



Report for: Cabinet

Date of Meeting: 15 February 2024

Subject: Annual Treasury Management Strategy Statement including Prudential Indicators, Minimum Revenue Provision Policy Statement, Annual Investment Strategy and Annual Capital Strategy for 2024/25

Key Decision: Yes

Responsible Officer: Sharon Daniels, Interim Director of Finance and Assurance

Portfolio Holder: Councillor David Ashton
Portfolio Holder for Finance and Human Resources

Exempt: No

Decision subject to Call-in: No

Wards affected: All wards

Enclosures:

- Appendix A** - Legislation and Regulations Impacting on Treasury Management
- Appendix B** - Treasury Management Delegations and Responsibilities
- Appendix C** - Minimum Revenue Provision (MRP) Policy Statement
- Appendix D** - Interest Rate Forecasts 2024-26
- Appendix E** - Economic Background
- Appendix F** – Counterparties: Investment Criteria
- Appendix G** - Capital Strategy 2024/25
- Appendix H** - Glossary

Section 1 – Summary and Recommendations

This report sets out the Council's Annual Treasury Management Strategy Statement including Prudential Indicators, Minimum Revenue Provision Policy Statement the Annual Investment Strategy, and the Annual Capital Strategy for 2024/25.

Recommendations:

Cabinet is asked to recommend to Council that they approve the Treasury Management Strategy Statement for 2024/25 including:

1. Prudential Indicators for the period 2024/25 to 2026/27
2. Minimum Revenue Provision Policy Statement for 2024/25, (see para 2.20 and Appendix C)
3. Annual Investment Strategy for 2024/25 (Appendix F)
4. Annual Capital Strategy (Appendix G)

Reason: (for recommendations)

To promote effective financial management relating to the Authority's borrowing and investment powers contained in the Local Government Act 2003, and supporting regulations and guidance detailed below:

1. the Local Authorities (Capital Finance and Accounting) Regulations 2003 (as amended),
2. CIPFA Prudential Code (2021) and CIPFA Treasury Management Code of Practice (2021), and accompanying Guidance Notes
3. DLUHC (Previously MHCLG) Investment Guidance (2018) and MRP Guidance (2018)

Section 2 – Report

Introduction

- 1.0. The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.
- 1.1. The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning, to ensure that the Council can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans, or using longer-term cash flow surpluses. On occasion, when it is prudent and economically beneficial, any debt previously drawn may be restructured to meet Council risk or cost objectives.

- 1.2. The contribution the treasury management function makes to the Authority is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.
- 1.3. CIPFA defines treasury management as:
“The management of the local authority’s borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.”
- 1.4. The Local Government Act 2003 (the Act) and supporting regulations require the Council to ‘have regard to’ the CIPFA Prudential Code (The Prudential Code for Capital Finance in Local Authorities and accompanying Guidance Notes) and CIPFA Treasury Management Code (Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes), in setting Prudential and Treasury Indicators for the next three years and in ensuring that the Council’s capital investment programme is affordable, prudent and sustainable. This report has been prepared in accordance with the 2021 CIPFA Prudential Code and Treasury Management Code of Practice publications.
- 1.5. The Act, the CIPFA Codes and Department for Levelling Up Housing and Communities (DLUHC, formally MHCLG) Statutory Investment Guidance (2018) require the Council to set out its Treasury Strategy for Borrowing and to prepare an Annual Investment Strategy that establishes the Council’s policies for managing its investments and for giving priority to the security and liquidity of those investments, ahead of any yield considerations. A summary of the relevant legislation, regulations and guidance is included as Appendix A.
- 1.6. The budget for each financial year includes the revenue costs that flow from capital financing decisions. Under the CIPFA Prudential Code and Treasury Management Code of Practice, increases in capital expenditure should be limited to levels whereby increases in interest charges, running costs and provision debt repayment are affordable within the Council’s budget.
- 1.7. The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation.
- 1.8. The Council recognises that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury

management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

- 1.9. It is not considered necessary to produce a separate treasury management strategy for the Housing Revenue Account (HRA) in light of the co-mingling of historic debt and investments between HRA and the General Fund. Where appropriate, details of allocations of balances and interest to HRA are contained in this report and Prudential Indicators are broken down between the General Fund and HRA where required.

Reporting Requirements

- 1.10. The Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals.

Treasury Management Strategy Statement Report – (TMSS, this report)

The first, and most important report is forward looking and covers:

- the capital plans, (including prudential indicators)
- a minimum revenue provision (MRP) policy, (how residual capital expenditure is charged to revenue over time)
- the treasury management strategy, (how the investments and borrowings are to be organised), including treasury indicators; and
- an investment strategy, (the parameters on how investments are to be managed)

Mid-Year Review Report – This is primarily a progress report presented to Cabinet in December/January and updates Members on the progress of the Capital Programme, reporting on prudential indicators to give assurance that the treasury management function is operating within the treasury limits and prudential indicators set out in the TMSS.

Treasury Management Outturn Report – This is a backward looking review, typically presented to Cabinet in June/July and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the TMSS and Mid-Year Reports.

- 1.11. **Capital Strategy** – In addition to the three main treasury management reports, the CIPFA 2021 Prudential and Treasury Management Codes require all local authorities to prepare a capital strategy report which provides the following:
- a high-level long term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
 - an overview of how the associated risk is managed
 - the implications for future financial sustainability
- 1.12. The aim of the Capital Strategy is to ensure that all elected members on the full Council fully understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite. The Capital Strategy Report is set out in Appendix G.
- 1.13. **Scrutiny** – The above reports are required to be adequately scrutinised, normally before being recommended to Cabinet/Council, with the role being

undertaken by the Governance, Audit, Risk Management and Standards Committee (GARMS). The Council has complied with the CIPFA Treasury Management Code of Practice to the extent that all Treasury Management reports have been scrutinised though the efficient conduct of the Council's business may require consideration by GARMS after being reviewed by Cabinet/Council.

- 1.14. The Council has delegated responsibility for the implementation and regular monitoring of its treasury management policies and practices to the Section 151 Officer. The Section 151 Officer chairs the Treasury Management Group (TMG), which monitors the treasury management activity and market conditions monthly. Further details of delegated responsibilities are given in Appendix B.
- 1.15. The Section 151 Officer is required to establish procedures to monitor and report performance against Prudential Indicators at least quarterly as part of the Authority's integrated revenue, capital and balance sheet monitoring.

Options considered

- 1.16. This report has been produced in accordance with the Local Government Act 2003 and the reporting requirements of:
 - CIPFA Treasury Management Code of Practice 2021
 - CIPFA Prudential Code 2021
 - DLUHC Investment Guidance 2018
 - DLUHC MRP Guidance 2018

Treasury Management Strategy for 2024/25

- 1.17. The strategy for 2024/25 covers the following areas:

Capital Issues (Section 2)

- Capital Financing Summary
- Capital Programme and Capital Prudential Indicators 2024/25 to 2026/27
- Council's Borrowing Need (Capital Financing Requirement)
- Minimum Revenue Provision (MRP) Policy Statement
- Core funds and expected investment balances

Borrowing (Section 3)

- Current and estimated portfolio position
- Treasury indicators: limits to borrowing activity
- Prospects for interest rates and economic commentary
- Borrowing strategy
- Treasury management limits on activity
- Policy on borrowing in advance of need
- Debt rescheduling
- Approved sources of long and short term borrowing

Annual Investment Strategy (Section 4)

- Investment policy
- Creditworthiness policy

- Country limits
- Annual Investment Strategy
- Investment risk benchmarking
- End of year investment report

Other Treasury Issues (Section 5)

- Policy on the use of financial derivatives
- The use of Brokers
- Member and Officer Training
- Policy on use of external service providers

Capital Issues

- 2.0. The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.
- 2.1. The figures and tables in this report are based on the final Capital Programme which is set out in a separate report to Cabinet.
- 2.2. Cabinet has received a report on the Harrow Strategic Development Partnership on 24th January 2024 which included the business plans in respect of the Byron Quarter and Poets Corner developments. The report requests approval to spend up to £1.54m (Byron Quarter) and up to £2.24m (Poets Corner) on Phase 1 of each of the schemes over the next 12 months. Due to the current financing arrangements with Wates Residential, while the Council as joint partner underwrites 50% of the expenditure incurred there is no immediate cashflow implications for the Council anticipated in 2024/25. The Council is expected to advance funds for Byron Quarter in 2025/26 and 2026/27. The prudential indicators within the treasury strategy will be updated once greater certainty over the expenditure and investment profiles becomes known.
- 2.3. The CIPFA Prudential Code and Treasury Management Code of Practice, differentiate service and commercial investment from treasury investments. In doing so, the Codes recognise that these types of investment will have different objectives and risk profiles to the security and liquidity before yield principals that are applied to treasury investments within this strategy.

Capital Expenditure

- 2.4. This prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle.
- 2.5. Tables 1 and 2 below summarise the capital expenditure plans of the Authority including how this will be financed, which generates the net financing need for the year (borrowing):

Table 1: Capital Expenditure

Capital expenditure £'000	2022/23 Actual	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
- Resources Directorate	3,641	11,026	2,300	2,300	0
- People's Directorate	3,265	19,330	2,700	9,071	0
- Place Directorate	18,842	75,728	23,753	29,595	894
General Fund	25,748	106,084	28,753	40,966	894
HRA	14,988	57,505	20,524	47,206	62,181
Total	40,736	163,589	49,277	88,172	63,075

Table 2: Financing of Capital Expenditure

Financing of capital expenditure £'000	2022/23 Actual	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
General Fund					
Capital Receipts	3,541	0	0	0	0
Capital Grants	6,593	34,681	5,957	12,183	0
BCiL	3,477	5,408	1,925	1,900	0
NCiL	209	966	500	500	0
Section 106	613	1,091	250	750	0
Revenue	0	0	0	0	0
External Funding	14,433	42,146	8,632	15,333	0
Borrowing Requirement (GF)	11,315	63,938	20,121	25,633	894
Total General Fund Funding	25,748	106,084	28,753	40,966	894
HRA					
Capital Receipts	1,761	4,933	2,037	6,101	7,318
Capital Grants	1,400	4,511	3,094	10,997	2,250
Section 106	419	1,638	620	0	-
Revenue	7,621	17,726	10,340	8,295	8,844
External Funding	11,201	28,808	16,091	25,393	18,412
Borrowing Requirement (HRA)	3,787	28,697	4,433	21,813	43,769
Total HRA Funding	14,988	57,505	20,524	47,206	62,181
Total					
GF & HRA Capital Expenditure	40,736	163,589	49,277	88,172	63,075
External Funding	25,634	70,954	24,723	40,726	18,412
Borrowing Requirement (Council)	15,102	92,635	24,554	47,446	44,663

The Council's borrowing need (Capital Financing Requirement)

- 2.6. The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's indebtedness and therefore its underlying borrowing need. Any capital expenditure in tables 1 and 2 above, which has not immediately been paid for through a revenue or capital resource, will increase the CFR.
- 2.7. The CFR includes any other long term liabilities (e.g. PFI or finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of schemes include a funding facility and so the Council is not required to borrow separately for them. As at 31st March 2024 the Council is forecast to have £14m of such schemes within the CFR.
- 2.8. The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the Council's indebtedness in line with each asset's life, and so charges the economic consumption of capital assets as they are used.

- 2.9. The Council is asked to approve the CFR projections below (included within the Prudential Indicators):

Table 3: Capital Financing Requirement

Capital Financing Requirement £'000	2022/23 Actual	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
CFR – General Fund	418,002	457,236	451,712	451,439	427,292
CFR – HRA	161,226	189,923	194,356	216,169	259,939
Total CFR	579,228	647,159	646,068	667,608	687,231
Movement in CFR	-8,872	67,931	-1,091	21,540	19,623

Movement in CFR represented by					
Net financing need for the year (table 2)	15,102	92,635	24,554	47,446	44,663
Less MRP/VRP and other financing movements	-23,974	-24,704	-25,645	-25,906	-25,040
Movement in CFR	-8,872	67,931	-1,091	21,540	19,623

Liability Benchmark

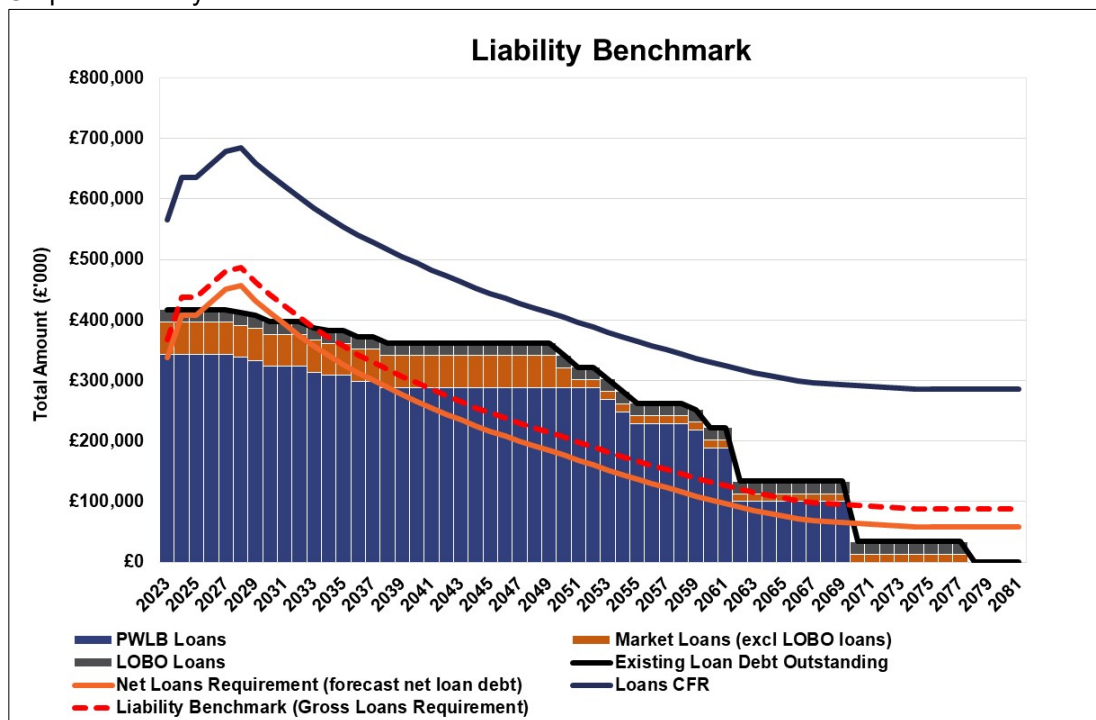
- 2.10. The Liability Benchmark was introduced as a new Prudential Indicator in 2023/24 following the revisions to the CIPFA Prudential Code and Treasury Management Code of Practice in 2021.
- 2.11. The Liability Benchmark provides a forecast of the external borrowing required to meet approved prudential borrowing. It compares the approved capital expenditure commitments of the Authority to the current external borrowing portfolio over the long term to identify the borrowing required when taking a net book approach to treasury management. The Liability Benchmark is therefore used to inform future borrowing decisions based on an integrated borrowing and investment strategy.
- 2.12. The Liability Benchmark is made up of 4 components:
- **Existing loan debt outstanding:** the Authority's existing borrowing portfolio
 - **Loans CFR:** the Authority's CFR adjusted to exclude other long-term liabilities, projected into the future based on approved prudential borrowing and planned MRP.
 - **Net Loans Requirement:** the Authority's gross loan debt less treasury management investments at the last financial year-end, projected into the future and based on its approved prudential borrowing, planned MRP and any other major cash flows forecast.
 - **Liability Benchmark (or Gross Loans Requirement):** this equals the net loans requirement plus short-term liquidity allowance. The short term liquidity allowance is to provide the Authority with an adequate level of treasury investments for liquidity purposes.
- 2.13. The Liability Benchmark is presented as a graph below, and illustrates a borrowing metric which looks at a net book approach to treasury management where:
- borrowing and investments are netted down (while maintaining appropriate investments for liquidity purposes) in order to reduce the treasury risks resulting from running debt and investment portfolios at the same time.

- the management of borrowing and investments is integrated so that both are reviewed together when monitoring and managing treasury risks.

2.14. While CIPFA recognise that different borrowing positions can be taken relative to the Liability Benchmark, it requires the Authority to have regard to the benchmark when undertaking future borrowing decisions, and for it to be analysed as part of the annual treasury management strategy. Any years where actual loans are less than the benchmark indicate a future borrowing requirement to maintain sufficient liquid investment balances, while any years where actual loans outstanding exceed the benchmark represent an overborrowed position relative to the benchmark, which will result in excess cash over and above the liquidity allowance requiring investment.

2.15. CIPFA view the Liability Benchmark as a live tool to inform borrowing decisions in respect of identifying the quantum and the duration of new borrowing to match the Authority’s future borrowing requirement and to minimise treasury risks, based on known and approved prudential borrowing. There are no future assumptions built into the Liability Benchmark, outside of the current capital programme.

Graph 1: Liability Benchmark



2.16. The Liability Benchmark suggests that based on the current capital expenditure commitments within the General Fund capital programme and the HRA Business Plan the Authority has a small future borrowing requirement between 2023/24 and 2032/33, where the current borrowing portfolio is forecast to be below the Liability Benchmark. The figures for 2023/24 are based on revised budget figures and therefore may not reflect the latest position in respect of slippage within the capital programme.

2.17. The Authority’s Liability Benchmark incorporates a liquidity allowance of £30m. Using this to determine the borrowing metric therefore means that the

Authority would use internal borrowing to support its capital expenditure plans up to a point at which it would maintain £30m of short term treasury investments.

- 2.18. Following 2032/33, MRP applied to the General Fund CFR and provisions within the HRA Business Plan to repay principal means that the Loans CFR and the Liability Benchmark trend down, remaining below the long-term borrowing portfolio over the long term until the final decade of the current maturity profile. This indicates that relative to the Liability Benchmark no additional external borrowing would be required to meet current approved capital expenditure, and that treasury investments would be forecast remain above the £30m liquidity allowance factored into the benchmark.
- 2.19. The Authority will keep the Liability Benchmark under review, updating it when new information becomes available, and it will be reviewed ahead of any future borrowing decisions.

Minimum revenue provision (MRP) policy statement

- 2.20. Capital expenditure is generally defined as expenditure on assets that have a life expectancy of more than one year e.g. buildings, vehicles, machinery etc. The accounting approach is to spread the cost over the estimated useful life of the asset. The mechanism for spreading these costs is through an annual MRP. The MRP is the means by which capital expenditure, which is financed by borrowing or credit arrangements, is charged to the General Fund and therefore funded by Council Tax.
- 2.21. Regulation 28 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 (as amended) requires the Council to approve an MRP Statement setting out what provision is to be made in the General Fund for the repayment of debt, and how the provision is to be calculated. The purpose of the policy Statement is to ensure the provision is prudent meeting the requirement of the Regulations. This is to ensure the debt liability will be repaid over a period reasonably commensurate with that over which the capital expenditure benefits. The Council is recommended to approve the statement as detailed in Appendix C.
- 2.22. There is no requirement on the HRA to make a minimum revenue provision but there is a requirement for a depreciation charge to be made.
- 2.23. MRP Overpayments - A change introduced by the revised 2018 DLUHC (previously MHCLG) MRP Guidance was an allowance that any charges made over the statutory MRP required, referred to as an overpayment and itemised as a Voluntary Revenue Provision (VRP) can, if needed, be reclaimed in later years if deemed necessary or prudent. In order for these sums to be reclaimed for use in the budget, it is recommended to disclose the cumulative overpayment made each year in a disclosure statement to full Council. At 31 March 2023 the balance of VRP was £6.8m (£6.8m 31 March 2022).
- 2.24. DLUHC is currently consulting on revisions to the Statutory MRP Guidance with the expectation that new Guidance will be published for application from the 1 April 2024. Should the final outcome of the consultation require

amendments to the Council's current MRP Policy contained in Appendix C, a revised MRP Policy will be presented to Full Council for approval as part of either the Mid-Year Treasury Report or at an earlier date.

Core funds and expected investment balances

- 2.25. The application of resources (grants, capital receipts etc.) to finance capital expenditure or budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.).
- 2.26. The cash investment balance will be kept at a minimum of £30m. The working capital and borrowing position will be managed to maintain this level of cash balances as a minimum position for the Authority. This has been incorporated as the liquidity allowance within the Liability Benchmark in paragraphs 2.10 – 2.19.

Borrowing

- 3.0. The capital expenditure plans set out in Table 1 provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity and the Council's capital strategy. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

Current portfolio position

- 3.1. The overall treasury management portfolio on 31 March 2023 and corresponding position at 31 December 2023 are shown below for both borrowing and investments.

Table 4: Borrowing Portfolio

Borrowing Portfolio £'000	31-Mar-23			31-Dec-23		
	Principal	Average Rate (%)	Average Life (yrs)	Principal	Average Rate (%)	Average Life (yrs)
- PWLB	343,461	3.43%	34.54	343,461	3.43%	33.79
- Market	73,800	3.53%	39.69	73,800	3.53%	38.94
Total borrowing	417,261	3.45%	35.45	417,261	3.45%	34.70

Table 5: Investment Portfolio

Investment Portfolio £'000	31-Mar-23			31-Dec-23		
	Principal	Average Rate (%)	Average Life (days)	Principal	Average Rate (%)	Average Life (days)
MMFs	1,651	3.95%	1	40,008	5.29%	1
Government	29,000	3.99%	7	29,550	5.19%	7
Banks	48,743	2.01%	1	32,677	4.39%	1
Total Investments	79,394	2.77%	3	102,235	4.97%	3

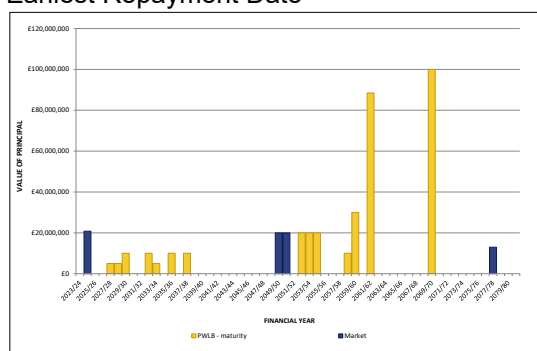
- 3.2. The Council maintains upper and lower limits with respect to the maturity structure of its borrowing. This Prudential Indicator, reflecting the earliest date at which a lender can require payment is set to ensure refinancing risk is

managed regarding the concentration of loan maturities in any one period. Table 6 below illustrates the actual position on both 31 March 2023 and 31 December 2023, compared to the upper and lower limits in place. The accompanying graphs illustrate the maturity profile, based on the earliest and final maturity dates. The difference is one market LOBO (Lenders Option Borrowers Option) loan, which has a final maturity date of 06/12/2077 but has call dates every 6 months. This means that under the structure of the loan, the Lender has the option to seek to revise the interest rate on the loan at specific call dates through the loan term. If that were to happen, the Council as the Borrower would then have the option to either accept the revised interest rate or elect to repay the loan at par without penalty.

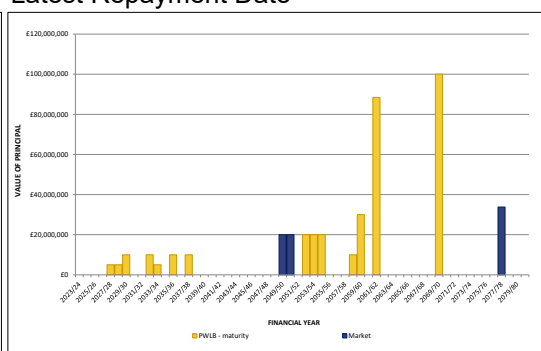
Table 6: Maturity Structure of Borrowing

Maturity structure of borrowing	Lower Limit	Upper Limit	Actual 31.03.23	Actual 31.12.23
Under 12 months	0%	30%	5%	5%
12 months to 2 years	0%	40%	0%	0%
2 years to 5 years	0%	50%	1%	2%
5 years to 10 years	0%	60%	6%	6%
10 years and above	0%	100%	88%	87%

Graph 2: Maturity Profile of Borrowing Portfolio
Earliest Repayment Date



Latest Repayment Date



- 3.3. The Council's forward projections for borrowing are summarised below. The table shows the actual external debt, against the underlying capital borrowing need, (the Capital Financing Requirement or CFR), highlighting any over or under borrowing. The expected change in borrowing has been calculated with reference to the Liability Benchmark in paragraphs 2.10-2.19. This assumes internal borrowing is utilised to a point at which the Authority maintains £30m of treasury investments. The figures for 2023/24 are based on revised budget figures and therefore may not reflect the latest position in respect of slippage within the capital programme.

Table 7: Gross Debt v Capital Financing Requirement

£'000	2022/23 Actual	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
External Debt					
Borrowing at 1 April	422,261	417,261	437,443	457,758	500,951
Expected change in borrowing	-5,000	20,182	20,315	43,193	64,275
Other long-term liabilities (OLTL)	16,258	14,875	13,539	12,314	10,976
Expected change in OLTL	-1,383	-1,336	-1,224	-1,338	-1,458
Actual gross debt at 31 March	432,136	450,981	470,072	511,927	574,743
CFR	579,228	647,159	646,068	667,608	687,231
Under / (over) borrowing	147,092	196,178	175,996	155,681	112,488

- 3.4. Within the range of Prudential Indicators there are a number of key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus future estimates of the CFR for 2023/24 and the following two financial years. This allows some flexibility for limited early borrowing in advance of need for approved expenditure but ensures that borrowing is not undertaken for revenue or speculative purposes.
- 3.5. The Director of Finance reports that the Council complied with this Prudential Indicator in the current year and does not envisage difficulties for the future. This view considers current commitments, existing plans, and the proposals in this budget report.
- 3.6. The Prudential Code framework is a principles based system whereby the Council should demonstrate through a series of Prudential Indicators that its capital plans are prudent, affordable and sustainable. One of the Prudential Indicators of affordability is the ratio of financing costs to net revenue stream, assessing the actual and estimated cost of capital against the income of the Authority. Table 8 provides the expected trends based on the forthcoming capital programme, for both the General Fund and HRA.

Table 8: Ratio of Financing Costs to Net Revenue Stream

Ratio of financing costs to net revenue stream %	2022/23 Actual	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
General Fund	17%	16%	16%	16%	16%
HRA	19%	19%	18%	20%	22%
Total	18%	17%	17%	17%	17%

- 3.7. The revised CIPFA Prudential Code and Treasury Management Code of Practice defined an Authority's investments as either treasury or non-treasury, with the non-treasury investments further categorised between service and commercial investment. A new Prudential Indicator was also introduced intending to demonstrate that the risks associated with investments for service and commercial purposes are proportionate to the financial capacity of the Authority. The ratio of net income from commercial and service investments to net revenue stream illustrates the reliance of the Authority on income derived from such investments.

Table 9: Net income from Service and Commercial investments to Net Revenue Stream

	2022/23 Actual	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Net income from service and commercial Investments to net revenue stream %	2%	1%	1%	1%

- 3.8. The returns expected from the Harrow Strategic Development Partnership investments in the Byron Quarter and Poets Corner will not impact on this indicator going forward as the financial return is one-off. Any loans advanced to the Partnership will be classed as service investments, recognising the investment objectives and risk profiles will be different from treasury

investments which are invested through applying security and liquidity before yield principals.

Treasury Indicators: limits to borrowing activity.

The operational boundary

- 3.9. This is the limit beyond which external debt is not normally expected to exceed. The boundary is based on the Council's programme for capital expenditure, capital financing requirement and cash flow requirements for the year.

Table 10: Operational Boundary

Operational boundary £'000	2022/23 Actual	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
Borrowing	579,228	647,159	646,068	667,608	687,231
Other long term liabilities	16,258	14,875	13,539	12,314	10,976
Total	595,486	662,034	659,607	679,922	698,207

The authorised limit for external debt.

- 3.10. This is a key prudential indicator and represents a control on the maximum level of borrowing. This represents a legal limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Council.
- 3.11. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.

The Council is asked to approve the following authorised limit:

Table 11: Authorised Limit

Authorised limit £'000	2022/23 Actual	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2025/26 Estimate
Borrowing	609,228	677,159	676,068	697,608	717,231
Other long term liabilities	26,258	24,875	23,539	22,314	20,976
Total	635,486	702,034	699,607	719,922	738,207

Prospects for Interest Rates

- 3.12. The Council's Treasury Management Adviser, Link Group, provided the following interest rate forecast on 8 January 2024. This includes forecasts for PWLB certainty rates, calculated as gilt yields plus 80 bps.

Table 12: Link Group Interest Rate Forecast: 8 January 2024

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

- 3.13. Link Groups central forecast for interest rates in their 8 January 2024 update reflected a view that the MPC would be keen to further demonstrate its anti-inflation credentials by maintaining Bank Rate at 5.25% until at least the second half of 2024. Link Group expect rate cuts to commence when both CPI inflation and wage/employment data are supportive of such a move, and when there is a likelihood of the overall economy enduring at least a slowdown or mild recession over the coming months (although most recent GDP releases have surprised with their on-going robustness).
- 3.14. Link Group believe that timing will be one of fine judgment: cut too soon, and inflationary pressures may well build up further; cut too late and any downturn or recession may be prolonged.
- 3.15. In the upcoming months, Link Groups interest rate forecasts will be guided not only by economic data releases and clarifications from the MPC over its monetary policies and the Government over its fiscal policies, but also international factors such as policy development in the US and Europe, the provision of fresh support packages to support the faltering recovery in China as well as the on-going conflict between Russia and Ukraine, and Gaza and Israel.
- 3.16. Risks identified by Link Group to current forecasts for UK Gilt yields and PWLB Rates include:
- Downside Risks:
- Labour and supply shortages prove more enduring and disruptive and depress economic activity (accepting that in the near-term this is also an upside risk to inflation and, thus, could keep gilt yields high for longer).
 - The Bank of England has increased Bank Rate too fast and too far over recent months, and subsequently brings about a deeper and longer UK recession than we currently anticipate.
 - Geopolitical risks, for example in Ukraine/Russia, the Middle East, China/Taiwan/US, Iran and North Korea, which could lead to increasing safe-haven flows.
- Upside risks
- Despite the tightening in Bank Rate to 5.25%, the Bank of England allows inflationary pressures to remain elevated for a long period within the UK economy, which then necessitates Bank Rate staying higher for longer than we currently project.
 - The pound weakens because of a lack of confidence in the UK Government's pre-election fiscal policies, which may prove inflationary, resulting in investors pricing in a risk premium for holding UK sovereign debt.
 - Projected gilt issuance, inclusive of natural maturities and QT, could be too much for the markets to comfortably digest without higher yields compensating.
- 3.17. Additional commentary on the prospects for interest rates, (Appendix D) and economic background, (Appendix E) are contained within the appendices to this report.

3.18. Updates to Link Groups interest rate forecasts are received by officers throughout the year.

Borrowing strategy

3.19. As shown in paragraph 3.1 on 31 December 2023 the Council had a debt portfolio of £417.261m, with an average rate of 3.45% and an average life of 34.7 years.

3.20. The Council is currently maintaining an under-borrowed position, which was £147m at 31 March 2023. This means that the Capital Financing Requirement has not been fully funded with external loan debt as internal cash balances have been used temporarily to finance the capital programme. In foregoing lost investment income, the Council benefits from the differential between this and the external borrowing cost. This strategy is kept under review by the Director of Finance.

3.21. In terms of future borrowing, the Council has a range of funding sources available and will need to base its decisions on optimum borrowing times and periods taking into account current interest rates, forecast movements and the “cost of carry” (the difference between rates for borrowing and rates for investments). With the introduction of the Liability Benchmark as a Prudential Indicator, the Council will also have regard to this when taking future borrowing decisions.

3.22. Against this background and the risks within the economic forecast, caution will be adopted in the 2024/25 treasury management operations. The Treasury Management Group will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances. This includes taking advice from Link Group, the Council’s Treasury Management Advisers.

- *If it was felt that there was a significant risk of a sharp FALL in borrowing rates, then borrowing will be postponed.*
- *if it was felt that there was a significant risk of a much sharper RISE in borrowing rates than that currently forecast, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.*

3.23. The Council has previously adopted a single pooled approach for debt. Allocations to HRA are based on its CFR, with interest charged to HRA at the average rate on all external borrowing. Longer term, the HRA’s ability to repay borrowing will depend on future revenues and the capital expenditure programme.

Policy on borrowing in advance of need

3.24. The Council will not borrow more than or in advance of its needs purely to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved CFR estimates and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

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

Debt rescheduling

- 3.26. Rescheduling of current borrowing in the Council's debt portfolio may be considered whilst premature redemption rates remain elevated but only if there is surplus cash available to facilitate any repayment, or rebalancing of the portfolio to provide more certainty is considered appropriate.
- 3.27. Any debt rescheduling opportunities will be reviewed and assessed in respect of providing a benefit to the Authority over the remaining life of the loan(s) and in the context of the Authority's forecast future borrowing requirement defined by its CFR. All rescheduling will be reported to Cabinet at the earliest meeting following the exercise.

Approved Sources of Long and Short term Borrowing

On Balance Sheet	Fixed	Variable
PWLB	●	●
Municipal bond agency	●	●
Local authorities	●	●
Banks	●	●
Pension funds	●	●
Insurance companies	●	●
UK Infrastructure Bank	●	●
Market (long-term)	●	●
Market (temporary)	●	●
Market (LOBOs)	●	●
Stock issues	●	●
Local temporary	●	●
Local Bonds	●	
Local authority bills	●	●
Overdraft		●
Negotiable Bonds	●	●
Internal (capital receipts & revenue balances)	●	●
Commercial Paper	●	

Medium Term Notes



Finance leases



Annual Investment Strategy

Investment policy

- 4.0. The Council's investment policy has regard to the following: -
- DLUHC's (formally MHCLG) Guidance on Local Government Investments 2018 ("the Guidance")
 - CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2021 ("the Code")
 - CIPFA Treasury Management Guidance Notes 2021
- 4.1. The Council's investment priorities will be security first, portfolio liquidity second and then yield, (return). The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and within the Council's risk appetite.
- 4.2. The above guidance from the DLUHC and CIPFA places a high priority on the management of risk. This Authority has adopted a prudent approach to managing risk and defines its risk appetite by the following means: -
- Minimum acceptable **credit criteria** are applied to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are short term and long-term ratings.
 - **Other information:** ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration the Council will engage with its advisors to maintain a monitor on market pricing such as "**credit default swaps**" and overlay that information on top of the credit ratings.
 - **Other information sources** used will include the financial press, share price and other such information pertaining to the financial sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

- This Authority has defined the list of **types of investment instruments** that the treasury management team are authorised to use, which are classified as either specified investments or non-specified investments in accordance with the DLUHC (previously MHCLG) Investment Guidance, last updated in 2018.
 - **Specified investments** are those with a high level of credit quality and subject to a maturity limit of one year.
 - **Non-specified investments** are long term investments with high credit quality, investments of any duration with counterparties recognised as less high credit quality, and/or more complex instruments which require greater consideration by members and officers before being authorised for use.

4.3. The Council acknowledges that both specified and non-specified investments may be subject to valuation changes, both positive and negative, prior to maturing. The Director of Finance will take all reasonable steps to ensure that day to day liquidity does not rely on the sale of such investments prior to maturity, and therefore that the Council is not exposed to realising any losses. Moreover, the Director will take measures to ensure that any potential unrealised gains or losses are proportionate to revenue budgets and reserves.

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

Creditworthiness policy

4.5. The primary principle governing the Council's investment criteria is the security of its investments, followed by ensuring sufficient liquidity although the return on the investment is also a key consideration. After this main principle, the Council will ensure that:

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

4.6. The Director of Finance will maintain a counterparty list in compliance with the criteria detailed in Appendix F and will revise the criteria and submit any changes to Council for approval as necessary. These criteria are separate to those which determine which types of investment instrument are either specified or non-specified as they provide an overall pool of counterparties considered high quality which the Council may use, rather than defining what types of investment instruments are to be used.

- 4.7. The minimum rating criteria uses the lowest common denominator method of selecting counterparties and applying limits, unless in the opinion of the Director of Finance, or a delegated manager authorised under the Financial Services and Markets Act 2000 (FSMA), there is an overriding reason to favour or disregard a particular agency's view. This means that the application of the Council's minimum criteria will apply to the lowest available rating for any institution. For instance, if an institution is rated by two agencies, one meets the Council's criteria, the other does not, and the institution will fall outside the lending criteria.
- 4.8. Credit rating information is supplied by the Link Group on all active counterparties that comply with the prescribed criteria detailed in Appendix F. Any counterparty failing to meet the criteria would be omitted from the counterparty list. Any rating changes, rating watches (notification of a likely change), rating outlooks (notification of a possible longer term change) are provided to officers almost immediately after they occur and this information is considered before dealing. For instance, a negative rating watch applying to counterparty at the minimum Council criteria will be suspended from use, with all others being reviewed in light of market conditions.
- 4.9. The Council's criteria for an institution to become a counterparty are detailed in Appendix F. The Council will apply the creditworthiness service provided by Link Group, which employs a sophisticated modelling approach combining credit ratings and market metrics in a weighted scoring system which results in a suggested duration indicating the relative creditworthiness of counterparties.

Country Limits

- 4.10. The Council has determined that it will only use approved counterparties from the UK or from countries with a minimum sovereign credit rating of AA-. The current UK sovereign rating is AA- or equivalent. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

Investment Strategy

In-house Funds

- 4.11. The Council's funds are mainly cash derived primarily from the General Fund and HRA. Balances are also held to support capital expenditure. Investments are made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months).
- 4.12. Since April 2011, pension fund cash balances have been held separately from those of the Council. The Pension Fund currently holds cash with RBS, JP Morgan (The funds custodian) and in Money market funds.
- 4.13. The Council has decided against joining a collective investment arrangement as part of a shared service with the GLA, managed by the GLA's investment subsidiary, London Treasury Limited, which is authorised and regulated by the Financial Conduct Authority. A Cabinet report dated 15 July 2021, set out an

initial recommendation for the Council to participate in the shared service arrangement but officers have determined that the Authority will not join the service at this time.

Investment returns expectations

- 4.14. Link Group’s Interest Rate Forecast from 8 January 2024 suggests that Bank Rate, currently 5.25% following the last of a series of increases commencing in December 2021 and ending in August 2023, will reduce from mid 2024 and reach a neutral long term rate of 3%.
- 4.15. The suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year are as follows:
- 2023/24 (remainder): 5.3%
 - 2024/25: 4.55%
 - 2025/26: 3.10%
 - 2026/27: 3.00%

Investment treasury indicator and limit - total principal funds invested for greater than 365 days

- 4.16. These limits are set with regard to the Council’s liquidity requirements and to reduce the need for early sale of an investment and are based on the availability of funds after each year-end.
- 4.17. With the Liability Benchmark, advocating a net book approach to treasury management, the Authority is expected to hold the majority of its investments short term and liquid.
- 4.18. The Council is asked to approve the following treasury indicator and limit:

Table 13: Upper limit for investments over 365 days

Upper limit for principal sums invested for longer	2023/24	2024/25	2025/26	2026/27
Principal sums invested for longer than 365 days	£30,000	£30,000	£30,000	£30,000

Investment performance / risk benchmarking

- 4.19. The Council previously used LIBOR rates for benchmarking purposes. The publication of LIBOR and associated LIBID rates ceased at the end of 2021, as part of a move within financial markets to move to risk free reference rates. For sterling markets LIBOR has been replaced with the Sterling Overnight Index Average (SONIA), published by the Bank of England, which is based on actual transactions between banks, financial institutions, and institutional investors.
- 4.20. Link Group will provide the Authority with compounded SONIA rates in the same way that they did with LIBOR / LIBID rates for investment benchmarking purposes.

- 4.21. The Council is a member of a Link Group's investment portfolio benchmarking group through which performance is measured against peer London authorities. The risk of default attached to the Council's portfolio is reported by Link Group monthly.

End of year investment report

- 4.22. At the end of the financial year the Council will report on its investment activity as part of the Treasury Management Outturn Report.

Other Treasury Issues

Derivatives

- 5.0. A financial derivative is a contract, whose value is based on, or 'derived' from, an underlying financial instrument such as a loan. Local Authorities have previously been able to make use of financial derivatives embedded into loans and investments, both to reduce interest rate risk (e.g. forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans).
- 5.1. 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). The CIPFA Code requires local authorities to clearly detail their policy in the use of derivatives in the annual strategy. The Council does not intend to use standalone financial derivatives (such as swaps, forwards, futures and options). No change in strategy will be made without Full Council approval.

Brokers

- 5.2. The Council uses four brokers on a regular basis, as well as dealing directly with leading institutions. Wherever possible the Council will spread its business amongst them on a regular basis, though this may not always be possible. Brokers currently being used are:
- RP Martins
 - Tradition
 - BGC Sterling
 - Imperial Treasury
- 5.3. The limited function performed by brokers is acknowledged; however, the Council would expect to be informed if a broker had any doubts about an organisation that we were dealing with.

Training

- 5.4. The CIPFA Treasury Management Code of Practice requires the responsible officer to ensure that Members with responsibility for treasury management receive adequate training in this area. This especially applies to Members responsible for scrutiny. Member training on treasury management took place on 23 May 2023, provided by Link Group.

- 5.5. The training needs of Treasury Management officers are periodically reviewed as part of the Learning and Development programme with appropriate training and support provided.

External Advisors

- 5.6. The Council has engaged Link Group as its external Treasury Management Adviser.
- 5.7. It also recognises that there is value in employing external providers of treasury management services to acquire access to specialist skills and resources. The Council ensures that the terms of their appointment and the methods by which their value is assessed are properly agreed and documented and subjected to regular review.
- 5.8. However, the Council recognises that responsibility for treasury management decisions always remains with itself and will ensure that undue reliance is not placed upon external service providers.

Implications of the Recommendation

- 6.0. The recommendations primarily relate to the requirements for the Council to comply with statutory duties. However, the content of the report, covering borrowing and investment strategies, has implications for the Council's ability to fund its capital projects and revenue activities.

Risk Management Implications

- 7.0. Risks included on corporate or directorate risk register? No - the identification, monitoring and control of risk are central to the achievement of treasury objectives. Potential risks are identified, mitigated and monitored in accordance with treasury practice notes approved by the Treasury Management Group.
- 7.1. Separate risk register in place? **No**

The relevant risks contained in the register are attached/summarised below.
N/A

The risks of treasury management activity are clearly acknowledged in the main body of the report along with appropriate mitigations however the following key risks should be taken into account when agreeing the recommendations in this report:

Risk Description	Mitigations	RAG Status
Cash not available when needed	<ul style="list-style-type: none"> • Working capital and borrowing position designed to maintain the required level of cash balances • The balance of debt and investment operations ensure liquidity • The treasury management function ensures that the Council's cash is 	GREEN

Risk Description	Mitigations	RAG Status
	organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity and the Council's capital strategy.	
Sums invested result in a loss	<ul style="list-style-type: none"> The Council's investment priorities will be security first, portfolio liquidity second and then yield, (return). The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and with the Council's low risk appetite. 	GREEN
Council's capital investment programme is not affordable, prudent or sustainable	<ul style="list-style-type: none"> One of the Prudential Indicators of affordability is the ratio of financing costs to net revenue stream, assessing the actual and estimated cost of capital against the income of the Authority. Table 8 Limits on borrowing activity The Council is currently maintaining an under-borrowed position. This is estimated to be £196m as at 31st March 2024. 	GREEN
VFM is not achieved	<ul style="list-style-type: none"> The Council will monitor the yield from investment income against appropriate benchmarks for investment performance. Regular monitoring of investment performance will be carried out during the year. 	GREEN
Provision made in the General Fund for debt is not prudent	<ul style="list-style-type: none"> MRP Statement setting out what provision is to be made in the General Fund for the repayment of debt, and how the provision is to be calculated. The purpose of the Statement is to ensure the provision is prudent, allowing the debt to be repaid over a period reasonably commensurate with that over which the capital expenditure benefits. Appendix C. 	GREEN
Too many loans mature in one period impacting on ability to refinance risk	<ul style="list-style-type: none"> The Council maintains upper and lower limits with respect to the maturity structure of its borrowing. This Prudential Indicator, reflecting the earliest date at which a lender can require payment is set to ensure refinancing risk is managed 	GREEN

Risk Description	Mitigations	RAG Status
	<p>regarding the concentration of loan maturities in any one period.</p> <ul style="list-style-type: none"> The introduction of the Liability Benchmark is intended to inform future borrowing decisions in respect of the quantum and duration required to meet known long term liabilities based on the approved capital programme and a net book approach to treasury management 	
Borrowing is undertaken for revenue or speculative purposes	<ul style="list-style-type: none"> Within the range of prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2023/24 and the following two financial years 	GREEN
Exceptional levels of volatility in PWLB rates	<ul style="list-style-type: none"> The Council's Treasury Management Adviser, Link Group, has provided an interest rate forecast (Table 12). The current expectation is for Bank Rate to have peaked at 5.25% and for this to fall in the second half of 2024 as inflation comes back to the 2% target. PWLB rates are also expected to have peaked and be on a gradual downward trajectory. 	AMBER
Default on Council Loans	<ul style="list-style-type: none"> The risk of default attached to the Council's portfolio is reported by Link Group on a monthly basis and this is currently very low, which is reflective of the low risk investment strategy, and the high credit quality of the investment counterparties used by the Authority, which includes the UK Government. 	GREEN

Procurement Implications

8.0. There are no procurement implications arising from this report.

Legal Implications

- 9.0. The Local Government Act 2003 requires the Council to 'have regard to' the Prudential Code and Treasury Management Code of Practice and to set Prudential and Treasury Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable. These are contained within this report.
- 9.1. The Act, accompanying statutory guidance and Codes of Practice referred to through capital financing regulations requires the Council to set out its treasury strategy for borrowing and to prepare an Annual Investment Strategy. This sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments ahead of yield considerations. This report assists the Council in fulfilling its statutory obligation under the Local Government Act 2003 to monitor its borrowing and investment activities.

Financial Implications

- 10.0. In addition to supporting the Council's revenue and capital programmes the Treasury Management interest budget is an important part of the revenue budget. Any additional income obtained, savings achieved, or overspends incurred, has a direct impact on the financial performance of the budget.

Equalities implications / Public Sector Equality Duty

- 11.0. There is no direct equalities impact.

Council Priorities

- 12.0. This report deals with the Treasury Management Strategy which plays a significant part in supporting the delivery of all the Council's corporate priorities.

Section 3 - Statutory Officer Clearance

Statutory Officer: Sharon Daniels

Signed on behalf of the Chief Financial Officer

Date: 29/01/2024

Statutory Officer: Sharon Clarke

Signed on behalf of the Monitoring Officer

Date: 31/01/2024

Chief Officer: Sharon Daniels

Signed on behalf of the Corporate Director

Date: 29/10/2024

Head of Procurement: Nimesh Mehta

Signed by the Head of Procurement

Date: 29/01/2024

Head of Internal Audit: Neale Burns

Signed on behalf of the Head of Internal Audit

Date: 29/01/2024

Has the Portfolio Holder(s) been consulted? Yes

Mandatory Checks

Ward Councillors notified: NO, as it impacts on all Wards

EqIA carried out: NO, an EqIA is not required for Cabinet to take a decision

EqIA cleared by: NA

Section 4 - Contact Details and Background Papers

Contact: Sharon Daniels, Director of Finance and Assurance
Sharon.Daniels@harrow.gov.uk

Background Papers: None

Call-in waived by the Chair of Overview and Scrutiny Committee: No

APPENDIX A

LEGISLATION AND REGULATIONS IMPACTING ON TREASURY MANAGEMENT

The following items numbered 1 - 4 show the sequence of legislation and regulation impacting on the treasury management function. The sequence begins with primary legislation, moves through Government guidance and Chartered Institute of Public Finance and Accountancy (CIPFA) Codes of Practice and finishes with implementation through the Council's own Treasury Management Practices.

1. Local Government Act 2003

Link: [Local Government Act 2003](#)

Below is a summary of the provisions in the Act dealing with treasury management.

In addition the Secretary of State is empowered to define the provisions through further regulations and guidance which he has subsequently done through statutory instruments, Ministry of Housing, Communities and Local Government Guidance (now Department of Levelling Up Housing and Communities) and CIPFA Codes of Practice.

Power to borrow

The Council has the power to borrow for purposes relevant to its functions and for normal treasury management purposes – for example, to refinance existing debt.

Control of borrowing

The main borrowing control is the duty not to breach the prudential and national limits as described below.

The Council is free to seek loans from any source but is prohibited from borrowing in foreign currencies without the consent of Treasury, since adverse exchange rate movements could leave it owing more than it had borrowed.

All of the Council's revenues serve as security for its borrowing. The mortgaging of property is prohibited.

It is unlawful for the Council to 'securitise', that is, to sell future revenue streams such as housing rents for immediate lump-sums.

Affordable borrowing limit

The legislation imposes a broad duty for the Council to determine and keep under review the amount it can afford to borrow. The Secretary of State has subsequently defined this duty in more detail through the Prudential Code produced by CIPFA, which lays down the practical rules for deciding whether borrowing is affordable.

It is for the Council (at a meeting of the full Council) to set its own 'prudential' authorised limit in accordance with these rules, subject only to the scrutiny of its external auditor. The Council is then free to borrow up to that limit without Government consent. The Council is free to vary the limit during the year, if there is good reason.

Requirements in other legislation for the Council to balance its revenue budget prevent the long-term financing of revenue expenditure by borrowing. However the legislation does confer limited capacity to borrow short-term for revenue needs in the interests of cash-flow management and foreseeable requirements for temporary revenue borrowing are allowed for when borrowing limits are set by the Council.

The Council is allowed extra flexibility in the event of unforeseen needs, by being allowed to increase borrowing limits by the amounts of any payments which are due in the year but have not yet been received.

Imposition of borrowing limits

The Government has retained reserve power to impose 'longstop' limits for national economic reasons on all local authorities' borrowing and these would override authorities' self-determined prudential limits. Since this power has not yet been used the potential impact on the Council is not known.

Credit arrangements

Credit arrangements (e.g. property leasing, PFI and hire purchase) are treated like borrowing and the affordability assessment must take account not only of borrowing but also of credit arrangements. In addition, any national limit imposed under the reserve powers would apply to both borrowing and credit arrangements .

Power to invest

The Council has the power to invest, not only for any purpose relevant to its functions but also for the purpose of the prudential management of its financial affairs.

Guidance

The Act contains a requirement for the Council to have regard to guidance:

- Issued directly by the Secretary of State
- DLUHC (formally MHCLG) Investment Guidance
- DLUHC (formally MHCLG) MRP Guidance
- Other guidance the Secretary of State may refer to through regulations
- The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003
- CIPFA Prudential Code
- CIPFA Treasury Management Code of Practice

Ministry of Housing, Communities and Local Government Investment Guidance (2018)

The Guidance recommends that for each financial year the Council should prepare at least one Investment Strategy to be approved before the start of the year. The Strategy must cover:

Investment security

- Investments should be managed prudently with security and liquidity being considered ahead of yield

- Potential counterparties should be recognised as “specified” and “non-specified” with investment limits being defined to reflect the status of each counterparty

Investment risk

- Procedures should be established for monitoring, assessing and mitigating the risk of loss of invested sums and for ensuring that such sums are readily accessible for expenditure whenever needed.
- The use of credit ratings and other risk assessment processes should be explained
- The use of external advisers should be monitored. The training requirements for treasury management staff should be reviewed and addressed
- Specific policies should be stated as regards borrowing money in advance of need

Investment Liquidity

- The Strategy should set out procedures for determining the maximum periods for which funds may prudently be committed

The Strategy should be approved by the full Council and made available to the public free of charge. Subject to full Council approval, or approved delegations, the Strategy can be revised during the year.

Ministry of Housing, Communities and Local Government Minimum Revenue Provision Guidance (2018)

Minimum Revenue Provision (MRP) is the mechanism by which capital expenditure funded through prudential borrowing is charged to revenue over time. The aim of MRP is to align the charge to revenue over a period which the capital expenditure provides benefit.

Before the start of each financial year the Council is required to approve an MRP Policy Statement specifying how it will make prudent MRP during that year. Subject to full Council approval, the MRP Policy Statement can be revised during the year.

Treasury Management in the Public Services: CIPFA Code of Practice (2021) and Guidance Notes (2021)

The primary requirements of the Code are:

- Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council’s treasury management activities.
- Creation and maintenance of Treasury Management Practices (“TMPs”) that set out the manner in which the Council will seek to achieve those policies and objectives.
- Receipt by the full Council or Cabinet of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and

Minimum Revenue Provision Policy Statement - for the year ahead, a Half-year Review Report and an Annual Report (stewardship report) covering activities during the previous year.

- Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.
- Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body.

The 2021 CIPFA Treasury Management Code of Practice introduced the requirement from 2023/24:

- to present the Liability Benchmark as a new Treasury Indicator, to support the financing risk management of the capital financing requirement.
- Updates to Treasury Management Practices (TMPs) in respect of incorporating Environment, Social and Governance (ESG) policies and the development of a knowledge and skills framework proportionate to the size and complexity of the treasury management operations
- The creation of Investment Management Practices (IMPs) to manage risks associated with non-treasury investments (similar to TMPs)

CIPFA Prudential Code (2021) and Guidance Notes (2021)

The CIPFA Prudential Code is a framework developed to support local strategic planning, asset management and options appraisal. The objectives of the Prudential Code are to ensure that the Council's capital expenditure plans are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice and in full understanding of the risks involved.

The Prudential Code sets out a number of indicators which demonstrate the impact of the approved capital programme. Since 2017 local authorities have been required to produce an annual Capital Strategy, which sets out the long-term context in which capital expenditure and investment decisions are made.

The 2021 CIPFA Prudential Code introduced the requirement from 2023/24 to:

- Present a Prudential Indicator in looking at income from non treasury investments as a proportion of net revenue stream to ensure a proportionate approach to service and commercial investment
- address ESG policies within the Capital Strategy.

2. CIPFA Treasury Management Code of Practice (2021) and Prudential Code (2021) definition of investment

All investments and investment income must be attributed to one of the following three purposes: -

Treasury management

Arising from the organisation's cash flows or treasury risk management activity, this type of investment represents balances which are only held until the cash is required for use. Treasury investments may also arise from other treasury

risk management activity which seeks to prudently manage the risks, costs or income relating to existing or forecast debt or treasury investments.

Service delivery

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

Commercial return

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

APPENDIX B

TREASURY MANAGEMENT DELEGATIONS AND RESPONSIBILITIES

The respective roles of the Council, Cabinet, GARMSC, the Section 151 officer, the Treasury Management Group the Treasury and Pensions Manager and the Treasury Team are summarised below. Further details are set out in the Treasury Management Practices.

Council

Under the Constitution, the Council is responsible for “decisions relating to the control of the Council’s borrowing requirement.”

It agrees the annual Treasury Management Strategy Statement including Prudential Indicators, Minimum Revenue Provision Policy Statement and Annual Investment Strategy.

Cabinet

Under the Constitution, the Cabinet “will exercise all of the local authority functions which are not the responsibility of any other part of the local authority, whether by law or under this Constitution.”

It considers and recommends to Council the annual Treasury Management Strategy Statement and receives a mid-year report and annual outturn report on Treasury Management activities.

Governance, Audit, Risk Management and Standards Committee

GARMSC reviews the Treasury Management Strategy and monitors progress on treasury management in accordance with CIPFA codes of practice.

Director of Finance (Section 151 Officer)

Under S151 of the Local Government Act 1972 the Council “shall make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs.” At Harrow, this responsibility is exercised by the Director of Finance.

The Director is responsibility for implementing the policies agreed by the Council and Cabinet.

Under the Local Government Finance Act 1988 and the Local Government Act 2003 the Director also has responsibilities in respect of budget arrangements and the adequacy of resources. In terms of Treasury Management this means that the financing costs of the Capital Programme are built into the Revenue Budget as are any assumptions on investment income.

The Director chairs the Treasury Management Group and agrees major treasury management decisions, specifically including any borrowing decisions, delegated to officers.

Treasury Management Group

Comprises Director of Finance, Head of Strategic and Technical Finance (Deputy S151 Officer), Treasury and Pensions Manager, Senior Finance Officer and is responsible for:

1. Monitoring treasury management activity against approved strategy, policy, practices and market conditions;
2. Ensuring that capital expenditure plans are continually reviewed in line with budget assumptions throughout the year to forecast when borrowing will be required.
3. Approving changes to treasury management practices and procedures;
4. Reviewing the performance of the treasury management function using benchmarking data on borrowing and investment provided by the Treasury Management Adviser (Link Asset Services);
5. Monitoring the performance of the appointed Treasury Management Adviser and recommending any necessary actions
6. Ensuring the adequacy of treasury management resources and skills and the effective division of responsibilities within the treasury management function;
7. Monitoring the adequacy of internal audit reviews and the implementation of audit recommendations

Treasury and Pensions Manager

Responsible for the execution and administration of treasury management decisions, acting in accordance with the Council's Treasury Management Strategy Statement and CIPFA's "Standard of Professional Practice on Treasury Management"

Treasury Team

Headed by Senior Finance Officer with responsibility for day-to-day treasury and investment and borrowing activity in accordance with approved Strategy, policy, practices and procedures and for recommending changes to the Treasury Management Group

APPENDIX C

Minimum Revenue Provision (MRP) Policy Statement

For capital expenditure incurred before 1 April 2008 or which in the future will be Supported Capital Expenditure, the MRP policy will be the equal annual reduction of 2% of the outstanding debt at 1 April 2015 for the subsequent 50 years.

For all capital expenditure financed from unsupported (prudential) borrowing (including PFI and finance leases), MRP will be based upon an asset life method in accordance with Option 3 of the guidance.

In some cases where a scheme is financed by prudential borrowing it may be appropriate to vary the profile of the MRP charge to reflect the future income streams associated with the asset, whilst retaining the principle that the full amount of borrowing will be charged as MRP over the asset's estimated useful life.

The regulations allow the Council to charge VMRP, which can be used to reduce future MRP by the same amount. A change introduced by the revised MHCLG MRP Guidance is that the voluntary MRP must be disclosed in a statement to the full council in order to reclaim it in future years as deemed necessary and prudent. As at March 2023, the VRP was £6.8 (31st March 2022 £6.8m.)

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

Freehold land cannot properly have a life attributed to it, so for the purposes of Asset Life method it will be treated as equal to a maximum of 50 years, in line with the maximum asset life permitted by statutory guidance.

As some types of capital expenditure incurred by the Council are not capable of being related to an individual asset, asset lives will be assessed on a basis which most reasonably reflects the anticipated period of benefit that arises from the expenditure. Also, whatever type of expenditure is involved, it will be grouped together in a manner which reflects the nature of the main component of expenditure and will only be divided up in cases where there are two or more major components with substantially different useful economic lives.

Repayments included in annual PFI or finance leases are applied as MRP.

Where borrowing is undertaken for the construction of new assets, MRP will only become chargeable once such assets are completed and operational.

APPENDIX D

APPENDIX D: Link Group: Interest Rate Forecasts 2024 – 2027.

PWLB forecasts shown below have taken into account the 20 basis point certainty rate reduction effective as of the 1st November 2012.

The Link Group forecasts are as at 08.01.24.

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

APPENDIX E

Economic Background

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

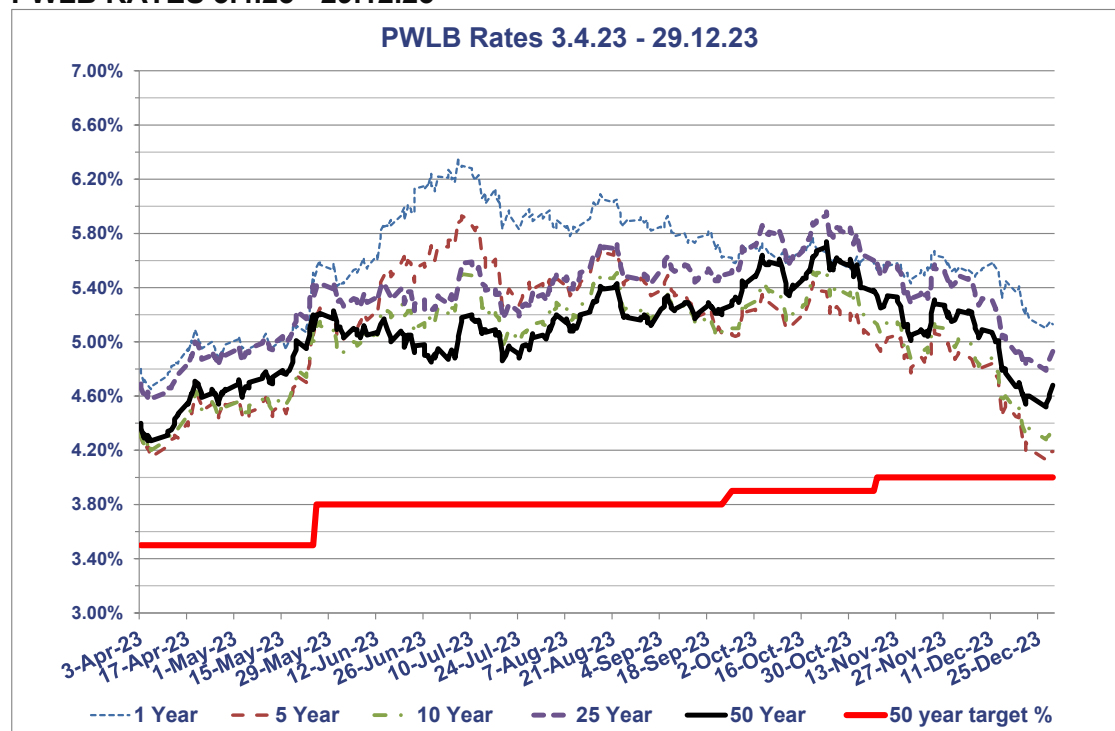
the full weakness in real consumer spending and real business investment has yet to come as currently it is estimated that around two thirds to a half of the impact of higher interest rates on household interest payments has yet to be felt.

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

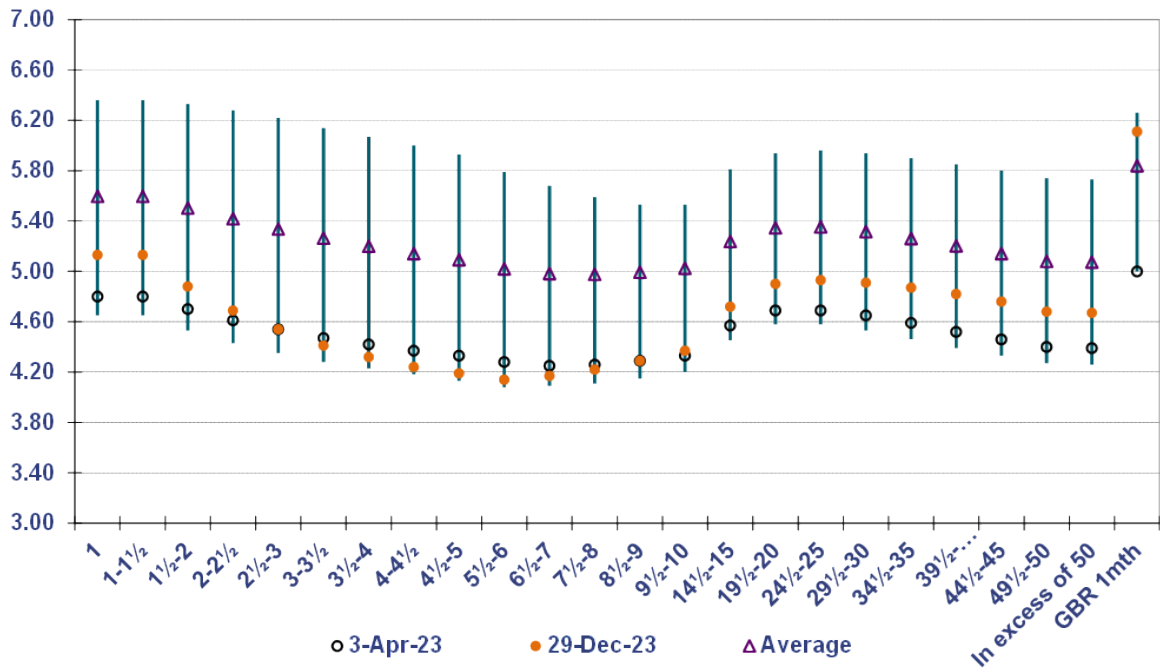
- Looking ahead, our colleagues at Capital Economics forecast that the recent downward trends in CPI and core inflation will stall over the next few months before starting to decline more decisively again in February. That explains why we think the Bank of England won't feel comfortable cutting interest rates until H2 2024.
- The fall in UK market interest rate expectations in December has driven most of the decline in 10-year gilt yields, which have fallen in line with 10-year US Treasury and euro-zone yields. 10-year gilt yields have fallen from 4.68% in October 2023 to around 3.70% in early January, with further declines likely if the falling inflation story is maintained.
- Investors' growing expectations that the Fed will cut interest rates soon has led to an improvement in risk sentiment, which has boosted the pound and other risky assets. In addition, the rise in the pound, from \$1.21 in November to \$1.27 now, has also been supported by the recent relative decline in UK wholesale gas prices.
- The further fall in 10-year real gilt yields in December has supported the recent rise in the FTSE 100. That said, the index remains 5% below its record high in February 2023. This modest rise in equities appears to have been mostly driven by strong performances in the industrials and rate-sensitive technology sectors. But UK equities have continued to underperform US and euro-zone equities. The FTSE 100 has risen by 2.2% in December, while the S&P 500 has risen by 3.8%. This is partly due to lower energy prices, which have been a relatively bigger drag on the FTSE 100, due to the index's high concentration of energy companies.

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

PWLB RATES 3.4.23 - 29.12.23



PWLB Certainty Rate Variations 3.4.23 to 29.12.23



HIGH/LOW/AVERAGE PWLB RATES FOR 3.4.23 – 29.12.23

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

MPC meetings 2nd November and 14th December 2023

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

APPENDIX F

Counterparties and approved investments

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

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

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

- Yellow 5 years *
- Dark pink 5 years for Ultra-Short Dated Bond Funds with a credit score of 1.25
- Light pink 5 years for Ultra-Short Dated Bond Funds with a credit score of 1.5
- Purple 2 years
- Blue 1 year (only applies to nationalised or semi nationalised UK Banks)
- Orange 1 year
- Red 6 months
- Green 100 days
- No colour not to be used

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

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

The Authority is alerted to changes to ratings of all three agencies through its use of the Link creditworthiness service.

- if a downgrade results in the counterparty / investment scheme no longer meeting the Authority's minimum criteria, its further use as a new investment will be withdrawn immediately.
- in addition to the use of credit ratings the Authority will be advised of information in movements in Credit Default Swap spreads against the iTraxx European Senior Financials benchmark and other market data on a

daily basis via its Passport website, provided exclusively to it by Link.
 Extreme market movements may result in downgrade of an institution or removal from the Authority's lending list.

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

Y	Pi1	Pi2	P	B	O	R	G	N/C
1	1.25	1.5	2	3	4	5	6	7
Up to 5yrs	Up to 5yrs	Up to 5yrs	Up to 2yrs	Up to 1yr	Up to 1yr	Up to 6mths	Up to 100days	No Colour

	Colour (and long-term rating where applicable)	Monetary limit per Counterparty	Duration limit
Banks & UK Government	Yellow	£20m	5yrs
Banks	Purple	£20m	2 yrs
Banks & Building Societies	Orange	£20m	1 yr
Banks – part nationalised	Blue	£20m	1 yr
Banks & Building Societies	Red	£20m	6 mths
Banks & Building Societies	Green	£20m	100 days
Banks & Building Societies	No Colour	Not to be used	Not to be used
Authority's Banker (RBS)		£50m	Instant Access
DMADF	UK sovereign rating	unlimited	6 months
Local authorities	Yellow	£20m	5yrs
	Fund rating		Time Limit
Money Market Funds CNAV	AAA	£20m	liquid
Money Market Funds LVNAV	AAA	£20m	liquid
Money Market Funds VNAV	AAA	£10m	liquid
Ultra-Short Dated Bond Funds with a credit score of 1.25	Dark Pink / AAA	£5m	liquid
Ultra-Short Dated Bond Funds with a credit score of 1.50	Light Pink / AAA	£5m	liquid

Councils own Bank – RBS

The Council will have an overriding limit of £50m with RBS to be held on instant access. If the Council makes an investment with RBS in accordance with the Banks suggested duration according to the Link Credit Methodology (as per the colour bandings/limits in the table above) the £50m limit for RBS in respect of funds that could be held on instant access will be reduced accordingly.

Sovereign

The Authority will invest in counterparties based in the UK plus those domiciled in countries with a minimum sovereign rating of AA-.

Groups of Companies

The Authority will treat groups of companies as one counterparty and therefore one limit will apply across all entities within that group.

Specified Investments

The MHCLG Investment Guidance defines a specified investment if all the following apply:

- The investment is denominated in sterling and any payments or repayments in the respect of the investment are payable only in sterling.
- The investment is not a long term investment. This means that the local authority has contractual right to repayment within 12 months, either because that is the expiry term of the investment or through a non conditional option.
- The making of the investment is not defined as capital expenditure by virtue of Regulation 25(1)(d) of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 [as amended].
- The investment is made with a body or in an investment scheme described as high quality (see paragraph 33 or with one of the following bodies:
 - The United Kingdom Government;
 - A local authority in England or Wales (as defined in section 23 of the 2003 Act) or a similar body in Scotland or Northern Ireland;
 - A parish council or community council.

The Authority as part of its treasury strategy defines what it believes constitutes high credit quality.

For the purposes of this strategy the Authority determines high credit quality to be any investment up to 365 days meeting the requirements of the table above in accordance with the Link Group Creditworthiness Methodology.

Non Specified Investments

The MHCLG Investment Guidance defines a non specified investment as any financial investment that is not classified as a loan or a specified investment.

The Authority does not intent to make investments outside of the counterparty criteria contained in the table above. Therefore, it will only undertake non specified investments if it makes long term investments over 365 days within the above parameters with regards counterparty limits and investment duration. This would be subject to cashflow forecast illustrating the Authority had sufficient funds available to enter into long term investments.

Loan

The MHCLG Investment Guidance defines this as a loan that an Authority has elected to make to local enterprises, local charities, wholly owned companies and joint ventures as part of a wider strategy for local economic growth even though those loans may not all be seen as prudent if adopting a narrow definition of prioritising security and liquidity.

The Authority will undertake specific due diligence in respect of any loans to third parties in support of Council objectives prior to any decision on a loan being made.

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Section 1 – PRINCIPLES OF THE CAPITAL STRATEGY

1. Introduction

In December 2017, the Chartered Institute of Public Finance & Accountancy issued a revised Prudential and Treasury Management Code, requiring all local authorities to produce a Capital Strategy report from 2019/20 onwards to show:

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

This capital strategy meets the requirement by setting out the Council's capital investment programme and how it contributes to the achievement of strategic priorities being refreshed through the Borough Plan, while considering resource availability and the wider financial context. It is intended to be supportive of the Council's other strategy framework documents.

2. Objectives and Principles

The strategy details show how the Council sets out its priorities for Capital investment including links to existing delivery plans and strategy documents. It also considers the ways in which capital expenditure may be financed, including the impact that the Strategy has on the budgets of both the General Fund and the Housing Revenue Account (HRA). The strategy will also set out the links with Treasury Management objectives and determine the authority's approach to risk in those objectives.

This document is part of the Council's business planning process from both a financial and service perspective. It sets out a framework whereby the authority's capital resources can be effectively allocated to those projects which may help the Council achieve wider corporate objectives, protect existing assets and support financial sustainability.

Principles of the Capital Strategy

1. Capital Investment is a vital tool in delivering strategic priorities.
2. The Capital Programme will include only these schemes in accordance with the agreed criteria.
3. The evaluation of capital schemes for inclusion on the programme will follow an agreed process which allows scrutiny whilst not limiting innovation and adaptability.
4. The funding of the Capital Programme must be considered alongside the revenue budget and balance sheet position as part of the Council's Medium Term Financial Strategy (MTFS).
6. Capital projects will be monitored and reported to Cabinet on a quarterly basis.

3. Background

As part of its wider treasury management objectives the Council must have regard to the “Prudential Code for Capital Finance in Local Authorities” (henceforth to be referred to as the Prudential Code), as produced by the Chartered Institute of Public Finance & Accountancy (CIPFA). The 2017 revision of the Prudential Code introduces the requirement for authorities to produce a Capital Strategy from 2019/20. It is a live document underpinning the Council’s Capital Programme and therefore will be subject to amendment.

4. Capital Expenditure

Capital Expenditure is that which is incurred on the acquisition, creation or enhancement of an asset. These assets can be tangible such as buildings or vehicles, as well as intangible such as software products.

5. The link between Revenue and Capital

Capital and revenue expenditure are separate components of local authority budgets and funding for each is considered separately. However, a vital component of successful financial planning is that revenue and capital budgets are intrinsically linked as the impact of capital expenditure must be reflected in revenue budgets. Therefore, this capital strategy should be deemed to form a key part of the authority’s medium term financial planning process.

The impact and affordability of capital expenditure must be considered in the assessment of capital projects at the business case stage. Effective financial planning must fully reflect the impact of capital plans in the revenue budget.

The following table sets out some of the key impacts of capital expenditure upon the revenue budget.

Revenue Savings

- Direct Income from assets
- Reduced maintenance costs of new or improved assets
- Savings in labour costs

Revenue Costs

- Running costs of new assets
- Minimum Revenue Provision (loan principal)
- Interest costs from borrowing

As an indication of the current cost of the existing capital programme, the table below shows the capital financing costs that are already factored into the existing MTFs for 2024/25 to 2026/27 in relation to the existing and historic capital programmes:

Capital Financing Costs as % of the Net Revenue Budget for 2024/25 of £202.6m

	Capital Financing Costs	Capital financing costs as % of 2024/25 Net Budget
	£m	%
2024/25	33.1	16.3%
2025/26	34.1	16.8%
2026/27	36.0	17.8%

6. The Purpose of Capital Investment

Investment through capital expenditure may serve a number of purposes; these can typically be classified as being related to service priorities, invest-to-save projects, regeneration programme, and the planned improvement of the current investment property portfolio.

7. Existing Capital Priorities

Instead of inviting service directorates to bid for capital resources, a review was undertaken on the existing Capital Programme and the outcome of which was used to refresh the programme by re-profiling existing budgets where applicable into 2026/27 to form a 3-year Capital Programme in the MTFS. Any new capital allocation for 2026/27 will form part of the 2025/26 budget and MTFS process.

The criteria used for the inclusion of any new capital bids remain unchanged from previous years which is for capital to be contained within the following categories:

1. Life and Limb/Health and Safety.
2. Statutory Requirement/legislation.
3. Schemes fully funded by external sources.
4. Invest to Save Schemes (the capital expenditure must generate a revenue stream to cover the capital financing costs and make a net contribution to the MTFS).

In addition, with the approval of the Council's Corporate Plan, capital investment in the borough aims to support the delivery of our priorities to residents and businesses. The Corporate Plan includes a number of flagship actions, many of which will be supported by the investment in the Capital Programme.

The updated Capital Programme 2024/25 to 2026/27 will be approved by Cabinet and Council in February 2024.

8. Use of Commercial Investment

The Council took its Investment Property Strategy to Council in December 2015. Under this strategy the Council has incurred £51.1m of capital expenditure to 31 March 2023 on commercial investments. The Council acquired 7 Commercial properties, 6 of them are located outside of Harrow Borough and one in Harrow Town Centre. There is no further Capital for

Commercial Investments in the Capital Programme to be approved by Council in February 2024.

9. Asset Management

Asset Management is the process by which the authority considers whether its assets are appropriate to deliver the high-quality services demanded by residents. This process may identify a number of different outcomes for assets including:

1. Change in use to meet the demands of a service
2. Investment is required to improve the condition of an asset
2. A new asset is required to better meet the Council priorities
3. The need to dispose of the asset to realise its value in monetary terms

The Council will use active asset management to consider both its current asset base and its future asset base. The capital programme will be used to bridge the gap to ensure that the authority has sufficient assets in the long term.

10. Capital Disposals

The asset management process may determine that the value of an asset is best realised through disposal. Sale of assets should be through an open market process to determine the best value.

Cash received from a sale of a property is a capital receipt. The use of these funds is restricted to purchasing new assets or repayment of existing debt. The Council will not make decisions about the ring-fencing of capital receipts before amounts are known and the use of such receipts has been considered in the light of the Council's overall financial position.

The existing General Fund capital programme includes a limited amount of capital receipts in relation to two regeneration schemes – Haslam House and Waxwell Lane. The HRA capital programme includes assumptions on levels of right to buy receipts as well as other capital receipts.

11. Multi-Year Capital Projects

Capital projects deliver assets which will provide services and/or income to the Council for a number of years. As a result of the significance and complexity of a number of these projects they may take a number of years to plan and deliver.

When setting the Capital Programme Council will approve the schemes to be included, the budget for their delivery and the timescale in which they are to be achieved. Unless schemes have clearly defined development and delivery phases with separate objectives, budgets and timescales Council should be asked to approve a budget to cover the whole of the project being delivered. Approval of the entire budget at the point of inception gives certainty for the project and assists officers in ensuring delivery.

The budget for approval will include an expected cash flow projection showing how much of the anticipated project budget will be incurred in each year of the Capital Programme. Any variations in timing of cash flows between years will be reported as part of the budget monitoring process. This should be regarded as part of the normal development of a capital project.

12. Use of capital receipt flexibilities

In the Spending Review 2015, it was announced that to support local authorities to deliver more efficient and sustainable services, the government will allow local authorities to send up to 100% of their fixed asset receipts on the revenue costs of reform projects.

The flexibility was initially offered to the sector for the three financial years 2016/17 to 2018/19. In December 2017, the Secretary of State announced, alongside the provisional local government finance settlement, the continuation of the capital receipts flexibility programme for a further three years, covering 2019/20 to 2021/22. The flexibility has been extended on numerous occasions. In December 2023, the government announced the extension of this scheme to March 2030 and would also explore additional capital flexibility options to enable invest-to-save and transformation initiatives. There is currently a consultation on these options which will close on 31 January 2024.

Qualifying expenditure is expenditure on any project that is designed to generate ongoing revenue savings in the delivery of public services and/or transform service delivery to reduce costs and/or transform service delivery in a way that reduces costs or demand for services in future years for any of the public sector delivery partners.

Local authorities are given the power to use capital receipts from the disposal of property, plant and equipment assets received in the years in which this flexibility is offered, to spend up to 100% of their fixed asset receipts (excluding Right to Buy receipts) on the revenue costs of reform projects. Local Authorities may not use their existing stock of capital receipts to finance the revenue costs of reform.

The Council signified its intent to make use of this flexibility in its final budget report to Cabinet and Council in February 2016 and has continued to do so as part of the Annual Budget Setting process in order to provide the Council with the flexibility should it be needed. To date, the following use has been made of capital flexibilities:

2016/17	£2,377,000
2017/18	£1,738,000
2018/19	£1,200,000
2019/20	£3,100,000
	£8,415,000

The MTFS 2024/25 to 2026/27 includes a budget of £1.250m to fund the Regeneration Team. The nature of this spend meets the capital flexibility

criteria and the team will be funded under the capital flexibilities scheme in 2024/25 and 2025/26. This will be reviewed as part of the 2025/26 budget process as there will be more information on additional capital flexibility options following the consultation as detailed below.

The Department for Levelling Up, Housing and Communities (DLUHC) has recently published a call for views on new local authority capital flexibilities, which include a set of options with respect to capital flexibilities and borrowing, to be managed locally, that could be used to encourage and enable local authorities to invest in ways that reduce the cost of service delivery and provide more local levers to manage financial resources. The calls for view close on 31 January 2024. At the time of writing this report, the outcome of this is not yet known.

Section 2 – SELECTING, APPROVING AND MONITORING CAPITAL SCHEMES

13. The Importance of Capital Business Cases

The processes described in the following section are to be regarded as the authority's formal procedures for setting and monitoring capital projects. This process has been developed to ensure that the Council's Capital Programme contains schemes which are in line with objectives, meet its asset management requirements and are both affordable and deliverable. This process will give elected members confidence that decisions they are being asked to make regarding the capital programme have been based on a sound system of decision making.

All capital schemes included in the Capital Programme have been the subject of an evaluation process including a business case to ensure the Council can target its capital resources effectively.

14. Information to be considered in Capital Decision Making

When making decisions as to which schemes are included on the capital programme the presented business case must include information on these main factors.

- (i) Financials – All anticipated costs (both capital and ongoing revenue), along with any potential revenue streams must be set out. This should include risk analysis to show factors which may impact upon those numbers and where appropriate sensitivity analysis to show potential future scenarios.
- (ii) Strategic Objectives – Capital schemes must meet Council priorities and the ability of a scheme to impact upon objectives must be clearly demonstrated. This should include the wider social and environmental impact of the capital project. This must be accompanied by evidence supporting the conclusions made.

- (iii) Capacity - All capital schemes, even those funded by external sources, require officers within the Council to implement them and this must be considered as part of the appraisal process. Where a project requires the procuring of additional resource to deliver the scheme this detail must be included in the financial analysis.
- (iv) Deliverability - The success of capital projects depends not just on the financial and non-financial resources of the Council. External factors which impact on the deliverability of the project should also be considered as part of the planning process.

15. Governance of the Capital Programme

This strategy sets out the governance relationship relating to the Capital Programme and the respective role of Members and Officers in relation to the decision making process. The roles of the various groups are as follows.

Decision making on the Capital Programme is likely to be an iterative and often circular process with information flowing both ways between these respective groups.

As an example the following timescale may be followed for producing the Capital Programme during the main budget setting process.

Council

- Formally agrees the Capital Programme
- Receives budget monitoring reports covering financial and non-financial elements of capital schemes
- Approves commercial capital investments

Capital Forum

- Allows panel a chance to comment on capital schemes before formal approval of releasing the funding approved as part of the Capital Programme

Corporate Team

- Reviews Business Cases submitted
- Performs initial sift of viable schemes
- Approves proposed list of capital schemes

Service Managers / Heads of Service

- Identify priorities and opportunities for capital investment
- Act as, or appoint, project managers to lead on schemes and complete outline business cases

16. In-Year Capital Decisions

The inclusion of projects in the Capital Programme must remain possible outside of the usual capital budget setting process where a project is being resourced by external funding, e.g. Government grant or other external funding. In order to facilitate this, the Financial Regulations allow for capital projects to be added to the capital programme where they are funded from external sources.

17. Monitoring Capital Projects

Effective monitoring of projects is a vital element of good capital governance.

Capital projects are often significant not only in terms of financial resources required but in terms of organisational capacity, impact upon Service delivery and reputational risk. It is therefore vital that there is sufficient monitoring carried out upon schemes to allow stakeholders to be informed of progress and for members and officers to make decisions as required.

In order to meet these requirements the Corporate Team prepare quarterly monitoring reports showing the current spend against capital projects, the forecast for the end of the financial year include the underspend or slippage into the following year at the end of each financial quarter, with an outturn report at year-end.

Cabinet receives quarterly information on the progress of capital projects as part of the quarterly finance update on revenue and capital budget monitoring

Section 3 - FINANCING THE CAPITAL PROGRAMME

18. Capital Funding

There are a number of distinct sources of funding which can be utilised to finance capital expenditure. Some funding sources are ring fenced and can only be used for Housing Revenue Account capital expenditure, or a particular capital project. Consideration of funding must be made when projects are at the planning stage. No capital project will be put forward without funding having been identified to complete the project. Where capital schemes are in multiple phases, perhaps requiring an initial development phase to ensure funding for the final phases, this will be considered as part of the planning stage and clearly reported.

Capital funding cannot be used to fund revenue costs which may arise from a capital scheme such as consultant's costs on feasibility before a project is identified.

19. Capital Resources

Capital Receipts

The sale of assets with a value of more than £10,000 generates income known as capital receipts. Legislation requires these to be spent on either new capital investment or the repayment of existing debt. The government allows some flexibility in the use of capital receipts in the form of capital flexibilities as set out in paragraph 12.

HRA Right to Buy compulsory sale of council houses generate receipts that may be retained to cover the cost of transacting the sales and to cover outstanding debt on the property sold, but a proportion of the remainder must be surrendered to Central Government. **Though for 2022/23 and 2023/24 the Government has allowed LA to all receipts subject to restrictions.**

All other HRA capital receipts may be retained provided they are spent on affordable housing, regeneration or paying off housing debt.

General Fund capital receipts can be retained in full. These can arise from the sale of land and buildings, vehicles, plant and equipment, and also through the repayment of loans or grants.

An active asset management planning process is needed to review the asset requirements of the Council and therefore to identify surplus assets which may be sold to generate capital receipts.

Prudential Borrowing

The Council is able to borrow money on the money market or from the Public Works Loans Board (PWLB) to fund capital schemes. A preferential Certainty Rate of interest is allocated to Councils who apply for it and it is the policy of this Council to take advantage of the certainty rate each year.

For all schemes initially funded from borrowing, the Council will have to fund the repayment and interest costs as there is no longer any central government "supported borrowing" allocations and related revenue support.

The Council is only able to borrow for Prudential Borrowing, under the guidance contained in the CIPFA Prudential Code whereby, in summary, the Council is required to ensure that all borrowing is both prudent and affordable. All schemes funded from prudential borrowing are approved by full Council. As part of the Treasury Management Strategy each year full Council approves a limit for affordable borrowing and capital schemes will be considered in the light of that limit.

20.External Funding Sources

Capital Grant from Government or Government Agency

Central government and government agencies provide capital grant funding that can be either ring fenced, or non-ring fenced. Examples of ring-fenced grants that the Council has received are disabled facilities grants (DFG's) and Transport for London (TfL) funding.

Community Infrastructure Levy (CIL)

Any monies received from developers for infrastructure from the Community Infrastructure Levy will not be allocated to a specific service but will be allocated under the CIL arrangements (“the Regulation 123 List”) in line with Council’s capital scheme priorities.

The process for allocating CIL funds will be in accordance with the process agreed by Cabinet.

The Community Infrastructure Levy (CIL) enables the council to raise funds for infrastructure from new development. It is levied on the net increase in floor space arising from new developments and is paid when that development starts. The Community Infrastructure Levy (CIL) is a tool for local authorities to support the development of their area by funding the provision, improvement, replacement, operation or maintenance of infrastructure. However the focus of CIL is on the delivery of new infrastructure to meet and mitigate the impacts of new development in an area.

CIL receipts can be used to fund a wide range of infrastructure including transport, schools, health and social care facilities, libraries, play areas, green spaces and sports facilities. Harrow’s list of strategic infrastructure requirements known as a Regulation 123 list is shown below:

Regulation 123 List	
The following table comprises Harrow Council’s Regulation 123 List. It includes the strategic infrastructure that the Council currently considers it is likely to apply CIL revenues to. The Regulation 123 List will be kept under review and may change depending upon the following:	
<ul style="list-style-type: none">• Changes to local or national funding streams in respect of CIL eligible infrastructure; and• The requirements of the regulations governing the level of the “meaningful proportion” of CIL that is to be passed to local communities.	
Infrastructure currently considered likely to benefit from the application of CIL funding	
Education facilities	Early years, primary and secondary schools
Health services	GPs, acute healthcare
Social care	Supported accommodation
Emergency services	Police, Ambulance and Fire Services
Cultural and community facilities	Libraries and community halls
Improvements to public open space	Parks, natural green space, civic space and green corridors and green grid
Improvements to biodiversity	
Public recreation and leisure facilities	Neighbourhood and Youth Play space, sports and leisure centres, swimming pools and playing pitches
Cemeteries and burial space	
Strategic transport facilities	Roads, buses, cycling, rail and underground
Strategic flood mitigation	

Of all CIL monies collected, 85% is used to fund strategic borough wide infrastructure projects, which includes a 5% allowance to cover the administrative costs of CIL. The decisions on where to spend CIL at a borough-wide level is determined by the Council. The remaining 15% is allocated to Neighbourhood CIL (NCIL) and must be spent on projects that have taken

account of the views of the communities in which the income was generated and these projects should support the development of the area.

In 2017, the principle was adopted by the Major Development Panel (14th November 2017) and Cabinet (7th December 2017) that the allocation of Borough and Neighbourhood CIL is included as part of the Annual Budget Setting process and included in the Capital Programme report which goes to Cabinet in draft (in December each year) and in its final version in February (this report). In agreeing the Borough CIL allocations process, Cabinet also indicated that this should be informed by the Harrow Local Plan, Infrastructure Delivery Plan (IDP), corporate priorities and external funding opportunities.

In this regard, a new Local Plan is currently being prepared and this will be informed by an updated IDP (due mid-2024). The IDP will provide an up to date assessment of infrastructure required to support the development envisaged in the new Local Plan, including the increased housing targets set by the London Plan. In this context, it is considered prudent not to fully allocate current BCIL balances / anticipated receipts as the forthcoming IDP may identify infrastructure needs that would benefit from BCIL to ensure timely provision.

In terms of the Neighbourhood element of CIL (NCIL) a review of the process was undertaken during 2022/23, and the outcomes and recommendations were presented to Cabinet in February 2023. A new process of NCIL allocation and project delivery is now in place.

The Borough CIL element will be used to fund the core Capital programme and can be considered as a funding source for new capital bids as well as existing projects in the Capital programme. Considerations should also be given on the allocation of BCIL funding while the updated IDP and Harrow Local Plan are being prepared.

In addition to the principles already reached on how CIL funding should be used to fund the capital programme, in light of the budget gaps in future years, it was recommended by Cabinet in December 2018, that CIL should be **first** be applied to any schemes in the existing capital programme rather than applying it to new schemes. The rationale for this is that if applied to schemes that are currently funded from borrowing, by funding from CIL instead, this will reduce the existing capital financing costs.

Section 106 Agreements

Developer consents may attract Section 106 funding to spend on a particular asset or site as an alternative to CIL.

Capital contributions from partner organisation

When capital projects are devised it is open for project managers to invite funding from a range of partner organisations.

Revenue contributions

Services who are leading a capital project may make savings within their revenue budgets during a particular year and in some circumstances use that saving to part-fund a capital project.

21. Policy on use of Capital Funding

The Council will look to use external funding sources where possible to meet the funding requirements of its capital programme.

Where the use of Council resources is required the authority will look to utilise reserves, revenue funding or capital receipts as these create no long term revenue cost implications on the Council.

Borrowing will be used as the last possible source of funding and should be restricted only to those schemes which generate sufficient savings or income to meet the costs of interest and the Minimum Revenue Provision.

Any borrowing incurred to support the provision of new build housing within the Housing Revenue Account must be demonstrated to be affordable over a period of 30 years.

22. Relationship between Capital Strategy and Treasury Management

Treasury management refers to the processes of managing and reporting on the Council's performance in matters of investment and borrowing.

The Council's policy on Treasury Management has numerous links to the Capital Strategy. It is not intended that this Strategy replace the reporting requirements of the Treasury Management Strategy and includes a summary of the major points of that strategy and associated governance processes.

Key Treasury decisions are the responsibility of full Council and are contained within the Treasury Management Strategy.

These include:

1. Approved limits on borrowing
2. Limits for investment types and counterparty limits
3. Planned capital expenditure
4. Estimates for the future Capital Financing Requirement
5. Policy on the Minimum Revenue Provision

Detailed discussion on these matters is delegated to the GARMS Committee who then makes recommendations to Cabinet. The key impact of a capital programme using borrowing is the creation of a "Capital Financing Requirement" (CFR). The CFR represents the need to borrow external funds as a result of expenditure funded through borrowing. Having a CFR creates the need for a Minimum Revenue Provision (MRP), a sum to be put to one side each year from the General Fund for repayment of debt.

The Council's MRP policy is to make provision for the repayment of debt equally over the life of the asset that the borrowing relates to. The GARMS Committee receive at a minimum a mid-year monitoring report for Treasury management and an end of year outturn report. Where circumstances require, such as a material fall in the value of investments, a report would be prepared and presented to the next meeting of the Committee by the S151 Officer.

Section 4 - RISK MANAGEMENT

23. Embedding Risk Management in the Capital Programme

The Capital Strategy must be considered alongside the principles of risk management. Risks are inevitable within a capital programme, as with all aspects of Council operations, and effective management of risk is a vital part of the capital strategy.

The types of risk the authority is exposed to in the Capital Programme are summarised below:

- Financial Risk – The risk of significant cost overruns or commercial investments not performing as expected. The authority has a low appetite for this risk as it would impact upon available resources. Mitigation will be in the form of close scrutiny of capital spending through the budget monitoring process.
- Strategic Risk – The risk of not delivering key Council priorities or projects. Mitigation will be in the form of careful selection and planning of capital projects before commencement and project managers reviewing project progress and taking corrective action where necessary. Major changes in the outcomes of schemes will be reported to the appropriate Committee.
- Governance risk – The risk of capital spending decisions not being appropriately considered and decisions not being made at the correct level. Mitigation is the governance principles contained within the capital strategy.
- Resourcing risk – The risk that insufficient funds are available to fund the capital programme or that the incorrect type of funds is applied to capital projects. This is mitigated by the financing of capital projects being reviewed by the S151 Officer as part of the budget setting and the outturn.

24. Knowledge and Skills within the organisation

The Property Services team has officers of multiple disciplines who are experienced at leading capital projects, managing the Council's property portfolio and working within the local property market. They have experience of dealing with acquisitions, disposals, new commercial and residential development and redevelopment of brownfield sites.

The Finance team are involved in the development and monitoring of the Capital Programme. They have many years of experience in managing local authority capital programmes.

Legal Services will be provided by the Council's in-house legal team who will form a key part of the decision making around Capital projects. All solicitors are required to complete an annual Statement of Competence to the regulatory body to ensure any professional training needs are identified and addressed.

Where necessary external advice may be sought for all types of financial, property and legal advice. These costs, or at least appropriate estimates, will be included in the business cases of capital schemes.

Officers will work with members to ensure that training needs for elected members are appropriately identified. As a minimum annual training will be provided around the Treasury Management Strategy.

APPENDIX H

Glossary of Terms

1. **Annuity** – method of repaying a loan where the payment amount remains uniform throughout the life of loan, therefore the split varies such that the proportion of the payment relating to the principal increases as the amount of interest decreases.
2. **Bail-In** – previously, in response to the banking crisis, some governments used taxpayer funds to support banks in danger of failing. The European Union’s Banking Recovery and Resolution Directive (BRRD) requires that, in future, ‘bail in’ will be applied in such a scenario; this means that after shareholders’ equity, depositors’ funds comprising balances over c£85k will be used to support the bank at risk. The £85k threshold is not available to local authorities and therefore all unsecured deposits with banks and building societies will be at risk of ‘bail in’.
3. **Base Rate** – minimum lending rate of a bank or financial institution in the UK
4. **Bond** – a government or public company’s document undertaking to repay borrowed money usually with a fixed rate of interest.
5. **Capital Expenditure** – spend on major items e.g. land and buildings, which adds to and not merely maintains the value of existing fixed assets.
6. **Capital Grants** – specific targeted grants to cover capital spend
7. **Capital Receipts** – the proceeds from the disposal of land or other assets. Capital receipts can be used to fund capital expenditure but cannot be used to finance revenue.
8. **CIPFA** – the Chartered Institute of Public Finance and Accountancy, is the professional body for accountants working in Local Government and other public sector organisations, also the standard setting organisation for Local Government Finance.
9. **Counterparty** – an institution (e.g. a bank) with whom a borrowing or investment transaction is made.
10. **Credit Rating** – an opinion on the credit-worthiness of an institution, based on judgements about the future status of that institution. It is based on any information available regarding the institution: published results, Shareholders’ reports, reports from trading partners, and also an analysis of the environment in which the institution operates (e.g. its home economy, and its market sector). The main rating agencies are Fitch, Standard and Poor’s and Moody’s. They analyse credit worthiness under four headings:
11. **Short Term Rating** – the perceived ability of the organisation to meet its obligations in the short term, this will be based on measures of liquidity.

12. **Long Term Rating** – the ability of the organisation to repay its debts in the long term, based on opinions regarding future stability, e.g. its exposure to ‘risky’ markets.
13. **Individual/Financial Strength Rating** – a view of the likelihood, in the case of a financial institution failing, that its obligations would be met, in whole or part, by its shareholders, central bank or national government.
14. **Legal Support Rating** - a view of the likelihood, in the case of a financial institution failing, that its obligations would be met, in whole or part, by its shareholders, central bank, or national government. The rating agencies constantly monitor information received regarding financial institutions, and will amend the credit ratings assigned as necessary.
15. **DMADF and the DMO** – The DMADF is the ‘Debt Management Account Deposit Facility’; this is highly secure fixed term deposit account with the Debt Management Office (DMO), part of Her Majesty’s Treasury.
16. **EIP** – Equal Instalments of Principal, a type of loan where each payment includes an equal amount in respect of loan principal is eroded, and so the total amount reduces with each instalment.
17. **Gilts** – the name given to bonds issued by the UK Government (i.e. the loan instrument by which the Government borrows). Gilts are issued bearing interest at a specified rate, however they are then traded on the markets like shares and their value rises or falls accordingly. The Yield on a gilt is the interest paid divided by the Market Value of that gilt, e.g. a 30 year gilt is issued in 1994 at £1, bearing interest of 8%. In 1999 the market value of the gilt is £1.45. The yield on that gilt is calculated as $8\%/1.45 = 5.5\%$.
18. **Lender Option Borrower Option (LOBO)** - LOBOs are a long term borrowing instrument commonly used by banks. It is an alternative lender option to the Government’s Public Works Loan Board. In simple terms the instrument gets its name because the lender has an option to set revised interest rates at predetermined dates, and at which point the borrower has the option to accept the revised rates or pay the debt in full without penalty.
19. **Liquidity** – Relates to the amount of readily available, or short term, investment money which can be used for either day to day or unforeseen expenses. For example Call Accounts allow instant daily access to invested funds.
20. **Market** – The private sector institutions e.g. banks, building societies.
21. **Maturity** - Type of loan where only payments of interest are made during the life of the loan, with the total amount of principal falling due at the end of the loan period.
22. **Minimum Revenue Provision (MRP)** – A statutory amount charged to the Council’s revenue account for the provision to repay the loan principal on debt undertaken to finance the Capital Programme. For the Council this is

done on a straight line basis in-line with the asset life and commences the financial year after the asset is operational.

23. **Monetary Policy Committee (MPC)** – group that sets the bank base rate for the Bank of England.
24. **Money Market Fund (MMF)** – A highly diversified pooled investment vehicle whose assets mainly comprise of short term instruments.
25. **Multilateral Development Banks (MDB)** – these are supranational institutions set up by sovereign states, which are their shareholders (e.g. European Investment Bank). Their remits reflect the development aid and cooperation policies established by these states.
26. **Policy and Strategy Documents** – Documents required by the CIPFA Code of Practice on Treasury Management in Local Authorities. These set out the framework for treasury management operations during the year.
27. **Public Works Loans Board (PWLB)** – a central government agency providing long and short term loans to Local Authorities. Rates are set daily at a margin over the Gilt yield (see Gilts above). Loans may be taken at fixed or variable rates and as an Annuity, Maturity, or EIP loans (see separate definitions) over periods of up to fifty years. Financing is also available from the money markets, however because of its nature the PWLB is generally able to offer better terms.
28. **Sterling Overnight Index Average (SONIA)** – Replacement for LIBOR (London Interbank Offered Rate) which was calculated based on estimates of interest rates at which banks would lend to one another. SONIA is a risk free overnight interest rate based on actual transactions and reflects the interest rate that banks pay to borrow sterling overnight from other financial institutions and other institutional investors.
29. **Yield** – The amount in cash (in percentage terms) that returns to the owners of an investment e.g. interest earned from a deposit.