London Borough of Barnet

Treasury Management Strategy Statement

Minimum Revenue Provision Policy Statement and Annual Investment Strategy

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2024/25

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Codes for 2024/25 Financial Year

CIPFA published revised Treasury Management and Prudential Codes on 20 December 2021 and were adopted for the 2023/24 financial year. This Treasury Management Strategy Statement, and related reports, therefore, have regard to these Codes.

1. ABOUT THIS STATEMENT

1.1 Introduction

This statement summarises the treasury management function's strategy for the period 1 April 2024 to 31 March 2025.

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 council's cash assets and determines the borrowing strategy to meet the Council's agreed capital programme. When investing the council'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 council has entered into lending activity (e.g., to Saracens and Open Door Homes). At the time of writing the council was also considering providing development funding to a third party to facilitate the regeneration of Brent Cross, details can be found within the Cabinet report accessed here.

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 the 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 is provided separately to this document and is not prepared by the treasury management function. Please see Appendix L1 – Capital Strategy. Note that, as previously mentioned, the council is reviewing its governance framework around decision making and monitoring relating to capital projects.

1.2.2 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,	No

	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".	*(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 a council's financial capacity – i.e., that 'plausible losses' could be absorbed in budgets or reserves without unmanageable detriment to local services. A council must not borrow to invest primarily for financial return.	No *(included in Capital Strategy statement)*

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. A council 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 Council, 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);

8. Record of the council's approach to investments for service or commercial purposes (together referred to as non-treasury investments), including defining the Council's objectives, risk appetite and risk management in respect of these investments, and processes ensuring effective due diligence;

9. An assessment of affordability, prudence and proportionality in respect of the council's overall financial capacity (i.e., whether plausible losses could be absorbed in budgets or reserves without unmanageable detriment to local services);

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

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

12. 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 council's overall strategy);

13. State compliance with paragraph 51 of the Prudential Code in relation to investments for commercial purposes, in particular the requirement that a council must not borrow to invest primarily for financial return.

Note that, in light of the requirements of the 2021 Prudential and Treasury Codes, the Council is reviewing its governance framework around decision making and monitoring relating to capital projects.

1.2.3 Treasury Management Reporting

Council is currently required by the Prudential Code 2021 to receive and approve, as a minimum, three main treasury reports each year, which incorporate a variety of policies, estimates and actuals.

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

b. **A mid-year treasury management report** – This is primarily a progress report and will update members on the capital position, amending prudential indicators as necessary, and whether any policies require revision. In addition, this Council will receive quarterly update reports.

c. **An annual treasury report** – This is a backward-looking review document and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

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. Under protocols this role will be undertaken by GARMS. The reports, specifically, will provide updated Treasury/Prudential Indicators.

Note that the Council amended its governance framework during 2023/24 which impacted the timing of Treasury's reporting as new protocols were being established. In particular, Treasury reported its Q1 and Q2 quarterly report at the same time (and initially to Cabinet). The Treasury Team will review the effectiveness of the new arrangements through 2024/25.

A summary of the roles of the various Committees within Barnet's constitution is summarised in the table below:

Party	Role (reference relates to Barnet's constitution)	Frequency
Council	1.3 Approving or adopting the policy framework and the budget, including setting council tax, determining borrowing limits, approval of the capital programme 2.15.1 Approves Treasury Management Strategy Statement	Usually Annually Usually Annually

Party	Role (reference relates to Barnet's constitution)	Frequency
Cabinet	2.15.1 Cabinet will create and maintain a Treasury Management Strategy Statement, stating the policies and objectives of its treasury management activities and based upon the relevant CIPFA Codes. The Treasury Management Strategy Statement will be reported to the Budget Council meeting for approval. 2.15.2 Cabinet will receive reports on its treasury management policies, practices and activities. This will also be considered by the Overview and Scrutiny Committee and Sub Committees. These reports will incorporate the prudential borrowing limits and performance indicators. Council 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. 3.5 Management of the Council's Capital Programme	Usually Annually Quarterly
Governance, Audit, Risk Management and Standards Committee ("GARMS")	2.4.15 To review the Treasury Management strategy and monitor progress on treasury management in accordance with CIPFA codes of practice	Quarterly
Overview and Scrutiny	See reference within 2.15.2 above	

1.3 Treasury Management Strategy for 2024/25

The strategy for 2024/25 covers two main areas:

Capital expenditure

- Funding of 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 council
- prospects for interest rates
- the borrowing strategy
- policy on borrowing in advance of need
- debt rescheduling
- the investment strategy
- creditworthiness policy; and
- the policy on use of external service providers

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 have begun establishing a skills and training policy and will implement a refreshed training programme from 1 July 2024.

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

During 2023/24 members received training covering the following areas:

- GARMS briefing on Treasury Management
- Local Government Finance (Part 2 of 2)

Further training will be arranged as required.

1.5 Treasury Management Consultants

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

Responsibility for treasury management decisions remains with the organisation at all times. The council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented and subjected to regular review.

1.6 Notes on Data Used

Note, due to timing of reporting the Treasury Team were provided with provisional schedule which may have been updated subsequent to publishing and so there may be differences between numbers reported in this statement and Capital numbers reported to Cabinet.
Note also that the 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 council at a later date.

2. THE CAPITAL PRUDENTIAL INDICATORS 2024/25 – 2026/27

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 the Minimum Revenue Policy Statement for the period 2024/25.

2.1 Capital Expenditure and Financing

This prudential indicator is a summary of the council's capital expenditure plans based on the Capital Programme presented at the February 2024's Cabinet meeting adjusted for additional Prudential Borrowing implied by projects which have a relatively high certainty of progressing (e.g. they have been agreed by the council's Capital Strategy Board).

Capital expenditure (£m)	2022/23 Actual	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
Feb 24 Cabinet					
Non-HRA	151.932	209.430	261.746	133.215	86.648
HRA	92.184	172.026	115.700	75.229	65.333
Forecast Additions					
Non-HRA	N/A	0.000	20.600	42.600	18.000
HRA	N/A	0.000	0.000	0.000	0.000
Total	**244.116**	**381.456**	**398.046**	**251.044**	**169.981**

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)	2022/23 Actual	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
Capital receipts	4.772	35.876	16.529	17.117	0.800
Capital grants	81.717	102.798	57.793	35.766	12.650
Capital reserves	24.759	20.912	44.834	40.915	20.479
Revenue	14.681	23.829	26.502	15.980	4.744
Net financing need for the year	**118.186**	**198.042**	**252.389**	**141.266**	**131.307**

2.2 The council'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 council'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 council's borrowing requirement, these types of schemes include a borrowing facility by the PFI, PPP lease provider and so the council is not required to separately borrow for these schemes. The council currently has £12.825m of such schemes within the CFR.

The Council is asked to approve the CFR projections below:

Capital Financing Requirement (£m)	**2022/23 Actual**	**2023/24 Estimate**	**2024/25 Estimate**	**2025/26 Estimate**	**2026/27 Estimate**
Non-HRA	625.709	716.115	881.749	958.612	1019.279
Housing	311.461	407.923	482.578	533.761	592.247
Total CFR	**937.170**	**1,124.038**	**1,364.326**	**1,492.373**	**1,611.525**
Movement in CFR	**102.825**	**186.868**	**240.289**	**128.046**	**119.153**

Movement in CFR represented by					
Net financing need for the year (above)	118.186	198.042	252.389	141.266	131.307
Less Capital Receipts used to reduce CFR	N/A	-	-	-	-
Less MRP/VRP and other financing movements	15.361	11.174	12.100	13.219	12.155
Movement in CFR	**102.825**	**186.868**	**240.289**	**128.046**	**119.153**

External borrowing (£m)	**2022/23 Actual**	**2023/24 Estimate**	**2024/25 Estimate**	**2025/26 Estimate**	**2026/27 Estimate**
Treasury Management	**687.875**	**877.400**	**1,125.571**	**1,290.267**	**1,410.813**

A summary of Capital Expenditure, based on the Capital Programme presented at the February 2024's Cabinet meeting, adjusted for additional Prudential Borrowing implied by projects which have a relatively high certainty of progressing is provided in the table below.

Net Financing Requirement (£m)		2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	Total
General Fund	Housing acquisitions Open Door	20.000	29.086	29.223	43.191	121.500
	Brent Cross Plot 1 Loan	6.046	78.548	8.906	6.500	100.000
	Care Homes - Meadowside and Dellfield	22.499	2.832	0.350	-	25.682
	Timber houses fire safety	0.356	4.088	4.570	3.954	12.968
	Replacement Finance, HR and Procurement systems	7.735	3.899	0.366	-	12.001
	Roads, Drainage & Pavements	-	10.895	-	-	10.895
HRA	Colindale Gardens	-	2.000	-	-	46.800
	Graham Park	2.846	8.305	8.034	23.400	42.585
	Major Works (excluding Granville Road)	-	-	7.559	19.730	27.289
	Barnet Homes GLA development programme	8.242	16.897	1.356	-	26.495
	Fire Safety Programme	5.900	7.588	7.293	5.510	26.290
	Miscellaneous Repairs	3.211	6.677	6.912	7.078	23.878
	New Build - 250 units	-	6.744	10.526	-	17.270
	Acquisitions Phase 3 - Programme 2	9.589	6.439	-	-	16.028
	Extra Care - Housing (Cheshire)	7.208	7.671	0.422	-	15.300
	Carbon Neutral works	3.933	4.667	5.273	1.131	15.004

2.3 Liability Benchmark

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

There are four components to the LB:

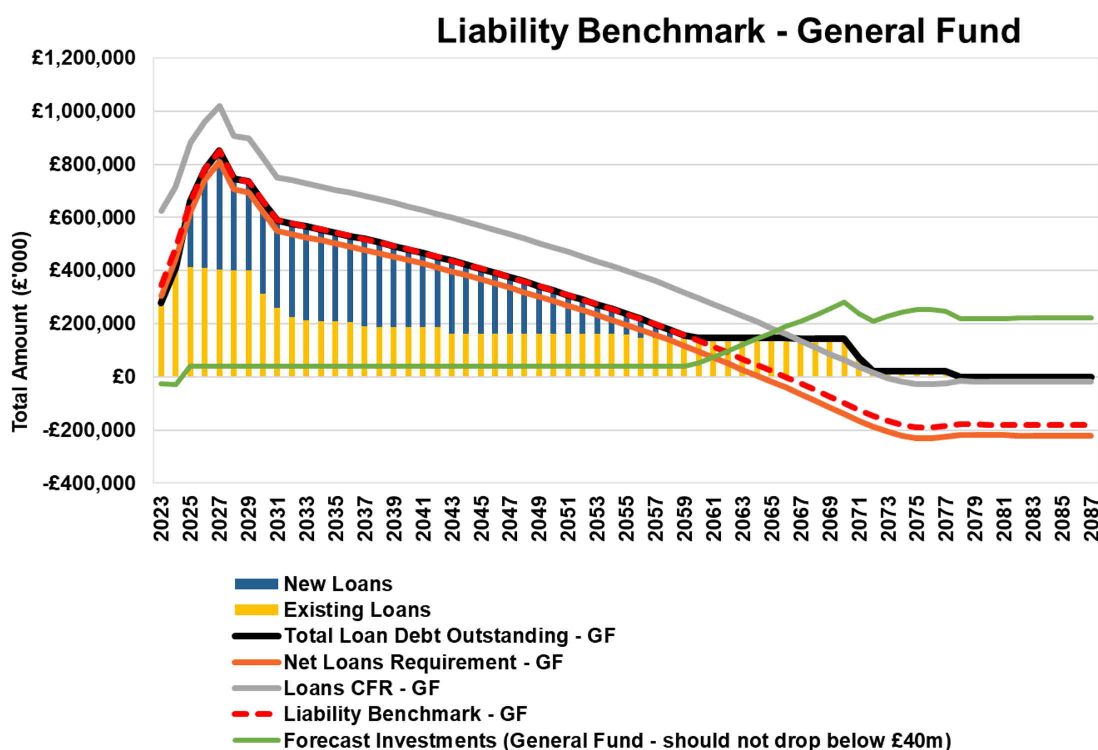
1. **Existing loan debt outstanding**: the council's outstanding debt
2. **Loans CFR**: projected CFR including approved Prudential Borrowing and planned MRP
3. **Net loans requirement**: the council's gross loan debt less treasury management investments at the last financial year-end, projected into the future and based on its approved prudential borrowing, planned MRP and any other major cash flows forecast. Note that for 2024/25 the LB includes a forecast of major cash Capital Expenditure as detailed under 2.1.
4. **Liability benchmark** (or gross loans requirement): this equals net loans requirement plus short-term liquidity allowance. For the LB included in this statement, the Treasury Team have set the liquidity allowance as £45m (increased from £30m). The increase

reflects general inflationary pressures, actual experience of liquidity pressures over the course of 2023/24 and an expectation that access to liquidity will be more difficult through the Local Authority lending market as overall cash balances reduce across the sector.

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

General Fund

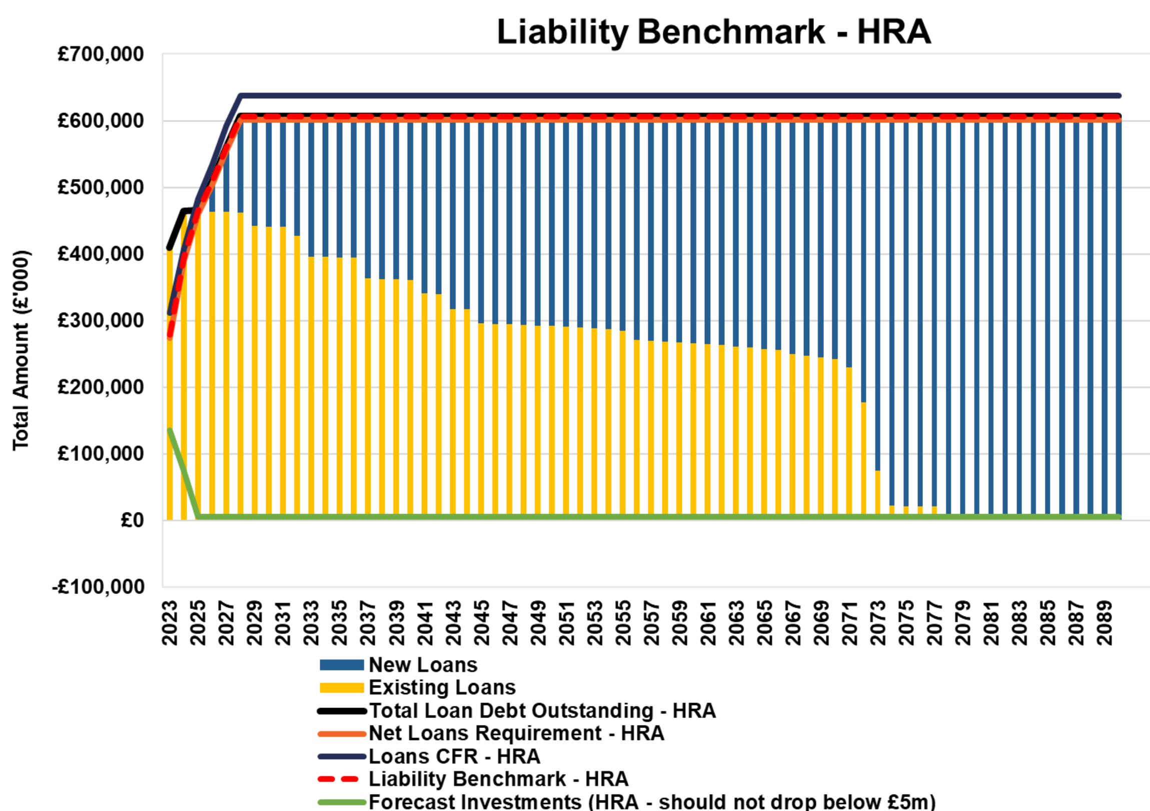
The first 10 years' worth of entries, together with the projected values to 2087, are summarized in the table and chart below.



(£m)	23/24	24/25	25/26	26/27	27/28	28/29	29/30	30/31	31/32	32/33
Existing Loan Debt	412.9	660.0	781.6	850.8	745.9	734.5	661.8	588.7	577.3	565.6
Loans CFR	716.1	881.7	958.6	1,019.3	907.8	896.4	823.7	750.6	739.1	727.5
Net Loan Requirements	442.0	620.0	741.6	810.8	705.9	694.5	621.8	548.7	537.3	525.6
Liability Benchmark	482.0	660.0	781.6	850.8	745.9	734.5	661.8	588.7	577.3	565.6

HRA

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



(£m)	23/24	24/25	25/26	26/27	27/28	28/29	29/30	30/31	31/32	32/33
Existing Loan Debt	464.5	465.6	508.6	560.0	606.5	606.5	606.5	606.5	606.5	606.5
Loans CFR	407.9	482.6	533.8	592.2	638.1	638.1	638.1	638.1	638.1	638.1
Net Loan Requirements	390.4	460.6	503.6	555.0	601.5	601.5	601.5	601.5	601.5	601.5
Liability Benchmark	395.4	465.6	508.6	560.0	606.5	606.5	606.5	606.5	606.5	606.5

Comments

- "New Loans" are the new loans that would be required in order for the council to finance its capital commitments whilst also maintaining its Liquidity Buffer at £45m in total.
- The Liability Benchmark indicates that the council's excess cash levels which it enjoyed over the last few financial years will reduce to its Liquidity Buffer over 2024/25. This is as expected and reflects the extent of capital expenditure, use of reserves and externalizing of internal borrowing that occurred over 2023/24 (note that the General Fund is currently borrowing cash resources from the HRA and so the net position of £45m will likely comprise over 2024/25 significant cash balances within the HRA offset by negative cash balances in the General Fund).
- Within the General Fund, the council's overall CFR (based on forecast capital expenditure peaks over 2027/28 and then is expected to reduce as capital receipts

received in relation to current capital projects are realized and used to reduce the council's overall CFR.

- Over the very long term the Liability Benchmark indicates loans within the General Fund are expected to be supported by significant build-up of cash levels 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.
- The Treasury Team identified last year that the CFR for the General Fund did not trend to zero. After investigating this internally it was decided to increase the overall level of MRP and are satisfied that the General Fund's CFR would now trend to zero. At the time of writing this statement the government is consulting on changes to the MRP regulations and statutory guidance and the Treasury Team will review the MRP policy once the changes have been confirmed.

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

3. 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 and is not unique to this council, it is a trend seen across the country.

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

5. 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).

6. 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.

7. Internal modelling disclosed within the HRA's business plan indicates that the position becomes unsustainable from around 2027 (a shortening of 8 years from that disclosed previously reflecting further inflationary cost pressures), although this does depend on the level of interest rates assumed and extent of maintenance completed in year.

8. 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.

9. Given the above, and to make headway to manage overall refinancing risk, 2023/24 HRA borrowing was undertaken using an annuity repayment approach. This approach may increase cash pressure on the HRA over the short to medium term but, in the Treasury Team's view, is a necessary step within an overall strategy to make the HRA sustainable over the longer-term.

10. Due to excess cash held (specifically through internally borrowing cash to the General Fund) it is not expected that the HRA will be required to take additional borrowing through 2024/25 unless a specific project is identified during the year.

10.1 Minimum Revenue Provision (MRP) Policy Statement

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

The council 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 council 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 Council is recommended to approve the following MRP policy.

It is proposed that the Council approves the Minimum Revenue Provision (MRP) policy for 2024/25 as follows (unchanged from 2023/24):

- 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 council 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 council. However, the council 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 council 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, with 20 basis point Certainty Rate discount, 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. For MRP calculated over 2023/24 the appropriate interest rate to use at a sample of durations is summarised in the table below:

Duration of CapEx	PWLB Annuity Interest Rate (Certainty Rate)
5 years	4.51%

10 years	4.28%
25 years	4.57%
50 years	4.63%

The council 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 council 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 council may make additional voluntary debt repayment provision from revenue or capital resources. If it does so, this will be disclosed in the council'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 council, the returned funds are classed as a capital receipt and are offset against the CFR, which will reduce accordingly.

New MRP guidance issued in 2019/20 which required MRP to be provided for these loans. In response to this, the council's policy was changed to apply MRP to the loans from 2019/20 onwards 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, the Treasury Team have not included Open Door Homes loan repayments within the Liability Benchmark analysis, which is deemed to be a prudent approach. Officers may review this approach in future periods, specifically to reflect any further guidance published as a result of the current consultation on MRP (due to close 16 February 2024).

Capital Receipts

As part of its overall strategy to manage its debt and revenue impact of capital activity, the council may elect to use Capital Receipts to reduce its overall CFR.

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 council'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 council'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 £7.074m

MRP Consultation

In late 2023, the government launched its final consultation on changes to the MRP regulations and statutory guidance. The consultation can be found here: https://consult.levellingup.gov.uk/local-government-finance/consultation-on-changes-to-statutory-guidance-and and will run until 16th February 2024.

The council will review its MRP policy over 2024/25 once the regulations and guidance are finalised.

11. INVESTMENTS & BORROWING

This section sets out overall investments and borrowing as at 31 December 2023.

The Council's constitution states:

"2.6 Capital Programme and Budget

2.6.1 The Capital Programme has been developed following these principles;

- *2.6.2 To maintain an affordable five-year rolling capital programme.*
- *2.6.3 To ensure capital resources are aligned with the Council's strategic vision and corporate priorities.*
- *2.6.4 To undertake prudential borrowing only where there are sufficient ongoing revenue resources to pay for the costs arising from current and future borrowing.*
- *2.6.5 To maximise available resources by actively seeking appropriate external funding and disposal of surplus assets."*

Details of how the Council makes decisions around Capital Strategy are set out in the Council's Capital Strategy report.

3.1 Current Portfolio Position

The overall treasury management portfolio as at 31 March 23 and the position as at 31 December 23 are shown below for both borrowing and investments. It can be seen that the council's overall level investments has reduced significantly over 2023, reflecting use of reserves and overall capital expendiure.

Investments and Borrowing Portfolio				
	31/03/2023		31/12/2023	
	£'000	%	£'000	%
Treasury Investments				
Money Market Funds	39,000	36.01%	48,240	61.66%
Local Authorities	0	0.00%	0	0.00%
Banks UK	20,000	18.47%	5,000	6.39%
Banks Overseas *	44300	40.90%	25,000	31.95%
Other investments	5,000	4.62%	0	0.00%
Total treasury investments	**108,300**	**100.00%**	**78,240**	**100.00%**
* Refers to Overseas banks that are domiciled within the UK with a UK branch and all deposits are in Sterling				
Borrowing				
PWLB	621,580	90.36%	771,580	92.22%
Bank borrowing - LOBO's	62,500	9.09%	62,500	7.47%
Total long-term debt	**684,080**		**834,080**	
Short-term local authority debt		0.00%		0.00%

Interest free loans - Salix	3,795	0.55%	2,578	0.31%
Total Treasury Borrowing	**687,875**	**100.00%**	**836,658**	**100.00%**
Net Treasury Investments / (Borrowing)	(579,575)		(758,418)	
Other long-term liabilities – PFI**	(13,619)		(12,825)	
** Refers to the joint Streetlighting PFI lease liability				
Net Investments / (borrowing)	**(593,195)**		**(771,243)**	

Debt projections

The council'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 the 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 the council would first use cash resources to finance capital expenditure and that the council would then seek to borrow in line with the Liability Benchmark. In practice, the council may elect to borrow ahead of the level of debt implied by the Liability Benchmark to, for example, hedge interest rate risk or manage short-term liquidity needs (amongst other things). The Borrowing Strategy is discussed under Section 3.4.

Note that the level of debt anticipated to be taken over 2023/24 was substantially higher than envisaged by the 2023/24 TMSS. This led to the Council needing to increase its Authorised Limit over 2023/24. Details of this were summarised in a report sent to Cabinet on 7 November 2023 (link here). Improving data flow to the Treasury Team has been a key objective over 2023/24 and will continue to be a key objective over 2024/25.

External Debt (£m)	2022/23 Actual	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
Debt at 1 April (excl. OLTL)	587.875	687.875	877.400	1,125.571	1,290.267
Expected change in Debt	100.000	189.525	248.171	164.696	120.546
Other long-term liabilities (OLTL)	12.825	11.925	10.905	9.748	8.460
Expected change in OLTL	(0.794)	(0.900)	(1.020)	(1.156)	(1.288)
Actual gross debt at 31 March	**699.906**	**888.425**	**1,135.456**	**1,298.859**	**1,417.985**
The Capital Financing Requirement	**937.170**	**1,124.038**	**1,364.326**	**1,492.373**	**1,611.525**
Under / (over) borrowing	**237.264**	**235.613**	**228.871**	**193.514**	**193.541**

Statement on expected debt relative to the CFR

The Council is 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.

Over 2023/24 the council needed to externalise a proportion of its Internal Borrowing undertaken historically. The S151 officer can therefore report that the council complied with this prudential

indicator in the current year and does not envisage difficulties for the future. That said, there are a number of current Capital Projects that have a relatively long gestation period and which, for risk management reasons, it may be appropriate to secure financing in advance. How any advance borrowing sits relative to the CFR (and the Operational Boundary) will be considered prior to taking on advance borrowing.

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 in a year.

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 2024/25, the Treasury Team propose to set the Operational Boundary metric relative to the council'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 council believes it is prudent to borrow in advance for more than 12-months;
- The council has a short-term liquidity spike beyond the £30m buffer due to the timing of outgo and anticipated income;
- The Capital Programme accelerates relative to what was agreed when the 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 council 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 council decides to utilise historical reserves (effectively externalising internal borrowing)

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

Operational Boundary (summary):

Operational Boundary (£m)	2023/24	2024/25	2025/26	2026/27

	Estimate	Estimate	Estimate	Estimate
Expected Borrowing at start of period	687.875	877.400	1,125.571	1,290.267
New Loans Requirement during period (if negative indicates no borrowing required)	189.525	248.171	164.696	120.546
Expected Borrowing at end of period	877.400	1,125.571	1,290.267	1,410.813
Operational Boundary Borrowing (Expected Borrowing plus following year's New Loans Requirement)	**1,125.571**	**1,290.267**	**1,410.813**	**1,457.553**
Other long-term liabilities (OLTL)	11.925	10.905	9.748	8.460
Operational Boundary OLTL	**11.925**	**10.905**	**9.748**	**8.460**
Total Operational Boundary	**1,137.496**	**1,301.172**	**1,420.561**	**1,466.013**

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 Council is asked to approve the following Authorised Limit:

As per the policy in 2022/23, the Council has set its Authorised Limit to be £100m in excess of the Operational Boundary.

Authorised Limit (£m)	**2023/24 Estimate**	**2024/25 Estimate**	**2025/26 Estimate**	**2026/27 Estimate**
Debt	1,225.571	1,390.267	1,510.813	1,557.553
Other long-term liabilities	11.925	10.905	9.748	8.460
Total	**1,237.496**	**1,401.172**	**1,520.561**	**1,566.013**

Important Note: The Operational Boundary and Authorised Limit serve as operational indicators for the treasury team, specifically ensuring alignment between borrowing requirements and the capital programme. It is crucial to understand that these limits do not independently indicate the sustainability and viability of the capital programme. Instead, they help the treasury team manage borrowing consistently with the capital programme.

The Treasury Team does not "sign off" on the viability of the requested borrowing level; rather, it responds to the borrowing implied by the capital programme and the necessity to externalise internal borrowing due to reserve usage. While each capital project undergoes

individual assessments for viability and sustainability, it remains paramount that, when viewed collectively, the council is confident that the implied increase in borrowing poses no unnecessary or unsustainable risks to its overall financial health.

Note on need to increase the Authorised Limit over the period 2023/24
Due to a rise in Prudential Borrowing, anticipated use of Reserves over 2023/24, necessitating externalisation of internal borrowing, and lower cash balances at 1 April 2023 compared to projections, the Treasury Team recommended an increase in the council's Authorised Limit from £920m to £1,259m. Details of this recommendation were outlined in a report submitted to Cabinet on 7 November 2023 (accessible via here).

Had the Treasury Team adhered to its previous practice (pre-2023/24) of setting the Authorised Limit at £100m above the Capital Financing Requirement (CFR), this request might not have been necessary. The Treasury Team maintains that the new approach (tying the Authorised Limit to the Liability Benchmark) aligns better with the Prudential Code and CIPFA guidance.

The Treasury Team sees the process of increasing the Authorised Limit as a "check and balance" on the council's overall borrowing needs. It enhances scrutiny over the Capital Programme, especially during a period of substantial interest rate increases. The team believes this additional step is consistent with the requirements of the Prudential Code and contributes to a more thorough examination of the Council's financial decisions.

3.3 Prospects for Interest Rates

The council has appointed Link Group as its treasury advisor and part of their service is to assist the council to formulate a view on interest rates. Link provided the following forecasts on 8 January 2024. These are forecasts for certainty rates, gilt yields plus 80 bps.

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

Whilst forecasts are helpful in terms of overall decision making, the current interest environment is very uncertain. A comparison with the forecast provided by Link for last year's TMSS is set out below. It can be seen that since last year interest rates forecasts have increased across the yield curve (by around 50bps at the short end rising to 70bps at the longer end).

With rising interest rates experienced through 2023/24 and expectation that rates would fall, the council took a decision to borrow for a shorter duration than implied by its Liability Benchmark. The interest rate forecast provided supports this strategy, however, the Treasury Team are aware that such a strategy introduces potential re-financing risk if rates do not reduce as expected (or, indeed, they increase).

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's commentary on the interest environment is attached under Section 5.3.

3.4 Borrowing Strategy

The council's Operational Boundary gives 12-months capacity to advance borrow relative to the Capital Programme agreed by Council. As indicated within the Liability Benchmark the council is expecting cash levels to normalise towards its Liquidity Buffer of £45m (with balances in year potentially being higher than this reflecting timing of grants / working capital etc).

The overall borrowing strategy is to utilise cash resources to fund the Capital Programme when the council have these available, however the council will take opportunities to borrow in advance if it can take advantages of yields which reflect the underlying business case of the particular capital programme (or lower) and this reduces project risk– see section 3.6 for more details.

The factors the Treasury Team will consider when making decisions around Term or borrowing are summarised below:

Principle 1 - Reflect Borrowing Term to Capital Activity

For borrowing directly linked to the acquisition of an asset or for regeneration / development the starting point for determining the borrowing term would be the duration of the project and / or the useful life of the underlying asset.

The Treasury Team work closely with the service area to understand and advise the interest rates and timeframes used within the business case modelling of the project.

In the majority of cases it would be appropriate to reflect the borrowing profile to that used within the Business Case for the capital prject. Examples of this approach include matching the PWLB loan to the profile of any on-lending (e.g. to ODH or other third parties). This approach minimises interest rate risk and matches the borrowing profile to the likely MRP profile and useful life of the asset.

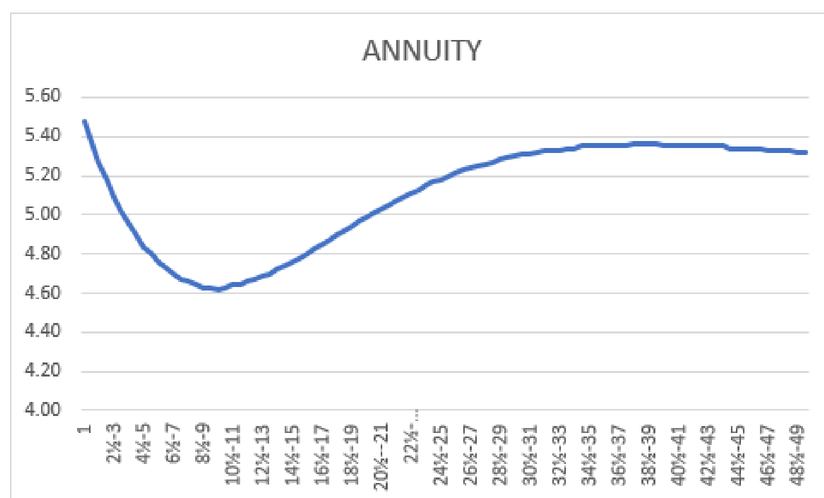
The council will also consider borrowing in advance of need if a Business Case has been signed off and there is high confidence that the capital expenditure will progress.

Principle 2 - Yield Curve

For more general borrowing not linked to specific projects, the council would review the yield curve and assess whether specific durations offered preferential rates.

For example, at the time of drafting this statement, there is a noticeable dip in interest rates in the 5 to 10 year range (see fig 1) and so the council should consider whether this would be a suitable duration to borrow at.

Fig 1 - Annuity Yield curve 11 January 2024



An issue with this approach is that it can concentrate maturities which creates interest rate and refinance risk for the council.

In addition, this approach may lead to a repayment profile that is inconsistent with the Liability Benchmark.

For these reasons, it may not always be appropriate to drive borrowing decisions on the shape of the yield curve alone.

Principle 3 - Interest Rate Forecasts

2023/24 has been notable for elevated levels of interest rates at all durations across the yield curve. This has been combined with the council's advisors (and the markets more generally) anticipating steep reductions in the interest rate environment over the next few years.

This is evidenced by Link's forecast for 50 year PWLB rates which is covered under Section 3.3.

In this environment it may be appropriate to borrow over a relatively short period in the hope that rates are lower when the loans need to be re-financed. For example, over the period August to November 2023 Barnet heavily utilised the Local Authority short-term lending markets converting this borrowing to longer-term (but still relatively short at five years or so) PWLB borrowing when rates fell slightly over December 2023.

A significant issue with this approach is that:

- the Local Authority lending market cannot guarantee liquidity and the Treasury Team expect it will become a less active as Local Authorities cash balances reduce down more generally.
- Interest rates are difficult to forecast and are often wrong and so rates may not reduce as projected and, indeed, could be higher.

This means that, to manage risk, the council may still choose to fix its borrowing over a longer period even if rates are projected to fall, particularly if borrowing is linked to a specific project.

Principle 4 - Borrowing Profile (Liability Benchmark)

The council's Liability benchmark allows the Treasury Team to determine its level of new borrowing implied by the council's capital programme and use of reserves. The Liability Benchmark was developed for the council during 2023/24 by the Treasury Team.

Key Parameters towards determining the liability benchmark are:

- Local Authority's capital programme
- Minimum Revenue Provision profile (this determines the flow of cash into the council to pay down debt)
- Anticipated use of reserves
- Expected Capital Receipts (not allocated to new CapEx)

The Liability Benchmark is a useful tool that allows the council to understand:

- It's overall level of expected cash resourses to manage debt over the very long-term
- The impact on the Treasury Cost Centre from the implied levels of debt
- Whether the debt profile introduces re-financing risk (e.g. through specific times where significant debt needs to be refinanced

The council's Liability Benchmark is covered under section 2.3.

An insight from the Liability Benchmark is that, in general, Annuity Borrowing provides a better match to the maturity profile and so will be the likely form of borrowing for general purposes through 2024/25.

3.5 Policy on Borrowing in Advance of Need

As stated above, the council's Operational Boundary includes capacity for around 12-months borrowing ahead of need. The council 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 the Treasury Team have of that element of the programme moving forward
- Overall slippage within the whole of the capital programme
- Interest rate forecasts from the council's treasury advisors and other sources
- The risk to the capital programme if rates rise significantly
- Any existing forward borrowing taken on

3.6 Rescheduling

Rescheduling of current borrowing in the council's 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 (plus 40bps for HRA Loans towards new developments). 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 may be 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

The council's advisors will keep officers 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) 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 (appendix L1).

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

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

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

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

1. Minimum acceptable **credit criteria** are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short-term and long-term ratings.

2. **Other information:** ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration the council will engage with its advisors to maintain a monitor on market pricing such as **"credit default swaps"** and overlay that information on top of the credit ratings.

3. **Other information sources** used will include the financial press, share price and other such information pertaining to the financial sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

4. This Council has defined the list of **types of investment instruments** that the Treasury management team are authorised to use. There 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 Council 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 2023/24).

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. 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. The council engages **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 Council in the context of the expected level of cash balances and need for liquidity throughout the year.

11. All investments will be denominated in **sterling**.

12. As a result of the change in accounting standards for 2022/23 under IFRS 9, 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 are considered. In November 2018, MHCLG (now DLUHC), 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 Council 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, the council's 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 stay at 5.25% until Q3 2024 at which point Link expect the first rate cuts.

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

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

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

For its cash flow generated balances, the council 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 council's liquidity requirements and to reduce the need for early sale of an investment and are based on the availability of funds after each year-end.

The Council is asked to approve the following Treasury Indicator and Limit: -

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 SUPPLEMENTARY INFORMATION

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 2024/25 – 2026/27

The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

5.1.1 Capital Expenditure

Capital Expenditure (£m)	2022/23 Actual	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 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 council's overall finances. The Council 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.

%	2022/23 Actual	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 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

	2022/23 Actual	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
HRA debt (£m)	**409.502**	**464.502**	**465.569**	**508.626**	**560.005**
HRA revenues (£m)	**58.754**	**66.377**	**73.85**	**76.825**	**80.459**
Ratio of debt to revenues %	**697%**	**700%**	**630%**	**662%**	**696%**

	2022/23 Actual	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
HRA debt (£m)	**409.502**	**464.502**	**465.569**	**508.626**	**560.005**
Number of HRA dwellings	**9,059**	**9,207**	**9,113**	**9,092**	**9,072**
Debt per dwelling (£)	**45,204**	**50,451**	**51,088**	**55,942**	**61,729**

5.1.3 Maturity Structure of Borrowing

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

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

Maturity structure of fixed interest rate borrowing 2024/25			
	Current	**Lower**	**Upper**
Under 12 months	0%	0%	50%
12 months to 2 years	1%	0%	50%
2 years to 5 years	6%	0%	75%
5 years to 10 years	15%	0%	75%
10 years to 20 years	21%	0%	75%
20 years to 30 years	5%	0%	75%
30 years to 40 years	0%	0%	75%
40 years to 60 years	60%	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 2024-2027

See Section 3.2

5.3 ECONOMIC BACKGROUND

Link commentary:

- *The first half of 2023/24 saw:*
  - *Interest rates rise by a further 100bps, taking Bank Rate from 4.25% to 5.25% and, possibly, the peak in the tightening cycle.*
  - *Short, medium and long-dated gilts remain elevated as inflation continually surprised to the upside.*
  - *CPI inflation falling from 8.7% in April to 6.7% in September, its lowest rate since February 2022, but still the highest in the G7.*
  - *Core CPI inflation declining to 6.1% in September from 7.1% in April and May, a then 31 years high.*
  - *A cooling in labour market conditions, but no evidence yet that it has led to an easing in wage growth (as the 3myy growth of average earnings rose by 7.8% for the period June to August, excluding bonuses).*
- *The registering of 0% GDP for Q3 suggests that underlying growth has lost momentum since earlier in the year. Some of the weakness in July was due to there being almost twice as many working days lost to strikes in July (281,000) than in June (160,000). But with output falling in 10 out of the 17 sectors, there is an air of underlying weakness.*
- *The fall in the composite Purchasing Managers Index from 48.6 in August to 46.7 in September left it at its lowest level since COVID-19 lockdowns reduced activity in January 2021. At face value, it is consistent with the 0% q/q rise in real GDP in the period July to September, being followed by a contraction in the next couple of quarters.*
- *The 0.4% m/m rebound in retail sales volumes in August is not as good as it looks as it partly reflected a pickup in sales after the unusually wet weather in July. Sales volumes in August were 0.2% below their level in May, suggesting much of the resilience in retail activity in the first half of the year has faded.*
- *As the growing drag from higher interest rates intensifies over the next six months, we think the economy will continue to lose momentum and soon fall into a mild recession. Strong labour demand, fast wage growth and government handouts have all supported household incomes over the past year. And with CPI inflation past its peak and expected to decline further, the economy has got through the cost-of- living crisis without recession. But even though the worst of the falls in real household disposable incomes are behind us, the phasing out of financial support packages provided by the government during the energy crisis means real incomes are unlikely to grow strongly. Higher interest rates will soon bite harder too. We expect the Bank of England to keep interest rates at the probable peak of 5.25% until the second half of 2024. Mortgage rates are likely to stay above 5.0% for around a year.*
- *The tightness of the labour market continued to ease, with employment in the three months to July falling by 207,000. The further decline in the number of job vacancies from 1.017m in July to 0.989m in August suggests that the labour market has loosened a bit further*

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

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

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

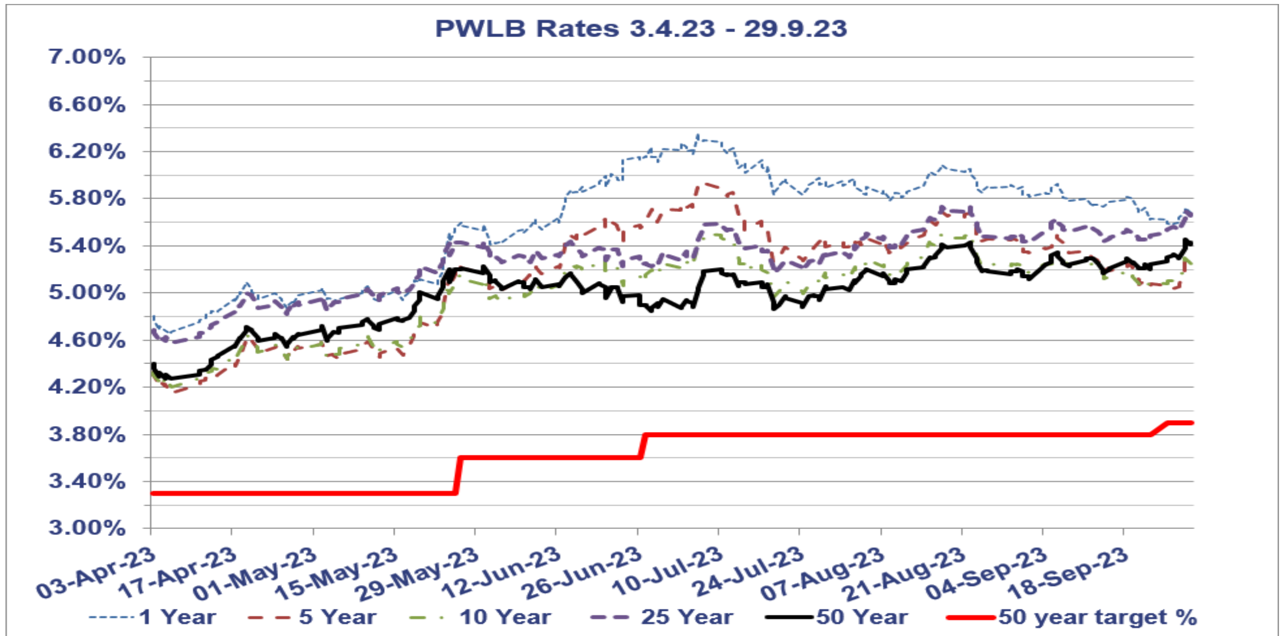
- *In its latest monetary policy meeting on 06 November, the Bank of England left interest rates unchanged at 5.25%. The vote to keep rates on hold was a split vote, 6-3. It is clear that some members of the MPC are still concerned about the stickiness of inflation.*

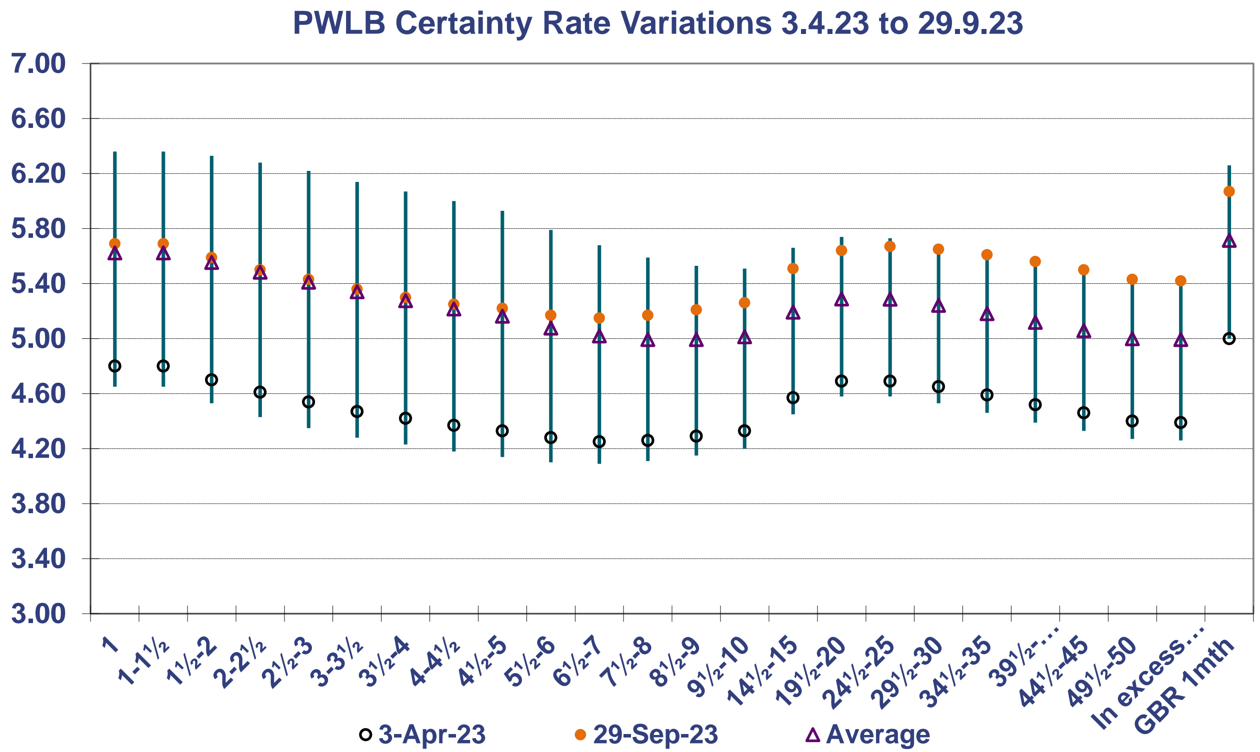
- *Like the US Fed, the Bank of England wants the markets to believe in the higher for longer narrative. In terms of messaging, the Bank once again said that "further tightening in monetary policy would be required if there were evidence of more persistent inflationary pressures", citing the rise in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

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

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

PWLB RATES 01.04.23 - 29.09.23





HIGH/LOW/AVERAGE PWLB RATES FOR 01.04.23 – 29.09.23

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

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

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

CENTRAL BANK CONCERNS

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

Ultimately, however, from a UK perspective it will not only be inflation data but also employment data that will mostly impact the decision-making process, although any softening in the interest rate outlook in the US may also have an effect (just as, conversely, greater tightening may also).

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.

The council has a number of non-treasury investments (loans) which do not count as Treasury Investments. The council may also make loans to Local Organisations, however, note that these loans would not be counted as Treasury 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 and other third parties

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.

At the time of writing the council was also considering providing development funding to a third party to facilitate the regeneration of Brent Cross, details can be found within the Cabinet report accessed here.

This lending activity supports its overall priorities around regeneration and housing within the Borough.

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 council. Both loans are included within the council'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	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

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 Council. To ensure that the council is protected from any adverse revenue impact, which may arise from these differences, the Treasury Team 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). The Treasury Team therefore take a proportionate approach to considering ESG factors within the council's investment decisions, with the primary metrics for making decisions being credit quality and yield.

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

5.4 APPROVED COUNTRIES FOR INVESTMENTS

This list is based on those countries which have sovereign ratings of AA- or higher, (showing 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

Section 2.15.3 of the London Borough of Barnet's constitution states that 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. This authority is agreed by Council each year as part of the budget setting process when the TMSS for the forthcoming year is presented to Council for approval. All borrowing will be reported to Cabinet as part of the Capital Programme.

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 Council
- ensure that the council has appropriate legal powers to undertake expenditure on non-financial assets and their financing
- ensuring the proportionality of all investments so that the council does not undertake a level of investing which exposes the council to an excessive level of risk compared to its financial resources
- ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long-term liabilities
- 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 council
- ensuring that the Council has adequate expertise, either in house or externally provided, to carry out the above
- creation of Treasury Management Practices which specifically deal with how non treasury investments will be carried out and managed, to include the following (TM Code p54): -
    - *Risk management (TMP1 and schedules), including investment and risk management criteria for any material non-treasury investment portfolios;*
    - *Performance measurement and management (TMP2 and schedules), including methodology and criteria for assessing the performance and success of non-treasury investments;*

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

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

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