Gedling Borough Council

Report to Cabinet

Subject: Prudential and Treasury Indicators and Treasury Management Strategy Statement (TMSS) 2020/21

Date: 13 February 2020

Author: Deputy Chief Executive and Director of Finance

Wards Affected

All

Purpose

To present for Members' approval the Council's Prudential Code Indicators and Treasury Strategy for 2020/21, for referral to Full Council on 5 March 2020.

Key Decision

This **is** a key decision.

Recommendations:

Members are recommended to:

1. Approve the Prudential and Treasury Indicators and Treasury Management Strategy Statement 2020/21, which includes the key elements below, and refer it to Full Council on 5 March 2020 for approval as required by the Regulations:

   a. The Minimum Revenue Provision (MRP) Policy Statement (2.2);
   b. The Borrowing Strategy (2.3.4);
   c. The Annual Investment Strategy (2.3.8);
   d. Capital Affordability Prudential Indicators for 2020/21 to 2022/23 (Appendix 1);
   e. Treasury Indicators including affordability limits to borrowing for 2020/21 to 2022/23 (Appendix 1).

2. Note the indicative Prudential and Treasury Indicators for 2023/24 and 2024/25 (Appendix 1).

Background

1.1 Introduction

1.1.1 CIPFA defines Treasury Management as "the management of the local authority's borrowing, investments and cash flows, its banking, money-market and capital-market transactions; the effective control of the risks associated with those activities, and the pursuit of optimum performance consistent with those risks."

"Investments" in the definition above include all the Council's financial assets (treasury investments) which are defined as the placement of cash in relation to the S12 Local Government Act 2003 investment powers (ie. they represent the residual cash left in the Council's bank account as a result of its day to day activities). However, investments also include other "non-financial assets" (non-treasury investments) which are held primarily for financial returns, for example commercial investment property portfolios and loans to third parties. Whilst commercial initiatives and loans to third parties will have an impact on the Treasury Management function, these activities are generally classed as "non-treasury activities" (as they usually arise from capital expenditure), and are separate from day to day Treasury Management activities.

However, all investments require appropriate risk management under the Treasury Management Code, and the key principle of the control of risk and optimisation of returns should be applied across all investment activities, including those that are more commercially based.

1.1.2 The Council is required to operate a "balanced budget", which broadly means that cash raised during the year will meet cash expenditure. Part of the Treasury Management service is to ensure that cashflow is adequately planned, with cash available when it is needed. Surplus cash is invested in low-risk counterparties and instruments commensurate with the Council's low risk appetite, providing adequate liquidity before considering investment return.

A further Treasury Management function is the funding of the Council's capital plans. These plans provide a guide to the Council's borrowing needs, and require longer term cashflow planning to ensure that the Council can meet its spending obligations. The management of longer term cash may involve arranging long or short-term loans or the use of longer term cashflow surpluses. On occasion, debt previously drawn may be restructured to meet the Council's risk or cost objectives.

The contribution made by the Treasury Management function is critical as the balance of debt and investment operations ensure liquidity, ie. the ability to meet spending commitments as they fall due. Treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits impacting the overall budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested,

as a loss of principal will in effect result in a loss to the General Fund Balance.

1.2 Statutory reporting requirements

Current reporting requirements were introduced by the 2017 CIPFA Prudential Code and CIPFA Treasury Mangement Code, plus updated Ministry of Housing, Communities and Local Government (MHCLG) Investment Guidance and Minimum Revenue Provison (MRP) Guidance.

There is now an explicit requirement to prepare a Capital Strategy to provide a longer-term focus to capital planning, and to meet the greater reporting requirements for any commercial activity undertaken under the Localism Act 2011. The Council's Capital Strategy is being reported separately, but its pupose and content is summarised below for completeness.

1.2.1 Capital Strategy

The revised CIPFA 2017 Prudential and Treasury Management Codes require all local authorities to prepare a Capital Strategy report which will provide the following:

- A high level long-term overview of how capital expenditure, capital financing and Treasury Management activities contribute to the provision of services;
- An overview of how the associated risk is managed;
- The implications for future sustainability.

The aim of the Capital Strategy report is to ensure that all elected Members, ie. Full Council, fully understand the overall long-term policy objectives and resulting Capital Strategy requirements, governance procedures and risk appetite.

The Capital Strategy is reported separately from the TMSS. Non-treasury investments will be reported through the Capital Strategy to ensure the separation of the core treasury function under security, liquidity and yield principles, and the policy and commercialism investments usually driven by expenditure on an asset. The Capital Strategy will show:

- The corporate governance arrangements for these types of activities;
- Any service objectives relating to the investments;
- The expected income, costs and resulting contribution;
- The debt related to the activity and the associated interest costs;
- The payback period (MRP policy);
- For non-loan type investments, the cost against the current market value;
- The risks associated with each activity.

Where a physical asset is being bought, details of market research, any advisers used (and their monitoring), ongoing costs and investment requirements, together with any credit information, will be disclosed - including the ability to sell

the asset and realise the investment cash.

Borrowing purely for commercial purposes, ie. the generation of a return, is not permitted, however if a commercial investment is at least in part for an economic or social reason, borrowing is permitted. Where the Council plans to borrow to fund non-treasury investments, there should be an explanation in the Capital Strategy of why borrowing is required and whether the MHCLG Investment Guidance and CIPFA Prudential Code have been adhered to.

If any non-treasury investment sustains a loss during the final accounts and audit process, the strategy and revenue implications will be reported through the same procedure as the Capital Strategy.

To demonstrate the proportionality between treasury (financial) and non-treasury (non-financial) operations, high level comparisons are shown throughout this report.

1.2.2 Treasury Management Reporting

As a minimum, the Treasury Management Code requires that the Full Council receives and approves three main reports each year, which incorporate a variety of policies, estimates and actuals.

a) Prudential and Treasury Indicators and Treasury Management Strategy Statement (TMSS) - this report:

This 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;
- An investment strategy (the parameters on how investments are to be managed).

b) Mid-year Treasury Management Report:

This is primarily a progress report and updates Members on the capital position, amending prudential indicators as necessary, and whether the treasury strategy is appropriate or whether any policies require revision.

The Council has adopted a policy of presenting quarterly Treasury Management progress reports to Members, and this exceeds the minimum requirement.

c) Annual Treasury Report:

This is a backward looking review and provides details of a selection of actual

prudential and treasury indicators, and actual treasury operations compared to the estimates within the strategy.

1.2.3 Scrutiny

All Treasury Management reports must be adequately scrutinised before being recommended to Council, and this role is undertaken by Cabinet. The TMSS is part of the Council's Budget and Policy Framework and accordingly the Chair of the Overview and Scrutiny Committee must also be consulted. Any comments received will be taken into account before referral to Council.

1.3 Treasury management strategy for 2020/21

The treasury management strategy for 2020/21 covers two main areas:

Capital issues including:

- The Council's capital expenditure plans, and the prudential indicators;
- The minimum revenue provision (MRP) policy.

Treasury management issues including:

- The current treasury position;
- Treasury indicators which limit the treasury risk and activities of the Council;
- Prospects for interest rates;
- The borrowing strategy;
- The policy on borrowing in advance of need;
- Debt rescheduling;
- The investment strategy;
- The Creditworthiness policy;
- The policy on the use of external service providers.

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

1.4 Training

The CIPFA Code requires the responsible officer to ensure that Members with responsibility for Treasury Management receive adequate training. This especially applies to Members responsible for the scrutiny of Treasury Management, ie. Cabinet, and the Chief Financial Officer will arrange training for Members as required. The Council's Treasury Management advisers, Link Asset Services (LAS), will provide more detailed training sessions for Members as appropriate.

The training needs of officers involved with Treasury Management are reviewed periodically.

1.5 Treasury Management consultants

The Council uses LAS as its Treasury Management advisers.

The Council recognises that responsibility for treasury management decisions remains with the organisation at all times, and will ensure that undue reliance is not placed upon the external service providers. All decisions will be undertaken with regard to all the available information, including but not solely that from the treasury advisers.

The Council 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 appointment and the methods by which value will be assessed are properly agreed and documented, and subjected to regular review.

The scope of the Council's investments includes both conventional treasury investments (the placing of residual cash from Council functions), and more commercial type investments, such as the purchase of investment properties. Commercial investment requires additional specialist advice and the Council will obtain this whenever it is necessary.

Proposal

2.1 The Capital Affordability and Prudential Indicators 2020/21 to 2022/23

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

The output of the Council's capital expenditure plans is reflected in prudential indicators, which are designed to assist Members to overview and confirm such plans. The indicators for the three years 2020/21 to 2022/23 are attached at Appendix 1 and these must be referred to Full Council for approval in accordance with the regulations.

Indicative indicators for 2023/24 and 2024/25 are also included in Appendix 1, to reflect the 5-year period of the Medium Term Financial Plan. The purpose of this is to ensure that longer term forecasts for capital expenditure and borrowing are fully considered, and that they can be demonstrated to be prudent and affordable. The inclusion of these indicators aligns with the Capital Programme and Capital Investment Strategy elsewhere on this agenda.

2.1.1 <u>Capital expenditure</u>

The indicator includes a summary of the proposed capital expenditure plans

for 2020/21 to 2022/23, including both those agreed previously and those forming part of this budget cycle.

The Capital Programme includes both “service-related” expenditure and “non-financial” commercial property investment, the management of which is not part of the Treasury Management function. The approved estimate for commercial property investment is £5m, of which it is currently expected that £0.9m will be spent in 2019/20, and the remaining £4.1m in 2020/21.

Capital Expenditure:	**2020/21 Estimate £000s**	**2021/22 Estimate £000s**	**2022/23 Estimate £000s**
Service Investment	7,125.6	2,851.0	2,019.0
Commercial Investment (Property)	4,100.0	0.0	0.0
Total Capital Expenditure	**11,225.6**	**2,851.0**	**2,019.0**

The table below analyses the capital expenditure plans by portfolio. Commercial investment property is included in Resources and Reputation.

Portfolio Capital Expenditure:	**2020/21 Estimate £000s**	**2021/22 Estimate £000s**	**2022/23 Estimate £000s**
Housing, Health & Wellbeing	212.3	0.0	0.0
Public Protection	1,000.0	1,000.0	1,000.0
Environment	1,500.7	1,198.0	466.0
Growth & Regeneration	3,303.6	0.0	0.0
Resources & Reputation	5,209.0	483.0	383.0
Equipment Replacement	0.0	70.0	70.0
Development Bids	0.0	100.0	100.0
Total Capital Expenditure	**11,225.6**	**2,851.0**	**2,019.0**

The table below summarises the above capital expenditure plans and how these are being financed by capital or revenue resources. Any shortfall of resources results in a net borrowing need.

Financing of Capital Expenditure:	**2020/21 Estimate £000s**	**2021/22 Estimate £000s**	**2022/23 Estimate £000s**
Capital Expenditure (above):	**11,225.6**	**2,851.0**	**2,019.0**
Financed by:			
Capital receipts	611.0	610.9	610.1
Capital grants & contributions, Section 106 and CIL	2,834.5	1,000.0	1,000.0
Direct Revenue Financing	1,321.2	0.0	0.0
Net Borrowing Need	**6,458.9**	**1,240.1**	**408.9**

Commercial investment will be fully financed by borrowing, and the borrowing need shown above is split between service related investment and commercial investment as follows:

Borrowing for:	**2020/21 Estimate £000s**	**2021/22 Estimate £000s**	**2022/23 Estimate £000s**
Service Investment	2,358.9	1,240.1	408.9
Commercial Investment (Property)	4,100.0	0.0	0.0
Total Borrowing Need	**6,458.9**	**1,240.1**	**408.9**

2.1.2 The Council's borrowing need – the Capital Financing Requirement (CFR)

The CFR represents 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 in the tables above, which has not immediately been paid for by way of capital receipts, grants or contributions, will increase the Council's CFR.

The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the borrowing need in line with each asset's life, and so charges the economic consumption of capital assets as they are used.

The CFR can include any other long term liabilities, for example finance leases and PFI schemes. Whilst these would increase the CFR, and therefore the borrowing requirement, such schemes would include their own borrowing facilities and the Council would not be required to separately borrow for them. The Council has no such schemes within its CFR.

Capital Financing Requirement (CFR)	**2020/21 Estimate £000s**	**% of total**	**2021/22 Estimate £000s**	**% of total**	**2022/23 Estimate £000s**	**% of total**
Closing CFR:						
Service activity	12,368.8	71	12,910.5	72	12,536.7	72
Commercial activity	4,985.1	29	4,902.2	28	4,817.7	28
Total	**17,353.9**	**100**	**17,812.7**	**100**	**17,354.4**	**100**
Movement in CFR within the year	**5,848.4**		**458.8**		**(458.3)**	
Represented by:						
Net financing need - Service activity	2,358.9		1,240.1		408.9	
MRP-Service activity	(595.6)		(698.4)		(782.6)	
Net financing need - Commercial activity	4,100.0		0.0		0.0	
MRP-Commercial activity	(14.9)		(82.9)		(84.6)	
Movement in CFR within the year	**5,848.4**		**458.8**		**(458.3)**	

With the introduction of commercial activity to the Council's capital programme, and its associated borrowing requirement, the predominantly private-sector based concept of "gearing" provides an opportunity to compare the total underlying borrowing need to the Council's total fixed assets. The gearing ratio can provide an early indication where debt levels are rising relative to the long term assets held.

The Council's treasury advisers, Link Asset Services, have analysed the balance sheets of over 200 authorities and established that average gearing is around 35% for councils similar in size to Gedling. The table below demonstrates that, on the basis of current assumptions, Gedling sits broadly close to this average.

Gearing:	**2020/21 Estimate £000s**	**2021/22 Estimate £000s**	**2022/23 Estimate £000s**
Estimated Long Term Assets: (Property, Plant, Equipment and Commercial Investment Property	46,725	48,576	49,595
Closing CFR	17,353.9	17,812.7	17,354.4
Gearing Ratio	**37%**	**37%**	**35%**

A key aspect of the regulatory and professional guidance is that Members are made fully aware of the size and scope of any commercial activity in relation to the Council's overall position.

The capital expenditure figures shown at 2.1.1, together with the analysis of the borrowing need and the gearing ratio shown at 2.1.2, demonstrate the scope of this commercial activity. The Chief Financial Officer considers that this activity is proportionate for Gedling in terms of the Council's overall capital investment and borrowing need.

2.1.3 Other Capital Affordability Prudential Indicators

Sections 2.1.1 and 2.1.2 above cover the Prudential Indicators for overall "capital" and "control of borrowing", but within the Prudential framework additional indicators are required to further assess the affordability of the Council's capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances and are detailed below. A summary of the indicators can be found at Appendix 1.

- **Ratio of financing costs to net revenue stream** - 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.

Financing costs represent the element of the Council's budget to which it is

committed even before providing any services, because they reflect the current costs of previous and planned capital financing decisions. Furthermore, if the net revenue stream falls as funding sources decline and cuts are made to expenditure, financing costs may be fixed, increasing the ratio of financing costs to the net revenue stream. If for example the ratio of financing costs to the net revenue stream is 8%, that leaves 92% with which to provide all the Council's other services. If the percentage rises to 10%, only 90 % is available for services.

Estimates of financing costs include current commitments and the proposals included in the Gedling Plan report elsewhere on this agenda. Costs in 2020/21 include £1.321m of direct revenue financing, which increases the ratio significantly when compared to future years.

Financing costs and the net revenue stream:	**2020/21 Estimate £000s**	**2021/22 Estimate £000s**	**2022/23 Estimate £000s**
Net revenue stream	11,602.7	11,229.0	10,990.2
Financing costs (net) – Services	2,158.9	934.5	1,007.7
Ratio to net revenue stream	**18.61%**	**8.32%**	**9.17%**
Financing costs (net) – Commercial Property	83.6	222.1	241.8
Ratio to net revenue stream	**0.72%**	**1.98%**	**2.20%**
Total ratio of financing costs to the net revenue stream	**19.33%**	**10.30%**	**11.37%**

- **Ratio of commercial income to net revenue stream** - another useful measure of the proportionality of commercial activity is the ratio of commercial income to the Council's net revenue stream. This demonstrates the extent to which the loss of commercial income would impact on the Council. This does not take into account any potential loss on capital value, which may not be recoverable if an asset is sold for a lower price. MRP will have been set aside to repay debt, therefore mitigating the risk of losses.

Commercial property income and the net revenue stream:	**2020/21 Estimate £000s**	**2021/22 Estimate £000s**	**2022/23 Estimate £000s**
Net revenue stream	11,602.7	11,229.0	10,990.2
Commercial Property investment income	164.0	329.4	349.4
Ratio of commercial property income to the net revenue stream	**1.41%**	**2.93%**	**3.18%**

- **Maximum Gross Debt** - The Council must ensure that its gross debt does not, except in the short term, exceed the total of the opening capital financing requirement, plus estimates of any additional CFR for the year in question and the following two financial years. This allows flexibility for early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.

Please see 2.3.1 below.

The 2020/21 Capital Programme and Capital Investment Strategy report provides full details of the proposed capital programme, including non-treasury investments, ie. Commercial property investment. All the capital prudential indicators can be found at Appendix 1, and represent capital investment plans that have been fully factored into the Council's Medium Term Financial Plan, and are assessed as affordable, prudent and sustainable, subject to securing the commitment to delivering an efficiency programme in the medium term, as proposed in the Gedling Plan report.

Maximum Gross Debt:	**2020/21 Estimate £000s**	**2021/22 Estimate £000s**	**2022/23 Estimate £000s**
Opening CFR (ie. closing CFR in preceding year)	11,505.5	17,353.9	17,812.7
Additions (only) in-year + following 2 years	6,307.2	548.2	89.4
Maximum Gross Debt	**17,812.7**	**17,902.1**	**17,902.1**
Estimated total GBC debt outstanding at 31 March	12,811.6	13,811.6	13,811.6
Under/(over) borrowing	**5,001.1**	**4,090.5**	**4,090.5**

Within the estimated total debt figures above, the debt relating to commercial activities and non-financial investment is £4m at 31 March 2021 (31.2%) and £5m at 31 March 2022 and 31 March 2023 (36.2%).

2.2 Minimum Revenue Provision (MRP) Policy Statement

The Council is required to pay off an element of the accumulated General Fund capital spending (CFR) each year by way of a minimum revenue provision (MRP). It is also allowed to make an additional voluntary revenue provision if it so wishes (VRP).

MHCLG regulations require the full Council to approve an MRP Statement in advance of each year. A variety of options is provided to councils, but there must be "prudent provision". The guidance does not define "prudent", instead making recommendations on the interpretation of the term. It is the responsibility of each authority to decide upon the most appropriate method of making a prudent MRP, having had regard to the guidance and its own circumstances, the broad aim being to ensure that borrowing is repaid over a period that reflects the useful lives of the assets acquired. The guidance seeks to ensure that local authorities make borrowing and investment decisions in a way that is commensurate with their statutory responsibilities, and their best value duty. The Council is obliged to have regard to the MHCLG guidance, but it is not prescriptive.

The Council is recommended to approve the following Statement for 2020/21:

MRP Statement 2020/21

a. The Council will assess MRP in accordance with the recommendations within the guidance issued under section 21(1A) of the Local Government Act 2003.

b. The CFR method will be used for calculating MRP in respect of all capital expenditure incurred up to and including 31 March 2008. This is the simplest approach available, being calculated as a straightforward 4% of the relevant element of the CFR at the end of the previous year. In the current economic climate the Chief Financial Officer considers that use of the CFR Method is prudent.

c. The Asset Life Method will be used for calculating MRP in respect of all capital expenditure incurred on and after 1 April 2008. From 1 April 2019 an annuity approach has been adopted in making this calculation, allowing for a slightly lower MRP charge in the early years than under the previously used equal instalment approach. This is considered prudent because it better reflects the time value of money, whereby £100 paid ten years hence represents less of a burden than paying £100 today.

d. The Chief Financial Officer will determine estimated asset lives. Where expenditure of different types is involved, it will be grouped together in a manner which best reflects the nature of the main component of expenditure. It will only be divided up in cases where there are two or more major components, with significantly different asset lives.

e. MHCLG guidance provides that any charge made over and above the statutory MRP, ie. a voluntary revenue provision (VRP) or “overpayment”, can be reclaimed in later years if deemed necessary or prudent, providing the cumulative overpayment made to date is disclosed in this policy statement. In view of the economic climate and significant budgetary pressures, the Council will not provide for an additional voluntary contribution to MRP in 2020/21, and neither has it done so in previous years.

f. Based on the above policy, the net MRP charge for 2020/21 has been calculated as £610,500 as detailed below, and this sum has been included in the Council’s 2020/21 budget proposals. The exact amount of MRP will be subject to change should capital financing decisions alter during the year.

Minimum Revenue Provision (MRP)	**2020/21 £s**
CFR Method - up to 31 March 2008	212,200
Asset Life Method (annuity approach) - from 1 April 2008	398,300
Total MRP	**610,500**

2.3 Treasury Strategy 2020/21 - Borrowing and Investment

The capital expenditure plans set out above provide details of the Council's service activity, and its commercial investment. 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 activity. This will involve both the organisation of the cash flow and, where necessary, the organisation of approporiate borrowing facilities. The Treasury Strategy covers the relevant treasury indicators, the current and projected debt positions and the annual investment strategy.

2.3.1 Projected portfolio position

The Council's forward projection on its treasury portfolio position is summarised below. This shows the projected external debt, ie. the treasury management operations, against the underlying total capital borrowing need, ie. the Capital Financing Requirement (CFR), highlighting any expected over or under borrowing.

Projected Gross Debt compared to CFR	**2020/21 Estimate £000s**	**2021/22 Estimate £000s**	**2022/23 Estimate £000s**
Estimated Debt 1 April	9,811.6	12,811.6	13,811.0
Estimated change in debt	3,000.0	1,000.0	0.0
Other long term liabilities	0.0	0.0	0.0
Estimated Gross Debt 31 March	**12,811.6**	**13,811.6**	**13,811.6**
Estimated Closing CFR	17,353.9	17,812.7	17,354.4
Under/Internal / (Over) borrowing	**4,542.3**	**4,001.1**	**3,542.8**
Internal borrowing as % of estimated closing CFR	**26%**	**22%**	**20%**

Under-borrowing represents the extent of the Council's "internal borrowing" position, ie. the use of reserves and balances that are being used as a short-term alternative to taking external debt. This represents the Council's exposure to interest rate movements (whilst internal balances are used, PWLB rates may rise) and the element of borrowing that is being undertaken at variable rates (ie. rates equivalent to lost investment income).

Balance sheet reviews undertaken by Link Asset Services have established that the average level of internal borrowing is around 20%, however authorities with a relatively low CFR (like Gedling) may be able to successfully run a higher internal borrowing position. The table above shows Gedling's ratio is estimated to be 26% in 2020/21, but that in a climate where interest rates are likely to rise, albeit slowly, action is already being taken to reduce the Council's level to nearer the average, to lessen risk.

Within the prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well-defined limits. As detailed at 2.1.3 above, to comply with the "gross debt" indicator, the Council must ensure that its gross debt does not, except in the short term, exceed the total of the closing CFR in the preceding year plus the estimates of any additional CFR for 2020/21 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 for speculative purposes.

The Chief Financial Officer can report that the Council has complied with this prudential indicator during the current year, 2019/20, and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in the budget report.

2.3.2 Treasury indicators – affordability limits to borrowing (Appendix 1)

a. The Operational Boundary for external debt

This is the limit which external debt is not "normally" expected to exceed. In most cases, this would be a similar figure to the CFR, but it may be lower or higher depending on the levels of actual debt.

b. The Authorised Limit for external debt

This is a key prudential indicator and represents a control on the "maximum" level of borrowing. It is the statutory limit determined under s3 (1) of the Local Government Act 2003 and represents the limit beyond which external debt is prohibited. The Authorised Limit must be set, and revised if necessary, by Full Council. It reflects a level of external debt which, while not desirable, could be afforded in the short term, but is not sustainable in the longer term. 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.

2.3.3 Prospects for Interest Rates

The Council has appointed Link Asset Services (LAS) as its treasury adviser and part of their service is to assist the Council to formulate a view on interest rates. The following table and commentary gives the LAS central view as at 31 January 2020 and further information on interest rates can be found at Appendix 2.

Link Asset Services Interest Rate View														
	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Bank Rate View	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.25	1.25	1.25	1.25
3 Month LIBID	0.70	0.70	0.70	0.80	0.90	1.00	1.00	1.00	1.10	1.20	1.30	1.30	1.30	1.30
6 Month LIBID	0.80	0.80	0.80	0.90	1.00	1.10	1.10	1.20	1.30	1.40	1.50	1.50	1.50	1.50
12 Month LIBID	1.00	1.00	1.00	1.10	1.20	1.30	1.30	1.40	1.50	1.60	1.70	1.70	1.70	1.70
5yr PWLB Rate	2.30	2.40	2.40	2.50	2.50	2.60	2.70	2.80	2.90	2.90	3.00	3.10	3.20	3.20
10yr PWLB Rate	2.60	2.70	2.70	2.70	2.80	2.90	3.00	3.10	3.20	3.20	3.30	3.30	3.40	3.50
25yr PWLB Rate	3.20	3.30	3.40	3.40	3.50	3.60	3.70	3.70	3.80	3.90	4.00	4.00	4.10	4.10
50yr PWLB Rate	3.10	3.20	3.30	3.30	3.40	3.50	3.60	3.60	3.70	3.80	3.90	3.90	4.00	4.00

The above LAS forecasts are based on the assumption that a Brexit deal is agreed, including the terms of trade between the UK and the European Union (EU). The result of the general election has provided some clarity, however it has not removed uncertainty as to whether a trade deal can be reached with the EU by 31 December 2020, as the Prime Minister has pledged.

The Monetary Policy Committee (MPC) left Bank Rate unchanged at 0.75% during 2019 due to the ongoing uncertainty over Brexit and the outcome of the general election. At its meeting in November the MPC became more dovish due to increased concerns over the outlook for the domestic economy, and for weak global economic growth. Should these uncertainties materialise the MPC would be likely to cut rates, however should they dissipate then rates would need to rise at a "gradual pace and to a limited extent." Brexit uncertainty has had a dampening effect on UK growth, and there is still some residual risk that the MPC could cut Bank Rate as the UK economy is likely to grow only weakly in 2020 due to continuing uncertainty over whether there could effectively be a no-deal Brexit in December 2020 if agreement on a trade deal is not reached.

All central banks are now working in economic conditions that are very different to those which existed before the 2008 financial crash, and the neutral rate of interest in an economy (ie. one that is neither expansionary nor deflationary) is difficult to determine definitively in the new environment. Although central banks have stated that they expect the neutral rate to be much lower than before 2008, there is a risk that they may over-increase or over-decrease that rate. Ultra low rates and quantitative easing have encouraged a debt fuelled boom that makes it more difficult for the MPC to raise rates.

The overall long run trend for gilt yields and consequently PWLB rates is to rise gently, however they can be subject to exceptional levels of volatility due to geo-political, sovereign debt crisis, emerging market developments and sharp changes in investor sentiment. Such volatility could occur at any time during the forecast period. In addition, PWLB rates are subject to ad-hoc decisions by HM Treasury to change the margin over gilt yields charged – as

evidenced by the sudden addition of 1% to all PWLB rates on 9 October 2019. It is not clear whether if gilt yields were to rise by more than 1% over the next year or so whether HM Treasury would remove this addition.

Economic and interest rate forecasting remains difficult with so many influences weighing on the UK. The LAS forecasts, and MPC decisions, will be liable to amendment depending on how economic data and financial markets develop over the next year. Geopolitical developments, especially in the EU, 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. In broad terms:

- Investment returns are likely to remain low during 2020/21 with little increase in the next two years. However, if major progress was made with an agreed Brexit there is some upside potential for earnings.

- Borrowing rates were on a major falling trend during the first half of 2019/20 but then unexpectedly increased on 9 October when HM Treasury imposed an additional 1% on PWLB rates across the board. The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years, however the unexpected rise of 1% in PWLB rates requires a rethink of treasury management strategy and risk management.

- The Council is unlikely to be able to avoid some new borrowing to finance its commercial investment programme in 2020/21 and there will remain a cost of carry, (the difference between higher borrowing costs and lower investment returns), to any new long-term borrowing that causes a temporary increase in cash balances as this position will almost certainly incur a revenue cost.

2.3.4 Borrowing Strategy 2020/21

The Council is currently maintaining an under-borrowed position (see 2.3.1 above). This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt, as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This represents "internal borrowing". This strategy is prudent since investment returns remain low, and counterparty risk is still an issue that needs to be considered.

However, against this background and the risks within the economic forecast outlined above, and the potential cost of carry (see 2.3.5 below), caution will be adopted with the 2020/21 treasury operations. The Chief Financial Officer will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- If it was 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 a relapse into recession, or a risk of deflation), then long term borrowing will be postponed,

and potential rescheduling from fixed rate funding into short term borrowing will be considered.

- If it was 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 an acceleration in the rate of increase in central rates in the UK and US, an increase in world economic activity or a sudden rise in inflation risk, then the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates are still lower than they are projected to be in the next few years.

Any new borrowing will be discussed with LAS, and any decisions will be reported to Cabinet at the next available opportunity.

2.3.5 Policy on borrowing in advance of need

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

In determining whether borrowing will be undertaken in advance of need, the Council will ensure that there is a clear link between the capital programme and the maturity profile of the existing debt portfolio which supports the need to take funding in advance of need. It will ensure that the on-going revenue liabilities created, and the implications for future plans and budgets have been considered, and evaluate the economic and market factors that might influence the manner and timing of any decision to borrow. The advantages and disadvantages of alternative forms of funding will be considered, together with the most appropriate periods over which to fund.

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

2.3.6 Debt rescheduling

Reasons for rescheduling to be considered include:

- The generation of cash savings and / or discounted cash flow savings
- Helping to fulfil the Treasury Strategy;
- Enhancement of the portfolio balance (amend the maturity profile and/or the balance of volatility).

When the current day PWLB rate for the same term is higher than that being paid on an existing loan there is the potential for a discount to be available if the loan is repaid prematurely. Rescheduling of borrowing in the Council's

debt portfolio is unlikely to be considered in 2020/21, as the 1% increase in PWLB rates applied only to new borrowing rates, and not to premature debt repayment rates.

Any rescheduling will be reported to Cabinet at the earliest meeting following action.

2.3.7 New financial institutions as a source of borrowing

Following the unexpected 1% across the board increase in PWLB rates on 9 October 2019, consideration will be given to alternative sources of funding, including:

- Local authorities (primarily shorter dated maturities);
- Financial institutions (primarily insurance companies and pension funds but also some banks);
- The Municipal Bond Agency is a public limited company currently owned by 56 local authority shareholders and the Local Government Association. It aims to provide Councils with access to market based borrowing via the issue of bonds, at rates lower than the PWLB. There have been no bond issues to date, however an issue to Lancashire County Council is planned subject to their usual governance processes.

The extent to which these funding options may prove cheaper than PWLB is still evolving. The Council may make use of these sources of borrowing if appropriate, but only following advice from its advisers, LAS.

2.3.8 Annual Investment Strategy 2020/21

a. Investment Policy – management of risk

The MHCLG and CIPFA have extended the meaning of “investments” to include both financial (placement of surplus cash) and non-financial (primarily for financial return) investments. The TMSS report deals solely with financial investments managed by the Treasury Management team. Non-financial investments, especially the purchase of income-yielding assets such as commercial property, are managed by the Property Services team and are covered in the Capital Strategy elsewhere on this agenda.

The Council’s investment policy has regard to:

- MHCLG’s Guidance on Local Government Investments (“the guidance”);
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes (“the CIPFA TM Code”);
- CIPFA Treasury Management Guidance Notes 2018.

The Council's investment priorities will be security first, portfolio liquidity second, and <u>then</u> yield (return).

The MHCLG and CIPFA guidance place a high priority on the management of risk. The Council has adopted a prudent approach to managing risk and defines its risk appetite by the following means:

i. Minimum acceptable credit criteria are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus the avoidance of "concentration risk". The Council utilises the LAS Creditworthiness Methodology, whereby banks' ratings are monitored on a real time basis with knowledge of any changes notified electronically as the agencies notify modifications. The Council has clearly stipulated its creditworthiness policy at 2.3.8 (b) below.

ii. Ratings will not be the sole determinant of the quality of an institution, as it is important to continually assess and monitor the financial sector 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, and the Council will engage with its treasury advisers to maintain a monitor on market pricing.

iii. Other information sources will include the financial press, share prices 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.

iv. The Council has defined the types of financial investment instruments that are authorised for use and these are classified as either "Specified Investments" or "Non-Specified Investments" (see Appendix 3):

- **Specified Investments** are those with a high level of credit quality, subject to a maximum maturity limit of one year (365 days), and not defined as capital expenditure. Only minimal reference is given to specified investments in the Annual Investment Strategy, and they will generally be used for cash-flow management.

- **Non-Specified Investments** are all those <u>not</u> meeting the criteria for specified investments above, ie. those with a lower credit quality, for periods in excess of one year (365 days), or more complex instruments, eg. property funds, which require greater consideration by Members and officers before being authorised for use. Once an investment is classified as non-specified it remains non-specified through to maturity, ie. an 18 month deposit would still be a non-specified investment even when it had only 11 months left until maturity. If used, non-specified investments will tend to be used for the longer-term investment of core-balances. Appendix 3 also sets out:

- The advantages and associated risk of investments under the non-specified

category;
- The upper limit to be invested in each non-specified category;
- Those instruments best used only after consultation with the Council's treasury advisers.

v. Investment counterparty limits for 2020/21 will generally be **£3m** per individual counterparty, however a higher limit of **£4m** per Money Market Fund is considered prudent since such funds are already by definition highly diversified investment vehicles. No limit is placed on deposits with the Debt Management Office (DMO), since these represent lending to the UK Government. The CFO has delegated authority to amend investment limits as he sees fit, and will report any such amendments to Cabinet for information as part of the next quarterly Treasury Management Report following the change.

   With regard to the Council's own banker, HSBC, for transactional purposes if the bank was to fall below the standard creditworthiness criteria below, cash balances would be minimised both in monetary size and in duration of deposit.

vi. The Council will set a limit on the amount of its investments which are invested for longer than one year (365 days).

vii. Investments will only be placed with approved counterparties from the UK, or those from other countries with a minimum sovereign rating (see Appendix 4).

viii. The Council has engaged external consultants (see para 1.5) to provide expert advice on how to optimise the appropriate balance of security, liquidity and yield – given the risk appetite of the Council in the context of the expected level of cash balances and the need for liquidity throughout the year.

ix. All investments will be denominated in sterling.

x. As a result of a change in accounting standards in 2019/20 under IFRS9, whereby movements in the value of investments are charged immediately to the revenue accounts, the Council will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested, and resultant charges to the General Fund at the end of the year.

   In November 2018, MHCLG concluded its consultation on a temporary override to allow English authorities time to adjust their portfolio of pooled investments by announcing a statutory override to delay the implementation of IFRS9 for 5 years commencing 1 April 2018, and currently due to end on 31 March 2023. The Council has an investment of £1m in the CCLA property fund which is subject to the statutory override. If the override is not extended, from 1 April 2023 <u>all</u> movements in the capital value of this investment, both

positive and negative, will have to be charged to the General Fund, creating volatility which is a risk that will have to be carefully managed.

The alternative is to decide not to use pooled investments and withdraw the investment before 31 March 2023. This carries a risk of failing to recover the original value of £1m – depending on market performance and the fund's liquidity at the time the withdrawal request is made.

The initial value of the Council's £1m investment in the CCLA Property Fund in December 2017 was £936.7k. The latest value, at 31 December 2019, is £957.2k.

An earmarked reserve has been set aside to mitigate the risk to the General Fund.

xi. The Council will pursue value for money in Treasury Management and will monitor the yield from investment income against appropriate benchmarks for investment performance. Regular monitoring of investment performance will be carried out during the year.

b. Creditworthiness policy

To reiterate, the primary principles governing the Council's creditworthiness criteria are:

i. Security of capital – the categories of investment instruments to be used (specified and non-specified) are set out at Appendix 3;
ii. Liquidity of capital – regular cashflow monitoring determines the optimum period for which funds may be prudently committed at any particular time, and the creditworthiness methodology below determines the maximum time for which funds may be prudently committed with individual counterparties;
iii. Return on investment (yield).

Counterparty selection:

The Chief Financial Officer maintains a "counterparty list" and this is monitored constantly. The CFO has delegated authority to amend the minimum criteria as he sees fit, and will report any such amendments to Cabinet for information as part of the next quarterly Treasury Management Report following the change.

The Council applies the creditworthiness methodology provided by LAS for the selection of investment counterparties. This employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies (Fitch, Moody's and Standard & Poor's). The credit ratings of counterparties are supplemented with overlays for:

- Credit watches and credit outlooks from rating agencies;

- Credit default swap (CDS) spreads which give early warnings of likely changes in credit ratings;
- Sovereign ratings to select counterparties from only the most creditworthy countries.

The LAS 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 output is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the suggested maximum duration of investments with a given counterparty. The colour bandings used by LAS and the Council are as follows:

- Yellow 5 years (UK government debt or its equivalent)
- Dark pink 5 years for Ultra Short Dated Bond Funds (credit score 1.25)
- Light pink 5 years for Ultra Short Dated Bond Funds (credit score 1.50)
- Purple 2 years
- Blue 1 year (nationalised or semi nationalised UK banks only)
- Orange 1 year
- Red 6 months
- Green 100 days
- No colour not to be used

The LAS creditworthiness service uses a wider array of information than just "primary" ratings. Furthermore, by using a risk weighted scoring system it does not place undue reliance on one agency's rating. All credit ratings are monitored weekly and the Council is also alerted to interim changes via its use of the LAS creditworthiness online service. If a downgrade deems counterparties no longer acceptable, their use for new investments will be withdrawn immediately.

Ratings under the LAS methodology will not necessarily be the sole determinant for the use of a counterparty. Other information sources used will include market data, 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.

Ringfencing:

Ringfencing is a regulatory initiative created in response to the global financial crisis. It mandates the separation of retail deposits from investment banking in order to improve resilience. In general, ringfenced banks will focus on lower risk day to day core transactions, whilst more complex and riskier activities will be the domain of an entirely separate non-ringfenced bank. Whilst the structure of banks included in this process may have changed, the fundamentals of credit assessment have not. The Council will continue to assess the newly formed entities under the LAS creditworthiness

methodology.

<u>Property Funds</u>:

Property Funds are not credit-rated, due to their diverse portfolios and structures. There are inherent risks associated with Property Fund investment in that the capital value is not guaranteed, and past dividend performance is not a guarantee of future returns. Investments should therefore be made with a time horizon of at least five years, to accommodate potential reductions in property values in the short to medium term. Evidence from recent years suggests that over time, property has been a positive long-term investment, however the market is undeniably cyclical, and investing for less than five years, may pose a significant risk.

The timing of property fund investments represents some degree of risk both in terms of the dividend and the capital sum. The key unknown is the future performance relative to the risk. If investment is done at or near the bottom of a cycle, significant benefits might accrue from subsequent upturn, with rising dividends and increasing capital value. Conversely, should the cycle turn downwards for a significant proportion of the investment period, dividends might be lower than would be acceptable given the additional risks taken, and the capital sum returned might be **less** than that originally invested – see 2.3.8(a) (x).

Property is not a liquid asset and it can take time to realise an investment. Whilst Property Funds must hold a proportion of their assets as cash, in practice there may be a delay whilst assets are sold to realise the cash with which to make a redemption payment. Investment in Property Funds should be from core cash that is not likely to be required for at least five years, and even then not on demand.

Evidence to support the use of only core cash was clearly demonstrated on 4 December 2019 by the suspension of the M&G property fund, whereby investors were temporarily prevented from withdrawing their money from one of the UK’s largest commercial property funds, worth some £2.5bn. The same fund was suspended for four months in 2016 following the EU referendum when money flooded out of property funds.

<u>Country limits:</u>

The Council will use approved **UK** counterparties subject to their individual credit ratings under the LAS methodology (see above). The Council **may** also use approved counterparties from countries with a minimum sovereign credit rating of **AA**. No more than £3m will be placed with **each** non-UK country at any time. The list of countries that currently qualify is shown at Appendix 4, however this list will be adjusted by officers in accordance with this policy should ratings change. The CFO has delegated authority to amend the minimum sovereign credit rating as he sees fit, and will report any such

amendment to Cabinet for information as part of the next quarterly Treasury Management Report following the change.

The ultimate decision on what is prudent and manageable for the Council will be taken by the Chief Financial Officer under the approved scheme of delegation.

c. Investment Strategy

The Council's in-house managed funds are mainly cash-flow derived however, there has for some time been a core balance available for investment over a longer period if appropriate.

If it is thought that Bank Rate is likely to rise significantly within the relevant time horizon, consideration will be given to keeping most investments short term or variable. Conversely, if it is thought that Bank Rate is likely to fall, consideration will be given to locking in to the higher rates currently obtainable for longer periods.

On the assumption that the EU and UK agree a Brexit deal including the terms of trade by the end of 2020 or soon after, Bank Rate is forecast to rise only slowly over the next few years to reach 1.25% by Q1 of 2023. At 31 January 2020, Bank Rate forecasts for financial year ends (31 March) are:

- 2019/20 0.75% (current year)
- 2020/21 0.75%
- 2021/22 1.00%
- 2022/23 1.25%

LAS have suggested the following budgeted investment earnings rates for investments up to 100 days for the next three years:

- 2019/20 0.75% (current year)
- 2020/21 0.75%
- 2021/22 1.00%
- 2022/23 1.25%

Investments will be made with careful reference to any remaining core balance, to cash-flow requirements, and to the outlook for short-term interest rates (ie. for investments up to 365 days).

For its cashflow generated balances, the Council will seek to utilise its money market funds, notice accounts and short dated deposits in order to benefit from the compounding of interest.

The overall balance of risk to economic growth in the UK is currently judged by LAS to be to the downside due to uncertainty over Brexit, and to a softening global economic picture. The balance of risk to increases in Bank

Rate and shorter term PWLB rates are broadly similar, to the downside.

An Investment treasury indicator and limit must be set for the total principal funds invested for periods in excess of one year (365 days) in the forthcoming and two subsequent years (ie. new non-specified investments). The limit for each year is set with regard to the Council's liquidity requirements. As at 23 January 2020 the Council's **total** non-specified investment is £2,000,000 - represented by the £1,000,000 investment in the CCLA property fund, and a £1m investment with Bank of Scotland with an initial term of 366 days.

The treasury indicator and limit for new non-specified investments to be made in each of 2020/21, 2021/22 and 2022/23 is £3m, as detailed at Appendix 1 (treasury indicators) however this is subject to an overall limit of £5m for the total non-specified investments held by the Council at any one time (see Appendix 3). An overall individual counterparty limit of £3m also applies, including both specified and non-specified investments.

In accordance with the revised Treasury Management Code, a statement in the TMSS stating how interest rate exposure is managed and monitored is required, and this is set out below:

The Council has a general preference for fixed rate borrowing in order to minimise uncertainty and ensure stability in the charge to revenue, however it is acknowledged that in certain circumstances, some variable rate borrowing may be prudent, for example if interest rates are expected to fall. The Council's investments are generally for cashflow purposes and accordingly a mix of fixed and variable rates will be used to maximise flexibility and liquidity. Interest rate exposure will be managed and monitored on a daily basis by the Chief Financial Officer.

d. Investment risk benchmarking

The Council will use the average 7-day and 3-month LIBID rates to benchmark its equated investment rate.

LIBID is the interest rate at which London banks are willing to borrow from each other in the inter-bank market. It is the average of rates which five major London banks are willing to bid for a £10 million deposit for a given period. The rate at which the London banks are BORROWING from each other in turn affects the rate at which they will borrow from other parties, eg. local authorities like Gedling, which are LENDING money.

e. Investments defined as capital expenditure

The acquisition of share capital or loan capital in a body corporate is defined as capital expenditure under regulation 25(1)(d) of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003. Such investments will have to be funded out of capital or revenue resources, and

will be classified as non-specified investments.

A loan or grant or financial assistance by this Council to another body for capital expenditure by that body will be treated as capital expenditure.

Investments in Money Market Funds, which are collective investment schemes, and bonds issued by "multilateral development banks", both defined in SI 2004 No 534, will <u>not</u> be treated as capital expenditure.

f. <u>Provision for credit-related loss</u>

If any of the Council's investments appear to be at risk of loss due to default, this is a "credit-related loss" and not a loss resulting from a fall in price due to movements in interest rates. In such an instance, the Council will make revenue provision of an appropriate amount.

g. <u>End of Year Investment Report</u>

At the end of the year, the Council will report on its investment activity as part of its Annual Treasury Report.

h. <u>Policy on the use of external service providers</u>

The Council uses LAS as its external Treasury Management advisers, however it recognises that responsibility for Treasury Management decisions remains with the Council at all times, and will ensure that undue reliance is not placed upon the external service providers.

The Council 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.

2.3.9 <u>Gedling Borough Council scheme of delegation</u>

Full Council is responsible for:

- Receiving and reviewing reports on Treasury Management policies, practices and activities;
- Approval of the annual Strategy (TMSS);
- Annual budget approval.

Cabinet is responsible for:

- Approval of, and amendments to, the Council's adopted clauses, Treasury Management Policy Statement and Treasury Management Practices;
- Budget consideration and virement approval;

- Approval of the division of responsibilities;
- Receiving and reviewing regular Treasury Management monitoring reports, and acting on recommendations;

Audit Committee is responsible for:

- Reviewing the Treasury Management policy and procedures, and making recommendations to the responsible body through the Internal Audit process.

2.3.10 The role of the Section 151 Officer (Chief Financial Officer)

The role of the S151 (responsible) officer includes the following:

- Recommending clauses, Treasury Management Policy and Practices for approval, reviewing these 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;
- Approving the selection of external service providers and agreeing terms of appointment.

Implicit in the December 2017 changes to the Prudential and Treasury Management Codes was a major extension of the function of the S151 role, especially in respect of non-financial investments (which CIPFA has defined as being part of treasury management). The S151 officer role is also now responsible for:

- Preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments and treasury management over a significant time-frame;
- Ensuring that the capital strategy is prudent, sustainable and affordable in the long term, and provides value for money;
- 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;
- Ensuring that the authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing;
- Ensuring the proportionality of all investments so that the authority does not undertake a level of investment which exposes it to an excessive level of risk compared to its financial resources;
- 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;

- Provision to Members of a schedule of all non-financial investments including material investments in subsidiaries, joint ventures, loans and financial guarantees;
- Ensuring that Members are adequately informed and understand the risk exposure taken on by the authority;
- Ensuring that the authority has adequate expertise, either in-house or externally provided, to carry out any non-financial investments;
- The creation of Treasury Management Practices which specifically deal with how non-financial investments will be carried out and managed.

Alternative Options

There are no alternative options, this report being a statutory requirement.

Financial Implications

No specific financial implications are attributable to this report.

Appendices

1. Prudential and Treasury Indicators 2020/21 to 2022/23 for approval, and Indicative Indicators for 2023/24 and 2024/25;
2. Interest rate forecasts;
3. Specified and non-specified investments;
4. Approved countries for investment.

Background Papers

None identified.

Reasons for Recommendations

To comply with the requirements of the Local Government Act 2003, the CIPFA Prudential Code, MHCLG MRP guidance, the CIPFA Treasury Management Code and MHCLG investment guidance.

For more information, please contact:

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