

Report for: **Cabinet**

Date of Meeting:

16th February 2023

Subject:

Annual Treasury Management Strategy Statement including Prudential Indicators, Minimum Revenue Provision Policy Statement, Annual Investment Strategy and Annual Capital Strategy for 2023/24

Key Decision:

Yes

Responsible Officer:

Dawn Calvert -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 – decisions reserved to Council

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 2023-25
Appendix E - Economic Background
Appendix F – Counterparties: Investment Criteria
Appendix G - Capital Strategy 2023/24
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 2023/24.

Recommendations:

Cabinet is asked to recommend to Council that they approve the Treasury Management Strategy Statement for 2023/24 including:

1. Prudential Indicators for the period 2023/24 to 2025/26
2. Minimum Revenue Provision Policy Statement for 2023/24, (see para 2.17 and Appendix C)
3. Annual Investment Strategy for 2023/24 (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 and Treasury Management Code of Practice 2021
3. DLUHC (Previously MHCLG) Investment and MRP Guidance 2018

On 20 December 2021, CIPFA published a revised Prudential Code and Treasury Management Code of Practice. The Authority is required to formally meet the requirements of the revised Codes from 2023/24 and the following report fulfils this obligation.

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) 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 Treasury Management Code, 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.

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 – (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 2017 Prudential and Treasury Management Codes introduced a requirement for 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 2023/24

- 1.17. The strategy for 2023/24 covers the following areas:

Capital Issues (Section 2)

- Capital Financing Summary
- Capital Programme and Capital Prudential Indicators 2023/24 to 2025/26
- Council's Borrowing Need (Capital Financing Requirement)
- 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
- 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.

Capital Expenditure

- 2.2. 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.
- 2.3. 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

	2021/22 Actual £'000	2022/23 Revised Budget £'000	2023/24 Budget £'000	2024/25 Budget £'000	2025/26 Budget £'000
Capital Expenditure					
General Fund					
- Resources Directorate	5,598	11,662	1,850	2,050	3,000
- People's Directorate	2,258	28,915	7,896	9,071	-
- Place Directorate	36,261	62,002	33,425	17,646	15,978
General Fund	44,117	102,579	43,171	28,767	18,978
Housing Revenue Account (HRA)	30,529	52,446	30,483	43,198	54,160
Total	74,646	155,025	73,653	71,965	73,137

Table 2: Financing of Capital Expenditure

	2021/22 Actual £'000	2022/23 Revised Budget £'000	2023/24 Budget £'000	2024/25 Budget £'000	2025/26 Budget £'000
Finance of Capital Expenditure					
General Fund					
Capital receipts	376	-	-	-	-
Capital Grants	5,449	40,171	15,155	12,828	3,613
BCiL	1,756	5,615	1,950	1,925	1,900
NCiL	161	937	500	500	500
Section106	398	1,159	-	-	-
Revenue	-	2	-	-	-
Total External Funding	8,140	47,884	17,605	15,253	6,013
Borrowing Requirement	35,977	54,695	25,566	13,514	12,965
Total General Fund Funding	44,117	102,579	43,171	28,767	18,978
Housing Revenue Account (HRA)					
Capital receipts	7,185	7,170	2,158	5,591	4,767
Capital Grants	16,156	13,789	1,293	8,957	-
Section106	100	3,721	620	620	-
Revenue	6,403	18,728	9,821	11,032	11,651
Total External Funding	29,844	43,408	13,891	26,200	16,418
Borrowing Requirement	685	9,038	16,591	16,998	37,742
Total HRA Funding	30,529	52,446	30,483	43,198	54,160
Total General Fund & HRA Funding	74,646	155,024	73,653	71,965	73,137
Total External Funding	37,984	91,291	31,496	41,453	22,430
Total Borrowing Requirement	36,662	63,733	42,157	30,512	50,707

The Council's borrowing need (Capital Financing Requirement)

- 2.4. 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.
- 2.5. 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 2023 the Council is forecast to have £15m of such schemes within the CFR.

- 2.6. 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.
- 2.7. The Council is asked to approve the CFR projections below (included within the Prudential Indicators):

Table 3: Capital Financing Requirement

Capital Financing Requirement £'000	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
CFR – General Fund	430,661	461,462	457,932	441,797	424,927
CFR – HRA	157,439	168,422	186,183	201,732	239,034
Total CFR	588,100	629,884	644,115	643,529	663,960
Movement in CFR	14,954	41,784	14,231	-586	20,432

Movement in CFR represented by					
Net financing need for the year (table 2)	36,662	65,678	42,157	30,512	50,707
Less MRP/VRP and other financing movements	-21,708	-23,894	-29,096	-29,649	-29,835
Appropriation/Major Repairs Reserve			1,170	-1,449	-440
Movement in CFR	14,954	41,784	14,231	-586	20,432

Liability Benchmark

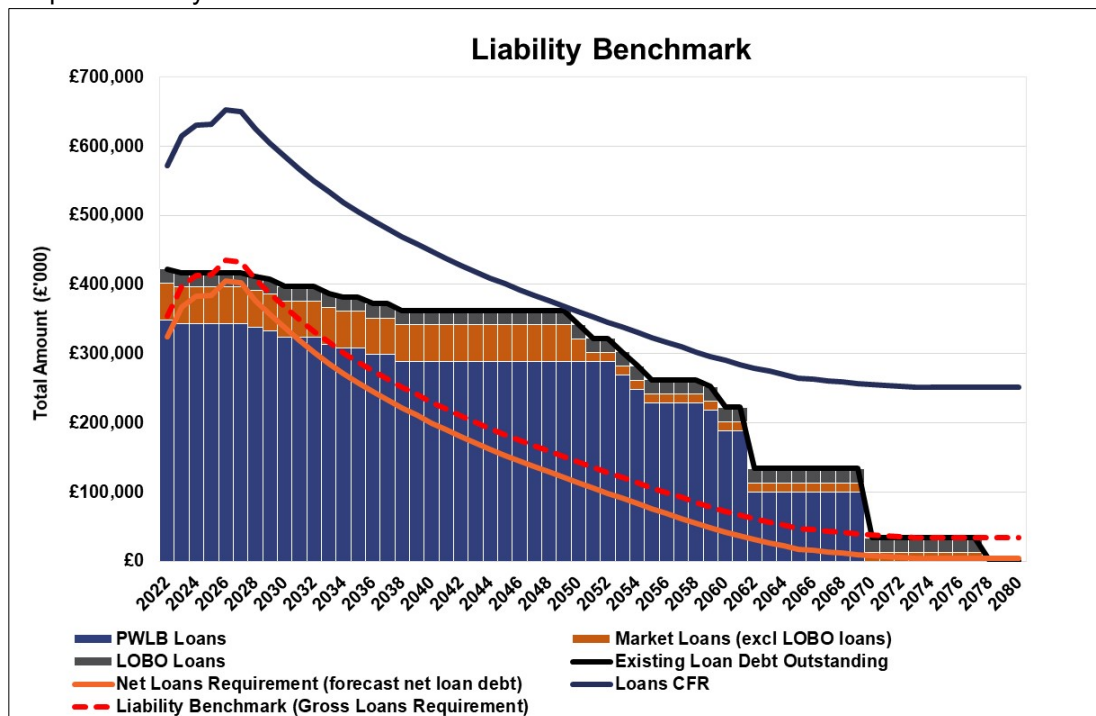
- 2.8. A new Prudential Indicator for 2023/24 is the Liability Benchmark. This compares the current approved commitments of the Authority which require prudential borrowing to the external borrowing portfolio over the long term.
- 2.9. The Liability Benchmark is made up of 4 components:
- **Existing 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.
- 2.10. The Liability Benchmark is presented as a graph below, and illustrates a borrowing metric, which looks at a net book treasury management approach, 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.

2.11. 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, 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 which requires investment.

2.12. 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 debt requirement and to minimise treasury risks, based on known and approved prudential borrowing.

Graph 1: Liability Benchmark



2.13. 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 2025/26 and 2026/27, where the current borrowing portfolio is forecast to be below the Liability Benchmark.

2.14. 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.

- 2.15. Following 2026/27, 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. This indicates that relative to the Liability Benchmark no additional external borrowing would be required, and that treasury investments are forecast to be more than the £30m liquidity allowance factored into the benchmark.
- 2.16. The Authority will keep the Liability Benchmark under review, updating it when new information becomes available, and will be reviewed ahead of any future borrowing decisions.

Minimum revenue provision (MRP) policy statement

- 2.17. 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 funded by Council Tax.
- 2.18. Regulation 28 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 (as amended) require 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 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. The Council is recommended to approve the statement as detailed in Appendix C.
- 2.19. There is no requirement on the HRA to make a minimum revenue provision but there is a requirement for a charge for depreciation to be made.
- 2.20. MRP Overpayments - A change introduced by the revised 2018 MHCLG (now DLUHC) MRP Guidance was the 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 2022 the balance of VRP was £6.9m (£6.8m 31 March 2021).

Core funds and expected investment balances

- 2.21. 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.).
- 2.22. 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.

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 2022 and corresponding position at 31 December 2022 are shown below for both borrowing and investments.

Table 4: Borrowing Portfolio

Borrowing Portfolio £'000	31-Mar-22			31-Dec-22		
	Principal	Average Rate (%)	Average Life (yrs)	Principal	Average Rate (%)	Average Life (yrs)
PWLB	348,461	3.45%	35.04	343,461	3.43%	34.79
Market	73,800	3.53%	40.69	73,800	3.53%	39.94
Total	422,261	3.46%	36.02	417,261	3.45%	35.70

Table 5: Investment Portfolio

Investment Portfolio £'000	31-Mar-22			31-Dec-22		
	Principal	Average Rate (%)	Average Life (days)	Principal	Average Rate (%)	Average Life (days)
MMFs	1,626	0.36%	1	1,626	3.16%	1
Government				25,000	3.16%	22
Banks	96,386	0.01%	4	71,750	0.94%	3
Total	98,012	0.02%	4	98,375	1.54%	8

- 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 2022 and 31 December 2022, compared to the upper and lower limits in place.

Table 6: Maturity Structure of Borrowing

Maturity structure of borrowing 2022/23	Lower Limit	Upper Limit	Actual 31.03.22	Actual 31.12.22
Under 12 months*	0%	40%	6%	5%
12 months to 2 years	0%	30%	0%	0%
2 years to 5 years	0%	30%	0%	1%
5 years to 10 years	0%	40%	5%	6%
10 years and above	30%	100%	89%	88%

- 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 - CFR), highlighting any over or under borrowing. The expected change in borrowing has been calculated with reference to the Liability Benchmark in paragraphs 1.26-1.34. This assumes internal borrowing is utilised to a point at which the Authority maintains £30m of treasury investments.

Table 7: Gross Debt v Capital Financing Requirement

£'000	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
External Debt					
Borrowing at 1 April	422,261	417,261	417,261	417,261	417,261
Expected change in borrowing	0	0	0	0	17,915
Other long-term liabilities (OLTL)	17,426	16,258	14,955	13,471	12,156
Expected change in OLTL	-1,168	-1,303	-1,484	-1,315	-1,062
Actual gross debt at 31 March	438,519	432,216	430,732	429,417	446,270
CFR	588,100	629,884	644,115	643,529	663,960
Under / (over) borrowing	149,581	197,668	213,383	214,112	217,690

- 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 2022/23 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 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 %	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
General Fund	17%	17%	19%	18%	17%
HRA	20%	19%	19%	19%	21%
Total	17%	18%	19%	18%	18%

- 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: Income from Service and Commercial investments to Net Revenue Stream

	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Income from service and commercial Investments to net revenue stream %	2%	2%	1%	1%	1%

Treasury Indicators: limits to borrowing activity

The operational boundary

- 3.8. 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	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Borrowing	588,100	629,884	644,115	643,529	663,960
Other long term liabilities	16,258	14,955	13,471	12,156	11,094
Total	604,358	644,839	657,586	655,685	675,054

The authorised limit for external debt.

- 3.9. 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.
- 3.10. 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	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Borrowing	618,100	659,884	674,115	673,529	693,960
Other long-term liabilities	26,258	24,955	23,471	22,156	21,094
Total	644,358	684,839	697,586	695,685	715,054

Prospects for Interest Rates

PWLB Consultation

- 3.11. The Council's Treasury Management Adviser, Link Group, provided the following interest rate forecast on 7 February 2023. This includes forecasts for PWLB certainty rates, calculated as gilt yields plus 80 bps.

Table 12: Link Group Interest Rate Forecast: 7 February 2023

Link Group Interest Rate View	07.02.23												
	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26
BANK RATE	4.25	4.50	4.50	4.25	4.00	3.75	3.25	3.00	2.75	2.75	2.50	2.50	2.50
3 month ave earnings	4.30	4.50	4.50	4.30	4.00	3.80	3.30	3.00	2.80	2.80	2.50	2.50	2.50
6 month ave earnings	4.40	4.50	4.40	4.20	3.90	3.70	3.20	2.90	2.80	2.80	2.60	2.60	2.60
12 month ave earnings	4.50	4.50	4.40	4.20	3.80	3.60	3.10	2.70	2.70	2.70	2.70	2.70	2.70
5 yr PWLB	4.00	4.00	3.90	3.80	3.70	3.60	3.50	3.40	3.30	3.20	3.10	3.10	3.10
10 yr PWLB	4.20	4.20	4.10	4.00	3.90	3.80	3.60	3.50	3.50	3.40	3.30	3.30	3.20
25 yr PWLB	4.60	4.60	4.40	4.30	4.20	4.10	3.90	3.80	3.70	3.60	3.50	3.40	3.40
50 yr PWLB	4.30	4.30	4.20	4.10	3.90	3.80	3.60	3.60	3.40	3.30	3.20	3.20	3.10

- 3.12. Link Groups central forecast for interest rates in their 7 February 2023 forecast reflected a view that the MPC would be keen to further demonstrate its anti-inflation credentials by delivering a succession of rate increases. This has happened but the Government's continued policy of emphasising fiscal rectitude will probably mean Bank Rate will not need to increase to further than 4.5%.
- 3.13. Link Group anticipate the Bank of England will be keen to loosen monetary policy when the worst of the inflationary pressures are behind us – but that timing will be one of fine judgment: cut too soon, and inflationary pressures may well build up further; cut too late and any downturn or recession may be prolonged. Our best judgment is that there will be scope for an early Christmas present for households with a December rate cut priced in, ahead of further reductions in 2024 and 2025.
- 3.14. The CPI measure of inflation looks to have peaked at 11.1% in Q4 2022 (currently 10.5%). Despite the cost-of-living squeeze that is still taking shape,

the Bank will want to see evidence that wages are not spiralling upwards in what is evidently a very tight labour market.

- 3.15. Regarding the plan to sell £10bn of gilts back into the market each quarter (Quantitative Tightening), this has started and will focus on the short, medium and longer end of the curve in equal measure.
- 3.16. In the upcoming months, Link Groups forecasts will be guided not only by economic data releases and clarifications from the MPC over its monetary policies and the Government over its fiscal policies, but the on-going conflict between Russia and Ukraine. (More recently, the heightened tensions between China/Taiwan/US also have the potential to have a wider and negative economic impact.)
- 3.17. On the positive side, consumers are still estimated to be sitting on significant excess savings left over from the pandemic so that will cushion some of the impact of the above challenges. However, most of those are held by more affluent people whereas lower income families already spend nearly all their income on essentials such as food, energy and rent/mortgage payments
- 3.18. Additional commentary on the prospects for interest rates, (Appendix D) and economic background, (Appendix E) are contained within the appendices to this report.
- 3.19. Updates to Link Groups interest rate forecasts are received by officers throughout the year.

Borrowing strategy

- 3.20. As shown in paragraph 3.1 on 31 December 2022 the Council had a debt portfolio of £417.261m, with an average rate of 3.45% and an average life of 35.7 years. This follows the repayment of a PWLB maturity loan in September 2022.
- 3.21. The Council is currently maintaining an under-borrowed position, which was £150m at 31 March 2022. 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.
- 3.22. 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.
- 3.23. It may be necessary to use temporary borrowing either from the money markets or from other local authorities to cover mismatches in the timing between capital grants and payments. However, with several Government grants now paid

early in the financial year and robust daily monitoring of the cash flow position, the facility is unlikely.

3.24. Against this background and the risks within the economic forecast, caution will be adopted in the 2023/24 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.*

3.25. 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

3.26. 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 Capital Financing Requirement 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.

3.27. 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

3.28. Rescheduling of current borrowing in our debt portfolio is unlikely to occur due to the differential in PWLB new borrowing and premature redemption rates and the premiums quoted by market providers in respect of the Councils remaining LOBO loan.

3.29. 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). 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 with 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 the 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 MHCLG (now DLUHC) 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, 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 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. As a route to diversification, along with additional improved service resilience, economies of scale and improved returns, the Council is considering 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.
- 4.14. The Cabinet report dated 15th July 2021, set out a recommendation that the Council becomes a participant in the shared service arrangement operated by the Greater London Authority (GLA) for the provision of treasury management services. This will include the Council transferring its investment balances into the GLA Group Investment Syndicate (GIS).
- 4.15. Work remains ongoing in respect of finalising the associated legal agreement to conclude negotiations to the satisfaction of the Director of Finance and Assurance in consultation with the Portfolio Holder for Finance and Resources together with the Director of Legal and Governance.
- 4.16. The Council's minimum counterparty criteria is included within Appendix F. Upon finalising any legal agreement with the GLA for the provision of treasury management services, officers will bring an amendment to the investment strategy to Cabinet/Full Council for approval. This will recognise that subject to agreement the Authority's treasury investments will subsequently be made in accordance with the GLAs own investment strategy, reflecting the current proposals being discussed.

Investment returns expectations

- 4.17. Link Group's Interest Rate Forecast from 19 December 2022 suggests that Bank Rate, currently 4% following the increase on 2 February 2023, will peak at 4.5% later in 2023. There is then an expectation for Bank Rate cuts to take place over the coming years.
- 4.18. 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:
 - 2022/23 (remainder): 4.30%
 - 2023/24: 4.30%
 - 2024/25: 3.20%

- 2025/26: 2.60%

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

- 4.19. 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.
- 4.20. 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.
- 4.21. The Council is asked to approve the following treasury indicator and limit:

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

Investment performance / risk benchmarking

- 4.22. 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.
- 4.23. 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.
- 4.24. 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 on a monthly basis.

End of year investment report

- 4.25. 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 Treasury Management Code 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.
- 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? Yes - Contained on Resources Directorate risk register Risk 9: Loss of an investment/deposit
- 7.1. Separate risk register in place? **No**

The relevant risks contained in the register are attached/summarised below.
Yes/No/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 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. 	Green
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. 	Amber
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 	Green

Risk Description	Mitigations	RAG Status
	<ul style="list-style-type: none"> The Council is currently maintaining an under-borrowed position. This is estimated to be £198m as at 31st March 2023. 	
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 regarding the concentration of loan maturities in any one period. 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 	Green
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 	Green

Risk Description	Mitigations	RAG Status
	of any additional CFR for 2022/23 and the following two financial years	
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 and PWLB rates to peak in 2023 before reducing gradually as inflation begins to be fall. 	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. 	Green

- 7.2. The identification, monitoring and control of risk are central to the achievement of the treasury objectives. Potential risks are identified, mitigated and monitored in accordance with treasury practice notes approved by the Treasury Management Group.

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. 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 savings achieved, or overspends incurred, have a direct impact on the financial performance of the budget.

- 10.1. There is no direct financial impact of paying the London living Wage (LLW) arising from treasury management activity.

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: 07/02/2023

Statutory Officer: Sharon Clarke

Signed on behalf of the Monitoring Officer

Date: 09/02/2023

Chief Officer: Dawn Calvert

Signed on behalf of the Corporate Director

Date: 07/02/2023

Head of Procurement: Nimesh Mehta

Signed by the Head of Procurement

Date: 09/02/2023

Head of Internal Audit: Susan Dixon

Signed by the Head of Internal Audit

Date: 10/02/2023

Has the Portfolio Holder(s) been consulted? Yes

Mandatory Checks

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

EqIA carried out: NO

EqlA cleared by: N/A

Section 4 - Contact Details and Background Papers

Contact: Dawn Calvert, Director of Finance and Assurance
Dawn.Calvert@harrow.gov.uk

Background Papers: None

Call-in waived by the Chair of Overview and Scrutiny Committee – NOT APPLICABLE (decisions reserved to Council)

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 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.

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 2022, the VRP is £6.9m.

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. But if there is a structure on the land which the authority considers to have a life longer than 50 years, that same life estimate will be used for the land.

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.

Under Treasury Management best practice the Council may decide to defer borrowing up to the capital financing requirement (CFR) and use internal

resources instead. Where internal borrowing has been used, the amount chargeable as MRP may be adjusted to reflect the deferral of actual borrowing.

APPENDIX D

APPENDIX D: Link Group: Interest Rate Forecasts 2022 – 2025.

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 07.02.23.

Link Group Interest Rate View	07.02.23												
	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26
BANK RATE	4.25	4.50	4.50	4.25	4.00	3.75	3.25	3.00	2.75	2.75	2.50	2.50	2.50
3 month ave earnings	4.30	4.50	4.50	4.30	4.00	3.80	3.30	3.00	2.80	2.80	2.50	2.50	2.50
6 month ave earnings	4.40	4.50	4.40	4.20	3.90	3.70	3.20	2.90	2.80	2.80	2.60	2.60	2.60
12 month ave earnings	4.50	4.50	4.40	4.20	3.80	3.60	3.10	2.70	2.70	2.70	2.70	2.70	2.70
5 yr PWLB	4.00	4.00	3.90	3.80	3.70	3.60	3.50	3.40	3.30	3.20	3.10	3.10	3.10
10 yr PWLB	4.20	4.20	4.10	4.00	3.90	3.80	3.60	3.50	3.50	3.40	3.30	3.30	3.20
25 yr PWLB	4.60	4.60	4.40	4.30	4.20	4.10	3.90	3.80	3.70	3.60	3.50	3.40	3.40
50 yr PWLB	4.30	4.30	4.20	4.10	3.90	3.80	3.60	3.60	3.40	3.30	3.20	3.20	3.10

APPENDIX E

Economic Background

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

Market commentators' misplaced optimism around inflation has been the root cause of the rout in the bond markets with, for example, UK, EZ and US 10-year yields all rising by over 200bps in 2022. The table below provides a snapshot of the conundrum facing central banks: inflation is elevated but labour markets are extra-ordinarily tight, making it an issue of fine judgment as to how far monetary policy needs to tighten.

	UK	Eurozone	US
Bank Rate	4.0%	2.5%	4.5%-4.75%
GDP	-0.3%q/q Q3 (1.9%/y/y)	+0.1%q/q Q4 (1.9%/y/y)	2.9% Q4 Annualised
Inflation	10.5%/y/y (Dec)	8.5%/y/y (Jan)	6.5%/y/y (Dec)
Unemployment Rate	3.7% (Nov)	6.6% (Dec)	3.4% (Jan)

Q2 of 2022 saw UK GDP revised upwards to +0.2% q/q, but this was quickly reversed in the third quarter, albeit some of the fall in GDP can be placed at the foot of the extra Bank Holiday in the wake of the Queen's passing. Nevertheless, CPI inflation picked up to what should be a peak reading of 11.1% in October, although with further increases in the gas and electricity price caps pencilled in for April 2023, and the cap potentially rising from an average of £2,500 to £3,000 per household, there is still a possibility that inflation will face some further upward pressures before dropping back slowly through 2023 to finish the year in the range of 4% - 5%.

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

Throughout Q3 Bank Rate increased, finishing the quarter at 2.25% (an increase of 1%). Since then, rates rose to 3.5% in December and 4% in February and the market currently expects Bank Rate to hit 4.5% by June 2023.

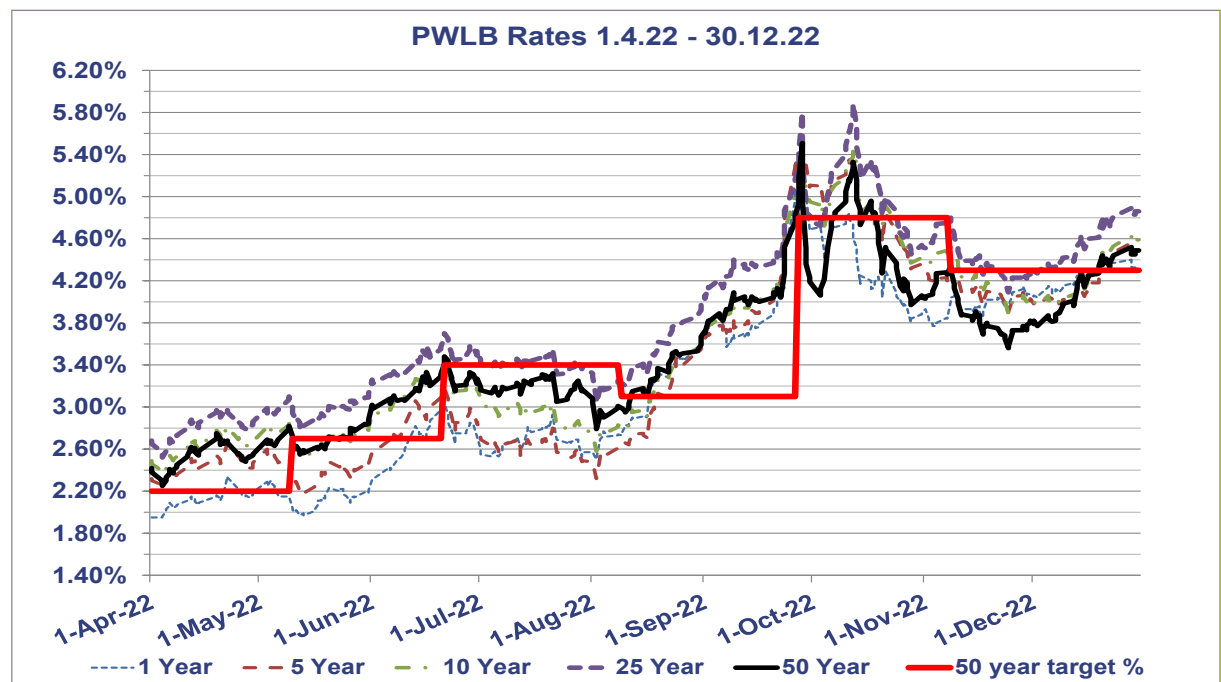
Following a Conservative Party leadership contest, Liz Truss became Prime Minister for a tumultuous seven weeks that ran through September and

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

Globally, though, all the major economies are expected to struggle in the near term. The fall below 50 in the composite Purchasing Manager Indices for the UK, US, EZ and China all point to at least one, if not more, quarters of GDP contraction in 2023. In November, the MPC projected eight quarters of negative growth for the UK lasting throughout 2023 and 2024, but with Bank Rate set to peak at lower levels than previously priced in by the markets and the fiscal tightening deferred to some extent, it is not clear that things will be as bad as first anticipated by the Bank. Indeed, their February Monetary Policy Report suggests five quarters of negative growth, albeit a shallow recession with GDP expected to shrink 0.5% in 2023 and 0.25% in 2024.

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

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



However, the peak in rates on 28th September as illustrated in the table covering April to December 2022 below, has been followed by the whole curve shifting lower. PWLB rates at the front end of the curve are generally over 1.25% lower now whilst the 50 years is also over 1% lower.

HIGH/LOW/AVERAGE PWLB RATES FOR 01.04.22 – 30.12.22

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	1.95%	2.18%	2.36%	2.52%	2.25%
Date	01/04/2022	13/05/2022	04/04/2022	04/04/2022	04/04/2022
High	5.11%	5.44%	5.45%	5.88%	5.51%
Date	28/09/2022	28/09/2022	12/10/2022	12/10/2022	28/09/2022
Average	3.26%	3.41%	3.57%	3.85%	3.51%
Spread	3.16%	3.26%	3.09%	3.36%	3.26%

The S&P 500 and FTSE 100 have climbed in the early weeks of 2023, albeit the former finished 19% down in 2022 whilst the latter finished up 1%.

CENTRAL BANK CONCERNS – DECEMBER 2022 & FEBRUARY 2023

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

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

At the start of February, US rates have further increased by 0.25% to a range of 4.5% - 4.75%, whilst UK Bank Rate increased 0.5% to 4%.

Regarding UK market expectations, although they now expect Bank Rate to peak within a lower range of 4.25% - 4.5%, caution is advised as the Bank of England Quarterly Monetary Policy Reports have carried a dovish message over the course of the last year, only for the Bank to have to play catch-up as the inflationary data and labour market have proven stronger than expected.

In addition, the Bank's central message that GDP will fall for five quarters starting with Q1 2023 may prove to be a little pessimistic. Will the excess savings accumulated by households through the Covid lockdowns provide a spending buffer for the economy – at least to a degree? Ultimately, however, it will not only be inflation data but also employment data that will mostly impact the decision-making process, although any softening in the interest rate outlook in the US may also have an effect (just as, conversely, greater tightening may also).

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 intend 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 Council will consider schemes purely to generate a commercial return to support the budget.
4. The evaluation of capital schemes for inclusion on the programme will follow an agreed process which allows scrutiny whilst not limiting innovation and adaptability.
5. 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 2023/24 to 2025/26 in relation to the existing and historic capital programmes:

Capital Financing Costs as % of the Net Revenue Budget for 2023/24 of £196.3m

	Capital Financing Costs	Capital financing costs as % of 2023/24 Net Budget
	£m	%
2023/24	31.4	16.0%
2024/25	33.3	17.0%
2025/26	33.7	17.2%

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 and commercial investments.

Commercial investments are those which are entered into with the explicit objectives of returning a surplus for Council and therefore improving the financial sustainability of the Council. These may include:

1. Acquisition of Property to deliver a commercial return, usually through rental
2. Investments in outside organisations with the view to making a return
3. Investments which neither deliver a financial return nor achieve a service objective for the Council should not be considered for inclusion on the Capital Programme.

7. Existing Capital Priorities

Service directorates were invited to bid for capital resources, as part of their service proposals for 2023/24 to 2025/26.

In view of the current financial climate and reduced external funding service directorates were asked to limit new capital proposals to 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).

The updated Capital Programme 2023/24 to 2025/26 will be approved by Cabinet and Council in February 2023.

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 2022 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 2023.

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 and is currently in place until 31 March 2025.

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 final MTFS 2023/24 to 2025/26 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 2023/24 and 2024/25.

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.

4. 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.
5. Strategic Objectives – As discussed 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.
6. 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.
7. 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.

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 Heritage Lottery Fund (HLF) 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	
<p>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:</p> <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.

A report was presented to the Major Development Panel (MDP) on 14th November 2017, recommending 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 and in February in its final version. The recommendations from the Major Development Panel (MDP) report were agreed by Cabinet on 7th December 2017 which agreed:

1. *the allocation of the Borough Community Infrastructure Levy (CIL) be included as part of the Annual Budget Setting process and included in the Capital Programme report which is presented to Cabinet every year in December (draft budget) and February (final budget);*
2. Specific projects to be funded by Neighbourhood CIL can be put forward by the relevant Directorates / Ward members and assessed against the criteria outlined in the CIL Allocations report agreed by the Major Development Panel in November 2017. The final decision on

what projects are funded from the agreed NCIL allocations will be delegated to the Divisional Director – Regeneration and Planning, in consultation with the Portfolio Holders for Regeneration and Planning, and Finance and Commercialisation

During 2022/23, a review of the process has recently been undertaken in terms of the Neighbourhood element of CIL. The scope of the review was presented to the Planning Policy Advisory Panel on 3 October 2022 and the outcome of the review is presented to Cabinet in February 2023, including the revised process for identification of projects and arrangements for assessment and approval of these under delegated authority. The revised process is expected to be in place in time for the 2023/24 financial year.

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.

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 are 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:
 1. **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.

2. **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.
- 3.
4. **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.
5. **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.
1. **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.
2. **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.
3. **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 $8\%/1.45 = 5.5\%$.
4. **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.
5. **LIBID** – The London Interbank Bid Rate, the rate which banks would have to bid to borrow funds from other banks for a given period. The official rate is published by the Bank of England at 11am each day based on trades up to that time. The average 7-day rate is the benchmark the Council uses for its own investment performance.
6. **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.
7. **Market** – The private sector institutions e.g. banks, building societies.

8. **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.
9. **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.
10. **Monetary Policy Committee (MPC)** – group that sets the bank base rate for the Bank of England.
11. **Money Market Fund (MMF)** – A highly diversified pooled investment vehicle whose assets mainly comprise of short-term instruments.
12. **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.
13. **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.
14. **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.
15. **Yield** – The amount in cash (in percentage terms) that returns to the owners of an investment e.g. interest earned from a deposit.