AUDIT COMMITTEE – 30 NOVEMBER 2023

PART I - NOT DELEGATED

. DRAFT CAPITAL STRATEGY AND THE TREASURY MANAGEMENT POLICY
(DoF)

1. Summary

1.1 The purpose of this report is to enable Audit Committee to comment on the draft capital strategy and treasury management policy over the medium term (2024/25 to 2026/27).

2. Details

2.1 The capital strategy (the Strategy) is designed to give a clear and concise view of how the council determines it priorities for capital investment, decides how much it can afford to borrow and sets its risk appetite. It is intended to give a high level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services along with an overview of how associated risk is managed and the implications for future financial sustainability.

2.2 The framework the government uses to control how much councils can afford to spend on capital investment is known as the Prudential Framework. The objectives of the Prudential Code, which sets out how this framework is to be applied, are to ensure that local authorities' capital investment plans are:

- affordable, prudent, and sustainable,
- that treasury management decisions are taken in accordance with good professional practice, and
- that local strategic planning, asset management planning and proper option appraisal are supported.

2.3 This capital strategy sets out how the Council will achieve the objectives set out above.

Capital Investment Programme - Expenditure

2.4 Capital Investment is the term used to cover all expenditure by the council that can be classified as capital under legislation and proper accounting practice. This includes expenditure on:

- property, plant and equipment,
- heritage assets,

- investment properties., and
- loans to subsidiaries and joint ventures

2.5 Property, plant and equipment includes assets that have physical substance and are held for use in the production or supply of goods and services, for rental to others, or for administrative purposes. They are expected to be used during more than one financial year. Expenditure on the acquisition, creation or enhancement of these assets is capitalised on an accruals basis, provided that the Council is likely to benefit from the future economic benefits or service potential and the cost of the item can be measured reliably. Expenditure on repairs and maintenance is charged to the revenue account when it is incurred.

2.6 Heritage Assets are held with the objective of increasing knowledge, understanding and the appreciation of the Council's history and local area.

2.7 Investment properties are those that are used solely to earn rentals and/or for increases in value. The definition is not met if the property is used in any way for the delivery of services or production of goods or is held for sale.

2.8 Detailed accounting policies in relation to assets and capital expenditure may be found in the annual statement of accounts.

2.9 **Appendix 1** shows the 2023/24 revised capital budget and draft capital budgets for the period 2024/25 to 2026/27. A summary of the proposed capital programme is set out in the following table, ***for the purpose of the draft strategy 2026/27 includes only those schemes normally rolled forward and all years will be updated as part of the 2024/25 budget setting process***.:

Capital Investment Programme	Actual 2022/23 £m	Forecast Year End 2023/24 £	Latest Budget 2024/25 £	Latest Budget 2025/26 £	Rolled Forward Budget 2026/27 £m
Leisure, Environment and Community	3.292				
Infrastructure, Housing and Economic Development	1.070				
General Public Services & Economic Development		3.037	1.827	1.827	1.814
Climate Change Leisure & Community		1.475	1.114	0.793	0.793

Policy and Resources	1.098	1.554	0.935	0.795	0.779
Major Projects	1.240	13.957	0.000	0.000	0.000
Total Capital Investment	**6.700**	**20.023**	**3.875**	**3.415**	**3.386**

2.10 Forecast expenditure of £10.343M relates to delivery of housing under the Local Housing Fund, grant of £4.492 will be received in respect of this borrowing with the balance funded from borrowing which will be repaid by future rents in respect of these properties or interest payments from Three Rivers Homes Ltd. The balance of major projects expenditure relates mainly to the acquisition of the Foxgrove Path site which has been transferred to Watford Community Homes for development of affordable housing. The Council has lent the money to Watford Community Housing for the purchase of the land by way of a development agreement.

Capital Investment Programme – Funding

2.11 The Capital Investment Programme can be funded from a variety of sources. Explanations of the funding sources are set out in the following paragraphs.

2.12 <u>Government Grants & Other Contributions:</u> These are grants for specific purposes which may be available from the Government, e.g. Disabled Facility Grants. The Council can also attract partnership funding from other local authorities and agencies e.g. Local Enterprise Partnership (LEP). The Council has also benefited in the past from other funding such as lottery grants.

2.13 <u>Section 106 and Community Infrastructure Levy Contributions:</u> These are contributions from developers to the public services and amenities required for the development.

2.14 <u>Capital Receipts Reserve:</u> Capital receipts are derived when selling assets such as land. The main receipt relates to the arrangements made when the Council sold its housing stock to Thrive Homes Ltd in 2008; the Transfer Agreement included a Right to Buy (RTB) Sharing Agreement whereby the Council is entitled to a share of the post-transfer receipts from RTB sales and a 'VAT Shelter Agreement' whereby the Council benefits from the recovery of VAT on continuing works carried out by Thrive. The current MTFP forecasts that this reserve will be fully utilised to support the capital programme.

2.15 <u>Revenue Contributions:</u> Revenue balances from the General Fund may be used to support capital expenditure.

2.16 <u>New Homes Bonus Reserve:</u> New Homes Bonus is a grant relating to the number of new homes delivered in a local authority area. There are no government restrictions on whether this is capital or revenue, nor is there any ring-fence imposed.

2.17 Borrowing: The Council is allowed to borrow to support its capital expenditure as long as this is prudent, sustainable, and affordable. Where the Council decides to borrow to fund capital expenditure the annual cost of borrowing is included within the revenue budget.

2.18 The capital programme includes an assessment of likely available resources to finance capital expenditure and includes assumptions regarding capital receipts, which have been estimated at £1.100m in 2023/24 and £1.000m in future years.

2.19 **Appendix 3** shows the sources of capital funding proposed over the period 2023/24 to 2026/27, including the funding generated in each year and balances carried forward at the end of each year. The funding for the proposed capital programme is set out in the table below, ***for the purpose of the draft strategy 2026/27 includes only those schemes normally rolled forward and all years will be updated as part of the 2024/25 budget setting process***:

Funding	Actual 2022/23 £m	Forecast Year End 2023/24 £	Proposed Budget 2024/25 £	Proposed Budget 2024/25 £	Proposed Budget 2024/25 £m
Grants	0.633	5.157	0.586	0.586	0.586
Reserves	2.095	0.333	0.095	0.095	0.095
Capital Receipts	3.299	1.100	1.000	1.000	1.000
Section 106 and CIL	0.673	1.146	0.321	0.000	0.000
Borrowing	0.000	12.287	1.873	1.734	1.705
Total Funding Applied	**6.700**	**20.023**	**3.874**	**3.415**	**3.386**

2.24 **Appendix 4** shows details of all Section 106 contributions currently received and available to use.

Future Investment

2.25 Future Investment Schemes will be assessed on the basis of a full business case which will include full resourcing for the project and an assessment of affordability.

Priority areas for future capital investment are:

- Schemes that generate a financial surplus for the Council; and in particular those that increase the supply of housing locally (for example through the joint ventures with Watford Community Housing and Thrive).
- Schemes that generate revenue budget savings for the Council.
- Schemes that allow the Council to benefit from future economic regeneration potential within the local area; especially those that attract additional investment into the local area from regional or national agencies.
- Schemes that provide additional or improved services to the Council's residents, in line with the Council's Strategic Plan.

2.26 The Council will continue to seek opportunities to work in partnership with others to promote economic development and the provision of housing within Three Rivers wider economic area. Current partners include Countrywide Properties for the South Oxhey scheme, along with Watford Community Homes and Thrive Homes as the two major local registered social providers.

2.27 The Council has established Three Rivers Commercial Services to allow it to work more closely with providers and exploit future commercial opportunities. The Council currently has two joint ventures with Watford Community Housing, Three Rivers Development LLP and Three Rivers Homes Ltd.

3. Treasury Management

3.1 The Council is required to operate a balanced budget over the medium term which, after allowing for contributions to and from reserves, broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing the requisite liquidity before considering investment return.

3.2 The Treasury Management Strategy Statement (**Appendix 5**) details the policies, practices, objectives and approaches to risk management of its treasury management activities, which is to be monitiored by the Audit Committee. The Council's investment strategy's primary objectives are safeguarding the repayment of the principal and interest of its investments on time, and then ensuring adequate liquidity, with the investment return being the final objective. The strategy allows the Director of Finance, in consultation with the Lead Member, the delegated authority to approve any variation to the Treasury Management Strategy during the year with the objective of maximising the Council's returns without significantly increasing risk. This could include use of other investment instruments such as Government bonds or Gilts.

4. Prudential Indicators

4.1 All Local Authorities are required to set prudential indicators for the forthcoming year and following years before the beginning of the forthcoming year. The indicators must be set by full Council.

4.2 The prudential indicators fall into two main categories of ‘Prudence’ and ‘Affordability’. The indicators for Prudence are further separated between those relating to the Council’s capital expenditure plans and those relating to levels of external debt.

Prudence – Capital Expenditure

4.3 The Capital Financing Requirement (CFR) is 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 immediately been paid for, will increase the CFR. An increase in the CFR does not necessarily mean that the council will borrow externally to fund the increase. The Council manages its cash balances as a whole and may choose to use internal cash (generated by holding reserves and through timing differences between income and expenditure).

	2023/24 Forecast £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m
Total Proposed Capital Expenditure	**20.023**	**3.875**	**3.415**	**3.386**
Capital Financing:				
Grants	(5.157)	(0.586)	(0.586)	(0.586)
Reserves	(0.333)	(0.095)	(0.095)	(0.095)
Capital Receipts	(1.100)	(1.000)	(1.000)	(1.000)
Section 106 and CIL	(1.146)	(0.321)	(0.000)	(0.000)
Total Funding	**(7.736)**	**(2.002)**	**(1.681)**	**(1.681)**
Gap	12.287	1.873	1.734	1.705
MRP – pre-2023/24 borrowing	(0.188)	(0.188)	(0.188)	(0.188)
MRP – 2023/24 borrowing onwards		(0.113)	(0.188)	(0.256)
Opening CFR	25.484	36.583	38.155	39.513
Closing CFR	**36.583**	**38.155**	**39.513**	**40.774**

Note: the opening CFR is subject to restatement following audit; the borrowing figure of £12.287M in 2023/24 includes £9.458M of loans in respect of housing.

Prudence – External Debt

4.5 There are two limits on external debt: the 'Operational Boundary' and the 'Authorised Limit'. Both are consistent with existing plans and the proposals in the budget report for capital expenditure and financing, and with approved treasury management policy statement and practices.

4.6 These prudential indicators ensure that over the medium term, net borrowing (borrowings less investments) will only be for a capital purpose. Gross external borrowing should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2022/23 and next two financial years. This allows some flexibility for limited early borrowing for future years but ensures that borrowing is not undertaken for revenue purposes.

4.7 The Operational Boundary is the limit beyond which external borrowing is not normally expected to exceed. In most cases this would link directly to the authority's plans for capital expenditure, its estimates for CFR and its estimate of cashflow requirements for the year for all purposes. The Council may need to borrow, this limit represents a contingency should the need arise.

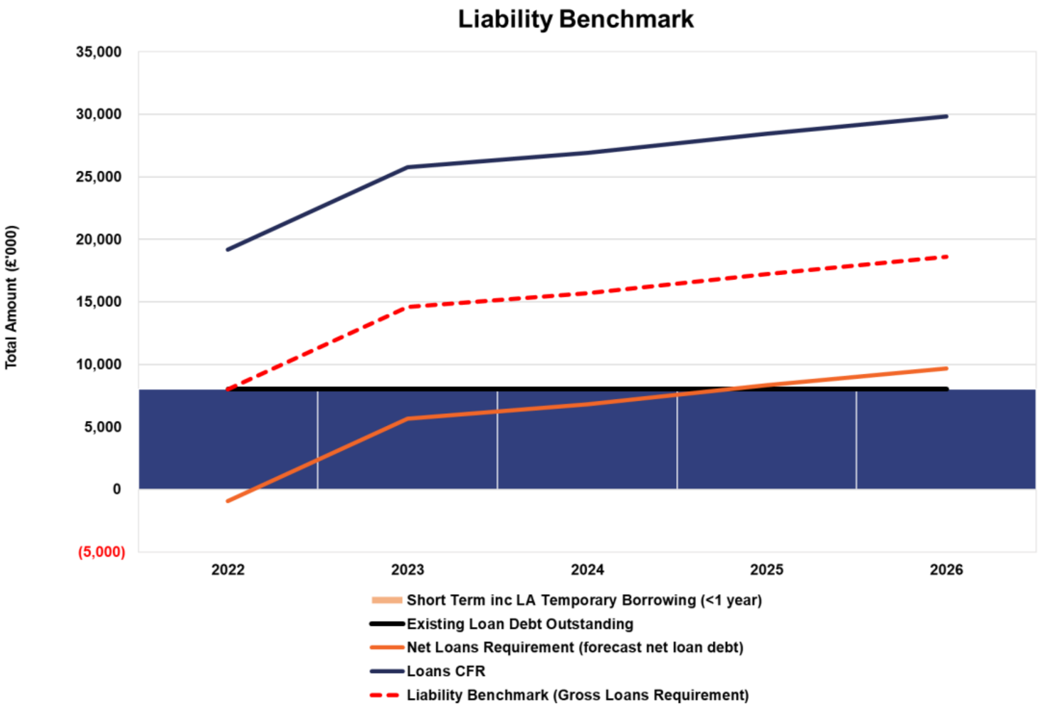
Operational Boundary	2023/24 £m	2024/25 £m	2025/26 Estimate £m	2026/27 Estimate £m
Borrowing	30.000	32.000	33.000	34.000

4.8 The Authorised Limit for External Borrowing controls the overall level of borrowing and represents the limit beyond which external long and short term borrowing is prohibited, and this limit needs to be set or revised by the Council. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under section 3 (2) of the Local Government Act 2003.

Authorised Limit	2023/24 £m	2024/25 £m	2025/26 Estimate £m	2026/27 Estimate £m
Borrowing	42.000	39.000	40.000	41.000

Treasury Management Indicator – The Liability Benchmark

4.9 The Treasury Management Code of Practice requires local authorities to calculate their Liability Benchmark. The benchmark includes a projection of external debt required over the long term to fund the organisation's approved budgets and plans compared to the Forecast of total borrowing outstanding. The benchmark should be used to evaluate the amount, timing and maturities needed for new borrowing in relation to the organisation's planned borrowing needs in order to avoid borrowing too much, too little, too long or too short.



Graph to be updated for final figures.

Affordability

4.10 The fundamental objective in the consideration of the affordability of the authority's capital plans is to ensure that the level of investment in capital assets proposed means that the total capital investment of the authority remains within sustainable limits.

4.11 In considering the affordability of its capital plans, the authority is required to consider its forecast financial position, including all of the resources currently available to it and estimated for the future, together with the totality of its capital, borrowing and investment plans, income and expenditure forecasts and risks.

4.12 The following indicators provide an indication of the impact of the capital investment plans on the Council's overall finances.

Financing costs to net revenue stream

4.13 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. The net revenue stream is the Council's core funding of Council Tax, Business rates, and un-ringfenced central government grants. Investment income includes interest from Treasury Management activities and interest from loans to joint ventures and subsidiaries.

	2022/23 Actual £m	2023/24 Forecast £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m
Net Cost of Capital	0.010	(0.206)	0.019	0.038	
Net Revenue Stream	13.735	14.191	13.822	13.804	
Ratio %	**0.01%**	**-1.5%**	**0. 1%**	**0.3%**	

Net income from commercial investment to net revenue stream

4.14 This indicator is intended to show the financial exposure of the authority to the loss of income.

4.15 Net income from commercial investments comprises net income from financial investments (other than treasury management investments), together with net income from other assets held primarily for financial return, such as commercial property.

	2022/23 Actual £m	2023/24 Forecast £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m
Commercial Investment Income	1.129	1.129	1.150	1.182	
Net Revenue Stream	13.735	14.191	13.822	13.804	
Ratio %	**8%**	**8%**	**8%**	**8%**	

5. The Minimum Revenue Provision (MRP) Strategy and Policy Statement

5.1 The Minimum Revenue Provision (MRP) is designed to pay off an element of the capital spend which has not already been financed from existing revenue or capital resources. The Council is required to make prudent provision, by way of a charge to the revenue account, which means that the repayment of debt is enabled over a period that is reasonably commensurate with that over which the capital expenditure provides benefits.

5.2 The Council is also able to increase the rate it reduces its CFR by undertaking additional voluntary payments (voluntary revenue provision - VRP) in addition to any MRP; this is not currently the Council's policy.

5.3 Government Regulations require the Council to approve a MRP Statement in advance of each year. The Council's MRP policy statement is at **Appendix 6**.

5.4 Three Rivers District Council's process is to produce for approval by the Director of Finance, in consultation with the Portfolio Holder, a business case for each scheme intended to be unfunded from other resources. This will clearly show the level of MRP which is proposed to ensure that the repayment of any debt can be made in a period commensurate with the period over which the expenditure provides benefits or makes returns.

5.5 Where the Council decides to borrow to fund capital expenditure the annual cost of borrowing is included within the revenue budget.

6. Skills and Knowledge and Professional Advice

6.1 The Council has a shared service with Watford Borough Council for the provision of the finance function allowing access to a greater range of professional skills than would otherwise be available if each council had a separate team. The council uses external advisers on all major projects.

6.2 The Council contracts with Link Asset Services for the provision of Treasury advice. Link Asset Services provide non-regulated advice on the management of the council's cash flows, investments and borrowings and a markets information service. The Councils VAT advisers are PSTax.

7. Risk

7.1 Financial risks are closely monitored as a separately identifiable part of the corporate risk management framework. The Council's risk appetite is evolving as it becomes involved in a wider range of major property lead investments both within its economic area linked to regeneration and more widely for income generation purposes.

7.2 The Council takes advice from its professional advisers to both identify and mitigate the key risks it faces and ensures that all decisions are made with an understanding of the risks involved.

7.3 Whilst recognising the importance of generating income to support services, the Council will ensure that its external income is actively managed to safeguard the future financial sustainability of the council. In this respect it will continue to seek to balance income from its commercial investment activities against its overall level of risk and the amount of reserves available to mitigate this risk.

7.4 In assessing the risk of its commercial investments the Council will consider the level of risk inherent in the income stream, the security held, its ability to realise assets or other security should the need arise and the level of income received from commercial investments compared to the total income of the council.

8. Options/Reasons for Recommendation

8.1 The recommendations allow the Committee to comment on the draft strategy before it is finalised to report to Policy and Resources Committee in January.

9. Policy/Budget Reference and Implications

9.1 The recommendations in this report contribute to the process whereby the Council will approve and adopt its strategic, service and financial plans under Article 4 of the Council's Constitution.

10. Equal Opportunities, Legal, Staffing, Environmental, Community Safety, Customer Services Centre and Communications, Health & Safety & Website Implications

10.1 None specific.

11. Financial Implications

11.1 As contained in the body of the report.

12. Risk Management Implications

12.1 There are no risks to the Council in agreeing the recommendation below.

13. Recommendation

13.1 That the report is noted.

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Report Checked by: Sally Riley – Finance Business Partner

Background Papers

- **None**

Appendices

1. Capital Investment Programme 2023/24 to 2026/27 - Expenditure
2. Capital Investment Programme 2023/24 to 2026/27 - Variances
3. Capital Investment Programme 2023/24 to 2026/27 - Funding
4. Section 106 Balances 2023/24
5. Treasury Management Strategy Statement
6. Minimum Revenue Provision (MRP) Strategy and Policy Statement

The recommendations contained in this report DO NOT constitute a KEY DECISION but contribute to the process whereby the Council will approve and adopt its Strategic, Service and Financial Plans under Article 4 of the Council's Constitution

APPENDIX 1

CAPITAL INVESTMENT PROGRAMME 2023/24 to 2026/27 – EXPENDITURE

To be completed as part of budget setting

APPENDIX 2

CAPITAL INVESTMENT PROGRAMME 2023/24 to 2026/27 VARIANCES

To be completed as part of budget setting

APPENDIX 3

CAPITAL INVESTMENT PROGRAMME 2023/24 to 2026/27 FUNDING

To be completed as part of budget setting

APPENDIX 4

SECTION 106 BALANCES 2023/24

To be completed as part of budget setting

Appendix 5

Three Rivers District Council

DRAFT DECEMBER 2022

THREE RIVERS
DISTRICT COUNCIL

1. Summary

1.1. This document sets out the Council's Treasury Management Strategy Statement (TMSS).

1.2. The Chartered Institute of Public Finance and Accountancy (CIPFA) defines treasury management as: "the management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks".

1.3. The TMSS supports the delivery of the Council's Capital Strategy and provides additional detail on how the Council manages its Treasury Management Activity.

1.4. The TMSS details the policies, practices, objectives and approaches to risk management of its treasury management activities, which is to be monitored by the Audit Committee. The primary objectives are of the Treasury Management Strategy Statement are:

- Security - Safeguard the repayment of the principal and interest of its investments on time
- Liquidity - Ensure adequate liquidity to meet obligations as they fall due
- Yield - Investment return is the final objective and is considered after security and liquidity requirement have been satisfied.

1.5. This statement is reviewed and approved annually by Council alongside the Council's budget, Medium Term Financial Plan (MTFP) and Capital Strategy.

1.6. The Director of Finance in consultation with the Lead Member for Resources and Shared Services has delegated authority to approve any variation to the Strategy Statement during the year with the objective of maximising the Council's returns without significantly increasing risk.

2. Risks

2.1. The key Treasury Management risks are set out in the CIPFA Treasury Management Code of Practice ("the TM Code"). The following paragraphs set out these risks and how they are managed:

Credit and Counterparty Risk - The risk of failure by a counterparty to meet its contractual obligations to the organisation under an investment, borrowing, derivative instrument, or capital, project or partnership financing, particularly as a result of the counterparty's diminished creditworthiness, and the resulting detrimental effect on the organisation's capital or current (revenue) resources.

This risk is managed through the maintenance of a list of authorised counterparties, with separate limits to ensure that the exposure to this risk is limited.

Liquidity Risk - The risk that cash will not be available when it is needed, that ineffective management of liquidity creates additional unbudgeted costs, compromising the organisation's business/service objectives.

This risk is managed through forecasting and the retention by the Council of an adequate working capital balance. In addition, through the Public Works Loan Board and other organisations, the Council is able to access short term borrowing, usually within 24 hours.

Interest Rate Risk - The risk that fluctuations in the levels of interest rates create an unexpected or unbudgeted burden on the organisation's finances against which the organisation has failed to adequately protect itself.

This risk is managed through the placing of different types and maturities of investments, within limits set for the amount of borrowing which may mature in a given time-period, the forecasting and monitoring of the interest budget (with assistance from the Council's retained advisors).

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

The Council does not engage in any significant non-sterling transactions.

Inflation – also called purchasing power risk, is the chance that the cash flows from treasury instruments (such as investments) won't be worth as much in the future because of changes in purchasing power due to inflation.

The Council priorities security and liquidity over yield but where possible investment returns will aim to match inflation to preserve the capital value.

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

The timing of loan maturities is monitored along with interest rate forecasts. Officers ensure that due dates are monitored and seek advice from the Council's advisors about when to raise any finance needed.

Legal and Regulatory Risk - The risk that the organisation itself, or an organisation with which it is dealing in its treasury management activities, fails to act in accordance with its legal powers or regulatory requirements and that the organisation suffers losses accordingly.

This risk is managed through the Council's training and development of Officers involved in Treasury Management, the independent oversight of Internal and External Audit, and the advice (for example on the contents of this strategy) taken from the Council's Treasury advisors.

Operational Risk, including Fraud, Error and Corruption - The risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events. This includes the risk of fraud, error, corruption or other eventualities in treasury management dealings.

This is managed through the controls in the Council's financial procedures. For example, the segregation of duties between those making investment decisions and those transferring funds.

Price / Market Risk - The risk that through adverse market fluctuations in the value of the principal sums an organisation borrows and invests, its stated treasury management policies and objectives are compromised, against which effects it has failed to adequately protect itself.

The majority of the Council's investments are not traded, but where they are (e.g. Property investment portfolio) the main investments' value comes from the income they generate which is generally long term and secure.

3. Treasury Indicators: Limits to Borrowing Activity

3.1. There are two limits on external debt: the 'Operational Boundary' and the 'Authorised Limit'. Both are consistent with existing plans and the proposals in the budget report for capital expenditure and financing, and with approved treasury management policy statement and practices. These indicators are set out in the Capital Strategy.

3.2. The key difference is that the Authorised Limit cannot be breached without prior approval of the Council. The Operational Boundary is a more realistic indicator of the likely position. The difference between the authorised limit and operational boundary for borrowing is that the authorised limit includes a head room for borrowing for future known capital needs now. The Authorised Limit represents the limit beyond which borrowing is prohibited, and needs to be revised if necessary by members.

4. Borrowing Strategy

4.1. The Council's treasury team maintains a cashflow forecast and works its liquidity requirements within this forecast; it may, on rare occasions, be necessary to borrow short-term for cashflow purposes. This will be in the form of short term debt or overdraft facilities and is normally for small amounts for minimum durations. As this is based on need and has a defined repayment period it is not normally included within the limits set above.

4.2. 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 within forward approved Capital Financing Requirement estimates and will be considered carefully to ensure that value for money can be demonstrated (ie: the cost of holding does not outweigh the benefits of early borrowing) and that the Council can ensure the security of such funds. Any associated risks will be approved and reported through the standard reporting method.

5. Investment Policy

5.1. The Council's investment policy has regard to the statutory Guidance on Local Government Investments and TM Code. The Council's investment priorities are security first, liquidity second, then yield.

5.2. Investment instruments identified for use in the financial year are listed below under the 'Specified' and 'Non-Specified' Investments categories. Counterparty limits will be as set through the Council's Treasury Management Practices Schedules and are detailed at Annex A.

5.3. As part of its diversification of investments, the Council has invested some of its core funds (ie: funds not immediately required for cashflow reasons) in longer–term investment property instruments. These are in the form of individual assets directly owned by the council. Although the Council has no current investments or plans to invest in pooled property funds, these are an option that could be considered in the future. All property investments are controlled through the Property Investment Board (PIB) and each investment is subject to its own business case and appraisal before a decision to invest is taken and before any Council funds are committed.

5.4. During 2020/21 the Council made a small Money Market Fund investment with Royal London Asset Management to diversify placement of some longer term cash. It is intended to continue to make use of this fund during 2024/25 while cash balances permit.

6. Creditworthiness policy

6.1. The Council will ensure:

- It maintains a policy covering both the categories of investment types it will invest in and the criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the Specified and Non-Specified investment sections below.

- It has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested.

6.2. The Director of Finance will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to Council for approval as necessary and will provide an overall pool of counterparties considered high quality.

6.3. Credit rating information is supplied by our treasury consultants on all active counterparties that comply with the Council's criteria. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. Any rating changes, rating watches (notification of a likely change), rating outlooks (notification of a possible longer term change) are provided to officers almost immediately after they occur and this information is considered before dealing.

7. Counterparty Categories

7.1. The Council uses the following criteria in choosing the categories of institutions in which to invest:

- **Banks 1 - Good Credit Quality**

  The Council will only use UK banks or foreign banks trading in the UK in sterling denomination and which meet the Rating criteria.

- **Banks 2 – The Council's Own Banker**

  For transactional purposes, if the bank falls below the above criteria, it will be included, although in this case balances will be minimised as far as possible in both monetary size and time within operational constraints.

- **Bank Subsidiary and Treasury Operations**

  The Council will use these where the parent bank has the necessary ratings outlined above and the parent has provided an indemnity guarantee.

- **Building Societies**

  The Council will use all Societies which meet the ratings for banks outlined above.

- **Specific Public Bodies**

  The Council may lend to Public Bodies other than Local Authorities. The criterion for lending to these bodies is that the loan has been approved by Council.

- **Money Market Funds AAA Rated**

  The Council may lend to Money Market Funds in order to spread its investment risk.

- **Local Authorities**

  A limit of £5m per authority will be applied.

- **Debt Management Deposit Account Facility**

  A Government body which accepts local authority deposits.

- **Council Subsidiaries (non-specified)**

  The Council will lend to its subsidiaries subject to approval of a business case by the Portfolio Holder, in consultation with the Director of Finance. Business cases must be accompanied by an independent assessment of viability, and be subjected to regular monitoring by the Director of Finance.

7.2. Further details of counterparty categories and limits are set out Annex A Schedule of Specified and Non-Specified Investments.

7.3. The Council will also consider investment in property in accordance with its Property Investment Strategy. All property investments will be dependent on a standalone business case being proven.

8. The Monitoring of Investment Counterparties

8.1 The credit rating of counterparties is monitored regularly. The main rating agencies (Fitch, Moody's and Standard & Poor's) provide credit ratings for financial institutions. The Council receives credit rating information (changes, rating watches and rating outlooks) from Capita Asset Services Treasury Solutions as and when ratings change, and counterparties are checked promptly. The Council considers minimum short term ratings as key criteria in the choice of creditworthy investment counterparties; F1+, P-1 and A-1+ are the highest short term credit ratings of Fitch, Moody's and Standard & Poor's respectively. Minimum Short Term Ratings, where given, must be met for all categories.

8.2 On occasion ratings may be downgraded when an investment has already been made. The criteria used are such that a minor downgrading should not affect the full receipt of the principal and interest. Any counterparty failing to meet the criteria will be removed from the list immediately by the Director of Finance, and if required new counterparties which meet the criteria will be added to the list.

8.3 For non-specified investments (e.g. e-f above) the progress of the entity against the approved, independently verified business case will be monitored by the Director of Finance.

9. Use of Additional Information Other Than Credit Ratings

9.1 Additional requirements under the Code of Practice require the Council to supplement credit rating information. Whilst the above criteria rely primarily on the application of credit ratings to provide a pool of appropriate counterparties for officers to use, additional operational market information will be applied before making any specific investment decision from the agreed pool of counterparties. This additional market information (for example Credit Default Swaps, negative rating watches/outlooks) will be applied to compare the relative security of differing investment counterparties.

10. Time and Monetary Limits Applying to Investments

10.1 The time and monetary limits for institutions on the Council's Counterparty List summarised in the table below, are driven by the above criteria. These limits will cover both Specified and Non-Specified Investments.

11. Exceptional Circumstances

11.1 The criteria for choosing counterparties set out above provide a sound approach to investment in "normal" market circumstances. Whilst Members are asked to approve this base criteria above, under the exceptional current market conditions Director of Finance may temporarily restrict further investment activity to those counterparties considered of higher credit quality than the minimum criteria set out for approval. These restrictions will remain in place until the banking system returns to "normal" conditions. Similarly, the time periods for investments will be restricted.

11.2 Examples of these restrictions would be the greater use of the Debt Management Deposit Account Facility (DMO) – a Government body which accepts local authority deposits, money Market Funds, and strongly rated institutions. The credit criteria have been amended to reflect these facilities.

12. Investment Strategy

12.1 In-House Funds - investments will be made with reference to the core balance and cashflow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months).

12.2 Investment Treasury Indicator and Limit - total principal funds invested for greater than one year. These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.

Treasury Indicator & Limit	2023/24	2024/25	2025/26	2026/27
Maximum Principal Sums invested for greater than one year (excluding property investment and loans to Council subsidiaries).	£10m	£10m	£10m	£10m

13. Investment Risk & Security Benchmarking

13.1 These benchmarks are simple guides to maximum risk and so may be breached from time to time, depending on movements in interest rates and counterparty criteria. The purpose of the benchmarks is that officers will monitor the current and trend position and amend the operational strategy to manage risk as conditions change. Any breach of the benchmarks will be reported, with supporting reasons in the Mid-Year or Annual Report. The benchmarks are as follows:

Security:

Security of the investments is measured by credit ratings, which is supplied by the three main credit rating agencies (Fitch, Moodys and Standard & Poors). Where investments are made to Council subsidiaries (non-listed), the security is measured through a business case with independent viability assessment.

Liquidity:

The Council set liquidity facilities/benchmarks to maintain:

- Authorised bank overdraft - nil.
- Liquid short term deposits of at least £0.5m available with a week’s notice.

The Council has the benefit of instant access to its funds on the general account with Lloyds.

Yield:

The Council benchmarks the yield on its operational cash against SONIA (the Sterling Overnight Index Average). This is a measure of market rates for actual returns on overnight cash deposits. Performance against this indicator will be reported in the reports produced at mid-year and year-end.

14. Policy on Environment, Social and Governance (ESG) considerations

14.1 This Council is supportive of the Principles for Responsible Investment (www.unpri.org) and will seek to bring ESG (environmental, social and governance) factors into the decision-making process for investments. Within this, the Council is also appreciative of the Statement on ESG in Credit Risk and Ratings which commits signatories to incorporating ESG into credit ratings and analysis in a systemic and transparent way. The Council uses ratings from Fitch, Moody’s and Standard & Poor’s to support its assessment of suitable counterparties. Each of these rating agencies is a signatory to the ESG in credit risk and ratings statement, which is as follows:

“We, the undersigned, recognise that environmental, social and governance (ESG) factors can affect borrowers’ cash flows and the likelihood that they will default on their debt obligations. ESG factors are therefore important elements in assessing the creditworthiness of borrowers. For corporates, concerns such as stranded assets linked to climate change, labour relations challenges or lack of transparency around accounting practices can cause unexpected losses, expenditure, inefficiencies, litigation, regulatory pressure and reputational impacts.

At a sovereign level, risks related to, inter alia, natural resource management, public health standards and corruption can all affect tax revenues, trade balance and foreign investment. The same is true for local governments and special purpose vehicles issuing project bonds. Such events can result in bond price volatility and increase the risk of defaults.

In order to more fully address major market and idiosyncratic risk in debt capital markets, underwriters, credit rating agencies and investors should consider the potential financial materiality of ESG factors in a strategic and systematic way. Transparency on which ESG factors are considered, how these are integrated, and the extent to which they are deemed material in credit assessments will enable better alignment of key stakeholders.

In doing this the stakeholders should recognise that credit ratings reflect exclusively an assessment of an issuer’s creditworthiness. Credit rating agencies must be allowed to maintain full independence in determining which criteria may be material to their ratings. While issuer ESG analysis may be considered an important part of a credit rating, the two assessments should not be confused or seen as interchangeable.

With this in mind, we share a common vision to enhance systematic and transparent consideration of ESG factors in the assessment of creditworthiness*."*

14.2 The assessment of creditworthiness undertaken by Fitch, Moody's and Standard & Poor's includes analysis of the following ESG factors when assigning ratings:

- ***Environmental:*** *Emissions and air quality, energy and waste management, waste and hazardous material, exposure to environmental impact.*

- ***Social:*** *Human rights, community relations, customer welfare, labour relations, employee wellbeing, exposure to social impacts.*

- ***Governance:*** *Management structure, governance structure, group structure, financial transparency.*

14.3 The Council will continue to evaluate additional ESG-related metrics and assessment processes that it could incorporate into its investment process and will update accordingly.

14.4 The Council does not invest directly in company bonds or equity. However, the Council is exposed to these investment instruments through the use of externally managed pooled investment funds.

14.5 This Council will not invest in pooled funds that invest in companies whose core activities pose a risk of serious harm to individuals or groups, or whose activities are inconsistent with the Council's mission and values e.g.:

a. Human rights abuse (e.g., slave or child labour, political oppression)
b. Activities that damage the environment by extraction of fossil fuels, destruction of habitat, or creation of pollutants
c. Socially harmful activities (e.g., tobacco, gambling)
d. Manufacture of weapons

15. Reporting Requirements

15.1 The Audit Committee has the responsibility for the scrutiny of Treasury Management policies and practices and receives the Treasury Management Policy for review prior to approval by Council.

15.2 An annual report on the performance of the Treasury Management function, including the effects of the decisions taken and the transactions executed in the past year, and on any circumstances of non-compliance with the organisation's treasury management policy is considered by Council following the end of the financial year

15.3 Council also receives a Mid-Year Treasury Management Report setting out activity to 30 September.

16. Policy on the Use of External Service Providers

16.1 Link Asset Services are the appointed external advisors. The Council recognises that responsibility for treasury management decisions remains with the Council at all times and will ensure that undue reliance is not placed upon our external service providers. It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

16.2 The Council will also, from time to time, procure specialist advice for ad-hoc pieces of work; this will be procured in accordance with the Council's normal procedure rules.

17. Member and Officer Training

17.1 In order to ensure that Members and Officers are sufficiently trained and qualified to monitor and manage the Council's Treasury Management activity, the following measures are in place:

- Ensuring that officers attend suitable courses and seminars to keep their technical knowledge up to date;
- Keeping up to date with CIPFA publications on Treasury Management;
- Regular briefings both by email and face to face with the Council's Treasury advisors;
- Reports and briefing sessions to Members on major changes to Treasury policies and strategies.

Annex A

Non Specified Investment Category	Limit (£ or %)
Any bank or building society that has a minimum long term credit rating of A (or equivalent), for deposits with a maturity of greater than one year (including forward deals in excess of one year from inception to repayment).	£5m
The Council's own banker if it fails to meet the basic credit criteria.	In this instance balances will be minimised as much as possible
Building Societies not meeting the basic security requirements under the specified investments. The operation of some building societies does not require a credit rating, although in every other respect the security of the society would match similarly sized societies with ratings. The Council may use such building societies which were originally considered Eligible Institutions and have a minimum asset size of £5,000m, but will restrict these types of investments to £2m for up to six months.	£2m
Specific Public Bodies The Council can seek Member approval to make loans to other public bodies for periods of more than one year.	£10m
Loans to Council Subsidiaries The Council will lend to its subsidiaries subject to approval of a business case by the Portfolio Holder, in consultation with the Director of Finance. Business cases must be accompanied by an independent assessment of viability, and be subjected to regular monitoring by the Director of Finance.	£10m limit for any single loan
Other unspecified investments The strategy allows the Portfolio Holder, in consultation with the Director of Finance, in consultation with the Lead Member, the delegated authority to approve any variation to the Treasury Management Strategy during the year which may be brought about by investigating the opportunity to invest for greater than one year and also to invest in other investment instruments i.e Government bonds, Gilts and investment property with a view of to maximising the Council's returns without significantly increasing risk. This allows the addition of further unspecified investments, subject to conditions which will be generally similar to (e).	£10m

	Minimum Short Term Ratings			Schedule 1 (A) – UK Banks & Building Societies			
Institution Type	**Fitch**	**Moody's**	**S&P**				
The Council's own Bankers	F1m	P-1	A-1	If Council's own bankers fall below the minimum long term criteria for UK banks, cash balances will be managed within operational liquidity constraints and balances will be minimised as much as possible.			
Wholly Owned Subsidiaries of UK Clearing Banks - Parent Ratings	F1	P-1	A-1	Long Term Credit Rating: AA(F), Aa2(M), AA(S&P)	Long Term Credit Rating: Single A (All agencies)	Long Term Credit Rating: Lower than A (All agencies)	Long Term Credit Rating: Lower than A
Partially Owned Subsidiaries of UK Clearing Banks - Parent Ratings	F1	P-1	A-1				
UK Building Societies (Credit Rated)	F1	P-1	A-1				
UK Building Societies (Unrated)				Assets over £15bn	Assets over £5bn	Assets of £2.5bn	Assets of £1bn
	Maximum Amount / Duration:			**£10m** **364 Days**	**£10m** **6 Months**	**£10m** **3 Months**	**£10m** **1 Month**

Schedule 1 (B) – Other Entities	
Specific Public Bodies	As approved by Members – up to £10m for up to 10 years
Debt Management Deposit Facility (UK Government)	Unlimited – this is the Council's Safe-Haven Deposit facility with the UK Government
Money Market Funds (AAA Rated)	£5m per fund
Municipal Bond Agency	As approved by Members
UK Local Authorities	A Maximum of £5m applies per Authority. The Council can invest in all UK Local Authorities whether rated or not. The Council will not lend to an authority which is subject to a s.114 notice without member approval.

Notes:-

1. F1+, P-1 and A-1+ are the highest short term credit ratings of Fitch, Moody's and Standard and Poor's respectively.
2. Minimum Short Term Ratings - Where given, these must be met, for all categories (except RBS Group).
3. Building Societies - A Building Society has to meet either the ratings criteria or the assets criterion to be included in the category, not both.
4. Maximum amount is the maximum, in total, over all investments, with any one institution (with the exception of RBS Group).

Appendix 6

Minimum Revenue Provision (MRP) Strategy and Policy Statement

The Minimum Revenue Provision (MRP) is designed to pay off an element of the capital spend which has not already been financed from existing revenue or capital resources. The Council is required to make prudent provision, by way of a charge to the revenue account, which means that the repayment of debt is enabled over a period that is reasonably commensurate with that over which the capital expenditure provides benefits.

The Council is also able to increase the rate it reduces its CFR by undertaking additional voluntary payments (voluntary revenue provision - VRP) in addition to any MRP; this is not currently the Council's policy.

Government Regulations require the Council to approve a MRP Statement in advance of each year. The following is the Council's MRP statement:

From 1 April 2008 for all unsupported borrowing (including PFI and finance leases) the MRP policy will be:

- **Asset life method** – MRP will be based on the estimated life of the assets, in accordance with the regulations (this option must be applied for any expenditure capitalised under a Capitalisation Direction) (option 3)

This option provides for a reduction in the borrowing need over the asset's estimated life.

No MRP provision is made in respect of investments or payments to the joint ventures as such investments are intended to be time-limited and allow for the repayment of debt. For finance leases the council will charge MRP to its General Fund each year dependant on the life of the underlying asset.