London Borough of Barnet

Treasury Management Strategy Statement

Minimum Revenue Provision Policy Statement and Annual Investment Strategy

2023/24

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Revised Codes for 2023/24 Financial Year

CIPFA published revised Treasury Management and Prudential Codes on 20 December 2021. The revised Codes need to be formally adopted for the 2023/24 financial year. This Treasury Management Strategy Statement, and related reports, therefore, have regard to these Codes. The changes are summarised below.

Defining Investment Income

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

Income type	Definition	Within scope of this statement?
Treasury management	Treasury income may 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.	Yes
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".	No *(included in Capital Strategy statement)*
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 an authority'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.	No *(included in Capital Strategy statement)*

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

1. **Liability Benchmark:** Supports the financing risk management of the capital financing requirement – the liability benchmark represents the level of debt the council would take on if all cash assets above the minimum liquidity requirement were utilised towards the council's capital programme – details of the Authority's Liability Benchmark are disclosed in section 2.3;

2. **Long-term treasury investments**, including pooled funds, are to be classed as commercial investments unless justified by a cash flow business case – the council does not currently hold long-term treasury investments and does not plan to over the period 2023 / 24 – note that Pooled funds are to be included in the indicator for principal sums maturing in years beyond the initial budget year;

3. 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 function;

4. **Quarterly reporting.** Specifically, we will monitor and report performance against all forward-looking prudential indicators at least quarterly.

5. **Environmental, social and governance (ESG)** issues to be addressed within an authority's treasury management policies and practices (TMP1).

As this TMSS deals solely with treasury management investments, the categories of service delivery and commercial investments are addressed as part of the Capital Strategy report. However, the main requirements of the Prudential Code in relation to service and commercial investments are summarised below for completeness:

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);

7. Record of 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;

8. 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);

9. Details of financial and other risks of undertaking investments for service or commercial purposes and how these are managed;

10. Limits on total investments for service purposes and for commercial purposes respectively (consistent with any limits required by other statutory guidance on investments);

11. 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);

12. 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.

1. ABOUT THIS STATEMENT

1.1 Introduction

This statement summarises the treasury management function's strategy for the period 1 April 2023 to 31 March 2024.

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

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

In summary, the treasury management function within this Authority (i.e., Barnet Council) manages the Authority's cash assets and determines the borrowing strategy to meet the Authority's capital programme. When investing the Authority's cash, the treasury management function prioritises counter party quality and liquidity over return.

The treasury management function has not engaged in any investments primarily for yield. However, the Authority has entered into lending activity (e.g., to Saracens and Open Door Homes). This lending activity supports its overall priorities around regeneration and housing within the Borough. The borrowing required to support this lending activity is included within our External Debt disclosures although we do not count the loans as Treasury Investments. The income generated through this lending activity is included within the Affordability Prudential Indicators set out in section 5.1.2.

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 Authority's elected members fully understand the overall long-term policy objectives and resulting Capital Strategy requirements, governance procedures and risk appetite.

The Authority's Capital Strategy is provided separately to this document and is not prepared by the treasury management function.

1.2.2 Treasury Management Reporting

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 Authority 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 Council. This role is undertaken by the Policy and Resources Committee for both the Treasury Management Strategy Statement, and the mid-year and annual reporting as part of the Executive Director for Strategy and Resources' quarterly reporting.

Note that the Authority is reviewing its governance framework which may necessitate a change to the scrutiny protocols mentioned above.

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/Board but do require to be adequately scrutinised. This role will be undertaken by the Policy and Resources Committee. The reports, specifically, will provide updated Treasury/Prudential Indicators.

1.3 Treasury Management Strategy for 2023/24

The strategy for 2023/24 covers two main areas:

Capital expenditure
- the capital expenditure plans and the associated prudential indicators
- the minimum revenue provision (MRP) policy

Treasury management

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

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.

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."

Officers are reviewing the Treasury team's skills and training policy and will implement a refreshed training programme from 1 July 2023.

Officers will undertake CIPFA's 'self-assessment by members responsible for the scrutiny of treasury management' to inform training needs.

During 22/23 members received training covering the following areas:

- CIPFA's Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes
- Treasury Management Strategy Statement
- Statutory requirements and legislation relating to treasury management
- Capital Programme and Capital Financing Requirement
- Borrowing
- Treasury Management Indicators
- Investment

Further training will be arranged as required.

From 23/24 a formal record of the training received by officers central to the treasury function will be maintained by the Treasury Manager for the Authority. Similarly, a formal

record of the treasury management/capital finance training received by members will also be maintained by the Treasury Manager.

1.5 Treasury Management Consultants

The Authority uses Link Group, Link Treasury Services Limited as its external treasury management advisors.

Responsibility for treasury management decisions remains with the organisation at all times. The Authority 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.

1.6 Notes on Data Used

The Treasury Management Function has used the following sources of data to complete the analysis within this Statement:

- 2021/22 Draft Statement of Accounts (for opening balances at 1 April 2022)
- Capital Strategy Summary disclosed at December 2022 Policy & Resources Committee (for Capital Expenditure projections). This report is presented alongside an update to the Capital Strategy Summary so numbers in this report may be inconsistent due to use of the previous Summary's data.
- MTFS disclosed at December 2022 Policy & Resources Committee (for General Fund Revenue projections)
- HRA Business Plan disclosed at December 2022 Policy & Resources Committee (for HRA Revenue projections)
- Unaudited Treasury Investment summaries at 31 December 2022 (for investment summaries)
- MRP Schedules provided to the Treasury Management Function by the Authority's Finance Team
- Interest rate and investment forecasts provided to us by our advisors Link
- 21/22 Outturn Report provided to the Treasury Management Function by the Authority's Finance Team (actuals for 21/22)

Note that our analysis is based on draft and / or unaudited information and so numbers presented in this Statement may differ from final audited numbers presented by the Authority at a later date.

2. THE CAPITAL PRUDENTIAL INDICATORS 2023/24 – 2025/26

This section sets out the key Capital Prudential Indicators used to make treasury decisions:

- Capital Expenditure and Financing
- Capital Finance Requirement
- Liability Benchmark

This section also sets out our Minimum Revenue Policy Statement for the period 2023/24.

2.1 Capital Expenditure and Financing

This prudential indicator is a summary of the Authority's capital expenditure plans based on the Capital Programme prepared for December 2022's Policy and Resources Committee. Members are asked to approve the capital expenditure forecasts:

Capital expenditure (£m)	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Non-HRA	200.437	238.869	210.741	116.998	53.736
HRA	69.804	110.139	100.569	68.053	60.847
Total	**270.241**	**349.007**	**311.309**	**185.051**	**114.584**

Other long-term liabilities - the above financing need excludes other long-term liabilities, such as PFI and leasing arrangements that already include borrowing instruments.

The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources.

Financing of capital expenditure (£m)	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Capital receipts	5.461	10.311	14.581	17.727	0.160
Capital grants	122.747	136.914	72.486	23.136	4.377
Capital reserves	5.340	30.700	36.227	30.137	18.348
Revenue	42.015	18.769	13.134	11.733	8.203
Net financing need for the year	**94.678**	**152.314**	**174.882**	**102.318**	**83.495**

2.2 The Authority's Borrowing Need (the Capital Financing Requirement)

The Capital Finance Requirement (CFR) is the total historic capital expenditure which has not been paid for from either revenue or capital resources. It is a measure of the Authority's indebtedness and therefore its underlying "borrowing" need. Any capital expenditure set out in 2.1 above, which has not immediately been paid for through a revenue or capital resource, will increase the CFR – i.e., the council's Net Finance Requirement goes towards increasing the CFR.

The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the indebtedness in line with each asset's life, and so charges the economic consumption of capital assets as they are used.

The CFR includes any other long-term liabilities (e.g., PFI schemes, finance leases). Whilst these increase the CFR, and therefore the Authority's borrowing requirement, these types of schemes include a borrowing facility by the PFI, PPP lease provider and so the Authority is not required to separately borrow for these schemes. The Authority currently has £13.619m of such schemes within the CFR.

The Authority is asked to approve the CFR projections below:

Capital Financing Requirement (£m)	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Non-HRA	587.361	659.458	752.378	787.136	803.646
Housing	246.984	316.135	386.120	440.203	492.848
Total CFR	**834.345**	**975.593**	**1,138.498**	**1,227.339**	**1,296.494**
Movement in CFR	**97.679**	**141.248**	**162.905**	**88.841**	**69.155**

Movement in CFR represented by					
Net financing need for the year (above)	94.678	152.314	174.882	102.318	83.495
Less MRP/VRP and other financing movements	3.001	11.067	11.978	13.477	14.341
Movement in CFR	**97.679**	**141.247**	**162.904**	**88.841**	**69.155**

External borrowing (£m)	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Treasury Management	**587.875**	**687.875**	**717.889**	**806.730**	**875.885**

Year End Resources (£m)	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Expected investments	**204.139**	**162.891**	**30.000**	**30.000**	**30.000**

A summary of Capital Expenditure, based on information disclosed at the December 2022 Policy and Resources committee, requiring Prudential Borrowing in excess of £10m over the period 2022/23 to 2025/26, is provided in the table below.

Estimated Net Financing Requirement (£m)		2022/23	2023/24	2024/25	2025/26	Total
General Fund	Housing acquisitions Open Door	22.00	36.00	36.00	28.50	122.50
	The Burroughs, Hendon	9.00	4.50	-	-	13.50
	Strategic opportunities fund	-	13.19	-	-	13.19
	Firestopping works and other urgent maintenance works at care homes	5.48	10.00	-	-	15.48
	Highway Asset Management/Network Recovery Plan (NRP) Phase 2	7.93	5.15	6.37	-	19.45
	Replacement Finance, HR and Procurement systems	2.69	5.62	2.70	-	11.01
HRA	Miscellaneous Repairs	3.66	3.21	3.21	2.16	12.24
	New Build - 250 units	1.87	8.28	28.99	24.26	63.40
	Extra Care - housing (Cheshir)	0.00	13.92	0.96	-	14.88
	Regen Stock Additional Investment	17.68	3.80	2.65	2.29	26.42
	Carbon Neutral works	0.50	3.76	3.76	4.64	12.66
	Barnet Homes GLA development programme	0.00	18.70	5.15	1.85	25.71
	HRA Acquisitions Phase 3 - Programme 1	23.60	-	-	-	23.60
	HRA Fire Safety Programme	8.20	5.90	5.90	5.90	25.90

2.3 Liability Benchmark

A third and new prudential indicator for 2023/24 is the Liability Benchmark (LB).

There are four components to the LB:

1. **Existing loan debt outstanding**: the Authority's outstanding debt
2. **Loans CFR**: projected CFR including approved Prudential Borrowing and planned MRP
3. **Net loans requirement**: the Authority's gross loan debt less treasury management investments at the last financial year-end, projected into the future and based on its approved prudential borrowing, planned MRP and any other major cash flows forecast. Note that for 2023/24 our LB does not include major cash flows beyond the projected Net Financing Requirement implied by the Capital Strategy summarised within a report submitted to Policy and Resources Committee in December 2022. We will look to evolve

our LB to include major cash flows through 2023/24 once we have reviewed the data available.

4. **Liability benchmark** (or gross loans requirement): this equals net loans requirement plus short-term liquidity allowance. For our LB included in this statement, we have taken a liquidity allowance of £30m. Short-term liquidity is currently not a concern of the treasury function given the level of forward-borrowing currently taken. Through 2023/24 the Treasury function will undertake a full review of liquidity requirements and may review the £30m allowance initially set.

Our Liability Benchmark is provided separately for the General Fund and HRA:

General Fund

The first 10 years' worth of entries, together with the projected values to 2092, are summarized in the table and chart below.

£m	22/23	23/24	24/25	25/26	26/27	27/28	28/29	29/30	30/31	31/32
Existing Loan Debt	278.4	277.2	275.4	273.2	271.0	270.0	268.9	267.7	250.6	249.4
Loans CFR	659.5	752.4	787.1	803.6	790.8	778.0	764.8	751.3	737.7	725.0
Net Loan Requirements	211.3	304.3	339.0	355.5	342.6	329.9	316.6	303.2	289.6	276.8
Liability Benchmark	236.3	329.3	364.0	380.5	367.6	354.9	341.6	328.2	314.6	301.8

Liability Benchmark - General Fund

Total Amount (£'000)

£1,000,000
£800,000
£600,000
£400,000
£200,000
£0
-£200,000
-£400,000

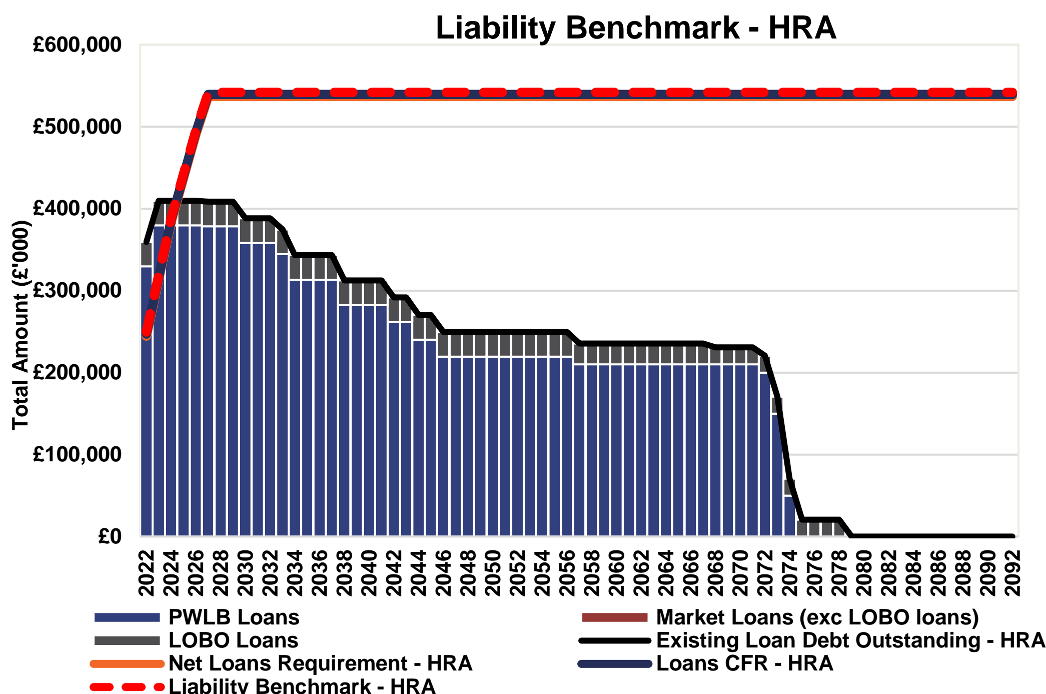
2022 2024 2026 2028 2030 2032 2034 2036 2038 2040 2042 2044 2046 2048 2050 2052 2054 2056 2058 2060 2062 2064 2066 2068 2070 2072 2074 2076 2078 2080 2082 2084 2086 2088 2090 2092

PWLB Loans
LOBO Loans
Existing Loan Debt Outstanding - GF
Net Loans Requirement - GF
Loans CFR - GF
Liability Benchmark - GF

HRA

The first 10 years' worth of entries, together with the projected values to 2092, are summarized in the table and chart below.

£m	22/23	23/24	24/25	25/26	26/27	27/28	28/29	29/30	30/31	31/32
Existing Loan Debt	409.5	409.5	409.5	409.5	408.5	408.5	408.5	388.0	388.0	388.0
Loans CFR	316.1	386.1	440.2	492.8	539.3	539.3	539.3	539.3	539.3	539.3
Net Loan Requirements	313.7	383.6	437.7	490.4	536.8	536.8	536.8	536.8	536.8	536.8
Liability Benchmark	318.7	388.6	442.7	495.4	541.8	541.8	541.8	541.8	541.8	541.8



Comments

- Our Liability Benchmark indicates that the Authority are currently holding excess cash relative to our Capital Programme – this is due to the advance borrowing undertaken through 2021/22 and 2022/23 to manage risks around increasing borrowing costs.
- It can be seen that, relative to the Capital Programme disclose to the Policy and Resources Committee at December 2022, and by virtue of the Liability Benchmark being lower than debt held, the General Fund is expected to have sufficient capital resources until 2023/24 and the HRA is expected to have sufficient capital resources until 2024/25. The Treasury team are monitoring the Capital Programme as even small slippages in total capital expenditure can have a large impact on overall borrowing requirements.
- Our Liability Benchmark also indicates that our long-term loans within the General Fund are expected to be supported by significant build-up of cash reserves as MRP is gradually recognised over time. Over time, a strategy will need to be set to determine whether these cash reserves are used to finance future capital expenditure through internal borrowing or whether a longer-term investment strategy is set to efficiently hedge the loan maturities.
- We note that the CFR for the General Fund does not trend to zero. After investigating this internally we are satisfied that the General Fund's CFR would trend to zero once allowance is made for contractual Capital Receipts due through the projection period (e.g. via repayment of loans made to third parties). As noted, we will be developing our Liability Benchmark to include known Capital Receipts once we have reviewed the data available.

Specific Comment on Long-term level of CFR within the HRA

- Currently, rental income within the HRA is insufficient to pay for all property management, repair costs, major works costs (such as replacing kitchens, bathrooms, roofs etc.) and service debt interest. This is due to additional

costs relating to amended legislation around fire safety (post-Grenfell), ageing stock and costs increasing at a faster rate than income. This position is reflected in the HRA Business Plan.

- An implication of this is that both the debt and Housing Stock underpinning the HRA are assumed to be held in perpetuity.

- This means that the HRA is exposed to increasing and significant interest rate risk (i.e., around re-financing its debt portfolio and taking on more debt).

- To the extent that the underlying Housing Stock would need to be refreshed, then additional borrowing would be required, adding additional pressure on the HRA.

- Internal modelling disclosed within the HRA's business plan indicates that the position becomes unsustainable from around 2035, although this does depend on the level of interest rates assumed and extent of maintenance completed in year.

- Making necessary safety maintenance is a priority, but it will also be a short to medium term priority of the Council to consider its long-term Liability Benchmark and the longer-term implications of maintaining its CFR (and therefore overall debt) in perpetuity.

2.4 Minimum Revenue Provision (MRP) Policy Statement

Under Regulation 27 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, where the Authority has financed capital expenditure by borrowing, it is required to make a provision each year through a revenue charge (MRP).

The Authority is required to calculate a prudent provision of MRP which ensures that the outstanding debt liability is repaid over a period that is reasonably commensurate with that over which the capital expenditure provides benefits. The MRP Guidance (2018) gives four ready-made options for calculating MRP, but the Authority can use any other reasonable basis that it can justify as prudent.

The MRP policy statement requires full Council approval (or closest equivalent level) in advance of each financial year.

The Authority is recommended to approve the following MRP policy.

It is proposed that the Council approves the Minimum Revenue Provision (MRP) policy for 2023/24 as follows (unchanged from 22/23):

- The MRP charge for capital expenditure incurred before 1 April 2008 (prior to the introduction of the Prudential Code), or which has subsequently been financed by supported borrowing (i.e., where the council may be in receipt of Government resources to meet financing costs), will be based on an annuity basis. The opening balance on which the MRP is calculated has been adjusted as per the 2003 regulations
- For any capital expenditure carried out after 1 April 2008 being financed by unsupported borrowing the Authority will be adopting the asset life method (option 3). This is where MRP will be based on the capital expenditure divided by a determined asset life or profile of benefits to give annual instalments.
- The annual instalment may be calculated by the equal instalment method, annuity method or other methods as justified by the circumstances of the

case at the discretion of the s151 Officer. With effect from 1 April 2020 all repayments have been calculated on an annuity basis.

Estimated life periods will be determined under delegated powers. To the extent that expenditure is not on the creation of an asset and is of a type that is subject to estimated life periods that are referred to in the Guidance, these periods will generally be adopted by the Authority. However, the Authority reserves the right to determine useful life periods and prudent MRP in exceptional circumstances where the recommendations of the Guidance would not be appropriate.

The Authority will be proactive about what assets are financed via the unsupported route. Under the Asset Life Method, short life assets will incur a higher MRP than longer life assets. Therefore, it would be more beneficial to finance short life assets, e.g., vehicles and IT equipment, from capital receipts or from direct revenue financing of the Capital Programme rather than unsupported borrowing, hence minimising the MRP.

The interest rate to be used in the annuity calculations will be the PWLB annuity rate for a loan with a term equivalent to the estimated life of the asset as at 1st April 2021 for capital expenditure incurred prior to 2021/22 and the 1st of April of the financial year in which the charge commences for subsequent capital expenditure

The Authority will treat the asset life as commencing in the year in which the asset first becomes operationally available. Noting that in accordance with the regulations the Authority may postpone the beginning of the associated MRP until the financial year following the one in which the asset becomes operational, there will be an annual adjustment for Assets Under Construction

The amount of MRP chargeable relating to finance leases and PFI contracts will be calculated using the annuity method over the asset life/underlying benefit arising from the activity/assets to which the PFI contract relates or will be equal to the principal repayment over the contract period.

Voluntary repayment of debt - the Authority may make additional voluntary debt repayment provision from revenue or capital resources. If it does so, this will be disclosed in the Authority's Statement of Accounts. The Section 151 officer can then choose to offset previous years disclosed overpayments against the current year's prudent provision providing the amount charged is not less than zero.

Loans to Open Door Homes

The Council has established a company to which it will be providing loans on a commercial basis. The cash advances will be used by the company to fund capital expenditure and should therefore be treated as capital expenditure and a loan to a third party. The Capital Financing Requirement (CFR) may increase by the amount of loans advanced and under the terms of contractual loan agreements are due to be returned in full by 2040, with interest paid.

Once funds are returned to the Authority, the returned funds are classed as a capital receipt and are offset against the CFR, which will reduce accordingly.

In previous years it was not considered necessary to apply MRP on these loans as the funds will be returned in full. The policy was changed in 2019/20 to apply MRP to the loans as this was considered to meet the requirements of statutory guidance in light of the potential variability in the timing of loan repayments.

Loan repayments will be available to offset future MRP charges, however, we have not included Open Door Homes loan repayments within our Liability Benchmark analysis, which we feel is a prudent approach. We may review this approach in future periods.

Loans to third parties

Where loans are made to other bodies for their capital expenditure, then the capital receipts generated by the annual repayments on those loans will be put aside to repay debt instead of charging MRP. However, if there is a risk during the term of the loan that collateral held as security is not sufficient to meet its obligations, or there is a likelihood of default, a prudent MRP will commence as a charge to the Authority's revenue account.

Other methods to provide for MRP 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 Section 151 officer.

On an annual basis the Section 151 officer shall review the level of MRP to be charged, to determine if this is at a level which is considered prudent based on the Authority's individual circumstances at that time, taking into account medium / long term financial plans, current budgetary pressures, current and future capital expenditure plans, funding needs and any longer-term transformational plans.

Dependant on this review the Section 151 officer shall be able to adjust the MRP charge. The amount of MRP charged shall not be less than zero in any financial year.

MRP Overpayments

Under the MRP guidance, any charges made in excess of the statutory MRP can be made, known as voluntary revenue provision (VRP).

VRP can be reclaimed in later years if deemed necessary or prudent. In order for these amounts to be reclaimed for use in the budget, this policy must disclose the cumulative overpayment made each year.

Cumulative VRP overpayments made to date are £3.573m.

3. BORROWING

This section sets out overall investments and borrowing as at 31 December 2022.

3.1 Current Portfolio Position

The overall treasury management portfolio as at 31 March 22 and the position as at 31 December 22 are shown below for both borrowing and investments.

Investments and Borrowing				
	31.03.22		**31.12.22**	
	£'000	**%**	**£'000**	**%**
Treasury Investments				
Money Market Funds	10,250	5.33%	98,370	5.33%
Local Authorities	-	0.00%	-	0.00%
Banks UK	39,962	20.78%	30,000	20.78%
Banks Overseas *	117100	60.89%	39,300	60.89%
Other Investments	25,000	13.00%	25,000	13.00%
Total Treasury Investments	**192,312**	**100.00%**	**192,670**	**100.00%**
** Refers to Overseas banks that are domiciled within the UK with a UK branch and all deposits are in Sterling*				
Borrowing				
PWLB	521,580	88.54%	621,580	88.54%
Bank Borrowing - LOBO's	62,500	10.61%	62,500	10.61%
Total long-term debt	**584,080**		**684,080**	
Short-term Debt	-	0.00%	-	0.00%
Interest-free Loans - Salix	5,013	0.85%	3,835	0.85%
Total Treasury Borrowing	**589,093**	**100.00%**	**687,915**	**100.00%**
Net Treasury Investments / (Borrowing)	**(396,781)**		**(495,245)**	
Other long-term Liabilities – PFI**	(13,619)		(13,619)	
Net Investments / (Borrowing)	**(410,400)**		**(508,864)**	
*** Refers to the joint Streetlighting PFI lease liability*				

Debt projections

The Authority's forward projections for borrowing are summarised below. The table shows the actual external debt, against the underlying capital borrowing need (the Capital Financing Requirement - CFR), and the Liability Benchmark, which represents the level of borrowing required if all cash investments in excess of our liquidity requirements are utilised towards capital expenditure.

This highlights two things:

- The council's "over" or "under" borrowing position – i.e., the level of external debt held relative to historical capital expenditure that has not been recognised through the revenue account.
- The level of external debt (as expressed via the Liability Benchmark) that would be held relative to the capital programme allowing for assuming all available (i.e., in excess of liquidity requirements) cash resources are utilised for Capital Expenditure.

The projected debt assumes that we would first use cash resources to finance capital expenditure and that we would then seek to borrow in line with our Liability Benchmark.

In practice, we may elect to borrow ahead of the level of debt implied by our Liability Benchmark to, for example, hedge interest rate risk or manage short-term liquidity needs (amongst other things). Our risk management strategy for borrowing is discussed further in the Operational Boundary and Authorised Limit sections.

External Debt (£m)	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Debt at 1 April (excl OLTL)	490.168	589.093	689.093	719.107	807.948
Expected change in Debt	98.925	100.000	30.014	88.841	69.155
Other long-term liabilities (OLTL)	13.619	12.825	11.925	10.905	9.748
Expected change in OLTL	(0.701)	(0.794)	(0.900)	(1.020)	(1.156)
Actual gross debt at 31 March	**602.011**	**701.124**	**730.132**	**817.833**	**885.695**
The Capital Financing Requirement	**834.345**	**975.593**	**1,138.498**	**1,227.339**	**1,296.494**
Under / (over) borrowing	**232.334**	**274.469**	**408.366**	**409.506**	**410.799**

Statement on expected debt relative to our CFR

We are required to confirm that gross debt does not, except in the short-term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2023/24 and the following two financial years.

Future debt is expected to run well below this indicator based on the current Capital Programme and so the Executive Director of Strategy and Resources can report that the Authority 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** for external debt: This is the limit beyond which external debt is not normally expected to exceed.

The 2021 Prudential Code states the following in relation to the two key Treasury Prudential Indicators, Operational Boundary and Authorised Limit:

"Both the authorised limit and the operational boundary for external debt need to be consistent with the authority's plans for capital expenditure and financing, and with its treasury management policy, strategy and practices. Risk analysis and risk management strategies should also be taken into account. The operational boundary should be based on the authority's estimate of most likely, i.e. prudent, but not worst case scenario and should equate to the maximum level of external debt projected by this estimate."

For periods 2023/24, we propose to set the Operational Boundary metric relative to the Authority's Liability Benchmark plus a margin to allow for 12-months of advance borrowing relative to the Capital Programme agreed by Council. This effectively represents a policy decision that the Treasury team may, if conditions are appropriate, and with agreement of the Executive Director for Strategy and Resources, borrow in advance of need for 12-months. It is important to note that the Operational Boundary can be exceeded, but this would need to be carefully considered with the reasons fully explained and justified.

Such reasons may include:

- The Authority believes it is prudent to borrow in advance for more than 12-months;
- The Authority has a short-term liquidity spike beyond our £30m buffer due to the timing of outgo and anticipated income;
- The Capital Programme accelerates relative to what was agreed when our Operational Boundary was set – *in this situation the treasury function would want to understand the sustainability of this and whether the acceleration had been costed;*
- The Authority is required to borrow for reasons not identified within the Capital Programme – e.g., in a significant emergency. This is unlikely and the Authorised Limit provides an ultimate control to borrowing in this situation.

The treasury function will monitor borrowing relative to the Operational Boundary on a quarterly basis. The treasury function believes switching the Authority's Operational Boundary to a measure that is relative to our Liability Benchmark will improve the governance around borrowing decisions and our overall risk framework.

Operational Boundary (summary):

Operational Boundary (£m)	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Expected Borrowing at start of period	589.093	689.093	719.107	807.948
New Loans Requirement during period (if negative indicates no borrowing required)	100.000	30.014	88.841	69.155
Expected Borrowing at end of period	689.093	719.107	807.948	877.103
Operational Boundary Borrowing (Expected Borrowing plus following year's New Loans Requirement)	**719.107**	**807.948**	**877.103**	**923.729**
Other long-term liabilities (OLTL)	12.825	11.925	10.905	9.748
Operational Boundary OLTL	**12.825**	**11.925**	**10.905**	**9.748**
Total Operational Boundary	**731.932**	**819.873**	**888.008**	**933.477**

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

- This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all local authority plans, or those of a specific authority, although this power has not yet been exercised.
- The Authority is asked to approve the following Authorised Limit:

As per the policy in 22/23, the Council has set its Authorised Limit to be £100m in excess of the Operational Boundary.

Authorised Limit (£m)	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Debt	819.107	907.948	977.103	1,023.729
Other long-term liabilities	12.825	11.925	10.905	9.748
Total	**831.932**	**919.873**	**988.008**	**1,033.477**

3.3 Prospects for Interest Rates

The Authority has appointed Link Group as its treasury advisor and part of their service is to assist the Authority to formulate a view on interest rates. Link provided the following forecasts on 19 December 2022. These are forecasts for certainty rates, gilt yields plus 80 bps.

Link Group Interest Rate View	19.12.22												
	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
BANK RATE	3.50	4.25	4.50	4.50	4.50	4.00	3.75	3.50	3.25	3.00	2.75	2.50	2.50
3 month ave earnings	3.60	4.30	4.50	4.50	4.50	4.00	3.80	3.30	3.00	3.00	2.80	2.50	2.50
6 month ave earnings	4.20	4.50	4.60	4.50	4.20	4.10	3.90	3.40	3.10	3.00	2.90	2.60	2.60
12 month ave earnings	4.70	4.70	4.70	4.50	4.30	4.20	4.00	3.50	3.20	3.10	3.00	2.70	2.70
5 yr PWLB	4.20	4.20	4.20	4.10	4.00	3.90	3.80	3.60	3.50	3.40	3.30	3.20	3.10
10 yr PWLB	4.30	4.40	4.40	4.30	4.10	4.00	3.90	3.80	3.60	3.50	3.40	3.30	3.30
25 yr PWLB	4.60	4.60	4.60	4.50	4.40	4.20	4.10	4.00	3.90	3.70	3.60	3.50	3.50
50 yr PWLB	4.30	4.30	4.30	4.20	4.10	3.90	3.80	3.70	3.60	3.50	3.30	3.20	3.20

Link commentary:

"Our central forecast for interest rates was updated on 19 December and reflected a view that the MPC would be keen to further demonstrate its anti-inflation credentials by delivering a succession of rate increases. Bank Rate stands at 3.5% currently but is expected to reach a peak of 4.5% in H1 2023.

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

The CPI measure of inflation looks to have peaked at 11.1% in Q4 2022 (currently 10.7%). Despite the cost-of-living squeeze that is still taking shape, the Bank will want to see evidence that wages are not spiralling upwards in what is evidently a very tight labour market.

Regarding the plan to sell £10bn of gilts back into the market each quarter (Quantitative Tightening), this has started and will focus on the short, medium and longer end of the curve in equal measure, now that the short-lived effects of the Truss/Kwarteng unfunded dash for growth policy are firmly in the rear-view mirror.

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

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

PWLB RATES

- *The yield curve movements have become less volatile of late and PWLB 5 to 50 years Certainty Rates are, generally, in the range of 4.10% to 4.80%.*
- *We view the markets as having built in, already, nearly all the effects on gilt yields of the likely increases in Bank Rate and the elevated inflation outlook.*

The balance of risks to the UK economy: -

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

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, rising gilt yields).*

- ***The Bank of England*** *acts too quickly, or too far, over the next year to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.*

- ***UK / EU trade arrangements*** *– if there was a major impact on trade flows and financial services due to complications or lack of co-operation in sorting out significant remaining issues.*

- ***Geopolitical risks,*** *for example in Ukraine/Russia, China/Taiwan/US, Iran, North Korea and Middle Eastern countries, which could lead to increasing safe-haven flows.*

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

- *The* ***Bank of England is too slow*** *in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to build up too strongly and for a longer period within the UK economy, which then necessitates Bank Rate staying higher for longer than we currently project or even necessitates a further series of increases in Bank Rate.*

- ***The Government*** *acts too quickly to cut taxes and/or increases expenditure in light of the cost-of-living squeeze.*

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

- *Longer term* ***US treasury yields*** *rise strongly and pull gilt yields up higher than currently forecast.*

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

Borrowing advice: *Our long-term (beyond 10 years) forecast for Bank Rate stands at 2.5%. As all PWLB certainty rates are currently above this level, borrowing strategies will need to be reviewed in that context. Better value can generally be obtained at the shorter end of the curve and short-dated fixed LA to LA monies should be considered. Temporary borrowing rates are likely, however, to remain near Bank Rate and may also prove attractive whilst the market waits for inflation, and therein gilt yields, to drop back later in 2023.*

Our suggested budgeted earnings rates for investments up to about three months' duration in each financial year are rounded to the nearest 10bps as follows: -

Average earnings in each year	
2022/23 (remainder)	*4.00%*
2023/24	*4.40%*
2024/25	*3.30%*
2025/26	*2.60%*
2026/27	*2.50%*
Years 6 to 10	*2.80%*
Years 10+	*2.80%*

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 Authority's Operational Boundary gives 12-months capacity to advance borrow relative to the Capital Programme agreed by Council. As indicated within our Liability Benchmark the Authority has borrowed in advance of its Capital Strategy. The rationale for this was to manage our interest rate risk.

Our overall borrowing strategy is to utilise cash resources to fund the Capital Programme when we have these available, however we will take opportunities to borrow in advance if we can take advantages of yields which reflect the underlying business case of the particular capital programme (or lower).

We will also use the Liability Benchmark to inform duration of loans taken out, specifically in anticipation that the Authority is expecting to build up significant cash reserves over the next 50 years to meet significant maturities arising at that time.

3.5 Policy on Borrowing in Advance of Need

As stated above, the Authority's Operational Boundary includes capacity for around 12-months borrowing ahead of need. The Authority may, and has, borrowed in advance of need if doing so reduces the risk and / or stabilises the cost of its Capital Programme. In making a decision to borrow ahead of need the council will consider:

- Any impact on revenue from "cost of carry"
- The likely use for the forward borrowing within the capital programme and the relative confidence we have of that element of the programme moving forward
- Overall slippage within the whole of the capital programme
- Interest rate forecasts from our treasury advisors and other sources
- Any existing forward borrowing taken on

3.6 Rescheduling

Rescheduling of current borrowing in our debt portfolio is unlikely to occur as there is still a large difference between premature redemption rates and new borrowing rates.

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 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).
- Other quasi government bodies, such as the UK Municipal Bonds Agency and UK Infrastructure Bank

Our advisors will keep us informed as to the relative merits of each of these alternative funding sources.

3.8 Approved Sources of Long and Short-term Borrowing

On Balance Sheet	Fixed	Variable
PWLB	●	●
UK Municipal Bond Agency	●	●
Local Authorities	●	●
Banks	●	●
Pension Funds	●	●
Insurance Companies	●	●
UK Infrastructure Bank	●	●
Market (long-term)	●	●
Market (temporary)	●	●
Market (LOBOs)	●	●
Stock Issues	●	●
Local Temporary	●	●
Local Bonds	●	
Local Authority Bills	●	●
Overdraft		●
Negotiable Bonds	●	●
Internal (capital receipts & revenue balances)	●	●
Commercial Paper	●	
Medium Term Notes	●	
Finance Leases	●	●

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

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

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 Authority 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 Authority has defined the list of **types of investment instruments** that the Treasury management team are authorised to use. There are two lists in Appendix 5.4 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 and loan investment limits.** The Authority has determined that it will set a limit to the maximum exposure of the total treasury management investment portfolio to non-specified treasury management investments to £100m (no change from 22/23).
6. **Lending limits**, (amounts and maturity), for each counterparty will be set through applying the matrix table in paragraph 4.2.
7. **Transaction limits** are set for each type of investment in 4.2.
8. This Authority will set a limit for its investments which are invested for **longer than 365 days**, (see paragraph 4.4).
9. Investments will only be placed with counterparties from countries with a specified minimum **sovereign rating**, (see paragraph 4.3).
10. This Authority has engaged **external consultants**, (see paragraph 1.5), to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of this Authority 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 2022/23 under IFRS 9, this Authority will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. (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 31.3.23. At the current juncture it has not been determined whether a further extension to the over-ride will be agreed by Government.

However, this Authority will also pursue **value for money** in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance, (see paragraph 4.5). Regular monitoring of investment performance will be carried out during the year.

Changes in risk management policy from last year.

No changes

4.2 Creditworthiness Policy

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

- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the specified and non-specified investment sections of appendix 5.3 below; and
- It has sufficient liquidity in its investments. For this purpose, it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the council's prudential indicators covering the maximum principal sums invested.

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

Credit rating information is supplied by Link Group, our treasury advisors, on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. Any rating changes, rating Watches (notification of a likely change), rating Outlooks (notification of the longer-term bias outside the central rating view) are considered before dealing. For instance, a negative rating Watch applying to counterparty at the minimum council criteria will be suspended from use, with all others being reviewed considering market conditions.

Time and monetary limits applying to investments. The time and monetary limits for institutions on the council's counterparty list and the proposed criteria for specified and non-specified investments are shown in Appendix 5.3.

UK banks – ring fencing

The largest UK banks, (those with more than £25bn of retail / Small and Medium-sized Enterprise (SME) deposits), were required, by UK law, to separate core retail banking services from their investment and international banking activities by 1st January 2019. This is known as "ring-fencing". Whilst smaller banks with less than £25bn in deposits are exempt, they can choose to opt up. Several banks are very close to the threshold already and so may come into scope in the future regardless.

Ring-fencing is a regulatory initiative created in response to the global financial crisis. It mandates the separation of retail and SME deposits from investment banking, to improve the resilience and resolvability of banks by changing their structure. In general, simpler activities offered from within a ring-fenced bank, (RFB), will be focused on lower risk, day-to-day core transactions, whilst more complex and "riskier" activities are required to be housed in a separate entity, a non-ring-fenced bank, (NRFB). This is intended to ensure that an entity's core activities are not adversely affected by the acts or omissions of other members of its group.

While the structure of the banks included within this process may have changed, the fundamentals of credit assessment have not. The council will continue to assess the new-formed entities in the same way that it does others and those with sufficiently

high ratings, (and any other metrics considered), will be considered for investment purposes.

4.3 Country Limits

The council has determined that it will only use approved counterparties from the United Kingdom or countries with a minimum sovereign credit rating of AA from Fitch (or equivalent). This minimum rating does not apply to the United Kingdom. The list of countries that qualify using this credit criteria as at the date of this report are shown in Appendix 5.4. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

In addition:

- no more than £40 million will be placed with any non-UK country at any time.
- limits in place above will apply to a group of companies.

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 peaking in the first half of 2023 and possibly reducing as early as the latter part of 2023 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 reach 4.5% in Q2 2023.

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	
2022/23 (remainder)	4.00%
2023/24	4.40%
2024/25	3.30%
2025/26	2.60%
2026/27	2.50%
Years 6 to 10	2.80%
Years 10+	2.80%

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

For its cash flow generated balances, the Authority will seek to utilise its business reserve instant access and notice accounts, Money Market Funds and short-dated deposits, (overnight to 100 days), in order to benefit from the compounding of interest.

Investment Treasury Indicator and Limit - total principal funds invested for greater than 365 days. These limits are set with regard to the Authority'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 Authority is asked to approve the following Treasury Indicator and Limit: -

Upper limit for principal sums invested for longer than 365 days			
(£m)	**2023/24**	**2024/25**	**2025/26**
Principal sums invested for longer than 365 days	£25m	£25m	£25m

4.5 Investment Performance / Risk Benchmarking

The council will use an investment benchmark to assess the investment performance of its investment portfolio of 7-day SONIA (Sterling Overnight Index Average)

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.

5 APPENDICES

1. Prudential and Treasury indicators
2. Interest rate forecasts
3. Economic background
4. Treasury management practice 1 – credit and counterparty risk management
5. Approved countries for investments
6. Treasury management scheme of delegation
7. The Treasury management role of the section 151 officer

5.1 CAPITAL AND TREASURY PRUDENTIAL INDICATORS 2023/24 – 2025/26

The Authority'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.

5.1.1 Capital Expenditure

Capital Expenditure (£m)	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Adults and Safeguarding	3.439	5.254	4.606	3.762	-
Housing and Growth (Brent Cross)	97.879	75.283	39.151	24.939	-
Children, Education & Safeguarding	15.767	16.275	9.179	9.376	5.431
Community Leadership and Libraries	-	2.274	0.200	-	-
Environment	3.095	31.935	25.774	17.864	12.960
Housing and Growth Committee	79.691	87.373	123.847	56.287	35.345
Policy & Resources	0.567	20.475	7.984	4.770	-
Total - General Fund	**200.437**	**238.869**	**210.741**	**116.998**	**53.736**
Housing Revenue Account	69.804	110.139	100.569	68.053	60.847
Total - all services	**270.241**	**349.01**	**311.31**	**185.05**	**114.58**

5.1.2 Affordability Prudential Indicators

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

Ratio of Financing Costs to Net Revenue Stream

This indicator identifies the trend in the cost of capital, (borrowing and other long-term obligation costs net of investment income), against the net revenue stream.

%	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Non-HRA	4.98%	2.70%	3.09%	3.26%	3.26%
HRA	17.62%	14.59%	15.50%	19.78%	21.17%
Total	**6.88%**	**4.39%**	**4.86%**	**5.62%**	**5.86%**

The estimates of financing costs include current commitments and the proposals in this budget report.

HRA Ratios

	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
HRA debt (£m)	359.502	409.502	409.502	442.720	495.365
HRA revenues (£m)	58.754	60.278	63.277	66.591	70.513
Ratio of debt to revenues %	612%	679%	647%	665%	703%

	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
HRA debt (£m)	359.502	409.502	409.502	442.720	495.365
Number of HRA dwellings	9,050	9,070	8,900	8,925	9,013
Debt per dwelling (£)	39,723.92	45,149.01	46,011.40	49,604.51	54,961.18

5.1.3 Maturity Structure of Borrowing

Maturity structure of borrowing. These gross limits are set to reduce the Authority's exposure to large, fixed rate sums falling due for refinancing, and are required for upper and lower limits.

The Authority is asked to approve the following Treasury Indicators and Limits: -

Maturity structure of fixed interest rate borrowing 2023/24			
	Current	**Lower**	**Upper**
Under 12 months	0%	0%	50%
12 months to 2 years	1%	0%	50%
2 years to 5 years	8%	0%	75%
5 years to 10 years	16%	0%	75%
10 years to 20 years	19%	0%	75%
20 years to 30 years	3%	0%	75%
30 years to 40 years	5%	0%	75%
40 years to 60 years	57%	0%	100%

Maturity structure of variable interest rate borrowing 2023/24		
	Lower	**Upper**
Under 12 months	0%	50%
12 months to 2 years	0%	50%
2 years to 5 years	0%	75%
5 years to 10 years	0%	75%
10 years to 25 years	0%	75%
25 years to 60 years	0%	100%

5.1.4. Control of Interest Rate Exposure

Please see paragraphs 3.3, 3.4 and 4.4.

5.2 INTEREST RATE FORECASTS 2022-2025

Link Group Interest Rate View	19.12.22												
	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
BANK RATE	3.50	4.25	4.50	4.50	4.50	4.00	3.75	3.50	3.25	3.00	2.75	2.50	2.50
3 month ave earnings	3.60	4.30	4.50	4.50	4.50	4.00	3.80	3.30	3.00	3.00	2.80	2.50	2.50
6 month ave earnings	4.20	4.50	4.60	4.50	4.20	4.10	3.90	3.40	3.10	3.00	2.90	2.60	2.60
12 month ave earnings	4.70	4.70	4.70	4.50	4.30	4.20	4.00	3.50	3.20	3.10	3.00	2.70	2.70
5 yr PWLB	4.20	4.20	4.20	4.10	4.00	3.90	3.80	3.60	3.50	3.40	3.30	3.20	3.10
10 yr PWLB	4.30	4.40	4.40	4.30	4.10	4.00	3.90	3.80	3.60	3.50	3.40	3.30	3.30
25 yr PWLB	4.60	4.60	4.60	4.50	4.40	4.20	4.10	4.00	3.90	3.70	3.60	3.50	3.50
50 yr PWLB	4.30	4.30	4.30	4.20	4.10	3.90	3.80	3.70	3.60	3.50	3.30	3.20	3.20

PWLB forecasts are based on PWLB certainty rates.

5.3 ECONOMIC BACKGROUND

Link commentary:

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

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

	UK	**Eurozone**	**US**
Bank Rate	3.5%	2.0%	4.25%-4.50%
GDP	-0.2%q/q Q3 (2.4%y/y)	+0.2%q/q Q3 (2.1%y/y)	2.6% Q3 Annualised
Inflation	10.7%y/y (Nov)	10.1%y/y (Nov)	7.1%y/y (Nov)
Unemployment Rate	3.7% (Oct)	6.5% (Oct)	3.7% (Nov)

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

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

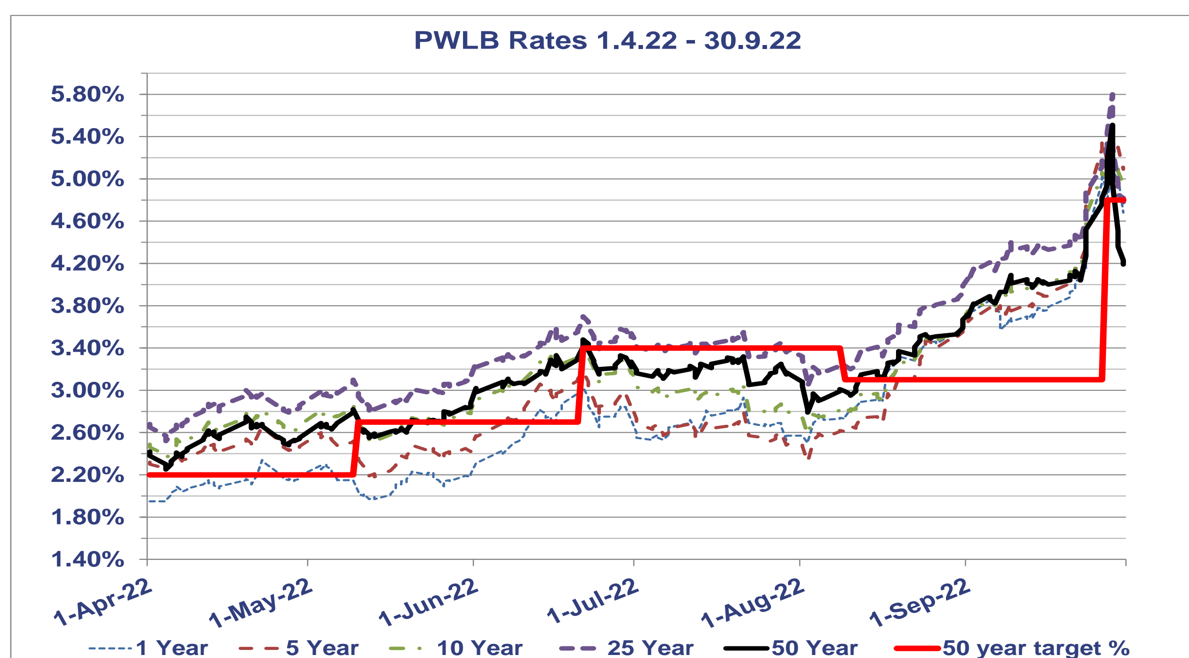
Throughout Q3 Bank Rate increased, finishing the quarter at 2.25% (an increase of 1%). Q4 has seen rates rise to 3.5% in December and the market expects Bank Rate to hit 4.5% by May 2023.

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

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

The £ has strengthened of late, recovering from a record low of $1.035, on the Monday following the Truss government's "fiscal event", to $1.22. Notwithstanding the £'s better run of late, 2023 is likely to see a housing correction of some magnitude as fixed-rate mortgages have moved above 5% and affordability has been squeezed despite proposed Stamp Duty cuts remaining in place.

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



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

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

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

CENTRAL BANK CONCERNS – DECEMBER 2022

In December, the Fed decided to push up US rates by 0.5% to a range of 4.25% to 4.5%, whilst the MPC followed by raising Bank Rate from 3% to 3.5%, in line with market expectations. EZ rates have also increased to 2% with further tightening in the pipeline.

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

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

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

PWLB RATES

- *The yield curve movements have become less volatile of late and PWLB 5 to 50 years Certainty Rates are, generally, in the range of 4.10% to 4.80%.*
- *We view the markets as having built in, already, nearly all the effects on gilt yields of the likely increases in Bank Rate and the elevated inflation outlook.*

The balance of risks to the UK economy: -

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

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, rising gilt yields).*
- ***The Bank of England*** *acts too quickly, or too far, over the next year to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.*
- ***UK / EU trade arrangements*** *– if there was a major impact on trade flows and financial services due to complications or lack of co-operation in sorting out significant remaining issues.*
- ***Geopolitical risks,*** *for example in Ukraine/Russia, China/Taiwan/US, Iran, North Korea and Middle Eastern countries, which could lead to increasing safe-haven flows.*

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

- *The **Bank of England is too slow** in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to build up too strongly and for a longer period within the UK economy, which then necessitates Bank Rate staying higher for longer than we currently project or even necessitates a further series of increases in Bank Rate.*

- ***The Government** acts too quickly to cut taxes and/or increases expenditure in light of the cost-of-living squeeze.*

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

- *Longer term **US Treasury yields** rise strongly and pull gilt yields up higher than currently forecast.*

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

Borrowing advice: *Our long-term (beyond 10 years) forecast for Bank Rate stands at 2.5%. As all PWLB certainty rates are currently above this level, borrowing strategies will need to be reviewed in that context. Better value can generally be obtained at the shorter end of the curve and short-dated fixed LA to LA monies should be considered. Temporary borrowing rates are likely, however, to remain near Bank Rate and may also prove attractive whilst the market waits for inflation, and therein gilt yields, to drop back later in 2023.*

Our suggested budgeted earnings rates for investments up to about three months' duration in each financial year are rounded to the nearest 10bps as follows: -

Average earnings in each year	
2022/23 (remainder)	*4.00%*
2023/24	*4.40%*
2024/25	*3.30%*
2025/26	*2.60%*
2026/27	*2.50%*
Years 6 to 10	*2.80%*
Years 10+	*2.80%*

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.

5.4 TREASURY MANAGEMENT PRACTICE (TMP1) – CREDIT AND COUNTERPARTY RISK MANAGEMENT

The DLUHC issued Investment Guidance in 2018, and this forms the structure of the Council's policy below.

The key intention of the Guidance is to maintain the current requirement for councils to invest prudently, and that priority is given to security and liquidity before yield. To facilitate this objective, the guidance requires this Council to have regard to the CIPFA publication Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes. This Council adopted the Code on 23 March 2003 and will apply its principles to all investment activity. In accordance with the Code, the Executive Director of Resources has produced its Treasury management practices (TMPs). This part, TMP 1(1), covering investment counterparty policy requires approval each year.

Annual investment strategy - The key requirements of both the Code and the investment guidance are to set an annual investment strategy, as part of its annual Treasury Strategy for the following year, covering the identification and approval of following:

- The strategy guidelines for choosing and placing investments, particularly non-specified investments.
- The principles to be used to determine the maximum periods for which funds can be committed.
- Specified investments that the council will use. These are high security (i.e., high credit rating, although this is defined by the council, and no guidelines are given), and high liquidity investments in sterling and with a maturity of no more than a year.
- Non-specified investments, clarifying the greater risk implications, identifying the general types of investment that may be used and a limit to the overall amount of various categories that can be held at any time.

The investment policy proposed for the council is:

Strategy guidelines – The main strategy guidelines are contained in the body of the Treasury Strategy Statement.

Specified investments – These investments are sterling investments of not more than one-year maturity, or those which could be for a longer period but where the council has the right to be repaid within 12 months if it wishes. These are considered low risk assets where the possibility of loss of principal or investment income is small. These would include sterling investments that would not be defined as capital expenditure with:

1. The UK Government (such as the Debt Management Account deposit facility, UK Treasury bills or a gilt with less than one year to maturity).
2. Supranational bonds of less than one year's duration.
3. A local authority, parish council or community council.
4. Pooled investment vehicles (such as money market funds) that have been awarded a high credit rating by a credit rating agency. For category 4 this covers pooled investment vehicles, such as money market funds (including Constant and Low Volatility Net Asset Value Funds), rated AAA by Standard and Poor's, Moody's and / or Fitch rating agencies.
5. A body that is considered of a high credit quality (such as a bank or building society), which is defined as having a minimum Short-Term rating of F2 (or the equivalent) as rated by Standard and Poor's, Moody's and / or Fitch rating agencies.

Within these bodies, and in accordance with the Code, the Council has set additional criteria to set the time and amount of monies which will be invested in these bodies. These criteria are a maximum of 365 days (to be classified as specified) and a counterparty limit of £25 million.

The table below provides further details on the counterparties and limits for specified investments.

Instrument	**Country/ Domicile**	**Counterparty**	**Maximum Counterparty Limits £m**
Term Deposits	UK	DMADF, DMO	No limit
Term Deposits/Call Accounts	UK	Other UK Local Authorities	£25 million
Term Deposits/Call Accounts	UK*	Counterparties rated at least A- Long Term)	£25 million
Term Deposits/Call Accounts	Non-UK*	Counterparties rated at least A- Long Term in select countries with a Sovereign Rating of at least AA.	£25 million
CDs and other negotiable instruments		with banks and building societies which meet the specified investment criteria (on advice from TM Adviser)	£25 million
Deposits	UK	Registered Providers (Former RSLs)	£5m per RP
Gilts	UK	DMO	No limit
T-Bills	UK	DMO	No limit
Bonds issued by multilateral development banks		(For example, European Investment Bank/Council of Europe, Inter American Development Bank)	
AAA-rated Money Market Funds	UK and EC domiciled	CNAV MMF's LVNAV MMF's VNAV MMF's (where there is greater than 12 month history of a consistent £1 Net Asset Value)	£25 million
Other MMF's and CIS	UK & EC domiciled.	Collective Investment Schemes (pooled funds) which meet the definition of collective investment schemes in SI 2004 No 534 or SI 2007 No 573 and subsequent amendments	£25 million.

For Non-UK banks, a maximum exposure of £40 million per country (including any non-specified exposures) will apply to limit the risk of over-exposure to any one country.

Non-specified investments –are any other type of investment (i.e., not defined as specified above) although the counterparties can also have investments that meet the definition of specified. The identification of these other investments and the maximum limits to be applied are set out below.

The council will have a maximum of £100 million invested in non-specified investments.

Loans to Local Organisations

The council will allow loans (as a form of investment) to be made to organisations operating in the borough that bring community benefits. The council will undertake due diligence checks to confirm the borrower's creditworthiness before any sums are advanced and will obtain appropriate level of security or third party guarantees for loans advanced. The council would expect a return commensurate with the type, risk and duration of the loan. A limit of £25 million per counterparty (and £50 million in aggregate) for this type of investment is proposed with a duration commensurate with the life of the asset and council's cash flow requirements.

All loans need to be in line with the Council's Scheme of Delegation and Key Decision thresholds levels.

Loan to Saracens

The council has a loan agreement with Saracens which falls under the Loans to Local Organisations Category and so is subject to a limit of £25m.

Loans to TBG Open Door Limited

The council is advancing loans to its only owned affiliate TBG Open Door Limited to fund the purchase and build of affordable homes. A provision is included below for lending up to a maximum of £300 million.

Both loans to Saracens and Open Door Homes introduces credit risk for the Authority. Both loans are included within the Authority's Strategy and Resources Risk Register.

The table below details the instruments, maximum maturity and monetary limits for non-specified investments.

Instrument	Maximum maturity	Max £M of portfolio and Credit limit	Capital expenditure?	Example
Term deposits with banks, building societies which meet the specified investment criteria	10 years	£10m per counterparty	No	
Term deposits with local authorities	10 years	£25m per authority	No	
CDs and other negotiable instruments with banks and building societies which meet the specified investment criteria	10 years	£10m per counterparty	No	
Gilts	10 years	£20 million Credit limit not applicable gilts issued by UK Government	No	
Bonds issued by multilateral development banks	10 years	£20 million Minimum credit rating AA+	No	EIB Bonds, Council of Europe Bonds etc.
Sterling denominated bonds by non-UK sovereign governments	5 years	£20 million Minimum credit rating AA+	No	

Other Non-Specified investments are permitted subject to the undertaking of a credit assessment by the council’s treasury advisor (or in the case of loans to local organisations, by a suitably qualified external advisor appointed by the council) on a case-by-case basis. These are detailed below:

Instrument	Maximum maturity	Max £M of portfolio and Credit limit	Capital expenditure?	Example
Collective Investment Schemes which meet the definition of collective investment schemes in SI 2004 No 534, regulation 2 & 5 and subsequent amendments.	N/A – these funds do not have a defined maturity date	£25 million	No	Aviva investors Sterling Liquidity Plus Fund; Federated Sterling Cash Plus Fund
Deposits with registered providers	5 years	£5m per registered provider/£20 million overall	No	Barnet Homes Open Door not within TMS
Corporate and debt instruments issued by corporate bodies purchased from 01/04/12 onwards	5 years	20%	No	
Collective Investment Schemes (pooled funds) which do not meet the definition of collective investment schemes in SI 2004 No 534 or SI 2007 No 573 and subsequent amendments	N/A – these funds do not have a defined maturity date	£10 million	Yes	Way Charteris Gold Portfolio Fund; Aviva Lime Fund
Bank or building societies not meeting specified criteria	3 months	£10m per counterparty	No	Bank or building societies not meeting specified criteria
Loans to organisations delivering community benefits.	Over the life of the asset.	£25 million per counterparty.	Yes	Loans to sporting clubs based in the borough.
Loans to TBG Open Door Limited	As set out in the loan agreement	£300 million	Yes	

In the tables above, the minimum credit rating will be the lowest equivalent long-term rating assigned by Fitch, Moody's and Standard and Poor's. Where the credit rating is the minimum acceptable, the council will consider rating sentiment and market sentiment e.g., the pricing of credit default swaps.

The monitoring of investment counterparties - The credit rating of counterparties will be monitored regularly. The council receives credit rating information (changes, rating watches and rating outlooks) from Link Group as and when ratings change, and counterparties are checked promptly. On occasion ratings may be downgraded when an investment has already been made. The criteria used are such that a minor downgrading should not affect the full receipt of the principal and interest. Any counterparty failing to meet the criteria will

be removed from the list immediately by the Executive Director for Strategy and Resources and if required new counterparties which meet the criteria will be added to the list. The council will not always follow the maximum maturity guidance issued by Link. However, any deposit made with a longer maturity than the Link guidance will be approved with the Executive Director for Strategy and Resources.

Accounting treatment of investments. The accounting treatment may differ from the underlying cash transactions arising from investment decisions made by this Authority. To ensure that the Authority is protected from any adverse revenue impact, which may arise from these differences, we will review the accounting implications of new transactions before they are undertaken.

Environment Social Government (ESG) Policy to Treasury Investments

Treasury Investments are generally of short duration (one year or lower) and with established and regulated counter parties (e.g. Money Market Funds or established UK / EU Banks). We therefore take a proportionate approach to considering ESG factors within our investment decisions, with our primary metrics for making decisions being credit quality and yield.

Where we plan to enter a non-specified Investment or invest with an Non - UK / EU Bank, we will consider ESG factors explicitly before making any investment.

The Treasury team will consider whether to build explicit ESG metrics into our specified Investment decision framework through 23/24.

5.4 APPROVED COUNTRIES FOR INVESTMENTS

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, Norway and Luxembourg), have banks operating in sterling markets which have credit ratings of green or above in the Link Group credit worthiness service.

Based on lowest available rating

AAA

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

AA+

- Finland
- U.S.A.
- Canada

AA

- France
- Hong Kong
- U.A.E.

AA-

- Belgium
- Qatar
- U.K.

5.5 TREASURY MANAGEMENT SCHEME OF DELEGATION

The Authority's Scheme of Delegation in relation to treasury management is set out in Section 2.6 of the Financial Regulations section of the Council's constitution, copied below and linked here for reference:

2.6 TREASURY MANAGEMENT FRAMEWORK

2.6.1 Policy and Resources Committee will create and maintain a Treasury Management Policy Statement, stating the policies and objectives of its treasury management activities and based upon the relevant CIPFA Codes.

2.6.2 The Performance and Contract Management Committee will receive reports on its treasury management policies, practices and activities. These reports will incorporate the prudential borrowing limits and performance indicators. Policy and Resources Committee will receive an annual strategy and plan in advance of the year, and an annual report after its close in the form prescribed in the Treasury Management Practices.

2.6.3 The Chief Finance Officer has the delegated authority to undertake all borrowing on behalf of the Council in line with the Treasury Management Strategy Statement Authority agreed by Council each year and will issue a Delegated Powers Report immediately after this power is exercised to inform Members in consultation with the Chairman of the Policy and Resources Committee and reported to the next meeting of the Policy and Resources Committee.

The Treasury team also maintain a Treasury Management Practices document that sets out further delegation to certain Officers based on financial significance.

5.6 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.

In addition to the specific Treasury Investment responsibilities identified above the S151 officer is also responsible for:

- preparation of a Capital Strategy to include capital expenditure, capital financing, non-financial investments and treasury management, with a long-term timeframe *(say 20+ years – to be determined in accordance with local priorities.)*
- ensuring that the Capital Strategy is prudent, sustainable, affordable and prudent in the long term and provides value for money
- 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 Authority
- 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 Authority does not undertake a level of investing which exposes the Authority 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
- provision to members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees
- ensuring that members are adequately informed and understand the risk exposures taken on by the Authority
- ensuring that the Authority 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.*