To:
All members of the Corporate Policy and Resources Committee

Please reply to:
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Date: 13 January 2025

Supplementary Agenda

Corporate Policy and Resources Committee - Monday, 20 January 2025

Dear Councillor

I enclose the following items which were marked 'to follow' on the agenda for the Corporate Policy and Resources Committee meeting to be held on Monday, 20 January 2025:

Yours sincerely

Karen Wyeth
Corporate Governance

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To the members of the Corporate Policy and Resources Committee

Councillors:

J.R. Sexton (Chair)	R.V. Geach	S.C. Mooney
C. Bateson (Vice-Chair)	M. Gibson	L. E. Nichols
M. Beecher	K.M. Grant	O. Rybinski
J.R. Boughtflower	K. Howkins	H.R.D. Williams
J. Button	N. Islam	
S.M. Doran	M.J. Lee	

Substitute Members: Councillors: M.M. Attewell, S.N. Beatty, D.C. Clarke, S.A. Dunn, J.T.F. Doran, A. Gale and K.E. Rutherford

Corporate Policy and Resources Committee

20th January 2025

Title	Treasury Management Half Yearly Report
Purpose of the report	To note
Report Author	Prithiva Janaka, Treasury Management and Capital Accountant
Ward(s) Affected	All Wards
Exempt	No
Corporate Priority	Financial Sustainability
Recommendations	**Committee is asked to:** Note the performance of the Treasury department during the first six months of 2024/25
Reason for Recommendation	Not applicable

What is the situation	Why we want to do something
• Treasury Management has the statutory duty to present the half yearly, Treasury management outturn report to the Committee and the council to show the performance of Treasury activities during 1st half of 2024/25 (1 April 2024 until 30 September 2024) • The Council has both a significant debt portfolio (most of which is at fixed rates) of £1,094m (£1,062m long term and £32m of short term) and investment funds of £33.1m, short term investments of £8.1m, and cash balances of £2.2m. • This scale of activity creates risks which need to be proactively managed and Officers review liquidity and cashflow on a weekly basis. • The Council needs to seek to minimise financing costs whilst maximising returns on surplus funds whilst managing risk	• To provide Councillors with an understanding of the Council's borrowing and investment position part way through the financial year.
This is what we want to do about it	**These are the next steps**
• Mitigate risk by diversify Investment and borrowing. • Continuing to seek professional advice from our advisers	• To closely monitor and manage the treasury function for the next 6 months financial year 2024/25 and going forward • To note this report

1. Summary

1.1 This report covers Treasury Management activity at Spelthorne Borough Council for the six months to end of September 2024. Performance is shown and analysed via the RAG system (Red, Amber, Green). Context and economic background to this report is provided at **Appendix C.**

1.2 The Council takes a prudent approach to Treasury Management, both in how it manages liquidity and how it mitigates operational, financial, and reputational risk.

1.3 The Council's Treasury Management performance has remained outside its prudential indicators for the six months to end of September 2024 as outlined in the next section and detailed at **Table 1**, this is mainly due to Eclipse Leisure Centre development and purchase of properties for settlement of families under Local Authority Housing Fund, however actions have been put in place to reduce the debt by drawing down the Council's pooled funds, which will reflect in the year end Treasury Outturn report**.** Unlike previous years '*cash availability',* fell below the £20.0m liquidity risk indicator to £2m mainly due to ongoing capital projects and PWLB repayments, also due to the current economic climate.

1.4 The investments held by the Council achieved an average overall (across both short term and medium-term funds) return of 1.77% over the six months to the 30th of September, shown in **Appendix D** 1.98% for pooled investment funds. At the end of September, the Council, as analysed by Arlingclose, was achieving a positive total return. The September end positive return was principally driven by higher interest rates, as detailed in **Appendix B1.** For comparison **Appendix B2**, the position as of 30th September 2024, is also provided.

2. Report

Performance against the Council's prudential indicators (PI's):

Table 1: Treasury Management Performance Indicators as at 30 September 2024

Indicator	PI Level	30/09/2024		RAG Indicator	
	£m	£m			
Capital Financing Requirement					
- CFR as at 30/09/2024	1,189.0	1,174.1		G	
- as at 31/03/2025 forecast		1,179.8		G	
Total outstanding debt	1,072.0	1,094.0		R	**Note: borrowing higher than strategy to fund property acquisitions, residential & regeneration schemes**
Debt below CFR		YES		G	
Liquidity: cash availability	20.0	2.0		R	
Affordable borrowing					
Authorised limit	1,167.0				
Operational boundary	1,067.0				
Outstanding borrowing		1,089.0		G	
Maturity Structure of Borrowing					
	Upper limit	**£m**	**Of total**		
Under 12 Months	10%	32.0	3%	G	
1 – 2 Years	15%	14.1	1%	G	
>2 – 5 Years	20%	47.3	4%	G	
>5 – 10 Years	25%	85.5	8%	G	
>10 – 20 Years	50%	201.5	18%	G	
>20 – 30 Years	75%	277.3	25%	G	
>30 – 40 Years	90%	275.6	25%	G	
>40 – 50 Years	100%	160.9	15%	G	
	Total	**1,094.2**	**100%**		
Other					
Price Risk Indicator	£70.0	£41.0		G	
Standalone financial derivatives	Limited	None		G	

KEY	
Exceeded PI significantly	R
Near but not within PI	A
Within or at PI level	G

2.1 The Council has significant levels of long-term borrowing (at fixed rates of interest) of £1,062m (Table 3), secured to fund historic property acquisitions and to fund completed residential and regeneration schemes.

2.2 The need to borrow for capital purposes is assessed by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. These are summarised in Tables 2 and 3 below**:**

2024/25

Table 2: Capital Financing requirement (CFR) Summary

	2023/24 End 31/03/2024 £m	2024/25 Mid-Year Position 30/09/2024 £m	2024/25 Year End 31/03/2025 £m
Opening Capital Financing Requirement	**1,134.8**	**1,157.5**	**1,157.5**
Capital investment			
Property, Plant and Equipment	39.7	43.6	49.2
Intangible Assets	0.2	0.2	0.6
Revenue Spend Funded from Capital under Statute	1.2	0.6	1.4
Total Capital Investment	**41.1**	**44.4**	**51.2**
Sources of Finance			
Capital Receipts	0.0	0.0	0.0
Government Grants and Contributions	(4.5)	(14.6)	(14.6)
Revenue contributions	(1.6)	0.0	(1.0)
Repayment of debt	(12.4)	(13.2)	(13.2)
Total Sources of Finance	(18.5)	(27.8)	(28.8)
Closing Capital Financing Requirement	**1,157.5**	**1,174.1**	**1,179.8**

2.3 The CFR represents the cost of capital expenditure that remains to be financed, after applying available sources of finance. This year's opening CFR (1 April 2024) of £1,157.5m is forecast to be increase by £22.3m to £1,179.8m by the year end. This is mainly due to Phase 2 of the Leisure Centre project and acquisition of Property, Plant and Equipment (PPE).

Table 3: Treasury Management Summary

	Balance 31/03/2024 £m	Movement £m	Balance 30/09/2024 £m	
Long-term borrowing	(1,054.0)	(8)	(1,062.0)	
Short-term borrowing	(33.0)	1	(32.0)	
Total borrowing	**(1,087.0)**	**(7.0)**	**(1,094.0)**	**R**
Long-term investments	33.8	(1.9)	33.1	
Short-term investments	0.4	7.7	8.1	
Cash and cash equivalents	9.8	(7.6)	2.2	R
Total investments	**45.2**	**(1.8)**	**43.4**	
Net borrowing	**(1,041.8)**	**(21.5)**	**(1,050.6)**	

2.4 For the year to 30th September 2024, the Council had total borrowing outstanding of £1,094.0m. This represents £7m increase since 31st March 2024.

2.5 Council funds are being kept sufficiently liquid to ensure that funding is readily available for all project costs expected for the remainder of the financial year. At the same time, borrowing costs have increased significantly due to high interest rates, with the PWLB requiring 5.25% at the end of September 2024. We are anticipating the volume of borrowing will be significantly less as we approach year end, as we are in the process of drawing down pooled investment funds, providing greater liquidity without external borrowing.

2.6 The Council's investment portfolio totalled £43.4m as at 30th September 2024. A breakdown of investments is given in Table 4 below

Table 4: Details of Investments Held as at 30 September 2024

Investment Type	Valuation £m	Yield %	Start Date	Maturity Date
Pooled Investment Funds *(see Appendix B for details)*				
WS Charteris Premium Income Fund	0.00	1.04%	11-May-12	N/A
Schroders UK Corporate Bond Fund	1.59	1.32%	11-May-12	N/A
Schroders Income Maximiser Fund	5.49	3.84%	01-Jun-21	N/A
M&G Global Dividend Fund	6.59	2.46%	14-Jan-22	N/A
M&G Optimal Income Sterling	1.60	2.35%	14-Jan-22	N/A
M&G UK Income Distribution Sterling	1.84	0.88%	15-Aug-16	N/A
Ninety One Diversified Income	3.98	1.60%	19-Oct-21	N/A
Threadneedle Inv Services - UK Equity	4.24	2.17%	29-Oct-21	N/A
Threadneedle Global Equity Fund	2.02	0.84%	29-Mar-22	N/A
CCLA - The LAs Property Fund	1.82	3.29%	31-Mar-13	N/A
CCLA - The LAs Property Fund	1.04	2.82%	30-Apr-14	N/A
UBS Multi- Asset Income Fund	0.00	1.08%	22-Feb-19	N/A
Aegon Diversified Monthly Income Fund	2.87	2.12%	21-Feb-19	N/A
Total - Core Inv. Portfolio	**33.07**	**1.98%**		
Money Market Funds (ICD Portal)				
Federated - Class 4 (ICD Portal)	2.18	3.47%	N/A	Instant Access
Total	**2.18**	**3.47%**		
Local Authorities	7.0	0.56%	N/A	Short term
Bank Deposits	0.00	0.00%	N/A	Short term
Close Brothers	0.00	0.00%	N/A	Short term
Funding Circle	1.17	0.17%		

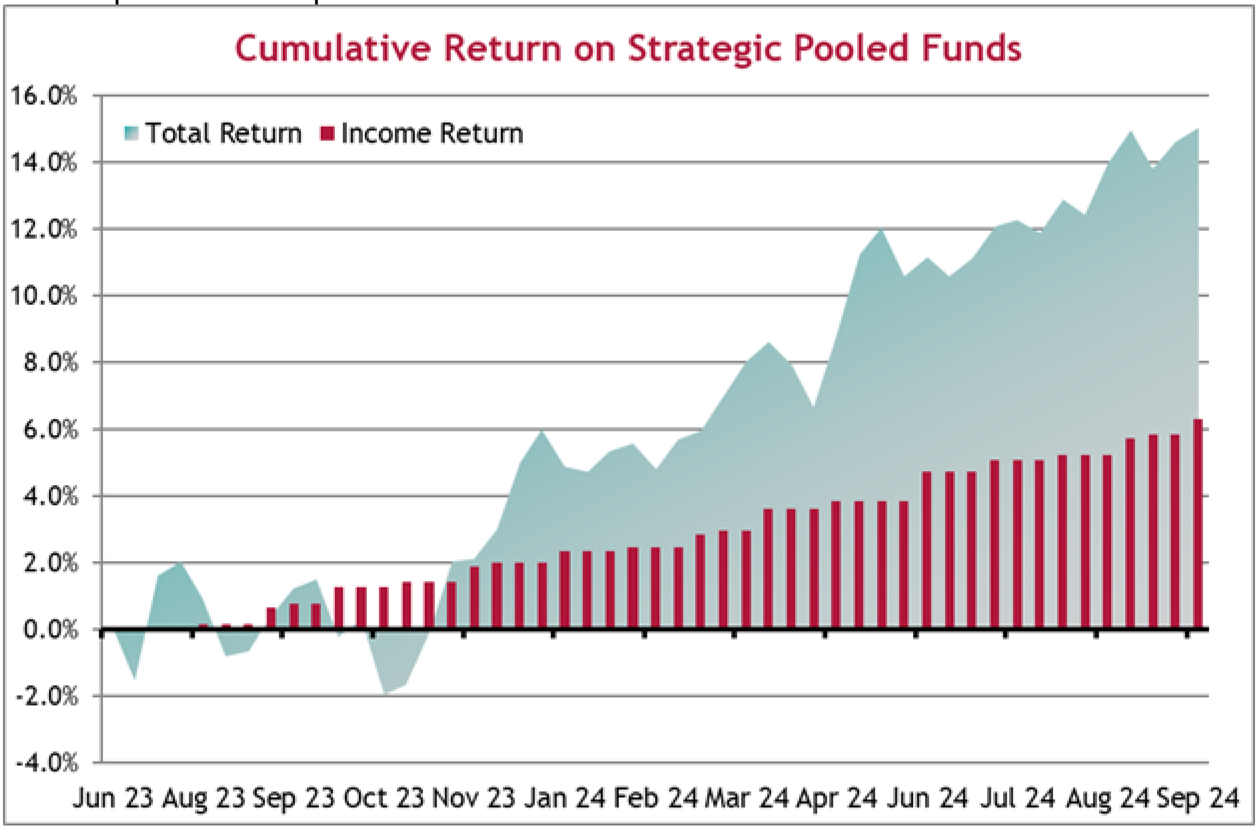
Others -Knowle Green	0.00	0.00%	N/A	N/A
Total Investments at 30/09/2024	**43.42**	**2.45%**		

2.9 As at 30th September 2024, the Council held £33.1m in externally managed strategic pooled funds (bond, equity, multi-asset and property). These funds are typically less liquid. This asset class generated a yield of 1.98% in the six months to September. Cumulative return is provided below.

The Graph below which was generated by Arlingclose shows Spelthorne's cumulative return on income for the 1st 6 months to 30th September 2024.

Detailed Appendix A Attached.

For the period 30th Sept 2024



2.10 Council continues to review its approach to ethical and sustainable investment with advice through the Arlingclose ESG (Environmental, Social and Governance) and Responsible Investment service for local authorities. However, this will cease to be relevant once the Council in the second half of the financial year draws down its pooled funds.

2.11 The Council held non-treasury investments in directly owned property valued at £603.3m at the end of September 2024, as well as shareholding in Knowle Green Estates Limited, with investment property of £32.9m, and in Spelthorne Direct Services Limited which delivers commercial waste services. In the six months post 30th September 2024 the Council has been in the process of redeeming the funds.

2.12 These investments are expected to generate approximately £35.3m of gross rental investment income for the Council, representing 6.0% rate of return and a net return of £34.07m that is 5% rate of return, after accounting for landlord cost, loan interest, minimum revenue provision and sinking fund. This return helps towards supporting the cost of the Council's services.

2.13 The Chief Finance Officer reports that treasury management activities undertaken during the first half year complied with the CIPFA Code of Practice and the Council's approved Treasury Management Strategy. There have been no incidents of counter party limit breaches in the six months to 30 September.

2.14 In the second six months of the financial year the Council will be drawing down its pooled funds.

3. Options analysis and proposal

3.1 Not applicable.

4. Financial implications

4.1 The financial implications are detailed in the main body of the report. The ability to maximise interest returns, whilst keeping risk within acceptable tolerances, is crucial to being able to generate sufficient income to support the General Fund and the Capital Programme. Small adverse movements in interest rates can mean a significant reduction in cash returns. Therefore, it is our aim to continue to maintain flexibility with a high level of security, liquidity and minimal risk when making investment decisions.

5. Risk considerations

5.1 The last few years from 2022 saw a significant the significant rise in Bank of England's base rate, which since August 2024 has begun to ease, with the Base Rate at 4.75% at the time of writing this report, and this period saw an associated rise in borrowing costs. Moving forwards the levels of TM transactions will be significantly reduced. The Council by redeeming its medium-term investment funds gives it itself the flexibility to avoid locking into long term rates for the balance of funding the Eclipse Leisure Centre when those rates may subsequently fall. In the short term the redemption of the funds results in an influx of funds to be placed short term and which requires appropriate evaluation of counterparty risk.

6. Procurement considerations

6.1 None.

7. Legal considerations

7.1 None.

8. Other considerations

8.1 The Council fully complies with best practice as set out in Chartered Institute of Public Finance and Accountancy (CIPFA) 2019 Treasury Management and Prudential Codes and in the Government's Guidance on Investments effective from April 2018.

8.2 Nothing in the Council's current strategy is intended to preclude or inhibit capital investment in local.

8.3 projects deemed beneficial to the local community, and which have been approved by the Council.

9. Equality and Diversity

9.1 No impact.

10. Sustainability/Climate Change Implications

10.1 The Council continues to review its ESG position with its advisers on a regular basis and has asked them to assist the Council to manage a transition over time towards a more environmentally sustainable portfolio.

11. Timetable for implementation

11.1 Not applicable.

Appendices:

Appendix A – Strategic Pooled Funds
Appendix B1 – Benchmarking 24-25
Appendix B2 – Benchmarking 23-24
Appendix C – Context and Background
Appendix D – Profit or Loss on sale of Pooled funds 24.25

Appendix A

Pooled (Strategic Investment) Funds as at 30 September 2024

Fund	Date of Initial Investment	Total Invested	No. of Shares	Value as at 31/03/2024	Value as at 30/09/2024	Price per share 30/09/2024	Dividends Accrued 6M to 30/09/2024	6M Yield to 30/09/24	Capital Gain/ (Loss) 6M to 30/09/24	Total Return 6M to 30/09/2024	Capital Gain/ (Loss) Inception to 30/09/24
		£		£	£	£	£	%	£	£	£
Schroders UK Corporate Bond Fund	11/05/12	1,500,000	1,408,451	1,554,894.37	1,592,957.75	1.1310	19,753.52	1.32%	38,063	57,817	92,958
Schroders Income Maximiser Fund	01/06/21	5,093,141	12,732,853	5,215,376.39	5,487,859.44	0.4310	195,780.34	3.84%	272,483	468,263	394,718
M&G Global Dividend Fund	14/01/22	5,881,779	4,783,490	6,453,789.20	6,586,865.89	1.3770	144,557.30	2.46%	133,077	277,634	705,086
M&G Optimal Income Sterling	14/01/22	1,767,644	1,722,011	1,624,903.22	1,595,098.65	0.9263	41,493.57	2.35%	(29,805)	11,689	(172,545)
M&G UK Income Distribution Sterling	15/08/16	2,000,000	158,204	1,789,636.06	1,836,859.97	11.6107	17,560.65	0.88%	47,224	64,785	(163,140)
Ninety One Diversified Income	19/10/21	4,226,459	4,304,368	3,904,259.70	3,976,805.52	0.9239	67,723.62	1.60%	72,546	140,269	(249,653)
Threadneedle Inv Services - UK Equity	29/10/21	3,811,333	1,981,457	3,982,728.68	4,244,082.86	2.1419	82,640.62	2.17%	261,354	343,995	432,750
Threadneedle Global Equity Fund	29/03/22	1,824,632	1,712,947	1,716,637.47	2,020,078.79	1.1793	15,270.93	0.84%	303,441	318,712	195,447
CCLA - The LAs Property Fund	31/03/13	1,500,000	671,201	1,830,566.49	1,822,361.73	2.7151	49,376.23	3.29%	(8,205)	41,171	322,362
CCLA - The LAs Property Fund	30/04/14	1,000,001	383,245	1,045,224.09	1,040,539.30	2.7151	28,193.03	2.82%	(4,685)	23,508	40,538
Aegon Diversified Monthly Income Fund	21/02/19	3,000,000	2,771,107	2,776,385.55	2,868,926.66	1.0353	63,548.76	2.12%	92,541	156,090	(131,073)
Value at 30/09/2023		**31,604,989**	**32,629,333**	**31,894,401**	**33,072,437**		**725,899**	**2.15%**	**1,178,035**	**1,903,934**	**1,467,448**

Fund	Date of Initial Investment	Total Invested	No. of Shares	Value as at 31/03/2024	Value as at 30/09/2024	Price per share 30/09/2024	Dividends Accrued 6M to 30/09/2024	6M Yield to 30/09/24
Funds closed prior to 30/9/2023								
UBS Multi- Asset Income Fund	22/02/19	1,500,000	3,104,305	1,158,836.92	0.00	0.3834	16,142.38	1.08%
WS Charteris Premium Income Fund	11/05/12	1,200,000	688,039	730,146.77	0.00	1.0958	12,519.60	1.04%
		34,304,989	**36,421,677**	**33,783,385**			**754,561**	

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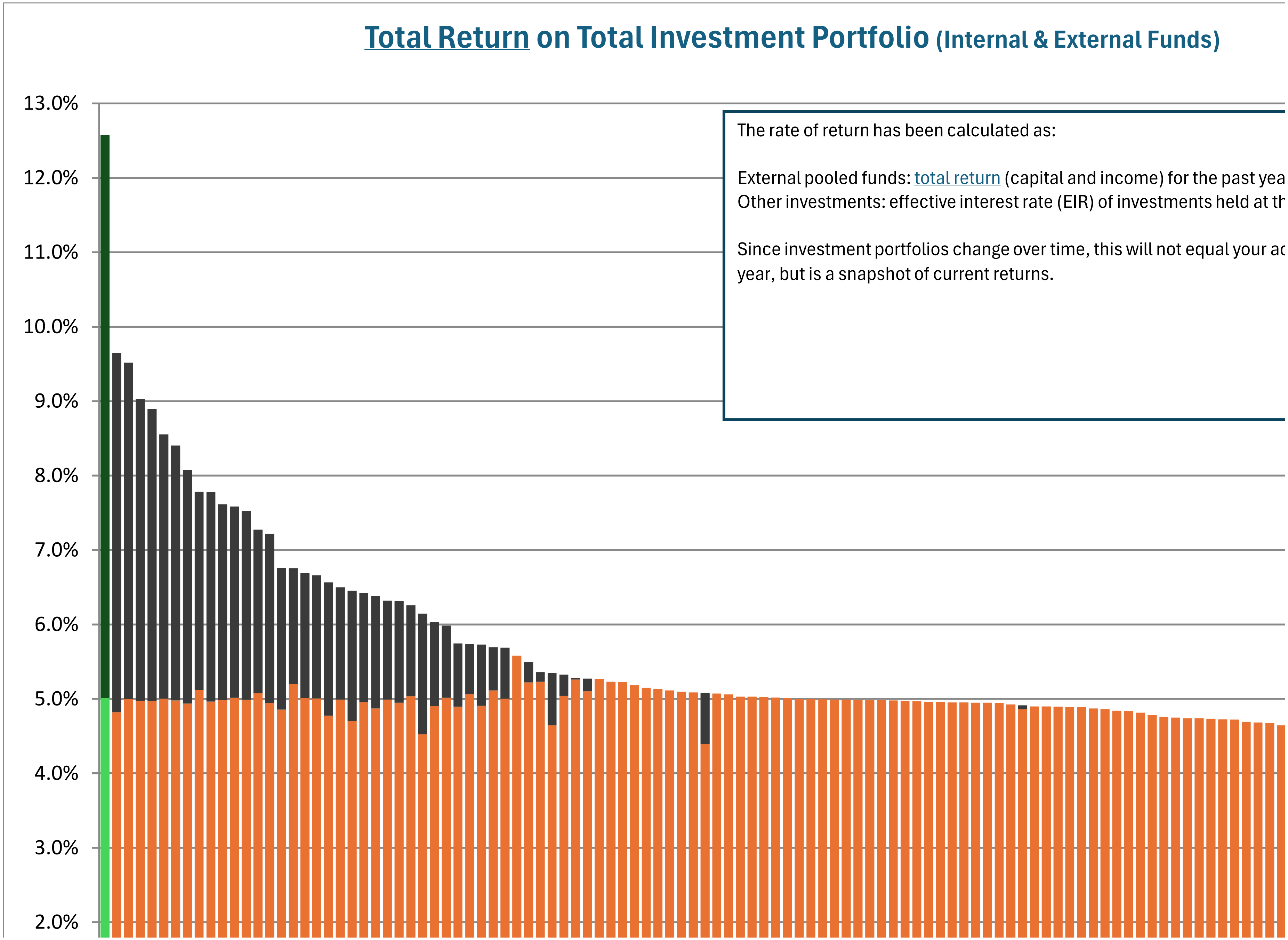
Total Return on Total Investment Portfolio (Internal & External Funds)
13.0%
12.0%
11.0%
10.0%
9.0%
8.0%
7.0%
6.0%
5.0%
4.0%
3.0%
2.0%
The rate of return has been calculated as:
External pooled funds: total return (capital and income) for the past yea
Other investments: effective interest rate (EIR) of investments held at th
Since investment portfolios change over time, this will not equal your ac
year, but is a snapshot of current returns.

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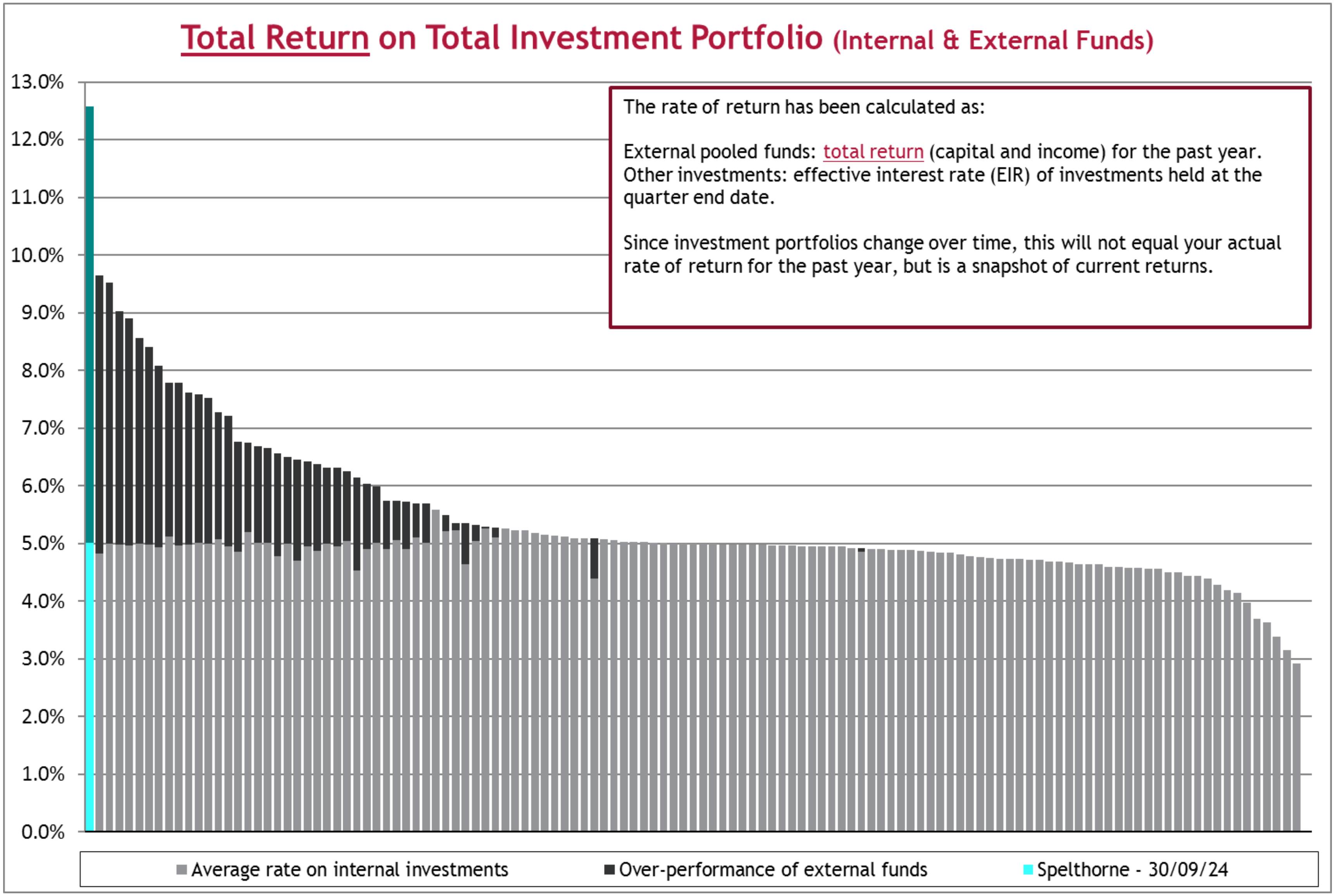
Benchmarking carried out by Arlingclose using data from their clients

Appendix B



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Context and Background

1. Spelthorne Borough Council's Context

    - Treasury Management in public services is defined as:

- the management of the organisation's borrowing, investments, and cash flows, including its banking, money market and capital market transactions

- the effective control of the risks associated with those activities.

- the pursuit of optimum performance consistent with those risks.

    - The Council has borrowed and invested substantial sums of money and is consequently exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of financial risk are therefore central to the Council's prudent financial management.
    - Treasury risk management at the Council is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice* (the CIPFA TM Code), which requires the Council to approve a treasury management strategy before the start of each financial year. The 2021 Edition of the CIPFA TM Code, which applies to the 2025/26 TM Strategy report, will be replaced for by the 2023 Edition in December 2023.
    - The mid-year report fulfils the Council's legal obligation under the *Local Government Act 2003* to have regard to the CIPFA TM Code.
    - The Treasury Management Practices (TMP) and Schedules, included at Appendix E, set out how this Council will seek to achieve its treasury management policies and objectives and how it will manage and control those activities.
    - The following sections on external context are mainly provided by Arlingclose

- External Context

    - External Context - Economic background
    - The ongoing impact on the UK from the war in Ukraine, together with higher inflation, higher than previously anticipated interest rates, uncertain government policy, and a deteriorating economic outlook, will be major influences on the Authority's treasury management strategy for 2025/26
    - The Bank of England (BoE) reduced the Bank Rate by 0.25% to 4.75% in November 2024. This followed a 0.75% rise in March 23 from December 2022 which was the largest single rate hike since 1989 and the 10th successive rise since December 2021. The November decision was voted for by a 8-1 majority of the Monetary Policy Committee (MPC), with 1 dissenter voting for a no-change at 5

- The November quarterly Monetary Policy Report (MPR) forecast a prolonged but shallow recession in the UK with CPI inflation remaining elevated at over 10% in the near-term. While the projected peak of inflation is lower than in the August report, due in part to the government's support package for household energy costs, inflation is expected remain higher for longer over the forecast horizon and the economic outlook remains weak, with unemployment projected to start rising.
- The UK economy contracted by 0.3% between July and September 2022 according to the Office for National Statistics, and the BoE forecasts Gross Domestic Product (GDP) has fallen by 0.1% in October 2024 largely because of decline in production output. However, real GDP is estimated to have grown by 0.% compared with the 3 months to July 2024
- The Consumer Prices Index including owner occupiers' housing costs (CPIH) rose by 3.2% in the 12 months to October 2024, up from 2.6% in September On a monthly basis, CPIH rose by 0.6% in October 2024, up from 0.1% in October 2023.The Consumer Prices Index (CPI) rose by 2.3% in the 12 months to October 2024, up from 1.7% in September On a monthly basis, CPI rose by 0.6% in October 2024, up from being little changed in October 2023 The largest upward contribution to the monthly change in both CPIH and CPI annual rates came from housing and household services, mainly because of electricity and gas prices; the largest offsetting downward contribution came from recreation and Culture
- Quarter 3 (July to Sept) 2024 saw a continuation of the cooling in the labour market seen in the first half of the year, as labour demand has continued to fall and nominal earnings growth has continued to moderate from its peak in mid-2023.The ratio between the number of unemployed people and the number of job vacancies brings together the picture for labour supply and labour demand, giving an indication of the scarcity of available labour, relative to business demand for labour. Figure 4 shows that this ratio rose above its pre-coronavirus (COVID-19) pandemic position of 1.7 in the latest period, reaching 1.8 unemployed people per job vacancy in August to October 2024. A ratio at this level continues to indicate a tight labour market, where demand for labour is high relative to the available supply of labour, but remains higher than the historically tight position in the first half of 2022 when the ratio was 1.0.

- United States interest rates have been adjusted by the Federal Reserves as follows The target for key lending rate was reduced by 0.5 percentage points to the range of 4.5% to 5%.The Central Bank target rates between 4.25 and 4.5% the rate has been ,lowered by a full percentage points since September 2024.Despite the slight rise in certain prices between September and October, overall inflation has been trending downward during the second half of 2024 .The inflation remained above 3% in early 2024.Since early 2022 inflation has been the federal reserve's primary economic Challenge.
- Eurozone Inflation dipped below 2% for the first time since mid-2021 in September 2024, reinforcing an already solid case for a European Central Bank rate cut this month as a three-year battle to tame runaway price growth nears its end.

- **External Context - Credit Outlook**
- Credit default swap (CDS) prices have generally followed an upward trend throughout 2022 and 2023, indicating higher credit risk. CDS market is highly volatile and subject to various factors such as economic conditions, political events, and market sentiment.
- CDS price volatility was higher in 2023 compared to 2022 and the divergence in prices between ringfenced (retail) and non-ringfenced (investment) banking entities has emerged once again.
- The weakening economic picture from 2022 led the credit rating agencies to reflect this in their assessment of the outlook for the UK sovereign as well as several local authorities and financial institutions, revising them from to negative from stable.
- There are competing tensions in the banking sector which could impact bank balance sheet strength going forward. The weakening economic outlook and likely recessions in many regions increase the possibility of a deterioration in the quality of banks' assets, while higher interest rates provide a boost to net income and profitability.
- However, the institutions on our adviser Arlingclose' s counterparty list remain well-capitalised and their counterparty advice on both recommended institutions and maximum duration remain under constant review and will continue to reflect economic conditions and the credit outlook.

- **External Context – Interest Rate forecast** The Authority's treasury management adviser Arlingclose forecast as expected, the Monetary Policy Committee (MPC) held Bank Rate at 5.0 percent in September. While the "no change" majority of eight to one was unexpectedly strong, the minutes suggested some policymakers believed a gradual approach to loosening policy was warranted given the persistence of services inflation, rather than no loosening at all.

- Yield share expected to remain broadly at current levels over the medium-term, with 5-, 10- and 20-year gilt yields expected to average around 3.67over the 3-year period to December 2027. The risks for short, medium and longer-term yields are judged to be broadly balanced over the forecast horizon. As ever, there will undoubtedly be short-term volatility due to economic and political uncertainty and events.
- A more detailed economic and interest rate forecast provided by Arlingclose is in Appendix A
- Revised PWLB Guidance
- HM Treasury published further guidance on PWLB borrowing in August 2021 providing additional detail and clarifications predominantly around the definition of an 'investment asset primarily for yield'. The principal aspects of the new guidance are:
- Capital expenditure incurred or committed to before 26th November 2020 is allowable even for an 'investment asset primarily for yield'.
- Capital plans should be submitted by local authorities via a DELTA return. These open for the new financial year on 1st March and remain open all year. Returns must be updated if there is a change of more than 10%.
- An asset held primarily to generate yield that serves no direct policy purpose should not be categorised as service delivery.
- Further detail on how local authorities purchasing investment assets primarily for yield can access the PWLB for the purposes of refinancing existing loans or externalising internal borrowing.
- Additional detail on the sanctions which can be imposed for inappropriate use of the PWLB loan. These can include a request to cancel projects, restrictions to accessing the PLWB and requests for information on further plans.
- The Council will ensure it complies with the new PWLB guidance and will not be purchasing any assets primarily for yield.

- Changes to PWLB Terms and Conditions from 8 September 2021
    - The settlement time for a PWLB loan has been extended from two workings days (T+2) to five working days (T+5). In a move to protect the PWLB against negative interest rates, the minimum interest rate for PWLB loans has also been set at 0.01% and the interest charged on late repayments will be the higher of Bank of England Base Rate or 0.1%.
    - Municipal Bonds Agency (MBA): The MBA is working to deliver a new short-term loan solution, available in the first instance to principal local authorities in England, allowing them access to short-dated, low rate, flexible debt. The minimum loan size is expected to be £25 million. Importantly, local authorities will borrow in their own name and will not cross guarantee any other authorities.

  - If the Authority intends future borrowing through the MBA, it will first ensure that it has thoroughly scrutinised the legal terms and conditions of the arrangement and is satisfied with them.
  - UK Infrastructure Bank: £4bn has been earmarked for of lending to local authorities by the UK Infrastructure Bank which is wholly owned and backed by HM Treasury. The availability of this lending to local authorities, for which there will be a bidding process, is yet to commence. Loans will be available for qualifying projects at gilt yields plus 0.6%, which is 0.2% lower than the PWLB certainty rate.
  - Both the CIPFA TM Code and government guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

- Treasury Investment
  - Ultra-low short-dated cash rates which have been a feature since March 2020 when Bank Rate was cut to 0.1% have resulted in the return on sterling low volatility net asset value money market funds (LVNAV MMFs) being close to zero even after some managers have temporarily waived or lowered their fees. At this stage net negative returns are not the central case of most MMF managers over the short-term, and fee cuts or waivers should result in MMF net yields having a floor of zero, but the possibility cannot be ruled out.
  - Deposit rates with the Debt Management Account Deposit Facility (DMADF) are also largely around zero.
- Revisions to CIPFA Codes
  - In February 2021 CIPFA launched two consultations on changes to its Prudential Code and Treasury Management Code of Practice. These followed the Public Accounts Committee's recommendation that the prudential framework should be further tightened following continued borrowing by some authorities for investment purposes. In June, CIPFA provided feedback from this consultation, followed by further consultation from September.
  - In December 2021, CIPFA issued the revised Codes and Guidance Notes. The changes include:
  - Clarification that (a) local authorities must not borrow to invest primarily for financial return (b) it is not prudent for authorities to make any investment or spending decision that will increase the Capital Financing Requirement, and so may lead to new borrowing, unless directly and primarily related to the functions of the authority.
  - Categorising investments as those (a) for treasury management purposes, (b) for service purposes and (c) for commercial purposes.

- Defining acceptable reasons to borrow money: (i) financing capital expenditure primarily related to delivering a local authority's functions, (ii) temporary management of cash flow within the context of a balanced budget, (iii) securing affordability by removing exposure to future interest rate rises and (iv) refinancing current borrowing, including replacing internal borrowing.
- For service and commercial investments, in addition to assessments of affordability and prudence, an assessment of proportionality in respect of the authority's overall financial capacity (i.e. whether plausible losses could be absorbed in budgets or reserves without unmanageable detriment to local services).
- **Prudential Indicators**: New indicator for net income from commercial and service investments to the budgeted net revenue stream.
- Inclusion of the liability benchmark as a mandatory treasury management prudential indicator. CIPFA recommends this is presented as a chart of four balances – existing loan debt outstanding; loans CFR, net loans requirement, liability benchmark – over at least 10 years and ideally cover the authority's full debt maturity profile.
- Excluding investment income from the definition of financing costs.
- Incorporating ESG issues as a consideration within TMP 1 Risk Management.
- Additional focus on the knowledge and skills of officers and elected members involved in decision making.

- MHCLG Improvements to the Capital Finance Framework

    - The Government department MHCLG (Department for Levelling Up, Housing and Communities *formerly DLUHG*) published a brief policy paper in July outlining the ways it feels that the current framework is failing and potential changes that could be made. The paper found that "while many authorities are compliant with the framework, there remain some authorities that continue to engage in practices that push the bounds of compliance and expose themselves to excessive risk".
    - The actions announced include greater scrutiny of local authorities and particularly those engaged in commercial practices; an assessment of governance and training; a consideration of statutory caps on borrowing; further regulations around Minimum Revenue Provision (MRP) and ensuring that DLUHC regulations enforce guidance from CIPFA and the new PWLB lending arrangements

Appendix D

Analysis of Profit & loss on sale of Strategic Pooled Investment Funds

Pooled Investment Funds	Initial investment	Valuation @ 31/03/24	Redemption as at 31.12.2024	(Loss)/Gain on initial investment
	£	£	£	£
Sold				
WS Charteris Premium Income Fund	1,200,000.00	730,146.77	713,035.25	(486,964.75)
Schroders Income Maximiser Fund	5,093,141.01	5,215,376.39	5,319,785.78	226,644.77
M&G Global Dividend Fund	5,881,779.45	6,453,789.20	7,086,262.27	1,204,482.82
M&G Optimal Income Sterling	1,767,644.14	1,624,903.22	1,621,445.42	(146,198.72)
M&G UK Income Distribution Sterling	2,000,000.01	1,789,636.06	1,798,637.87	(201,362.14)
Ninety One Diversified Income	4,226,458.86	3,904,259.70	3,910,948.70	(315,510.16)
Threadneedle Inv Services - UK Equity	3,811,332.64	3,982,728.68	4,166,806.04	355,473.40
Threadneedle Global Equity Fund	1,824,631.50	1,716,637.47	2,003,463.21	178,831.71
UBS Multi- Asset Income Fund	1,500,000.00	1,158,836.92	1,187,396.53	(312,603.47)
Aegon Diversified Monthly Income Fund	3,000,000.00	2,776,385.55	2,813,227.42	(186,772.58)
Schroders UK Corporate Bond Fund	1,500,000.01	1,554,894.37	1,561,971.84	61,971.83
Total - Core Investment Portfolio	31,804,987.61	30,907,594.32	32,182,980.33	377,992.72
To be sold			Oct'24 Valuation	
CCLA - The LAs Property Fund	1,499,999.99	1,830,566.49	1,827,425.94	327,425.94
CCLA - The LAs Property Fund	1,000,001.18	1,045,224.09	1,043,430.89	43,429.71
	2,500,001.17	2,875,790.58	2,870,856.82	370,855.65

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Corporate Policy & Resources
20/01/2025

Title	Treasury Management Strategy Statement 2025-26
Purpose of the report	The Council has a statutory duty to approve an annual treasury management strategy. The Council may require amendments to the strategy but must ensure that an approved strategy is in place for each financial year.
Report Author	Prithiva Janaka, Treasury Management and Capital Accountant
Wards affected	All Wards
Exempt	No
Corporate Priority	Community Addressing Housing Need Resilience Environment Services
Recommendations	Committee is asked to: 1. Approve the Treasury Management Strategy for 2025-26 as set out in this report. 2. By approving the report, they will be agreeing to the Treasury Management Practices (TMP), MRP statement, Operational Boundary, and Authorised Limits.
Reason for Recommendation	The Treasury Management Strategy is a statutory requirement for the Council, and it is important that the Council manages prudently and professionally its treasury management function

1. **Summary of the report**

What is the situation	Why we want to do something
• Corporate Policy & Resources Committee and Council have a statutory responsibility to review and approve the Treasury Management Strategy annually before the beginning of the new financial year. • The Council has both a significant debt portfolio (a greater proportion at fixed rates) of £1,076m and equally, investment funds of £14.3m and cash balances currently averaging £10m.	• Treasury management is crucial to the Council's cash flow, investment and borrowing and to mitigate the risks we should plan ahead and consider: - Operational limit - Authority limit - Borrowing - Funding capital projects of higher value - Investing surplus cash to yield returns.

• This scale of activity creates risks which need to be proactively managed. • The Council should review its liquidity and cashflow on a weekly basis. • The Council needs to continue to explore avenues to minimise financing costs and maximise returns on investment of surplus funds.	
This is what we want to do about it	**These are the next steps**
• Mitigate risks by diversifying investment and borrowing. • Continue to seek professional advice from our treasury advisers.	• Review and approve Treasury management Strategy 2025/26 by Corporate Policy and Resource Committee and the Council.

1.1 Treasury management is the pro-active management of the Authority's cash flows, borrowing and investments, and the associated risks. The Authority has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of financial risk are therefore central to the Authority's prudent financial management.

1.2 The prime objective of the Council's investment strategy is to maintain capital security whilst ensuring that there is the necessary liquidity to conduct its business. Within these constraints, the strategy aims to maximise returns. The borrowing strategy aims to minimise the revenue cost of debt whilst securing the council from revenue pressures in the event of interest rate volatility.

1.3 A key revenue consequence of borrowing is the statutory requirement to set aside an amount for repayment of debt, known as Minimum Revenue Provision (MRP). Regulations require the authority to determine annually a principle by which MRP will be determined. The Council's Minimum Revenue Provision is attached as **Appendix D**

1.4 The Treasury Management Strategy aims to protect the Council from market-related risks by monitoring interest rates, economic indicators, and UK and overseas government finances. A range of information sources is used to inform economic analysis and forecasts.

2. Operational Analysis and Proposals

2.1 Treasury risk management at the Authority is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2021 Edition (the CIPFA Code) which requires the Authority to approve a treasury management strategy before the start of each financial year. This report fulfils the Authority's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.

2.2 This is a technical report providing necessarily detailed information that the Council is required to have due regard to, and certain key information is appended for the sake of clarity. Appendix A provides recent benchmarking of the investment portfolio by the

Council’s treasury advisors, illustrating performance reporting used by the Council. Background to this report is given at **Appendices B and C**. The MRP Statement is given at Appendix D. The Treasury Management Practices (TMP) and Schedules, included at Appendix E, set out how this Council will seek to achieve its treasury management policies and objectives and how it will manage and control those activities.

2.3 Option 1: The Council has a statutory duty under the Local Government Act 2003 to approve and publish a treasury management strategy before the start of each financial year. **We recommend this option.**

2.4 Option 2: Committee may make recommendations to develop the strategy, as long as those recommendations comply with the Chartered Institute of Public Finance Treasury Management code and are consistent with the statutory regulatory framework, as started above the Committee must ensure a strategy is in place each year to meet its statutory duty.

2.5 Option 3: Not approve a Strategy. The Council does not have the option refuse to approve a strategy altogether, so this is not an option.

Summary Position

Table 1: Current Investment & Debt Portfolio Position

As at 19.12.24	Actual Portfolio
	£m
External Borrowing:	
Public Works Loan Board	(1,061.6)
Local Authorities (short term)	(14.0)
Total Gross External Debt	**(1,075.6)**
Long-Term Investments:	
Pooled Fund Investments	4.5
Short-Term Investments:	
Local Authorities	32.0
Money Market Funds	4.8
Subsidiaries	1.1
Total Investments	**42.4**
Net (borrowing)/ investments	(1,033.2)

Non-treasury investments:	
Investment property (as at 19.12.24)	**603.3**

Overall net borrowing	**(429.9)**

2.6 On 19st December 2024, the Council held £1,061m of long-term borrowing, all long-term fixed rate loans with Public Works Loan Board (PWLB).

3. Treasury Strategy

3.1 Following on from completion in December 2024, of the programme of acquisition and transfer to Knowle Green Estates of Temporary Accommodation and resettlement accommodation units part funded by Local Authority Funding Fund (LAHF), as per the Committee approvals for the acquisitions, a decision is now being made to advance from SBC to KGE £14,278,000 at a fixed rate of 5.2% on a fifty year duration with a provision that if the Council is subsequently to fix all or part of the matched funding at a rate more than 0.5% below 5.2% that the fixed rate paid by KGE is accordingly reduced.

3.2 The Council has £4.5m Pooled Investment Funds still available (these will be withdrawn in January), £42.4m of short-term investments and £603.3m of non-treasury investment property. The council's net debt position is £429.9m. This detailed in Table 1 above.

3.3 Officers do not anticipate any significant changes in the actual figures quoted above as at 19 December 2024 to estimated figures shown below as at 31 March 2025.

Minimum Revenue Provision (MRP): Where the Council finances capital expenditure by prudential borrowing, the Council is required to put aside resources to repay that debt. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP), noting that there has been no statutory minimum since 2008. The Council's Annual MRP Statement is included at **Appendix D**. It should be noted that the Council repays part of the borrowing each year by applying the MRP, and that this is reflected in the MRP.

Table 2: Capital Financing Requirement and forecast

	Forecast 2024/25	Estimate 2025/26	Estimate 2026/27	Estimate 2027/28	Estimate 2028/29
	£m	£m	£m	£m	
Opening CFR	1,157.5	1,179.8	1,166.6	1,152.6	1,138.1
In-year movement (below)	22.3	(13.2)	(14.1)	(14.5)	(14.9)
Closing CFR	**1,179.8**	**1,166.6**	**1,152.6**	**1,138.1**	**1,123.3**
Less: External borrowing	(1,061.1)	(1,020.0)	(978.8)	(937.6)	(937.6)
Internal borrowing	113.3	146.6	173.8	200.5	185.7
Capital programme:					
Housing & Regeneration	21.4	1.6	0.9	0.9	0.9
Other capital expenditure	29.7	3.1	4.2	3.4	0.6
Total Capital Expenditure	**51.2**	**4.7**	**5.1**	**4.3**	**1.6**
Financing:					
Capital Receipts	0.0	(3.8)	(4.2)	(3.4)	(0.6)
Capital Grants and Contributions	(14.6)	(0.9)	(0.9)	(0.9)	(0.9)
Revenue Contributions	(1.0)	0.0	0.0	0.0	0.0
Net Financing Need	**35.5**	**0.0**	**0.0**	**0.0**	**0.0**
Less: Minimum Revenue Provision (MRP)	(13.2)	(13.2)	(14.1)	(14.5)	(14.9)
In-year movement in CFR	**22.3**	**(13.2)**	**(14.1)**	**(14.5)**	**(14.9)**

3.4 The Council has a decreased CFR due to a significantly reduced Capital Programme level of expenditure, which in 2024-25 was boosted, in particular, by the Council's housing delivery (Property acquisition for families) to top up the Local Authority Housing Fund grant) for Temporary Accommodation and resettlement units.

3.5 CIPFA's *Prudential Code for Capital Finance in Local Authorities* recommends that an authority's total debt be lower than its highest forecast CFR over the next three years. Table 2 above shows that the Council expects to comply with this recommendation for 2025/26.

3.6 The Council's planned Capital Programme for the next 4 years (including 2025/26) is given on the Table above, major spending will be are on the Council's housing delivery (Property acquisition of temporary accommodation for families and settlement accommodation for Afghan and Ukrainians) to top up the Local Authority Housing Fund grant) for the and regeneration programme and on service projects such as the new Leisure Centre, phase 1 of which has just completed with the new Eclipse Leisure Centre opening in mid-October.

3.7 The Council's Authorised Borrowing Limit has been increased at the beginning of 2024-25 from £1,167m to £1,170m and Operational Boundary currently at £1,270m for 2025/26. These limits are considered appropriate for the above projections but will be reviewed and revised as needed to reflect borrowing requirements in future years. As can be seen in the above table the anticipated external borrowing figure falls below both limits and will fall steadily from 2026-27

3.8 CIPFA's *Prudential Code for Capital Finance in Local Authorities* recommends that an authority's total debt be lower than its highest forecast CFR over the next three years. Table 2 above shows that the Council expects to comply with this recommendation for 2024/25.

Local context - Liability benchmark

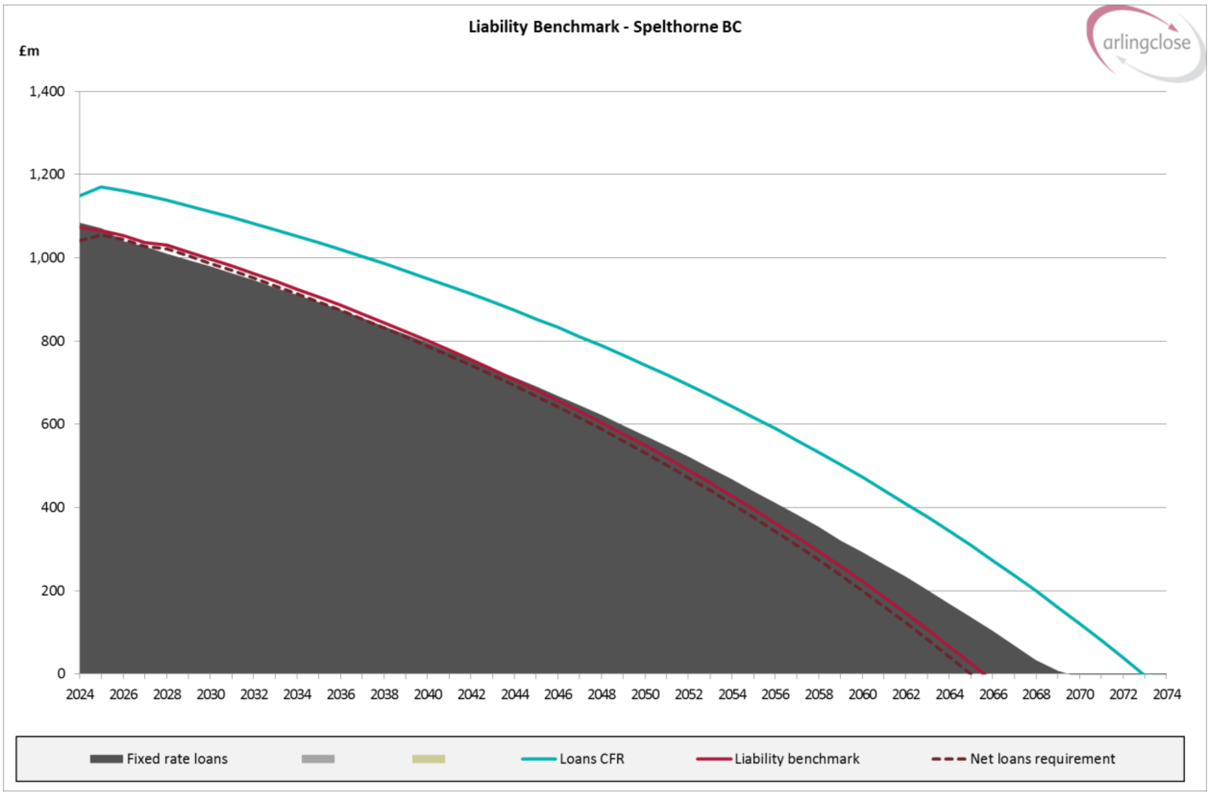
3.9 To compare the Council's actual borrowing against an alternative strategy, a liability benchmark (a measure of risk outlined in the CIPFA TM Code and now required to be reported on for future years) has been calculated showing the lowest risk level of borrowing, as shown at Table 3. This assumes the same forecasts as Table 2 above, but that cash and investment balances are kept to a minimum level of £20m at each year-end to maintain sufficient liquidity but minimise credit risk.

Table 3: Liability benchmark

Financial Year	Forecast 24/25	Estimate 25/26	Estimate 26/27	Estimate 27/28	Estimate 28/29
	£m	£m	£m	£m	£m
Loans CFR	1,179.8	1,166.6	1,152.6	1,138.1	1,123.3
Balance Sheet resources	(111.0)	(113.0)	(119.0)	(113.0)	(113.0)
Minimum cash for liquidity	20.0	20.0	20.0	20.0	20.0
Liability benchmark	1,088.8	1,073.6	1,053.6	1,045.1	1,030.3

The liability benchmark indicates that the required minimum level of borrowing is forecast to be £1,088.8m as at 31 March 2025 after taking into account other resources such as usable reserves and the minimum investment of £20.0m.

Following on from the medium-term forecasts in table 2 above, the longer-term liability benchmark given next shows the level of borrowing that will be required in future years. The Council will be working with Arlingclose to further develop this modelling to help identify and apply internal resources effectively.



4. Borrowing and Investment Strategies

4.1 Borrowing Strategy

4.2 The Council currently holds £1,061m of long term PWLB loans, which it is paying off on an annual basis (Table 1) as part of its strategy for funding previous years' capital programmes. The Council was debt-free before 2016/17, when the decision was taken to make strategic property acquisitions based on the opportunities available, with the important caveat that Council has no intention to buy investment assets primarily for yield. The forecast in Table 3 shows that the Council expects outstanding borrowing to be a maximum of £1,073.6 in 2025/26.

4.3 The revised draft Capital Programme budget for 2025/26 has been set at £3.796m, net of funding this is a reduction of almost 85% from 2024/25 mainly of the reduced number of projects once phase II of Eclipse Leisure Centre is completed A proportion of rental income from existing investment property is set aside to increase sinking fund earmarked reserves, which contribute towards financing of future property-related costs. This is to help ensure, given the relatively illiquid nature of property assets, the Council does not get into a forced sale position on an asset if its income dips for a temporary period. Over the period of the Capital Programme from 2026-27 the Council will be increasing the contributions into the Sinking Fund Reserves by steps of £1m per annum.

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

4.5 Strategy: Given the significant cuts to public expenditure and in particular to local government funding, the Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio.

4.6 With interest rates likely to fall further, we want to avoid fixing long term at rates which may then subsequently fall. By doing so, the Council is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk.

4.7 The benefits of internal and short-term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. Arlingclose will assist the Council with this ‘cost of carry’ and breakeven analysis, the result of which will help determine whether the Council borrows additional sums at long-term fixed rates in 2025/26 with a view to keeping future interest costs low and gaining long term value for money even if costs are higher in the immediate to short term.

4.8 The Council has previously raised the majority of its long-term borrowing from the PWLB, which remains a relatively good option particularly as it was fixed at relatively low interest rates. Government guidance now prohibits authorities that have investments for yield’ (which the Council does not intend to acquire any further such investments) from accessing PWLB loans.

4.9 The Council is working with Arlingclose to identify alternative funding options for funding the balance of the reduced Capital Programme.

4.10 In addition, the Council may borrow short-term when needed to cover unplanned cash-flow shortages.

4.11 **Sources of borrowing:** Approved sources of long-term and short-term borrowing are:

- HM Treasury’s PWLB lending facility (formerly the Public Works Loan Board)
- Works Loan Board (PWLB) and any successor body
- any institution approved for investments (see below)
- any other bank or building society authorised to operate in the UK.
- any other UK public sector body
- UK public and private sector pension funds (except Surrey Pension Fund)
- capital market bond investors.
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues.

4.12 **Other sources of debt finance:** In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- leasing
- hire purchase.
- Private Finance Initiative
- sale and leaseback.

4.13 **Municipal Bonds Agency:** UK Municipal Bonds Agency plc was established in 2014 by the Local Government Association as an alternative to the PWLB. The Agency plans to issue bonds on the capital markets and lend the proceeds to local authorities. This will be a more complicated source of finance than the PWLB for two reasons: borrowing authorities will be required to provide bond investors with a guarantee to refund their investment in the event that the agency is unable to for any reason; and there will be a lead time of several months between committing to borrow and knowing the interest rate payable. Any decision to borrow from the Agency will therefore be the subject of a separate report to Council.

4.14 **LOBOs:** The Council does not hold and has not previously held, LOBO (Lender’s Option Borrower’s Option) loans, which expose borrowers to an element of refinancing risk. A LOBO lender has the option to propose an increase in the interest rate at set dates, following which the borrower has the option to either accept the new rate or to repay the loan at no additional cost. These loans do not represent value for money and will not form part of the Council’s borrowing strategy.

4.15 **Short-term and variable rate loans:** These loans leave the Council exposed to the risk of short-term interest rate rises and are therefore subject to the interest rate exposure limits in the treasury management indicators below. Financial derivatives may be used to manage this interest rate risk.

4.16 **Debt rescheduling:** The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount (currently the council would receive a discount on most of its loans as a result of prevailing rates being higher than when the council fixed the rates) according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The Council may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk.

5. Investment Strategy

5.1 The Council currently holds significant levels of invested funds representing income received in advance of expenditure plus balances and reserves held. Total long-term investments are £4.8m as at the end of December 2024 (Table 1). This includes £4.4m pooled funds (earmarked to be sold to supplement funding), following the redemption of £30.6m of funds to fund Eclipse Leisure Centre costs.

5.2 Invested funds may be increased further if there are significant additional capital receipts and if it is agreed that these are to be invested. Total investments are higher throughout the financial year and are monitored closely and maintained at appropriate levels as part of managing short-term cash-flow requirements of the Council.

5.3 **Objectives:** Both the CIPFA TM Code and the MHCLG Guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest yield (rate of return). The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the Council will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested.

5.4 The Council recognise that the bulk of its borrowing relates to financing of investment designed to deliver long term income streams and that in the event of a forced sales there would be liquidity challenges as assets take time to sale and sale prices will fluctuate. Being mindful of this risk is a key reason why the Council put in place the risk mitigation approach to have sinking funds reserves to ensure that if tenants vacate an investment asset the council can sustain a period of dip in rental income without being forced into a position of having to seek to sell the asset.

5.5 **Strategy**: The Council aims to maximise liquidity of funds to ensure availability for capital expenditure, in line with the Council's significant property and housing service plans.

5.6 **Business models**: Under the International Financial Reporting Standard (IFRS) 9 standard, accounting for certain investments depends on the Council's "business model" for managing them. The Council aims to achieve value from its internally managed treasury investments by a business model of collecting the contractual cash flows and therefore, where other criteria are also met, these investments will continue to be accounted for at amortised cost.

5.7 Approved counterparties: The Council may invest its surplus funds with any of the counterparty types in Table 4 below, subject to the cash limits (per counterparty) and the time limits shown. The cash limits shown have been agreed in conjunction with our treasury advisers, to enable the Council to have sufficient flexibility within the strategy being set to manage funds appropriately as they are received. This can sometimes include holding funds in advance of need in relation to making strategic acquisitions.

Table 4: Approved investment counterparties and limits

Credit Rating	Government	Banks Secured	Banks Unsecured	Corporates	Registered Providers
UK Gov	£ Unlimited 50 years	n/a	n/a	n/a	n/a
AAA	£10m 50 years	£10m 20 years	£10m 5 years	£5m 20 years	£5m 20 years
AA+	£10m 25 years	£10m 10 years	£10m 5 years	£5m 10 years	£5m 10 years
AA	£10m 15 years	£10m 5 years	£10m 4 years	£5m 5 years	£5m 10 years
AA-	£10m 10 years	£10m 4 years	£10m 3 years	£5m 4 years	£5m 10 years
A+	£5m 5 years	£10m 3 years	£10m 2 years	£5m 3 years	£5m 5 years
A	£5m 5 years	£10m 2 years	£10m 13 months	£5m 2 years	£5m 5 years
A-	£5m 5 years	£10m 13 months	£10m 6 months	£5m 13 months	£5m 5 years
None	£5m 25 years	n/a	£1m 6 months	£1m 5 years	£5m 5 years

Pooled funds and real estate investment trusts (REITs)	£10m per fund at point of investment
Money Market Funds	Unlimited per fund

5.8 This table must be read in conjunction with the notes below.

5.9 **Credit Rating:** Investment limits are set by reference to the lowest published long-term credit rating from a selection of external rating agencies. Where available, the credit rating relevant to the specific investment or class of investment is used; otherwise, the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

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

5.11 **Banks Secured:** Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. Where there is no investment-specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

5.12 **Banks Unsecured:** Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See below for arrangements relating to operational bank accounts.

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

5.14 **Registered Providers:** Loans and bonds issued by, guaranteed by, or secured on the assets of Registered Providers of Social Housing and Registered Social Landlords, formerly known as Housing Associations. These bodies are tightly regulated in England by the Regulator of Social Housing. As providers of public services, they retain the likelihood of receiving government support if needed.

5.15 **Money Market Funds:** These are pooled funds that offer same-day or short notice liquidity and very low or no price volatility by investing in short-term money markets. They have the advantage over bank accounts of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a small fee. Although no sector limit applies to money market funds, the Council will take care to diversify its liquid investments over a variety of providers to ensure access to cash at all times.

5.16 **Strategic Pooled Funds:** Bond, equity, and property funds offer enhanced returns over the longer term but are more volatile in the short term. These allow the Council to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date and are available for withdrawal after a notice period, their performance and continued suitability in meeting the Council's investment objectives will be monitored regularly.

5.17 **Real Estate Investment Trusts:** Shares in companies that invest mainly in real estate and pay the majority of their rental income to investors in a similar manner to pooled property funds. As with property funds, REITs offer enhanced returns over the longer term but are more volatile especially as the share price reflects changing demand for the shares as well as changes in the value of the underlying properties. Investments in REIT shares cannot be withdrawn but can be sold on the stock market to another investor.

5.18 **Operational Bank Accounts:** The Council may incur operational exposures, for example though current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments but are still subject to the risk of a bank bail-in, and balances will therefore be kept below £500,000 per bank as far as practicably possible, and, where practical issues necessitate, no more than £5m as per Table 4. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Council maintaining operational continuity.

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

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

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

5.21 **Other information on the security of investments:** The Council understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support, reports in the quality financial press and analysis and advice from the Council’s treasury management adviser. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it might otherwise meet the above criteria.

5.22 When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2020, this is not generally reflected in credit ratings but can be seen in other market measures. In these circumstances, the Council will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Council’s cash balances, then the surplus will be deposited with the UK Government, via the Debt Management Office or invested in government treasury bills for example, or with other local authorities. This will cause investment returns to fall but will protect the principal sum invested.

5.23 **Investment Limits:** The maximum that will be lent to any one organisation (other than the UK Government) will be £5 million, to mitigate the risk in the case of a single default. A group of entities under the same ownership will be treated as a single organisation for limit purposes.

5.24 Credit risk exposures arising from non-treasury investments, financial derivatives and balances greater than £500,000 in operational bank accounts count against the relevant investment limits.

5.25 Limits will also be placed on fund managers, investments in brokers’ nominee accounts, foreign countries and industry sectors as shown in Table 5 below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country since the risk is diversified over many countries.

Table 5: Investment limits

	Cash limit Per Counterparty
Any single organisation, except the UK Central Government	£10m each
UK Central Government	Unlimited
Any group of organisations under the same ownership	£25m per group
Any group of pooled funds under the same management	£25m per manager at point of investment
Negotiable instruments held in a broker's nominee account	£30m per broker
Foreign countries	£10m per country
Registered Providers	£25m in total
Unsecured investments with Building Societies	£10m in total
Loans to unrated corporates	£10m in total
Money Market Funds	£50m in total

5.26 **Liquidity management:** A four year forward cash flow forecast is compiled on a prudent basis to minimise the risk of the Council being forced to borrow on unfavourable terms to meet its financial commitments. The Council has implemented a Treasury Management system and is currently developing the reporting available through that system, such as cash-flow forecasting, which will enable determination of the maximum period for which funds may prudently be committed.

5.27 The Council will spread its liquid cash over at least four providers (e.g. bank accounts and money market funds), where cash funds over £20 million are held, to ensure that access to cash is maintained in the event of operational difficulties at any one provider.

6. Treasury Management Indicators

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

6.1 **Security:** The Council adopts a voluntary measure of its exposure to credit risk of its investment portfolio through regular rating advice from its treasury management adviser and through market information from contacts such as brokers and other councils.

6.2 **Liquidity:** The Council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three-month period, without additional borrowing:

Liquidity risk indicator	**Target**
Total cash available within 3 months	£10m

6.3 **Interest Rate Exposures:** The Council is exposed principally to risk in terms of its exposure to interest rate movements on its borrowing and investments. The Council is heavily reliant on investment income to support expenditure and has several strategies in place for managing such risk.

6.4 The Council's treasury adviser provides analysis of market movements and assists in investment decisions based on their knowledge of current market conditions and interest rate forecasting.

6.5 The Council generally invests medium- to long-term at fixed rates. The Council currently has no variable rate investments.

6.6 Fixed rate investments and borrowings are those where the rate of interest is fixed for at least 12 months, measured from the start of the financial year or the transaction date if later. All other instruments are classified as variable rate.

6.7 Maturity Structure of Borrowing: This indicator is set to control the Council's exposure to refinancing risk. We calculate this as the amount of fixed rate borrowing, we can have maturing in each period as a percentage of total projected borrowing that is at a fixed rate. The calculation takes fixed rate to be whether the borrowing was taken out at a fixed rate for a fixed period of time, regardless of that length of time. The upper and lower limits on the maturity structure of borrowing are as shown in Table 6.

Table 6: Maturity Structure of Borrowing (Upper Percentages are cumulative)

	Upper	Lower
Under 12 Months	10%	0%
1 – 2 Years	15%	0%
3 – 5 Years	20%	0%
6 – 10 Years	25%	0%
10 – 20 Years	50%	0%
20 – 30 Years	75%	0%
30 – 40 Years	90%	0%
40 – 50 Years	100%	0%

6.8 Time periods start on the first day of each financial year. The maturity of borrowing is the earliest date on which the lender can demand repayment. In the case of PWLB, this is the maturity date.

6.9 This indicator allows us to have the percentage of borrowing maturing in each time range shown above, considering our current debt profile, and providing an allowance for new borrowing, while having consideration to the Capital Programme.

6.10 Principal Sums Invested for Periods Longer than 364 days: The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end are shown in Table 7 below.

Table 7: Principal Limits – Price risk indicator

	2024/25	2025/26	2026/27	2027/28
	£m	£m	£m	£m
Limit on principal invested beyond year end	70	70	70	70

6.11 **Affordable borrowing limit:** The Council is legally obliged to set an affordable borrowing limit (also termed the authorised limit for external debt). In line with statutory guidance, a lower "operational boundary" is also set as a warning level should debt approach the limit.

Table 8: Prudential Indicators - Authorised limit and operational boundary for external debt

	2023/24	2024/25	2025/26	2026/27
	£m	£m	£m	£m
Authorised borrowing limit	1,170	1,270	1,270	1,270
Operational boundary	1,158	1,164	1,151	1,137

6.12 **Estimates of financing costs to net revenue stream** shown in Table 9 is a measure of the affordability of borrowing. The Council's financing costs relate substantially to borrowing when commercial property was acquired prior to March 2019. As the CIPFA TM Code notes, commercial investments are taken or held primarily for financial return and are not linked to treasury management activity or directly part of delivering services. However, as commercial property was directly related to borrowing costs, Table 10 also shows the net income after costs and contributions to future costs. This illustrates the affordability of the commercial investments.

Table 9: Prudential Indicator - Financing costs to net revenue stream

	2024/25	2025/26	2026/27	2027/28
Net Revenue Stream, £m	14.126	15.621	18.370	19.354
Financing costs, £m	36.634	38.667	39.282	39.326
Ratio	2.593	2.475	2.138	2.032

Table 10: Commercial income, related costs, and net contributions to sinking fund

	2024/25	2025/26	2026/27	2027/28
	£m	£m	£m	£m
Commercial income *	(50.946)	(51.395)	(53.852)	(55.755)
Landlord costs *	6.828	9.417	8.281	8.678
Contribution to sinking funds	(2.850)	(5.030)	(1.400)	0.150
Financing costs	35.481	35.554	35.616	35.588
Net income after landlord & financing costs & net contributions to sinking fund	**(11.487)**	**(11.454)**	**(11.355)**	**(11.339)**

Related Matters

6.13 The CIPFA TM Code requires the Council to include the following in its treasury management strategy.

6.14 **Financial Derivatives:** Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in Section 1 of the *Localism Act 2011* removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).

6.15 The Council will only use standalone financial derivatives (such as swaps, forwards, futures, and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Council is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward-starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

6.16 Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit.

6.17 In line with the CIPFA TM Code, the Council will seek external advice and will consider that advice before entering financial derivative contracts to ensure that it fully understands the implications.

6.18 **Markets in Financial Instruments Directive (MIFD):** The Council has opted up to professional client status with its providers of financial services, including advisers, banks, brokers, and fund managers, allowing access to a greater range of services but without the greater regulatory protections afforded to individuals and small companies. Given the size and range of the Council's treasury management activities, the Chief Financial Officer believes this to be the most appropriate status.

7. Financial implications

7.1 The budget for property investment income in 2025/26 is £49.064m (£41.1m after landlord costs of £7.8m), based on an investment portfolio of £912m (purchase cost). The budget for debt interest payable in 2025/26 is £25.4m, based on our debt portfolio of £1,075m at an average interest rate of 2.4%. After financing costs, property costs and set asides, it is anticipated that the Council will have a net surplus of £15.8m.

8. Risk considerations

8.1 DHLUC Guidance and the CIPFA TM Code do not prescribe any particular treasury management strategy for local authorities to adopt. The Chief Financial Officer believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. The strategy has been drawn up in consultation with the Council's independent treasury and investment advisers, to ensure a prudent and robust approach in the strategy.

8.2 Some alternative strategies, with their financial and risk management implications, are listed below in Table 11.

Table 11: Alternative strategies

Alternative	Impact on income and expenditure	Impact on risk management
Invest in a narrower range of counterparties and/or for shorter times	Lower investment sums resulting in less Interest income	Lower chance of losses from credit related defaults although such losses may be greater. Also, less diversity increases risk of losses.
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher with increased investment sums	Increased risk of losses from credit related defaults, but any such losses may be smaller. Increased diversity also decreases the risk of significant loss.
Borrow additional sums at long-term fixed interest rates (not in advance of need)	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default. However long-term interest costs may be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long-term costs may be less certain
Reduce level of borrowing	Reduced debt interest costs Less income for funding projects Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs may be less certain. Less resources available for the Capital Programme which would need to be reduced

9. Procurement considerations

9.1 Not applicable

10. Legal considerations

10.1 The Council has a statutory obligation, under The Local Government Act 2003 to approve and publish its Treasury Management Strategy. The Council has a statutory obligation to have regard to the Treasury Management and Prudential Codes

11. Other considerations

11.1 Not applicable.

12. Equality and Diversity

12.1 Not applicable

13. Sustainability/Climate Change Implications

13.1 The Corporate Policy and Resources Committee has agreed the parameters to be used in its Environmental, Social and Governance (ESG) strategy, the strategy has yet to be agreed. One of the intentions of developing and ESG strategy is to enable the Council to transition the investment portfolio to a more sustainable and environmentally sound approach.

14. Timetable for implementation

14.1 The Treasury Management Strategy for the financial year 2025/26 takes effect on 1st April 2025

15. Contact

Prithiva Janaka p.janaka@spelthorne.gov.uk

Background papers: None

Appendices:

Appx A - Arlingclose Benchmarking

Appx B - Context and Background v08

Appx C - Arlingclose forecast

Appx D - Annual MRP Statement v03

Appx E - TMP and Schedules

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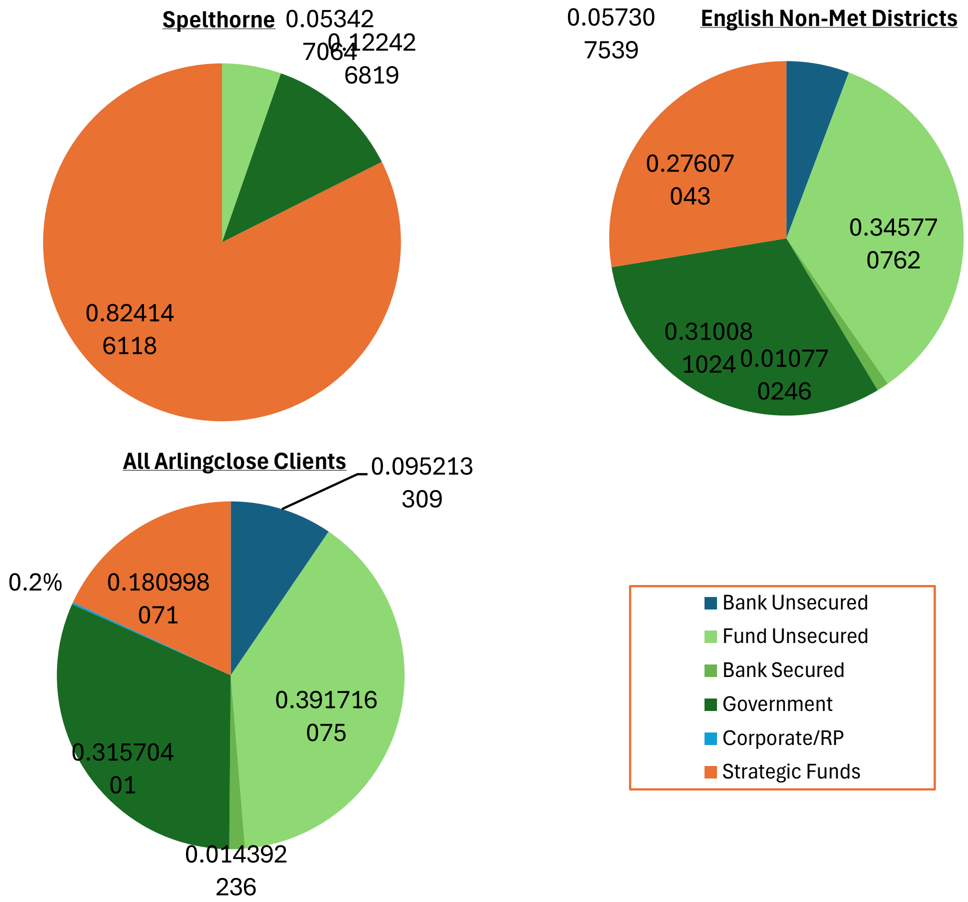
Investment Benchmarking
30 September 2024

	Spelthorne	45 English Non-Met Districts Average	124 LAs Average
Internal Investments	£7.2m	£29.7m	£60.1m
Cash Plus & Short Bond Funds	£0.0m	£1.1m	£0.8m
Strategic Pooled Funds	£33.4m	£12.1m	£10.7m
TOTAL INVESTMENTS	**£40.6m**	**£42.9m**	**£71.6m**
Security			
Average Credit Score	4.83	4.62	4.60
Average Credit Rating	A+	A+	A+
Average Credit Score (time-weighted)	4.81	4.31	4.39
Average Credit Rating (time-weighted)	A+	AA-	AA-
Number of Counterparties / Funds	14	12	12
Proportion Exposed to Bail-in	30%	60%	61%
Liquidity			
Proportion Available within 7 days	5%	42%	50%
Proportion Available within 100 days	18%	62%	71%
Average Days to Maturity	15	52	11
Market Risks			
Average Days to Next Rate Reset	30	70	51
Strategic Fund Volatility	6.6%	2.7%	3.3%
Yield			
Internal Investment Return	5.01%	4.92%	4.91%
Cash Plus Funds - Income Return	-	3.66%	3.86%
Strategic Funds - Income Return	5.06%	4.94%	5.10%
Total Investments - Income Return	**5.05%**	**4.85%**	**4.90%**
Cash Plus Funds - Capital Gain/Loss	-	2.38%	2.32%
Strategic Funds - Capital Gain/Loss	9.14%	2.39%	1.66%
Total Investments - Total Return	**12.57%**	**5.88%**	**5.42%**



Notes

- Unless otherwise stated, all measures relate to internally managed investments only, i.e. excluding external pooled funds.
- Averages within a portfolio are weighted by size of investment, but averages across authorities are not weighted.
- Pooled fund returns are 1-year to the end of the quarter.
- Credit scores are calculated as AAA = 1, AA+ = 2, etc.

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Context and Background

1. Spelthorne Borough Council's Context

    - Treasury Management in public services is defined as:

- the management of the organisation's borrowing, investments, and cash flows, including its banking, money market and capital market transactions
- the effective control of the risks associated with those activities.
- the pursuit of optimum performance consistent with those risks.
    - The Council has borrowed and invested substantial sums of money and is consequently exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of financial risk are therefore central to the Council's prudent financial management.
    - Treasury risk management at the Council is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice* (the CIPFA TM Code), which requires the Council to approve a treasury management strategy before the start of each financial year. The 2021 Edition of the CIPFA TM Code, which applies to the 2025/26 TM Strategy report, will be replaced for by the 2023 Edition in December 2023.
    - This report fulfils the Council's legal obligation under the *Local Government Act 2003* to have regard to the CIPFA TM Code.
    - The Treasury Management Practices (TMP) and Schedules, included at Appendix E, set out how this Council will seek to achieve its treasury management policies and objectives and how it will manage and control those activities.
    - The following sections on external context are mainly provided by Arlingclose
- External Context
    - External Context - Economic background
    - The ongoing impact on the UK from the war in Ukraine, together with higher inflation, higher interest rates, uncertain government policy, and a deteriorating economic outlook, will be major influences on the Authority's treasury management strategy for 2025/26
    - The Bank of England (BoE) reduced the Bank Rate by 0.25% to 4.75% in November 2024. This followed a 0.75% rise in March 23 from December 2022 which was the largest single rate hike since 1989 and the 10th successive rise since December 2021. The November decision was voted for by a 8-1 majority of the Monetary Policy Committee (MPC), with 1 dissenter voting for a no-change at 5

- The November quarterly Monetary Policy Report (MPR) forecast a prolonged but shallow recession in the UK with CPI inflation remaining elevated at over 10% in the near-term. While the projected peak of inflation is lower than in the August report, due in part to the government's support package for household energy costs, inflation is expected remain higher for longer over the forecast horizon and the economic outlook remains weak, with unemployment projected to start rising.
- The UK economy contracted by 0.3% between July and September 2022 according to the Office for National Statistics, and the BoE forecasts Gross Domestic Product (GDP) has fallen by 0.1% in October 2024largely because of decline in production output. How ever Real GDP is estimated to have grown by 0.% compared with the 3 months to July 2024
- The Consumer Prices Index including owner occupiers' housing costs (CPIH) rose by 3.2% in the 12 months to October 2024, up from 2.6% in September On a monthly basis, CPIH rose by 0.6% in October 2024, up from 0.1% in October 2023.The Consumer Prices Index (CPI) rose by 2.3% in the 12 months to October 2024, up from 1.7% in September On a monthly basis, CPI rose by 0.6% in October 2024, up from being little changed in October 2023 The largest upward contribution to the monthly change in both CPIH and CPI annual rates came from housing and household services, mainly because of electricity and gas prices; the largest offsetting downward contribution came from recreation and Culture
- Quarter 3 (July to Sept) 2024 saw a continuation of the cooling in the labour market seen in the first half of the year, as labour demand has continued to fall and nominal earnings growth has continued to moderate from its peak in mid-2023.The ratio between the number of unemployed people and the number of job vacancies brings together the picture for labour supply and labour demand, giving an indication of the scarcity of available labour, relative to business demand for labour. Figure 4 shows that this ratio rose above its pre-coronavirus (COVID-19) pandemic position of 1.7 in the latest period, reaching 1.8 unemployed people per job vacancy in August to October 2024. A ratio at this level continues to indicate a tight labour market, where demand for labour is high relative to the available supply of labour, but remains higher than the historically tight position in the first half of 2022 when the ratio was 1.0.

- Interest rates have been adjusted by the Federal Reserves as follows The target for key lending rate was reduced by 0.5 percentage points to the range of 4.5% to 5%.The Central Bank target rates between 4.25 and 4.5% the rate has been ,lowered by a full percentage points since September 2024.Despite the slight rise in certain prices between September and October, overall inflation has been trending downward during the second half of 2024 .The inflation remained above 3% in early 2024.Since early 2022 inflation has been the federal reserve's primary economic Challenge.
- Eurozone Inflation dipped below 2% for the first time since mid-2021 in September 2024,reinforcing an already solid case for a European Central Bank rate cut this month as a three year battle to tame runaway price growth nears its end.

- External Context - Credit Outlook

- Credit default swap (CDS) prices have generally followed an upward trend throughout 2022 and 2023, indicating higher credit risk. CDS market is highly volatile and subject to various factors such as economic conditions, political events, and market sentiment.
- CDS price volatility was higher in 2023 compared to 2022 and the divergence in prices between ringfenced (retail) and non-ringfenced (investment) banking entities has emerged once again.
- The weakening economic picture from 2022 led the credit rating agencies to reflect this in their assessment of the outlook for the UK sovereign as well as several local authorities and financial institutions, revising them from to negative from stable.
- There are competing tensions in the banking sector which could impact bank balance sheet strength going forward. The weakening economic outlook and likely recessions in many regions increase the possibility of a deterioration in the quality of banks' assets, while higher interest rates provide a boost to net income and profitability.
- However, the institutions on our adviser Arlingclose's counterparty list remain well-capitalised and their counterparty advice on both recommended institutions and maximum duration remain under constant review and will continue to reflect economic conditions and the credit outlook.
-

- **External Context – Interest Rate forecast** The Authority's treasury management adviser Arlingclose forecasts As expected, the Monetary Policy Committee (MPC) held Bank Rate at 5.0 percent in September. While the "no change" majority of eight to one was unexpectedly strong, the minutes suggested some policymakers believed a gradual approach to loosening policy was warranted given the persistence of services inflation, rather than no loosening at all.

  - Yield share expected to remain broadly at current levels over the medium-term, with 5-, 10- and 20-year gilt yields expected to average around 3.67over the 3-year period to December 2027. The risks for short, medium and longer-term yields are judged to be broadly balanced over the forecast horizon. As ever, there will undoubtedly be short-term volatility due to economic and political uncertainty and events.
  - A more detailed economic and interest rate forecast provided by Arlingclose is in Appendix A
  - Revised PWLB Guidance
  - HM Treasury published further guidance on PWLB borrowing in August 2021 providing additional detail and clarifications predominantly around the definition of an 'investment asset primarily for yield'. The principal aspects of the new guidance are:
  - Capital expenditure incurred or committed to before 26th November 2020 is allowable even for an 'investment asset primarily for yield'.
  - Capital plans should be submitted by local authorities via a DELTA return. These open for the new financial year on 1st March and remain open all year. Returns must be updated if there is a change of more than 10%.

- An asset held primarily to generate yield that serves no direct policy purpose should not be categorised as service delivery.
- Further detail on how local authorities purchasing investment assets primarily for yield can access the PWLB for the purposes of refinancing existing loans or externalising internal borrowing.
- Additional detail on the sanctions which can be imposed for inappropriate use of the PWLB loan. These can include a request to cancel projects, restrictions to accessing the PLWB and requests for information on further plans.
- The Council will ensure it complies with the new PWLB guidance and will not be purchasing any assets primarily for yield.

- Changes to PWLB Terms and Conditions from 8 September 2021
  - The settlement time for a PWLB loan has been extended from two workings days (T+2) to five working days (T+5). In a move to protect the PWLB against negative interest rates, the minimum interest rate for PWLB loans has also been set at 0.01% and the interest charged on late repayments will be the higher of Bank of England Base Rate or 0.1%.
  - Municipal Bonds Agency (MBA): The MBA is working to deliver a new short-term loan solution, available in the first instance to principal local authorities in England, allowing them access to short-dated, low rate, flexible debt. The minimum loan size is expected to be £25 million. Importantly, local authorities will borrow in their own name and will not cross guarantee any other authorities.
  - If the Authority intends future borrowing through the MBA, it will first ensure that it has thoroughly scrutinised the legal terms and conditions of the arrangement and is satisfied with them.
  - UK Infrastructure Bank: £4bn has been earmarked for of lending to local authorities by the UK Infrastructure Bank which is wholly owned and backed by HM Treasury. The availability of this lending to local authorities, for which there will be a bidding process, is yet to commence. Loans will be available for qualifying projects at gilt yields plus 0.6%, which is 0.2% lower than the PWLB certainty rate.
  - Both the CIPFA TM Code and government guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

- Treasury Investment
  - Ultra-low short-dated cash rates which have been a feature since March 2020 when Bank Rate was cut to 0.1% have resulted in the return on sterling low volatility net asset value money market funds (LVNAV MMFs) being close to zero even after some managers have temporarily waived or lowered their fees. At this stage net negative returns are not the central case of most MMF managers over the short-term, and fee cuts or waivers should result in MMF net yields having a floor of zero, but the possibility cannot be ruled out.
  - Deposit rates with the Debt Management Account Deposit Facility (DMADF) are also largely around zero.

- Revisions to CIPFA Codes
  - In February 2021 CIPFA launched two consultations on changes to its Prudential Code and Treasury Management Code of Practice. These followed the Public Accounts Committee's recommendation that the prudential framework should be further tightened following continued borrowing by some authorities for investment purposes. In June, CIPFA provided feedback from this consultation, followed by further consultation from September.
  - In December 2021, CIPFA issued the revised Codes and Guidance Notes. The changes include:
  - Clarification that (a) local authorities must not borrow to invest primarily for financial return (b) it is not prudent for authorities to make any investment or spending decision that will increase the Capital Financing Requirement, and so may lead to new borrowing, unless directly and primarily related to the functions of the authority.
  - Categorising investments as those (a) for treasury management purposes, (b) for service purposes and (c) for commercial purposes.
  - Defining acceptable reasons to borrow money: (i) financing capital expenditure primarily related to delivering a local authority's functions, (ii) temporary management of cash flow within the context of a balanced budget, (iii) securing affordability by removing exposure to future interest rate rises and (iv) refinancing current borrowing, including replacing internal borrowing.
  - For service and commercial investments, in addition to assessments of affordability and prudence, an assessment of proportionality in respect of the authority's overall financial capacity (i.e. whether plausible losses could be absorbed in budgets or reserves without unmanageable detriment to local services).
  - **Prudential Indicators**: New indicator for net income from commercial and service investments to the budgeted net revenue stream.
  - Inclusion of the liability benchmark as a mandatory treasury management prudential indicator. CIPFA recommends this is presented as a chart of four balances – existing loan debt outstanding; loans CFR, net loans requirement, liability benchmark – over at least 10 years and ideally cover the authority's full debt maturity profile.
  - Excluding investment income from the definition of financing costs.
  - Incorporating ESG issues as a consideration within TMP 1 Risk Management.
  - Additional focus on the knowledge and skills of officers and elected members involved in decision making.
- MHCLG Improvements to the Capital Finance Framework
  - The Government department MHCLG (Department for Levelling Up, Housing and Communities *formerly DLUHG*) published a brief policy paper in July outlining the ways it feels that the current framework is failing and potential changes that could be made. The paper found that "while many authorities are compliant with the framework, there remain some authorities that continue to engage in practices that push the bounds of compliance and expose themselves to excessive risk".

- The actions announced include greater scrutiny of local authorities and particularly those engaged in commercial practices; an assessment of governance and training; a consideration of statutory caps on borrowing; further regulations around Minimum Revenue Provision (MRP) and ensuring that DLUHC regulations enforce guidance from CIPFA and the new PWLB lending arrangements

Appendix A – Arlingclose Economic & Interest Rate Forecast – December 2024

Underlying assumptions:

- **As expected, the Monetary Policy Committee (MPC) held Bank Rate at 4.75% in December, although, with a 6-3 voting split and obvious concerns about economic growth, presented a much more dovish stance than had been expected given recent inflationary data.**
- The Budget measures remain a concern for policymakers, for both growth and inflation. Additional government spending will boost demand in a constrained supply environment, while pushing up direct costs for employers. The short to medium-term inflationary effects will promote caution amongst policymakers.
- UK GDP recovered well in H1 2024 from technical recession, but underlying growth has petered out as the year has progressed. While government spending should boost GDP growth in 2025, private sector activity appears to be waning, partly due to Budget measures.
- Private sector wage growth and services inflation remain elevated; wage growth picked up sharply in October. The increase in employers' NICs, minimum and public sector wage levels could have wide ranging 2.6% could rise further in Q1 2025. The Bank of England (BoE) estimates the CPI rate at 2.7% by year end 2025 and to remain over target in 2026.
- The MPC re-emphasised that monetary policy will be eased gradually. Despite recent inflation-related data moving upwards or surprising to the upside, the minutes suggested a significant minority of policymakers are at least as worried about the flatlining UK economy.
- US government bond yields have risen following strong US data and uncertainty about the effects of Donald Trump's policies on the US economy, particularly in terms of inflation and monetary policy. The Federal Reserve pared back its expectations for rate cuts in light of these issues. Higher US yields are also pushing up UK gilt yields, a relationship that will be maintained unless monetary policy in the UK and US diverges.

	Current	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27
Official Bank Rate													
Upside risk	0.00	0.25	0.50	0.50	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
Central Case	4.75	4.50	4.25	4.00	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75
Downside risk	0.00	-0.25	-0.25	-0.50	-0.50	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75
3-month money market rate													
Upside risk	0.00	0.25	0.50	0.50	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
Central Case	4.90	4.60	4.35	4.10	3.90	3.85	3.85	3.85	3.85	3.85	3.85	3.85	3.85
Downside risk	0.00	-0.25	-0.25	-0.50	-0.50	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75
5yr gilt yield													
Upside risk	0.00	0.70	0.80	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90
Central Case	4.34	4.30	4.20	4.10	4.00	3.90	3.90	3.95	4.00	4.05	4.05	4.05	4.05
Downside risk	0.00	-0.50	-0.60	-0.65	-0.65	-0.70	-0.70	-0.75	-0.75	-0.80	-0.80	-0.80	-0.80
10yr gilt yield													
Upside risk	0.00	0.70	0.80	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90
Central Case	4.56	4.55	4.45	4.30	4.20	4.20	4.20	4.20	4.25	4.25	4.25	4.25	4.25
Downside risk	0.00	-0.50	-0.60	-0.65	-0.65	-0.70	-0.70	-0.75	-0.75	-0.80	-0.80	-0.80	-0.80

Forecast

- In line with our forecast, Bank Rate was held at 4.75% in December.
- The MPC will reduce Bank Rate in a gradual manner. We see a rate cut in February 2025, followed by a cut alongside every Monetary Policy Report publication, to a low of 3.75%.

- Long-term gilt yields have risen to reflect both UK and US economic, monetary and fiscal policy expectations, and increases in bond supply. Volatility will remain elevated as the market digests incoming data for clues around the impact of policy changes.
- This uncertainty may also necessitate more frequent changes to our forecast than has been the case recently.
- The risks around the forecasts lie to the upside over the next 12 months but are broadly balanced in the medium term.

20yr gilt yield													
Upside risk	0.00	0.70	0.80	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90
Central Case	**5.05**	**5.00**	**4.90**	**4.80**	**4.70**	**4.65**	**4.65**	**4.65**	**4.65**	**4.65**	**4.65**	**4.65**	**4.65**
Downside risk	0.00	-0.50	-0.60	-0.65	-0.65	-0.70	-0.70	-0.75	-0.75	-0.80	-0.80	-0.80	-0.80
50yr gilt yield													
Upside risk	0.00	0.70	0.80	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90
Central Case	**4.52**	**4.70**	**4.60**	**4.50**	**4.40**	**4.35**	**4.35**	**4.35**	**4.35**	**4.35**	**4.35**	**4.35**	**4.35**
Downside risk	0.00	-0.50	-0.60	-0.65	-0.65	-0.70	-0.70	-0.75	-0.75	-0.80	-0.80	-0.80	-0.80

PWLB Standard Rate (Maturity Loans) = Gilt yield + 1.00%; PWLB Certainty Rate (Maturity Loans) = Gilt yield + 0.80%
PWLB HRA Rate (Maturity Loans) = Gilt yield + 0.40%; National Wealth Fund Rate (Maturity Loans) = Gilt yield + 0.40%

- While UK GDP growth picked up sharply in 2024, underlying economic momentum appears subdued. Growth is expected to ease slightly in 2025 before gradually recovering, reflecting both the delayed impact of prior Bank Rate increases and the fading of restrictive monetary policy effects over time. Aggregate demand and supply currently remain balanced; however, a margin of economic slack is projected to emerge through 2024 and 2025, partly due to the sustained restrictive policy stance.
- Labour market data from the ONS remains variable, though broader indicators suggest the market is beginning to loosen as labour demand cools. Unemployment is expected to edge up, a sign of moderating labour tightness.
- Notably, inflation remains a key concern; CPI is projected to rise to approximately 2.75% by the end of 2024, as the previous year's energy price reductions fall out of annual comparisons, revealing the underlying persistence of domestic inflationary pressures. Inflation is then expected to fall to the Bank of England's target by the end of 2027.

Minimum Revenue Provision Statement 2024/25

Adopted from Arling Close (SBC Treasury Advisors)

Annual Minimum Revenue Provision Statement 2024/25

Where the Authority finances capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP), although there has been no statutory minimum since 2008. The *Local Government Act 2003* requires the Authority to have regard to the former Ministry of Housing, Communities and Local Government's *Guidance on Minimum Revenue Provision* (the MHCLG Guidance) most recently issued in 2018.

The broad aim of the MHCLG Guidance is to ensure that capital expenditure is financed over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant.

The MHCLG Guidance requires the Authority to approve an Annual MRP Statement each year and recommends a number of options for calculating a prudent amount of MRP. The following statement only incorporates options recommended in the Guidance [as well as locally determined prudent methods].

- For capital expenditure incurred before 1st April 2008, [and for supported capital expenditure incurred on or after that date,] MRP will be determined in accordance with the former regulations that applied on 31st March 2008, incorporating an "Adjustment A" of £[X]m. *(Option 1)*

- For capital expenditure incurred before 1st April 2008 [and for supported capital expenditure incurred on or after that date,] MRP will be determined as 4% of the capital financing requirement in respect of that expenditure. *(Option 2)*

- For [unsupported] capital expenditure incurred after 31st March 2008, MRP will be determined by charging the expenditure over the expected useful life of the relevant asset [in equal instalments] *or* [as the principal repayment on an annuity with an annual interest rate [of X%] *or* [equal to the average relevant PWLB rate for the year of expenditure]], starting in the year after the asset becomes operational. MRP on purchases of freehold land will be charged over 50 years. MRP on expenditure not related to fixed assets but which has been capitalised by regulation or direction will be charged over 20 years. *(Option 3)*

- For [unsupported] capital expenditure incurred after 31st March 2008, MRP will be determined as being equal to the accounting charge for depreciation and impairment on those assets (or parts of) continuing until the expenditure has been fully funded. *(Option 4)*

- Where former operating leases have been brought onto the balance sheet due to the adoption of the *IFRS 16 Leases* accounting standard, and the asset values have been adjusted for accruals, prepayments, premiums and/or incentives, then the annual MRP charges will be adjusted so that the total charge to revenue remains unaffected by the new standard.

- For capital expenditure loans to third parties, the Authority will make nil MRP unless (a) the loan is an investment for commercial purposes and no repayment was received in year or (b) an expected credit loss was recognised or increased in-year, but will instead apply the capital receipts arising from principal repayments to reduce the capital financing requirement instead. In years where there is no principal repayment on loans that are investments for commercial purposes, MRP will be charged in accordance with the MRP policy for the assets funded by the loan, including where appropriate, delaying MRP until the year after the assets become operational. Sufficient MRP will be charged to ensure that the outstanding capital financing requirement (CFR) on the loan is no higher than the principal amount outstanding less the expected credit loss. This option was proposed by the government in its recent MRP consultation and in the Authority's view is consistent with the current regulations.

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Spelthorne Borough Council

Treasury Management Practices and Schedules

Contents

Treasury Management Practices, Principles and Schedules (TMPs) set out how this Council will seek to achieve its treasury management policies and objectives, and how it will manage and control those activities.

Treasury Management Practices

1. Risk management

General Statement

The Chief Finance Officer will design, implement and monitor all arrangements for the identification, management and control of treasury management risk, and will report at least annually on the adequacy and suitability of these arrangements. The Chief Finance Officer will report, as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the Council's objectives in this respect in accordance with the procedures set out in **TMP6 *Reporting requirements and management information arrangements***. For each of the following risks, the arrangements will seek to ensure compliance with these objectives as set out in the schedules below:

The following paragraphs cover the main areas of risk:

1. Credit and Counterparty Risk Management
2. Liquidity Risk Management
3. Interest Rate Risk Management
4. Exchange Rate Risk Management
5. Inflation risk management
6. Refinancing Risk Management
7. Legal and Regulatory Risk Management
8. Operational risk including Fraud, Error and Corruption
9. Price risk management
10. ESG considerations

Where this document refers to the Government, this refers to the Ministry for Housing, Communities and Local Government (MHCLG).

c. Credit and counterparty risk management

The Council regards a key objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, it will ensure that its counterparty lists and limits reflect a prudent attitude towards organisations with which funds may be deposited, and will limit its investment activities to the instruments, methods and techniques set out in TMP4 *Approved investments, methods and techniques*. The Council also recognises the need to have, and will therefore maintain, a formal counterparty policy on those organisations which it may borrow from, or which it may enter into other financing arrangements with.

Schedule:

Credit and counterparty risk is the risk of failure by a third party to meet its contractual obligations to the Council under an investment, borrowing, capital, project or partnership financing, particularly as a result of the third party's diminished creditworthiness, and the resulting detrimental effect on the Council's capital and revenue resources.

1.1 Criteria to be used for creating/managing approved counterparty lists/limits	The Chief Finance Officer is responsible for setting prudent criteria and the Council's treasury advisors will provide guidance and assistance in setting these criteria. The Council's treasury management advisors will advise on credit policy and creditworthiness related issues. The Council will maintain a counterparty list based on its criteria and will monitor and update the credit standing of the institutions on a regular basis. The Council will also take into account information on corporate developments of and market sentiment towards investment counterparties. The current criteria, set out in the Council's Annual Treasury Management Strategy, are agreed by CP&R Committee and approved by Council.
1.2 Approved methodology for changing limits and adding/removing counterparties	The Chief Finance Officer has delegated responsibility to add or delete counterparties and to review limits within the parameters of the criteria detailed above.
1.3 Counterparty list and limits	A full individual listing of counterparties based on the criteria will be maintained. As credit ratings etc. are subject to change without notice, an up-to-date lending list will be maintained on an ongoing basis within the Operations Manual.
1.4 Country, sector and group listings of counterparties and overall limits applied to each, where appropriate	Investments will be displayed so as to show total group exposure, total country exposure and total sector exposure. Group limits have been set for the above, in terms of monetary value, where appropriate.

1.5 Details of credit rating agencies' services and their application	The Council considers the ratings of all 3 main ratings agencies (Standard & Poor's, Moody's and Fitch) when making investment decisions. Credit rating agency information is just one of a range of instruments used to assess creditworthiness of institutions.
1.6 Description of the general approach to collecting/using information other than credit ratings for counterparty risk assessment	The Council's Treasury Advisor, currently Arlingclose, provides timely information on counterparties, in terms of credit rating updates and economic summaries. In addition, members of the treasury team read quality financial press for information on counterparties.

2. Liquidity risk management

The Chief Finance Officer will ensure the Council has adequate though not excessive cash reserves, borrowing arrangements, and overdraft or standby facilities to enable it at all times to have the level of funds available to it which are necessary for the achievement of its business and service objectives.

The Council will only borrow in advance of need where there is a clear business case for doing so and will only do so for the current Capital Programme or to fund future debt maturities, and will do so within approved borrowing limits set by Council.

Schedule:

Liquidity risk is the risk that cash is not available when it is needed, that ineffective management of liquidity creates additional unbudgeted costs, and that the Council's business and service objectives will therefore be compromised.

2.1 Cash flow and cash Balances	The Council will aim for effective cash flow forecasting and monitoring of cash balances, will maintain a rolling 3-month cash flow forecast and is developing longer forecast through the TM CSL system. The Treasury Team shall seek to optimise the balance held in the Council's main bank accounts at the close of each working day in order to minimise the amount of bank overdraft interest payable or maximise the amount of interest that can be earned. In order to achieve the maximum return from investments, the target for the Council's bank account daily cash balance is up to £50,000 in, with a maximum limit of a £500,000 credit balance.

2.2 Short term investments	The balance on the Council's General bank account is used to deal with day to day cash flow fluctuations. The Council also uses various other deposit/ notice accounts and Money Market Funds to manage liquidity requirements. These account/ fund counterparties are named on the Council's approved counterparty list. The maximum balance on each of these counterparties is reviewed and set as part of the Council's Treasury Management strategy.
2.3 Temporary Borrowing	Temporary borrowing up to 364 days through the money market is available to cover cash flow deficits at any point during the year. At no time will the outstanding total of temporary and long-term borrowing together with any bank overdraft exceed the Prudential Indicator for the Authorised Borrowing Limit agreed by the Council before the start of each financial year.
2.4 Bank Overdraft and standby facilities	The Council has an authorised overdraft limit with its bankers, Lloyds Bank, of £50,000 at an agreed rate of 1% over base rate. The facility is used as a contingency when temporary borrowing is difficult or more expensive

3. Interest rate risk management

The Council will manage its exposure to fluctuations in interest rates with a view to containing its interest costs, or securing its interest revenues, in accordance with the amounts provided in its budgetary arrangements in accordance with TMP6 *Reporting requirements and management information arrangements*.

Schedule

Interest rate risk is the risk that fluctuations in the levels of interest rates create an unexpected or unbudgeted burden on the Council's finances, against which the Council has failed to protect itself adequately.

3.1 Minimum/ maximum proportions of fixed/variable rate debt/interest	Borrowing/investments may be at a fixed or variable rate. When funding asset acquisitions on a long-term funding basis, the Council will normally seek to borrow on a fixed rate basis to ensure certainty of financing commitments. In setting its forward Treasury Strategy on an annual basis, the Council will determine the necessary degree of certainty required for its plans and budgets but will, at the same time, allow sufficient flexibility to enable it to benefit from potentially advantageous changes in market conditions and levels of interest rates and also to mitigate the effects of potentially disadvantageous changes. The Council will achieve this by the prudent use of its approved financing and investment instruments, methods and techniques, primarily to create stability and certainty of costs and revenues, but at the same time retaining a sufficient degree of flexibility.
3.2 Managing changes to interest rate levels	The main impact of changes in interest rate levels is to monies borrowed and invested at variable rates of interest. The Council will consider matching borrowing at variable rates with investments similarly exposed to changes in interest rates as a way of mitigating any adverse budgetary impact. Interest rate forecasts are provided by the Council's advisors and are closely monitored by the Chief Finance Officer. Variations from original estimates and their impact on the Council's debt and investments are notified to the Corporate Policy & Resources Committee as necessary. For its investments, the Council also considers dealing on forward periods depending on market conditions and options available in the market place.
3.3 Details of approved interest rate exposure limits	The upper limit for variable interest rate investments as a proportion of total investments is 100%. In terms of long-term borrowing, the Council can have no more than 100% in variable interest rate borrowings.

4. Exchange rate risk management

The Council will ensure that it protects itself adequately against the risk of fluctuations in foreign exchange rates creating an unexpected or unbudgeted burden on the Council's finances. It will manage any exposure to fluctuations in exchange rates so as to 6 minimise any detrimental impact on its budgeted income and expenditure levels.

Schedule

The risk that fluctuations in foreign exchange rates create an unexpected or unbudgeted burden on the Council's finances against which the Council has failed to protect itself adequately.

4.1 Exchange rate risk management	This Council does not, on a day to day basis, have foreign currency transactions or receipts. Unexpected receipt of foreign currency will be converted to sterling at the earliest opportunity. If the Council has a contractual obligation to make a payment in a currency other than sterling, then forward foreign exchange transactions will be considered, with professional advice. At the present time, statute prevents the Council borrowing in currencies other than Sterling. The Council has also determined that all its investments will be in Sterling.

5. Inflation risk management

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

6. Refinancing risk management

The Council will ensure that its borrowing, private financing and partnership arrangements are negotiated, structured and documented, and the maturity profile of the monies so raised are managed, with a view to obtaining offer terms for renewal and refinancing, if required, which are competitive and as favourable to the organisation as can reasonably be achieved in the light of market conditions prevailing at the time.

It will actively manage its relationships with its counterparties in these transactions in such a manner as to secure this objective, and will avoid over-reliance on any one source of funding if this might jeopardise achievement of the above.

Schedule

The risk that maturing borrowings, capital, project or partnership financings cannot be refinanced on terms that reflect the provisions made by the organisation for those refinancings, both capital and current (revenue), and/or that the terms are inconsistent with prevailing market conditions at the time.

6.1 Projected capital investment requirements	Four-year projections are in place for capital expenditure and related financing or funding. Longer term projections will be undertaken for significant capital developments or asset acquisitions. Financing will be from capital receipts, grants or contributions, revenue resources or reserves. Funding will be from internal or external borrowing, as decided. As required by the Prudential Code, the Council will undertake Options Appraisal to evaluate the best capital expenditure financing route. The Council's projected long-term borrowing requirement will be linked to the projected Capital Financing Requirement.
6.2 Debt profiling, policies and practices	Any longer-term borrowing will be undertaken in accordance with the Prudential Code and will comply with the Council's Prudential Indicators and the Annual Treasury Management Strategy. The Council will maintain through its own treasury system spreadsheets reliable records of the terms and maturities of its borrowings, capital, project and partnership funding and, where appropriate, plan and successfully negotiate terms for refinancing. Where the lender to the Council is a commercial body the Council will aim for diversification in order to spread risk and avoid over-reliance on a small number of counterparties.
6.3 Policy concerning limits on revenue consequences of capital financings	The revenue consequences of financing the capital programme are included in cash flow models, annual revenue estimates and medium-term forecasts.

7. Legal and regulatory risk management

The Council will ensure that all of its treasury management activities comply with its statutory powers and regulatory requirements. It will demonstrate such compliance, if required to do so, to all parties with whom it deals in such activities. In framing its credit and counterparty policy under *TMP 1 (1) Credit and counterparty risk management*, it will ensure that there is evidence of counterparties' powers, authority and compliance in respect of the transactions they may effect with the Council, particularly with regard to duty of care and fees charged.

The Council recognises that future legislative or regulatory changes may impact on its treasury management activities and, so far as it is reasonably able to do so, will seek to minimise the risk of these impacting adversely on the organisation.

Schedule

The risk that the Council itself, or a third party with which it is dealing in its treasury management activities, fails to act in accordance with its legal powers or regulatory requirements, and that the Council suffers losses accordingly.

7.1 References to relevant statutes and regulations	The treasury management activities of the Council shall comply fully with legal statute and the regulations of the Council. These are: ▪ CIPFA's Treasury Management Code of Practice 2021 and subsequent amendments ▪ CIPFA Guide for Chief Financial Officers on Treasury Management in Local Authorities ▪ CIPFA Prudential Code for Capital Finance in Local Authorities 2021 and subsequent amendments ▪ CIPFA Standard of Professional Practice on Treasury Management ▪ The Local Government Act 2003 ▪ The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 SI 2003 No 3146, and subsequent amendments ▪ The Government's statutory Guidance on Minimum Revenue Provision (MRP) updated 2018 ▪ The Government's Guidance on Local Government Investments in England issued March 2004 and amended 2018 ▪ HM Treasury's Guidance Regarding PWLB Lending and the PWLB's new Operating Circular numbered 162 (Nov 2020) ▪ The Local Authorities (Contracting out of Investment Functions) Order 1996 SI 1996 No 1883 ▪ LAAP Bulletins ▪ Code of Practice on Local Authority Accounting in the United Kingdom based on International Financial Reporting Standards (from 2017/18 onwards) ▪ Accounts and Audit Regulations 2017, as amended together with THE GOVERNMENT's Guidance ▪ The Non-Investment Products Code (formerly known as The London Code of Conduct) for principals and broking firms in the wholesale markets ▪ Council's Constitution including:- o Standing Order relating to Contracts o Financial Regulations o Scheme of Delegation

7.2 Procedures for evidencing the organisation's powers/ authorities to counterparties	The Council's Financial Regulations contain evidence of the power/ authority to act as required by section 151 of the Local Government Act 1972, under the general direction of the Corporate Policy & Resources Committee. The Council will confirm, if requested to do so by counterparties, the powers and authorities under which the Council effects transactions with them. Where required, the Council will also establish the powers of those with whom they enter into transactions, including any compliance requirements in respect of a duty of care and best practice.
7.3 Required information from counterparties concerning their powers/ authorities	Lending shall only be made to institutions as defined by the Council's TM strategy. The Council will only undertake borrowing from approved sources such as the PWLB, organisations such as the European Investment Bank and from commercial banks who are on the Council's list of authorised institutions, thereby minimising legal and regulatory risk. The list of approved sources of borrowing is contained in TMP 4, 1.2.
7.4 Statement on political risks and management of the same	Political risk is managed by: • adoption of the CIPFA Treasury Management Code of Practice • adherence to Local Code of Corporate Governance and as set out in *TMP 12 – Corporate Governance* • adherence to the Statement of Professional Practice by the Chief Finance Officer. • the role of the Corporate Policy & Resources Corporate Policy & Resources Committee.

8. Operational risk including fraud, error and corruption, and contingency management

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

Schedule

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

8.1 Details of systems and procedures to be followed, including Internet services	Segregation of duties minimises the possibility of fraud and loss due to error, and is detailed in ***TMP5 Organisation, clarity and segregation of responsibilities, and dealing arrangements***. c. <u>Electronic Banking and Dealing</u> *Banking*: The Council's online banking service is provided by Lloyds Bank and is subject to separate log-on and password control allowing varying levels of access. Details of transactions and balances are available as required, and the system also holds historic data. Officers with access to the bank's online system are as follows: • Deputy Chief Executive (CFO, s151 officer) – Terry Collier • Joint Financial Services Manager – Mahmud Rogers • Treasury Management and Capital Accountant – Prithiva Janaka • Assistant Accountant – John Bradley-Turner • Systems Accountant – Jodie Hawkes • Revenue Accounts Team Leader – Ben Hanger • Assistant Systems Accountant - Shelley Johnson • Service Accountant – Arun Sood • Service Accountant – Aleksandra Alla Blavatnik • Service Accountant – Nicholas Brown • Finance Apprentice – Ella Stewart • Joint Finance Manager Systems & Controls – Emilia Grodzka Officer access is reviewed at least 6-monthly or as necessary. Procedure notes covering the day-to-day operation of the online banking system and treasury management procedures are documented and included in the Treasury Management system folder. 2. <u>Standard Settlement Instructions</u> (SSI) list: a list is maintained of named officers who have the authority to transact loans and investments • Brokers and counterparties with whom the Council deals direct are provided a copy of the SSI list. • A list of named officers with authority to borrow from the PWLB and invest with the Debt Management Agency Deposit Facility is also maintained with the PWLB/DMADF. 3. <u>Payment Authorisation</u>: • Payments can only be minimised by the approved signatories of the Council. The list of signatories has been previously agreed with the Council's bankers. • Inflow and outflow of monies borrowed and invested will only be from the counterparty's bank accounts. • Separate officers will carry out (a) dealing and (b) recording of transactions and disbursements wherever possible. However, this will not always be possible due to staff numbers.

8.2 Verification	Details of loans and investments will be maintained in treasury management spreadsheet which will include fees and brokerage paid. Transactions will be cross-checked against broker notes, counterparty confirmations and PWLB loan schedules by verifying dates, amounts, interest rates, maturity, interest payment dates etc.
8.3 Substantiation	1. The Treasury Management system balances are reconciled with financial ledger codes at the end of each month and at the financial year end. 2. Working papers are retained for audit inspection. 3. The bank reconciliation is carried out monthly from the bank statement to the general ledger system, Integra.
8.4 Internal Audit	Internal Audit carry out an annual regulatory review of the treasury management function including probity testing. *See TMP7 Budgeting accounting and audit arrangements.*
8.5 Contingency Management	1. Treasury files are kept on the Council's network. Daily back-ups are maintained corporately by the ICT service. Network backups can be used to restore files and if necessary can be accessed from sites remote from the Council offices. 2. The Council has access to a Treasury Management system on a secure site managed by the Council's TM advisers, Arlingclose. This system is due to be set up during January to March 2020 so that the system's TM tools can be used to facilitate the Council's treasury management. Arlingclose is responsible for integrity and security of that system. As part of implementation of that system, the Council will determine backup measures that can be taken. 3. Electronic Banking System Failure: Daily bank balances for calculating cash flow requirements can be obtained by telephone from the Lloyds Corporate Banking Online (CBO) helpline on 0808 202 1390 by 12inimize12d users, who have security information that will be requested by the bank before sensitive information is provided. 4. CHAPs, Faster Payments, other transfers, stop cheque requests, and so on, can be done directly by the bank. 5. The Accountancy Team maintains an up-to-date Business Continuity Plan

8.6 Insurance cover details	The Council has Fidelity, Professional Indemnity and Business Interruption cover. Details of the provider and cover are held by the Insurance Officer.
8.7 TM system	The TM ‘CS Lucas’ system was implemented during 2020 and has been incorporated into the TM function. This is an online facility provided by company CS Lucas, which provides support including system procedure notes. The system will be used to support accounting and management of the council’s TM function, but is not, and currently will not, be used for trades or financial transactions.

8. Market risk and price risk management

The Council will seek to ensure that its stated treasury management policies and objectives will not be compromised by adverse market fluctuations in the value of the principal sums it invests and will accordingly seek to protect itself from the effects of such fluctuations.

Schedule

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

8.1 Details of approved procedures and limits for controlling exposure to investments whose capital value may fluctuate (gilts, CDs etc)	Investment instruments used by external fund managers, where applicable, may be subject to fluctuation in capital movements and exposed to interest rate risk. To minimise these risks, capital preservation is set as the primary objective and pursuit of investment performance should be commensurate with this objective. Additionally, the following risk control guidelines are set for each fund as part of the fund management agreement to control market risk: (a) Maximum weighted average duration of the fund; (b) Maximum permitted exposure to gilts/bonds; (c) Maximum maturity of any instrument.

8.2 Accounting for unrealised gains and losses	The method of accounting for unrealised gains or losses on the valuation of financial assets complies with the Accounting Code of Practice. The Council has made irrevocable election to present changes in the fair values of Pooled Funds equity instruments in other comprehensive income, and not in the surplus or deficit on provision of services. This is because such instruments are long-term strategic investments held by the Council primarily to receive regular dividend income rather than for capital growth or to sell.

8. ESG considerations

The Council is keen to pursue Economic, Social and Governance (ESG) issues to help move funds to those that are acceptable and aligned to the Council's ethical and green objectives. The Council is currently doing this through a cross-party working group including councillors and with reference to advice and research by Arlingclose. This area of work is a medium to long term project, to ensure the security of funds held, noting that the funds held by the council contribute to the financial health of the Council.

Treasury Management Practices

2. Performance measurement

The Council is committed to the pursuit of value for money in its treasury management activities, and to the use of performance methodology in support of that aim, within the framework set out in its Treasury Management Policy Statement.

Accordingly, the treasury management function will be the subject of ongoing analysis of the value it adds in support of the Council's stated business and service objectives. It will be the subject of regular examination of alternative methods of service delivery, of the availability of fiscal or other grant or subsidy incentives, and of the scope for other potential improvements. The performance of the treasury management function will be measured using the criteria set out below.

Schedule

1.1 Policy concerning methods for testing value for money	Best value reviews will include the production of plans to review the way services are provided by • Challenging • Comparing performance • Consulting with other users and interested parties • Applying competition principles in order to pursue continuous improvement in the way the Council's functions are exercised, having regard to a combination of value for money, efficiency and effectiveness.

1.2 Policy concerning methods for performance measurement	• Performance measurement at this Council is intended to calculate the effectiveness of treasury activity in delivering the strategic objectives set through the Treasury Management Strategy and the Council's Prudential Indicators and to enhance accountability. • Prudential Indicators are local to the Council and are not intended as a comparator between authorities. • The performance review will be made in the light of general trends in interest rates during the year and how the decisions made corresponded with these trends and the Council's agreed strategy, i.e. the Council will avoid hindsight analysis. Any comparison of the Council's treasury portfolio against recognised industry standards, market indices and other portfolios is intended to (i) allow the Council the opportunity to assess the potential to add value through changes to the existing ways in which its portfolio is managed and (ii) permit an informed judgement about the merits or otherwise of using new treasury management techniques or instruments. In drawing any conclusions, the Council will bear in mind that the characteristics of its treasury operations may differ from those of other councils, particularly with regard to the position on risk.
1.3 Methodology to be applied for evaluating the impact of treasury management decisions	Monitoring of the outcome of treasury management activity against Prudential Indicators approved by the Council will be carried out as part of the budget monitoring reports to the Corporate Policy & Resources Committee on an annual basis. The year-end Annual Treasury Report will also include, as a matter of course, the outturn against the PIs set prior to the commencement of the financial year and any in-year amendments. The Council's Treasury Management advisers review the existing investment portfolio quarterly and all transactions that have occurred in the interim in order to ensure that best practice has been achieved. The Council's Treasury Management advisors compare the performance of the Council's in-house funds against 3-month LIBID cash benchmark, performance by other local authorities and the performance of the externally managed funds is compared. Performance is also compared with funds managed on a similar basis in the local authority fund manager peer group.

1.4 Methodology to be employed for measuring the performance of the Council's treasury management activities	Treasury management activity is reviewed annually against strategy and prevailing economic and market conditions through the Annual Treasury Report to Corporate Policy & Resources Committee. The report will include: a) Total debt including average rate and maturity profile b) The effect of new borrowing and/or maturities on the above c) The effect of any debt restructuring on the debt portfolio d) An analysis of any risks inherent within the debt portfolio (e.g. exposure to variable rate; LOBOs in their call period) e) Total investments including average rate, credit and maturity profile f) The effect of new investments/redemptions/maturities on the above g) The rate of return on investments against their indices for internally and externally managed funds h) An analysis of any risks inherent within the investment portfolio (e.g. exposure to market movements in the value of CDs, gilts/bonds, callable deposits in their call period) i) A statement whether the treasury management activity resulted in a breach of the Prudential Indicators and other limits set within treasury strategy. j) Daily bank balances: any major deviations from the target bank balances
1.5 Benchmarks and calculation methodology with regard to risk and return	**Treasury Management Costs** Costs are compared with other Councils within the Surrey Benchmarking statistics. **Investment returns** are compared to the 3-month LIBID. • Internally Managed Investment Returns - total interest accruing during the month or year on average daily balances invested during the calendar month. • Externally Managed Investment Returns - the growth (i.e. increase in value of the fund) in respect of the monthly average value of the fund. **Debt Management** ▪ Average Rate on all external debt ▪ Average Rate on external debt borrowed in financial year ▪ Average Rate on internal borrowing ▪ Average period to maturity of external debt ▪ Average period to maturity of new loans in financial year ▪ Ratio of PWLB and market debt (beginning and end of period) ▪ Ratio of fixed and variable rate debt (beginning and end of period)

1.6 Best value	The treasury management function will be the subject of ongoing analysis of the value it adds in support of the Council's stated corporate and service objectives. When tendering for treasury-related or banking services, the Council adheres to its Standing Orders and Financial Regulations. These require that: a) for placing a contract with a value below £75,000, at least 3 quotes and service delivery proposals are generally obtained. b) when placing a contract with a value in excess of £181,302 a tendering process that meets the requirements of the EU procurement procedures (OJEU) is undertaken. c) If necessary, the Council will also consult with other users of similar services as well as with interested parties. d) The Council will also evaluate alternative methods of the availability of fiscal, grant or subsidy initiatives, and service delivery.

Treasury Management Practices

3. Decision making and analysis

The Council will maintain full records of its treasury management decisions, and of processes and practices applied in reaching those decisions, both for the purpose of learning from the past and for demonstrating that all reasonable steps were taken to ensure that all issues relevant to those decisions were taken into account at that time. The issues to be addressed and processes and practices to be pursued in reaching decisions are detailed below.

Schedule

1.1 Major treasury decisions	As a public service organisation, there is a requirement to demonstrate openness and accountability in treasury management activities. Accordingly, the Council will create and maintain an audit trail of major treasury management decisions which comprise either: a) Changes to Prudential Indicators during the course of the financial year b) Options Appraisal to determine a funding decision c) raising a new long-term loan / long-term source of finance d) prematurely restructuring/redeeming an existing long-term loan d) investing longer-term (that is, more than 1 year) f) utilisation of investment instruments which constitute capital expenditure (i.e. loan/share capital in a body corporate) g) leasing h) change in banking arrangements i) appointing/replacing a treasury advisor j) appointing/replacing a fund manager k) any other determined by the Council
1.2 Process	The Council's strategy for the application of its treasury policy is set out in the annual Treasury Management Strategy. Based on the Annual Treasury Management Strategy, the Treasury Management and Capital Accountant will prepare monthly for the financing, borrowing and surplus cash requirements of the Council, for the purpose of: • applying the strategy on a day to day basis • monitoring the results of the strategy • Recommending amendments to the strategy to the Corporate Policy & Resources Committee where applicable during the course of the year.

1.3 Delegated powers for treasury management	The Chief Finance Officer has delegated powers to carry out the Council's strategy for debt management, capital finance and borrowing, depositing surplus funds and managing the cash flows of the Council.
1.4 Issues to be addressed, evaluation, authorisation	In exercising these powers, the Chief Finance Officer and those to whom the treasury activity has been delegated will: • have regard to the nature and extent of any associated risks to which the Council may become exposed; • be certain about the legality of the decision reached and that the necessary authority to proceed has been obtained; • be satisfied that the documentation is adequate to deliver the Council's objectives, protect the Council's interests, and to maintain an effective audit trail; • ensure that the perceived credit risk associated with the approved counterparties parties is judged satisfactory and is within agreed limits; • be satisfied that the terms of any transactions have been fully checked against the market, and have been found to be competitive; • follow best practice in implementing the treasury transaction. In exercising Borrowing and Funding decisions, the Chief Finance Officer will: • evaluate economic and market factors that may influence the manner and timing of any decision to fund; • consider alternative forms of funding, including use of revenue resources, leasing, joint ventures and private partnerships; • consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles; • consider ongoing revenue liabilities created. In exercising investment decisions, the Chief Finance Officer will: • Determine that the investment is within the Council's strategy and pre-determined instruments and criteria; • consider the optimum period, in the light of core balances and reserves, cash flow availability and prevailing market conditions; • consider the alternative investment products and techniques available if appropriate.
1.5 Processes to be followed	The processes to be followed will be in keeping with *TMP 4: Approved, Instruments, Methods and Techniques*.

1.6 Evidence and records to be kept	The Council will maintain a record of all major treasury management decisions, the processes undertaken and the rationale for reaching the decision made. These will allow for an historical assessment of decisions made and verification that any checks and safeguards are indeed in place and operating correctly. Records and working papers will be maintained by the Council both electronically and in relevant files.

Treasury Management Practices

4. Approved instruments, methods and techniques

The Council will undertake its treasury management activities by employing only those instruments, methods and techniques detailed in the schedule to this document, and within the limits and parameters defined in **TMP1 *Risk Management***.

Schedule

1.1 Approved treasury management activities	The Council is permitted to undertake the following activities: ▪ Managing cash-flow ▪ Capital financing ▪ Borrowing including debt restructuring and debt repayment ▪ Lending including redemption of investments ▪ Banking ▪ Leasing ▪ Managing the underlying risk associated with the Council's capital financing and surplus funds activities. The above list is not finite and the Council would, from time to time, consider and determine new financial instruments and treasury management techniques. However, the Council will consider carefully whether the officers have the skills and experience to identify and manage the advantages and risks associated with using the instruments/techniques before undertaking them, more so as some risks may not be wholly or immediately transparent.

1.2 Approved capital financing methods and types/sources of funding	<u>On balance sheet</u> • Public Works Loans Board (PWLB) loans • long term money market loans • temporary money market loans (up to 364 days). • bank overdraft • loans from bodies such as the European Investment Bank (EIB) • Finance Leases • Government and EU Capital Grants • Lottery monies • Other Capital Grants and Contributions • Community Infrastructure Levy • S106 funds <u>Internal Resources</u> • Capital Receipts • Revenue Balances • Use of Reserves <u>Off balance sheet</u> ▪ Operating Leases ▪ Structured Finance The level of debt will be consistent with the Treasury Management Strategy and the Prudential Indicators.

1.4 Approved investment instruments	The Council will determine through its Annual Investment Strategy (AIS) which instruments it will use, giving priority to the security and liquidity (in that order) of its invested monies. The investments will be categorised as 'Specified' or 'Non-Specified' based on the criteria set out by Government in its Investment Guidance February2018 (as amended). The Council will determine through the AIS which instruments will be used in-house and which will be used by the appointed external fund manager (where applicable) including the maximum exposure for each category of non-specified investments. Where applicable, the Council's credit criteria will also apply. ▪ Deposits with the UK government, the Debt Management Agency Deposit Facility (DMADF), and UK local authorities ▪ Term deposits with banks and building societies ▪ Certificates of deposit ▪ Callable deposits ▪ Investments in Money Market Funds , i.e. 'AAA' liquidity funds with a 60-day Weighted Average Maturity (WAM) ▪ Gilts ▪ Bonds issued by multilateral development banks ▪ Bonds issued by financial institutions guaranteed by the UK government ▪ Sterling denominated bonds by non-UK sovereign governments ▪ Pooled funds, i.e. Collective Investment schemes as defined in SI 2004 No 534 The use of the above instruments by the Council's external fund managers (where applicable) will be by reference to the fund guidelines contained in the agreement between the Council and the manager.

Treasury Management Practices

5. Organisation, clarity and segregation of responsibilities, and dealing arrangements

The Council considers it essential, for the purposes of effective control and monitoring of its treasury management activities, and for the reduction of risk of fraud or error, and for the pursuit of optimum performance, that these activities are structured and managed in a fully integrated manner and that there is at all times clarity of treasury management responsibilities.

The principles on which this will be based is a clear distinction between those charged with setting treasury management policies and those charged with implementing and controlling these policies, particularly with regard to the execution and transmission of funds, the recording and administering of treasury management decisions, and the audit and review of the treasury management function.

If and when the Council intends, as a result of a lack of resources or other circumstances, to depart from these principles, the Chief Finance Officer will ensure that the reasons are properly reported in accordance with TMP6 Reporting requirements and management information arrangements, and the implications properly considered and evaluated.

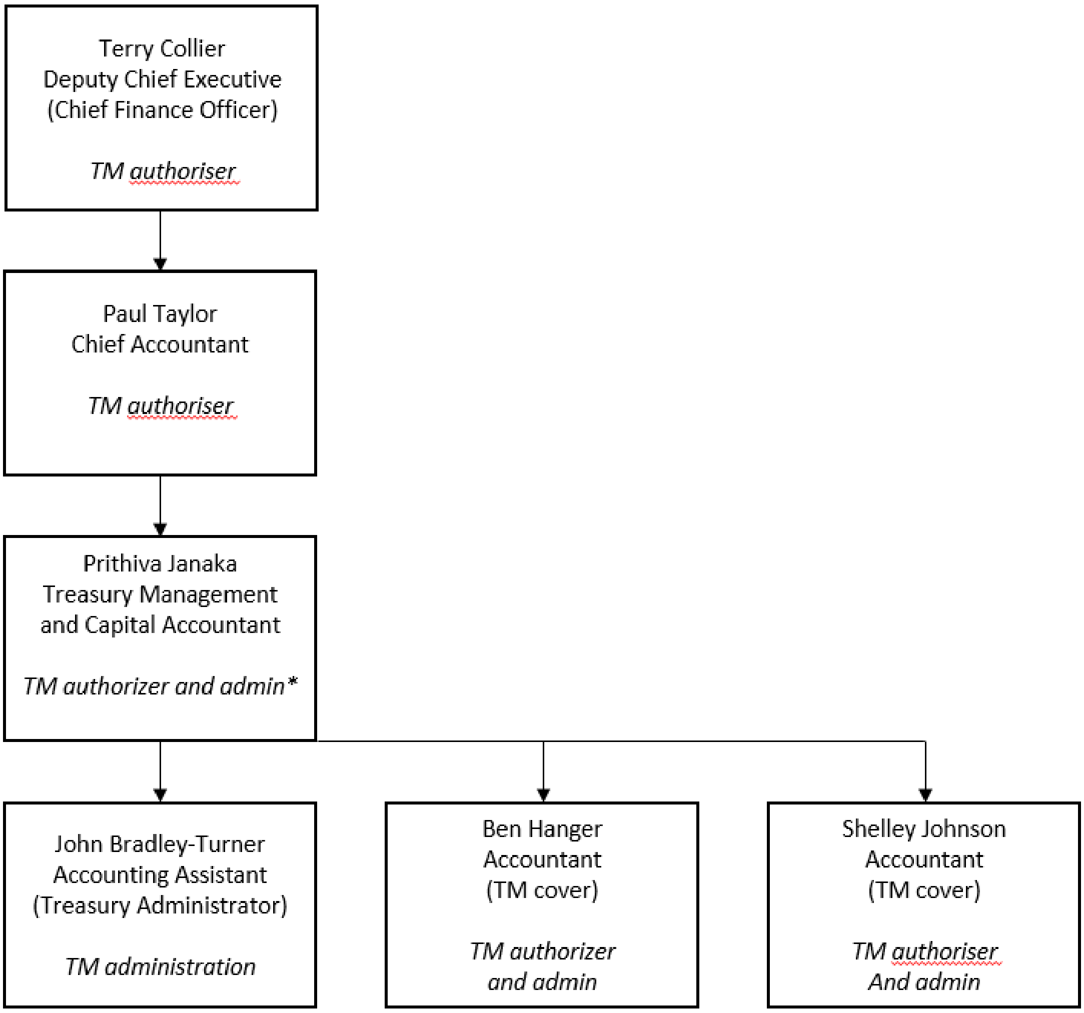
The Chief Finance Officer will ensure that there are clear written statements of the responsibilities for each post engaged in treasury management, and the arrangements for absence cover. The Deputy Chief Executive will also ensure that at all times those engaged in treasury management will follow the policies and procedures set out. The present arrangements are detailed in the schedule below.

The Chief Finance Officer will ensure that there is proper documentation for all deals and transactions, and that procedures exist for the effective transmission of funds. The present arrangements are detailed in the schedule below.

The delegations to the Chief Finance Officer in respect of treasury management are set out in the schedule below. The Chief Finance Officer will fulfill all such responsibilities in accordance with the Council’s policy statement and TMPs and, if a CIPFA member, the Standards of Professional Practice on Treasury Management.

Schedule

Organisational chart of the Treasury Management function:



1.1 Limits to responsibilities at Executive levels	Full Council: • receiving and reviewing Prudential Indicators as part of the budget setting process (following receipt by Corporate Policy & Resources Committee) • receiving and reviewing reports on treasury management policies, practices and activities (following receipt by Corporate Policy & Resources Committee) The Corporate Policy & Resources Committee: • approval of amendments to adopted clauses, treasury management policy statement and treasury management practices • budget consideration and approval • receiving and reviewing external audit reports and acting on recommendations • approving the selection of external service providers and agreeing terms of appointment

1.2 Principles and practices concerning segregation of duties	The segregation of duties will be determined by Chief Finance Officer. Segregation of duties exists in that: • the officer responsible for negotiating and closing treasury management deals are completely separate from the officer with responsibility for recording the transactions in the cash book and completing cheque and bank reconciliations. • the officer responsible for negotiating and closing treasury management deals is separate from the officer authorising payments • all borrowing/investments decisions must be authorised by the Chief Finance Officer. Additionally, The Council receives bank statements on a daily basis. These are posted independent of the treasury function in order to maintain an adequate separation of duties.
1.3 Statement of duties/ responsibilities of each treasury post	The Chief Finance Officer: • submitting budgets and budget variations • recommending clauses, treasury management policy, practices for approval, reviewing the same regularly and monitoring compliance • determining Prudential Indicators and Treasury Management Strategy including the Annual Investment Strategy • submitting regular treasury management policy reports • receiving and reviewing management information reports • reviewing the performance of the treasury management function and promoting best value reviews • 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 • determining long-term capital financing and investment decisions. • The Chief Finance Officer has delegated powers to determine and undertake the most appropriate form of borrowing from the approved sources, and to make the most appropriate form of investments in approved instruments. • The Chief Finance Officer may delegate their power to borrow and invest to the Joint Financial Services Manager, Treasury Management and Capital Accountant, Technical Accountant, Accountants and Accountancy Assistants.

	The TM Accountant: • execution of transactions • adherence to agreed policies and practices on a day to day basis • maintaining relationships with third parties and external service providers • monitoring performance on a day to day basis • submitting management information reports to the responsible officer • identifying and recommending opportunities for improved practices. The Accounting Assistants: • execution of transactions • adherence to agreed policies and practices on a day to day basis • maintaining relationships with third parties and external service providers • recording treasury management transactions, • reconciling treasury management transactions with the financial ledger • recording/ reconciling counterparty documentation.
1.4 Absence cover arrangements	Cover in the absence of the relevant treasury management officer is provided by: • Joint Financial Services Manager • Treasury Management and Capital Accountant Accountants as noted in the TM chart above Cover is reviewed at least every 6 months, or as necessary. Full procedure notes are available, detailing the processes required to enable the day-to-day operation of the treasury management function.

Dealing

1.5 Authorised officers	Responsible officer for borrowing/ investment decisions: Mainly Joint Finance Manager – Mahmud Rogers Treasury Management and Capital Accountant – Prithiva Janaka Also Assistant Accountants – John Bradley-Turner Authorising payments for borrowing/lending: Deputy Chief Executive – Terry Collier Joint Finance Manager-Mahmud Rogers Any other Council first signatory Bank payment and ICD portal trade authoriser*: • Deputy Chief Executive (CFO, s151 officer) – Terry Collier • Joint Financial Services Manager – Mahmud Rogers • Treasury Management and Capital Accountant – Prithiva Janaka • Assistant Accountant – John Bradley-Turner (No Authorisation) • Systems Accountant – Jodie Hawkes • Revenue Accounts Team Leader – Ben Hanger • Assistant Systems Accountant - Shelley Johnson • Service Accountant – Arun Sood • Service Accountant – Aleksandra Alla Blavatnik • Service Accountant – Nicholas Brown • Finance Apprentice – Ella Stewart (No Authorisation) • Joint Finance Manager Systems & Controls – Emilia Grodzka Transaction recording*: Accounting Assistants – John Bradley-Turner Finance Apprentice – Ella Stewart * as part of segregation of duties, the authoriser must be separate from the person who sets up the transaction.
1.6 Dealing limits	Internally Managed Investments: • The maximum for any one investment deal is subject to the lending limits detailed in the Council's Treasury Management Strategy. Externally Managed Investments (where applicable): • The maximum amount placed with any single financial institution is determined and formalised through the guidelines contained in the Agreement between the Council and the Manager(s).

1.7 List of approved brokers	Brokers used by the Council are named in *TMP 11: External Service Providers*
1.8 Policy on brokers' services	It is the Council's policy to utilise the services between at least two brokers. Tradition is usually used because they meet the Council's exact borrowing and lending requirements. However, each Tradition deal is judged against money market rates provided by other brokers to ensure competitiveness is maintained and that the best deal achieved for the Council.
1.9 Policy on taping of conversations	The Council does not tape conversations with brokers but brokers tape conversations with officers of the Council.
1.10 Direct dealing practices	Direct dealing is carried out with institutions subject to counterparty and maturity limits and dealing limits. Prior to undertaking direct dealing, the Council will ensure that each counterparty meets the Council creditworthiness criteria and has been provided with the Council's Standard Settlement Procedures.
1.11 Settlement transmission procedures	• settlements are made by CHAPS. • all CHAPS payments relating to settlement transactions (PL3 payment form) require authorisation by 1 authorised signatory. • the details are transmitted by electronic CHAPs to the Council's bankers. • all CHAPS payments made electronically via the bank require 2 authorised signatories
1.12 Documentation requirements	For each deal undertaken a record should be prepared giving details of dealer, amount, period, counterparty, interest rate, dealing date, payments date and broker. Investments: • deal ticket authorising the investment • confirmation from the broker • confirmation from the counterparty • Chaps payment transmission document Loans: • deal ticket with signature to agree loan • confirmation from the broker • confirmation from PWLB/market counterparty • Chaps payment transmission document for repayment of loan.

1.13 Arrangements concerning the management of counterparty funds	The Council holds several trust funds. The cash in respect of these funds is held in the Council's bank account but transactions are separately coded. Interest is paid on credit balances and calculated on a daily basis at Bank Rate plus 0.50%

Treasury Management Practices

6. Reporting requirements and management information arrangements

The Council will ensure that regular reports are prepared and considered on the implementation of the treasury management policies; on the effects of decisions taken and transactions executed in pursuit of those policies; on the implications of changes, particularly budgetary, resulting from the regulatory, economic, market or other factors affecting its treasury management activities; and on the performance of the treasury management function.

As a minimum the Corporate Policy & Resources Committee will receive:

- An annual report on the strategy and plan to be pursued in the coming year
- A mid-year review
- An annual report on the performance of the treasury management function, on the effects of the decisions taken and the transactions executed in the past year, and on any circumstances of non-compliance with the Council's Treasury Management Policy Statement and TMPs.

The Corporate Policy & Resources Committee will receive regular monitoring reports on treasury management activities and risks and the Corporate Policy & Resources Committee will have responsibility for the scrutiny of treasury management policies and practices.

The present arrangements and the form of these reports are outlined below.

Schedule

1.1 Frequency of executive reporting requirements	The Chief Finance Officer will annually submit budgets and will report on budget variations as appropriate. The Chief Finance Officer will submit the **Prudential Indicators** and the **Treasury Management Strategy** and report on the projected borrowing and investment strategy and activity for the forthcoming financial year to the Corporate Policy & Resources Committee and the Council before the start of the year. The **Annual Treasury Report** will be prepared as soon as practicable after the financial year end and, in all cases, before the end of September. A **Mid-Year Treasury Report** will be prepared by the Chief Finance Officer which will report on treasury management activities for the first part of the financial year. The report will also provide a forecast for the current year. The Mid-Year Report will be submitted to Corporate Policy & Resources Corporate Policy & Resources Committee during the year. Corporate Policy & Resources Committee

1.2 Content of Reporting: 1. Prudential Indicators	The Council will set the following Prudential Indicators, revise if necessary, and following the year end publish actual (where appropriate) in respect of: ▪ Financing costs as a proportion of net revenue stream (estimate; actual) ▪ Capital expenditure (estimate; actual) ▪ Incremental impact of capital financing decisions (estimate) ▪ Capital Financing Requirement (estimates; actual) ▪ Authorised limit for external debt ▪ Operational boundary for external debt ▪ Actual external debt ▪ Upper limits on fixed and variable rate interest exposures ▪ Upper and lower limits to maturity structure of fixed rate borrowing ▪ Upper limit to total of principal sums invested longer than 364 days. ▪ Minimum Revenue Provision statement The Prudential Indicators are approved and revised by Corporate Policy & Resources Committee and are integrated into the Council's overall financial planning and budget process. The Corporate Policy & Resources Committee will also receive a copy of this report to carry out its scrutiny role of treasury management.

2. Treasury Management Strategy Statement	The Treasury Management Strategy will include the following: • Link to Capital Financing and Treasury Management Prudential Indicators for the current and ensuing 3 years • Strategy for financing new borrowing requirements (if any) and refinancing maturing borrowing (if any) over the next 3 years and for restructuring of debt • the extent to which surplus funds are earmarked for short term requirements • the investment strategy* for the forthcoming year • the minimum to be held in short term/specified investment during the coming year • the interest rate outlook against which the treasury activities are likely to be undertaken. * *Investment strategy*: Based on the Government's Guidance on Investments, the report will set out ▪ the objectives, policies and strategy for managing its investments; ▪ the determination of which Specified and Non-Specified Investments the Council will utilise during the forthcoming financial year based on the Council's economic and investment outlook and the expected level of investment balances; ▪ the limits for the use of Non-Specified Investments. The Corporate Policy & Resources Committee will also receive a copy of this report to carry out its scrutiny role of treasury management.

<table>
<tr><td>3. Annual Treasury Report</td><td>The Chief Finance Officer will produce an annual report for the Corporate Policy & Resources Committee on all activities of the treasury management function, including the performance of fund managers where applicable, as soon as practicable after year end and in all cases no later than 30 September of the succeeding financial year.

The main contents of the report will comprise:
confirmation that the Council calculated its budget requirements and set a balanced budget for the financial year;
the prevailing economic environment
a commentary on treasury operations for the year, including their revenue effects;
commentary on the risk implications of treasury activities; undertaken and the future impact on treasury activities of the Council;
compliance with agreed policies/practices and statutory/regulatory requirements;
compliance with Prudential Indicators;
performance measures.
The Corporate Policy & Resources Committee will also receive a copy of this report to carry out its scrutiny role of treasury management.</td></tr>
<tr><td>4. Mid-Year Treasury Report</td><td>The Chief Finance Officer will produce a mid-year report for Corporate Policy & Resources Committee on the borrowing and investment activities of the treasury management function, including performance of fund managers where applicable, for the first six months of the financial year.

The main contents of the report will comprise:
Economic background
Economic forecast, including interest rates forecast
Treasury Management Strategy Statement update
Performance versus benchmarks
Borrowing information, including premature repayment, new loans information
Information on investments, including current lending list
Prudential indicators relating to treasury management
Governance framework and scrutiny arrangements
The Corporate Policy & Resources Committee will also receive a copy of this report to carry out its scrutiny role of treasury management.</td></tr>
</table>

1.3 Content and frequency of management information reports	The Treasury Management and Capital Accountant produces a monthly monitoring report for the Joint Financial Services Manager and the Deputy Chief Executive. The Joint Financial Services Manager includes this information in quarterly budget monitoring statements for Corporate Policy & Resources Committee. Members also receive monthly monitoring reports These report includes details of: • borrowing and investment activity undertaken including forward deals • performance of internal and external investments against benchmark • interest rates and forecasts • extent of compliance with the treasury strategy and reasons for variance (if any) • Prudential Indicator monitoring and compliance

Treasury Management Practices

7. Budgeting, accounting and audit arrangements

The Deputy Chief Executive will prepare, and the Council will approve and, if necessary, from time to time amend, an annual budget for treasury management, which will bring together all the costs involved in running the treasury management function, together with associated income. The matter to be included in the budget will at minimum be those required by statute or regulation, together with such information as will demonstrate compliance with **TMP1 *Risk management*, TMP2 P*erformance management*, and TMP4 *Approved instruments, methods and techniques***. The form that the Council's budget will take is set out in the schedule below.

The Deputy Chief Executive will exercise effective controls over this budget and will report upon and recommend any changes required in accordance with **TMP6 *Reporting requirements and management information arrangements***.

The Council will account for its treasury management activities, for decisions made and transactions executed, in accordance with appropriate accounting practices and standards, and with statutory and regulatory requirements in force for the time being. The present form of the Council's accounts is set out in the schedule.

The Council will ensure that its auditors and those charged with regulatory review, have access to all the information and papers supporting the activities of the treasury management function as are necessary for the proper fulfilment of their roles, and that such information and papers will demonstrate compliance with external and internal policies and approved practices. The information made available under present arrangements is detailed below.

Schedule

1.1 Statutory/regulatory requirements	***Balanced Budget Requirement*** The provisions of S32 and S43 of the Local Government Finance Act 1992 require this Council to calculate its budget requirement for each financial year including, among other aspects: (a) the expenditure which is estimated to be incurred in the year in performing its functions and which will be charged to a revenue account and (b) revenue costs which flow from capital financing decisions. S33 of the Act requires the Council to set a council tax sufficient to meet expenditure after taking into account other sources of income.
1.2 Proper accounting practice	CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice (the local authority SORP) constitutes "proper accounting practice under the terms of S21 (2) of the Local Government Act 2003".

1.3 Financial Statements	The Financial Statements comprise: ▪ An explanatory foreword ▪ Accounting policies, changes in accounting estimates and errors ▪ Presentation of financial statements ▪ Movement in reserves statement ▪ Comprehensive income and expenditure statement ▪ Balance sheet ▪ Cash flow statement ▪ Collection Fund (England) ▪ Statement of Responsibilities ▪ The Accounting Statements ▪ Additional Financial Statements (Collection Fund) ▪ Notes to the financial statements ▪ Statements reporting reviews of internal controls or internal financial controls ▪ Events after the reporting period ▪ Related party disclosures ▪ Annual Governance Statement
1.4 Format of the Council's accounts	The current form of the Council's accounts is available within the Finance Department, Accountancy Section.
1.5 Disclosures relating to treasury management	Due regard will be given to the disclosure requirements under CIPFA's Code of Practice on Local Authority Accounting.

<table>
<tr>
<td>1.6
Treasury-related information requirements of external auditors</td>
<td>
The following information is specifically requested by the external auditor and should be considered an initial request for information. It is usually followed by more detailed audit testing work which often requires further information and/or explanations from the Council's officers.

Information is this context includes internally generated documents including those from the Council's spreadsheets, externally generated documents, observation of treasury management practices which support and explain the operation and activities of the treasury management function.

▪ Determination of Affordable Borrowing Limit under Section 3 of the Local Government Act 2003.
▪ Prudential Indicators.
▪ Treasury Management Strategy including Annual Investment Strategy.

<u>External borrowing</u>:
• New loans borrowed during the year: PWLB certificates / documentation in relation to market loans borrowed (including copy of agreements, schedule of commitments)
• Loan maturities.
• Compliance with proper accounting practice, regulations and determinations for the amortisation of premiums and discounts arising on loans restructured during the year and previous years.
• Analysis of loans outstanding at year end including maturity analysis.
• Analysis of borrowing between long- and short-term
• Debt management and financing costs
    ▪ calculation of interest paid
    ▪ actual interest paid
    ▪ accrued interest
• MRP calculation and analysis of movement in the CFR.
• Bank overdraft position.
• Brokerage/commissions/transaction related costs.
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</table>

	Investments: • Investment transactions during the year including any transaction-related costs • cash and bank balances at year end • Short-term investments at year end • Long-term investments at year end by asset type, including unrealised gains or losses at year end • calculation of interest received and accrued interest • actual interest received • External fund manager valuations, where applicable, including investment income schedule and movement in capital values, transaction confirmations received • Basis of valuation of investments • Evidence of existence and title to investments
	Cash Flow ▪ Reconciliation of the movement in cash to the movement in net debt ▪ Cash inflows and outflows in respect of long-term financing ▪ Cash inflows and outflows in respect of purchase/sale of long-term investments ▪ Net increase/decrease in short-term loans, short-term deposits and other liquid resources Other ▪ Details of treasury-related material events after balance sheet date not reflected in the financial statements. ▪ External advisors'/consultants' charges
1.7 Internal Audit	Internal Audit generally conducts an annual review of the treasury management function and probity testing. The internal auditors will be given access to treasury management information/documentation as required by them.
1.8 Compliance with CIPFA Treasury Management and Prudential Codes	Auditors may require evidence/demonstration of compliance with external and internal treasury management policies and strategy. Any serious breach of the CIPFA Treasury Management Code of Practice recommendations or Prudential Indicators should be brought to the attention of the external auditor.
1.9 Costs for treasury management	The budget for treasury management forms part of the Corporate Services budget.

Treasury Management Practices

8. Cash and cash flow management

Unless statutory or regulatory requirements demand otherwise, all monies in the hands of the Council will be under control of the Deputy Chief Executive and will be aggregated for cash flow and investment management purposes. Cash flow projections will be prepared on a regular and timely basis, and the Deputy Chief Executive will ensure that they are adequate for the purposes of monitoring compliance with TMP1 (2) Liquidity *Risk management*. The present arrangements for preparing cash flow projections, and their form, are set out in the schedule to this document.

Schedule

1.1 Arrangements for preparing /submitting cash flow statements	Cash flow forecasts are over three time-horizons and are used to inform the Council's borrowing and investment strategy by identifying periods of surplus or shortfall of cash balances. The CS Lucas TM system is being used with a view to replacing spreadsheet forecasting from April 2022. The cash flow forecasts and statements are held at operational level. The accuracy and effectiveness of the cash flows depend on the accuracy of estimating expenditure, income and corresponding time periods. An **outline medium-term cash flow** model is prepared as part of the budget process, with projections for 3 further years. It is highly summarised and looks mainly at cash flows arising from the capital programme, the in-year capital financing requirement, scheduled loan repayments and long-term investment maturities, and anticipated movements in reserves. A **detailed annual cash flow,** prepared for the financial year once the budget for the ensuing year has been agreed, identifies major inflows and outflows and is monitored and updated monthly. It is compiled with reference: to the agreed revenue budget and capital programme; to knowledge obtained from the Council's various services that incur the expenditure/ receive the income; as well as to information from previous years. **Daily cash flows** show forecast and planned movements of cash daily, including the matching of known inflows and payments. This is used as part of the decision-making process for daily cash management.

<table>
<tr>
<td>1.2
Content and frequency of cash flow projections</td>
<td>The detailed annual cash flow model includes the following:
Budgeted revenue income and expenditure
Budgeted profiled capital income and expenditure
Revenue activities:
<u>Inflows</u>:
Revenue Support Grant if applicable
Precepts received
Non-domestic rates receipts
Council tax receipts
Other government grants
Cash for goods and services
Other operating cash receipts
<u>Outflows</u>:
Salaries and payments on behalf of employees
Operating cash payments
Housing Benefit paid
Precepts paid
NNDR payments
Capital activities including financing
<u>Inflows</u>:
Capital grants received
Sale of fixed assets
Other capital cash receipts
<u>Outflows</u>:
Purchase of fixed assets
Purchase of long-term investments
Other capital cash payments
Financing, Servicing of Finance/Returns on Investments
<u>Inflows:</u>
New long-term loans raised
New short-term loans raised
Interest received
Discount on premature repayment of loan
<u>Outflows</u>:
Loan repayments
Premiums on premature repayment of loan
Short-term investments
Capital element of finance lease rental payments
Interest paid
Interest element of finance lease rental payments</td>
</tr>
</table>

1.3 Monitoring, frequency of cash flow updates	The annual cash flow statement is updated quarterly with the actual cash inflows and outflows after taking account of any revisions including those relating to grant income and capital expenditure and will be reconciled with: • net RSG and NNDR payments as notified; • county council and police authority precepts as notified; • actual salaries and other employee costs paid from account bank statements; • actual payments to Inland Revenue from general account bank statements; • actual council tax received • actual rent allowances paid • actual housing benefit and grant received from MHCLG; • actual capital programme expenditure and receipts.
1.4 Bank statements procedures	The Council receives bank statements on a daily basis and a daily download of data from its bank. All amounts on the statements are analysed on the bank statement analysis (BSA) and check to source data for example payroll, creditor payment runs. Income transactions are posted independently of the treasury function and are reconciled to the AIM system on a daily basis by the income team.
1.5 Payment scheduling	The Council has a policy of paying suppliers in line with agreed terms of trade and aims to pay suppliers within 28 days of the invoice date. Certificated payments to sub-contractors must be made within 28 days.
1.6 Monitoring debtor/ creditor levels	The Creditors and Income Manager is responsible for monitoring levels of debtors and creditors. Details are passed to the treasury team where necessary to assist in updating the cash flow models.
1.7 Banking of funds	Instructions for the banking of income are set out in Financial Regulations. All monies received will be passed to the cashier and be banked without delay.
1.8 Practices concerning prepayments to obtain benefits	The Council has no formal arrangements in place. Where such opportunities arise, the prepayment would be sought and authorised by the Chief Finance Officer.

Treasury Management Practices

9. Money laundering

Background
The Proceeds of Crime Act (POCA) 2002 consolidated, updated and reformed criminal law in the UK in relation to money laundering. The principal offences relating to money laundering are:
Concealing, disguising, converting, transferring or removing criminal property from England and Wales, from Scotland or from Northern Ireland
Being concerned in an arrangement which a person knows or suspects facilitates the acquisition, retention use or control of criminal property
Acquiring, using or possessing criminal property.
Other offences include failure to disclose money laundering offences, tipping off a suspect either directly or indirectly, and doing something that might prejudice an investigation.

Organisations pursuing relevant businesses were required to appoint a nominated officer and implement internal reporting procedures; train relevant staff in the subject; establish internal procedures with respect to money laundering; obtain, verify and maintain evidence and records of the identity of new clients and transactions undertaken and report their suspicions.

In December 2007, the UK Government published the Money Laundering Regulations 2007, which replaced the 2003 Regulations. CIPFA believes that public sector organisations should “embrace the underlying principles behind the money laundering legislation and regulations and put in place anti money laundering policies, procedures and reporting arrangements appropriate and proportionate to their activities”.

The Council is alert to the possibility that it may become the subject of an attempt to involve it in a transaction involving the laundering of money. Accordingly, it will maintain procedures for verifying and recording the identity of counterparties and reporting suspicions, and will ensure that staff involved in this are properly trained. The present arrangements, including the name of the officer to whom reports should be made, are detailed in the schedule below.

Schedule

1.1 Anti-money laundering policy	This Council’s policy is to prevent, wherever possible, the organisation and its staff being exposed to money laundering, to identify the potential areas where it may occur and to comply with all legal and regulatory requirements, especially with regard to the reporting of actual or suspected cases. The Council has accepted responsibility to ensure that those of its staff who are most likely to be exposed to money laundering can make themselves fully aware of the law and, where necessary, are suitably trained.

1.2 Nomination of Responsible Officer	(a) The Council has nominated Head of Corporate Governance to be the responsible officer to whom any suspicions relating to transactions involving the Council will be communicated. (b) The responsible officer will be conversant with the requirements of the Proceeds of Crime Act 2002 and will ensure relevant staff are appropriately trained and informed so they are alert for suspicious transactions. (c) The responsible officer will make arrangements to receive and manage the concerns of staff about money laundering and their suspicion of it, to make internal enquiries and to make reports, where necessary, to National Criminal Intelligence Services (NCIS).
1.3 Procedures for establishing the Identity of Lenders and Borrowers	(a) In the course of its treasury activities, the Council will only borrow from permitted sources identified in *TMP 4 Approved instruments, methods and techniques*. (b) The Council will not generally accept loans from individuals. (c) In the course of its treasury activities, the Council will only invest with those counterparties which are on its approved lending list. (d) The identity and authenticity of commercial institutions (banks, building societies and other financial institutions) authorised to carry out borrowing and lending activity in the UK will be checked via the Financial Services Authority's website www.fsa.gov.uk. (e) All receipts/disbursements of funds will be undertaken by BACS or CHAPS settlement. (f) Direct Dealing mandates: The Council will provide (in the case of lending) and obtain (in the case of borrowing) and maintain on file dealing mandates with any new money market counterparty. The mandates should be on letter-headed paper, dated and signed. (g) All banking transactions will only be undertaken by the personnel authorised to operate the Council's banks accounts.

Treasury Management Practices

10. Training and qualifications

The Council recognises the importance of ensuring that all staff involved in the treasury management function are fully equipped to undertake the duties and responsibilities allocated to them. It will therefore seek to appoint individuals who are both capable and experienced and will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills. The Deputy Chief Executive will recommend and implement the necessary arrangements.

The Deputy Chief Executive will ensure that Council members tasked with treasury management responsibilities, including those responsible for scrutiny, have access to training relevant to their needs and responsibilities. Those charged with governance are required to recognise their individual responsibility to ensure that they have the necessary skills to complete their role effectively.

The present arrangements are detailed in the schedule below.

Schedule

1.1 Qualifications/ experience for treasury staff	Members of the Treasury Team are required to have suitable experience and qualifications for them to carry out their duties competently and appropriate training is provided where necessary.
1.2 Details of approved training courses	The courses/events the Council would expect its treasury personnel to consider are: ▪ Certificate in International Treasury Management – Public Finance, a treasury management qualification offered by the *Association of Corporate Treasurers* ▪ Training courses for Accounting, Auditing, Best Value/Competition, Budgeting, Capital Finance & Borrowing, Financial Management and Treasury Management run by CIPFA and IPF ▪ Any courses/seminars run by Treasury Management Consultants. ▪ Attending CIPFA Conference ▪ Training attended by those responsible for scrutiny of the treasury function
1.3 Records of training received by treasury staff	Treasury-related training records are maintained by staff with their CPD support, with staff appraisal records by the Joint Financial Services Manager and with Human Resources.

1.4 Records of training received by those charged with governance	Training records are maintained of those people/committees responsible for governance of treasury management. Committee Services provide details of this.

Treasury Management Practices

11. Use of external service providers

The Council recognises that responsibility for the treasury management decisions remains with the organisation at all times. It recognises the potential value of employing external providers of treasury management services, in order to acquire access to specialist skills and resources. When it employs such service providers, it will ensure it does so for reasons which will have been submitted to a full evaluation of the costs and benefits. It will also ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented and reviewed regular. The Council will ensure, where feasible and necessary, that a spread of service providers is used, to avoid over reliance on one or a small number of companies. Where services are subject to formal tender or re-tender arrangements, legislative requirements will always be observed. The monitoring of such arrangements rests with the Deputy Chief Executive. Details of the current arrangements are set out in the schedule below.

Schedule

1.1 Contract threshold	The Council's Financial Regulations require that a formal contract is in place with external service providers. The contract will clearly state the services to be provided and the terms on which they will be provided.

1.2 Details of service providers and procedures and frequency for tendering services	(a) **Bankers to the Council** Lloyds Bank 25 Gresham Street, London EC2V 7HN Telephone 0808 202 1390 Contract period: From March 2015 Formal agreement in place: Yes (b) **Treasury advisor** Arlingclose Limited 35 Chiswell Street, London EC1Y 4SE Telephone 08448 808 200 Contract period: Aug 2017 to July 2020 Formal agreement in place: Yes This service may be re-tendered every 3 years (c) **Brokers** It is considered good practice for the Council to have at least two brokers and to spread business between them. Tradition (UK) Limited Beaufort house, 15 St. Botolph St, London, EC3A 7QX Telephone 0207 422 3500 Contract period: no formal contract Formal agreement in place: No Sterling/ BGC Brokers LP 1 Churchill Place, London, E14 5RD Telephone 020 7894 7742 Contract period: no formal contract Formal agreement in place: No
1.3 Regulatory status of services provided	The Council's external service providers are regulated by the Financial Services Authority (FSA) and Bank of England.

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<td>1.4
Details of service provided by Treasury Advisor</td>
<td>
The Service provided by the Council’s treasury advisors is:

Financial Strategy and Investment Policy

Attend 4 strategy meetings per year and review the Council’s financial position in respect of its objectives, strategy, current financial circumstances, assets and liabilities.
Advise on suitable investment strategies to support the Council’s financial objectives in the short, medium and longer term.

Market Updates and Interest Rate Forecasting

Provide regular interest rate forecasts.
Provide regular updates on economic and political changes that may impact the Council’s investment strategy.

Monitoring and Reporting

Provide data on the performance of external fund managers for comparison purposes.
Monitor and report on performance of in-house investments against external fund managers on a quarterly basis.

Counterparty Creditworthiness

Advise on investment counterparty creditworthiness, including provision of prudent parameters, based on information obtained from leading credit rating agencies (Fitch, Standard and Poors, Moody's).
Provide regular alerts of changes in creditworthiness, monthly reports and analyses.
Check compliance with counterparty creditworthiness policy on a quarterly basis.

Training and Documentation

Provide training to treasury management staff where necessary, including access to a technical support helpline.
Provide template documents and advice on:

Treasury management strategy report
Annual review report
Annual investment strategy

Future investment of capital receipts
The Council may decide to place funds with external fund managers to provide an element of diversity to the investment portfolio. Part of the service required from our appointed advisor will be to assist and advise on the selection and appointment process and to provide ongoing performance monitoring.
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Treasury Management Practices

12. Corporate governance

The Council is committed to the pursuit of proper corporate governance throughout its business and services, and to establishing the principles and practices by which this can be achieved. Accordingly, the treasury management function and its activities will be undertaken with openness and transparency, honesty, integrity and accountability.

The Council has adopted and implemented the key recommendations of the CIPFA Treasury Management Code of Practice (Revised 2009). This, together with the other arrangements detailed in the schedule to this document, are considered vital to the achievement of proper corporate governance in treasury management, and the Deputy Chief Executive will monitor and, if and when necessary, report upon the effectiveness of these arrangements.

Schedule

1.1 Stewardship responsibilities	The Chief Finance Officer ensures that systems exist to deliver proper financial administration and control and maintaining a framework for overseeing and reviewing the treasury management function.
1.2 List of documents to be made available for public inspection.	The following documents are freely available for public inspection: ▪ Annual Statement of Accounts ▪ Budget Book ▪ 4 Year Capital Plan ▪ Treasury Management Policy ▪ Treasury Management Strategy ▪ Budget Monitoring Reports ▪ Annual Treasury Report (Outturn)
1.3 Council's website.	Financial information is additionally available on the Council's website.
1.4 Procedures for consultation with stakeholders.	Members and senior officers of the Council are consulted via reports to the Corporate Policy & Resources Committee and officer/member briefing and training sessions.
1.5 Externally managed funds.	The Council currently has no external fund managers.