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Financial Resilience Sub-Committee

Title	**Agenda**		
Date	**Monday 16 January 2023**		
Time	**10.30 am**		
Venue	**Facilitated by Microsoft Teams**		
Full Members		**Chair** Ian Houlder	
	Conservative Group (2)	Ian Houlder	Robert Nobbs
	The Independent Group (1)	Victor Lukaniuk	
Substitutes	**Conservative Group (1)**	Nick Clarke	
By invitation	Sarah Broughton	**Portfolio Holder for Resources and Property**	

Note: This sub-committee is not governed by the normal Access to Information rules (The Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012) in the Council. Therefore, these meetings are not open to attendance by the public.

Interests – declaration and restriction on participation	Members are reminded of their responsibility to declare any disclosable pecuniary interest not entered in the Authority's register or local non-pecuniary interest which they have in any item of business on the agenda (subject to the exception for sensitive information) and to leave the meeting prior to discussion and voting on an item in which they have a disclosable pecuniary interest.
Quorum	Three Members
Committee administrator	**Christine Brain** Democratic Services Officer (Scrutiny) **Telephone** 01638 719729 **Email** democratic.services@westsuffolk.gov.uk

Pages

Agenda

Note: Whilst these agenda papers are not covered by the normal Access to Information Rules (see agenda front), where items are listed as containing exempt/confidential information, members of the Sub-Committee are requested to treat them as such.

Financial Resilience Sub-Committee

Minutes of a meeting of the **Financial Resilience Sub-Committee** held on **Monday 7 November 2022** at **10.30 am** facilitated by Microsoft Teams

Present **Councillors**

Chair Ian Houlder

Victor Lukaniuk Robert Nobbs

In attendance
Sarah Broughton, Cabinet Member for Resources and Property

62. **Substitutes**

No substitutions were declared.

63. **Apologies for absence**

No apologies for absence were received.

64. **Minutes**

The minutes of the meeting held on 11 July 2022 were confirmed as a correct record by the Chair.

65. **Declarations of interest**

Members' declarations of interest are recorded under the item to which the declaration relates.

66. **Treasury Management Report - September 2022**

The Sub-Committee received report number FRS/WS/22/005, which provided a comprehensive assessment on investment activities for West Suffolk Council from 1 April 2022 to 30 September 2022.

The Council held investments of £78,000,000 as at 30 September 2022. Interest achieved in the first half of the financial year totalled £317,734 against a budget for the period of £22,500.

External borrowing as at 30 September 2022 was £13,875,000, a reduction of £125,000 from 1 April 2022 (this relates to the repayment plan for the recent PWLB £10m 40-year loan), with the Council's level of internal borrowing increasing slightly to £41,699,661 as at 30 September 2022. The overall borrowing (weighted towards internal) was expected to increase over the full financial year.

Borrowing costs (interest payable and MRP) for the year were forecast to be £1,069,488 against an approved budget of £2,268,350 although this could change if more external borrowing was undertaken than was currently forecast.

The 2022 to 2023 Annual Treasury Management and Investment Strategy Statements sets out the Council's projections for the current financial year. The budget for investment income for 2022 to 2023 was £45,000 which was based on a 0.25 percent target average rate of return on investments, set prior to the current economic situation.

The report also included a summary of borrowing activity during the period; borrowing strategy and sources of borrowing; borrowing and capital costs – affordability; borrowing and income – proportionality; borrowing and asset yields and market information.

The Service Manager (Finance and Procurement) informed the Sub-Committee that the Council had received a letter relating to the Thurrock loan, which explained that all inter-authority loans would be paid back with interest. Therefore, the Council would be receiving its loan back in early December 2022.

The Sub-Committee scrutinised the report in detail and asked questions to which responses were provided. In particular discussions were held on the current interest rate rises; the solar farm yield for 2021 to 2022 and the Barclays £4m loan.

In response to a question raised on what happened to the additional interest received on cash balances, officers advised that this was used towards funding council services in year or placed in the council's interest equalisation reserve to assist further years fluctuations in interest receivable.

In response to a question raised regarding the £10m loan, officers advised that the £10m load would meet the Council's overall financing capital requirement. The list of projects which it could be used for were set out on pages 12 – 13 of the report.

In response to a question raised regarding the interest rate rises and whether the interest achieved would close the budget gap, rather than cutting services, officers explained that the Performance and Audit Scrutiny Committee on 17 November 2022 would receive a detailed report on the current position on closing the budget gap for 2023 to 2024.

It was then proposed by Councillor Robert Nobbs, seconded by Councillor Victor Lukaniuk, and with the vote being unanimous, it was:

RECOMMENDED:

That subject to the approval of Cabinet and Council, the Treasury Management Report (September 2022), being report number FRS/WS/22/005, be approved.

67. **Dates of future meetings**

The Sub-Committee noted the dates for future meetings, as listed below. All dates were Mondays starting at 10.30am, as indicated:

- 16 January 2023 (Venue: MS Teams).

The meeting concluded at 11.20am

Signed by:

Chair

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Treasury Management Report - December 2022

Report number:	**FRS/WS/23/001**	
Report to and date(s):	**Financial Resilience Sub Committee**	16 January 2023
	Performance and Audit Scrutiny Committee	26 January 2023
	Cabinet	7 February 2023
	Council	21 February 2023
Cabinet member:	Councillor Sarah Broughton Cabinet Member for Resources and Property **Tel:** 07929 305787 **Email**: sarah.broughton@westsuffolk.gov.uk	
Lead officer:	Gregory Stevenson Service Manager – Finance and Performance **Tel:** 01284 757264 **Email:** gregory.stevenson@westsuffolk.gov.uk	

Decisions Plan: **This item is included in the Cabinet Decisions Plan.**

Wards impacted: **All**

Recommendation: **It is recommended that, the Financial Resilience Sub Committee:**

1. **Notes the Treasury Management Report – December 2022; and**
2. **Makes recommendations as appropriate via the Performance and Audit Scrutiny Committee to Cabinet and Council.**

1. Treasury Management Report – December 2022

1.1 The report is part of the Councils' management and governance arrangements for Treasury Management activities under the CIPFA Code of Practice on Treasury Management. It provides a comprehensive assessment of activities from 1 April 2022 to 31 December 2022.

2. Executive Summary

2.1 The Council held investments of £71,500,000 as at 31 December 2022. Interest achieved in the first nine months of the financial year amounted to £639,193.67 against a budget for the period of £33,750.

2.2 External borrowing as at 31 December 2022 was £13,750,000, a reduction of £250,000 from 1 April 2022 (relates to the repayment plan for the recent PWLB £10 million 40 year loan), with the Council's level of internal borrowing increasing slightly to £42,309,057 as at 31 December 2022. Overall borrowing (weighted towards internal) is expected to increase over the full financial year.

2.3 Borrowing costs (Interest Payable and MRP) for the year are forecast to be £1,069,488 against an approved budget of £2,268,350, although this could change if more external borrowing is undertaken than is currently forecast.

3. Interest Earned from Treasury Investments during the period

3.1 The 2022 to 2023 Annual Treasury Management and Investment Strategy Statements (report COU/WS/22/002 approved 22 February 2022) sets out the Council's projections for the current financial year. The budget for investment income of 2022 to 2023 is £45,000 which is based on a 0.25 percent target average rate of return on investments (set prior to the current economic situation).

3.2 At the end of December 2022 interest actually earned during the first nine months of the financial year amounted to £639,193.67 (average rate of return of 1.212 percent) against a profiled budget for the period of £33,750 (average rate of return 0.25 percent); a budgetary surplus of £605,443.67. The surplus is due to two main reasons, the council were holding considerable amounts of grant money pending distribution, so cash balances were higher than predicted and with the continuing volatility in the investment market, interest rates continue to change (overall increasing) almost daily.

3.3 The table below summaries the interest earned and the average rate of return achieved at 31 December 2022.

Interest Earned and Average Rate of Return Summary			
Investment Category	**Total Average Investment**	**Average Rate of Return (%)**	**Interest Earned in period**
Temporary Investments (Term Deposits)	nil		nil
Santander 365 Day Account	8,000,000	1.535%	92,517.26
Santander 95 Day Account	500,000	1.001%	3,770.68
Lloyds Treasury Account	7,555,000	0.081%	4,166.03
Barclays Deposit Account*	6,000,000	0.010%	300.82
CCLA MMF	4,000,000	1.044%	31,457.58
Local Authorities	5,000,000	0.220%	10,969.86
HM Debt Management Office	4,234,662	1.482%	496,011.44
Total Overall Average Return on Investments %			**1.212%**
Total Interest Earned - 1 April 2022 to 31 Dec 2022			**639,193.67**

* An annual interest bonus is paid at the end of the financial year if no withdrawals take place.

3.4 The table below summaries the investment activity during the period

Treasury Management – Investment Activity Summary	
	2022 to 2023 (£)
Opening Balance 01 April 2022	**65,500,000**
Investments made during the year (including transfers to business reserve accounts)	180,750,000
Sub Total	**246,250,000**
Less Investments realised during the year (including withdrawals from business reserve accounts)	174,750,000
Closing Balance 31 December 2022	**71,500,000**

Please note: The Councils cash balances are currently greater than forecast as a result of holding advanced business grant and support grant payments.

3.5 The table below lists the investments held as at 31 December 2022

Investments held as at 31 December 2022				
Counterparty	**Principal Amount (£)**	**Interest Rate**	**Date Loaned**	**Date Returned**
Lloyds 95 Day Account	Nil			
Santander 365 Day	8,000,000	2.21%	01/04/22	365-day Notice
Santander 95 Day	500,000	1.13%	01/04/22	95-day Notice
Lloyds Treasury Account	9,500,000	0.08%	01/04/22	On call availability
Barclays Deposit Account	6,000,000	0.01%	01/04/22	On call availability
CCLA Money Market Fund	4,000,000	Variable	01/04/22	On call availability
HM Debt Man. Office	2,500,000	1.800%	12/07/22	10/01/23
HM Debt Man. Office	5,000,000	1.960%	19/07/22	17/01/23
HM Debt Man. Office	5,000,000	1.935%	01/08/22	30/01/23
HM Debt Man. Office	3,000,000	2.110%	12/08/22	10/02/23
HM Debt Man. Office	4,000,000	2.535%	01/09/22	28/02/23
HM Debt Man. Office	4,000,000	3.080%	01/11/22	28/04/23
HM Debt Man. Office	6,000,000	2.970%	01/11/22	15/03/23
HM Debt Man. Office	3,000,000	2.990%	01/11/22	23/03/23
HM Debt Man. Office	3,000,000	3.160%	15/11/22	15/05/23
HM Debt Man. Office	6,000,000	3.010%	01/12/22	16/01/23
HM Debt Man. Office	2,000,000	3.570%	19/12/22	19/06/23
There were no other fixed term investments				
Total	**71,500,00**			

Please note: The interest rates above are the rates as at 31 December 2022. The current market volatility could cause the actual rates going forward to fluctuate.

3.6 The Council has an earmarked revenue reserve to mitigate against possible adverse fluctuations in the returns received from the council’s investments and external borrowing costs, called the Capital Projects Financing Reserve. The balance in this reserve as at 31 December 2022 was £4,902,184.

4. Borrowing activity during the period

4.1 As with the 2021 to 2022 financial year, the Council continues to hold significant cash balances, see 3.4 above. A large amount of the funds currently being held are on behalf of others e.g., £14 million relates to HM Government for repayment of S31 grants, as well as council tax receipts held on behalf of Suffolk County Council and Suffolk Police and Crime Commissioner.

4.2 On 31 December 2022, West Suffolk had £13.75 million of external borrowing, which is £250,000 less than it held on 1 April 2022, this reduction relates to the repayment plan for the PWLB £10 million 40-year loan taken out in December 2021. With interest rates having increased and cash balances remaining healthy, it is unlikely that any further external borrowing will need to be undertaken in the 2022 to 2023 financial year, although this is kept under constant review and may change if circumstances and advice changes. The use of internal funds is beneficial whilst we still have available cash, as we would be paying interest at a much higher rate (around 4.80 percent at the date of publishing this report) than we would get back from investing the extra surplus cash (current average return on our treasury investments of 1.212 percent). This means we would have a significant cost of carrying external loans that are not currently required from a cash management perspective.

4.3 The table below is a summary of the external borrowings and temporary loans as at 31 December 2022.

External Borrowings and Temporary Loans					
Lender	**Balance – 1 April 2022 (£)**	**Movement (£)**	**Balance - 31 Dec 2022 (£)**	**Interest Rate**	**Maturity date**
Barclays Bank	4,000,000	0	4,000,000	4.24%	31 March 2078
PWLB	10,000,000	(250,000)	9,750,000	1.84%	1 December 2061

4.4 Although the council has not undertaken any further external borrowing in the period, its underlying need to borrow (Capital Financing Requirement – CFR, the amount the Council has invested in its communities) is forecast to increase which will lead to an increase in the level of borrowing (either external or internal) the council will have.

4.5 The table below details the forecast for the councils Capital Financing Requirement (underlying need to borrow) over the next 3 years.

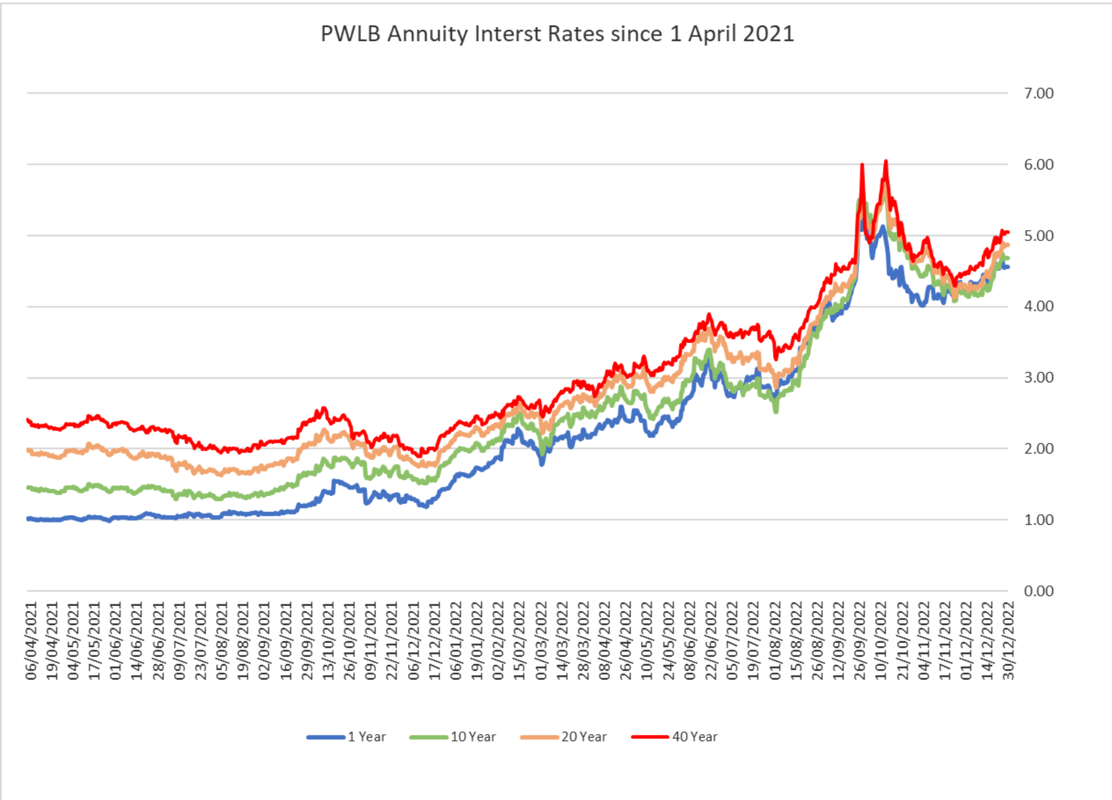
	31 March 2022 Actual £ millions	**31 March 2023 Approved Budget £ millions**	**31 March 2023 Forecast £ millions**	**31 March 2024 Forecast £ millions**	**31 March 2025 Forecast £ millions**
CFR	**55.49**	**81.07**	**59.14**	**93.42**	**142.50**

5. Borrowing Strategy and Sources of Borrowing

5.1 As detailed in the 2022 to 2023 Treasury Management Strategy Statement, the current borrowing strategy is still to make short-term use of internal funds (internal borrowing). This is being continually monitored by the Council, along with Arlingclose (treasury advisors), to determine whether this is still the most optimal strategy or whether to look at borrowing additional sums at long-term fixed rates.

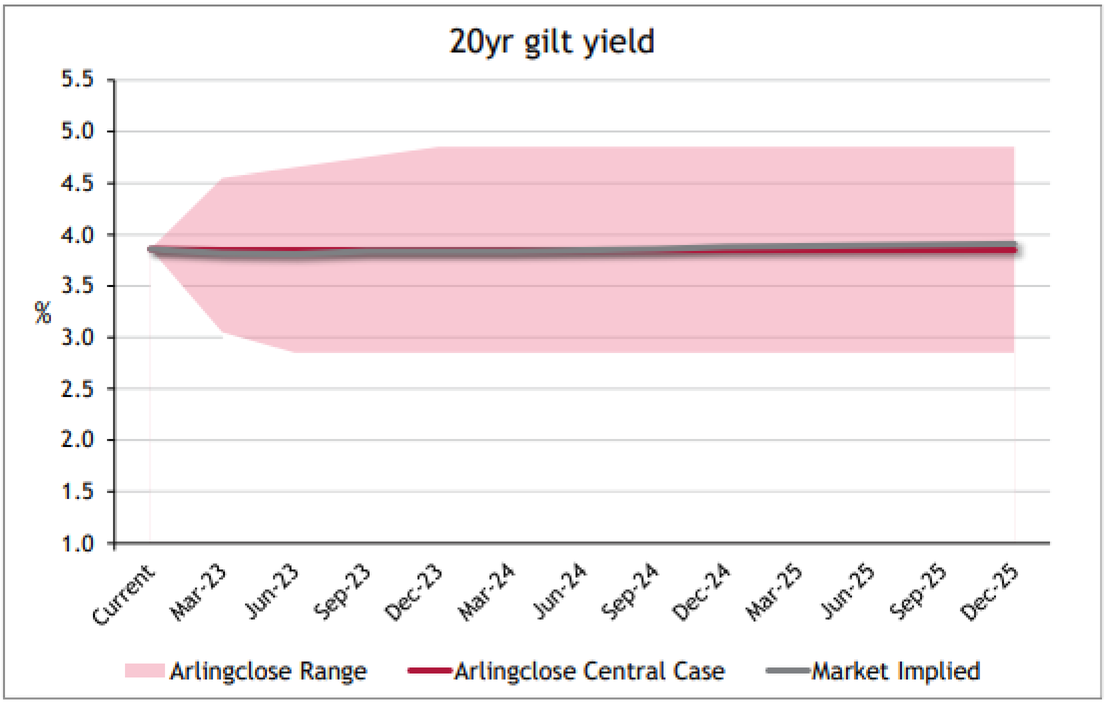
5.2 There are various sources of borrowing that the Council is able to make use of for longer term borrowing, which are detailed in the strategy statement. The traditional method for local authorities, and the default method the Council uses in all of its business cases, is to borrow from the Public Works Loans Board (PWLB). In the medium term, if the Council were to look at fixing out some of its internal borrowing into a long term external loan then it could do so by borrowing through the PWLB.

5.3 The graph below shows historic PWLB interest rates over the previous 2 years, for different durations based on borrowing using the annuity method.



5.4 The graph above shows how PWLB rates fluctuate on a daily basis, as they are linked to UK Gilt rates – current PWLB rates are 1.00 percent above the relevant UK Gilt rate. West Suffolk Council has access to PWLB Certainty Rates which are only 0.80 percent above the relevant UK Gilt rate.

5.5 As you can see from the graph above, PWLB rates have gone through a period of significant volatility over the past 9 months, although have been a bit more settled during the past 3 months. This is largely as a result of global inflation being at high levels, with the market expectation that these high levels will last longer than originally anticipated. This has led to central banks in the UK, US and EU to raise central interest rates and follow policies of monetary tightening beyond original expectations. These higher rates are expected to remain in the short to medium term, but then drop back down slightly when inflationary pressures have subsided on the expectation of slowed growth with the major economies. See graph below.



5.6 PWLB interest rates for 40-year borrowing using the annuity method were 5.05 percent (4.85 percent for Certainty Rate) on 31 December 2022 – although in the past 3 months they had been as low as 4.29 per cent (4.09 per cent for Certainty Rate) on 24 November. Using the current value of internal borrowing of £42,309,057, if we were to transfer all of that internal borrowing to a 40-year PWLB loan using the 4.85 percent Certainty Rate, the Council would incur an initial annual interest payable cost of £2,402,302 (including our current external borrowing). This compares to our interest payable budget for 2022 to 2023 of £1,529,400.

5.7 As detailed in 4.1 and 4.2, the council is currently holding significant cash balances and as such does not need to transfer this level of internal borrowing to external. The Council also has an earmarked revenue reserve to mitigate against possible adverse fluctuations in interest and borrowing rates, called the Capital Projects Financing Reserve. The balance in this reserve as at 31 December 2022 was £4,902,184.

5.8 The Council, along with Arlingclose, will continue to explore alternative sources of borrowing to ensure the Council will be ready to externally borrow in the most advantageous way when it needs to.

6. Borrowing and Capital Costs - Affordability

6.1 The 2022 to 2023 Budget had assumptions on borrowing costs for capital projects included within it. These borrowing costs are a combination of interest payable on external borrowing, and Minimum Revenue Provision (MRP), which is an amount set aside each year to repay that borrowing requirement. The main projects which make up the majority of the Councils borrowing requirement are:

- Western Way development
- Mildenhall Hub
- West Suffolk Operational Hub
- Toggam Solar Farm
- Investing in our Growth Fund

6.2 The business cases for each of these projects considered affordability based on what each project would deliver in terms of income and savings against the borrowing requirement for the project.

6.3 Borrowing costs only form part of the Councils revenue budget once the project has been completed, so although there may be a borrowing requirement, until such time as the project is complete there will be no MRP or interest payable as part of the revenue budget.

6.4 The details of these Budgets are laid out below.

Summary of Capital Borrowing Budget 2022 to 2023			
Project – all supported by business cases	**Borrowing Requirement (Budget)**	**Borrowing Costs**	
		Minimum Revenue Provision (MRP)	**Interest Payable**
Investing in our Growth Fund	£4,319,027	£0	£0
Western Way Development	£5,600,000	£0	£0
Mildenhall Hub	£16,175,947	£145,600	£204,050
West Suffolk Operational Hub	£9,383,968	£173,000	£306,750
Newmarket Leisure Centre	£2,740,261	£12,800	£169,600
Toggam Solar Farm	£1,756,244	£188,050	£344,950
20 High St Haverhill	£1,784,905	£29,400	£55,900
113 High St Newmarket	£676,709	£11,700	£22,100

Olding Road DHL Depot	£3,549,684	£0	£0
Provincial House	£3,434,468	£55,450	£98,200
Vicon House, Western Way	£3,288,232	£50,800	£100,700
33-35 High St, Haverhill	£364,930	£5,450	£10,850
17/18 Cornhill	£2,655,845	£39,550	£84,550
Elsey's Yard	£240,124	£5,300	£11,100
St Edmunds Guest House	£982,579	£11,050	£34,700
Incubation Units, Suffolk Business Park	£12,100,000	£0	£0
Net Zero / Community Energy Plan	£2,590,000	£0	£0
Loans and other	£9,425,800	£10,800	£85,950
Total borrowing and associated servicing costs	**£81,068,723**	**£738,950**	**£1,529,400***
% of Gross Revenue Income Budget		**1.3%**	**2.6%**

* This represents an average interest rate of 2.75 percent.

6.5 The affordability of borrowing and capital costs is a key metric in our financial planning and resilience assessments. Current and future financial affordability and resilience to such costs is key when evaluating any new opportunities. As set out in the approved West Suffolk Capital Strategy we are using the per cent of the Gross Revenue Income Budget for both MRP and Interest Payable to assess the Councils affordability position. In other words, how much (in percentage terms) of our gross revenue income budget is committed to servicing our external debt.

6.6 Whilst the budget for interest payable are derived from the business cases of each individual project, when borrowing actually occurs is a treasury management decision and is generally not directly linked to any specific project. It is therefore not easy to match the interest payable the Council will actually incur to specific projects. The table below therefore gives an overall summary of forecast capital borrowing for 2022 to 2023 but does not split it out by project.

6.7

Summary of Forecast Capital Borrowing for 2022 to 2023			
External Borrowing	**Internal Borrowing**	**Minimum Revenue Provision (MRP)**	**Interest Payable**
£13,750,000	£45,385,579	£719,175	£350,313
Total Borrowing	**£59,135,579**	**£1,069,488**	
% of Gross Revenue Income (excl COVID-19 Grants)		**1.4%**	**0.7%**

The original budget position, as set out in paragraph 6.4, has moved due to the following reasons:

- Forecast use of internal borrowing instead of external borrowing during 2022 to 2023.
- Reviewing the Western Way development in light of the COVID-19 outbreak, which led to a timing delay in the project programme against what was originally forecast.
- Forecast underspend against the Investing in our Growth Fund.

7. Borrowing and Income - Proportionality

7.1 The concept of proportionality, alongside that of affordability, is a key consideration when considering funding projects through borrowing.

7.2 The costs and risks associated with that borrowing should be looked at as part of the whole financial position of the council in our financial planning and resilience assessments. Awareness of the scale and relationship with the asset base and revenue delivery is essential to informed decision making.

7.3 As at 31 March 2022, the Councils asset base was valued at £261.9 million. As such the budgeted borrowing requirement of £81.07 million would have represented 30.95 per cent of our long-term asset base. The forecast borrowing requirement at the end of the financial year is £59.14 million, which represents 22.58 per cent of our long-term asset base. It is worth noting that the capital projects being undertaken would increase the overall asset base of the council, leading to the borrowing requirement being a smaller percentage of the asset base then detailed above.

8. Borrowing and Asset Yields

8.1 Borrowing, whether internally from available cash balances or externally from other institutions, bears a cost which will affect the yield of investments made with that money. The yield is the return on the investment, whether through additional income of savings, less the borrowing costs associated with the investment, against the value of the investment.

8.2 West Suffolk Council makes investment decisions to support its strategic priorities which are not solely focussed on financial return, in line with our agreed Investing in our Growth Agenda Strategy. There are therefore a range of yield returns delivered by these investments that varies from project-to-project dependant on the wider blended socio-economic returns that these projects give.

8.3 In order to aid comparison between projects and returns from 'normal' treasury management cash investment (section 2 above), the table below shows the income and net return from the current project portfolio.

2022/23 BUDGET	**Asset Value £m**	**Borrowing £m**	**Annual Income £m**	**Net Return (Excl. Borrowing Costs *)**	**Net Return (Incl. Borrowing Costs)**	**Yield % (E/A)**
	A	**B**	**C**	**D**	**E**	**F**
Industrial Units	£28.1	£13.4	£2.6	£2.1	£1.7	6.0%
Retail Units	£20.0	£2.6	£2.0	£1.6	£1.5	7.5%
Land	£11.8	£0.0	£1.0	£1.0	£1.0	8.4%
Solar Farm	£15.0	£1.8	£1.8	£1.3	£0.7	4.7%
Growth Fund		£4.3	£0.0	£0.0	£0.0	0.0%
Other		£33.4	£0.5	£0.4	£0.1	0.0%
TOTAL	**£74.9**	**£81.1**	**£7.9**	**£6.4**	**£5.0**	**6.7%**

2022/23 FORECAST	**Asset Value £m**	**Borrowing £m**	**Annual Income £m**	**Net Return (Excl. Borrowing Costs *)**	**Net Return (Incl. Borrowing Costs)**	**Yield % (E/A)**
	A	**B**	**C**	**D**	**E**	**F**
Industrial Units	£28.1	£0.0	£2.7	£2.1	£1.9	6.7%
Retail Units	£20.0	£0.0	£1.9	£1.5	£1.5	7.5%
Land	£11.8	£0.0	£1.0	£1.0	£1.0	8.4%
Solar Farm	£15.0	£0.0	£1.9	£1.4	£0.8	5.3%
Growth Fund		£0.0	£0.0	£0.0	£0.0	0.0%
Other		£14.0	£0.8	£0.7	£0.4	0.0%
TOTAL	**£74.9**	**£14.0**	**£8.3**	**£6.7**	**£5.6**	**7.5%**

* Includes direct operating costs

9. Market Information

9.1 The Council's treasury management advisors provide economic and interest rate forecasts on a monthly basis. Appendix 1 has details from this forecast from December 2022.

10. Background documents associated with this report

10.1 Capital Strategy 2022 to 2023, Treasury Management Strategy Statement 2022 to 2023 and Treasury Management Code of Practice.

West Suffolk Council

Financial Resilience – Strategy Statement 2023 to 2024 and Treasury Management Code of Practice

Report number:	**FRS/WS/23/002**	
Report to and date(s):	**Financial Resilience Committee**	16 January 2023
	Performance and Audit Scrutiny Committee	26 January 2023
	Cabinet	7 February 2023
	Council	21 February 2023
Cabinet member:	Councillor Sarah Broughton Cabinet Member for Resources and Property **Tel:** 07929 305787 **Email**: sarah.broughton@westsuffolk.gov.uk	
Lead officer:	Gregory Stevenson Service Manager – Finance and Performance **Tel:** 01284 757264 **Email:** gregory.stevenson@westsuffolk.gov.uk	

Decisions Plan: **This item is included in the Cabinet Decisions Plan.**

Wards impacted: **All**

Recommendation: **It is recommended that, the Performance and Audit Scrutiny Committee:**

1. Make recommendations to Cabinet and Council regarding the approval of the Treasury Management Strategy Statement 2023 to 2024 (as set out in Appendix 1) to Report number FRS/WS/23/002; and

2. Make recommendations to Cabinet and Council regarding the approval of the Treasury Management Code of Practice (as set out in Appendix 2) to Report number FRS/WS/23/002.

1. Treasury Management Strategy Statement

1.1 The Chartered Institute of Public Finance and Accountancy's (CIPFA) Treasury Management Code of Practice requires that, prior to the start of each financial year, the Council formally approve a Treasury Management Policy Statement and Investment Strategy which sets out its treasury management policy and strategy for the forthcoming year.

1.2 The purpose of this report is to present those strategy statements to the Financial Resilience Sub-Committee for consideration.

2. Treasury Management Code of Practice

2.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) recommend that all Councils adopt a Treasury Management Code of Practice based on the treasury management practices published by CIPFA and guidance issued in their Code of Practice.

2.2 Adherence to the principles of the CIPFA Code should ensure that Treasury Management activities within the Council are effectively managed and adequately controlled.

2.3 Following two rounds of consultation, a new Treasury Management Code of Practice was published on 20 December 2021, and changes from this code have been incorporated into the Treasury Management Strategy for 2023 to 2024. The key changes in the code are around knowledge and skills, as well as the inclusion of some extra treasury management prudential indicators – mainly around the liability benchmark.

3. Treasury Advisors

3.1 The Council currently uses Arlingclose Ltd as its treasury advisors.

3.2 The Treasury Management Strategy Statement (**Appendix 1**) and Code of Practice (**Appendix 2**) have been compiled in line with advice from Arlingclose.

4. Borrowing Strategy

4.1 The Council currently holds £13.75 million of loans, a decrease of £0.25 million on previous years (due to the annual repayment of the PWLB loan), as part of its strategy for funding previous years' capital programmes. The Council expects to externally borrow in 2023 to 2024 to fund parts of its capital programme. The Council may also borrow additional sums to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing of £99.71 million.

4.2 The overall objective is to strike a balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. This will lead to a mixture of short term and longer term borrowing to take place, with advice being taken over the most advantageous mix with the view to keeping future interest costs low, even if this causes some additional cost in the short term.

4.3 The different sources of borrowing can be found in the Treasury Management Strategy Statement at **Appendix 1.**

5. Investment Strategy - Counterparty Ratings

5.1 The Council uses the Arlingclose credit rating method in conjunction with information available from other industry sources to identify suitable counterparties for investments. The Council may invest its surplus funds with any of the counterparty types in the table below, subject to the limits shown.

5.2 Approved investment counterparties and limits:

Credit Rating	Banks Unsecured	Banks Secured	Pooled Funds
AAA	£6,000,000 5 years	£12,000,000 20 years	£12,000,000 20 years
AA+	£6,000,000 5 years	£12,000,000 10 years	£12,000,000 15 years
AA	£6,000,000 4 years	£10,000,000 5 years	£10,000,000 15 years
AA-	£6,000,000 3 years	£10,000,000 4 years	£10,000,000 10 years
A+	£6,000,000 2 years	£8,000,000 3 years	£8,000,000 5 years
A	£6,000,000 13 months	£8,000,000 2 years	£8,000,000 5 years
A-	£6,000,000 6 months	£6,000,000 13 months	£6,000,000 5 years
None	£6,000,000 6 months	n/a	£1,000,000 5 years
UK Government	£Unlimited, 50 Years		
Other UK Local Authorities	Using Arlingclose Rating Formula (Per iDeal trade platform) Gold - £12,000,000 - 5 years Silver - £10,000,000 - 5 years Bronze - £8,000,000 - 5 years		

6. Interest Rate Projections

6.1 The following table shows the revised interest rate based on the current economic climate that form part of the Council's treasury strategy for interest receivable on investments.

	Previous Strategy	New Strategy
2023 to 2024	0.25%	3.25%
2024 to 2025	0.25%	2.25%
2025 to 2026	0.25%	1.50%

6.2 Projections have increased from previous levels due to the increases in the Bank of England Base Rate during the 2022 to 2023 financial year. These levels drop in the future years due to uncertainty of the current economic climate.

7. Appendices attached to this report

7.1 Appendix 1 – Treasury Management Strategy Statement 2023 to 2024

Appendix 2 – Treasury Management Code of Practice 2023 to 2024

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WEST SUFFOLK COUNCIL

Treasury Management Strategy Statement 2023 to 2024

Introduction

Treasury management is the management of the Council's cash flows, borrowing and investments, and the associated risks. The Council has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of financial risk are therefore central to the Authority's prudent financial management.

Treasury risk management at the Council is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2021 Edition (the CIPFA Code) which requires the Council to approve a treasury management strategy before the start of each financial year. This report fulfils the Authority's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.

Investments held for service purposes or for commercial profit are considered in a different report, the Investment Strategy.

External Context

Economic background:

The ongoing impact on the UK from the war in Ukraine, together with higher inflation, higher interest rates, uncertain government policy, and a deteriorating economic outlook, will be major influences on the Authority's treasury management strategy for 2023 to 2024.

The Bank of England (BoE) increased Bank Rate by 0.50 per cent to 3.50 per cent in December 2022, the ninth successive rise since December 2021. The decision was voted for by a 6-3 majority of the Monetary Policy Committee (MPC), with one of the three dissenters voting for a 0.75 per cent rise and the other two for no rise at all.

UK Demand & Output

According to the Official National Statistics (ONS) first quarterly estimate, Gross Domestic Product (GDP) had fallen by 0.2 per cent in quarter 3 of 2022, a smaller decline than the expectation in the November Monetary Policy Report of a 0.5 per cent fall. Within the expenditure components, household consumption and business investment had both fallen by 0.5 per cent, while government spending was estimated to have risen by 2.1 per cent. Underlying output, defined as market sector output adjusted for the estimated effects of recent additional bank holidays, was estimated by Bank staff to have fallen by a similar amount as headline GDP. Monthly GDP had risen by 0.5 per cent in October, following a 0.6 per cent fall in September, and marginally stronger than had been expected by Bank staff immediately prior to the release. Bank staff now expected GDP to decline by 0.1 per cent in quarter 4 of 2022, 0.2 percentage points stronger than had been expected in the November Report.

Labour market

The UK employment rate increased by 0.2 per cent to 75.6 per cent on the quarter and remains lower than pre-coronavirus pandemic levels. Over that quarter, the number of employees increased, while self-employed workers decreased. Although labour demand has begun to ease, the labour market remains tight. The unemployment rate rose slightly to 3.7 per cent in the three months to October. The annual growth of private sector pay has seen an increase, to 6.9 per cent within the last three months since October. This was 0.5 per cent higher than expected at the time of the November report.

Inflation

Year-on-year CPI decreased from 11.1 per cent in October to 10.7 per cent in November, which was slightly under expectations than the November report. Transport was the largest downward contributing factor to CPI in November, more than double the next largest downward contribution. Although the introduction of the Energy Price Guarantee (EPG) in October has limited the rise in CPI inflation, the contribution of household energy bills to inflation has risen further. Since the MPC's previous meeting, core goods price inflation has fallen back, while annual food and services price inflation have strengthened.

Credit outlook:

Credit default swap (CDS) prices have followed an upward trend throughout the year, indicating higher credit risk. They have been boosted by the war in Ukraine, increasing economic and political uncertainty and a weaker global and UK outlook, but remain well below the levels seen at the beginning of the Covid-19 pandemic.

CDS price volatility has been higher in 2022 compared to 2021 and this year has seen a divergence in prices between ringfenced (retail) and non-ringfenced (investment) banking entities once again.

The weakening economic picture during 2022 led the credit rating agencies to reflect this in their assessment of the outlook for the UK sovereign as well as several local authorities and financial institutions, revising them from to negative from stable.

There are competing tensions in the banking sector which could impact bank balance sheet strength going forward. The weakening economic outlook and likely recessions in many regions increase the possibility of a deterioration in the quality of banks' assets, while higher interest rates provide a boost to net income and profitability.

However, the institutions on our adviser Arlingclose's counterparty list remain well-capitalised and their counterparty advice on both recommended institutions and maximum duration remain under constant review and will continue to reflect economic conditions and the credit outlook.

Interest rate forecast (December 2022)

The Authority's treasury management adviser Arlingclose forecasts that Bank Rate will continue to rise in 2022 and 2023 as the Bank of England attempts to subdue inflation which is significantly above its 2 per cent target.

While interest rate expectations reduced during October and November 2022, multiple interest rate rises are still expected over the forecast horizon despite looming recession. Arlingclose expects Bank Rate to rise to 4.25 per cent by June 2023 under its central case, with the Monetary Policy Committee cutting rates in the medium term to stimulate a stuttering UK economy. They expect rate cuts in the first half of 2024.

Yields are expected to remain broadly at current levels over the medium-term, with 5, 10 and 20-year gilt yields expected to average around 3.30 per cent, 3.50 per cent, and 3.85 per cent respectively over the 3-year period to December 2025. The risks for short, medium and longer-term yields are judged to be broadly balanced over the forecast horizon. As ever, there will undoubtedly be short-term volatility due to economic and political uncertainty and events.

A more detailed economic and interest rate forecast provided by Arlingclose is attached at Appendix A.

For the purpose of setting the budget, it has been assumed that new treasury investments will be made at an average rate of 3.25 percent, and that new long-term loans will be borrowed at a budgeted rate of 4.50 percent on our existing cash flow forecast.

Local Context

On 31 December 2022, the Council held £13.75 million of external borrowing, £42.31 million of internal borrowing and £71.50 million of treasury investments. This is set out in further detail at Appendix B.

The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR). The table below details the forecast for the councils Capital Financing Requirement over the next 3 years.

Table 1: Capital Financing Requirement

	31 March 22 Actual £million	31 March 23 Estimate £million	31 March 24 Forecast £million	31 March 25 Forecast £million	31 March 26 Forecast £million
Capital Financing Requirement	55.49	59.14	93.42	142.50	168.45

The Council’s current strategy is to maintain borrowing and investments below their underlying levels, known as internal borrowing, whilst also looking to secure long term certainty of interest rates by fixing some borrowing externally when it is advantageous to do so. The Council will continue to monitor this strategy in order to decide whether externally borrowing to pre-fund future years requirements would better meet its borrowing objectives.

The Council has an increasing CFR due to the capital programme. Consequently, investment levels will continue to fall in future years, as capital receipts and revenue reserves are used to finance capital expenditure and the revenue budget.

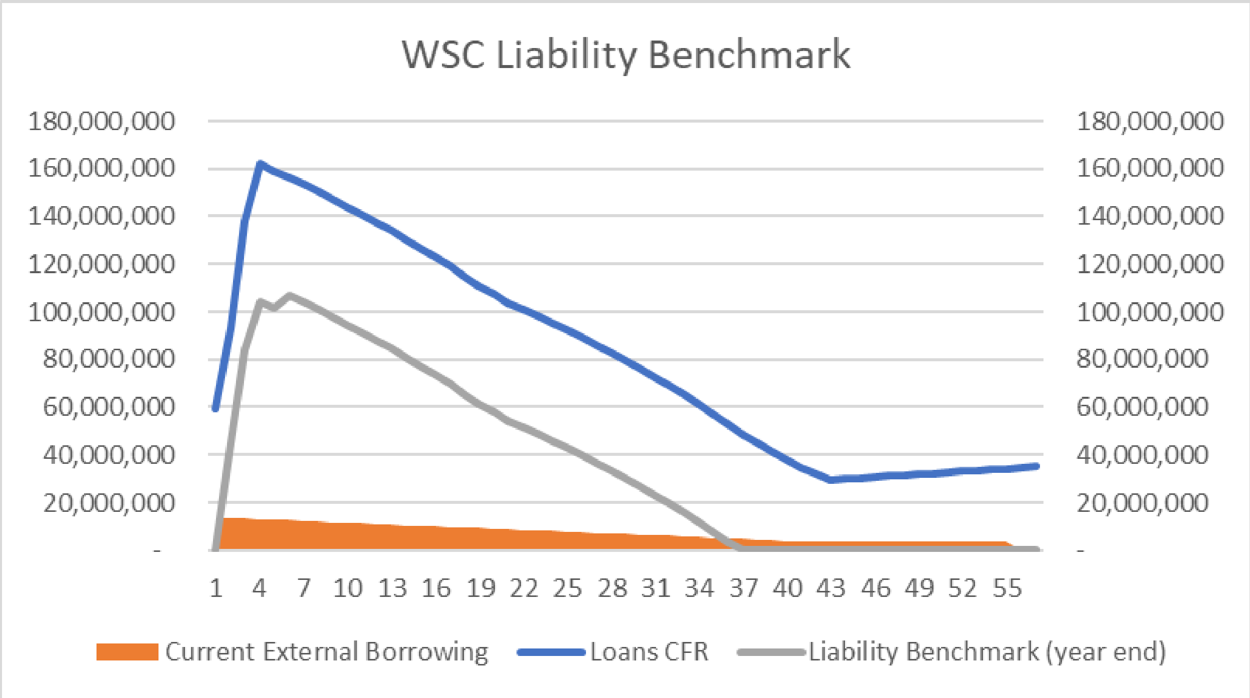
External borrowing is expected to take place in 2023 to 2024, as the amount of capital expenditure is forecast to outweigh the amount of remaining cash reserves the council holds.

CIPFA’s Prudential Code for Capital Finance in Local Authorities recommends that the Council’s total debt should be lower than its highest forecast CFR over the next three years. Table 1 above shows that the Council expects to comply with this recommendation during 2023 to 2024.

Liability benchmark: To compare the Council’s actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes cash and investment balances are kept to a minimum level of £10 million at each year-end to maintain sufficient liquidity but minimise credit risk.

The liability benchmark is an important tool to help establish whether the Council is likely to be a long-term borrower or long-term investor in the future, and so shape its strategic focus and decision making. The liability benchmark itself represents an estimate of the cumulative amount of external borrowing the Council must hold to fund its current capital and revenue plans while keeping treasury investments at the minimum level required to manage day-today cash flow.

The long-term liability benchmark assumes capital expenditure funded by borrowing of £0.5 million a year, minimum revenue provision on new capital expenditure based on a 40 year asset life and reserves maintaining their current levels. This is shown in the chart below together with the maturity profile of the Council’s existing borrowing.



Borrowing Strategy

The Council currently holds £13.75 million of loans, a £0.25 million decrease on previous years, as part of its strategy for funding previous years' capital programmes. The Council expects to externally borrow in 2023 to 2024. The Council may also borrow additional sums to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing of £99.71 million

Objectives: The Council's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should the Council's long-term plans change is a secondary objective.

Strategy: Given the significant cuts to public expenditure and in particular to local government funding, the Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. It is likely to be more cost effective in the short-term to use internal borrowing, however opportunities to fix longer term external borrowing will be explored in order to achieve long-term security at advantageous interest rates.

By doing so, the Council is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of internal and/or short-term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. Arlingclose will assist the Council with this 'cost of carry' and breakeven analysis. Its output may determine whether the Council borrows additional sums at long-term fixed rates in 2023 to 2024 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

The Council's default position is to raise the majority of its long-term borrowing from the PWLB but will consider long-term loans from other sources including banks, pensions and local authorities, and will investigate the possibility of issuing bonds and similar instruments, in order to lower interest costs and reduce over-reliance on one source of funding in line with the CIPFA Code. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield; the Council intends to avoid this activity in order to retain its access to PWLB loans.

Alternatively, the Authority may arrange forward starting loans, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.

In addition, the Authority may borrow short-term loans to cover unplanned cash flow shortages.

Sources of borrowing: The approved sources of long-term and short-term borrowing are:

- HM Treasury's PWLB lending facility (formerly the Public Works Loan Board)
- any institution approved for investments (see below)
- any other bank or building society authorised to operate in the UK
- any other UK public sector body including local authorities
- UK public and private sector pension funds
- capital market bond investors
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues

Other sources of debt finance: In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- leasing
- hire purchase
- Private Finance Initiative
- sale and leaseback

Local Authority Lending: The Council has the ability to invest with any other UK Local Authority. However, no investments will take place with any local authority that are subject to a current S114 notice. Further due diligence will also be undertaken to ensure that the local authority is unlikely to be subject to such a notice for the duration of any investment.

Municipal Bonds Agency: UK Municipal Bonds Agency plc was established in 2014 by the Local Government Association as an alternative to the PWLB. It issues bonds on the capital markets and lends the proceeds to local authorities. This is a more complicated source of finance than the PWLB for two reasons: borrowing authorities will be required to provide bond investors with a guarantee to refund their investment in the event that the agency is unable to for any reason; and there will be a lead time of several months between committing to borrow and knowing the interest rate payable. Any decision to borrow from the Agency will therefore be the subject of a separate report to full Council.

Lender's Option Borrower's Option Loans (LOBOs): The Council entered into a 70 year, £4 million LOBO loan on 31 March 2008, where the lender had an option to propose an increase in the interest rate at set dates, following which the Council had the option to either accept the new rate or repay the loan at no additional cost. However, in 2016 to 2017 Barclays wrote to the Council confirming their decision to waive their right to change the applicable interest rate of this loan, effectively changing it to a fixed rate loan.

Short-term and variable rate loans: These loans leave the Council exposed to the risk of short-term interest rate rises and are therefore subject to the interest rate exposure limits in the treasury management indicators below. Financial derivatives may be used to manage this interest rate risk (see section below).

Debt rescheduling: The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The Council may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk. The recent rise in interest rates means that more favourable debt rescheduling opportunities should arise than in previous years.

Treasury Investment Strategy

The Council holds invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Council's treasury investment balance has ranged between £44 million and £76 million. During 2023 to 2024 and in future years, these levels are expected to fall due to the Council's Capital Programme.

Objectives: The CIPFA Code requires the Council to invest its treasury funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the Council will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested. The Council aims to be a responsible investor and will consider environmental, social and governance (ESG) issues when investing.

Strategy: As demonstrated by the liability benchmark above, the Council expects to be a long-term borrower and new treasury investments will therefore be made primarily to manage day-to-day cash flows using short-term, low risk instruments.

The CIPFA Code does not permit local councils to both borrow and invest long-term for cash flow management. But the Council may make long-term investments for treasury risk management purposes, including to manage interest rate risk by investing sums borrowed in advance for the capital programme for up to three years.

ESG policy: Environmental, social and governance (ESG) considerations are increasingly a factor in global investors' decision making, but the framework for evaluating investment opportunities is still developing and therefore the Council's ESG policy does not currently include ESG scoring or other real-time ESG criteria at an individual investment level. When investing in banks and funds, the Council will prioritise banks that are signatories to the UN Principles for Responsible Banking and funds operated by managers that are signatories to the UN Principles for Responsible Investment, the NET Zero Asset Managers Alliance and/or the UK Stewardship Code.

Business models: Under the IFRS 9 standard, the accounting for certain investments depends on the Council's "business model" for managing them. The Council aims to achieve value from its treasury investments by a business model of collecting the contractual cash flows and therefore, where other criteria are also met, these investments will continue to be accounted for at amortised cost.

Approved counterparties: The Council may invest its surplus funds with any of the counterparty types in table 3 below, subject to the limits shown.

Table 3: Treasury investment counterparties and limits

Credit Rating	Banks Unsecured	Banks Secured	Pooled Funds
AAA	£6 million 5 years	£12 million 20 years	£12 million 20 years
AA+	£6 million 5 years	£12 million 10 years	£12 million 15 years
AA	£6 million 4 years	£10 million 5 years	£10 million 15 years
AA-	£6 million 3 years	£10 million 4 years	£10 million 10 years
A+	£6 million 2 years	£8 million 3 years	£8 million 5 years
A	£6 million	£8 million	£8 million

	13 months	2 years	5 years
A-	£6 million 6 months	£6 million 13 months	£6 million 5 years
None	£6 million 6 months	n/a	£1 million 5 years
UK Government	Unlimited, 50 Years		
Other UK Local Authorities	Using Arlingclose Rating Formula (Per iDeal trade platform) Gold - £12 million - 5 years Silver - £10 million - 5 years Bronze - £8 million - 5 years		

This table must be read in conjunction with the notes below

*** Minimum credit rating:** Treasury investments will only be made with entities whose lowest published long-term credit rating is no lower than [A-]. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

For entities without published credit ratings, investments may be made either (a) where external advice indicates the entity to be of similar credit quality; or (b) to a maximum of £6 million per counterparty as part of a diversified pool e.g. via a peer-to-peer platform.

Government: Loans to, and bonds and bills issued or guaranteed by, national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk. Investments with the UK Government are deemed to be zero credit risk due to its ability to create additional currency and therefore may be made in unlimited amounts for up to 50 years.

Secured investments: Investments secured on the borrower's assets, which limits the potential losses in the event of insolvency. The amount and quality of the security will be a key factor in the investment decision. Covered bonds and reverse repurchase agreements with banks and building societies are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used. The combined secured and unsecured investments with any one counterparty will not exceed the cash limit for secured investments.

Banks and building societies (unsecured): Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See below for arrangements relating to operational bank accounts.

Registered providers (unsecured): Loans to, and bonds issued or guaranteed by, registered providers of social housing or registered social landlords, formerly known as housing associations. These bodies are regulated by the Regulator of Social Housing (in England), the Scottish Housing Regulator, the Welsh Government and the Department for Communities (in Northern Ireland). As providers of public services, they retain the likelihood of receiving government support if needed.

Money market funds: Pooled funds that offer same-day or short notice liquidity and very low or no price volatility by investing in short-term money markets. They have the advantage over bank accounts of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a small fee. Although no sector limit applies to money market funds, the Authority will take care to diversify its liquid investments over a variety of providers to ensure access to cash at all times.

Strategic pooled funds: Bond, equity and property funds that offer enhanced returns over the longer term but are more volatile in the short term. These allow the Authority to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's investment objectives will be monitored regularly.

Real estate investment trusts: Shares in companies that invest mainly in real estate and pay the majority of their rental income to investors in a similar manner to pooled property funds. As with property funds, REITs offer enhanced returns over the longer term, but are more volatile especially as the share price reflects changing demand for the shares as well as changes in the value of the underlying properties.

Other investments: This category covers treasury investments not listed above, for example unsecured corporate bonds and company loans. Non-bank companies cannot be bailed-in but can become insolvent placing the Authority's investment at risk.

Operational bank accounts: The Council may incur operational exposures, for example though current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments but are still subject to the risk of a bank bail-in, and balances will therefore be kept below £1 million per bank. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Authority maintaining operational continuity.

Risk assessment and credit ratings: Credit ratings are obtained and monitored by the Council's treasury advisers, who will notify changes in ratings as they occur. The credit rating agencies in current use are listed in the Treasury Management Practices document. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made,
- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "negative watch") so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

Other information on the security of investments: The Council understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support, reports in the quality financial press and analysis and advice from the Authority's treasury management adviser. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may otherwise meet the above criteria.

When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2020, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Authority will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Authority's cash balances, then the surplus will be deposited with the UK Government, or with other local authorities. This will cause investment returns to fall but will protect the principal sum invested.

Investment limits: The Council's revenue reserves available to cover investment losses are forecast to be £38.7 million on 31 March 2023. In order that no more than 40 per cent of available reserves will be put at risk in the case of a single default, the maximum that will be lent to any one organisation (other than the UK Government) will be £12 million. A group of entities under the same ownership will be treated as a single organisation for limit purposes.

Credit risk exposures arising from non-treasury investments, financial derivatives and balances greater than £1.50 million in operational bank accounts count against the relevant investment limits.

Limits are also placed on fund managers, investments in brokers' nominee accounts and foreign countries as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

Investment limits

	Cash limit
Any single organisation, except the UK Central Government	£12 million each
UK Central Government	Unlimited
Any group of organisations under the same ownership	£12 million per group
Any group of pooled funds under the same management	£12 million per manager
Negotiable instruments held in a broker's nominee account	£12 million per broker
Foreign countries	£3 million per country
Unsecured investments with building societies	£6 million each
Money market funds	£12 million in total

Liquidity management: The Council uses purpose-built cash flow forecasting spreadsheet to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the Council being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Authority's medium-term financial plan and cash flow forecast.

The Council will spread its liquid cash over available providers (e.g. bank accounts and money market funds) to ensure that access to cash is maintained in the event of operational difficulties at any one provider.

Treasury Management Prudential Indicators

The Council measures and manages its exposures to treasury management risks using the following indicators.

Security: The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on the perceived risk.

Credit risk indicator	Target
Portfolio average credit score	6.0

This target of 6.0 represents an average credit rating score across the portfolio of A, on the scale of AAA to unsecured.

Liquidity: The Council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments on instant access, without additional borrowing.

Liquidity risk indicator	Target
Total cash available on instant access	£5m

Maturity structure of borrowing: This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of borrowing will be:

Refinancing rate risk indicator	Upper limit	Lower limit
Under 12 months	100%	0%
12 months and within 24 months	20%	0%
24 months and within 5 years	20%	0%
5 years and within 10 years	20%	0%
10 years and above	100%	%

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

Long-term treasury management investments: The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment if its investment. The prudential limits on the long-term treasury management investments will be:

Price risk indicator	2023 to 2024	2024 to 2025	2025 to 2026
Limit on principal invested beyond year end	£30m	£30m	£30m

Related Matters

The CIPFA Code requires the Council to include the following in its treasury management strategy.

Financial derivatives: Local councils have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in section 1 of the Localism Act 2011 removes much of the uncertainty over local councils' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).

The Council will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Authority is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria, assessed using the appropriate credit rating for derivative exposures. An allowance for credit risk calculated using the methodology in the Treasury Management Practices document will count against the counterparty credit limit and the relevant foreign country limit.

In line with the CIPFA Code, the Council will seek external advice and will consider that advice before entering into financial derivatives to ensure that it fully understands the implications.

Markets in Financial Instruments Directive: The Council has opted up to professional client status with its providers of financial services, including advisers, banks, brokers and fund managers, allowing it access to a greater range of services but without the greater regulatory protections afforded to individuals and small companies. Given the size and range of the Authority's treasury management activities, the Chief Financial Officer believes this to be the most appropriate status.

Financial Implications

The budget for investment income in 2023 to 2024 is £715,000, based on an average investment portfolio of £22 million at an interest rate of 3.25 percent. The budget for debt interest paid in 2023 to 2024 is £1.51 million. Please note, these figures are provisional budget figures and may be subject to change during the budget setting approval process.

If actual levels of investments and borrowing, or actual interest rates, differ from those forecast, performance against budget will be correspondingly different.

Where investment income exceeds budget, e.g. from higher risk investments including pooled funds, or debt interest paid falls below budget, e.g. from cheap short-term borrowing, then the revenue savings may be transferred to a treasury management reserve to cover the risk of capital losses or higher interest rates payable in future years.

Other Options Considered

The CIPFA Code does not prescribe any particular treasury management strategy for local authorities to adopt. The Chief Financial Officer believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

Alternative	Impact on income and expenditure	Impact on risk management
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses may be greater
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses may be smaller
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs may be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long-

		term costs may be less certain
Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs may be less certain

Appendix A – Arlingclose Economic & Interest Rate Forecast - December 2022

Underlying assumptions:

- The influence of the mini-budget on rates and yields continues to wane following the more responsible approach shown by the new incumbents of Downing Street.
- Volatility in global markets continues, however, as investors seek the extent to which central banks are willing to tighten policy, as evidence of recessionary conditions builds. Investors have been more willing to price in the downturn in growth, easing financial conditions, to the displeasure of policymakers. This raises the risk that central banks will incur a policy error by tightening too much.
- The UK economy is already experiencing recessionary conditions and recent GDP and PMI data suggests the economy entered a technical recession in quarter 3 of 2022. The resilience shown by the economy has been surprising, despite the downturn in business activity and household spending. Lower demand should bear down on business pricing power – recent data suggests the UK has passed peak inflation.
- The lagged effect of the sharp tightening of monetary policy, and the lingering effects of the mini-budget on the housing market, widespread strike action, alongside high inflation, will continue to put pressure on household disposable income and wealth. The short- to medium-term outlook for the UK economy remains bleak.
- Demand for labour appears to be ebbing, but not quickly enough in the official data for most MPC policymakers. The labour market remains the bright spot in the economy and persisting employment strength may support activity, although there is a feeling of borrowed time. The MPC focus is on nominal wage growth, despite the huge real term pay cuts being experienced by the vast majority. Bank Rate will remain relatively high(er) until both inflation and wage growth declines.
- Global bond yields remain volatile as investors price in recessions even as central bankers push back on expectations for rate cuts in 2023. The US labour market remains tight and the Fed wants to see persistently higher policy rates, but the lagged effects of past hikes will depress activity more significantly to test the Fed’s resolve.
- While the Bank of England appears to be somewhat more dovish given the weak outlook for the UK economy, the ECB seems to harbour (worryingly) few doubts about the short term direction of policy. Gilt yields will be broadly supported by both significant new bond supply and global rates expectations due to hawkish central bankers, offsetting the effects of declining inflation and growth.

Forecast:

- The Monetary Policy Committee (MPC) raised Bank Rate by 50 basis points to 3.5 per cent in December as expected, with signs that some members believe that 3 per cent is restrictive enough. However, a majority of members think further increases in Bank Rate might be required. Arlingclose continues to expect Bank Rate to peak at 4.25 per cent, with further 25 basis point rises in February, March and May 2023.

- The MPC will cut rates in the medium term to stimulate a stuttering UK economy, but will be reluctant to do so until wage growth eases. We see rate cuts in the first half of 2024.
- Arlingclose expects gilt yields to remain broadly steady over the medium term, although with continued volatility across shorter time periods.
- Gilt yields face pressures to both sides from hawkish US and Euro Zone central bank policy on one hand to the weak global economic outlook on the other. Bank of England bond sales and high government borrowing with provide further underlying support for yields.

	Current	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
Official Bank Rate													
Upside risk	0.00	0.50	0.75	1.00	1.00	1.00	1.25	1.50	1.75	1.50	1.25	1.25	1.25
Arlingclose Central Case	3.50	4.00	4.25	4.25	4.25	4.25	4.00	3.75	3.50	3.25	3.25	3.25	3.25
Downside risk	0.00	0.50	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.00
3-month money market rate													
Upside risk	0.00	0.50	0.75	1.00	1.00	1.00	1.25	1.50	1.75	1.50	1.25	1.25	1.25
Arlingclose Central Case	3.00	4.40	4.40	4.40	4.35	4.30	4.25	4.00	3.75	3.50	3.40	3.40	3.40
Downside risk	0.00	0.50	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.00
5yr gilt yield													
Upside risk	0.00	0.70	0.80	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	3.43	3.60	3.80	3.80	3.80	3.70	3.60	3.50	3.40	3.30	3.30	3.30	3.30
Downside risk	0.00	0.80	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
10yr gilt yield													
Upside risk	0.00	0.70	0.80	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	3.47	3.50	3.60	3.60	3.60	3.60	3.50	3.50	3.50	3.50	3.50	3.50	3.50
Downside risk	0.00	0.80	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
20yr gilt yield													
Upside risk	0.00	0.70	0.80	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	3.86	3.85	3.85	3.85	3.85	3.85	3.85	3.85	3.85	3.85	3.85	3.85	3.85
Downside risk	0.00	0.80	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
50yr gilt yield													
Upside risk	0.00	0.70	0.80	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	3.46	3.60	3.60	3.60	3.60	3.60	3.60	3.60	3.60	3.60	3.60	3.60	3.60
Downside risk	0.00	0.80	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00

PWLB Standard Rate (Maturity Loans) = Gilt yield + 1.00%
PWLB Certainty Rate (Maturity Loans) = Gilt yield + 0.80%
UKIB Rate (Maturity Loans) = Gilt yield + 0.60%

Appendix B – Existing Investment & Debt Portfolio Position

Investments held as at 31 December 2022				
Counterparty	**Principal Amount (£)**	**Interest Rate**	**Date Loaned**	**Date Returned**
Lloyds 95 Day Account	Nil			
Santander 365 Day	8,000,000	2.21%	01/04/22	365 day Notice
Santander 95 Day	500,000	1.13%	01/04/22	95 day Notice
Lloyds Treasury Account	9,500,000	0.08%	01/04/22	On call availability
Barclays Deposit Account	6,000,000	0.01%	01/04/22	On call availability
CCLA Money Market Fund	4,000,000	Variable	01/04/22	On call availability
HM Debt Man. Office	2,500,000	1.800%	12/07/22	10/01/23
HM Debt Man. Office	5,000,000	1.960%	19/07/22	17/01/23
HM Debt Man. Office	5,000,000	1.935%	01/08/22	30/01/23
HM Debt Man. Office	3,000,000	2.110%	12/08/22	10/02/23
HM Debt Man. Office	4,000,000	2.535%	01/09/22	28/02/23
HM Debt Man. Office	4,000,000	3.080%	01/11/22	28/04/23
HM Debt Man. Office	6,000,000	2.970%	01/11/22	15/03/23
HM Debt Man. Office	3,000,000	2.990%	01/11/22	23/03/23
HM Debt Man. Office	3,000,000	3.160%	15/11/22	15/05/23
HM Debt Man. Office	6,000,000	3.010%	01/12/22	16/01/23
HM Debt Man. Office	2,000,000	3.570%	19/12/22	19/06/23
Total	**71,500,000**			

Please note: The interest rates above are the rates as at 31 December 2022. The current market volatility could cause the actual rates going forward to fluctuate.

External Borrowings and Temporary Loans					
Lender	**Balance – 1 April 2022 (£)**	**Movement (£)**	**Balance - 31 December 2022 (£)**	**Interest Rate**	**Maturity date**
Barclays Bank	4,000,000	0	4,000,000	4.24%	31 March 2078
PWLB	10,000,000	(250,000)	9,750,000	1.84%	1 December 2061

Appendix 2

West Suffolk Council

Treasury Management

Code of Practice

To be approved at Council on 21 February 2023

Introduction

This Treasury Management Code of Practice has been compiled in line with the Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes 2017 ("the CIPFA Code").

Adherence to the principles of the CIPFA Code should ensure that Treasury Management activities within the Council are effectively managed and adequately controlled.

This Treasury Management Code of Practice has been written in conjunction with the Council's Treasury Management Policy Statement and Investment Strategy 2023 to 2024.

Section 4H paragraphs 8.1 to 8.5 of the Council's Constitution also contains information regarding Treasury Management procedure rules, these are in line with this Code.

Definitions

For the purposes of this Code, "Treasury Management Activities" is defined as:

"The management of the Local Council'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 the optimum performance consistent with those risks."

'Investments' in the definition above covers all the financial assets of the Council, as well as other non-financial assets which the organisation holds primarily for financial returns, such as investment property portfolios. This may therefore include investments which are not managed as part of the normal treasury management or under treasury management delegations. All investments require an appropriate investment management and risk management framework under this Code.

Purpose of the CIPFA Code

CIPFA produced the Code and the accompanying guidance notes to help satisfy nine main purposes:

- To assist public service organisations in the development and maintenance of firm foundations and clear objectives for their treasury management activities, and thereby to add to their credibility in the public eye.

- To emphasise the overriding importance of effective risk management as the foundation for treasury management in all public service bodies.

- To provide transparency for treasury management decisions including the use of counterparties and financial instruments that individual public service organisations intend to use for the prudent management of their financial affairs.

- To encourage the pursuit of value for money in treasury management, and to promote the reasoned use, development and appreciation of appropriate and practical measures of performance.

- To enable CIPFA Members to fulfil their professional and contractual responsibilities to the organisations they serve and, in accordance with the members' charter, "to maintain and develop the professional competence of both themselves and those they supervise".

- To help facilitate a standardisation and codification of treasury management policies and practices in the public services.

- To assist those involved in the regulation and review of treasury management in the public services, particularly those charged with the audit of the same.

- To foster a continuing debate on the relevance and currency of the statutory and regulatory regimes under which treasury management in the various parts of the public services operates.

- To further the understanding and confidence of, and to act as a reference work for, financial and other institutions whose businesses bring them into contact with the treasury management activities of public service organisations.

Treasury Management Practices

The following Treasury Management Practices (TMPs) are incorporated in the Treasury Management Code of Practice in accordance with CIPFA Guidance:

TMP 1	Risk management
TMP 2	Performance measurement
TMP 3	Decision making and analysis
TMP 4	Approved instruments, methods and techniques
TMP 5	Organisation, clarity and segregation of responsibilities and dealing arrangements
TMP 6	Reporting requirement and management information arrangements
TMP 7	Budgeting, accounting and audit arrangements
TMP 8	Cash and cash flow management
TMP 9	Money laundering
TMP 10	Training and qualifications
TMP 11	Use of external service providers
TMP 12	Corporate governance

TMP 1 Risk Management

General Statement

This Council regards a key objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, it will ensure that robust due diligence procedures will cover all external investments.

The Section 151 Officer or Deputy Section 151 Officer will design, implement and monitor all arrangements for the identification, management and control of treasury management risk, will report at least annually on the adequacy/suitability thereof, and will report, as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the organisation's objectives in this respect, all in accordance with the procedures set out in TMP6 Reporting requirements and management information arrangements.

In respect of each of the following risks, the arrangements which seek to ensure compliance with these objectives are set out in the schedule to this document.

1. **Credit and Counterparty Risk Management**

   Definition: The risk of failure by a counterparty to meet its contractual obligations to the organisation under an investment, borrowing, 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.

   The Council will ensure that its counterparty lists and limits reflect a prudent attitude towards organisations with whom funds may be deposited and will limit its treasury management investment activities to the instruments, methods and techniques referred to in TMP4 Approved instruments, methods and techniques and listed in the schedule to this document. It also recognises the need to have, and will therefore maintain, a formal counterparty policy in respect of those organisations from which it may borrow, or with whom it may enter into other financing or derivative arrangements.

2. **Liquidity Risk Management**

   Definition: The risk that cash will not be available when it is needed, that ineffective management of liquidity creates additional unbudgeted costs, and that the organisation's business/service objectives will thereby be compromised.

   The Council will ensure it has adequate though not excessive cash resources, borrowing arrangements, overdraft or standby facilities to enable it at all times to have the level of funds available to it which are necessary for the achievement of its business/services objectives.

   This Council will only borrow in advance of need where there is a clear business case for doing so and will only do so for the current capital programme or to finance future debt maturities.

3. **Interest Rate Risk Management**

   Definition: 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 protect itself adequately.

   The Council will manage its exposure to fluctuations in interest rates with a view to containing its interest costs, or securing its interest revenues, in accordance with the amounts provided in its budgetary arrangements as amended in accordance with TMP6 Reporting requirements and management information arrangements.

   It will achieve this by the prudent use of its approved financing and investment instruments, methods and techniques, primarily to create stability and certainty of costs and revenues, but at the same time retaining sufficient degree of flexibility to take advantage of unexpected, potentially advantageous changes in the level or structure of interest rates. This should be subject to the consideration and, if required, approval of any policy or budgetary implications.

It will ensure that any hedging tools such as derivatives are only used for the management of risk and the prudent management of financial affairs and that the policy for the use of derivatives is clearly detailed in the annual strategy.

The Council also has an interest equalisation reserve which, if necessary, can be used to help smooth out the level of interest received due to fluctuations in interest rates.

4. **Exchange Rate Risk Management**

Definition: 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 protect itself adequately.

The Council will manage its exposure to fluctuations in exchange rates so as to minimise any detrimental impact on its budgeted income/expenditure levels.

5. Inflation Risk Management

Definition: Inflation risk, also called purchasing power risk, is the chance that the cash flows from an investment won't be worth as much in the future because of changes in purchasing power due to inflation.

The Council will keep under review the sensitivity of its treasury assets and liabilities to inflation and will seek to manage the risk accordingly in the context if the Council's inflation exposures.

6. **Refinancing Risk Management**

Definition: 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 refinancing, both capital and current (revenue), and/or that the terms are inconsistent with prevailing market conditions at the time.

The Council will ensure where applicable that its borrowing, private financing and partnership arrangements are negotiated, structured and documented, and the maturity profile of the monies so raised are managed, with a view to obtaining offer terms for renewal or refinancing, if required, which are competitive and as favourable to the organisation as can reasonably be achieved in the light of market conditions prevailing at the time.

It will actively manage its relationships with its counterparties in these transactions in such a manner as to secure this objective and will avoid overreliance on any one source of funding if this might jeopardise achievement of the above.

7. **Legal and Regulatory Risk Management**

Definition: 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.

The Council will ensure that all of its treasury management activities comply with its statutory powers and regulatory requirements. It will demonstrate such compliance, if required to do so, to all parties with whom it deals in such activities. In framing its credit and counterparty policy under TMP1(1) credit and counterparty risk management, it will ensure that there is evidence of counterparties' powers, Council and compliance in respect of the transactions they may affect with the organisation, particularly with regard to duty of care and fees charged.

The Council recognises that future legislative or regulatory changes may impact on its treasury management activities and, so far as it is reasonably able to do so, will seek to minimise the risk of these impacting adversely on the organisation.

8. **Fraud, Error and Corruption, and Contingency Management**

Definition: The risk that an organisation fails to identify the circumstances in which it may be exposed to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings, and fails to employ suitable systems and procedures and maintain effective contingency management arrangements to these ends. It includes the area of risk commonly referred to as operational risk.

The Council will ensure that it has identified the circumstances which may expose it to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings. Accordingly, it will employ suitable systems and procedures, and will maintain effective contingency management arrangements to these ends. Further information regarding this is set out in the schedule to this document.

9. **Price Risk Management**

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

The Council will seek to ensure that its stated treasury management policies and objectives will not be compromised by adverse market fluctuations in the value of the principal sums it invests and will accordingly seek to protect itself from the effects of such fluctuations.

TMP 2 Performance Management

The Council is committed to the pursuit of value for money in its treasury management activities, and to the use of performance methodology in support of that aim, within the framework set out in its treasury management policy statement.

Accordingly, the treasury management function will be the subject of ongoing analysis of the value it adds in support of the organisation's stated business or service objectives. It will be the subject of regular examination of alternative methods of service delivery, of the availability of fiscal or other grant or subsidy incentives, and of the scope for other potential improvements. The performance of the treasury management function will be measured using the criteria set out in the schedule to this document.

TMP 3 Decision-Making and Analysis

The Council will maintain full records of its treasury management decisions, and of the processes and practices applied in reaching those decisions, both for the purpose of learning from the past, and for demonstrating that reasonable steps were taken to ensure that all issues relevant to those decisions were taken into account at the time. The issues to be addressed and processes and practices to be pursued in reaching decisions are detailed in the schedule to this document.

TMP 4 Approved Instruments, Methods and Techniques

The Council will undertake its treasury management activities by employing only those instruments, methods and techniques detailed in the schedule to this document, and within the limits and parameters defined in TMP1 Risk management.

Where this Council intends to use derivative instruments for the management of risks, these will be limited to those set out in its annual treasury strategy. The Council will seek proper advice and will consider that advice when entering into arrangements to use such products to ensure that it fully understands those products.

The Council has reviewed its classification with financial institutions under MiFID II and keeps a record of those organisations with which it is registered as a professional client and those with which it has an application outstanding to register as a professional client.

TMP 5 Organisation, Clarity and Segregation of Responsibilities, and Dealing Arrangements

The Council considers it essential, for the purposes of the effective control and monitoring of its treasury management activities, for the reduction of the risk of fraud or error, and for the pursuit of optimum performance, that these activities are structured and managed in a fully integrated manner, and that there is at all times a clarity of treasury management responsibilities.

The principle on which this will be based is a clear distinction between those charged with setting treasury management policies and those charged with implementing and controlling these policies, particularly with regard to the execution and transmission of funds, the recording and administering of treasury management decisions, and the audit and review of the treasury management function.

If and when the Council intends, as a result of lack of resources or other circumstances, to depart from these principles, the Section 151 Officer or Deputy Section 151 Officer will ensure that the reasons are properly reported in accordance with TMP6 Reporting requirement and management information arrangements, and the implications properly considered and evaluated.

The Section 151 Officer or Deputy Section 151 Officer will ensure that there are clear written statements of the responsibilities for each post engaged in treasury management, and the arrangements for absence cover. The Section 151 Officer or Deputy Section 151 Officer will also ensure that at all times those engaged in treasury management will follow the policies and procedures set out. The present arrangements are detailed within this document.

The Section 151 Officer or Deputy Section 151 Officer will ensure there is proper documentation for all deals and transactions and that procedures exist for the effective transmission of funds. The present arrangements are detailed in the schedule to this document.

The delegations to the Section 151 Officer or Deputy Section 151 Officer in respect of treasury management are set out within this document. The Section 151 Officer or Deputy Section 151 Officer will fulfil all such responsibilities in accordance with the organisation’s policy statement and TMPs and if a CIPFA member, the Standard of Professional Practice on Treasury Management.

TMP 6 Reporting Requirements and Management Information Arrangements

The Council will ensure that regular reports are prepared and considered on the implementation of its treasury management policies; on the effects of decisions taken and transactions executed in pursuit of those policies; on the implications of changes, particularly budgetary, resulting from regulatory, economic, market or other factors affecting its treasury management activities; and on the performance of the treasury management function.

As a minimum, full Council will receive:

- An annual report on the strategy and plan to be pursued in the coming year.
- A mid-year review.
- An annual report on the performance of the treasury management function, on 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 statement and TMPs.

The body responsible for scrutiny, such as an audit or scrutiny committee, will have the responsibility for the scrutiny of treasury management policies and practices.

Local authorities should report the treasury management indicators as detailed in their sector-specified guidance notes.

The present arrangements and the form of these reports are detailed in the schedule to this document.

TMP 7 Budgeting, Accounting and Audit Arrangements

The Section 151 Officer or Deputy Section 151 Officer will prepare, and the Council will approve and, if necessary, from time to time will amend, an annual budget for treasury management, which will bring together all of the costs involved in running the treasury management function, together with associated income. The matters to be included in the budget will at minimum be those required by statute or regulation, together with such information as will demonstrate compliance with TMP1 Risk management, TMP2 Performance measurement, and TMP4 Approved instruments, methods and techniques.

The Section 151 Officer or Deputy Section 151 Officer will exercise effective controls over this budget and will report upon and recommend any changes required in accordance with TMP6 Reporting requirements and management information arrangements.

The Council will account for its treasury management activities, for decisions made and transactions executed, in accordance with appropriate accounting practices and standards, and with statutory and regulatory requirements in force for the time being.

The Council will ensure that its auditors, and those charged with regulatory review, have access to all information and papers supporting the activities of the treasury management function as are necessary for the proper fulfilment of their roles, and that such information and papers demonstrate compliance with external and internal policies and approved practices.

TMP 8 Cash and Cash Flow Management

Unless statutory or regulatory requirements demand otherwise, all monies in the hands of this organisation will be under the control of the Section 151 Officer or Deputy Section 151 Officer and will be aggregated for cash flow and investment management purposes. Cash flow projections will be prepared on a regular and timely basis, and the Section 151 Officer or Deputy Section 151 Officer will ensure that these are adequate for the purposes of monitoring compliance with TMP1 (2) liquidity risk management, further information regarding this is set out in the schedule of this document.

TMP 9 Money Laundering

The Council is alert to the possibility that it may become the subject of an attempt to involve it in a transaction involving the laundering of money. Accordingly, it will maintain procedures for verifying and recording the identity of counterparties and reporting suspicions and will ensure that staff involved in this are properly trained.

Any suspicions of money laundering activities would be reported to the Internal Audit Manager who is the Money Laundering Reporting Officer (MLRO) or the Senior Auditor who is the Deputy Money Laundering Reporting Officer.

TMP 10 Staff Training and Qualifications

The Council recognises the importance of ensuring that all staff involved in the treasury management function are fully equipped to undertake the duties and responsibilities allocated to them. It will therefore seek to appoint individuals who are both capable and experienced and will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills. The Section 151 Officer or Deputy Section 151 Officer will recommend and implement the necessary arrangements.

The Section 151 Officer or Deputy Section 151 Officer will ensure that the Council members tasked with treasury management responsibilities, including those responsible for scrutiny, have access to training relevant to their needs and those responsibilities.

Those charged with governance recognise their individual responsibility to ensure that they have the necessary skills to complete their role effectively.

The present arrangements are detailed in the supporting schedule of this document.

TMP 11 Use of External Service Providers

The Council recognises that responsibility for treasury management decisions remains with the Council at all times. It recognises that there may be potential value of employing external providers of treasury management services, in order to acquire access to specialist skills and resources. When it employs such service providers, it will ensure it does so for reasons which have been submitted to a full evaluation of the costs and benefits. It will also ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed, documented, and subjected to regular review. Where services are subject to formal procurement arrangements, legislative requirements will always be observed. The monitoring of such arrangements rest with the Section 151 Officer or Deputy Section 151 Officer, and details of the current arrangements are set out in the schedule to this document.

TMP 12 Corporate Governance

The Council is committed to the pursuit of proper corporate governance throughout its businesses and services, and to establishing the principles and practices by which this can be achieved. Accordingly, the treasury management function and its activities will be undertaken with openness and transparency, honesty, integrity and accountability.

The Council has adopted and has implemented the key principles of the Code. This, together with the other arrangements detailed in the schedule to this document, are considered vital to the achievement of proper corporate governance in treasury management, and the Section 151 Officer or Deputy Section 151 Officer will monitor and, if and when necessary, report upon the effectiveness of these arrangements.

Investments that are not part of the Treasury Management Activity

Where, in addition to treasury management investment activities, the Council invests in other financial assets and property primarily for financial return, these investments should be proportional to the level of resources available to the organisation and the organisation should ensure that the same robust procedures for consideration of risk and return are applied to these decisions.

Management practices for non-treasury investments.

The Council recognises that investment in other financial assets and property primarily for financial return, taken for non-treasury management purposes, requires careful investment management. Such activities include loans supporting services outcomes, investments in subsidiaries, and investment property portfolios.

The Council will ensure that all council investments are covered in the capital strategy, investment strategy or equivalent, and will set out, where relevant, the organisation's risk appetite and specific policies and arrangements for non-treasury investments. It will recognise that the risk appetite for these activities may differ from that for treasury management.

The Council will maintain a schedule setting out a summary of existing material investments, subsidiaries, joint ventures and liabilities including financial guarantees and the organisation's risk exposure.

The Council's Capital and Investment Strategies are held as separate documents and are available on our website.

Supporting Schedules to the Treasury Management Practices (TMPs)

Risk Management (TMP1)

Credit and Counterparty Policies Risk Management – TMP1(1)

The Council currently holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Council's investment balance has ranged between £44 million and £76 million. During 2023 to 2024 and in future years, due to the Council's Capital Programme, these levels are expected to fall.

Objectives: The CIPFA Code requires the Council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the Council will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested.

Negative interest rates: In the event of negative interest rates, security will be measured as receiving the contractually agreed amount at maturity, even though this may be less than the amount originally invested.

Strategy: As demonstrated by the liability benchmark above, the Council expects to be a long-term borrower and new treasury investments will therefore be made primarily to manage day-to-day cash flows using short-term, low risk instruments.

The CIPFA Code does not permit local councils to both borrow and invest long-term for cash flow management. But the Council may make long-term investments for treasury risk management purposes, including to manage interest rate risk by investing sums borrowed in advance for the capital programme for up to three years.

Business models: Under the new IFRS 9 standard, the accounting for certain investments depends on the Council's "business model" for managing them. The Council aims to achieve value from its internally managed treasury investments by a business model of collecting the contractual cash flows and therefore, where other criteria are also met, these investments will continue to be accounted for at amortised cost.

Approved counterparties: The Council may invest its surplus funds with any of the counterparty types in the table below, subject to the cash limits (per counterparty) and the time limits shown.

Approved investment counterparties and limits

Credit Rating	Banks Unsecured	Banks Secured	Pooled Funds
AAA	£6 million 5 years	£12 million 20 years	£12 million 20 years
AA+	£6 million 5 years	£12 million 10 years	£12 million 15 years
AA	£6 million 4 years	£10 million 5 years	£10 million 15 years
AA-	£6 million 3 years	£10 million 4 years	£10 million 10 years
A+	£6 million 2 years	£8 million 3 years	£8 million 5 years
A	£6 million 13 months	£8 million 2 years	£8 million 5 years
A-	£6 million 6 months	£6 million 13 months	£6 million 5 years
None	£6 million 6 months	n/a	£1 million 5 years
UK Government	Unlimited, 50 Years		
Other UK Local Authorities	Using Arlingclose Rating Formula (Per iDeal trade platform) Gold - £12 million - 5 years Silver - £10 million - 5 years Bronze - £8 million - 5 years		

This table must be read in conjunction with the notes below

*** Minimum credit rating:** Treasury investments will only be made with entities whose lowest published long-term credit rating is no lower than [A-]. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

For entities without published credit ratings, investments may be made either (a) where external advice indicates the entity to be of similar credit quality; or (b) to a maximum of £6 million per counterparty as part of a diversified pool e.g. via a peer-to-peer platform.

Government: Loans to, and bonds and bills issued or guaranteed by, national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk. Investments with the UK Government are deemed to be zero credit risk due to its ability to create additional currency and therefore may be made in unlimited amounts for up to 50 years.

Secured investments: Investments secured on the borrower's assets, which limits the potential losses in the event of insolvency. The amount and quality of the security will be a key factor in the investment decision. Covered bonds and reverse repurchase agreements with banks and building societies are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used. The combined secured and unsecured investments with any one counterparty will not exceed the cash limit for secured investments.

Banks and building societies (unsecured): Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See below for arrangements relating to operational bank accounts.

Registered providers (unsecured): Loans to, and bonds issued or guaranteed by, registered providers of social housing or registered social landlords, formerly known as housing associations. These bodies are regulated by the Regulator of Social Housing (in England), the Scottish Housing Regulator, the Welsh Government and the Department for Communities (in Northern Ireland). As providers of public services, they retain the likelihood of receiving government support if needed.

Money market funds: Pooled funds that offer same-day or short notice liquidity and very low or no price volatility by investing in short-term money markets. They have the advantage over bank accounts of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a small fee. Although no sector limit applies to money market funds, the Authority will take care to diversify its liquid investments over a variety of providers to ensure access to cash at all times.

Strategic pooled funds: Bond, equity and property funds that offer enhanced returns over the longer term but are more volatile in the short term. These allow the Authority to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's investment objectives will be monitored regularly.

Real estate investment trusts: Shares in companies that invest mainly in real estate and pay the majority of their rental income to investors in a similar manner to pooled property funds. As with property funds, REITs offer enhanced returns over the longer term, but are more volatile especially as the share price reflects changing demand for the shares as well as changes in the value of the underlying properties.

Other investments: This category covers treasury investments not listed above, for example unsecured corporate bonds and company loans. Non-bank companies cannot be bailed-in but can become insolvent placing the Authority's investment at risk.

Operational bank accounts: The Council may incur operational exposures, for example though current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments but are still subject to the risk of a bank bail-in, and balances will therefore be kept below £1 million per bank. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Authority maintaining operational continuity.

Risk assessment and credit ratings: Credit ratings are obtained and monitored by the Council's treasury advisers, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made,
- any existing investments that can be recalled or sold at no cost will be, and

- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "negative watch") so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

Other information on the security of investments: The Council understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support, reports in the quality financial press and analysis and advice from the Authority's treasury management adviser. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may otherwise meet the above criteria.

When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2020, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Authority will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Authority's cash balances, then the surplus will be deposited with the UK Government, or with other local authorities. This will cause investment returns to fall but will protect the principal sum invested.

Investment limits: The Council's revenue reserves available to cover investment losses are forecast to be £38.7 million on 31 March 2023. In order that no more than 40 per cent of available reserves will be put at risk in the case of a single default, the maximum that will be lent to any one organisation (other than the UK Government) will be £12 million. A group of entities under the same ownership will be treated as a single organisation for limit purposes.

Credit risk exposures arising from non-treasury investments, financial derivatives and balances greater than £1.5 million in operational bank accounts count against the relevant investment limits.

Limits are also placed on fund managers, investments in brokers' nominee accounts and foreign countries as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

Investment limits

	Cash limit
Any single organisation, except the UK Central Government	£12 million each
UK Central Government	Unlimited
Any group of organisations under the same ownership	£12 million per group
Any group of pooled funds under the same management	£12 million per manager

Negotiable instruments held in a broker's nominee account	£12 million per broker
Foreign countries	£3 million per country
Unsecured investments with non-rated building societies	£6 million each
Money market funds	£12 million in total

Liquidity Risk Management - TMP1(2)

Liquidity management

The Council uses a cash flow forecasting spreadsheet to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the Council being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Council's medium-term financial plan and cash flow forecast.

The Council will spread its liquid cash over at least three providers (e.g. bank accounts and money market funds) to ensure that access to cash is maintained in the event of operational difficulties at any one provider.

Approved Minimum Cash Balances and Short-Term Investments

In order to maintain the position of the Council, in terms of liquidity, the following limits have been set: -

- Daily treasury management procedures will aim to maintain a forecast consolidated balance in the region of £50,000 to £1.5 million. However, balances over £1.5 million may be retained in the Council's current account to be used to cover payments going out provided the limit is not exceed for more than five consecutive working days.

- If two internally managed investments are being placed on the same day with different maturity dates, one counterparty may be used for the two investments even if the investment per cent rate offered on one of the investments is not the highest rate and the subsequent loss of interest incurred does not exceed the pre-set limit of £50.00 on that one investment. However, the counterparty in question must be willing to accept the two investments as one CHAPS payment.

- In order to meet the cash flow requirements of the Council, a Treasury Deposit Account is held with our current bankers that is used to hold up to £10 million to cover any large, planned expenditure. This account has been established as a replacement for the overdraft facility that was cancelled as a result of increasing standing charges.

Standby Facilities/Call Accounts

The Council also holds instant access / call accounts with the following banks:

- Barclays

Overdraft Arrangements

Although no overdraft arrangements are currently in place, the Council would have the opportunity to re-instate the facility with the Council's bankers with a net limit of £1 million. Interest will be charged at 2 per cent above the Bank's Base Rate should the need arise.

The Bank also operates a **Daylight Exposure Limit** (also known as the Settlement Risk Exposure)**,** which allows the consolidated bank accounts can be overdrawn during the course of the working day; the limit is set at £25 million. The daylight exposure limit is intended to cover any crossover periods during the day when large payments have to be made from the Council's bank accounts, but the expected credits may not be received until later in the day.

The daylight exposure limit only covers CHAPS payments.

Short & Long Term Borrowing Facilities

There is a borrowing limit that is set by the Council each year in accordance with the Local Government Act 2003. The limit is a specific indicator within the Council's Prudential Code which is reviewed annually in accordance with the code/best practice and is approved by Full Council.

Should the need for further borrowing prove necessary, or appropriate for strategic purposes, provided the limit is within the prudential indicator, then arrangements would be made in accordance with the code.

Interest Rate Risk Management – TMP1(3)

The Council will manage its exposure to fluctuations in interest rates with a view to securing its interest revenues, in accordance with the amounts provided in its budgetary arrangements as amended in accordance with TMP6 Reporting requirements and management information arrangements.

It will achieve this by the prudent use of its approved investment instruments, methods and techniques, primarily to create stability and certainty of revenues, but at the same time retaining a sufficient degree of flexibility to take advantage of unexpected, potentially advantageous changes in the level or structure of interest rates. This should be subject to the consideration and, if required, approval of any policy or budgetary implications.

The Council also has an interest equalisation reserve which, if necessary, can be used to help smooth out the level of interest received due to fluctuations in interest rates.

Exchange Rate Risk - TMP1(4)

This is the risk that fluctuations in foreign exchange rates may create an unexpected, or unbudgeted, burden on the Council's finances. In order to mitigate this risk, the Councils investments are restricted to sterling, however, it does have access to real-time market advice from its external advisors which will enable it to assess any potential risks arising and to take any necessary action.

Inflation Risk Management TMP1 (5)

The effects of varying levels of inflation, insofar as they can be identified as impacting directly on its treasury management activities, will be controlled by the Council as an integral part of its strategy for managing its overall exposure to inflation.

It will achieve these objectives by the prudent use of its approved financing and investment instruments, methods and techniques, primarily to create stability and certainty of costs and revenues, but at the same time retaining a sufficient degree of flexibility to take advantage of unexpected, potentially advantageous changes in the level or structure of interest rates, exchange rates or inflation. The above are subject at all times to the consideration and, if required, approval of any policy or budgetary implications.

Refinancing Risk Management - TMP1(6)

The Council holds reliable and accurate records of the terms and maturities of its borrowings (where applicable) to enable it to plan the timing of, and successfully negotiate appropriate terms for its refinancing, if required.

Legal and Regulatory Risk Management – TMP1(7)

The regulations and statutory provisions or any statutory amendment, regarding enactment or modification thereof, under which Treasury Management investments are performed would include: -

- Local Government Act 1972 (taking account of the Trustee Investment Act 1961).
- The Local Government Act 1989.
- Local Authorities (Capital Finance) Regulations 1990 (SI 1990 No. 426) as amended.
- Local Authorities (Capital Finance) (Approved Investments) (Amendment) Regulations 1990 (SI 1991 No. 501). This SI was one of many which amended SI 1990 No. 426 above.
- The Local Authorities (Contracting Out of Investment Functions) Order 1996 (SI 1996/1883).

The regulations and statutory provisions under which Treasury Management borrowing is performed would include: -

- The Local Government and Housing Act 1989 (including sections 43, 45 and 46 of that Act).

- The Public Works Loan Board Acts 1965 and 1967.

- The Local Authorities (Borrowing) Regulations 1990 (SI 1990/767) as amended by the Local Council (Borrowing) (Amendment) Regulations 1991 (SI 1991/551).

- The Local Government Act 2003.

Treasury Management procedures will be updated to accommodate any new legislative provisions.

It is recognised that future legislative or regulatory changes may impact on its treasury management activities and, so far as it is reasonably able to do so, will seek to minimise the risk of these impacting adversely on the organisation.

Fraud, Error and Corruption, and Contingency Management – TMP1(8)

Fraud and Error

The Council recognises that there is a risk of fraud or error occurring through the performance of the Treasury Management function. Consequently, procedures are in place to ensure control over the organisations with which the Council invests (see Credit and Counterparty Risk Management), and to ensure there is an adequate segregation of duties.

The Council now uses an internet based banking system in connection with the Treasury Management function, however access to this is tightly controlled and the security and integrity of the site/system is managed by the Council's bankers Lloyds Bank Plc (a separate procedure manual details the system, procedures and emergency /contingency arrangements applicable in terms of making payments, and obtaining treasury information is available).

Treasury information may be made available on the Councils website however care will be exercised to ensure that no sensitive Treasury information is published through such arenas.

The Council has an "Anti-fraud Policy" and "Whistle-blowing procedures" that identify measures to control the risk of fraud by staff and Members. These can be found in the Internal Audit section of the Council's website.

Internal Audit undertake an annual audit review of the Treasury Management system and assess the effectiveness of controls implemented to prevent or detect fraud and error.

Shortfall of Funds

Should the Council suffer an unforeseen shortfall of funds, the nature of the position should be discussed with the Section 151 Officer or the Deputy Section 151 Officer.

Dependent on the nature of the shortfall, it may be necessary to negotiate terms with the Councils bankers to cover the shortfall, or to loan money from a Broker.

Insurance

The Council holds insurance, which covers loss of money or property belonging to the Council or for which they are legally responsible, resulting from any act of fraud or dishonesty of its employees, discovered during the period of insurance or within 24 months of the expiration.

All employees are covered by the policy, with the following limits being applicable: -

Six Designated Resources and Performance Staff (responsible for Treasury management) £5 million
All other staff £500,000

The Resources and Performance posts insured for the Treasury Management value of £5 million are as follows: -

Assistant Director - Resources and Performance
Service Manager – Finance and Performance
Projects and Capital Manager
Business Partner - Capital
Team Leader (Treasury and Insurance)
Finance Business Support Officer (Treasury and Insurance)

Price Risk Management - TMP1(9)

The Council mitigates this risk through the use of market advice from its External Fund Managers and through a monthly review of the credit ratings.

Methodology Applied to Evaluate the Impact of Treasury Management Decisions

The Council invests its funds in fixed term deposits, bonds, pooled funds and with other Local Authorities, a proportion of which are short term (to meet cash flow requirements) and the remaining of which are invested for periods determined by the Council, in conjunction with its external fund managers, to meet its longer term requirements.

Political Risks and the Management Thereof

There are cycles of political change at both national and local levels. An overview of the political situation at both levels will be maintained, so that any likely political risks can be identified at the earliest opportunity, with a view to addressing any issues proactively at a corporate management level

Performance Measurement – TMP2

A monthly statement is produced, for each of the Councils investment categories, showing the average rate of return for each category, this is compared to/monitored against the target interest rate projection.

The average rate calculations are weighted in order to take account of the value and duration of investments, in order to ensure an accurate rate of return is produced.

Benchmarking of the Council's return is also undertaken via our advisors Arlingclose Ltd.

Decision Making and Analysis - TMP3

Funding

Funding of the Council's capital expenditure is dealt with in a report to the Council prior to the commencement of each financial year.

A five-year capital programme is presented to Council, for General Fund capital expenditure, along with the financing proposals.

Projections are carried out annually (and prior to the inclusion of any new capital projects) to ensure that sufficient finance is available to meet the Councils capital expenditure requirements.

Revenue funding is dealt with through the Revenue Budget and Council Tax setting process.

Borrowing

There is a borrowing limit that is set by the Council each year in accordance with the Local Government Act 2003. The limit is a specific indicator within the Councils Prudential Code which is reviewed annually in accordance with the code/best practice and is approved by full Council.

Should the need for further borrowing prove necessary, or appropriate for strategic purposes, provided the limit is within the prudential indicator, then arrangements would be made in accordance with the code. If the need to borrow exceeds the limit set in the prudential indicator, approval will be sort from full Council.

Policy on Interest Rate Exposure

The Policy on interest rate exposure is now dealt with through the Prudential Code in accordance with the Local Government Act 2003. The limits that are being recommended to Council for 2023 to 2024 are being considered and will be reported to Council as part of the Prudential Code update.

Sources of Borrowing

The approved sources of long-term and short-term borrowing are:

- Public Works Loan Board (PWLB) and any successor body
- any institution approved for investments (see below)
- any other bank or building society authorised to operate in the UK
- any other UK public sector body
- UK public and private sector pension funds (except Suffolk County Council Pension Fund)
- capital market bond investors
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local Council bond issues

In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- leasing
- hire purchase
- Private Finance Initiative
- sale and leaseback

Processes/Records to be Held

When a loan/investment is received/made, the following procedures should be followed, and records held:

Complete a quotation sheet, three quotes for suitable counterparties or comparative quotes if using alternative investment vehicles to be obtained. Recommendation to be signed off by the Assistant Director - Resources and Performance or duly authorised Officer.

Note: under the current circumstances the requirement to obtain three quotes for investments has been temporarily suspended, with investments with the DMO the preferred choice for security of investment.

Enter the full details into the Treasury Investment spreadsheet.

The amount of the loan/investment must also be entered on the cash flow spreadsheet, if it is for a fixed term, also enter the amount as a receipt in the cash flow spreadsheet on the maturity date.

When the counterparty’s confirmation note is received, check the details with the Treasury Investment spreadsheet.

All documentation relating the transaction must be scanned into the appropriate folder and paper copies filed accordingly.

Organisation Clarity and Segregation of Responsibilities, and Dealing Arrangements – TMP5

Introduction

The Section 151 Officer and/or Deputy Section 151 Officer has delegated responsibility for the execution and administration of treasury management decisions.

The Section 151 Officer and/or Deputy Section 151 Officer may delegate their treasury management responsibilities to members of their staff. Details of these arrangements are set out below.

Authorised treasury signatories of the Council will be permitted to sign documentation relating to the Council's borrowings and investments.

The daily treasury management routines to be followed are available on request. These procedures will be maintained and reviewed annually.

Delegated Powers and Responsibilities

The Cabinet/Full Council is responsible for:

- Adoption of the revised CIPFA Treasury Management Code and Treasury Management Policy.
- Receiving, commenting on, and approval of the Annual Treasury Management and Investment Strategy Statements (prior to the commencement of the financial year).
- Receiving and commenting on an annual report on treasury management activity for the preceding financial year as soon as possible after the end of the financial year, but in any case by the end of September.
- Receiving and commenting on other periodic reports on the treasury management function and its performance during the year.
- Approval of the Prudential Indicators, Authorised Borrowing Limit and Operational Boundary for borrowing.

The Assistant Director (Resources & Performance) (Section 151 Officer) is responsible for:

- Ensuring compliance with the treasury management policy statement and that the policy complies with the law.
- Carrying out regular reviews of the treasury management function.
- Ensuring that any variations to the treasury policy or the internal practices fully comply with the law and the code of practice.
- Ensuring that there is an adequate internal audit function.
- Liaising with the Deputy 151 Officer on treasury management decisions.
- Making long term investment decisions in accordance with the approved policy.
- Deciding on funding and short-term policies for the ensuing year.
- Deciding on lending and investment policies for the ensuing year.
- Advising the Council on the acceptability and characteristics of treasury instruments.
- Establishing the vires of the proposed action and the instruments to be used.
- Ensuring that the organisation of the treasury management function is adequate to meet current requirements and that there is an appropriate division of duties.

- Assessing and appointing brokers/advisors/external fund managers.
- Reporting to elected members and advising the monitoring officer where that is appropriate.
- Re-determining treasury management strategy in the light of forecast changes in the economy and reporting it to members at the appropriate time.
- Approving changes to counterparty credit limits, in consultation with the Portfolio Holder for Performance and Resources.
- Ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function.

The Service Manager - Finance & Performance / Deputy Section 151 Officer / Projects and Capital Manager is responsible for:

- Reviewing the annual Treasury Management Statement and Code of Practice.
- Overall management of the Treasury function.
- Deputising for the Assistant Director (Resources and Performance) in his/her absence for matters relating to the treasury management function.
- Monitoring adherence to approved policy by treasury management team.
- Ensuring that an appropriate division of duties is in place and that all staff are properly trained to carry out the required duties.
- Making recommendations regarding:
    - the appointment of brokers
    - the organisation of the treasury management function
    - funding and short-term policies
    - lending and investment policies
    - acceptability and characteristics of treasury instruments
    - the vires of proposed action and the instruments to use.
- Reviewing the performance of the treasury management function at least twice a year.
- Ensuring that all treasury staff are aware of and have access to the Financial Conduct Council handbook of rules and guidance which is available on the FSA website.
- Ensuring that the day to day activities accord with the Treasury Management Statement.
- Ensuring compliance with policies, limitations and directions.
- Monitoring performance of brokers employed.
- All recording and administrative functions complying with the system and procedures laid down in the treasury management document.
- Reviewing regular performance reports.

The Team Leader (Treasury and Insurance) is responsible for:

- Overseeing the daily treasury management function.
- Ensuring that the treasury management procedures and practices are regularly reviewed and adhered to.
- Preparing the draft Treasury Management Statement.
- Producing regular performance reports.
- Monitoring performance of brokers employed.
- Deputising for the Projects and Capital Manager in his/her absence for matters relating to the treasury management function.

The Finance Business Support Officer is responsible for:

- Dealing with the money market, complying with the systems and procedures laid down in the treasury management document.
- Updating of daily cash flow.
- Ensuring that properly authorised transactions are actioned in a timely manner.
- Reconciling treasury management transactions on a monthly basis.
- Deputising for the Team Leader (Treasury and Insurance) in his/her absence for matters relating to the treasury management function.

The Internal Audit Manager is responsible for:

- Reviewing compliance with the approved policy and procedures on treasury management.
- Reviewing the division of duties and operational practices.
- Assessing value for money from treasury activities.
- Undertaking probity audit of treasury function.
- Reporting and monitoring of Money Laundering activities.

The Chief Executive is responsible for:

- Ensuring that the system is laid down and resourced.
- Ensuring that the Section 151 Officer or Deputy Section 151 Officer reports regularly to elected Members on treasury policy, activity and performance.

The Monitoring Officer is responsible for:

- Ensuring compliance by the Section 151 Officer or Deputy Section 151 Officer with the treasury policy and that the policy complies with the law.
- Satisfying himself / herself that any proposal to vary treasury policy or practice complies with the law.
- Advising the Section 151 Officer or Deputy Section 151 Officer where their advice is sought.

Use of External Brokers/Advisors/Fund Managers

The Council will employ the services of other organisations to assist it in the field of treasury management. In particular, it will use external advisors and/or fund managers to provide specialist advice in this ever more complex area. However, it will ensure that it fully understands what services are being provided and that they meet the needs of this organisation, especially in terms of being objective and free from conflicts of interest.

Bankers

The Councils bankers are Lloyds Bank Plc.

Long Term Borrowing (Public Works Loan Board)

The officers, authorised to obtain loans with the Public Works Loan Board (once full Council approval has been received), are as follows:

- Assistant Director - Resources and Performance (Section 151 Officer)
- Service Manager – Finance and Performance (Deputy Section 151 Officer)
- Projects and Capital Manager
- PPC Manager

Investment Direct Dealing Practices

Where there are sufficient funds available to justify an investment, three quotations are obtained from the organisations on the approved list.

It is essential to ensure that when selecting these organisations from the approved list, the investment limits of the organisations are not exceeded.

Three quotations ensure that the best rate is obtained on the investment, indicative quotes may be used when alternative investment vehicles are utilised.

Note: under the current circumstances the requirement to obtain three quotes for investments has been temporarily suspended, with investments with the DMO the preferred choice for security of investment.

Policy on Taping of Conversations

The Council has no facilities for recording dealing and is therefore reliant on any recordings of conversations relating to dealing held by the institutions with which it deals.

Settlement Transmission Procedures

Before transmission of a payment to the investment organisation, a payment voucher is completed with the details of the organisations name, sort code (and where appropriate, their account number), details of the period of the investment, the interest rate achieved and the amount to be invested.

Before any payments can be transmitted, 2 independent authorisations are required on the banking system.

Documentation Requirements

There are spreadsheets in place to record all aspects of treasury management and investment. These spreadsheets are reconciled, independently checked and signed on a monthly basis.

The use of email instructions and electronic signatures has been approved for all Treasury transactions.

Reporting Requirements and Management Information Arrangements – TMP6

The nature and frequency of reporting are covered in Organisation, Clarity and Segregation of Responsibilities and Dealing Arrangements.

Four Treasury Management reports will be made to Council each financial year, the Treasury Management and Annual Investment Strategy Statement Report, the Treasury Management Monitoring Report, the Treasury Management Annual Report, and the report on the Prudential Indicators.

In addition, further reports will be presented to Council for the approval of revisions to the Treasury Management Code of Practice, and to seek approval for any revisions to the approved Treasury Management Strategy, Prudential Indicators and any additions or deletions from the approved list of organisations for investments.

All reports must be approved by Council.

Reporting Content

The prescribed minimum content of the four main annual reports to Council, are detailed in the summaries below. This minimum content gives a degree of flexibility, in terms of the content of the report, whilst ensuring that key issues are always reported.

Annual Strategy Report Minimum Contents Summary

The Annual Strategy Report must be submitted to Council by 31 March each year and should, as a minimum, contain the following: -

- Details of the level of external debt
- Investment Limits
- External investment fund limits
- Forecast interest rate movements for the ensuing year
- Breakdown of surplus funds held
- Proposed investment and / or borrowing strategy

Annual Report Minimum Contents Summary

The Treasury Management Annual report must be submitted to Council by 30 September following the previous financial year's end, and should, as a minimum, contain the following: -

- Details of the level of external debt held and a list of lenders names
- Investment performance against benchmark criteria
- A breakdown of investments held
- An explanation of interest rate movements during the financial year, against forecast movements in the original Annual Strategy Report
- Any breaches from the Code of Practice
- A statement of compliance from the Internal Audit manager

Monitoring Report Minimum Summary of Contents

The monitoring report must be submitted to Council by 31 December each year and should, as a minimum, contain the following: -

- Details of the level of external debt
- Investment performance against benchmark criteria
- A breakdown of investments held
- Any revisions to Treasury Management strategy
- A revised interest rate forecast for the remainder of the financial year
- Any breaches from the Code of Practice
- Show the position as at the end of 30 September

Revisions to the Treasury Management Code of Practice Contents Summary

The report must be submitted to Council by the 7 March each year and should contain as a minimum, the following;

- Any legislative changes
- Any guidance changes
- Any significant changes in procedures
- Confirmation that the CIPFA Code of Practice for Treasury Management in the Public Services has been adopted
- At the same Council meeting a report must be submitted on the Councils Prudential Code & Associated Indicators and should contain as a minimum, the following;

    - Rates of financing costs to net revenue stream
    - Net borrowing and the capital financing requirement
    - Total capital expenditure in each year
    - Average balance of capital receipts available
    - Limits in interest rate exposure
    - Maturing structure of borrowing
    - Incremental impact of capital investment
    - Total principal sums invested and limits on long term investment maturities
    - Minimum Revenue Provision Policy

Budgeting, Accounting and Audit Arrangements – TMP7

Statutory/Regulation Requirements

Statutory and regulatory requirements relating to Treasury Management are dealt with under TMP1 under the heading "Legal and Regulatory".

Accounting Practices and Standards

The Council, in addition to all relevant SSAP's, FRS's and IAS's adheres to all practices and standards provided by CIPFA.

Budgets

Budgets are set, prior to the commencement of a financial year, for brokerage fees charged by the Councils Fund Managers and Advisors.

A forecast of interest receipts for the ensuing financial year is prepared prior to its commencement by the Projects and Capital Manager. This budget is also revised during the year, to take account of any variations in the amount likely to be received.

Investment categories are individually coded on the Council's financial information system, in terms of the interest received, principal sums invested, and investments recouped. Information is updated on the Financial Information System directly from the bank statements received, by the Bank Reconciliation Officer who is independent of the Treasury Management function.

The Treasury records are reconciled to the information on the financial information system, on a monthly basis. Reconciliation's are checked independently by the Team Leader (Treasury and Regulatory Services) and signed to signify approval.

External Audit Information Requirements

The "Audit Fraud and Corruption Manual" details system controls which external auditors would wish to see in place for Treasury Management. These are as follows: -

- Clear written procedures for staff
- Transactions are regularly reviewed and examined by a senior officer
- Appropriate access controls exist
- All cheques/direct credits over a specified amount are checked back to prime documents and countersigned by a senior officer
- Banks only accept direct transfers to institutions on an approved list
- Changes to the approved list require counter signature by a senior officer
- Transfer via a direct terminal link is only allowed when confirmed by a second officer
- Cheques are despatched independently of the loan officer
- Discharged certificates are obtained for all bond repayments.
- Direct confirmation with borrowers or lenders of premiums or discounts on premature repayments.
- Premium or discount payments are checked for reasonableness.

Cash and Cash Flow Management – TMP8

Monitoring of cash flow requirements is carried out using a Cash Flow spreadsheet. The spreadsheet shows all the days of the year and is broken down into headings of income and expenditure for each working day of the year. This allows a forecast of the consolidated end of day closing balance to be compiled, on which Treasury Management decisions can be based.

This spreadsheet is compiled prior to the commencement of the financial year and is updated with all cash inflows and outflows which are known (in terms of amounts and the dates they will occur) at the commencement of the financial year. These would include:

- Precept payments to be made to precepting bodies
- Contributions to and from the National Non-Domestic Rating pool

- Any other known cash in flows and out flows

In addition to updating this spreadsheet with cash inflows and outflows known at the start of the year, notes are made on the spreadsheet of those transactions, which cannot be quantified, but are known to occur on specific dates. These would include:

- Council Tax direct debit income
- National Non-Domestic Rates (NNDR) direct debit income
- Monthly payroll (and associated) payments

Other income and expenditure are known to occur on a regular basis, and cash flow decisions also take account of these. Examples would include:

- Accounts Payable (Creditor) Payments (made on each Monday and Thursday)
- Housing Benefits (HBIS) BACS payments (made on each Monday)
- Other daily income, e.g. from cashiers

The daily forecast cleared closing consolidated balance is compared to the consolidated forecast balance from the Councils direct banking system, in order to give assurance that the system and spreadsheet are taking account of all transactions.

The end of day forecast cleared consolidated balance is the figure which treasury management decisions are based on. Two authorised officers therefore check this figure, independently, for control purposes, where an investment or borrowing decision is to be made.

Daily Procedures

The Finance Business Support Officer (Treasury and Insurance) will perform day to day cash management. The Team Leader (Treasury and Insurance) and the Business Partner - Capital will provide cover in the absence of any of the aforementioned officers.

It is now required that all designated treasury staff carry out the treasury management daily procedures for 2 individual weeks during the course of the year, to ensure that they are continually up to date with treasury management procedures.

Objective

The objective of the day to day cash management is to ensure that the consolidated balance of the Council’s bank accounts is, where possible, kept within its target overnight level of up to £1 million, whilst adequately meeting the day to day cash requirements of the Council.

However, balances over £1 million may be retained in the bank account to be used to cover payments going out provided the limit is not exceed for more than five consecutive working days.

Investment/Borrowing Decision Making

Borrowing to meet any shortfall or investing directly with organisations on the approved list can be authorised by the Assistant Director of Resources and Performance (Section 151 Officer), Service Manager - Finance and Performance (Deputy Section 151 Officer), Projects and Capital Manager, Planning, Performance & Control Manager. In the absence of one of the officers above, one of the Senior Business Partners or Business Partner – Capital can act as Sanctioning Officer with the documentation being countersigned by an authorising officer at the earliest opportunity. Longer term borrowing requires Council approval.

With increased working over multiple sites and remote working arrangements, the required officers are not always available to provide 'hard copy' authorisation. To increase efficiency and ensure treasury activities are carried out in a timely manner, the use of email authorisation is permitted. Copies of the email trail must accompany all deal paperwork in the completed file.

Forecasting the closing balance on the consolidated accounts

This is reached by obtaining a daily cleared debit/credit balance from the Direct Banking system and referring to the "Cashflow" Spreadsheet for any other significant income/payments.

Bank Statement Procedures

On receipt, bank statements are forwarded to the Accounts section, whereby they are distributed to the appropriate responsible officer.

Payment Scheduling and Agreed Terms with Trade Creditors

Creditor runs, through the creditors system are performed on a bi-weekly basis to provide both BACS and cheque payments.

The Councils general terms are that payment of invoices will be made within 30 days, unless alternative terms are detailed on invoices.

The Treasury Management team is provided with information on the level of creditor payments to be made each week, in time to ensure sufficient funds are available to meet the liability.

Procedure for Banking of Funds

A private security firm carries out the banking of funds.

Procedures for the reconciliation of cash and cheques collected at each location, to those banked, are also in place.

Scheme for the Advancing of Car Loans to Members of Staff

The scheme is intended to assist specified officers with the purchase of a vehicle where it is deemed necessary to have the availability of a vehicle for the performance of his/her duties.

The full Policy can be found on the Corporate Drive and in the Policy Library.

Loans to Parish Councils and External Organisations

More detailed information on the criteria for a loan and the application process can be found in the Council's loan policy.

Money Laundering - TMP9

Methodology for Identifying Sources of Deposit

For all investments, managed internally, the Council deals with financial institutions that hold an acceptable Credit Rating as detailed in TMP 1.

This high credit rating gives some assurance that all institutions included on the approved list of organisations for investments are reputable companies.

Methodology for Establishing the Identity/Authenticity of Lenders

In terms of temporary loans, the Council has a policy of only accepting loans from Parish Councils, or occasionally of small amounts from Community Organisations (subject to such loans not adversely affecting the Authorised Borrowing Limit or the Operational Boundary for Borrowing), where this would benefit the organisation concerned. Any other loans accepted would relate to performance bonds from reputable companies.

The Council currently has £13.75 million of long-term borrowings. Should it prove necessary to borrow further, only Brokers included in the Councils approved list would be asked to provide quotations. Written confirmations of all details relevant to any transaction would be required on the Broker's headed paper.

Disaster Recovery Plan

In the event that the offices cannot be accessed, or the online banking facility is unavailable, there are contingency arrangements in place to ensure that where possible Treasury Management obligations are met. These emergency contingency arrangements can be found in the Treasury Management Procedures Manual.

As a result of the enforced changes to working arrangements in 2020, full remote working facilities are available to all officers involved in Treasury Management and payment authorisation.

Training and Qualifications – TMP10

It is the Councils intention for all the posts detailed in the schedule for TMP5 "Organisation, Clarity and Segregation of Responsibilities, and Dealing Arrangements" to be occupied.

Should a vacancy for any post be unfilled for any exceptional period of time, then the Code of Practice will be reviewed to assess any likely implications and risks, and so that any necessary amendments may be made and presented to Council for approval.

It is the intention of the Council that staff holding the posts will have adequate knowledge and skills in order to fulfil the requirements of these posts.

Those responsible for day-today treasury management activities will ensure that they keep their knowledge and skills up to date. This will be done in a number of ways (both in-house and using external providers), including but not limited to those detailed below:

- Attend a minimum of two strategy meetings with the Council's treasury advisers each year.
- Review annual Treasury Management Strategy and Code of Practice, noting any changes.
- Attend a minimum of one update session per month provided by the Council's independent treasury advisers.
- Attend weekly Treasury update meetings.
- Maintain and update as necessary Treasury Learning Resources.
- Attend monthly cash-flow meetings to better understand short and medium term cash requirements.
- Review of news / updates on treasury management subjects, including those provided by the Council's treasury advisors, as well as through publications such as Public Finance.

The knowledge and skills will be monitored throughout the year. A review will take place as part of the annual performance review procedure and any gaps in knowledge or skills will be identified and actions identified to address them.

The Chief Finance Officer / Deputy Chief Finance Officer will maintain their knowledge and skill in a number of ways, including but not limited to those detailed below:

- Attendance at annual CIPFA Conferences
- Attendance at strategy meetings with the council's Treasury Advisers each year.
- Review of news / updates on treasury management subjects, including those provided by the Council's treasury advisors, as well as through publications such as Public Finance and Room 151.

Council members responsible for scrutiny of the Council's treasury management function (members of the Performance & Audit Scrutiny Committee) will be provided with an annual training session from the Council's independent treasury advisors, as well as quarterly updates on treasury management activity from the in-house treasury management team.

Use of External Service Providers - TMP11

The Council may employ the services of other organisations to assist it in the field of treasury management. In particular, it may use external treasury advisors and/or brokers/fund managers to provide specialist advice in this ever more complex area. However, it will ensure that it fully understands what services are being provided and that they meet the needs of this organisation, especially in terms of being objective and free from conflicts of interest.

The Council has a contract with Arlingclose Ltd for treasury advice, this contract expires 31 March 2023.

Corporate Governance – TMP12

Information Available for Public Inspection

The Council will make publicly available information relating to its Treasury Management strategy.

The Council will also make available information relating to the performance of the Treasury Management function in terms of the rate of return received on investments.

Consultation with Stakeholders

The Councils main objective is to maximise investment income without compromising its position in terms of risk. This strategy results in little scope for consultation with stakeholders, over what is effectively investment strategy.