Draft Treasury Management Strategy (TMS) for 2022/23

1. The Local Government Act 2003 (the Act) and supporting regulations require the Council to ‘have regard to’ the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice 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.

2. The Act therefore 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. There is also the requirement to produce a Capital Strategy – also for determination by full Council.

3. The Treasury Management strategy covers two main areas:

   (i) Capital issues
   - the capital plans (in summarised form) and the prudential indicators;
   - the Minimum Revenue Provision (MRP) policy.

   (ii) Treasury management issues
   - the current treasury position;
   - treasury indicators which limit the treasury risk and activities of the Council;
   - prospects for interest rates;
   - the borrowing strategy;
   - policy on borrowing in advance of need;
   - debt rescheduling;
   - the investment strategy;
   - creditworthiness policy; and
   - policy on use of external service providers.

4. These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, DLUHC MRP Guidance, the CIPFA Treasury Management Code and DLUHC Investment Guidance.

5. The strategy for 2022/23 in respect of the following aspects of the treasury management function is based upon the Council officers’ views on interest rates, supplemented with leading market forecasts provided by the Council’s treasury advisor, Link Group.

Revisions to the Prudential Code and Treasury Management Code

6. In December 2017, the Chartered Institute of Public Finance and Accountancy, (CIPFA), issued revised Prudential and Treasury Management Codes. These require all local authorities to prepare a Capital Strategy which is to provide the following: -

1. a high-level 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; the implications for future financial sustainability.
3. The implications for future financial sustainability.

7. CIPFA is again looking at revising the Prudential Code and Treasury Management Code and is at an advanced stage of agreeing the new Codes. On 21 September 2021 CIPFA began its stage 2 consultation phase for measures to strengthen both codes with the consultation ending on 16th November 2021. These follow "ongoing concerns over local authority commercial investments", CIPFA said.

8. The Prudential Code is used to ensure that capital finance decisions are sustainable, while the Treasury Management Code sits alongside to provide a framework for risk management. Measures proposed in the consultations include how to define proportionate commercial investment in the context of local authority regeneration work.

9. The proposed revisions will strengthen both codes with a greater focus on climate and environmental, social and governance risks when making financial decisions. There is also guidance on CIPFA's stance that borrowing for investment return, or debt for yield, is an imprudent activity that puts public money at undue risk.

10. The key changes being brought forward in these consultations clarify and update CIPFA's position on local authority commercial investment. The revised code will emphasise that any borrowing made solely for the purpose of financial return constitutes imprudent activity, while also taking into account the realities that accompany regeneration activities.

11. For the Treasury Management Code the key changes impact on Treasury Management Practices and Treasury Indicators:

    - TMP1 Risk Management
    - TMP2 Performance Management
    - TMP6 Reporting Requirements and Management Information Arrangements
    - TMP8 Cash and Cash Flow Management
    - TMP10 Training and Qualifications

12. The codes advice local authorities that if they currently have a long-term position – this could be in property or long-term financial instruments – they should consider the benefits of exiting these positions and the resource implications of that rather than incurring further borrowing. Selling these investments and using the proceeds to reduce debt does, however, reduce treasury risks on both sides of the balance sheet and is therefore an option that should be kept under review, especially if new long-term borrowing is being considered. However, the Council's investments are in respect of its Reserves and using them to fund capital expenditure is not currently an option. Where Council's have capital receipts that they can invest long term or use to fund capital expenditure then there is a decision to be made.

13. At the time of writing CIPFA had not yet concluded its review and released final updated versions of the Prudential Code or Treasury Management Code. To ensure local authorities can implement the code changes in a smooth and orderly fashion CIPFA is proposing a soft implementation. CIPFA will expect full implementation by 2023/24.

Key Changes to the Strategy

14. The key changes from the previous year's strategy are:

   i. The Council has taken on a relatively small amount of additional borrowing in the last 12 months in respect of the Capital programme. The level of capital expenditure has been lower than forecast as a result of Covid-19 and borrowing has remained well within the operational and authorised boundaries.

      The Capital expenditure plans of the Council are expected to involve more borrowing again in 2022/23 and the years ahead. The borrowing limits proposed in the strategy are those previously agreed when determining the budget for 2020/21. If the business plans for the Town Deal projects involve additional borrowing by the council these limits will need to be reviewed.

   ii. The majority of the new borrowing in future years will be for Capital purposes, but there will inevitably continue to be a smaller requirement for loans that are revenue in nature – to cover potential short term cash deficits. Such monies cannot be borrowed from the Public Works Loan Board, and will be financed from the market or where there are revenue loans made e.g. to the housing company then from existing Council reserves.

   iii. The Council is required to make a Minimum Revenue Provision in respect of its borrowing – to ensure debt is repaid over an appropriate period. Where the Council is making significant investments in property, housing or other programmes the Council's MRP policy enables the Council to match the principal repayments made on loans arranged with a near equal MRP payment (an annuity methodology).

   iv. Investment returns are uncertain over the next few years as the bank base rate is very low and economic environment uncertain. The overall cash returns are expected to decrease as the Council's reserves decline.

   v. The Council invested some £5m of its reserves in longer period investments e.g. Property Fund, Diversified Investment fund. There are no proposals to invest more monies for potentially longer periods given the further potential calls on reserves. The monies in these funds can still be obtained quickly should the need arise.

Balanced Budget

15. It is a statutory requirement under the Local Government Finance Act 1992, for the Council to calculate its Council Tax requirement. In particular, Section 31 requires a local authority in calculating the Council Tax requirement for each financial year to include the revenue costs that flow from capital financing decisions. Thus, any increases in costs (running costs & borrowing costs) from new capital projects must

be limited to a level which is affordable within the projected income of the Council for the foreseeable future.

PRUDENTIAL AND TREASURY LIMITS FOR 2022/23 TO 2024/25

The Council's Capital Position (Prudential Indicators)

16. The Council's capital expenditure plans are the key driver of treasury management activity.

17. The prudential code requires the local authority to identify prudential indicators that enable members, officers and the public to make a meaningful judgement on the Council's total exposure from borrowing and investment decisions. The indicators are required to cover both the Council's current position and the expected position assuming all planned investments in the forthcoming years are completed.

18. This part of the report is structured to update:

- The Council's capital expenditure plans;
- How these plans are being financed;
- The impact of the changes in the capital expenditure plans on the prudential indicators and the underlying need to borrow; and
- Reviewing the limits in place for borrowing activity.

Prudential Indicator for Capital Expenditure

19. This table shows the revised estimates for capital expenditure for the current and next three financial years.

	Original 2021/22 £'000s	Revised 2021/22 £'000s	2022/23 £'000s	2023/24 £'000s	2024/25 £'000s
Gross Capital Expenditure	22,463	7,961	21,746	13,229	8,141
Net Capital Expenditure	12,781	3,674	14,854	9,173	6,085
Financing from own resources	0	50	5,234	73	50
Borrowing Requirement	12,781	3,624	9,620	9,100	6,035

20. In terms of net cost, the 2021/22 programme has been revised to £3,647,000 from £12,781,000. The 2022/23 programme amounts to £14,854,000 net of grants and contributions (£21,746,000 Gross).

Capital Expenditure – Financing

21. The table above summarises the capital expenditure plans and how these plans are being financed – either by own resources e.g. Section 106, Capital receipts or through borrowing. New Capital schemes will generally be financed by borrowing, unless Capital receipts from the sale of assets are available.

22. The larger schemes in the capital programme which are expected to require financing in 2022/23 from borrowing are:-

- Cornwallis Street Development (£6.835m)
- Churchfields Business Centre (£2.195m)
- Harold Place Restaurant Development (£1.613m)
- Bexhill Road South (£1.075m)
- Mayfield E – Housing (£1m)
- Buckshole Reservoir (£666k)
- Energy – Solar Panels (£538k)
- Priory Meadow Contribution to Capital Works (£250k)
- Pelham Crescent Building and Road Works (£233k)
- Lacuna Place (£141k)
- Castleham Industrial Units – Roofing (£140k)
- MUGA refurbishments (£80k)
- Playground upgrades (£38k)

Impact on the prudential indicators

23. The treasury indicators for borrowing activity are the **Authorised Limit** and the **Operational Boundary** for external debt.

The **Authorised Limit**, which is a limit beyond which external debt is prohibited, needs to be set or revised by the full Council; it is a statutory duty under Section 3 (1) of the Local Government Act 2003 and supporting regulations. It reflects the level of borrowing which, while not desired, could be afforded in the short term. It is the expected maximum borrowing need with some headroom for unexpected movements.

Authorised Limit	**2020/21**	**2021/22**	**2022/23**	**2023/24**	**2024/25**
	£'000	£'000	£'000	£'000	£'000
Debt	110,000	110,000	110,000	110,000	110,000
Other long term liabilities	5,000	5,000	5,000	5,000	5,000
TOTAL	115,000	115,000	115,000	115,000	115,000

24. The **Operational Boundary** is the limit beyond which external debt is not normally expected to exceed.

Operational Boundary	2020/21	2021/22	2022/23	2023/24	2024/25
	£'000	£'000	£'000	£'000	£'000
Debt	105,000	105,000	105,000	105,000	105,000
Other long term liabilities	5,000	5,000	5,000	5,000	5,000
TOTAL	110,000	110,000	110,000	110,000	110,000

25. Essentially the Council is required to ensure that total capital investment remains within sustainable limits and, in particular, that the impact upon its future Council Tax levels is ‘acceptable’.

26. Whilst termed an "Affordable Borrowing Limit", the capital plans to be considered for inclusion in the Capital programme incorporate financing by both external borrowing as well as other forms of liability e.g. Credit arrangements (such as leases).

27. The Authorised Limit and operational boundary are to be set, on a rolling basis, for the forthcoming financial year and two successive financial years by full Council as part of this strategy.

28. 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.

29. There are no recommendations to change the limits for 2022/23 given the current Capital programme.

PROSPECTS FOR INTEREST RATES

30. On 16 December 2021 the Bank of England (BOE) Monerty Policy Committee (MPC) met and voted 8-1 in favour of increasing interest rates from 0.1% to 0.25%, the first rise in rates in more the three years. This 0.15% increase still leaves rates close to historic lows. Latest figures show that the cost of living rose by 5.1% in the year to November, well above the BOE’s 2% inflcation target and is expected to peak at 6% in the spring – three times the target rate. Despite worries over new variants suppressing economic growth the MPC clearly thought that inflation was of greater concern.

31. The Council has appointed Link Group as treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. The table below provides an overview (please also see Appendix 2).

Link Group Interest Rate View 8.11.21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25
BANK RATE	0.25	0.25	0.50	0.50	0.50	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.25
3 month ave earnings	0.30	0.40	0.50	0.50	0.50	0.60	0.80	0.90	1.00	1.00	1.00	1.00	1.00	1.00
6 month ave earnings	0.40	0.50	0.60	0.60	0.70	0.80	0.90	1.00	1.10	1.10	1.10	1.10	1.10	1.10
12 month ave earnings	0.50	0.60	0.70	0.70	0.80	0.90	1.00	1.10	1.20	1.20	1.20	1.20	1.20	1.20
5 yr PWLB	1.50	1.50	1.60	1.60	1.70	1.70	1.70	1.80	1.80	1.80	1.90	1.90	2.00	2.00
10 yr PWLB	1.80	1.90	1.90	2.00	2.00	2.10	2.10	2.20	2.20	2.20	2.30	2.30	2.30	2.40
25 yr PWLB	2.10	2.20	2.30	2.40	2.40	2.40	2.50	2.50	2.60	2.60	2.60	2.60	2.70	2.70
50 yr PWLB	1.90	2.00	2.10	2.20	2.20	2.20	2.30	2.30	2.40	2.40	2.40	2.40	2.50	2.50

32. Although the figures in the table above were complied by our advisors prior to the 16 December increase in rates they have accurately forecast this rise.

33. Economic and interest rate forecasting remains difficult with so many external influences weighing on the UK. The above forecasts, (and MPC decisions), will be liable to further amendment depending on how economic data and developments in financial markets transpire over the next year. Geopolitical developments could also have a major impact. Forecasts for average investment earnings beyond the three-year time horizon will be heavily dependent on economic and political developments.

34. As shown in the forecast table above, the forecast for Bank Rate now includes five increases, one in December 2021 to 0.25% (now happened), then quarter 2 of 2022 to 0.50%, quarter 1 of 2023 to 0.75%, quarter 1 of 2024 to 1.00% and, finally, one in quarter 1 of 2025 to 1.25%.

35. It should also be borne in mind that Bank Rate under 1% is both highly unusual and highly supportive of economic growth.

36. An economic review from the Council's treasury advisors is included in Appendix 3. Such forecasts are being kept under regular review.

BORROWING STRATEGY

37. The capital expenditure plans set out in the budget 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. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities.

Current Portfolio Position

38. The Council's forecast debt position for 31 March 2022, if no further borrowing is taken for the rest of the financial year, as at 17 January 2022, amounted to £66.06m (See Table 1 below).

Table 1 - Borrowing

Debt	1 April 2021 Principal	Start Date	Maturity Date	31 March 2022 Principal	Rate
PWLB	£7,500,000	25/05/2007	01/02/2033	£7,500,000	4.80%
PWLB	£909,027	04/09/2014	02/09/2044	£909,027	3.78%
PWLB (Optivo)	£1,788,235	04/09/2014	02/09/2044	£1,788,235	3.78%
PWLB (FT) (Annuity)	£156,196	21/03/2016	20/03/2026	£125,981	1.66%
PWLB	£1,000,000	11/05/2016	11/05/2056	£1,000,000	2.92%
PWLB	£1,000,000	11/05/2016	11/05/2046	£1,000,000	3.08%
PWLB	£1,000,000	11/05/2016	11/05/2036	£1,000,000	3.01%
PWLB	£1,000,000	11/05/2016	11/05/2026	£1,000,000	2.30%
PWLB	£2,000,000	24/06/2016	24/06/2054	£2,000,000	2.80%
PWLB	£1,000,000	24/06/2016	24/06/2028	£1,000,000	2.42%
PWLB	£2,000,000	21/03/2017	21/03/2057	£2,000,000	2.53%
PWLB	£2,000,000	21/03/2017	19/09/2059	£2,000,000	2.50%
PWLB	£2,000,000	23/03/2017	23/03/2060	£2,000,000	2.48%
PWLB (Annuity)	£6,889,020	01/06/2017	01/06/2057	£6,772,356	2.53%
PWLB (Annuity)	£7,987,864	22/11/2017	22/11/2057	£7,860,481	2.72%
PWLB	£2,000,000	12/12/2018	12/06/2028	£2,000,000	1.98%
PWLB (Annuity)	£3,881,544	13/12/2018	13/12/2058	£3,820,026	2.55%
PWLB (Annuity)	£2,426,128	31/01/2019	31/01/2059	£2,387,758	2.56%
PWLB (Annuity)	£4,320,356	31/01/2019	31/01/2069	£4,273,795	2.56%
PWLB (Annuity)	£9,121,014	20/03/2019	20/03/2059	£8,976,150	2.54%
PWLB (Annuity)	£4,710,543	02/09/2019	02/09/2069	£4,649,533	1.83%
PWLB	£0	13/01/2022	13/01/2062	£2,000,000	1.89%
Total Debt	**£64,689,926**			**£66,063,342**	**2.74%**

39. The Council has loaned money to other organisations. Three longer term loans are outstanding. Namely:

Table 2 - Loans to Other Organisations

3rd Party Organisations	Rate/ Return (%)	Start Date	End Date	Principal Outstanding as at 31/03/2022 £	Term
Amicus /Optivo	3.78%	04/09/2014	02/09/2044	£1,788,235	Fixed
The Foreshore Trust	1.66%	21/03/2016	20/03/2026	£125,981	Annuity
The Source	2.43%	17/12/2015	16/12/2024	£10,730	Annuity
			Total	**£1,924,945**	

40. Borrowing from the PWLB was taken to fund the Amicus Horizon (now Optivo) loan (£1,788,235 - maturity loan) and the loan to the Foreshore Trust (£300,000 originally borrowed – annuity loan); these correspond to PWLB loans in Table 1 above. The £25,000 loan to the Source is repayable over a 10 year period and is financed from HBC reserves.

41. The above table excludes the loan to Hastings Housing Company Ltd. As at 31 December 2021 the Capital loan was £5,489,398. The company has fully repaid the revenue loan with the exception of arrears due on the interest for the capital loan.

Borrowing Limit – Capital Financing Requirement (CFR)

42. The first key control over the treasury activity is a prudential indicator to ensure that borrowing will only be for a capital purpose. The CFR (Capital Financing Requirement) 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 underlying borrowing need. Any capital expenditure which has not been funded from grants, revenue, reserves or capital receipts will increase the CFR.

43. The Council has at the time of writing some £64.1m of PWLB debt. To borrow for the remainder of the 2021/22 capital programme i.e. up to the projected level of the CFR (£74.7m) it would need to borrow a further £10.6m by the end of March 2022. The Capital Financing Requirement has increased significantly over the last few years. It is expected to reach some £94.7m by 2023/24 (based on the capital programme).

44. As a key indicator the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the Capital Financing Requirement (CFR) in the preceding year plus the estimates of any additional CFR for 2021/22 and the following two financial years. This allows some flexibility for limited early borrowing for future years but ensures that borrowing is not undertaken for revenue or speculative purposes.

45. The Council's underlying borrowing need (CFR) is not allowed to rise indefinitely. Statutory controls are in place to ensure that capital assets are broadly charged to revenue over the life of the asset. The Council is required to make an annual revenue charge, called the Minimum Revenue Provision – MRP, to reduce the CFR. This is effectively a repayment of the borrowing need. This differs from the treasury management arrangements which ensure that cash is available to meet capital commitments. External debt can also be borrowed or repaid at any time, but this does not change the CFR.

46. The total CFR can also be reduced by:

(i) the application of additional capital financing resources (such as unapplied capital receipts); or

(ii) charging more than the statutory revenue charge (MRP) each year through a Voluntary Revenue Provision (VRP).

47. The Council had achieved a near fully funded position at the start of 2020/21 which put the Council in a good position when the pandemic hit. This means that the capital borrowing need (the Capital Financing Requirement), has been fully funded with loan debt. This strategy had been considered prudent as borrowing costs had been increasing. However, there is a cost of doing this as investment returns are low compared to borrowing costs and counterparty risk is still an issue that needs to be considered.

48. To finance the future Capital programme will require substantial new borrowing by the Council. The key considerations are when to borrow and the level of internal borrowing. Given the historically low interest rates and the ability of the Council to look at other investment opportunities which are providing higher returns than the cost of borrowing e.g. property acquisitions or property funds, there had been a strong case for minimising the level of internal funding now in order to ensure a lower level of borrowing risk in the future.

49. However during 2020/21 and much of 2021/22, interest rates looked set to remain low for a period of time and thus there was a stronger case now to not borrow externally until we really had to i.e. temporarily use existing resources. This was the strategy that was proposed for 2021/22 (as far as practical) and has saved on borrowing costs and assisted the Council's revenue account. There is however only a limited ability to do this given the depletion of Council reserves, and funds already invested for longer periods.

50. For 2021/22 the Council started the year with internal borrowing of £7.994m - cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure to fund the Capital expenditure. With interest rates now forecast to increase gradually over the coming years, the Council is now looking to externalise some of this internal borrowing to lock in borrowing at historically low interest rates. This process has already begun with the Council taking a new £2m, 40 year maturity loan from the PWLB on 13th January 2022.

The table below provides an estimate of the Council's Capital Financing Requirement (CFR) for the current and next 3 years. Please note the table below excludes the impact of leases (which have minimal impact at present <£10k).

Table 3 - Capital Financing Requirement (CFR)

CFR	2020/21 (unaudited) £'000s	2021/22 (Rev Est) £'000s	2022/23 (Estimate) £'000s	2023/24 (Estimate) £'000s	2024/25 (Estimate) £'000s
CFR-Opening	66,372	72,683	74,689	82,752	89,869
Less MRP	(1,500)	(1,668)	(1,741)	(2,006)	(2,327)
Plus New Borrowing	7,811	3,674	9,804	9,123	6,035
CFR Closing	**72,683**	**74,689**	**82,752**	**89,869**	**93,577**

51. The table below highlights the Council's projected gross borrowing position against the CFR (showing the level that is financed from internal borrowing).

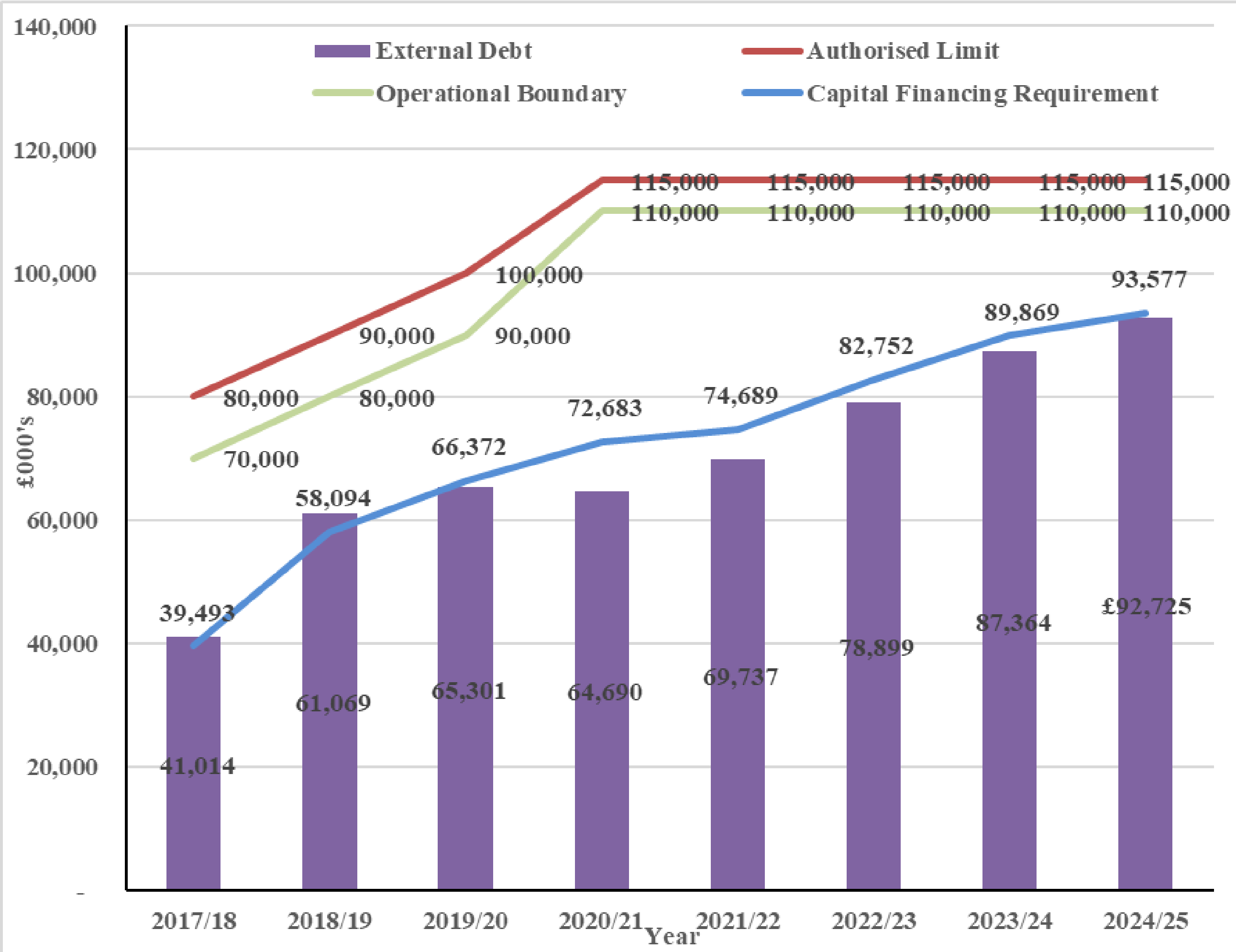
Table 4 - Council's Projected Gross Borrowing Position Against the CFR

Internal Borrowing	2019/20 Actual £000's	2020/21 Actual £000's	2021/22 Estimate £000's	2022/23 Estimate £000's	2023/24 Estimate £000's
Capital Financing Requirement (CFR)	66,372	72,683	74,689	82,752	89,869
External Borrowing	65,301	64,690	69,737	78,899	89,869
Net Internal Borrowing	**1,071**	**7,994**	**4,952**	**3,853**	**0**

52. The Council is now (17 January 2022) maintaining an under-borrowed position.

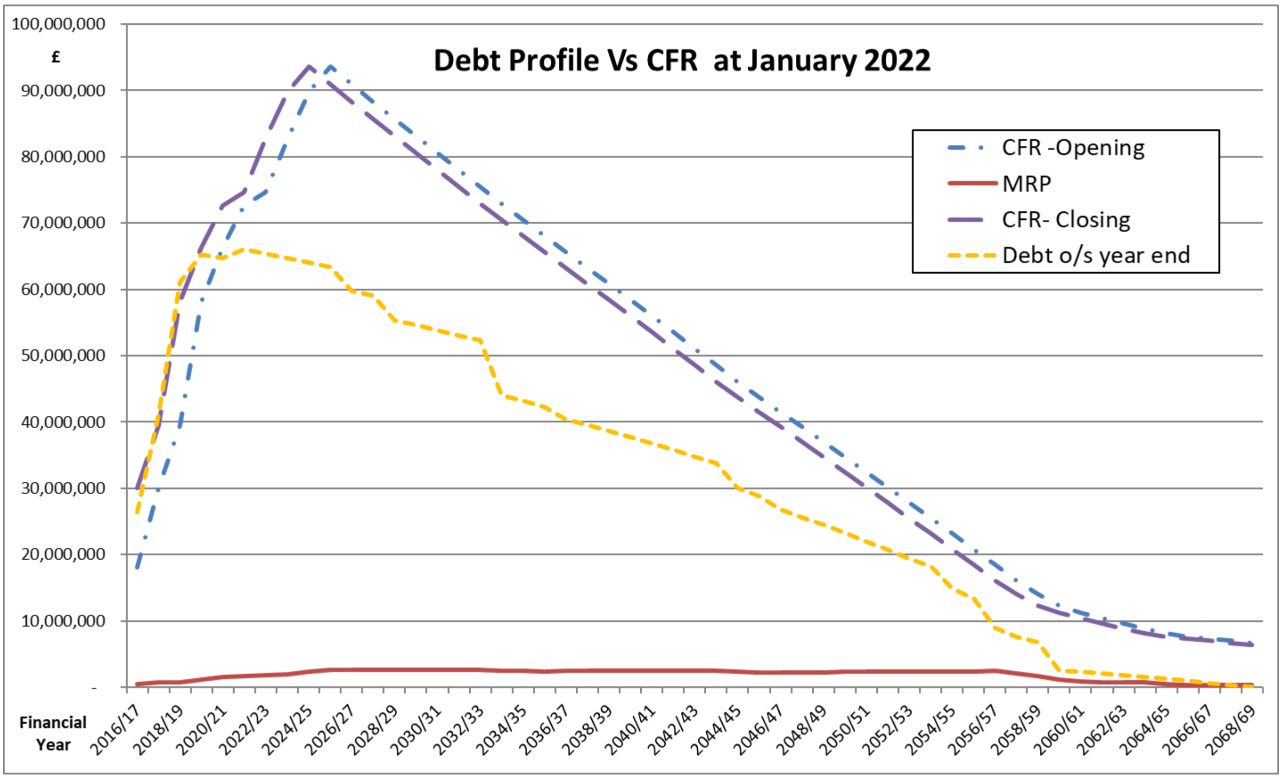
53. Borrowing activity is constrained by prudential indicators particularly the CFR, and by the authorised limit. The Council's long term borrowing must only be for a capital purpose. This essentially means that the Council is not borrowing to support revenue expenditure.

Table 5 - External Debt, Authorised Limits and CFR Projections



Debt Profile and CFR

54. The graph below shows how the CFR (blue and purple lines) reduce over time as MRP payments are made. The yellow line shows the level of external debts reducing as principal repayments are made (see debt maturity graph below).



55. The graph above is based on the current known capital programme up to 2024/25. If further capital expenditure is finance by borrowing, which is highly likely, then this will push the trajectory of the graph out into further years and increase future MRP payment.

Borrowing – Overall Limits

56. In determining what is a prudent level of borrowing, the Council needs to ensure that it would still be able to provide core services if its investments or income generating initiatives failed – at least in part. As a guide each £1m of new borrowing, financing an asset with a life of 40 years would currently cost the Council some 5% p.a. (based on a maturity loan with a 2.5% interest rate) i.e. £50,000 p.a.

57. In taking on significant levels of additional debt the Council has to ensure that it can afford to do so. It also needs to ensure that it has an affordable exit strategy in the event that expected returns are not realised. Where property is concerned there is normally an asset to dispose of and such schemes are not therefore at the higher end of the risk spectrum. It is considered that the Council currently has sufficient reserves to ensure that it could dispose of assets in a reasonable period and not be forced into an immediate fire sale. In the event that property values fell by say 20% the Council would not be forced to sell assets providing the rental streams were secure.

Borrowing – Certainty Rate

58. The Council again registered for the PWLB certainty rate earlier in the year which has given a 20 basis point reduction in the average rate of borrowing. The Council will look to do so again annually – for as long as it remains available.

Borrowing – Change of Sentiment

59. In normal circumstances the main sensitivities of the forecast are likely to be the two scenarios noted below. The Chief Finance Officer, in conjunction with the treasury advisors, will continually monitor both the prevailing interest rates and the market forecasts, adopting the following responses to a change of sentiment:

    a. if it were felt that there was a significant risk of a sharp FALL in long and short term rates, e.g. due to a marked increase of risks around relapse into recession or of risks of deflation, then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.

    b. if it were felt that there was a significant risk of a much sharper RISE in long and short term rates than that currently forecast, perhaps arising from a greater than expected increase in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates are still relatively cheap.

Borrowing – Timing

60. The general aim of this treasury management strategy is to minimise the costs of borrowing in both the short and longer term. In the short term it can consider avoiding new borrowing and using cash balances to finance new borrowing (internal borrowing). However, to minimise longer term costs it needs to borrow when rates are at historically low levels. The timing of new borrowing is therefore important to minimise the overall costs to the Council.

61. The Council has previously sought to achieve near full financing of the Capital programme via external debt over recent years in order to take advantage of the historically low borrowing rates and avoid the risk of having to lock into high interest rates when it has no option but to borrow. For the last year a higher level of internal borrowing was adopted to temporarily finance long life assets. Currently, with interest rates looking likely to increase (although remaining at historically very low levels) the Council is considering externalising some of the internal debt to lock in rates at low levels.

62. Given that the Council is increasingly using its reserves these need to be readily available and not subjected to unnecessary risk or exposure.

Summary

63. New borrowing has been taken over the last 30 months, to not only take advantage of the historically low rates, but to ensure that the Council’s own reserves are cash backed - a balanced view will continue to be taken. This strategy served the Council well given the unexpected 1% increase in PWLB rates in October 2019, and the need to have cash reserves during the pandemic (and not be forced to borrow at a time of high rates).

64. The capital expenditure plans require further substantial new borrowing by the Council. The plans play a large part in the consideration as to when to borrow and the level of internal borrowing. The Council has taken advantage of other investment opportunities which are providing higher returns than the cost of borrowing e.g.

property funds. To date the Council has increased the level of internal funding in order to save on interest payments as the cost of these exceeds returns that can be achieved by investing surplus funds in the short term.

65. For 2020/21 and 2021/22 the cheapest borrowing has been internal borrowing by running down cash balances and foregoing interest earned at historically low rates. However, the Council may not have sufficient balances to temporarily finance all the Capital expenditure in 2021/22 and may need to borrow before March 2022. In view of the overall forecast for long term borrowing rates to increase in the medium term, consideration has been given to weighing the short term advantage of internal borrowing against the potential increase in long term costs as rates rise. As such additional new borrowing will continue to be taken when good opportunities arise in the interest of minimising the costs of debt over the long term.

66. The use of PWLB variable rate loans for up to 10 years will still be considered as they can be repaid early without early redemption premiums. They can also be converted into longer dated fixed rate debt should it be considered prudent to do so.

67. The use of fixed rate market loans will also be considered should rates be below PWLB rates for the equivalent maturity period. The use of either PWLB maturity or annuity loans will be considered in order to minimise annual borrowing costs.

Policy on borrowing in advance of need

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

69. In determining whether borrowing will be undertaken in advance the Council will:

    a. ensure that there is a clear link between the capital programme and maturity profile of the existing debt portfolio which supports the need to take funding in advance.

    b. ensure the ongoing revenue liabilities created, and the implications for the future plans and budgets have been considered.

    c. evaluate the economic and market factors that might influence the manner and timing of any decision to borrow.

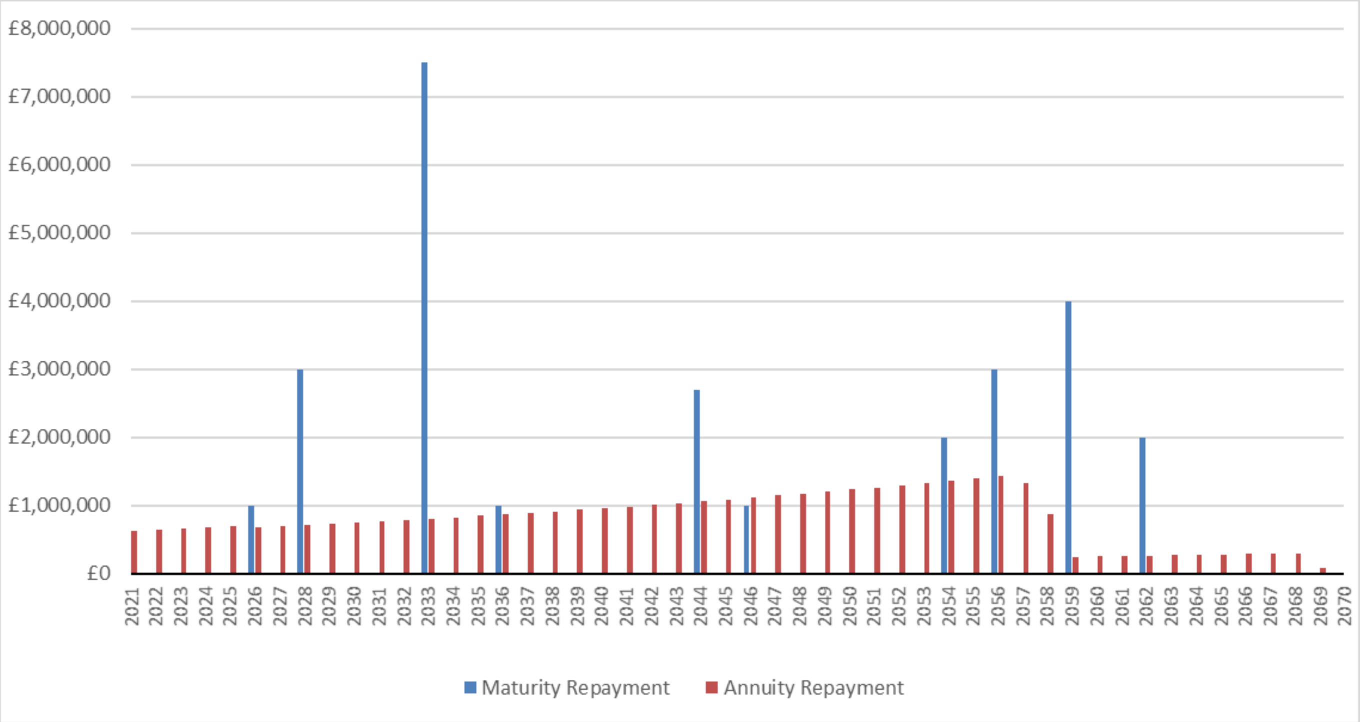
    d. consider the merits and demerits of alternative forms of funding.

    e. consider the appropriate funding period.

    f. consider the impact of borrowing in advance on temporarily (until required to finance capital expenditure) increasing investment cash balances and the consequent increase in exposure to counterparty risk, and the level of such risks given the controls in place to minimise them.

Debt Maturity

70. The Graph below shows the profile of when debt (loans from the PWLB) become repayable. Blue lines indicate maturity loans and red lines indicate annuity loans.



71. The Council will need to carefully consider the structure and timing of any new borrowing to ensure debt does not exceed the CFR in the years ahead.

Debt Rescheduling

72. The introduction by the PWLB in 2007 of a spread between the rates applied to new borrowing and repayment of debt, which has now been compounded since 20 October 2010 by a considerable further widening of the difference between new borrowing and repayment rates, has meant that PWLB to PWLB debt restructuring is now much less attractive than it was before both of these events. In particular, consideration would have to be given to the large premiums which would be incurred by prematurely repaying existing PWLB loans and it is very unlikely that these could be justified on value for money grounds if using replacement PWLB refinancing.

73. The Council also keeps under review the potential for making premature debt repayments in order to reduce borrowing costs as well as reducing counterparty risk by reducing investment balances. However, the cost of the early repayment premiums that would be incurred and the increase in risk exposure to significantly higher interest rates for new borrowing, continue to make this option unattractive. When last reviewed on the 27 September 2017 the early repayment cost of the £7.5m PWLB loan, maturing in 2033, would amount to £3,177,343. No debt rescheduling is being contemplated at present.

74. The reasons for any rescheduling to take place will include:

   a. the generation of cash savings and / or discounted cash flow savings,

   b. helping to fulfil the strategy outlined above

   c. enhancing the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

Minimum Revenue Provision (MRP)

75. Appendix 1 of this report provides the detail on what the MRP is and the basis of the calculation. Basically, authorities are required each year to set aside some of their revenues as provision for debt repayment. Unlike depreciation which is reversed out of the accounts, this provision has a direct impact on the Council Tax requirement. The provision is in respect of capital expenditure that is financed by borrowing or credit arrangements e.g. leases.

76. The Council is required to make a “Prudent Provision” which basically ensures that revenue monies are set aside to repay the debt over the useful life of the asset acquired i.e. the Minimum Revenue Provision (MRP). This can be achieved by equal annual instalments (current practice) or an annuity method – annual payments gradually increasing over the life of the asset. Where an annuity loan is taken, the Council’s policy (Appendix 1) was amended to reflect the matching, as far as possible, of the MRP with the actual principal repaid (within each debt repayment).

77. The MRP for 2022/23 is estimated at £1,741,200 (the statutory charge to revenue that remains within the accounts).

78. The Government are consulting on the MRP guidance at present and looking to make it clear to all authorities that where loans have been made for capital purposes to other organisations e.g local authority companies, housing providers, then provision for debt repayments must be made. Hastings BC has always done so and is not caught out by this sensible requirement.

ANNUAL INVESTMENT STRATEGY

Investment Policy

79. The Department of Levelling Up, Housing and Communities (DLUHC - this was formerly the Ministry of Housing, Communities and Local Government (MHCLG)) and CIPFA have extended the meaning of ‘investments’ to include both financial and non-financial investments. This report deals solely with treasury (financial) investments, (as managed by the treasury management team). Non-financial investments, essentially the purchase of income yielding assets, are covered in the Capital Strategy.

80. The Council’s investment policy has regard to the DLUHC’s Guidance on Local Government Investments (“the Guidance”), the CIPFA Treasury Management in the Public Services Code of Practice and Cross Sectoral Guidance Notes 2021 (“the CIPFA TM Code”) and the CIPFA Treasurym Management Guidance notes.

81. The Council’s investment priorities will be security first, portfolio liquidity second, and then 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. In the current economic climate, it is considered appropriate to keep investments short term to cover cash flow needs.

82. In accordance with the above guidance from the DLUHC and CIPFA, and in order to minimise the risk to investments, the Council applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties which also

enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the Short Term and Long Term ratings.

83. 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.

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

85. Investment instruments identified for use in the financial year are listed in Appendix 5 under the 'specified' and 'non-specified' investments categories. Specified investments are those with a high level of credit quality and subject to a maturity limit of one year or have less than a year left to run to maturity if originally, they were classified as being non-specified investments solely due to the maturity period exceeding one year. Non-specified investments are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use. Counterparty limits will be as set through the Council's treasury management practices – schedules.

86. The borrowing of monies purely to invest or on-lend and make a return is unlawful and this Council will not engage in such activity.

87. In accordance with guidance from the DLUHC and CIPFA, and in order to minimise the risk to investments, the Council has below clearly stipulated the minimum acceptable credit quality of counterparties for inclusion on the lending list. The creditworthiness methodology used to create the counterparty list fully accounts for the ratings, watches and outlooks published by all three ratings agencies with a full understanding of what these reflect in the eyes of each agency.

Creditworthiness Policy

88. This Council uses the creditworthiness service provided by Link Group - the potential counterparty ratings are monitored on a real time basis with knowledge of any changes notified electronically as the agencies notify modifications. This service has been progressively enhanced over the last few years and now uses a sophisticated modelling approach with credit ratings from all three rating agencies - Fitch, Moody's and Standard and Poor's, forming the core element. However, it does not rely solely on the current credit ratings of counterparties but also uses the following as overlays: -

- Credit watches and credit outlooks from credit rating agencies;
- Credit Default Swap (CDS) spreads to give early warning of likely changes in credit ratings;

- Sovereign ratings to select counterparties from only the most creditworthy countries.

89. This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour code bands which indicate the relative creditworthiness of counterparties. These colour codes are also used by the Council to determine the duration for investments and are therefore referred to as durational bands. This is a service which the Council would not be able to replicate using in-house resources.

90. The selection of counterparties with a high level of creditworthiness will be achieved by selection of institutions down to a minimum durational band within Link Group's weekly credit list of worldwide potential counterparties. The Council will therefore use counterparties within the following durational bands: -

- Purple 2 years (but HBC will only invest for up to 1 year – except Property Fund and Diversified Income Fund)
- 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

91. The Link Groups' 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.

92. Typically, the minimum credit ratings criteria the Council use 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.

93. This Council will not use the approach suggested by CIPFA of using the lowest rating from all three rating agencies to determine creditworthy counterparties as Moody's tend to be more aggressive in giving low ratings than the other two agencies. This would therefore be unworkable and leave the Council with few banks on its approved lending list. The Link creditworthiness service does though, use ratings from all three agencies, but by using a risk based scoring system, does not give undue weighting to just one agency's ratings.

94. The Council is alerted to the changes to credit ratings of all three agencies through its use of the Link creditworthiness service. These are monitored on a daily basis with lists updated weekly by Link Group.

95. Sole reliance will not be placed on the use of this external service. In addition, this Council will also use market data and market information, information on government support for banks and the credit ratings of that government support.

96. The Council only use approved counterparties from countries with a minimum sovereign credit rating of AA- from Fitch Ratings (or equivalent from other agencies if Fitch does not provide). The list of countries that qualify using this credit criteria as at the date of this report are shown in Appendix 6. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy. The maximum investment in any non UK country is not to exceed £10m.

Investment Strategy

97. The level of investments can fluctuate significantly on a day to day basis, given the level of funding received, precept payments, grants payable and receivable, salaries and wages, etc.

98. As at 1 December 2021 the Council had balances amounting to £32,039,785. The monies held are significantly higher than would normally be expected and include monies that the Council is holding in respect of a number of grant schemes – some £7.3m of which is due to be repaid to government shortly (January 2022) for example..

99. Priority is given to security and liquidity of investments in order to reduce counterparty risk to the maximum possible extent. To this end at the start of the Covid-19 crisis special arrangements were made with the Council's bankers to be able to accommodate larger than normal balances and daily transaction amounts associated with the government's business grant schemes. The Council is again in the position to ensure that its cash balances are spread across numerous counterparties.

100. The Council has had various investment limits depending upon the credit rating e.g. £5m with any one institution with a minimum short term rating of F+, and a long term rating of A+ or above, supported by a red (6 month) rating by Link Group. The £5m limit generally represents a level of up to 25% of the investment portfolio with any one institution or group at any one time. It is also necessary, at times, to invest sums of this size in order to attract the larger institutions which have the higher credit ratings.

101. The Eurozone and Brexit led to a number of downgrades to banks' credit ratings, making it increasingly difficult to spread investments across a number of institutions. The Chief Finance Officer has the authority to amend the limits on a daily basis if necessary, to ensure that monies can be placed with appropriate institutions. The use of Money Market funds was anticipated but the higher returns that were on offer are no longer there.

102. The pandemic has impacted on countries around the world and in turn on credit ratings. The Council follows the Credit ratings of Link Group and the ratings now enable the Council to invest £5m with any one institution with a minimum short term rating of F (rather than F+), and a long term rating of A+ and above (Unchanged), supported by a red (6 month) rating. The changes are reflected in the updated Treasury Management Practices (updated as at 7 January 2021).

Investment Strategy – Property Fund

103. It was agreed in February 2017 that the option for diversification of some of the investments into a property fund be undertaken with CCLA in the sum of £2m. The investment being in respect of the Council's reserves that are not required for a period of at least 5 years in order that any fall in values and entry costs into such funds can be covered. The £2m was invested in April 2017 and the performance is detailed below:

Table 6: CCLA – LA's Property Prices and Dividend yields

End of	Nov-21	Aug-21	Apr-21	Dec-20	Dec-19	Dec-18	Dec-17	Apr-17
Offer Price p	344.26	331.68	314.43	306.91	322.7	329.35	319.44	307.19
Net Asset Value p	322.49	310.71	294.55	287.5	302.3	308.53	299.24	287.77
Bid Price p	317.49	305.89	289.98	283.05	297.61	303.75	294.60	283.31
Dividend* on XD Date p	0	0	0	3.74	3.21	3.32	3.38	0
Dividend* - Last 12 Months p	12.28	12.69	12.63	12.26	13.12	12.98	13.71	13.19
Dividend Yield on NAV %	3.81	4.08	4.29	4.49	4.34	4.21	4.58	4.58
Fund Size £m	1,282.5	1,282.5	1,211.6	1,172.6	1,200.1	1,099.0	930.8	710.2

104. The dividend yield is around 4.1% p.a. on the net asset value. Dividends for the first 2 quarters of 2021/22 amount to £36,178 (£38,460 at the same point last year). Full year dividends for 2021/22 are estimated at around £71,200 and a similar return is anticipated for 2022/23.

Table 7: CCLA - Property Fund Capital Value

Units (651,063)	Nov-21	Aug-21	Apr-21	Dec-20	Dec-19	Dec-18	Dec-17	Apr-17
Mid Market Price(£)	2,099,613	2,022,918	1,917,706	1,871,806	1,968,163	2,008,725	1,948,241	1,873,564
Bid Price (£)	2,067,060	1,991,537	1,887,952	1,842,834	1,937,629	1,977,604	1,918,032	1,844,527

105. The Capital value has increased by 12.06% between April 2017 and November 2021 and is now above that of the original investment made and continues to recover from the low point experienced in August 2020 following the impact of Covid-19. It is important that this is continued to be viewed as a longer term investment (5 years plus).

Diversified Income Fund

106. It was agreed in February 2019 that a sum of £3m would be made available for further diversification of the Council's investments. £1m was invested on 26 July 2019 and a further £2m investment was made on 24 September 2019 into the CCLA Diversified Income Fund. Anticipated returns were around 3% with the added advantage of much higher liquidity than the property fund.

The capital value had recovered from the initial investment where charges are effectively deducted and was valued at £3,012,479 at the end of December 2019. In March 2020 the market value had fallen to £2.62m but continues to recover and is currently valued at £3.043m (1.4% above the initial investment amount). Dividend yield on price is estimated at around 2.6% for December 2021 (3.36% December 2020). Dividends payable for the first 2 quarters of 2021/22 amount to £39,614

(£52,334 at the same point last year). It should be remembered that this is a long term investment and prices can go up and down.

Investment Strategy – View on Interest Rates

107. Investment returns look set to stay flat for many months. However thereafter they could begin to increase if the economy shows signs of growth. The Council at this time needs access to its cash reserves and as such cannot afford to invest further longer term – until it achieves a balanced budget or has capital receipts.

Investment Return Expectations.

108. Bank Rate is forecast to stay low for the foreseeable future, with only limited increases forecast over the next 4 years. However, the financial position can often change quickly, and the Council needs to be prepared for increases in rates as well as potentially (although now looking less iklely) negative interest rates.

109. The Council will look to report on the actual return achieved on its cash investments, both in terms of percentage and actual cash. It will look to report separately on different categories of cash investments e.g. Property Fund.

Regeneration and Economic Development – Income Generation

110. The Council has remained keen to pursue capital schemes that also generate income. Substantial investments in housing and energy projects will necessitate new borrowing. The levels of new borrowing that the Council can afford to take on board will be dependent upon the individual proposals and credit worthiness of the counterparties involved. Due to the timescales within which some property purchasing and disposal decisions have to be made the Council's existing governance arrangements and delegated authorities have been revised.

111. The additional risks that the Council is taking on need to be considered in the context of the totality of risk that the Council faces e.g. external claims, rates revaluation, robustness of income streams, economic downturns, etc. Where there is more risk and volatility in income streams the Council will need to ensure that it maintains sufficient reserves to ensure the Council's ability to deliver key services is not jeopardised.

112. The income generation proposals relating to the Housing Company have required revenue loans to be provided – now repaid in full. Such funding was not available from the Public Works Loan Board and was therefore from existing Council reserves and balances. The rates of interest that are charged to the company are determined at the time of the advance and need to comply with state aid rules where thresholds are exceeded – a market rate being payable.

Treasury Management Reporting

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

   a) Prudential and treasury indicators and treasury strategy (this report) - The first, and most important report is forward looking and covers:

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

b) A mid-year treasury management report – This is primarily a progress report and will update members on the capital position, amending prudential indicators as necessary, and whether any policies require revision.

c) An annual treasury report – This is a backward-looking review document and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy. At the end of the financial year, officers will report to Council on its investment activity as part of its Annual Treasury Report (to be presented by no later than 30 September).

Policy on Use of External Service Providers

114. The Council uses Link Group, Treasury solutions as its external treasury management advisors. There is currently value in employing external providers of treasury management services in order to acquire access to credit worthiness information and specialist advice.

Training

115. The CIPFA Code requires the responsible officer (Chief Financial Officer) to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny. In terms of treasury management in general, training has been undertaken by members on an annual basis to date.

The training needs of treasury management officers are periodically reviewed.

MiFID II (Markets in Financial Instruments Directive)

116. In brief, this directive requires the Council to distinguish itself as either a retail or professional client. In order to qualify for professional status, the Council is required to show that it has more than £10m in investments, invests regularly (more than 10 times a quarter), as well as having appropriately trained and experienced staff.

117. To date only two counterparties have required us to complete the forms in order to maintain the existing professional status. The directive became law on 1 January 2018.

118. The two parties to date are Link Group and CCLA. A schedule of such counterparties will be maintained, as per the requirements of the Code, should the list expand further.

Scheme of Delegation

119. Please see Appendix 9.

Role of the Section 151 Officer

120. Please see Appendix 10.

APPENDIX 1

Minimum Revenue Provision – An Introduction

1. What is a Minimum Revenue Provision?

Capital expenditure is generally expenditure on assets which have a life expectancy of more than one year e.g. buildings, vehicles, machinery etc. It would be impractical to charge the entirety of such expenditure to revenue in the year in which it was incurred therefore such expenditure is spread over several years in order to try to match the years over which such assets benefit the local community through their useful life. The manner of spreading these costs is through an annual Minimum Revenue Provision, which was previously determined under Regulation, and will in future be determined under Guidance.

2. Statutory duty

Statutory Instrument 2008 no. 414 s4 lays down that:

"A local authority shall determine for the current financial year an amount of minimum revenue provision that it considers to be prudent."

The above is a substitution for the previous requirement to comply with regulation 28 in S.I. 2003 no. 3146 (as amended).

There is no requirement to charge MRP where the Capital Financing Requirement is nil or negative at the end of the preceding financial year.

3. Government Guidance

Along with the above duty, the Government issued guidance which came into force on 31st March 2008 which requires that a Statement on the Council's policy for its annual MRP should be submitted to the full Council for approval before the start of the financial year to which the provision will relate.

The Council is legally obliged to "have regard" to the guidance, which is intended to enable a more flexible approach to assessing the amount of annual provision than was required under the previous statutory requirements. The guidance offers four main options under which MRP could be made, with an overriding recommendation that the Council should make prudent provision to redeem its debt liability over a period which is reasonably commensurate with that over which the capital expenditure is estimated to provide benefits. The requirement to 'have regard' to the guidance therefore means that: -

Although four main options are recommended in the guidance, there is no intention to be prescriptive by making these the only methods of charge under which a local authority may consider its MRP to be prudent.

It is the responsibility of each authority to decide upon the most appropriate method of making a prudent provision, after having had regard to the guidance.

Option 1: Regulatory Method

Under the previous MRP regulations, MRP was set at a uniform rate of 4% of the adjusted CFR (i.e. adjusted for "Adjustment A") on a reducing balance method (which in effect meant that MRP charges would stretch into infinity). This historic approach must continue for all capital expenditure incurred in years before the start of this new approach. It may also be used for new capital expenditure up to the amount which is deemed to be supported through the Supported Capital Expenditure (SCE) annual allocation.

Option 2: Capital Financing Requirement Method
This is a variation on option 1 which is based upon a charge of 4% of the aggregate CFR without any adjustment for Adjustment A, or certain other factors which were brought into account under the previous statutory MRP calculation. The CFR is the measure of an authority's outstanding debt liability as depicted by their balance sheet.

Option 3: Asset Life Method.
This method may be applied to most new capital expenditure, including where desired that which may alternatively continue to be treated under options 1 or 2.

Under this option, it is intended that MRP should be spread over the estimated useful life of either an asset created, or other purpose of the expenditure. There are two useful advantages of this option: -

- Longer life assets e.g. freehold land can be charged over a longer period than would arise under options 1 and 2.
- No MRP charges need to be made until the financial year after that in which an item of capital expenditure is fully incurred and, in the case of a new asset, comes into service use (this is often referred to as being an 'MRP holiday'). This is not available under options 1 and 2.

There are two methods of calculating charges under option 3:
- equal instalment method – equal annual instalments,
- annuity method – annual payments gradually increase during the life of the asset.

Option 4: Depreciation Method
Under this option, MRP charges are to be linked to the useful life of each type of asset using the standard accounting rules for depreciation (but with some exceptions) i.e. this is a more complex approach than option 3.

The same conditions apply regarding the date of completion of the new expenditure as apply under option 3.

Minimum Revenue Provision Policy Statement 2022/23

The Council implemented the new Minimum Revenue Provision (MRP) guidance in 2008/09 and will assess the MRP for 2022/23 in accordance with the main recommendations contained within the guidance issued by the Secretary of State under section 21(1A) of the Local Government Act 2003.

A major proportion of the MRP for 2022/23 relates to the more historic debt liability that will continue to be charged at the rate of 4%, in accordance with option 1 of the guidance. Certain expenditure reflected within the debt liability at 31st March 2022 will under delegated powers be subject to MRP under option 3, which will be charged over a period which is reasonably commensurate with the estimated useful life applicable to the nature of expenditure, using the equal annual instalment method. For example, capital expenditure on a new building, or on the refurbishment or enhancement of a building, will be related to the estimated life of that building.

Estimated life periods will be determined under delegated powers – subject to the limitations of the government's investment requirements (2018). 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.

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 finance leases are applied as MRP. It should also be noted that in regards of the loans to Optivo (previously Amicus Horizon) in respect of the Coastal Space scheme, Optivo will meet the costs of the Council PWLB loan (Principal and Interest) and the Council makes the payments to the PWLB i.e matching the MRP requirement. Likewise, for any loan to the Foreshore Trust - as the interest and principal repayments made by the Council to the PWLB are funded in full from the sums payable by the Trust this matches the MRP requirement for the Council.

Where the Council generates additional income from capital Investments it will look to make a prudent provision for the repayment of debt over the expected life of the asset. In doing so, where an annuity loan is taken or may be taken at some stage in the future to finance the purchase the MRP made will reflect as far as possible the principal element of the actual loan repayments (rather than accruals). The interest rate to be calculated at the outset being determined by the Chief Finance Officer.

APPENDIX 2 - Interest Rate Forecasts

Link Group Interest rate forecast – Dec 2021 – March 2025

Link Group Interest Rate View	8.11.21													
	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25
BANK RATE	0.25	0.25	0.50	0.50	0.50	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.25
3 month ave earnings	0.30	0.40	0.50	0.50	0.50	0.60	0.80	0.90	1.00	1.00	1.00	1.00	1.00	1.00
6 month ave earnings	0.40	0.50	0.60	0.60	0.70	0.80	0.90	1.00	1.10	1.10	1.10	1.10	1.10	1.10
12 month ave earnings	0.50	0.60	0.70	0.70	0.80	0.90	1.00	1.10	1.20	1.20	1.20	1.20	1.20	1.20
5 yr PWLB	1.50	1.50	1.60	1.60	1.70	1.70	1.70	1.80	1.80	1.80	1.90	1.90	2.00	2.00
10 yr PWLB	1.80	1.90	1.90	2.00	2.00	2.10	2.10	2.20	2.20	2.20	2.30	2.30	2.30	2.40
25 yr PWLB	2.10	2.20	2.30	2.40	2.40	2.40	2.50	2.50	2.60	2.60	2.60	2.60	2.70	2.70
50 yr PWLB	1.90	2.00	2.10	2.20	2.20	2.20	2.30	2.30	2.40	2.40	2.40	2.40	2.50	2.50
Bank Rate														
Link	0.25	0.25	0.50	0.50	0.50	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.25
Capital Economics	0.25	0.50	0.50	0.50	0.50	0.75	0.75	1.00	1.00	-	-	-	-	-
5yr PWLB Rate														
Link	1.50	1.50	1.60	1.60	1.70	1.70	1.70	1.80	1.80	1.80	1.90	1.90	2.00	2.00
Capital Economics	1.60	1.70	1.70	1.80	2.10	2.10	2.10	2.10	2.10	-	-	-	-	-
10yr PWLB Rate														
Link	1.80	1.90	1.90	2.00	2.00	2.10	2.10	2.20	2.20	2.20	2.30	2.30	2.30	2.40
Capital Economics	1.80	1.90	2.00	2.20	2.30	2.30	2.30	2.30	2.30	-	-	-	-	-
25yr PWLB Rate														
Link	2.10	2.20	2.30	2.40	2.40	2.40	2.50	2.50	2.60	2.60	2.60	2.60	2.70	2.70
Capital Economics	2.10	2.20	2.40	2.60	2.70	2.80	2.80	2.80	2.90	-	-	-	-	-
50yr PWLB Rate														
Link	1.90	2.00	2.10	2.20	2.20	2.20	2.30	2.30	2.40	2.40	2.40	2.40	2.50	2.50
Capital Economics	1.90	2.00	2.20	2.40	2.50	2.60	2.60	2.60	2.70	-	-	-	-	-

Note: PWLB rates and forecast shown above have taken into account the 20 basis point certainty rate reduction effective as of the 1st November 2012.

APPENDIX 3 - Economic Review (by Link Group)

Since this review was provided by our treasury advisors (Link Group) the MPC met on 16 December and voted to increase interest rates from 0.10% to 0.25%. This is further discussed in the "Prospects for Interest Rates" section of the main report above.

ECONOMIC BACKGROUND

MPC meeting 4th November 2021

- The Monetary Policy Committee (MPC) voted 7-2 to leave Bank Rate unchanged at 0.10% with two members voting for an increase to 0.25% and made no changes to its programme of quantitative easing purchases due to finish by the end of this year at a total of £895bn by a vote of 6-3.

- After the Governor and other MPC members had made speeches prior to the MPC meeting in which they stressed concerns over inflation, (the Bank is now forecasting inflation to reach 5% in April when the next round of capped gas prices will go up), thus reinforcing the strong message from the September MPC meeting, financial markets had confidently built in an expectation that Bank Rate would go up from 0.10% to 0.25% at this meeting. However, these were not messages that the MPC would definitely increase Bank Rate at the first upcoming MPC meeting as no MPC member can commit the MPC to make that decision ahead of their discussions at the time. The MPC did comment, however, that Bank Rate would have to go up in the short term. It is, therefore, relatively evenly balanced as to whether Bank rate will be increased in December, February or May. Much will depend on how the statistical releases for the labour market after the end of furlough on 30th September 2021 turn out.

- Information available at the December MPC meeting will be helpful in forming a picture but not conclusive, so this could cause a delay until the February meeting. At the MPC's meeting in February it will only have available the employment figures for November: to get a clearer picture of employment trends, it would, therefore, need to wait until the May meeting (although it also meets in March) when it would have data up until February. At its May meeting, it will also have a clearer understanding of the likely peak of inflation expected around that time. If the statistics show the labour market coping well during the next six months, then it is likely there will be two increases in these three meetings.

- Over the next year the MPC will be doing a delicate balancing act of weighing combating inflation being higher for longer against growth being held back by significant headwinds. Those headwinds are due to supply shortages (pushing prices up and holding back production directly), labour shortages, surging fuel prices and tax increases. However, those headwinds could potentially be offset – at least partially - by consumers spending at least part of the £160bn+ of "excess savings" accumulated during the pandemic. However, it is also possible that more affluent people may be content to hold onto elevated savings and investments and, therefore, not support the economic recovery to the extent that the MPC may forecast.

- The latest forecasts by the Bank showed inflation under-shooting the 3 years ahead 2% target (1.95%), based on market expectations of Bank Rate hitting 1%

in 2022. This implies that rates don’t need to rise to market expectations of 1.0% by the end of next year.

- It is worth recalling that the MPC pointedly chose to reaffirm its commitment to the 2% inflation target in its statement after the MPC meeting in September yet at its August meeting it had emphasised a willingness to look through inflation overshooting the target for limited periods to ensure that inflation was ‘sustainably over 2%’. On balance, once this winter is over and world demand for gas reduces - so that gas prices and electricity prices fall back - and once supply shortages of other goods are addressed, the MPC is forecasting that inflation would return to just under the 2% target.

- **The MPC’s forward guidance on its intended monetary policy** on raising Bank Rate versus selling (quantitative easing) holdings of bonds is as follows: -
    1. Raising Bank Rate as “the active instrument in most circumstances”.
    2. Raising Bank Rate to 0.50% before starting on reducing its holdings.
    3. Once Bank Rate is at 0.50% it would stop reinvesting maturing gilts.
    4. Once Bank Rate had risen to at least 1%, it would start selling its holdings.

- **COVID-19 vaccines.** These have been the game changer which have enormously boosted confidence that **life in the UK could largely return to normal during the summer** after a third wave of the virus threatened to overwhelm hospitals in the spring. With the household saving rate having been exceptionally high since the first lockdown in March 2020, there is plenty of pent-up demand and purchasing power stored up for services in hard hit sectors like restaurants, travel and hotels. The big question is whether mutations of the virus could develop which render current vaccines ineffective, as opposed to how quickly vaccines can be modified to deal with them and enhanced testing programmes be implemented to contain their spread. There is also a potential for the winter flu season combined with Covid to overwhelm NHS hospitals so the UK is not entirely in the clear yet.

- **Since the September MPC meeting**, the economy has been impacted by rising gas and electricity prices which are now threatening to close down some energy intensive sectors of industry – which would then further impact the supply chain to the rest of the economy. Ports are also becoming increasingly clogged up with containers due to a shortage of lorry drivers to take them away. The labour market statistics for August released in mid-October showed a sharp rise in employment but also a continuing steep rise in vacancies. The combination of all these factors is a considerable headwind to a recovery of economic growth in the months ahead.

US. Shortages of goods and intermediate goods like semi-conductors, are fuelling increases in prices and reducing economic growth potential. It now also appears that there has been a sustained drop in the labour force which suggests the pandemic has had a longer-term scarring effect in reducing potential GDP. Economic growth may therefore be reduced to between 2 and 3% in 2022 and 2023 while core inflation is likely to remain elevated at around 3% in both years instead of declining back to the Fed’s 2% central target. This could well cause the Fed to focus on supporting economic growth by delaying interest rate rises, rather than combating elevated inflation i.e., there may be no rate rises until 2023.

EU. The slow role out of vaccines initially delayed economic recovery in early 2021 but the vaccination rate then picked up sharply. After a contraction of -0.3% in Q1, Q2 came in with strong growth of 2%. With Q3 at 2.2%, the EU recovery is nearly complete although countries dependent on tourism are lagging. Recent sharp increases in gas and electricity prices have increased overall inflationary pressures but the ECB is likely to see these as being only transitory after an initial burst through to around 4%, so is unlikely to be raising rates for a considerable time.

German general election. With the CDU/CSU and SDP both having won around 24-26% of the vote in the September general election, the composition of Germany's next coalition government may not be agreed by the end of 2021. An SDP-led coalition would probably pursue a slightly less restrictive fiscal policy, but any change of direction from a CDU/CSU led coalition government is likely to be small. However, with Angela Merkel standing down as Chancellor as soon as a coalition is formed, there will be a hole in overall EU leadership which will be difficult to fill.

China. After a concerted effort to get on top of the virus outbreak in Q1 2020, economic recovery was strong in the rest of the year; this enabled China to recover all the initial contraction. During 2020, policy makers both quashed the virus and implemented a programme of monetary and fiscal support that was particularly effective at stimulating short-term growth. At the same time, China's economy benefited from the shift towards online spending by consumers in developed markets. These factors helped to explain its comparative outperformance compared to western economies during 2020 and earlier in 2021. However, the pace of economic growth has now fallen back after this initial surge of recovery from the pandemic and China is now struggling to contain the spread of the Delta variant through sharp local lockdowns - which will also depress economic growth. There are also questions as to how effective Chinese vaccines are proving. Supply shortages, especially of coal for power generation, which is causing widespread power cuts to industry, are also having a sharp disruptive impact on the economy. In addition, recent regulatory actions motivated by a political agenda to channel activities into officially approved directions, are also likely to reduce the dynamism and long-term growth of the Chinese economy.

Japan. 2021 has been a patchy year in combating Covid. However, recent business surveys indicate that the economy is rebounding rapidly now that the bulk of the population is fully vaccinated and new virus cases have plunged. The Bank of Japan is continuing its very loose monetary policy but with little prospect of getting inflation back above 1% towards its target of 2%, any time soon: indeed, inflation was actually negative in July. New Prime Minister Kishida had promised a large fiscal stimulus package after the November general election which his party has now won.

World growth. World growth was in recession in 2020 but recovered during 2021 until starting to lose momentum more recently. Inflation has been rising due to increases in gas and electricity prices, shipping costs and supply shortages, although these should subside during 2022. It is likely that we are heading into a period where there will be a reversal of **world globalisation** and a decoupling of western countries from dependence on China to supply products, and vice versa. This is likely to reduce world growth rates from those in prior decades.

Supply shortages. The pandemic and extreme weather events, followed by a major surge in demand after lockdowns ended, have been highly disruptive of extended worldwide supply chains. At the current time there are major queues of ships unable to unload their goods at ports in New York, California and China. Such issues have led to a misdistribution of shipping containers around the world and have contributed to a huge increase in the cost of shipping. Combined with a shortage of semi-conductors, these issues have had a disruptive impact on production in many countries. The latest additional disruption has been a shortage of coal in China leading to power cuts focused primarily on producers (rather than consumers), i.e., this will further aggravate shortages in meeting demand for goods. Many western countries are also hitting up against a difficulty in filling job vacancies. It is expected that these issues will be gradually sorted out, but they are currently contributing to a spike upwards in inflation and shortages of materials and goods on shelves.

APPENDIX 4 - Prudential Indicators

The Council's Capital expenditure plans are the key driver of treasury management activity. The output of the Capital expenditure plans (detailed in the budget) is reflected in the prudential indicators below.

TREASURY MANAGEMENT PRUDENTIAL INDICATORS	2020/21	2021/22	2022/23	2023/24	2024/25
	£'000	£'000	£'000	£'000	£'000
Authorised Limit for external debt					
borrowing	110,000	110,000	110,000	110,000	110,000
other long term liabilities	5,000	5,000	5,000	5,000	5,000
TOTAL	115,000	115,000	115,000	115,000	115,000
Operational Boundary for external debt					
borrowing	105,000	105,000	105,000	105,000	105,000
other long term liabilities	5,000	5,000	5,000	5,000	5,000
TOTAL	110,000	110,000	110,000	110,000	110,000

Interest Rate Exposures	**2021/22 Upper**	**2022/23 Upper**	**2023/24 Upper**
Limits on fixed interest rates based on **net** debt	100%	100%	100%
Limits on variable interest rates based on **net** debt	100%	100%	100%
Limits on fixed interest rates:			
· Debt only	100%	100%	100%
· Investments only	100%	100%	100%
Limits on variable interest rates			
· Debt only	30%	30%	30%
· Investments only	100%	100%	100%

Maturity Structure of fixed interest rate borrowing 2022/23	**Lower**	**Upper**
Under 12 Months	0%	100%
12 months to 2 years	0%	100%
2 years to 5 years	0%	100%
5 years to 10 years	0%	100%
10 years to 20 years	0%	100%
20 years to 30 years	0%	100%
30 years to 40 years	0%	100%
40 years to 50 years	0%	100%

Maturity Structure of variable interest rate borrowing 2022/23	**Lower**	**Upper**
Under 12 Months	0%	30%
12 months to 2 years	0%	30%
2 years to 5 years	0%	30%
5 years to 10 years	0%	30%
10 years to 20 years	0%	10%
20 years to 30 years	0%	10%
30 years to 40 years	0%	10%
40 years to 50 years	0%	10%

Affordability Prudential Indicator - Ratio of financing costs to net revenue stream

This indicator assesses the affordability of the capital investment plans. It provides an indication of the impact of the capital investment plans on the Council's overall finances. This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

Prudential Indicator: Financing Cost to Net Revenue Stream	2019/20 Actual	2020/21 Actual	2021/22 Revised Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
Financing Costs	£'000	£'000	£'000	£'000	£'000	£'000
1. Interest Charged to General Fund	1,817	1,836	1,843	2,137	2,320	2,494
2. Interest Payable under Finance Leases and any other long term liabilities	-	-	-	-	-	-
3. Gains and losses on the repurchase or early settlement of borrowing credited or charged to the amount met from government grants and local taxpayers	-	-	-	-	-	-
4. Interest and Investment Income	-597	-522	-504	-503	-513	-505
5. Amounts payable or receivable in respect of financial derivatives	-	-	-	-	-	-
6. Minimum Revenue Provision (MRP) / Voluntary Revenue Provision (VRP)	1,176	1,500	1,668	1,741	2,006	2,327
7. Depreciation/Impairment that are charged to the amount to be met from government grants and local taxpayers	-	-	-	-	-	-
Total	2,396	2,814	3,007	3,375	3,813	4,316
Net Revenue Stream Amount to be met from government grants and local taxpayers	13,313	16,332	14,075	13,717	13,443	13,308
Ratio **Financing Cost to Net Revenue Stream**	**18%**	**17%**	**21%**	**25%**	**28%**	**32%**

Note: Outturn figures for 2019/20 and 2020/21 are unaudited

This prudential indicator shows that the ratio of financing costs to the net revenue stream is increasing. This is not unexpected given that the Council has had an income generation strategy that has resulted in increased Capital expenditure over the period 2017/18 to 2021/22 and that the Council agreed a programme for over £54m of Capital expenditure over the period 2020/21 to 2023/24 - thus increasing borrowing costs. The above ratio does not take into account the income is being generated from the initiatives and commercial property acquisitions as these are not treated as investment income.

Other Prudential Indicators

Internal Borrowing and Gearing ratios for the authority are included in the Capital Strategy.

APPENDIX 5 - Specified and Non-Specified Investments

Specified Investments:

The idea of specified investments is to identify investments offering high security and high liquidity. All these investments should be in sterling and with a maturity of up to a maximum of one year.

Schedule A

	Security / Minimum Credit Rating	Maximum Maturity Period
Local authorities	N/A	1 year
DMADF – UK Government	N/A	1 year
Money Market Funds (CNAV, LVAV,VNAV)	AAA	Liquid
Term deposits with banks and building societies	Blue Orange Red Green No Colour	Up to 1 year Up to 1 year Up to 6 months Up to 3 months Not for use
Certificates of deposits (CDs) issued by credit rated deposit takers (banks and building societies)	Blue Orange Red Green No Colour	Up to 1 year Up to 1 year Up to 6 months Up to 3 months Not for use
UK Government Gilts	UK sovereign rating	12 months
UK Government Treasury Bills	UK sovereign rating	12 months

Non-Specified Investments

These are any investments which do not meet the specified investment criteria.
The aim is to ensure that proper procedures are in place for undertaking risk assessments of investments made for longer periods or with bodies which do not have a “high” credit rating. As far as this Council is concerned the risks are in relation to the value of the investments, which may rise, or fall, rather than deficient credit rating.

There is no intention to invest in Non-Specified Investments, other than those Property Funds where there are no Capital accounting implications, without taking specialist advice first. The limits on Investments in Property Funds will be agreed as part of this Treasury Management Strategy and Investment Policy. For clarity any increase in the level of the investment would need Council approval.

Schedule B

Investment	Security / Minimum credit rating	(A) Why use it? (B) Associated risks
Property Funds	*The use of these instruments can be deemed capital expenditure, and as such will be an application (spending) of capital resources. This Authority will check on the status of any fund it may consider using. Appropriate due diligence will also be undertaken before investment of this type is undertaken. These are longer term investments and will extend beyond 365 days (expected to be invested for 5 years or more)*	
UK Government Gilts with maturities in excess of 1 year Custodial arrangement required prior to purchase	Government backed	(A) Why use it? (i) Excellent credit quality. (ii) Very liquid. (iii) if held to maturity, known yield (rate of return) per annum – aids forward planning. (iv) If traded, potential for capital gain through appreciation in value (i.e. sold before maturity) (v) No currency risk. (B) Associated risks (i) 'Market or interest rate risk': Yield subject to movement during life of sovereign bond which could negatively impact on price of the bond i.e. potential for capital loss.

APPENDIX 6 - Approved Countries for Investments

The list is based on those countries which have sovereign ratings of AA- or higher (the lowest rating shown from Fitch, Moody's and S&P) and also have banks operating in sterling markets which have credit ratings of green or above in the Link credit worthiness service.

Countries that meet our criteria 1, 2, 3, 4 (at 24.12.2020)

1. AAA
   - Australia
   - Denmark
   - Germany
   - Luxembourg
   - Netherlands
   - Norway
   - Singapore
   - Sweden
   - Switzerland

2. AA+
   - Canada
   - Finland
   - U.S.A

3. AA
   - Abu Dhabi (UAE)
   - France

4. AA-
   - Belgium
   - Hong Kong
   - Qatar
   - U.K.

List is accurate as at 22 December 2021.

Examples of Countries that do not meet our criteria:

Japan
Kuwait
Greece
Spain

APPENDIX 7 - Treasury Management Policy Statement

The Council defines the policies and objectives of its treasury management activities as:

“The management of the organisation’s borrowing, investments and cash flows, including its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks”.

This 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, and any financial instruments entered into to manage these risks.

The Council acknowledges 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.”

APPENDIX 8 - Key Principles and Clauses formally adopted

The Code identifies three key principles:

Key Principle 1

Public service organisations should put in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management and control of their treasury management activities

Key Principle 2

Their policies and practices should make clear that the effective management and control of risk are the prime objectives of their treasury management activities and that responsibility for these lies clearly within their organisations. Their appetite for risk should form part of their annual strategy, including any use of financial instruments for the prudent management of those risks, and should ensure that priority is given to security and portfolio liquidity when investing treasury management funds.

Key Principle 3

They should acknowledge that the pursuit of value for money in treasury management and the use of suitable performance measures, are valid and important tools for responsible organisations to employ in support of their business and service objectives; and that within the context of effective risk management, their treasury management policies and practices should reflect this.

Clauses formally adopted

1. This organisation will create and maintain, as the cornerstones for effective treasury management:

   - A Treasury Management Policy Statement, stating the policies, objectives and approach to risk management of its treasury management activities.

   - Suitable Treasury Management Practices (TMPs), setting out the manner in which the organisation will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

   - Investment Management Practices (IMPs) for investments which are not for treasury management purposes

   The content of the policy statement TMPs and IMPs will follow the recommendations contained in Sections 6, 7 and 8 of the Code, subject only to amendment where necessary to reflect the particular circumstances of this organisation. Such amendments will not result in the organisation materially deviating from the Codes key principles.

2. This organisation (i.e. full board/council) will receive reports on its treasury management policies, practices and activities, including, as a minimum, an annual strategy and plan in advance of the year, a mid- year review and an annual report after its close, in the form prescribed in its TMPs and IMPs.

3. This council delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to Cabinet, and for the execution and administration of treasury decisions to the Chief Financial Officer, who will act in accordance with the organisations policy statement,TMPs and IMPs and, if he/she is a CIPFA member, CIPFA's Standard of Professional Practice on Treasury Management.

4. This Council nominates the Audit Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

APPENDIX 9 - Treasury Management Scheme of Delegation

(i) Full Council

1. Approval of the Treasury Management Strategy - prior to the new financial year

2. Approval of the Investment Strategy - prior to the new financial year

3. Approval of the MRP Policy - prior to the start of the new financial year

4. Approval of any amendments required to the Strategy during the year

5. Receipt of a mid-year report on the Treasury Management Strategy, to include consideration of any recommendations of the Cabinet or Audit Committee arising from any concerns since the original approval.

(ii) Cabinet

1. Developing and determining the Treasury Management Strategy, Investment Strategy and MRP policy and recommending them to full Council - prior to the start of the new financial year.

2. Receipt of a mid-year report on the Treasury Management Strategy and any concerns since the original approval and making recommendations to Council as appropriate.

3. Receiving, and reviewing reports on treasury management policies, practices, activities, and performance reports (based on quarterly reporting).

4. Approval of/amendments to the organisation's adopted clauses, treasury management policy statement;

5. Budget consideration and approval;

6. Approval of the division of responsibilities;

(iii) Audit Committee

1. Scrutinising the Council's Treasury Management Strategy, Investment Strategy and MRP policy, Treasury Management Policy Statement and Treasury Management Practices and making recommendations to Cabinet and Council as appropriate.

2. Receiving and reviewing monitoring reports (based on quarterly reporting) and making recommendations as appropriate.

APPENDIX 10 - The Treasury Management Role of the Section 151 Officer

Chief Finance Officer (S151 Officer) responsibilities

- recommending clauses, treasury management policy for approval, detemining Treasury Management Practices, reviewing the same regularly, and monitoring compliance
- submitting regular treasury management policy reports
- submitting budgets and budget variations
- receiving and reviewing management information reports
- reviewing the performance of the treasury management function
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function
- ensuring the adequacy of internal audit, and liaising with external audit
- recommending the appointment of external service providers.

Additional Responsibilities following new Codes of Practice/ Investment Guidance

The above list of specific responsibilities of the S151 officer in the 2017 Treasury Management Code has not changed. However, implicit in the changes in both the Prudential and the Treasury Management Codes, is a major extension of the functions of this role, especially in respect of non-financial investments, (which CIPFA has defined as being part of treasury management). Namely:-

1. preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments and treasury management, with a long term timeframe (say 20+ years – to be determined in accordance with local priorities).

2. ensuring that the capital strategy is prudent, sustainable, affordable and prudent in the long term and provides value for money.

3. ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the authority.

4. ensure that the authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing.

5. ensuring the proportionality of all investments so that the authority does not undertake a level of investing which exposes the authority to an excessive level of risk compared to its financial resources.

6. ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long term liabilities.

7. provision to members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees

8. ensuring that members are adequately informed and understand the risk exposures taken on by an authority.

9. ensuring that the authority has adequate expertise, either in house or externally provided, to carry out the above.

10. creation of Treasury Management Practices which specifically deal with how non treasury investments will be carried out and managed, to include the following): -

    - Risk management (TMP1 and schedules), including investment and risk management criteria for any material non-treasury investment portfolios;

    - Performance measurement and management (TMP2 and schedules), including methodology and criteria for assessing the performance and success of non-treasury investments;

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

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

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