

## **5. TREASURY MANAGEMENT STRATEGY**

### **Background**

- 5.1 The Council is required to operate a balanced budget. Part of the council's treasury management operation is to ensure that cash flow is planned, so that cash is available when it is needed. Surplus monies are invested in counterparties or instruments commensurate with the Council's low risk appetite, providing liquidity before considering investment return.
- 5.2 Another function of treasury management is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing needs of the Council, essentially the longer-term cash flow planning, to ensure that the Council can meet its capital spending obligations. This management of longer-term cash may involve arranging loans or using cash flow surpluses. Sometimes, when it is prudent and economic, loan debt may be restructured to support the Council's risk or cost objectives.
- 5.3 The contribution the treasury management function makes to the authority is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day expenditure or for larger capital projects. The council's treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will result in a loss of resources to the General Fund.
- 5.4 The Chartered Institute of Public Finance & 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."
- 5.5 Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activities, (arising usually from capital expenditure), and are separate from the day-to-day treasury management activities.
- 5.6 This section of the budget report meets the council's legal obligation under the Local Government Act 2003 to have regard to relevant codes of practice and guidance issued by CIPFA (Chartered Institute of Public Finance & Accountancy) and the DLUHC (Department for Levelling Up, Housing and Communities).
- 5.7 This section of the budget report also fulfils the requirement for council to approve:
- A treasury management strategy before the start of each financial year (as required by CIPFA's Treasury Management Code).
  - Prudential indicators to ensure that the council's capital investment plans are affordable, prudent and sustainable (as required by CIPFA's Prudential Code).

- An investment strategy before the start of each financial year (as required by DLUHC's Investment Code).
  - A Minimum Revenue Provision (MRP) policy (as required by DLUHC's MRP guidance).
- 5.8 The council's investment in commercial property, equity shares, and lending to third parties is considered in the capital strategy in Section 4.
- 5.9 However, for the purposes of clarity, the projections, indicators and limits given in this section of the budget report include:
- The general fund and HRA proposed capital programme and its funding as set out in Section 4, Tables 4.4 and 4.5.
  - The implications for the council's capital financing requirement and borrowing position arising from the non-financial investments proposed in Section 4 of this report.

## Reporting Requirements

### Capital Strategy

- 5.10 The CIPFA 2021 Prudential and Treasury Management Codes require all local authorities to prepare a Capital Strategy report which will provide the following:
- a high-level long-term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
  - an overview of how the associated risk is managed
  - the implications for future financial sustainability
- 5.11 The aim of the strategy is to ensure that all the Authority's elected members fully understand the overall long-term policy objectives and resulting Capital Strategy requirements, governance procedures and risk appetite.

### Treasury management reporting requirements

- 5.12 The Council's Treasury Management Committee meets quarterly to support the in-depth consideration of a range of matters relating to the governance of the Council's treasury management activity.
- 5.13 To support the Committee to meet its terms of reference and schedule forward meeting dates, an annual workplan has been adopted as follows:

January	<b>Treasury Management Committee - January Meeting</b> Consider the Annual Treasury Management Strategy Statement (TMS) prior to adoption by council
February	Full Council to receive Treasury Management Strategy
April	<b>Treasury Management Committee - April Meeting</b> Review proposed treasury activity for forthcoming year Initial update on end of year position
May	Statutory Accounts preparation
June	Treasury Management Outturn Report preparation

July	<b>Treasury Management Committee - July Meeting</b> Consider outturn position report
August	Full Council to receive Treasury Management Outturn Report
October	Treasury Management Mid-Year Review Report preparation
November	<b>Treasury Management Committee - November Meeting</b> Consider mid-year report Consider initial Treasury Management Strategy changes for forthcoming year
December	Full Council to receive Treasury Management Mid-Year Review Report

5.14 All Treasury Management reports will initially be presented to the Treasury Management Committee before onward reporting to Cabinet and Full Council.

5.15 The council is required to receive and approve as a minimum, three main reports each year, which incorporate a variety of, polices, estimates and actuals.

- Annual reporting requirements before the start of the year including - a review of the organisation's approved plans, treasury management policy statements, prudential and treasury indicators and treasury strategy (this report).
- A mid-year treasury management report – This will update members with the progress of activities undertaken, any material decisions, interim performance including an update on the capital position and amend any polices or prudential indicators as necessary.
- An annual treasury report after year-end – This provides details of compliance with prudential and treasury indicators, the impact of actual treasury operations compared to the estimates within the strategy.

5.16 As part of implementing the new requirements of the Treasury Management Code of Practice, in addition to the three major reports detailed above, from 2023/24 quarterly reporting (end of June/end of December) is also required. These additional reports will also be presented to the Treasury Management Committee. Full details of the scheme of delegation are shown at Appendix D.

### **Treasury management - role of the Section 151 Officer**

5.17 Under the Treasury Management Code of Practice, the council's S151 officer has specific responsibilities. A list of responsibilities is supplied at Appendix E.

### **Treasury management practices**

5.18 The new CIPFA Treasury Management Code provides details of what CIPFA recommends an organisation's treasury management practices (TMPs) should include;

- TMP1 Risk management
- TMP2 Performance measurement

TMP3 Decision making and analysis  
TMP4 Approved instruments, methods and techniques  
TMP5 Organisation, clarity and segregation of responsibilities and dealing arrangements  
TMP6 Reporting requirements and management information arrangements  
TMP7 Budgeting, accounting and audit arrangements  
TMP8 Cash and cash flow management  
TMP9 Money laundering  
TMP10 Training and qualifications  
TMP11 Use of external service providers  
TMP12 Corporate governance

- 5.19 Each TMP requires a detailed explanation of the practices undertaken by the Council's Treasury Management team. The council's TMP's will continue to be developed to respond to best practice and regulatory updates.

### **Treasury Management Strategy 2024/25**

- 5.20 The strategy for 2024/25 covers two main areas:

#### **Capital issues:**

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

#### **Treasury management issues:**

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

- 5.21 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.

### **Training**

- 5.22 The CIPFA Treasury Management Code requires the responsible officer to ensure that all staff and members with responsibility for treasury management receive adequate training in this area. The S151 officer is responsible for this function in this Council. Full details of the S151 officer's responsibilities are shown at Appendix E.

- 5.23 The Code also states that “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.
- 5.24 As a minimum, authorities should carry out the following to monitor and review knowledge and skills:
- Record attendance at training and ensure action is taken where poor attendance is identified.
  - Prepare tailored learning plans for treasury management officers and board/council members.
  - Require treasury management officers and council members to undertake self-assessment against the required competencies.
  - Have regular communication with officers and board/council members, encouraging them to highlight training needs on an ongoing basis.”
- 5.25 The training needs of treasury management officers are recorded and periodically reviewed as part of the formal annual employee performance review. Member training is delivered via the Treasury Management Committee. At its meeting on 4th July 2023 members of the Treasury Management Committee received training presentations from the Councils Treasury Advisors including an Economic Outlook and balance sheet review.

### **Treasury management advisers**

- 5.26 The council uses Link Asset Services as its external treasury management advisers .
- 5.27 Responsibility for treasury management decisions remains with the council at all times. Although the council will from time to time require the services of specialists, consultants and advisers in order to acquire access to specialist skills, undue reliance will not be placed upon the services and advice provided.

### **The Capital Prudential Indicators 2024/25 – 2028/29**

- 5.28 The council’s capital expenditure plans are a key driver of treasury management activity. A summary of the council’s capital budget plans and how these are being financed is shown in table 5.1. The prudential indicators, which are designed to assist members’ overview and confirm capital expenditure plans are prudent, affordable and sustainable.

### **Capital Expenditure and Financing**

- 5.29 This prudential indicator is a summary of the Authority’s capital expenditure plans, both those agreed previously, and those forming part of the new budget cycle. The table below summarises the capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of capital resources results in a need for borrowing.

**Table 5.1: The council's capital expenditure and financing plans**

	2023/24 Estimate £000	2024/25 Estimate £000	2025/26 Estimate £000	2026/27 Estimate £000	2027/28 Estimate £000	2028/29 Estimate £000
<b>Capital expenditure</b>						
General Fund	20,354	26,139	5,009	2,822	2,798	3,341
Capital Loans	1,000	5,000	1,000	1,000	0	0
<b>Total General Fund Expenditure</b>	<b>21,354</b>	<b>31,139</b>	<b>6,009</b>	<b>3,822</b>	<b>2,798</b>	<b>3,341</b>
<b>Housing Revenue Account</b>	<b>33,247</b>	<b>41,107</b>	<b>39,571</b>	<b>38,433</b>	<b>33,975</b>	<b>27,415</b>
<b>TOTAL CAPITAL EXPENDITURE</b>	<b>54,601</b>	<b>72,245</b>	<b>45,579</b>	<b>42,254</b>	<b>36,773</b>	<b>30,756</b>
<b>Financing</b>						
Capital receipts	1,043	4,835	10,655	11,284	8,990	3,746
Capital receipts (ringfenced)	0	0	0	0	0	0
Retained "one for one" RTB receipts	6,267	7,055	6,324	5,657	3,852	1,228
Major repairs reserve	20,250	20,147	14,676	14,572	16,880	17,428
Contributions and grants	13,566	18,043	1,750	1,865	1,850	1,950
Revenue contribution	5,823	10,045	7,986	6,985	4,278	342
Revenue contribution from earmarked reserves	43	0	0	0	0	0
Greater Norwich growth partnership	533	214	0	0	0	0
Community infrastructure levy	1,256	747	2,067	792	823	1,366
S106	876	490	158	0	0	0
Total	49,657	61,576	43,615	41,155	36,673	26,059
<b>Borrowing need for the year</b>	<b>4,944</b>	<b>10,669</b>	<b>1,964</b>	<b>1,100</b>	<b>100</b>	<b>4,696</b>
<b>TOTAL FINANCING</b>	<b>54,601</b>	<b>72,245</b>	<b>45,579</b>	<b>42,254</b>	<b>36,773</b>	<b>30,756</b>

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

- 5.30 The Capital Financing Requirement (CFR) calculation for 2024/25 and future years of the capital programme is shown below in table 5.2(i). This is the total historic outstanding capital expenditure yet to be financed from revenue or capital resources and a future projection of CFR based on capital expenditure plans. It is a measure of the council's indebtedness, and therefore its underlying borrowing need. The CFR also includes other long-term liabilities such as finance leases.
- 5.31 The CFR incorporates interim figures in relation to the new reporting requirements detailed within IFRS16. The reporting standard requires the liabilities of certain leases currently accounted for through the revenue spend of the Council, to be shown on the balance sheet, for example, if the lease has more than a year to run or is above a de-minimis value. An example for Norwich is vehicles procured through an operating lease.
- 5.32 IFRS16 remains a requirement of closing the accounts for 2024/25 and officers continue to undertake the required data gathering exercise, which will clarify the full impact on the CFR for the Council. It is therefore important to note that there may be a requirement to refresh the authorised limit and operational boundary once the review is substantially complete later in the 2024/25 financial year.

- 5.33 The general fund CFR does not increase indefinitely, as a Minimum Revenue Provision (MRP) is made each year which is a statutory annual revenue charge which broadly reduces indebtedness in line with each asset's expected life.
- 5.34 The repayment of loan debt made to external organisations also reduces the CFR where the loan has been financed by borrowing.
- 5.35 In 2023/24 the Council has applied General Fund capital receipts against its Capital Financing Requirement following a review by the Council's Treasury Management advisors. This approach together with the recommended policy changes to the MRP policy has reduced the MRP charge and used borrowing as replacement funding source. Overall, this approach has delivered financial benefits and matched longer life assets against borrowing.

**Table 5.2(i): Capital Prudential Indicators**

	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29
	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate
	£000	£000	£000	£000	£000	£000
<b>Capital financing requirement at end of year</b>						
General Fund	91,298	103,004	103,860	103,935	102,962	101,840
Housing Revenue Account	208,533	208,533	208,533	208,533	208,533	213,229
<b>TOTAL</b>	<b>299,831</b>	<b>311,537</b>	<b>312,393</b>	<b>312,468</b>	<b>311,495</b>	<b>315,069</b>
<b>Movement in Capital financing requirement</b>						
General fund	-20,814	11,706	856	75	-973	-1,122
Housing Revenue Account	0	0	0	0	0	4,696
<b>TOTAL</b>	<b>-20,814</b>	<b>11,706</b>	<b>856</b>	<b>75</b>	<b>-973</b>	<b>3,574</b>

- 5.36 Table 5.2(ii) below shows the planned external borrowing for capital expenditure purposes conforming to DLUHC requirements for applying for certainty rate borrowing from the PWLB. The table also shows details of planned borrowing for Treasury Management purposes which would encompass both the externalisation of internal borrowing and refinancing. The table also shows that the Council has no plans to invest in projects for yield which would prevent the Council borrowing from the PWLB.

**Table 5.2(ii)**

External Borrowing	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29
	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate
	£000	£000	£000	£000	£000	£000
Service spend	20,354	26,139	5,009	2,822	2,798	3,341
Housing (Incl. Preventative action)	33,247	41,107	39,571	38,433	33,975	27,415
Regeneration	1,000	5,000	1,000	1,000	-	-
Projects for yield	-	-	-	-	-	-
<b>TOTAL</b>	<b>54,601</b>	<b>72,245</b>	<b>45,579</b>	<b>42,254</b>	<b>36,773</b>	<b>30,756</b>
Treasury Management	4,944	10,669	1,964	1,100	100	4,696

### Liability Benchmark

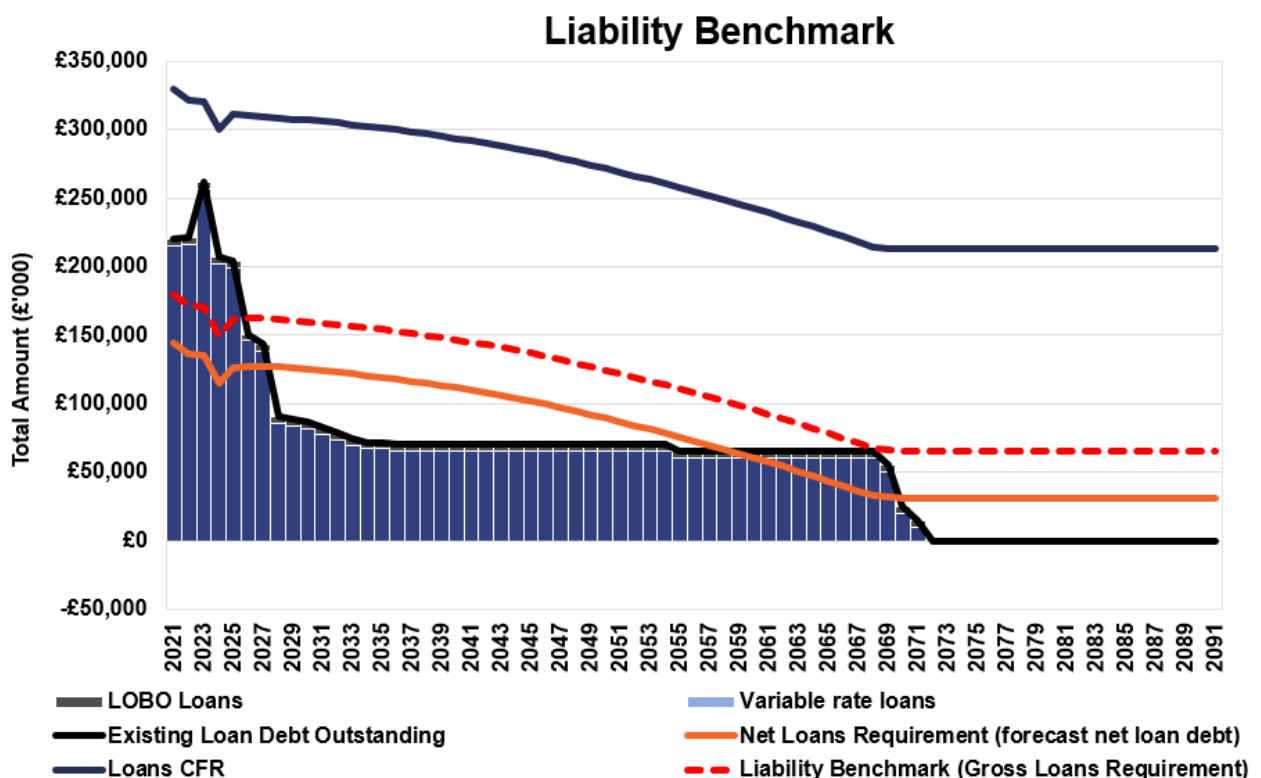
- 5.37 The Authority is required to estimate and measure the Liability Benchmark for the forthcoming financial year and the following two financial years, as a

minimum. The Benchmark is included to determine the appropriate structure of the Councils external loans profile and is presented as a chart reflecting four balances as follows:

- Existing loan debt outstanding: the authority’s existing loans which are still outstanding in future years.
- Loans CFR: calculated in accordance with the loans CFR definition in the Prudential Code, and projected into the future based on approved prudential borrowing and planned MRP taking account of approved prudential borrowing.
- Net loans requirement: the authority’s gross loan debt, less treasury management investments, at the last financial year end, projected into the future based on its approved prudential borrowing, planned MRP and any other forecast major cash flows and,
- Liability benchmark (or Gross Loans Requirement) = Net loans requirement + short term liquidity allowance.

5.38 Chart 5.1 shows the Council’s existing outstanding loan debt in the blue and grey bars bordered by the black line. The dark blue line which shows the Loans CFR. The Orange line shows the net outstanding loan position after deducting treasury management investments. The red dotted line is the Liability Benchmark (Gross Loan requirement) which is net loans plus a liquidity allowance. The liability Benchmark is significantly below the CFR demonstrating the Councils under borrowed and internally borrowed position.

**Chart 5.1 Liability Benchmark**





- 5.39 The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.). Detailed below are estimates of the year-end balances for each resource and anticipated day-to-day cash flow balances. Forward projections will be added in the final version of the Strategy appended to the budget papers.

**Table 5.2(iii)**

Estimated Resources	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29
	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate
	£'000	£000	£000	£000	£000	£000
General Fund Reserve	-8,248	-8,248	-8,248	-8,248	-8,248	-8,248
GF Earmarked Reserves	-16,972	-18,916	-18,916	-18,916	-18,916	-18,916
HRA Reserve	-41,111	-41,168	-6,221	-5,848	-5,848	-5,848
HRA Earmarked Reserve	-2,519	-1,799	-1,799	-1,799	-1,799	-1,799
Capital Receipts Reserve	-72,925	-70,138	-62,963	-56,763	-55,258	-55,258
Major Repairs Reserve	-5,147	0	0	0	0	0
Capital Grants Unapplied	-3,710	-3,476	-3,476	-3,476	-3,476	-3,476
<b>Total Core Funds</b>	<b>-150,632</b>	<b>-143,745</b>	<b>-101,623</b>	<b>-95,050</b>	<b>-93,545</b>	<b>-93,545</b>
<b>Working Capital*</b>	<b>-1,000</b>	<b>-1,000</b>	<b>-1,000</b>	<b>-1,000</b>	<b>-1,000</b>	<b>-1,000</b>
<b>Expected Investment Balances</b>	<b>-110,000</b>	<b>-100,000</b>	<b>-70,000</b>	<b>-65,000</b>	<b>-65,000</b>	<b>-65,000</b>

\*Working capital balances shown are estimated year-end; these may be higher or lower during the year depending on the day-to-day demands.

### Minimum Revenue Provision (MRP) Policy Statement

- 5.40 The proposed MRP Policy Statement is set out in Appendix A. During 2023/24 the Council engaged Link Asset Services, the Councils Treasury Management advisors to complete a review of its MRP policy. The review considered technical and regulatory guidance, and identified prudent policy changes the Council has adopted to meet its requirement to charge a Minimum Revenue Provision and reduce the financial impact on the medium-term financial plan.
- 5.41 Under Regulation 27 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, the Council is required to pay off a proportion of the accumulated unfunded general fund capital expenditure each year (capital financing requirement) through an annual revenue charge (the MRP). This includes MRP for commercial properties and other non-treasury investments financed by borrowing.
- 5.42 The Council overpaid £6.982m of MRP in previous years. This amount is being gradually released to the general fund revenue budget on a straight-line basis over 40 years. From the 2023/24 TM Strategy onwards, there is £5.934m over 34 years still to be released.
- 5.43 It should be noted that it is not the council's policy to charge minimum revenue provision (MRP) on loans to third parties so long as there is no

indication that the loan will not be repaid in full. All third-party loans are reviewed annually with an assessment made of any MRP payments required.

- 5.44 Currently there is no requirement for the Housing Revenue Account to make MRP provisions, although a voluntary revenue provision can be considered. The benefit of such a provision would be to provide a mechanism for the prudential repayment of debt over the life of the business plan. In the absence of a repayment mechanism, the business plan demonstrates that debt could continue to be financed via the resources available without a specific provision being made. The current position is kept under review and will continue to adopt a prudent approach, in line with national guidance and best practice.
- 5.45 At the time of drafting the TMS, officers are awaiting details of the Consultation on the Statutory Guidance on Minimum Revenue Provision for application after April 2024 to be published by the Government. Members will be advised of any material implications arising from this consultation either as a supplementary appendix or as a verbal update at the committee meeting.

## Borrowing

- 5.46 The capital expenditure plans set out in tables 5.1 and 5.2(ii) above, provide details of the service activity of the council. The treasury management function ensures that the council's cash is organised in accordance with the relevant professional codes, ensuring that sufficient cash is available to meet this service activity. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities.

**Table 5.3: The Council's current investment and borrowing position**

	31/03/2023		31/12/2023	
	Actuals		Actuals	
	£000	%	£000	%
<b>Investments</b>				
Banks	44,600	33.9	56,398	52.6
Building Societies	10,000	7.6	6,000	5.6
Local Authority	65,000	49.4	25,000	23.3
UK Government	0	0.0	0	0.0
Money Market Funds	12,000	9.1	19,900	18.5
<b>TOTAL</b>	<b>131,600</b>	<b>100.0</b>	<b>107,298</b>	<b>100.0</b>
<b>Borrowing</b>				
PWLB	205,648	97.3	56,398	52.6
Banks	5,000	2.4	6,000	5.6
Others	641	0.3	25,000	23.3
<b>TOTAL</b>	<b>211,289</b>	<b>100.0</b>	<b>206,871</b>	<b>100.0</b>

- 5.47 On the 31<sup>st</sup> of December 2023, the council held £206.8m of external borrowing and £107.3m of treasury investments.
- 5.48 During 2023/24 the council has not taken nor does it intend in the short term to take on any new long-term borrowing.

5.49 Investment balances have decreased since the start of 2023/24. This is mainly due to the pre-payment of Employer deficit pension contributions to the pension fund. Cash balances are expected to marginally decrease towards the year end .

### **Maturity Structure of Borrowing Strategy**

5.50 These lower and upper limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing.

**Table 5.4: Maturity structure of borrowing**

Maturity structure of fixed interest rate borrowing	Lower Limit	Upper Limit
Under 12 Months	0%	30%
12 months to 2 years	0%	60%
2 years to 5 years	0%	60%
5 years to 10 years	0%	60%
10 years to 15 years	0%	60%
15 years to 20 years	0%	60%
20 years and above	0%	80%

The table below summarises the council's forward projections for borrowing based on the assumptions given in table 5.1 above.

5.51 The Authority's forward projections for borrowing are summarised below. The table shows the actual external debt, against the underlying capital borrowing need, (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

**Table 5.5(i): Estimated forward projections for borrowing**

	2023/24 Estimate £000	2024/25 Estimate £000	2025/26 Estimate £000	2026/27 Estimate £000	2027/28 Estimate £000	2028/29 Estimate £000
<b>External Debt</b>						
Debt as at 1 April	210,648	206,648	204,148	204,148	204,148	204,148
Expected change in debt	(4,000)	(2,500)	0	0	0	0
Other long-term liabilities	649	513	369	217	217	217
<b>Actual gross debt as at 31 March</b>	<b>207,297</b>	<b>204,661</b>	<b>204,517</b>	<b>204,365</b>	<b>204,365</b>	<b>204,365</b>
Capital Financing Requirement	299,831	311,537	312,393	312,468	311,495	315,069
<b>Under/(Over) borrowing</b>	<b>92,534</b>	<b>106,876</b>	<b>107,876</b>	<b>108,103</b>	<b>107,130</b>	<b>110,704</b>

N.B. Other long-term liabilities are any liabilities and other credit arrangements that are outstanding for periods in excess of 12 months e.g. finance leases.

5.52 Over the six-year period covered by this TM Strategy, the following loan maturities and new borrowing are expected to occur:

**Table 5.5(ii): Estimated forward projections for borrowing (refinancing maturing loans)**

Amount of Each Loan Maturing	Financial Year	New Borrowing	Financial Year
4,000,000	2023-24	0	2023-24
2,500,000	2024-25	2,500,000	2024-25
2,500,000	2025-26	2,500,000	2025-26
700,000	2025-26	0	2025-26
50,000,000	2025-26	50,000,000	2025-26

2,500,000	2026-27	2,500,000	2026-27
5,000,000	2026-27	5,000,000	2026-27
50,000,000	2027-28	50,000,000	2027-28
2,500,000	2027-28	2,500,000	2027-28
<b>119,700,000</b>		<b>115,000,000</b>	

- 5.53 Within the range of prudential indicators there are several key indicators to ensure that the Authority operates its activities within defined limits. One of these is that the Authority needs to ensure that its gross debt does not, except in the short-term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2024/25 and the following two financial years. This allows some flexibility for limited early borrowing for future years but ensures that borrowing is not undertaken for revenue or speculative purposes.
- 5.54 The Council's S.151 Officer reports that the Authority complied with this prudential indicator in the current year and does not envisage breaches in the future. This view takes account of current commitments, existing plans and the proposals in this budget report.
- 5.55 During 2023/24 the council will not take any new long-term borrowing. £45M of borrowing was taken out during 2021/22 whilst interest rates were at historical low levels ahead of a scheduled repayment of self-financing debt in March 2023. The subsequent high interest rate environment is being closely monitored in the light of further significant tranches of debt falling due (£100m 2025/26 onwards)
- 5.56 The council is currently maintaining an under-borrowed position. This means that the capital borrowing need (CFR) has not been fully funded with external loan debt, as cash supporting the council's reserves, balances and cash flow is used as a temporary measure. This strategy is prudent as external loan interest rates are currently high and set to be at higher levels for some time.
- 5.57 The council has been well served by this policy over the last few years. The Section 151 Officer will continue to review and adopt a pragmatic approach to changing circumstances to avoid incurring higher borrowing costs as set out below:
- If it is felt that there is a significant risk of a sharp FALL in long- and short-term rates (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowings will be postponed and a potential rescheduling from fixed rate funding into short term borrowing will be considered.
  - If it was felt that there was a significant risk of a much sharper RISE in long- and short-term rates than that currently forecast, perhaps arising from sudden increase in inflation risks, then the portfolio position will be re-appraised. Most likely, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.

## Investment Property Review

- 5.58 The revised Treasury Management and Prudential codes require Councils to review assets held for investment purposes annually against ongoing borrowing requirements and consider disposal of those investments to finance borrowing where the sale of an investment is financially viable.
- 5.59 To inform its Investment Strategy and take into account the CIPFA code requirements, the Council commissioned a review of its investment portfolio in Autumn 2022 in conjunction with Jones Lang LaSalle (JLL). This has resulted in a number of proposed asset disposals over the past 12 months. JLL have been commissioned to undertake a further piece of work alongside budget setting to set out an action plan for all investment properties over the next 5 years, this will include a pipeline of asset disposals along with assets which require a more detailed asset review. The aim is to adopt that action plan alongside the Treasury Management Strategy.

### Treasury Indicators 2023/24 – 2028/29

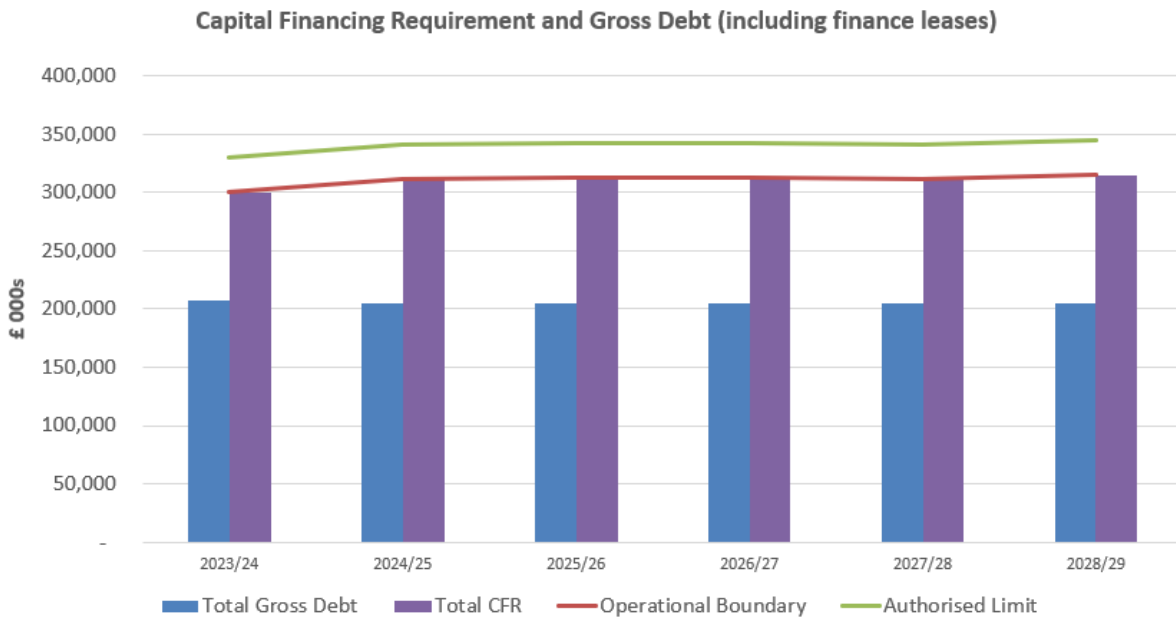
- 5.60 Table 5.6 below sets out the required affordable borrowing limit, namely:
- The operational boundary - the limit beyond which external debt is not normally expected to exceed.
  - The authorised limit for gross external debt - a statutory limit determined under section 3 (1) of the Local Government Act 2003. It represents the legal limit on the maximum level of borrowing beyond which external debt is prohibited, and this limit needs to be set or revised by the full Council. It is also the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

**Table 5.6: Treasury Indicators – Limits to Borrowing Activity**

	2023/24 Estimate £000	2024/25 Estimate £000	2025/26 Estimate £000	2026/27 Estimate £000	2027/28 Estimate £000	2028/29 Estimate £000
<b>Gross Debt</b>						
Borrowing	207,297	204,661	204,517	204,365	204,365	204,365
<b>Operational boundary for external debt</b>						
Operational boundary	299,831	311,537	312,393	312,468	311,495	315,069
<b>Authorised limit for external debt</b>						
Authorised limit	329,831	341,537	342,393	342,468	341,495	345,069
<b>Actual external debt</b>						
Borrowing	206,648	204,148	204,148	204,148	204,148	204,148
<b>Debt maturity profile - all borrowing %</b>						
Less than one year	2%	1%	26%	4%	26%	1%
Between one and two years	1%	26%	4%	26%	1%	1%
Between 2 and 5 years	54%	30%	28%	3%	3%	4%
Between 5 and 10 years	6%	7%	7%	6%	6%	4%
Between 10 and 15 years	4%	2%	1%	27%	4%	26%
Between 15 and 20 years	0%	0%	0%	0%	26%	30%
Over 20 years	33%	34%	34%	34%	34%	34%

Upper limit for fixed interest rates	100%	100%	100%	100%	100%	100%
Upper limit for variable interest rates	20%	20%	20%	20%	20%	20%
Upper limit for investments > 365 days	£30m	£30m	£30m	£30m	£30m	£30m
Current treasury investments as at 30/11/2023 in excess of 1 year maturing in each year	-	-	-	-	-	-

**Chart 5.2: Forecast of CFR and borrowing limits**



### Prospects for Interest Rates

5.61 The Council's treasury advisor's assist the Council to formulate a view on interest rates. Link provided the following forecasts on 8th January 2024. These are forecasts for certainty rates, which are gilt (government bond) yields plus 80 bps.

**Table 5.7 Interest Rate Forecasts**

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
<b>BANK RATE</b>	<b>5.25</b>	<b>5.25</b>	<b>4.75</b>	<b>4.25</b>	<b>3.75</b>	<b>3.25</b>	<b>3.00</b>	<b>3.00</b>	<b>3.00</b>	<b>3.00</b>	<b>3.00</b>	<b>3.00</b>	<b>3.00</b>
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

Source: Link

5.62 Links central forecast reflects a view that the MPC will be keen to further demonstrate its anti-inflation credentials by keeping Bank Rate at 5.25% until at least the second half of 2024. They expect rate cuts to start when both the CPI inflation and wage/employment data are supportive of such a move. There is a likelihood of the overall economy enduring at least a mild

recession over the coming months, although most recent GDP releases have been surprised with their on-going robustness.

- 5.63 In the coming months, the forecasts provided by LINK will be guided not only by economic data releases and clarifications from the MPC over its monetary policies and the Government over its fiscal policies, but also international factors such as policy development in the US and Europe, the provision of fresh support packages to support the faltering recovery in China as well as the on-going conflict between Russia and Ukraine, and Gaza and Israel.
- 5.64 On the positive side, consumers are still believed to be sitting on some excess savings left over from the pandemic, which could cushion some of the impact of the above challenges and may be the reason why the economy is performing somewhat better at this stage of the economic cycle than may have been expected. However, most of those excess savings are held by more affluent households whereas lower income families already spend nearly all their income on essentials such as food, energy and rent/mortgage payments.
- 5.65 A full economic outlook from the Councils Treasury Advisors (Link) is shown at Appendix C.

### **PWLB Rates**

- 5.66 PWLB interest rates on borrowing are expected to remain high before following the base rate movement down over time. Table 5.7 above shows the Link forecast PWLB rates over the next 2 years. In producing the forecast Link have taken into account the following risks.
- 5.67 The balance of risks to the UK economy: -
- The overall balance of risks to economic growth in the UK is to the downside.
- 5.68 Downside risks to current forecasts for UK gilt yields and PWLB rates include: -
- Labour and supply shortages prove more enduring and disruptive and depress economic activity (accepting that in the near-term this is also an upside risk to inflation and, thus, could keep gilt yields high for longer).
  - The Bank of England has increased Bank Rate too fast and too far over recent months, and subsequently brings about a deeper and longer UK recession than currently anticipated.
  - UK / EU trade arrangements – if there was a major impact on trade flows and financial services due to complications or lack of co-operation in sorting out significant remaining issues.

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

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

- Despite the recent tightening to 5.25%, the Bank of England proves too timid in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to remain elevated for a longer period within the UK economy, which then necessitates Bank Rate staying higher for longer than we currently project.
- The pound weakens because of a lack of confidence in the UK Government's pre-election fiscal policies, resulting in investors pricing in a risk premium for holding UK sovereign debt.
- Longer-term US treasury yields rise strongly if inflation remains more stubborn there than the market currently anticipates, consequently pulling gilt yields up higher. (We saw some movements of this type through October although generally reversed in the last week or so.)
- Projected gilt issuance, inclusive of natural maturities and QT, could be too much for the markets to comfortably digest without higher yields compensating.

### Link Group Forecasts

- 5.70 Link now expect the MPC will keep Bank Rate at 5.25% for the remainder of 2023 and the first half of 2024 to combat on-going inflationary and wage pressures. We do not think that the MPC will increase Bank Rate above 5.25%, but it is possible.
- 5.71 The overall longer-run trend is for gilt yields and PWLB rates to fall back over the timeline of our forecasts, as inflation starts to fall through the remainder of 2023 and into 2024.
- 5.72 Links long-term (beyond 10 years) forecast for Bank Rate has increased from 2.75% to 3% and reflects Capital Economics' research that suggests AI and general improvements in productivity will be supportive of a higher neutral interest rate. As all PWLB certainty rates are currently significantly above this level, borrowing strategies will need to be reviewed in that context. Overall, better value can generally be obtained at the shorter end of the curve and short-dated fixed LA to LA monies should be considered. Temporary borrowing rates will remain elevated for some time to come but may prove the best option whilst the market continues to wait for inflation, and therein gilt yields, to drop back later in 2024.
- 5.73 Links suggested budgeted earnings rates for investments up to about three months' duration in each financial year are rounded to the nearest 10 basis points. Investment earnings have been revised somewhat higher for all



years from 2025/26 as Bank Rate remains higher for longer. As part of our modelling for budgeting purposes the Council has adopted a prudent 25 basis points reduction on the average earnings outlined below.

**Table 5.8**

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

- 5.74 As there are so many variables at this time, caution must be exercised in respect of all interest rate forecasts.
- 5.75 Our interest rate forecast for Bank Rate is in steps of 25 bps, whereas PWLB forecasts have been rounded to the nearest 10 bps and are central forecasts within bands of + / - 25 bps. Naturally, we continue to monitor events and will update our forecasts as and when appropriate.

### **Borrowing Strategy**

- 5.76 The Council is currently maintaining an under-borrowed position. This means that the Capital Financing Requirement, has not been fully funded with loan debt, as cash supporting the Authority's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as medium and longer dated borrowing rates are expected to fall from their current levels once prevailing inflation concerns are addressed by tighter near-term monetary policy.
- 5.77 Against this background and the risks within the economic forecast, caution will be adopted with the 2024/25 treasury operations. The Council's S151 officer and the treasury team will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances.
- 5.78 Any decisions will be reported to the appropriate decision-making body at the next available opportunity.

## Policy on borrowing in advance of need

- 5.79 CIPFA's Prudential Code allows borrowing in advance of need when changes in interest rates mean that it benefits the council to borrow before the planned expenditure is incurred. This will be considered carefully, and appropriate advice will be sought from the council's treasury management advisers.
- 5.80 Borrowing in advance of need from a treasury management perspective will be made within the following constraints:
- It will be limited to no more than 75% of the expected increase in borrowing need (CFR) over the three-year planning period; and
  - The authority would not look to borrow more than 3 years in advance of need (current and next two financial years).
- 5.81 The risks associated with any advanced borrowing from a treasury management perspective will be subject to appraisal and will be reported via the mid-year or annual Treasury Management reports.

### Debt rescheduling

- 5.82 Where short-term borrowing rates are cheaper than longer term fixed interest rates, there may be potential opportunities to generate savings by switching from long-term debt to short-term debt. However, these savings will need to be considered in the light of the current treasury position and the size of the cost of debt repayment (premiums incurred).
- 5.83 Any rescheduling will take account of:
- The generation of cash savings and / or discounted cash flow savings;
  - Helping to fulfil the treasury strategy;
  - Enhancing the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

### UK Municipal Bond Agency (MBA)

- 5.84 It is possible that the MBA will be offering loans to local authorities in the future at rates expected to be lowered than offered by the PWLB. The Council may make use of this new source of borrowing as and when appropriate.

## Approved Sources of Long and Short-term Borrowing

On Balance Sheet	Fixed	Variable
PWLB	●	●
UK Municipal Bond Agency	●	●
Local Authorities	●	●
Banks	●	●
Pension Funds	●	●
Market (long-term)	●	●
Market (temporary)	●	●
Market (LOBOs)	●	●

Stock Issues	●	●
Internal (capital receipts & revenue balances)	●	●
Finance Leases	●	●

## Annual Investment Strategy

### Treasury investment policy

5.85 The council's treasury management investment policy has regard to DLUHC's Guidance on Local Government Investments ("the Guidance") and CIPFA's Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code") as well as the CIPFA Treasury Management Guidance Notes 2021. The Council's treasury management investment priorities will be Security first, Liquidity second, and then Yield.

5.86 All funds invested by the in-house treasury management team as part of the normal treasury management processes are made with reference to the cash flow requirements of the council and the outlook for short-term interest rates (i.e. rates for investments up to 12 months). Careful consideration will be given before investing sums identified for longer term investments.

5.87 The Council has defined the list of types of investment instruments that the treasury management team are authorised to use below and table 5.9.

- **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.

In accordance with the Code, the Authority has set out additional criteria to limit the time and the amount of monies which will be invested in these bodies (see table 5.9).

- **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. The Non-specified Investments are listed in table 5.9.

ii. The Council has engaged external consultants (Link) to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of this Authority in the context of the expected level of cash balances and need for liquidity throughout the year.

iii. All investments will be denominated in sterling.

As a result of the change in accounting standards for 2023/24 under IFRS 9, this Authority will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. (In November 2018, the MHCLG, concluded a consultation for a temporary override to allow English local authorities time to adjust their portfolio of all pooled investments by announcing a statutory override to delay implementation of IFRS 9 for five

years ending 31.3.23. More recently, a further extension to the over-ride to 31.3.25 has been agreed by Government.

### **Risk Management and Creditworthiness Policy**

- 5.88 Management of risk is placed in high priority in accordance with the DLUHC and CIPFA Guidance. In order to minimise the risk to treasury investments, the council applies minimum acceptable credit criteria to generate a list of highly creditworthy counterparties which it maintains. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the long-term ratings. Credit rating information is supplied by Link Group, our treasury advisors, on all active counterparties that comply with the criteria below in table 5.9.
- 5.89 Ratings will not be the sole determinant of the quality of an institution; the financial sector will be continuously monitored on both micro and macro basis and in relation to the economic and political environments in which these institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this, the council will engage with its advisors to watch the market pricing such as “credit default swaps” and overlay that information on top of the credit ratings.
- 5.90 Other information sources used will include the financial press, share price and other such information relating to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties. For local authority or related counterparties, the financial standing and other available information will be considered before placing investments.
- 5.91 Where applicable consideration will be given to the materiality of expected credit losses for treasury investments before they are used.
- 5.92 The counterparty list for treasury investments will be revised from time to time and submitted to council for approval as necessary.
- 5.93 In its selection process, the council will apply its approved minimum criteria to the lowest available rating for any institution. Credit rating information is supplied by Link Asset Services; the Council’s treasury consultants. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list.
- 5.94 Any rating changes, rating watches (notification of a possible change), rating outlooks (notification of a possible longer-term change) are provided to officers almost immediately after they occur and this information is considered before dealing. 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. Where a credit rating agency announces that a rating is on review for possible downgrade so that it may fall below the approved minimum rating criteria, then future investments (other than existing investments) will not be made with that organisation until the outcome of the review is announced. Building Societies will be subject to an additional criterion where the assets on their balance sheet are taken into account to assess credit worthiness. The counterparty list will therefore permit investment with building societies where their credit

ratings are below the minimum for banks, but where the assets on the building societies balance sheet exceed £2.5bn.

- 5.95 The list of types of investment instruments that the treasury management team are authorised to use are categorised as specified and non-specified investments.
- **Specified investments** that the Council will use are high security and high liquidity investments in sterling and with a maturity of no more than a year.
  - **Non-specified investments** are high security, high credit quality, in some cases more complex instruments for periods in excess of one year.
- 5.96 The council will consider the use of new investment instruments after careful consideration by officers and approval by council.
- 5.97 While all investments will be denominated in sterling, investments will only be placed with counterparties from countries with a specified minimum sovereign rating in table 5.10.
- 5.98 Lending and transaction limits for each counterparty will be set in the Treasury Management Principles (TMPs) through applying the matrix table 5.9 below.

**Table 5.9: specified and non-specified investment approved instruments and limits**

Counterparty/Financial instrument	Minimum Long-term Credit Criteria or Equivalent	Specified Investments		Non-specified Investments	
		Maximum duration	Counterparty Limit (£m)	Maximum duration	Counterparty Limit (£m)
DMAF - UK Government	n/a	3 months	£30m	n/a	n/a
UK Government gilts	UK Sovereign rating	12 months	£15m	3 years	£5m
UK Government Treasury bills	UK Sovereign rating	6 months	£10m	n/a	n/a
Money Market Funds - CNAV	AAA	Liquid	£10m per fund £25m overall limit	n/a	n/a
Money MARKET Funds - LVNAV	AAA			n/a	n/a
Money Market Funds - VNAV*	AAA			n/a	n/a
UK Local Authority term deposits (LA)**	n/a	12 months	£13m per LA	5 years	£5m per LA
Term Deposits with UK Building Societies	Assets worth at least £2.5bn but do not meet the minimum Bank/Building Society credit Criteria	12 months	£5m	n/a	n/a
Banks/UK Building Societies (Term deposits, CD, Call & Notice accounts)	AAA	12 months	£20m	2 years	£10m
Banks/UK Building Societies (Term deposits, CD, Call & Notice accounts)	AA+	12 months	£17m	12 months	£5m
	AA				
Banks/UK Building Societies (Term deposits, CD, Call & Notice accounts)	AA-	12 months	£10m	n/a	n/a
	A+				
	A				
Banks/UK Building Societies (Term deposits, CD, Call & Notice accounts)	A-	6 months	£5m	n/a	n/a

Counterparty/Financial instrument	Minimum Long-term Credit Criteria or Equivalent	Specified Investments		Non-specified Investments	
		Maximum duration	Counterparty Limit (£m)	Maximum duration	Counterparty Limit (£m)
The Authority's own banker	A-	12 months	£15m (for day to day operational working capital requirements – not for investment purposes)	Non-specified investment if banker fails to meet the minimum credit criteria	balances will be minimised as far as is possible.
Property Funds	Credit loss analysis, financial and legal due diligence	n/a	n/a	n/a	£5m per fund
Loan Capital and other third party loans including parish councils	Subject to financial & legal due diligence	considered on individual basis	n/a	considered on individual basis	n/a

\* Specialist advice will be obtained before the use of VNAV money market funds

\*\* Local authorities will reviewed in line with CIPFA suggested indicators

5.99 The identification and rationale supporting the selection of these investments, the maximum limits and monetary limits to be applied are set out in table 5.9 above.

5.100 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.

### Sovereign limits

5.101 Alongside changes in banking regulations which are focused on improving the banking sectors resilience to financial and economic stress, due care will be taken to consider the country, group and sector exposure of the Council's investments.

5.102 The Council will only use approved counterparties from the UK and countries with a sovereign credit rating from the three main rating agencies equal to or above AA-. In addition:

- No more than 20% will be placed with any non-UK country at any time and would always be sterling investments
- Sector limits will be monitored regularly for appropriateness.

5.103 Due to the current economic outlook for the UK economy, the UK sovereign rating is currently on the lowest acceptable level suggested for approved countries of AA-. However, if credit rating agencies downgrade the UK below AA- (the minimum Sovereign rating for 2024/25), the council will immediately seek advice from its treasury adviser and report to cabinet at the earliest possible reporting date.

**Table 5.10: Sovereign rating for 2023/24**

<b>AAA</b>	Sweden	<b>AA</b>
Australia	Switzerland	Abu Dhabi (UAE)
Denmark		France
Germany	<b>AA+</b>	<b>AA-</b>
Luxembourg	Canada	Belgium

Netherlands	Finland	Hong Kong
Norway	USA	Qatar
Singapore		U.K.

### **Bank of England iteration UK bank stress tests**

- 5.104 In addition to the use of credit ratings provided by the three main rating agencies the other factors identified in paragraphs 5.72 and 5.73 will be taken into consideration when selecting UK banks.

### **Money Market Funds (MMFs)**

- 5.105 Money market funds are pooled investment vehicles consisting of instruments similar to those used by the council. They have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager and analyst team. Fees are deducted from the interest paid to the council.

### **Building societies**

- 5.106 Although the regulation of building societies is no longer any different to that of banks, the council may use building societies which meet the minimum credit rating for Banks and Building Societies or have a minimum asset size of £2.5bn but will restrict these types of investments to fixed deposits subject to lower cash limit and shorter time limit.

### **Current account banking**

- 5.107 The council's current accounts are held with Barclays Bank UK Plc (Ring Fenced Bank RFB). In the event of the credit rating of Barclays Bank UK Plc (RFB) falling to a point lower than the council's minimum credit criteria of A-long term rating, the council will treat its bank as "high credit quality" for the purpose of making investments that can be withdrawn on the next working day.

### **UK banks – ring fencing**

- 5.108 The council will continue to assess any newly formed entities against existing criteria and those with sufficiently high ratings will be considered for investment purposes.

### **Investment risk benchmarking**

- 5.109 These benchmarks are simple guides to maximum risk, so they may be breached from time to time, depending on movements in interest rates and counterparty criteria. The purpose of the benchmark is that officers will monitor the current and trend position and amend the operational strategy to manage risk as conditions change. Any breach of the benchmarks will be reported, with supporting reasons in the mid-year or annual Treasury Management report.
- 5.110 **Security benchmark** – Counterparty risk will increase as duration of investment increases. The council will continue its policy of investing the majority of its investments with duration of less than 12 months. The council's security risk benchmark for the current portfolio, when compared to the historic default tables is 0.04%. This benchmark is an average risk of default measure and will be monitored retrospectively and action taken to manage the security risk when considering future investments.

5.111 **Liquidity** – in respect of this area the council seeks to maintain:

- Bank overdraft – zero balance
- Liquid short-term deposits of at least £1m available with a week's notice.
- Weighted average life benchmark is expected to be 0.50 years, with a maximum of 1.00 year. However, this benchmark may change if the Council decides to invest longer than 12 months.

5.112 **Yield** - local measures of yield benchmarks are:

- Investments – internal returns above the 7-day SONIA (Sterling Overnight Index Average) rate.

### **Ethical investment**

5.113 The council will not knowingly invest directly in businesses whose activities and practices pose a risk of serious harm to individuals or groups, or whose activities are inconsistent with the council's mission and values.

5.114 This applies to direct treasury investment only. The council's normal money market activity would usually be with financial institutions which may have unknown indirect links with companies which the council will be unable to monitor. However, where known links are publicly available the council will not knowingly invest.

## **Environmental, Social and Corporate Governance Policy**

5.115 The updated Treasury Management Code published in December 2021 included a requirement under TMP1 that 'the organisation's credit and counterparty policies should set out its policy and practices relating to environmental, social and governance (ESG) investment considerations'. The Code acknowledges that this is a developing area, and it is not implied that the organisation's ESG policy will currently include ESG scoring or other real-time ESG criteria at the individual investment level. The council will continue to review and build on the emerging guidance in this area of treasury management as well as seek updates on good practice from its Treasury Management advisors.

5.116 The Council recognises that environment, social and governance (ESG) factors can influence investment performance and the ability to achieve sustainable returns. The Council's Treasury Management (TM) Committee therefore considers the following two key areas of responsible investment:

- Corporate Governance – acting as responsible and active investors.
- Sustainable investment – considering the financial impact of environmental, social and governance (ESG) factors on its investments.

5.117 The TM Committee takes ESG matters very seriously and will regularly conduct reviews of its policies in this area with advice from its Treasury Advisors. The TM Committee has developed the following responsible investment beliefs.



- The TM Committee has an overriding duty to manage its investments in accordance with the Committees Terms of reference and the council's legal obligation under the Local Government Act 2003;
- The Committee will adopt the relevant codes of practice and guidance issued by CIPFA (Chartered Institute of Public Finance & Accountancy) and the DLUHC (Department for Levelling Up, Housing and Communities) including CIPFA's Treasury Management Code of practice and the Prudential Code.
- The TM Committee consider proactive management of our ESG approach and will therefore encourage the Council's TM Advisers to actively engage with officers and the financial markets to identify suitable counterparty's and investments.

5.118 As part of their Environmental, Social and Governance (ESG) considerations, our TM Advisers should review the market for approaches to environmental factors such as fossil fuels and climate change along with Social factors such as employee rights and Governance factors such as compliance with standard industry practice and Legislation.

5.119 The TM Committee expects its advisors to demonstrate a positive review of the market in response to:

- Matters of social responsibility.
- Environmental policy on how their impact can be minimised.
- Monitor risks and opportunities associated with climate change and fossil fuels.
- Anticipate future legislative requirements.

5.120 As part of the Council's Counterparty list, the Council has access to a Sustainable triple A rated Money Market Fund. This allows the Council to place up to £10M of its surplus cash in an ESG focused fund which is low risk provides next day liquidity and market rate return.

### **Policy on charging interest to the Housing Revenue Account (HRA)**

5.121 Following the reform of housing finance, the council can adopt its own policy on sharing interest costs and income between the General Fund (GF) and the Housing Revenue Account (HRA).

5.122 The CIPFA Code recommends that authorities state their policy on this matter each year in their treasury management strategy. The charge is required to be fair to the general fund and to the HRA. This council's policy is to charge the HRA with actual interest and an element for any under-borrowing or surplus cash at the Council's pooled borrowing/investment rates.

### **Policy on use of financial derivatives**

5.123 The council will not use standalone derivatives except where they can be clearly demonstrated to reduce the overall level of financial risk that the council is exposed to.

## **List of Appendices**

Appendix A: Minimum Revenue Provision (MRP) policy statement

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**Minimum Revenue Provision (MRP) policy statement**

For capital expenditure incurred:

1. In 2023/24, the Authority's MRP policy was subject to a comprehensive review of MRP charges and methodology by the Council's Treasury Advisors. This policy reflects the new MRP calculation methods that have been implemented.
2. For supported capital expenditure incurred before 1st April 2008, the Authority will apply the Asset Life Method using an annuity calculation and will take account of the regulatory calculated Adjustment A, which was a means of maintaining broad neutrality between the old and new MRP systems that took effect prior to April 2008.
3. Unsupported borrowing will be subject to MRP under option 3 of the guidance (Asset Life Method). MRP will be based on the estimated life of the assets in accordance with the statutory guidance using the annuity method, calculated on a weighted average basis.
4. MRP in respect of unsupported borrowing taken to meet expenditure, which is treated as capital expenditure by virtue of either a capitalisation direction or regulations, will be determined in accordance with the asset lives as recommended by the statutory guidance.
5. The interest rate applied to the annuity calculations will reflect the market conditions at the time and will, for the current financial year, be based on PWLB annuity rates.
6. Where applicable, repayments included in annual PFI or finance leases are applied as MRP.
7. MRP Overpayments - The MRP Guidance allows that any charges made in excess of the statutory minimum revenue provision (MRP), i.e. voluntary revenue provision (VRP) or overpayments, can be reclaimed in later years if deemed necessary or prudent. In order for these sums to be reclaimed for use in the budget, this policy must disclose the cumulative overpayment made each year. The amount of VRP overpayments up to 31st March 2023 was £1.300m
8. MRP will commence in the year following the year in which capital expenditure financed from borrowing is incurred, except for asset under construction where the MRP will be deferred until the year after the asset becomes operational.
9. For capital loans to third parties the MRP policy is not to provide MRP on loans where there is an agreed repayment plan.

## Appendix B

### 1. Key Financial, Capital Prudential and Treasury Indicators 2023/24 – 2028/29

#### Background

- 1.1 Local government finance is subject to a high level of regulation. There are various codes of practice which the council, under legislation, has a duty to have regard to when taking its budget decisions.
- 1.2 This section of the report provides information to show the affordability, proportionality, and value of potential risk exposure with regard to the council's proposals for borrowing, lending to third parties, investment in equity shares in third parties, as well as its commercial income streams.
- 1.3 DLUHC has suggested various financial indices that could be used to fulfil this requirement and recommends that councils should "where appropriate" consider setting self-assessed limits or targets for these indices.  
[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/678866/Guidance\\_on\\_local\\_government\\_investments.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/678866/Guidance_on_local_government_investments.pdf)
- 1.4 For the majority of indicators, the council has not elected to set self-assessed limits. This will be kept under review as better benchmarking data becomes available from other authorities. The annual limit regarding borrowing along with a number of other prudential and Treasury Management indicators are set in the above Treasury Management Strategy.
- 1.5 The indices chosen as being the most appropriate for the council's circumstances at present take as their starting point figures from the 2022/23 draft statement of accounts and project these forward for this financial year and the five following years. Members should note that at the time of publication the 2021/22 and 2022/23 accounts were still subject to external audit.
- 1.6 The DLUHC do not specify any indices for the HRA – they are given in the tables that follow where appropriate to do so using locally derived indicators.

#### Key Financial Indicators Balance Sheet position - strong

- 1.7 The balance sheet provides a "snapshot" of the council's financial position at a specific point in time showing what it owns and owes. The council currently has a strong balance sheet position. The balance sheet in the draft 2022/23 statement of accounts shows total long-term assets valued at £1.2bn, most of which are land and property assets including the council's HRA housing. The Councils usable Reserves totals £184M
- 1.8 As at 31 March 2023, the council had external borrowing of £213m (£208m long-term, £5m short-term) which is 18% of the value of the council's assets. In addition, the council had borrowed £108m internally from its own cash holdings to temporarily fund capital expenditure and investments. The total long-term indebtedness of the council at the end of last financial year was therefore £321m (this figure is known as the capital financing requirement (CFR)).
- 1.9 Long term investments (equity shares) as at the 31 March 2023 include a £3.4m shareholding in Lion Homes (Norwich Ltd (LHL) and £0.370m shareholding in Norwich City Services Ltd (NCSL).
- 1.10 In the 2022/23 long term debtors, the amounts lent to third parties on commercial terms comprise a £6.150m loan to LHL, £1.140m capital loan to NCSL, a £0.500m working capital loan to NCSL and a £0.104m loan to Norwich Preservation Trust.

The council also makes “soft” loans (on non-commercial terms) to others, for example home improvement loans to residents. Only the lending undertaken on commercial terms needs to be considered as part of the requirements arising from the revised Investment Code.

### Forecast Balance Sheet position

- 1.11 The council’s budget proposals contained within this budget report will result in a growing balance sheet both in terms of the long-term assets that will be held by the council (in particular social housing and long-term debtors) as well as its long-term liabilities (its capital financing requirement or underlying need to borrow).

### Core Funds and Expected Investment Balances

- 1.12 The application of resources (reserves, capital receipts etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.). A table detailing estimated year-end balances for each resource and anticipated day-to-day cash flow balances are included in the main Treasury Management Strategy document.

## 2. Capital Prudential and Treasury Indicators

- 2.1 Capital Expenditure - The Authority’s capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members’ overview and confirm capital expenditure plans. The Capital expenditure plans are shown in the Treasury Management Strategy document
- 2.2 Affordability Prudential Indicators - The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Authority’s overall finances.
- 2.3 The Council’s Capital expenditure plans should be considered alongside the cost of past borrowing, maintenance requirements and planned disposals. The authority’s MRP or loans fund repayment policy will also have a critical impact on the overall affordability of new borrowing. This indicator identifies the trend in the Capital Financing costs are shown as a % net revenue stream (taxation and non-specific grant income excluding capital grants, contributions and donated assets).

	2022/23 Actual	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate
	£000	£000	£000	£000	£000	£000	£000
<b>Capital Financing costs as a% of Net Revenue Stream</b>							
Non-HRA	9%	4%	4%	4%	4%	4%	4%
HRA	11%	9%	9%	9%	10%	10%	10%

- 2.4 This indicator shows the HRA debt per dwelling and shows a consistent estimated debt of £15K per dwelling.

	2022/23 Actual	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate
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	£000	£000	£000	£000	£000	£000	£000
<b>HRA Debt per Dwelling</b>							
HRA debt £m	208,533	208,533	208,533	208,533	208,533	208,533	208,533
Number of HRA dwellings	14,257	14,239	14,128	14,005	13,908	13,908	13,908
Debt per dwelling £	14,627	14,645	14,760	14,890	14,994	14,994	14,994

### Maturity Structure of Borrowing

- 2.5 Maturity structure of borrowing. These gross limits are set to reduce the Authority's exposure to large, fixed rate sums falling due for refinancing, and are required for upper and lower limits. The maturity structure of borrowing are shown in Treasury Management Strategy.

### Control of Interest Rate Exposure

- 2.6 The measures to manage the Control of interest rate exposure (including Interest rate forecasts, Prospect for Interest Rates, Borrowing Strategy and Annual Investment Strategy) are shown in the main Treasury Management Strategy.

### 3. The Council's non-financial (commercial) investments to net Revenue Stream

- 3.1 This ratio shows the general fund's dependence on commercial income to deliver core general fund services. The ratio is shown as a % against net revenue stream (taxation and non-specific grant income excluding capital grants, contributions and donated assets).

### Net commercial income to Net Revenue Stream

	2022/23	2023/24	2024/25	2025/26	2026/27	2027/26	2028/29
	Actual	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate
	£000	£000	£000	£000	£000	£000	£000
Commercial Property Income	-7,322	-6,423	-6,041	-6,212	-6,212	-6,212	-6,212
Commercial Property Expenditure	3,146	2,623	2,432	2,456	2,468	2,475	2,479
MRP	809	829	850	871	894	916	939
Airport Industrial Net Income	-79	-44	0	0	0	0	0
<b>Net Commercial Property Income</b>	<b>-3,446</b>	<b>-3,015</b>	<b>-2,759</b>	<b>-2,885</b>	<b>-2,850</b>	<b>-2,821</b>	<b>-2,794</b>
Lending interest income	-335	-349	-715	-715	-715	-715	-715
Assumed lending cost	152	158	222	242	242	242	242
<b>Net 3rd Party Lending Income</b>	<b>-183</b>	<b>-191</b>	<b>-493</b>	<b>-473</b>	<b>-473</b>	<b>-473</b>	<b>-473</b>
<b>Net Commercial Income</b>	<b>-3,629</b>	<b>-3,206</b>	<b>-3,252</b>	<b>-3,358</b>	<b>-3,324</b>	<b>-3,294</b>	<b>-3,267</b>
<b>Net Revenue Stream</b>	<b>-20,121</b>	<b>-21,533</b>	<b>-22,485</b>	<b>-23,295</b>	<b>-23,862</b>	<b>-24,457</b>	<b>-25,080</b>
<b>Net Commercial Income as a % of Net Revenue Stream</b>	<b>18%</b>	<b>15%</b>	<b>14%</b>	<b>14%</b>	<b>142%</b>	<b>13%</b>	<b>13%</b>

- 3.2 For 2023/24 onwards the net and gross income from Commercial property shown in table 6.3 are based on the proposed budget assumptions. Income from the council's car parks is not included in this analysis as the primary reason for owning and managing them is not solely for-profit making purposes.

### ECONOMIC BACKGROUND

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

- Overall, we expect real GDP growth to remain subdued throughout 2024 as the drag from higher interest rates is protracted but a fading of the cost-of-living crisis and interest rate cuts in the second half of 2024 will support a recovery in GDP growth in 2025.
- The labour market remains tight by historical standards, but the sharp fall in wage growth seen in October will reinforce the growing belief in markets that interest rates will be cut mid-2024. Wage growth eased in October much faster than the consensus expected. Total earnings fell by 1.6% m/m, which meant the headline 3myy rate eased from 8.0% in September to 7.2% in October. This news will be welcomed by the Bank of England. Indeed, the timelier three-month annualised rate of average earnings growth fell from +2.4% to -1.2%. Excluding bonuses, it fell from 5.3% to 2.0%. Furthermore, one of the Bank's key barometers of inflation persistence, regular private sector pay growth, dropped from 7.9% 3myy to 7.3%, which leaves it comfortably on track to fall to 7.2% by December, as predicted by the Bank in November.
- The fall in wage growth occurred despite labour demand being stronger in October than expected. The three-month change in employment eased only a touch from +52,000 in September to +50,000 in October. But resilient labour demand was offset by a further 63,000 rise in the supply of workers in the three months to October. That meant labour supply exceeded its pre-pandemic level for the first time, and the unemployment rate remained at 4.2% in October. In the three months to November, the number of job vacancies fell for the 17<sup>th</sup> month in a row, from around 959,000 in October to around 949,000. That has reduced the vacancy to unemployment ratio as demand for labour eases relative to supply, which may support a further easing in wage growth in the coming months.
- CPI inflation fell from 6.7% in September to 4.6% in October, and then again to 3.9% in November. Both these falls were bigger than expected and there are clear signs of easing in domestic inflationary pressures. The fall in core CPI inflation from 5.7% to 5.1% in November was bigger than expected (consensus forecast 5.6%). That's the lowest rate since January 2022. Some of the decline in core inflation was due to the global influence of core goods inflation, which slowed from 4.3% to 3.3%. But some of it was due to services inflation falling from 6.6% to 6.3%. The Bank views the latter as a key barometer of the persistence of inflation and it came in further below the Bank's forecast of 6.9% in its November Monetary Policy Report. This will give the Bank more confidence that services inflation is now on a firmly downward path.
- The Bank of England sprung no surprises with its December monetary policy committee (MPC) meeting, leaving interest rates at 5.25% for the third time in a row and pushing back against the prospect of near-term interest rate cuts. The Bank continued to sound hawkish, with the MPC maintaining its tightening bias saying that "further tightening in monetary policy would be required if there were evidence of more persistent inflationary pressures". And it stuck to the familiar script, saying that policy will be "sufficiently restrictive for sufficiently long" and that "monetary policy is likely to need to be restrictive for an extended period of time". In other words, the message is that the MPC is not yet willing to endorse investors' expectations that rates will be cut as soon as May 2024.
- Looking ahead, our colleagues at Capital Economics forecast that the recent downward trends in CPI and core inflation will stall over the next few months before starting to decline more decisively again in February. That explains why we think the Bank of England won't feel comfortable cutting interest rates until H2 2024.
- The fall in UK market interest rate expectations in December has driven most of the decline in 10-year gilt yields, which have fallen in line with 10-year US Treasury and euro-

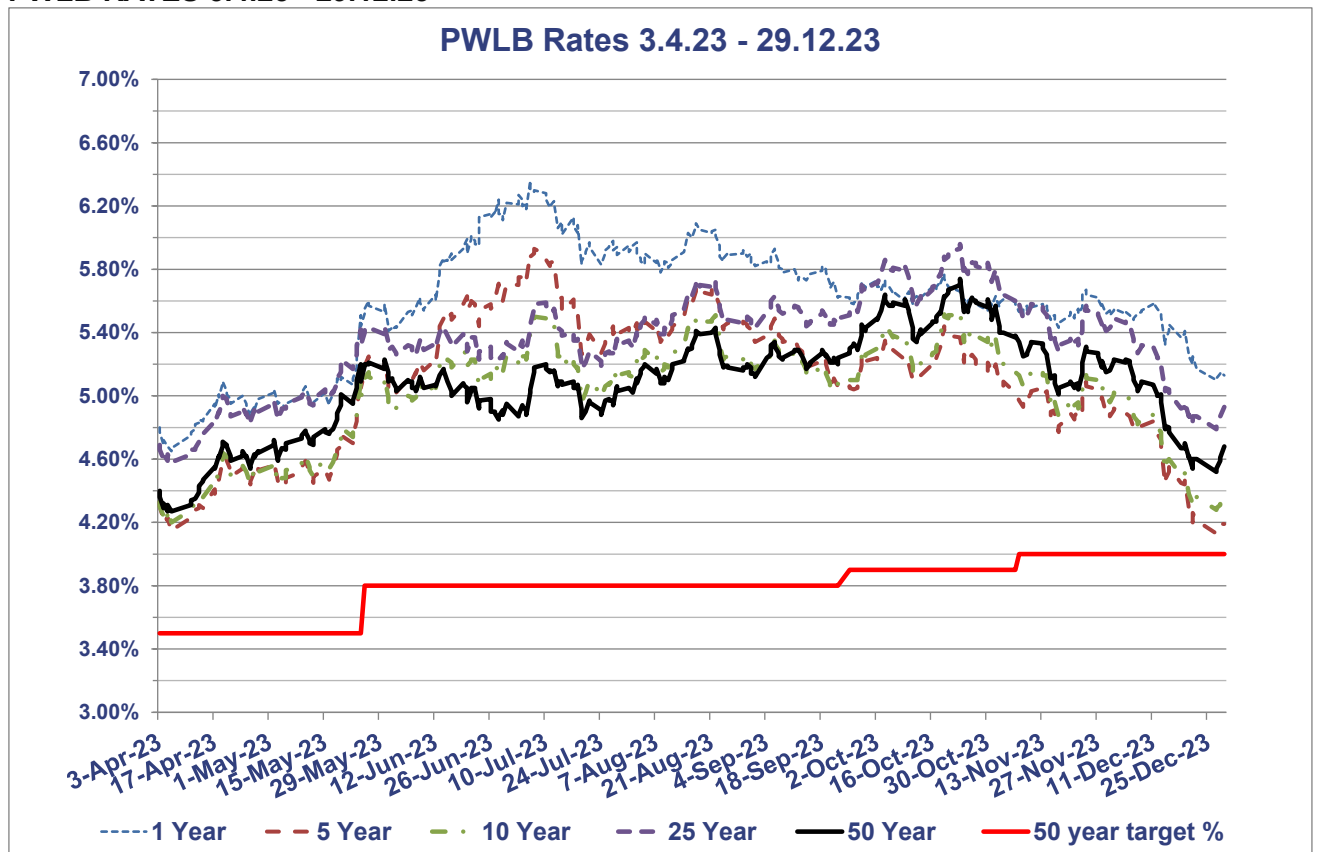


zone yields. 10-year gilt yields have fallen from 4.68% in October 2023 to around 3.70% in early January, with further declines likely if the falling inflation story is maintained.

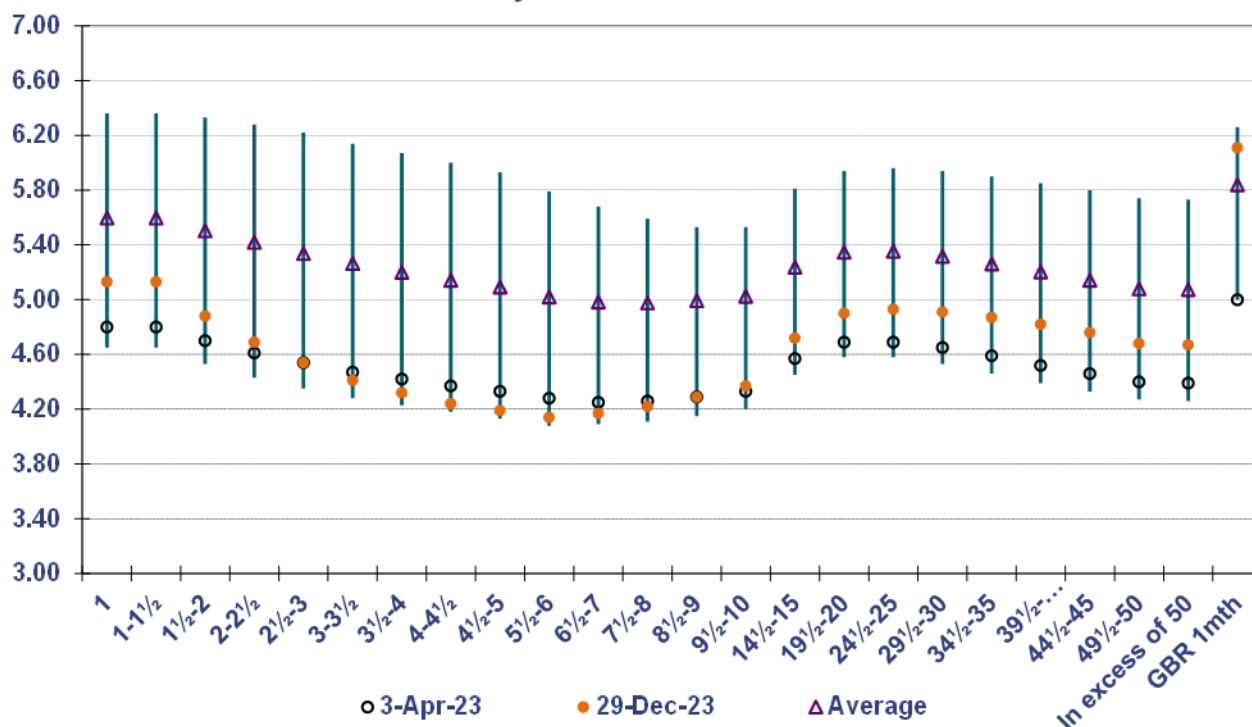
- Investors' growing expectations that the Fed will cut interest rates soon has led to an improvement in risk sentiment, which has boosted the pound and other risky assets. In addition, the rise in the pound, from \$1.21 in November to \$1.27 now, has also been supported by the recent relative decline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

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

### PWLB RATES 3.4.23 - 29.12.23



PWLB Certainty Rate Variations 3.4.23 to 29.12.23



**HIGH/LOW/AVERAGE PWLB RATES FOR 3.4.23 – 29.12.23**

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

**MPC meetings 2<sup>nd</sup> November and 14<sup>th</sup> December 2023**

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

**TREASURY MANAGEMENT SCHEME OF DELEGATION**

**(i) Cabinet and Full council – Responsible Body**

- receiving and reviewing reports on treasury management policies, practices and activities.
- approval of annual strategy.
- approval of/amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices.
- budget consideration and approval.
- approval of the division of responsibilities.
- receiving and reviewing regular monitoring reports and acting on recommendations.
- approving the selection of external service providers and agreeing terms of appointment.

**(ii) Treasury Management Committee - Body with responsibility for scrutiny**

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

### 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.

The above list of specific responsibilities of the S151 officer in the 2021 Treasury Management Code has not changed. However, implicit in the changes in both Codes, is a major extension of the functions of this role, especially in respect of non-financial investments, (which CIPFA has defined as being part of treasury management).

- preparation of a Capital Strategy to include capital expenditure, capital financing, non-financial investments and treasury management, with a long-term timeframe (*say 20+ years – to be determined in accordance with local priorities.*)
- ensuring that the Capital Strategy is prudent, sustainable, affordable and prudent in the long term and provides value for money
- ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the authority
- ensure that the Authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing
- ensuring the proportionality of all investments so that the Authority does not undertake a level of investing which exposes the Authority to an excessive level of risk compared to its financial resources
- ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long-term liabilities
- provision to members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees
- ensuring that members are adequately informed and understand the risk exposures taken on by the Authority
- ensuring that the Authority has adequate expertise, either in house or externally provided, to carry out the above
- creation of Treasury Management Practices which specifically deal with how non treasury investments will be carried out and managed, to include the following (TM Code p54): -
  - Risk management (TMP1 and schedules), including investment and risk management criteria for any material non-treasury investment portfolios;

- Performance measurement and management (TMP2 and schedules), including methodology and criteria for assessing the performance and success of non-treasury investments;
- Decision making, governance and organisation (TMP5 and schedules), including a statement of the governance requirements for decision making in relation to non-treasury investments; and arrangements to ensure that appropriate professional due diligence is carried out to support decision making;
- Reporting and management information (TMP6 and schedules), including where and how often monitoring reports are taken;
- Training and qualifications (TMP10 and schedules), including how the relevant knowledge and skills in relation to non-treasury investments will be arranged.