit ratings criteria the Council uses will be a short-term rating (Fitch or equivalents) of F1 and a long-term rating of A-. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances, consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

All credit ratings will be monitored weekly. The Council is alerted to changes to ratings of all three agencies through its use of the Link creditworthiness service.

- if a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.

- in addition to the use of credit ratings the Council will be advised of information in movements in Credit Default Swap spreads against the iTraxx European Senior Financials benchmark and other market data on a daily basis via its Passport website, provided exclusively to it by Link. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

Sole reliance will not be placed on the use of this external service. In addition, this Council will also use market data and market information, as well as information on any external support for banks to help support its decision-making process.

Creditworthiness

Significant levels of downgrades to Short and Long-Term credit ratings have not materialised since the crisis in March 2020. In the main, where they did change, any alterations were limited to Outlooks. Nonetheless, when setting minimum sovereign debt ratings, this Council will not set a minimum rating for the UK.

(Credit Default Swap) CDS prices

Although bank CDS prices, (these are market indicators of credit risk), spiked upwards during the days of the Truss/Kwarteng government in the autumn of 2022, they have returned to more average levels since then. However, sentiment can easily shift, so it will remain important to undertake continual monitoring of all aspects of risk and return in the current circumstances. Link monitor CDS prices as part of their creditworthiness service to local authorities and the Council has access to this information via its Link-provided Passport portal.

4.3 Country Limits

Due care will be taken to consider the exposure of the Council's total investment portfolio to non-specified investments, countries, groups and sectors.

Non-specified treasury management investment limit. The Council has determined that it will limit the maximum total exposure of treasury management investments to £30m in non-specified treasury management investments.

Country limit. The Council has determined that it will only use approved counterparties from the UK and from countries with a minimum sovereign credit rating of AA- from Fitch. The list of countries that qualify using this credit criteria as at the date of this report are shown in Appendix BB (4). This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

Other limits. In addition:

- limits in place above will apply to a group of companies/institutions;

- sector limits will be monitored regularly for appropriateness.

4.4 Investment Strategy

In-house funds. Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e., rates for investments up to 12 months). Greater returns are usually obtainable by investing for longer periods. The current shape of the yield curve suggests that is the case at present, but there is the prospect of Bank Rate having peaked in the second half of 2024 and possibly reducing as early as the second quarter of 2025 so an agile investment strategy would be appropriate to optimise returns.

Accordingly, while most cash balances are required in order to manage the ups and downs of cash flow, where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer-term investments will be carefully assessed.

Investment returns expectations

The current forecast shown in paragraph 3.3, includes a forecast for Bank Rate to have peaked at 5.25%.

The suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year are as follows:

Average earnings in each year	
2023/24 (residual)	5.30%
2024/25	4.55%
2025/26	3.10%
2026/27	3.00%
2027/28	3.25%
Years 6 to 10	3.25%
Years 10+	3.25%

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

Investment treasury indicator and limit - total principal funds invested for greater than 365 days. These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment and are based on the availability of funds after each year-end.

The Council is asked to approve the following treasury indicator and limit, which remains unchanged from last year:

Maximum principal sums invested > 365 days			
£m	**2024/25**	**2025/26**	**2026/27**
Principal sums invested >365 days	£30m	£30m	£30m

4.5 Investment Performance / Risk Benchmarking

The Council will use an investment benchmark to assess the investment performance of its investment portfolio of 3 month compounded / SONIA.

4.6 End of Year Investment Report

At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Report.

APPENDICES FOR APPENDIX BB

BB (1). Economic Background – Link Asset Services

BB (2). Minimum Revenue Provision Policy

BB (3). Treasury Management Practice (TMP1) – Credit and Counterparty Risk Management

BB (4). Approved Countries for Investment

BB (5). Approved Brokers for Investment

BB (6). Current Investments as at 22nd January 2024

BB (7). Treasury Management Scheme of Delegation

BB (8). The Treasury Management Role of the Section 151 Officer

APPENDIX BB (1). Economic Background – Link Asset Services

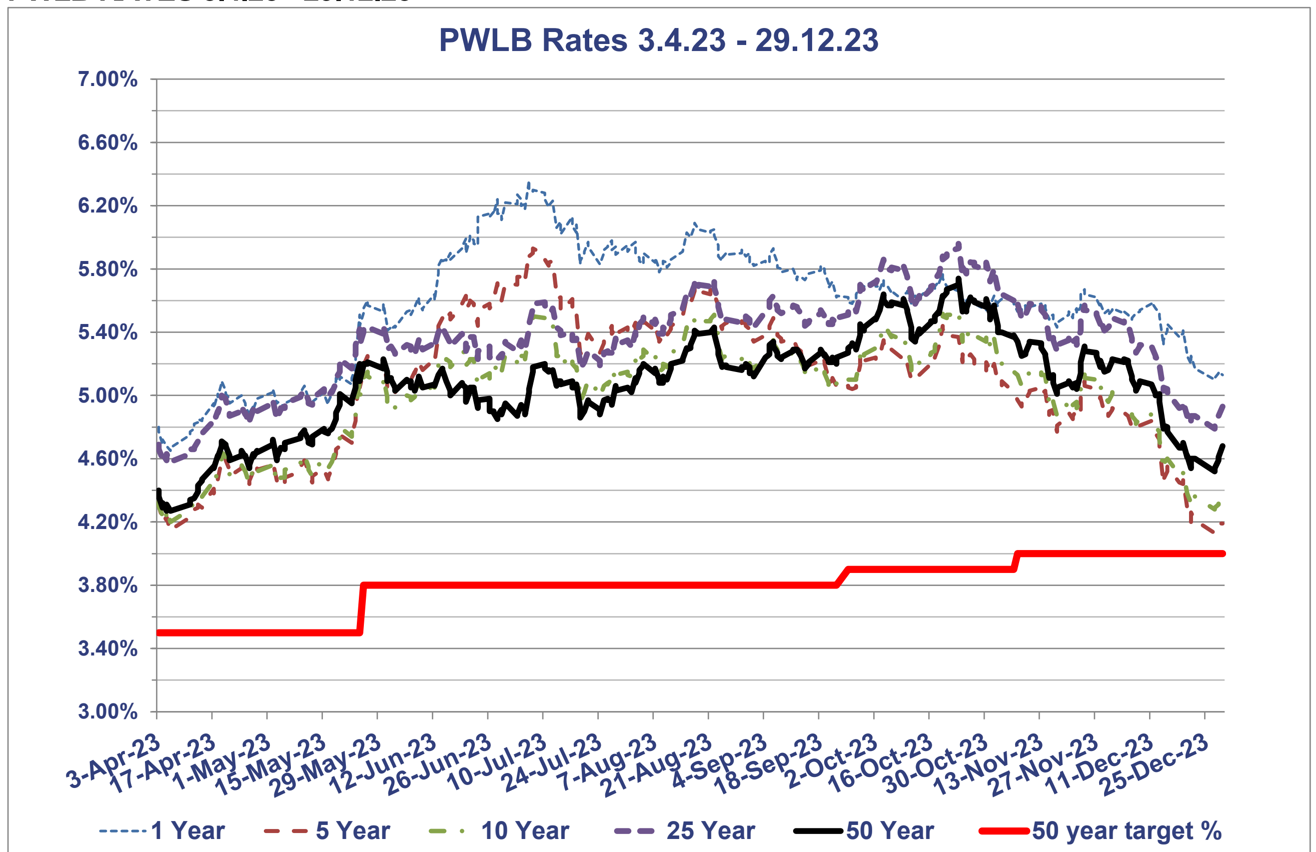
- The third quarter of 2023/24 saw:
  - A 0.3% m/m decline in real GDP in October, potentially partly due to unseasonably wet weather, but also due to the ongoing drag from higher interest rates. Growth for the second quarter, ending 30th September, was revised downwards to -0.1% and growth on an annual basis was also revised downwards, to 0.3%;
  - A sharp fall in wage growth, with the headline 3myy rate declining from 8.0% in September to 7.2% in October, although the ONS "experimental" rate of unemployment has remained low at 4.2%;
  - CPI inflation continuing on its downward trajectory, from 8.7% in April to 4.6% in October, then again to 3.9% in November;
  - Core CPI inflation decreasing from April and May's 31 years' high of 7.1% to 5.1% in November, the lowest rate since January 2022;
  - The Bank of England holding Bank Rate at 5.25% in November and December;
  - A steady fall in 10-year gilt yields as investors revised their interest rate expectations lower.
- The revision of GDP data in Q2 to a 0.1% q/q fall may mean the mildest of mild recessions has begun. Indeed, real GDP in October fell 0.3% m/m which does suggest that the economy may stagnate again in Q3. The weakness in October may partly be due to the unseasonably wet weather. That said, as the weakness was broad based it may also be the case that the ongoing drag from higher interest rates is more than offsetting any boost from the rise in real wages.
- However, the rise in the flash composite activity Purchasing Managers Index, from 50.7 in November to 51.7 in December, did increase the chances of the economy avoiding a contraction in Q3. The improvement was entirely driven by the increase in the services activity balance from 50.9 to 52.7. (Scores above 50 point to expansion in the economy, although only tepid in this instance.) The press release noted that this was primarily driven by a revival in consumer demand in the technological and financial services sectors. This chimes with the further improvement in the GfK measure of consumer confidence in December, from -24 to -22. The services PMI is now consistent with non-retail services output growing by 0.5% q/q in Q3, but this is in stark contrast to the manufacturing sector where the output balance slumped from 49.2 to 45.9 and, at face value, the output balance is consistent with a 1.5% q/q fall in manufacturing output in Q3.
- The 0.3% m/m fall in retail sales volumes in October means that after contracting by 1.0% q/q (which was downwardly revised from -0.8% q/q) in Q2, retail activity remained weak at the start of Q3. That suggests higher interest rates are taking a bigger toll on real consumer spending.
- Higher interest rates have filtered through the financial channels and weakened the housing market but, overall, it remains surprisingly resilient with the Halifax house price index recently pointing to a 1.7% year on year increase whilst Nationwide's December data pointed to a -1.8% year on year decrease. However, the full weakness in real consumer spending and real business investment has yet to come as currently it is estimated that around two thirds to a half of the impact of higher interest rates on household interest payments has yet to be felt.

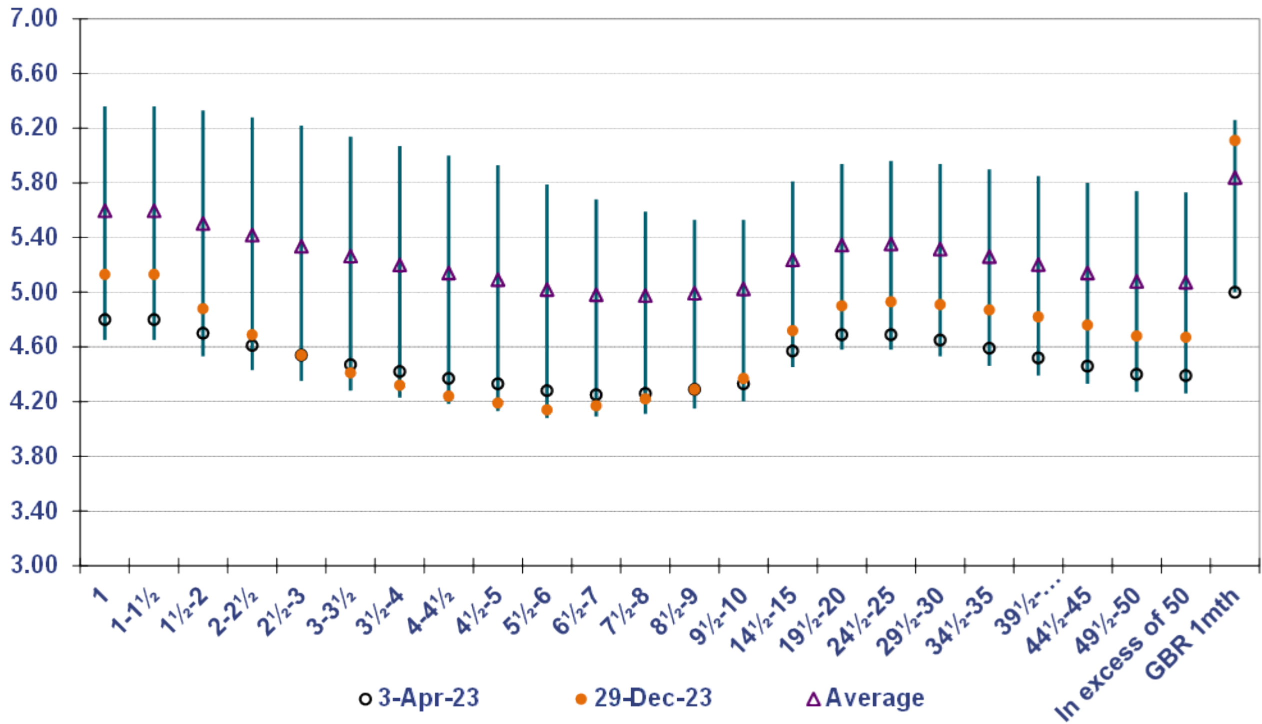
- Overall, we expect real GDP growth to remain subdued throughout 2024 as the drag from higher interest rates is protracted but a fading of the cost-of-living crisis and interest rate cuts in the second half of 2024 will support a recovery in GDP growth in 2025.
- The labour market remains tight by historical standards, but the sharp fall in wage growth seen in October will reinforce the growing belief in markets that interest rates will be cut mid-2024. Wage growth eased in October much faster than the consensus expected. Total earnings fell by 1.6% m/m, which meant the headline 3myy rate eased from 8.0% in September to 7.2% in October. This news will be welcomed by the Bank of England. Indeed, the timelier three-month annualised rate of average earnings growth fell from +2.4% to -1.2%. Excluding bonuses, it fell from 5.3% to 2.0%. Furthermore, one of the Bank's key barometers of inflation persistence, regular private sector pay growth, dropped from 7.9% 3myy to 7.3%, which leaves it comfortably on track to fall to 7.2% by December, as predicted by the Bank in November.
- The fall in wage growth occurred despite labour demand being stronger in October than expected. The three-month change in employment eased only a touch from +52,000 in September to +50,000 in October. But resilient labour demand was offset by a further 63,000 rise in the supply of workers in the three months to October. That meant labour supply exceeded its pre-pandemic level for the first time, and the unemployment rate remained at 4.2% in October. In the three months to November, the number of job vacancies fell for the 17th month in a row, from around 959,000 in October to around 949,000. That has reduced the vacancy to unemployment ratio as demand for labour eases relative to supply, which may support a further easing in wage growth in the coming months.
- CPI inflation fell from 6.7% in September to 4.6% in October, and then again to 3.9% in November. Both these falls were bigger than expected and there are clear signs of easing in domestic inflationary pressures. The fall in core CPI inflation from 5.7% to 5.1% in November was bigger than expected (consensus forecast 5.6%). That's the lowest rate since January 2022. Some of the decline in core inflation was due to the global influence of core goods inflation, which slowed from 4.3% to 3.3%. But some of it was due to services inflation falling from 6.6% to 6.3%. The Bank views the latter as a key barometer of the persistence of inflation and it came in further below the Bank's forecast of 6.9% in its November Monetary Policy Report. This will give the Bank more confidence that services inflation is now on a firmly downward path.
- The Bank of England sprung no surprises with its December monetary policy committee (MPC) meeting, leaving interest rates at 5.25% for the third time in a row and pushing back against the prospect of near-term interest rate cuts. The Bank continued to sound hawkish, with the MPC maintaining its tightening bias saying that "further tightening in monetary policy would be required if there were evidence of more persistent inflationary pressures". And it stuck to the familiar script, saying that policy will be "sufficiently restrictive for sufficiently long" and that "monetary policy is likely to need to be restrictive for an extended period of time". In other words, the message is that the MPC is not yet willing to endorse investors' expectations that rates will be cut as soon as May 2024.
- Looking ahead, our colleagues at Capital Economics forecast that the recent downward trends in CPI and core inflation will stall over the next few months before starting to decline more decisively again in February. That explains why we think the Bank of England won't feel comfortable cutting interest rates until H2 2024.

- The fall in UK market interest rate expectations in December has driven most of the decline in 10-year gilt yields, which have fallen in line with 10-year US Treasury and euro-zone yields. 10-year gilt yields have fallen from 4.68% in October 2023 to around 3.70% in early January, with further declines likely if the falling inflation story is maintained.
- Investors' growing expectations that the Fed will cut interest rates soon has led to an improvement in risk sentiment, which has boosted the pound and other risky assets. In addition, the rise in the pound, from $1.21 in November to $1.27 now, has also been supported by the recent relative decline in UK wholesale gas prices.
- The further fall in 10-year real gilt yields in December has supported the recent rise in the FTSE 100. That said, the index remains 5% below its record high in February 2023. This modest rise in equities appears to have been mostly driven by strong performances in the industrials and rate-sensitive technology sectors. But UK equities have continued to underperform US and euro-zone equities. The FTSE 100 has risen by 2.2% in December, while the S&P 500 has risen by 3.8%. This is partly due to lower energy prices, which have been a relatively bigger drag on the FTSE 100, due to the index's high concentration of energy companies.

In the chart below, the rise in gilt yields across the curve in the first half of 2023/24, and therein PWLB rates, is clear to see, prior to the end of year rally based on a mix of supportive domestic and international factors.

PWLB RATES 3.4.23 - 29.12.23





HIGH/LOW/AVERAGE PWLB RATES FOR 3.4.23 – 29.12.23

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	4.65%	4.13%	4.20%	4.58%	4.27%
Date	06/04/2023	27/12/2023	06/04/2023	06/04/2023	05/04/2023
High	6.36%	5.93%	5.53%	5.96%	5.74%
Date	06/07/2023	07/07/2023	23/10/2023	23/10/2023	23/10/2023
Average	5.60%	5.09%	5.03%	5.35%	5.08%
Spread	1.71%	1.80%	1.33%	1.38%	1.47%

MPC meetings 2nd November and 14th December 2023

- On 2nd November, the Bank of England's Monetary Policy Committee (MPC) voted to keep Bank Rate on hold at 5.25%, and on 14th December reiterated that view. Both increases reflected a split vote, the latter by 6 votes to 3, with the minority grouping voting for an increase of 0.25% as concerns about "sticky" inflation remained in place.
- Nonetheless, with UK CPI inflation now at 3.9%, and core inflating beginning to moderate (5.1%), markets are voicing a view that rate cuts should begin in Q1 2024/25, some way ahead of the indications from MPC members. Of course, the data will be the ultimate determinant, so upcoming publications of employment, wages and inflation numbers will be of particular importance, and on-going volatility in Bank Rate expectations and the gilt yield curve can be expected.
- In addition, what happens outside of the UK is also critical to movement in gilt yields. The US FOMC has kept short-term rates in the range of 5.25%-5.50%, whilst the ECB has moved its Deposit rate to a probable peak of 4%. Markets currently expect both central banks to start cutting rates in 2024.

APPENDIX B(2)

MINIMUM REVENUE PROVISION (MRP) POLICY STATEMENT

INTRODUCTION TO THE 2024/25 POLICY STATEMENT

There have been no changes to the statutory guidance in respect of the 2024/25 financial year, although amended guidance is planned for 2024; it is assumed that this will apply from the 2025/26 financial year. The executive summary setting out the purpose and focus of the amended guidance is set out in the box below.

> *The proposed new regulatory regime for MRP consists of the 2024 amendment regulations and Statutory MRP Guidance 2024.*
>
> The changes have been introduced to address concerns that the government has in respect of compliance with the duty to make a prudent revenue provision, which in their view, results in some authorities underpaying MRP. The new regime makes it explicit that authorities are required to determine a prudent amount of MRP with respect to **all capital expenditure financed by debt**; and capital receipts may not be used to directly reduce what would otherwise be a prudent revenue charge. The aim is to stop the intentional exclusion of debt from the MRP determination where it relates to an investment asset or capital loan.

It may be noted that the Council's policy covers all capital expenditure financed by debt, and capital receipts are not used to reduce the revenue charge. The Council adopts calculation methods for MRP lifted directly from the extant guidance, and therefore considers these to be appropriately prudent.

The Council's MRP Policy is unchanged from 2023/24, as this is still considered suitably prudent and in alignment with the Council's operations.

THE 2024/25 MRP POLICY STATEMENT

Under Regulation 27 of the 2003 Regulations, local authorities are required to charge MRP to their revenue account in each financial year. It should cover the gap between the Capital Financing Requirement (CFR) and grant income and capital receipts.

The Council is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (MRP). It is also allowed to undertake additional voluntary payments if desired (voluntary revenue provision - VRP). Any planned overpayments must be recorded clearly in the MRP statement.

MHCLG (now DLUHC) regulations have been issued which require the full Council to approve an MRP Statement in advance of each year; hence, the inclusion of this policy within the Capital Strategy.

The Council is required to calculate in each financial year a prudent provision to ensure that debt is repaid over a period that is reasonably commensurate with that over which the capital expenditure provides benefits (asset life). MRP cannot be negative, and can only be zero if the CFR is nil or negative, or if the charge is fully reduced by reversing previous overpayments. A maximum asset life of 40 years can be used, except freehold land which can be 50 years.

In calculating MRP the Council must base its calculation on methods set out within ‘guidance’ issued by the Secretary of State under section 21(1A) of the Local Government Act 2003. Under that section local authorities are required to ‘have regard’ to this guidance. The extant guidance distinguishes between borrowing incurred prior to 2008 and that incurred in subsequent years. The Council did not incur borrowing to finance assets prior to 2008 and hence its options on which its MRP calculation is based are restricted to Options 3. and 4. as set out in guidance, as below:

Option 3: Asset Life Method

Where capital expenditure on an asset is financed wholly or partly by borrowing or credit arrangements, MRP is to be determined by reference to the useful life of the asset.

There are two main methods by which this can be achieved, as described below.

(a) Equal instalment method

MRP is the amount given by the following formula:

$$\frac{A - B}{C}$$

Where:

A is the amount of capital expenditure in respect of the asset financed by borrowing or credit arrangements.

B is the total provision made before the current financial year in respect of that expenditure.

C is the inclusive number of financial years from the current year to that in which the estimated useful life of the asset expires.

(b) Annuity method

MRP is the principal element for the year of the annuity required to repay over the asset’s useful life the amount of capital expenditure financed by borrowing or credit arrangements. The Council should use an appropriate interest rate to calculate the amount. Adjustments to the calculation to take account of repayment by other methods during repayment period (e.g. by the application of capital receipts) should be made as necessary.

Option 4: Depreciation method

MRP is deemed to be equal to the provision required in accordance with deprecation accounting in respect of the asset on which expenditure has been financed by borrowing or credit arrangements. This should include any amount for impairment charged to the income and expenditure accounts.

Selected Charnwood calculation methods

- For assets with a life of 10 years or less, the straight line asset life method (Option 3 (a)) will be used
- For assets with a life in excess of 10 years, the annuity asset life method (Option 3 (b)) will be used

The asset life method calculation requires estimated useful lives of assets to be input into the calculations. These life periods will be determined by the Council's Chief Financial Officer (this is the Council's designated s151 Officer, a role currently held by the Director of Finance, Governance and Contracts), with regard to the statutory guidance and advice from professional valuers if required.

The Chief Financial Officer may also determine that if, in their opinion, the straight line method is more prudent for an asset with a life in excess of 10 years then this option may be used

Generally, the straight line asset life method is considered appropriately prudent for assets with a relatively short term life (such as most types of plant and equipment). Assets purchased with a longer life will usually be land and buildings and hence an annuity asset life method will be used reflecting that such assets will in practice have a value at the end of the designated asset life. One aspect of the annuity asset life method is that it generates MRP payments that are relatively low in early years which then increase over the asset life. This structure of MRP is well-suited to commercial properties as the increase in MRP could be expected (broadly) to mirror increasing rental income created by periodic rent reviews.

The designated asset life of land and buildings, including commercial property for investment purposes, will usually be set at 40 years, in accordance with the guidance and in common with other local authorities.

In line with the extant guidance MRP will be not be charged until the later of the year after capital expenditure is incurred or the year after the asset becomes operational

The calculation of MRP is also subject to the following details:

- An average asset life for each project will normally be used. There will not be separate MRP schedules for the components of a building (e.g., plant, roof etc.). Asset life will be determined by the Chief Finance Officer.

A standard schedule of asset lives will generally be used (as stated in the Statement of Accounts accounting policies).

- MRP will commence in the year following the year in which capital expenditure financed from borrowing is incurred, except for single assets when expenditure is being financed from borrowing the MRP will be deferred until the year after the asset becomes operational.

Other methods to provide for debt repayment may occasionally be used in individual cases where this is consistent with the statutory duty to be prudent, as justified by the circumstances of the case, at the discretion of the Chief Finance Officer; this may include certain circumstances relating to investment (forward funding) within the Enterprise Zone and where the underlying loan is taken out on a repayment basis. In this case no MRP charge will be deemed necessary assuming the loan term does not exceed the asset life.

APPENDIX BB (3). Treasury Management Practice (TMP1) – Credit and Counterparty Risk Management

SPECIFIED INVESTMENTS: All such investments will be sterling denominated, with maturities up to maximum of 1 year with the exception of other Local Authorities, which have a maximum of 2 years meeting the minimum 'high' rating criteria where applicable.

NON-SPECIFIED INVESTMENTS: These are any investments which do not meet the specified investment criteria. In 2018 the Council invested in established Property Funds run by external fund managers. These funds are longer term investments (typically 2-5 years) and give potentially higher returns than more liquid investment categories. Investments totaling £5m have been made in Property Funds, these investments will form part of the £30m limit for investments of over 365 days duration.

Accounting treatment of investments. The accounting treatment may differ from the underlying cash transactions arising from investment decisions made by this Council. To ensure that the Council is protected from any adverse revenue impact, which may arise from these differences, a review of the accounting implications of new transactions will be carried prior to any investment decision.

A variety of investment instruments will be used, subject to the credit quality of the institution, and depending on the type of investment made it will fall into one of the below categories. The criteria, time limits and monetary limits applying to institutions or investment vehicles are:

	Minimum credit criteria / colour band	**Maximum limit of investments per institution and in total £**	**Maximum maturity period**
SPECIFIED INVESTMENTS:			
DMADF – UK Government	UK Sovereign Rating	Unlimited	12 Months
UK Government Gilts	UK Sovereign Rating	Unlimited	12 Months
UK Government Treasury Bills	UK Sovereign Rating	Unlimited	12 Months
Bonds Isued by Multilateral Development Banks	AAA	Unlimited	6 Months
Money Market Funds CNAV, LNVAV, VNAV	AAA	£12m any one institution and £30m in total	Liquid
Ultra-Short Dated Bond Funds with a credit score of 1.5	AAA	£12m any one institution and £20m in total	Liquid
Local Authorities	N/A	£5m any one institution and £20m in total	2 Years
Term Deposits with Banks and Building Societies	Blue	£12m any one institution and £20m in total	12 months

	Orange	£12m (£18m for HSBC only) any one institution and £45m in total	12 months
	Red	£12m any one institution and £60m in total	6 months
	Green	£12m any one institution and £25m in total	100 days
	No Colour	Not for use	Not for use
NON-SPECIFIED INVESTMENTS:			
Property Funds	N/A	£5m any one institution and £20m in total	20 Years
Multi Asset Funds *(See Note)	N/A	£5m any one institution and £10m in total	2 Years

****Multi Asset Funds: This is a new investment vehicle for approval for use from 1st April 2024, as noted in the body of this report.***

APPENDIX BB (4). Approved Countries for Investment

This list is based on those countries which have sovereign ratings of AA- or higher, (we show the lowest rating from Fitch, Moody's and S&P) and also, (except - at the time of writing - for Hong Kong and Luxembourg), have banks operating in sterling markets which have credit ratings of green or above in the Link creditworthiness service.

Based on lowest available rating

AAA

- Australia
- Denmark
- Germany
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland

AA+

- Canada
- Finland
- U.S.A.

AA

- Abu Dhabi (UAE)

AA-

- Belgium
- France
- Qatar
- **U.K.**

APPENDIX BB (5). Approved Brokers for Investment

The list below represents approved brokers that the Council will use to facilitate its investment strategy when necessary:

King and Shaxson

Tradition (UK) Ltd

RP Martin

Tullet Prebon

Link Group, Agency Treasury Services

APPENDIX BB (6). Current Investments as at 22nd January 2024 (for information only)

For illustrative purposes only the Council's investments as at 22nd January 2024 are set out below. Please note that these investments alter on a daily basis.

Institution	Colour	Maximum Time Limit	Investment Limit £'000	Amount Invested £'000	Interest Rate	Start Date	Maturity Date
Landesbank Hessen-Thueringen Girozentrale	Orange	12 months	£12,000	£3,000	5.01%	12/05/2023	10/05/2024
Close Brothers	Red	6 months	£12,000	£2,000	5.73%	28/07/2023	26/01/2024
Goldman Sachs International Bank	Red	6 months	£12,000	£5,000	5.89%	15/08/2023	13/02/2024
Natwest Markets	Red	6 months	£12,000	£5,000	5.81%	05/09/2023	04/03/2024
Lloyds Bank Corporate Markets	Red	6 months	£12,000	£5,000	5.66%	02/10/2023	02/04/2024
SMBC Bank International	Red	6 months	£12,000	£5,000	5.58%	12/10/2023	11/04/2024
SMBC Bank International	Red	6 months	£12,000	£3,000	5.47%	14/11/2023	14/05/2024
Lloyds Bank Corporate Markets	Red	6 months	£12,000	£3,000	5.50%	14/11/2023	14/05/2024
Close Brothers	Red	6 months	£12,000	£3,000	5.60%	28/11/2023	28/05/2024
London Borough of Waltham	N/A	24 months	£12,000	£5,000	5.65%	15/12/2023	16/09/2024
Lloyds Bank Corporate Markets	Red	6 months	£12,000	£3,000	5.30%	22/01/2024	22/07/2024
Santander 180 Day Notice Account	Red	6 months	£12,000	£6,000	5.80%	15/12/2023	180 Days Notice
Santander	Red	6 months	£12,000	£3,000	5.70%	15/12/2023	95 Days Notice
Money Market Funds	AAA Rated	Liquid	£30,000	£13,000	5.28%		1 Day Notice
Property Funds	N/A	20 Years	£5,000	£5,000	3.00%*		
TOTAL INVESTMENTS				**£69,000**			

*As at 31st December 2023

APPENDIX BB (7). Treasury Management Scheme of Delegation

TREASURY MANAGEMENT SCHEME OF DELEGATION

(i) Council

- receiving and reviewing reports on treasury management policies, practices and activities.
- approval of annual strategy.

(ii) Cabinet

- approval of/amendments to the organisation's adopted clauses, treasury management policy
- statement and treasury management practices.
- budget consideration and approval.
- approval of the division of responsibilities.
- receiving and reviewing monitoring reports and acting on recommendations.

(iii) Audit Committee/Overview Scrutiny Board

- reviewing the treasury management policy and procedures and making recommendations to the responsible body.
- reviewing treasury management quarterly update reports and making recommendations to the responsible body.

APPENDIX BB (8). The Treasury Management Role of the Section 151 Officer

The S151 (responsible) officer

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance
- submitting regular treasury management policy reports
- submitting budgets and budget variations
- receiving and reviewing management information reports
- reviewing the performance of the treasury management function
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function
- ensuring the adequacy of internal audit, and liaising with external audit
- recommending the appointment of external service providers
- ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the Council
- ensure that the authority has appropriate legal powers to undertake expenditure on non- financial assets and their financing
- ensuring the proportionality of all investments so that the Council does not undertake a level of investing which exposes the Council to an excessive level of risk compared to its financial resources
- ensuring that an adequate governance process is in place for the approval, monitoring, and ongoing risk management of all non-financial investments and long- term liabilities
- ensuring that members are adequately informed and understand the risk exposures taken on by the Council
- ensuring that the Council has adequate expertise, either in house or externally provided, to carry out the above

    - creation of Treasury Management Practices which specifically deal with how non treasury investments will be carried out and managed, to include the following (TM Code p54):

        - *Risk management (TMP1 and schedules), including investment and risk management criteria for any material non-treasury investment portfolios;*

        - *Performance measurement and management (TMP2 and schedules), including methodology and criteria for assessing the performance and success of non-treasury investments;*

- *Decision making, governance and organisation (TMP5 and schedules), including a statement of the governance requirements for decision making in relation to non-treasury investments; and arrangements to ensure that appropriate professional due diligence is carried out to support decision making;*

- *Reporting and management information (TMP6 and schedules), including where and how often monitoring reports are taken;*

- *Training and qualifications (TMP10 and schedules), including how the relevant knowledge and skills in relation to non-treasury investments will be arranged.*