REPORT TO:	**Audit and Governance Committee – 19 February 2024**
SUBJECT:	**Treasury Management Strategy Statement and Annual Investment Strategy 2024/25**
LEAD OFFICER:	**Antony Baden - Group Head of Finance and Section 151 Officer**
LEAD MEMBER:	Councillor James Walsh
WARDS:	**All**

CORPORATE PRIORITY/POLICY CONTEXT/CORPORATE VISION:

The Council's Treasury Management Strategy Statement and Annual Investment Strategy for the 2024/25 financial year supports and promotes all the Council's corporate priorities.

DIRECTORATE POLICY CONTEXT:

The Treasury Management Strategy Statement (TMSS) and Annual Investment Strategy (AIS)**,** including the Minimum Revenue Provision (MRP) policy statement, influences the activities of all Directorates across the Council.

It is one of the most important reports considered by Audit and Governance Committee for the financial year (2024-25). It is forward looking and includes:

- the capital plans (including prudential indicators),
- the Minimum Revenue Provision policy statement, which sets out how capital expenditure funded from borrowing is charged to the revenue budget over time,
- the Treasury Management Strategy, which explains how the Council's investments and borrowings are to be organised, (including treasury indicators), and,
- the Annual Investment strategy (the parameters on how investments are to be managed).

FINANCIAL SUMMARY:

The financial implications are explained throughout the report.

1. PURPOSE OF REPORT

1.1. The purpose of this report is to present the Treasury Management Strategy Statement (TMSS) and Annual Investment Strategy (AIS) for 2024/2025 and to enable the Audit and Governance Committee to scrutinise the report prior to taking it to Full Council on 13 March 2024.

2. RECOMMENDATIONS

Audit and Governance Committee is requested to recommend Full Council to:

2.1. Approve and adopt the Treasury Management Strategy Statement for 2024/25.

2.2. Approve and adopt the Annual Investment Strategy for 2024/25.

2.3. Approve the Prudential Indicators within the TMSS and AIS for 2024/25.

2.4. Approve an operational boundary borrowing limit of £78M for 2024/25 as shown in Appendix 2.

2.5. Approve an Authorised Borrowing Limit of £83M for 2024/25 as shown in Appendix 2.

3. EXECUTIVE SUMMARY

3.1. The report has been prepared to ensure that the content complies with the requirements of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management 2021.

3.2. Section 12 of the Local Government Act 2003 Act provides local authorities with the power to invest for any purpose relevant to its functions, or for the purposes of the prudent management of its finances. Broadly speaking, this means that its cash resources must be invested under the 'SLY' principles of Security, Liquidity and then Yield.

4. DETAIL

4.1. CIPFA defines treasury management as follows:

"*The management of the local authority's borrowing, investments and cash flows, including its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."*

4.2. The contribution the treasury management function makes to the Council is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.

4.3. Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activities, (arising usually from capital expenditure), and are separate from the day-to-day treasury management activities.

4.4. The details of the TMSS, AIS and Prudential Indicators are included in Appendices 1 to 8. Appendix 9 contains the Council's Treasury Management scheme of delegation and Appendix 10 outlines the role of the section 151 officer. Appendix 11 has been included to illustrate the issues facing the Council with regards to the IFRS 9 override.

5. CONSULTATION

5.1. Consultation has been undertaken with the Council's Treasury Advisors – Link Group, Link Treasury Services Limited.

6. OPTIONS / ALTERNATIVES CONSIDERED

6.1. The Treasury Management Strategy is a mandatory requirement under the Local Government Act 2003 and therefore the only option available is to accept the recommendations.

7. COMMENTS BY THE GROUP HEAD OF FINANCE SUPPORT/SECTION 151 OFFICER

7.1. The Council is required to ensure that cash raised during the year will meet expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low-risk counterparties or instruments in line with the Council's low risk appetite, providing adequate liquidity before considering investment return.

7.2. Another key function of the treasury management service is to manage the funding of the Council's Capital Programme. It determines borrowing needs in respect of longer-term cash flow planning so that the Council can deliver its capital plans. This involves arranging long and short-term loans as well as the use of cash flow surpluses. It can also involve restructuring existing debt if this reduces costs or risk exposure to interest rate increases.

7.3. The Treasury Management function looks to optimize interest income and reduce debt interest payments whilst ensuring that the Council has enough liquidity to meet all its spending commitments. Since cash balances generally consist of reserves and balances, it is paramount that investments are placed as securely as possible as any losses would have an adverse impact on the revenue budget.

7.4. The financial implications of both strategies are detailed throughout this report and in the Appendices.

8. RISK ASSESSMENT CONSIDERATIONS

8.1. The main risks in treasury management are financial ones. These are identified in the Council's Treasury Management Practices and the main risks in these activities are:

- liquidity;
- markets or investment;
- inflation;
- credit and counterparty;
- legal and regulatory

8.2. The consequences of ignoring these are poor treasury management practices, diminished interest returns, loss of capital invested and poor funds liquidity. The Council's strategies mitigate against most of these risks.

9. COMMENTS OF THE GROUP HEAD OF LAW AND GOVERNANCE & MONITORING OFFICER

9.1. Under Section 151 of the Local Government Act 1972, the Section 151 Officer has statutory duties in relation to the financial administration and stewardship of the Council including securing effective arrangements for treasury management. There are no specific legal implications arising from this report.

10. HUMAN RESOURCES IMPACT

10.1. No direct implications.

11. HEALTH & SAFETY IMPACT

11.1. No direct implications.

12. PROPERTY & ESTATES IMPACT

12.1. No direct implications.

13. EQUALITIES IMPACT ASSESSMENT (EIA) / SOCIAL VALUE

13.1. No direct implications.

14. CLIMATE CHANGE & ENVIRONMENTAL IMPACT/SOCIAL VALUE

14.1. To support the Council's 2030 carbon neutral target there should be consideration to transitioning current (and future) investments into more sustainable investment options.

14.2. Current Investments with CCLA (diversified fund and property fund) and Standard Chartered (Sustainable deposits) all have positive ESG factors.

14.3. Further options will be explored and considered.

15. CRIME AND DISORDER REDUCTION IMPACT

15.1. None.

16. HUMAN RIGHTS IMPACT

16.1. None.

17. FREEDOM OF INFORMATION / DATA PROTECTION CONSIDERATIONS

17.1. None.

CONTACT OFFICER:
Name: Sian Southerton
Job Title: Senior Accountant (Treasury)
Contact Number: 01903 737861

BACKGROUND DOCUMENTS*:*

- The Local Government Act 2003 (The Local Government Act 2003)
- Treasury Management in the Public Services: Code of Practice and Cross Sectoral Guidance Notes (CIPFA, December 2021) [unable to include document due to copyright]
- The Prudential Code for Capital Finance in Local Authorities (CIPFA, December 2021) [unable to include document due to copyright]
- MHCLG - Guidance_on_local_government_investments.pdf (publishing.service.gov.uk)
- Link Asset Services Ltd TMSS Template 2024/25. [unable to include document due to copyright]

Appendix 1

Treasury Management Strategy Statement and Annual Investment Strategy 2024/25

1.1 Background

The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low-risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.

The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning, to ensure that it can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans or using longer-term cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet risk or cost objectives.

The contribution the treasury management function makes to the Council is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund (GF) balance.

CIPFA defines treasury management as:

> "*The management of the local authority's borrowing, investments and cash flows, including its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.*"

Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activities, (arising usually from capital expenditure), and are separate from the day-to-day treasury management activities.

Treasury management investments represent the placement of cash in relation to the s12 Local Government Act 2003 Act investment powers, i.e., they are the residual cash left in the Council's bank account resulting from the day to day activities. These are invested under the SLY principles (Security, Liquidity and then Yield).

1.2 Reporting Requirements

1.2.1 Capital Strategy

The CIPFA 2021 Prudential and Treasury Management Codes require all local authorities to prepare a capital strategy report which will provide the following:

- a high-level long-term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
- an overview of how the associated risk is managed
- the implications for future financial sustainability

The aim of the strategy is to ensure that all the Council's elected members fully understand the overall long-term policy objectives and resulting Capital Strategy requirements, governance procedures and risk appetite.

This Capital Strategy is reported separately from the Treasury Management Strategy Statement, and non-treasury investments will be reported through the former. This ensures the separation of the core treasury function under Security, Liquidity, Yield (SLY). This report will be considered at Policy and Finance Committee on 7 March 2024 for approval by Full Council on 13 March 2024.

1.2.2 Treasury Management Reporting

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

1) **Prudential and treasury indicators and treasury strategy** (TMSS - this report) - The first and most important report is forward looking (2024-2025) and covers:

    - the capital plans (including prudential indicators)
    - a minimum revenue provision (MRP) policy (how residual capital expenditure is charged to revenue over time)
    - the Treasury Management Strategy (how the investments and borrowings are to be organised) including treasury indicators; and
    - an Annual Investment Strategy (the parameters on how investments are to be managed)
    - it also includes the third quarterly progress report to 31 December 2023.

2) **A mid-year treasury management report** – This is primarily a progress report and will update members on the capital position, amending prudential indicators as necessary, and whether any policies require revision. This reports on the period up to 30 September 2024.

3) **An annual treasury report** – This is a backward looking review document (2023-2024) providing details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

Scrutiny
The above reports are required to be adequately scrutinised before being recommended to the Full Council. This role is undertaken by the Audit and Governance Committee and will be presented at the following meetings;

1) TMSS – February 2024 meeting
2) Mid-year – November 2024 meeting
3) The annual report for 2023-24 – July 2024 meeting

In addition to the three major reports detailed above, from 2023/24 quarterly reporting to the end of June is also required. However, additional reports do not have to be reported to Full Council but do require to be adequately scrutinised. This role is undertaken by the Audit and Governance Committee and will be received at the September meeting (the report will comprise updated Treasury/Prudential Indicators).

1.3 Treasury Management Strategy for 2024/25

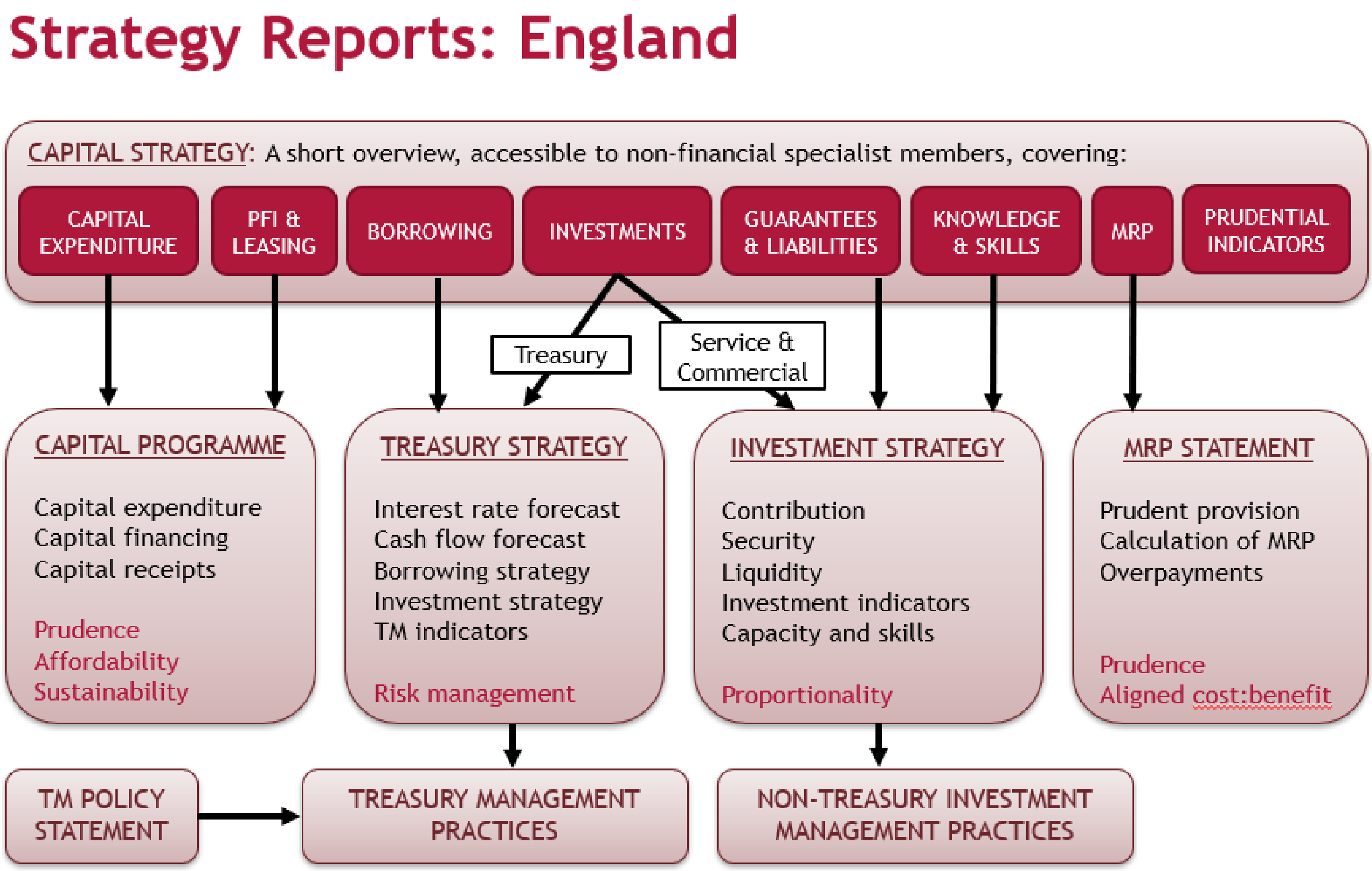
The strategy for 2024/25 covers two main areas:

Capital issues
- the capital plans and the associated prudential indicators
- the minimum revenue provision (MRP) policy

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

These elements cover the requirements of the Local Government Act 2003, DLUHC (Department for Levelling Up, Housing and Communities) Investment Guidance, DLUHC MRP Guidance, the CIPFA Prudential Code and the CIPFA Treasury Management Code.

The diagram below shows how capital expenditure affects the Treasury Management Strategy



1.4 Training

The CIPFA Treasury Management Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny.

Furthermore, pages 47 and 48 of the Code state that they expect “all organisations to have a formal and comprehensive knowledge and skills or training policy for the effective acquisition and retention of treasury management knowledge and skills for those responsible for management, delivery, governance, and decision making”.

As a minimum, the following will be carried out to monitor and review knowledge and skills:

- Record attendance at training and ensure action is taken where poor attendance is identified.
- Prepare tailored learning sessions for treasury management officers and Council members.

- Request treasury management officers and Council members to undertake self-assessment against the required competencies:
- CIPFA's Better Governance Forum and Treasury Management Network have produced a 'self-assessment by members responsible for the scrutiny of treasury management', which is available from the CIPFA website to download.
- Have communication with officers and Council members, encouraging them to highlight training needs on an ongoing basis.

All members were invited (22 members attended) to a Treasury Management training session held on 4 July 2023 presented by Link Group (Arun's treasury advisors) to:

- Gain an appreciation of what Treasury Management involves and how it is undertaken
- Understand the role of Officers and Members in Treasury Management decisions
- Understand the risks and opportunities in Treasury Management and how they should be managed
- Develop the skills and knowledge required to take Treasury Management decisions
- Review current integrated treasury management strategy
- Gain an understanding of the Council's balance sheet position including its asset base
- Gain a broad appreciation of the impact of the COVID-19 pandemic and subsequent inflation pressures on the economic outlook and Treasury Management decision-making
- Gain a high-level understanding of ESG factors potentially impacting future investment decisions

The training needs of treasury management officers are periodically reviewed, and officers attend courses provided by appropriate trainers such as Link and CIPFA.

A formal record of the training received by officers and members central to the Treasury function is maintained by the Senior Accountant responsible for the treasury function in compliance with the revised 2021 CIPFA Treasury Management Code.

1.5 Treasury management consultants

The Council uses Link Group, Treasury Services Limited as its external treasury management advisors.

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

It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

The scope of investments within the Council's operations includes both conventional treasury investments, (the placing of residual cash from the Council's functions) and 1 commercial type investment (East Preston Depot).

Any further commercial type investments will require specialist advisers in relation to this activity.

2 **<u>The Capital Prudential Indicators 2024/25 to 2026/27</u>** (Appendix 2)

The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in prudential indicators, which are designed to assist Members' overview and confirm capital expenditure plans are prudent. Affordable and sustainable.

2.1 Capital Expenditure and Financing

This prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. The Council's capital expenditure is considered as part of the budget setting process and a report for approval is going to Full Council on 21 February 2024.

Currently Arun's only borrowing relates to the HRA self-financing settlement. However, the Council has a significant capital programme including sheltered accommodation, HRA improvements and developments, Bognor Regis Arcade, and the Levelling Up project, plus smaller projects.

Much of this programme will be funded from capital grants and it is expected that additional borrowing will be required for both the GF and HRA, the timing of which is yet to be determined and will depend on the PWLB interest rates and internal resources available.

The need to borrow is reviewed annually as part of the Treasury Management Strategy and budget setting process and will be dependent on the HRA Business Plan and the capital programme (both GF and HRA).

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

Capital Expenditure	Actual 2022/23 £'000	Budget 2023/24 £'000	Estimated outturn (Q3 forecast) 2023/24 £'000	Estimate 2024/25 £'000	Estimate 2025/26 £'000	Estimate 2026/27 £'000
Non HRA	7,024	14,457	10,721	24,020	6,466	2,735
HRA	6,442	16,007	9,598	15,151	7,107	5,516
Total	**13,466**	**30,465**	**20,319**	**39,171**	**13,573**	**8,251**
Financed by:						
Capital receipts (1-4-1)	1,589	3,212	3,275	552	0	0
Capital grants (inc S106)	2,693	10,245	6,971	16,440	1,580	1,580
Capital reserves	1,823	2,931	2,931	5,901	5,683	5,516
Revenue	1,344	1,715	1,694	0	0	0
	7,449	**18,102**	**14,871**	**22,893**	**7,263**	**7,096**
Net financing need for the year	**6,017**	**12,363**	**5,448**	**16,277**	**6,310**	**1,155**

2.2 The Council's Borrowing Need (the Capital Financing Requirement)

The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's indebtedness and so its underlying borrowing need. Any capital expenditure above, which has not immediately been paid for through a revenue or capital resource, will increase the CFR.

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

The CFR includes any other long-term liabilities (e.g. finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of schemes include a borrowing facility by the PPP lease provider and so the Council is not required to separately borrow for these schemes.

The Council does not have any PFI schemes within the CFR but does have finance leases. The Council is asked to approve the CFR projections in Appendix 2 also shown below:

CFR	Actual 2022/23 £,000	Current Budget 2023/24 £,000	Estimated Outturn (Q3 forecast) 2023/24	Estimate 2024/25 £,000	Estimate 2025/26 £,000	Estimate 2026/27 £,000
	Capital Financing Requirement					
Non HRA	(19)	996	744	6,451	9,925	11,012
HRA	52,876	61,132	54,469	60,538	66,263	64,123
Total CFR	**52,858**	**62,128**	**55,212**	**66,989**	**76,188**	**75,135**
Movement in CFR	**4,768**	**9,270**	**2,355**	**11,776**	**9,199**	**(1,053)**

	Movement in CFR represented by					
HRA unfinanced / Internally financed	6,369	9,709	3,046	7,877	8,065	0
GF unfinanced / Internally financed	293	2,576	2,324	7,330	4,886	1,155
Less MRP Leases	(529)	(1,650)	(1,650)	(1,715)	(1,508)	(168)
Less VRP	(1,365)	(1,365)	(1,365)	(1,716)	(2,244)	(2,040)
Movement in CFR	**4,768**	**9,270**	**2,355**	**11,776**	**9,199**	**(1,053)**

2.3 Liability Benchmark

The Council is required to estimate and measure the Liability Benchmark (LB) for the forthcoming financial year and the following two financial years, as a minimum.

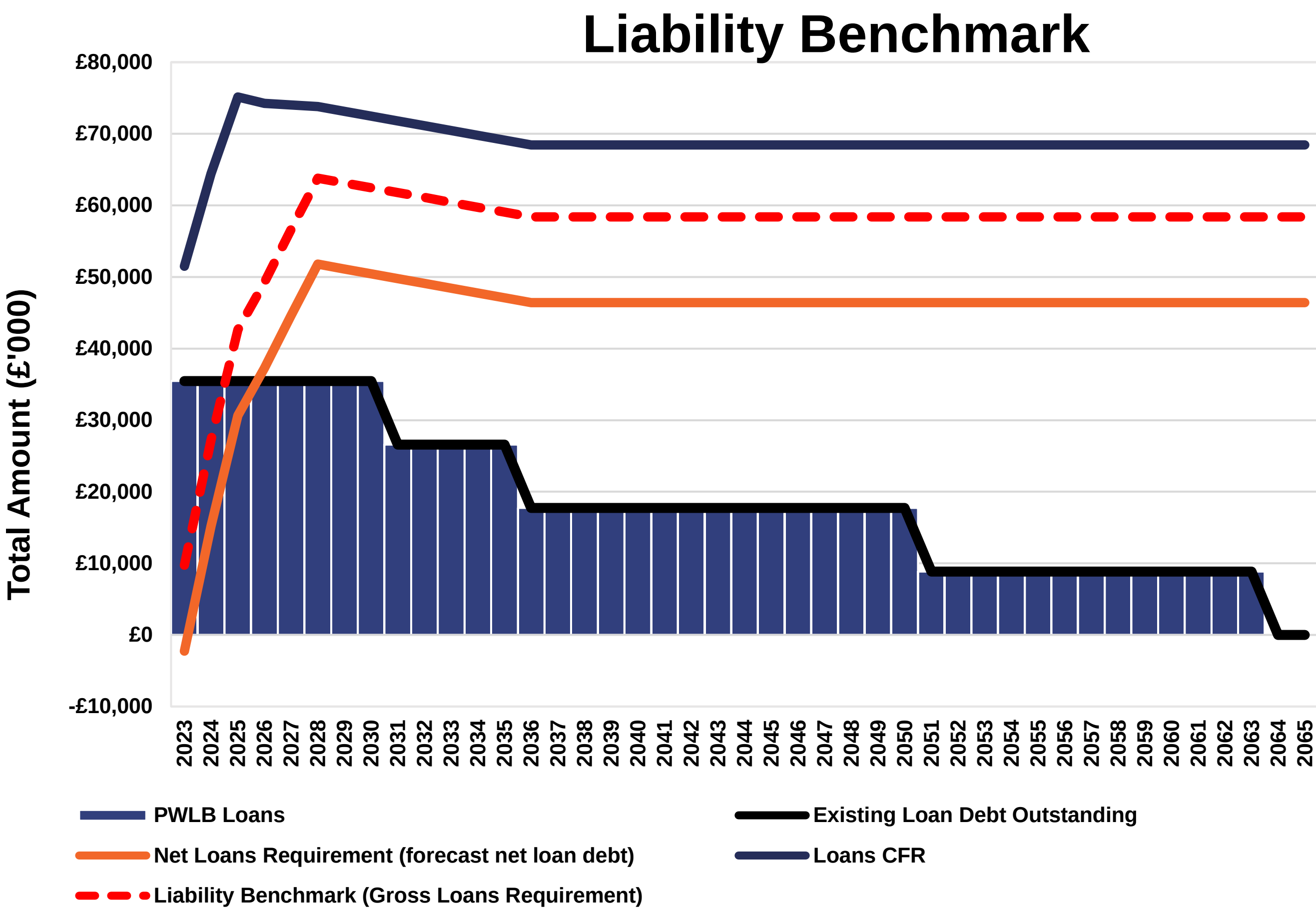
There are four components to the LB: -

1. **Existing loan debt outstanding**: the Council's existing loans that are still outstanding in future years.

2. **Loans CFR**: this is calculated in accordance with the loans CFR definition in the Prudential Code and projected into the future based on approved prudential borrowing and planned MRP.

3. **Net loans requirement**: this will show the Council's gross loan debt less treasury management investments at the last financial year-end, projected into the future and based on its approved prudential borrowing, planned MRP and any other major cash flows forecast.

4. **Liability benchmark** (or gross loans requirement): this equals net loans requirement plus short-term liquidity allowance.



The above chart shows the liability benchmark for the Council for the year ended 2023 through to the year ended March 2065. An explanation of what this is showing is highlighted below:

- The Blue line (at the top) represents the Loans CFR, (based on only approved prudential borrowing and planned MRP). The gap between this and the liability benchmark line represents in part the treasury management investments held by the Council which are required for management of liquidity and cashflow.
- The Black line represents the existing load debt outstanding and tracks the existing debt balance.
- The Liability Benchmark compares the Council's actual existing borrowing against a Liability Benchmark that has been calculated to show the lowest risk level of borrowing. The Liability Benchmark is good because it's lower than the CFR line.

2.4 Core funds and expected investment balances

The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.). Detailed below are estimates of the year end balances for each resource and anticipated day to day cash flow balances.

Year End Resources £m	2022/23 Actual £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m
Usable Revenue Reserves	25.80	21.24	17.05	14.77	9.74
Housing Revenue Account Balance	1.52	0.55	1.08	1.36	1.90
Housing Major Repairs Reserve	3.88	4.39	2.91	4.20	5.68
Capital Receipts	1.71	3.22	0.55	0.00	0.00
Capital Grants unapplied	1.67	0.00	0.00	0.00	0.00
Total core funds	**34.58**	**29.40**	**21.59**	**20.33**	**17.32**
Other cashflow sums	9.32	17.14	16.31	13.78	15.32
Expected investments	**43.90**	**46.54**	**37.90**	**34.11**	**32.64**

2.5 Minimum revenue provision (MRP) policy statement

Under Regulation 27 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, where the Council has financed capital expenditure by borrowing it is required to make a provision each year through a revenue charge (MRP).

The Council is required to calculate a prudent provision of MRP which ensures that the outstanding debt liability is repaid over a period that is reasonably commensurate with that over which the capital expenditure provides benefits. The MRP Guidance (2018) gives four ready-made options for calculating MRP, but the Council can use any other reasonable basis that it can justify as prudent.

The MRP policy statement requires Full Council approval in advance of each financial year. For expenditure incurred after the 1 April 2008 the Council is recommended to approve the following MRP Statement (detailed policy in appendix 3):

- **Asset life method (straight line)** – MRP will be based on the estimated life of the assets.

The Council does not currently have any General Fund debt liability and therefore is not statutorily required to make Minimum Revenue Provision (MRP). All external debt is currently for the Housing Revenue Account (HRA) and while MRP is not required for the HRA, a provision is set aside to repay these loans when they become due – voluntary provision. There are plans however for further borrowing (both HRA and General Fund) and to potentially externalise the current internal borrowing and therefore MRP will be required.

Capital expenditure incurred during 2023/24 will not be subject to an MRP charge until 2024/25, or in the year after the asset becomes operational.

The Council will apply the asset life method for any expenditure capitalised under a Capitalisation Direction.

While there is no requirement on the HRA to make a minimum revenue provision, there is a requirement for a charge for depreciation to be made.

MRP in respect of assets acquired under Finance Leases will be charged at an amount equal to the principal element of the annual repayment.

MRP Overpayments

Under the MRP guidance, charges made in excess of the statutory MRP can be made. These are known as voluntary revenue provision (VRP). VRP can be reclaimed in later years if deemed necessary or prudent. In order for these amounts to be reclaimed for use in the budget, this policy must disclose the cumulative overpayment made each year.

2.6 Affordability Prudential Indicators

This report covers the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an **indication** of the impact of the capital investment plans on the Council's overall finances. The Council is asked to approve the following indicator contained in Appendix 2.

Ratio of financing costs to net revenue stream.

This indicator identifies the trend in the cost of capital (borrowing and other long-term obligation costs net of investment income) against the net revenue stream.

	Actual 2022/23 %	Estimate 2023/24 %	Estimate 2024/25 %	Estimate 2025/26 %	Estimate 2026/27 %
Non-HRA	(5.45)%	*(6.51)%	(6.22)%	(4.67)%	(4.00)%
HRA	16.60%	18.19%	16.96%	15.39%	14.40%

**The increase in 2023-24 is due to the Bank of England rate rise but is expected to reduce again in 2024-2026.*

3 <u>Borrowing</u>

The capital expenditure plans set out in Section 2 provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity and the Council's capital strategy. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions, and the Annual Investment Strategy.

3.1 **Current Portfolio Position**

The Council's Treasury Investment and debt portfolio position at 31 March 2023 and 31 December 2023 are summarised below;

	actual 31.3.23 £000	actual 31.3.23 %	current 31.12.23 £000	current 31.12.23 %
Treasury investments:				
Diversified Funds	2,000	5%	2,000	3%
Property Funds	5,000	11%	5,000	9%
In-house:				
Banks	32,740	75%	39,250	68%
Building societies - unrated	0	0%	0	0%
Building societies - rated	2,000	5%	1,000	2%
Local authorities	0	0%	4,000	7%
DMADF (H.M.Treasury)	0	0%	0	0%
Money Market Funds	2,190	5%	6,640	11%
Total treasury investments	**43,930**	**100%**	**57,890**	**100%**
Treasury external borrowing:				
PWLB	-35,460	97%	-35,460	97%
Finance leases	-1,034	3%	-1,034	3%
Total external borrowing	**-36,494**	**100%**	**-36,494**	**100%**
Net treasury investments / (borrowing)	**7,436**		**21,396**	

The investments held at 31st December 2023 are shown in Appendix 4.

The Council’s forward projections for borrowing are summarised below. The table shows the actual external debt, against the underlying capital borrowing need, (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

£m	2022/23 Actual	2023/24 Estimated outturn	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
External Debt					
Debt at 1 April	**36.78**	**39.46**	**39.49**	**43.66**	**47.95**
Expected change in Debt	(1.37)	1.68	5.88	5.80	(2.04)
Re-payments (HRA debt)	0.00	0	0.00	0.00	0.00
Expected change in long-term liabilities (OLTL)	4.04	(1.65)	(1.72)	(1.51)	(0.17)
Actual gross debt at 31 March	**39.46**	**39.49**	**43.66**	**47.95**	**45.74**
Capital Financing requirement – HRA	52.88	54.47	60.54	66.26	64.12
Capital Financing requirement - GF	(0.02)	0.74	6.45	9.93	11.01
The Capital Financing Requirement	**52.86**	**55.21**	**66.99**	**76.19**	**75.13**
Under / (over) borrowing	13.40	15.72	23.33	28.24	29.39

Within the range of prudential indicators there are several key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2024/25 and the following two financial years. This allows some flexibility for limited early borrowing for future years but ensures that borrowing is not undertaken for revenue or speculative purposes.

The Council's only external borrowing relates to the HRA Self-Financing settlement which was initially £70.9m on 28/3/2012 now £35.46m. Prior to this borrowing being undertaken, the Council had a negative CFR of £2.6m which has arisen over a number of years and was due more to changes in the capital accounting regulations rather than to any specific policy decision. As a result, Arun's gross debt is not expected to exceed its CFR in 2024-25.

The Group Head of Finance reports that the Council complied with the prudential indicators in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in the budget report.

3.2 Treasury Indicators: Limits to Borrowing Activity

3.2.1 The Operational Boundary.

This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt and the ability to fund under-borrowing by other cash resources.

The Council is requested to approve an operational boundary of £78M in Appendix 2 (2024/25).

3.2.2 **The Authorised Limit for external debt.**

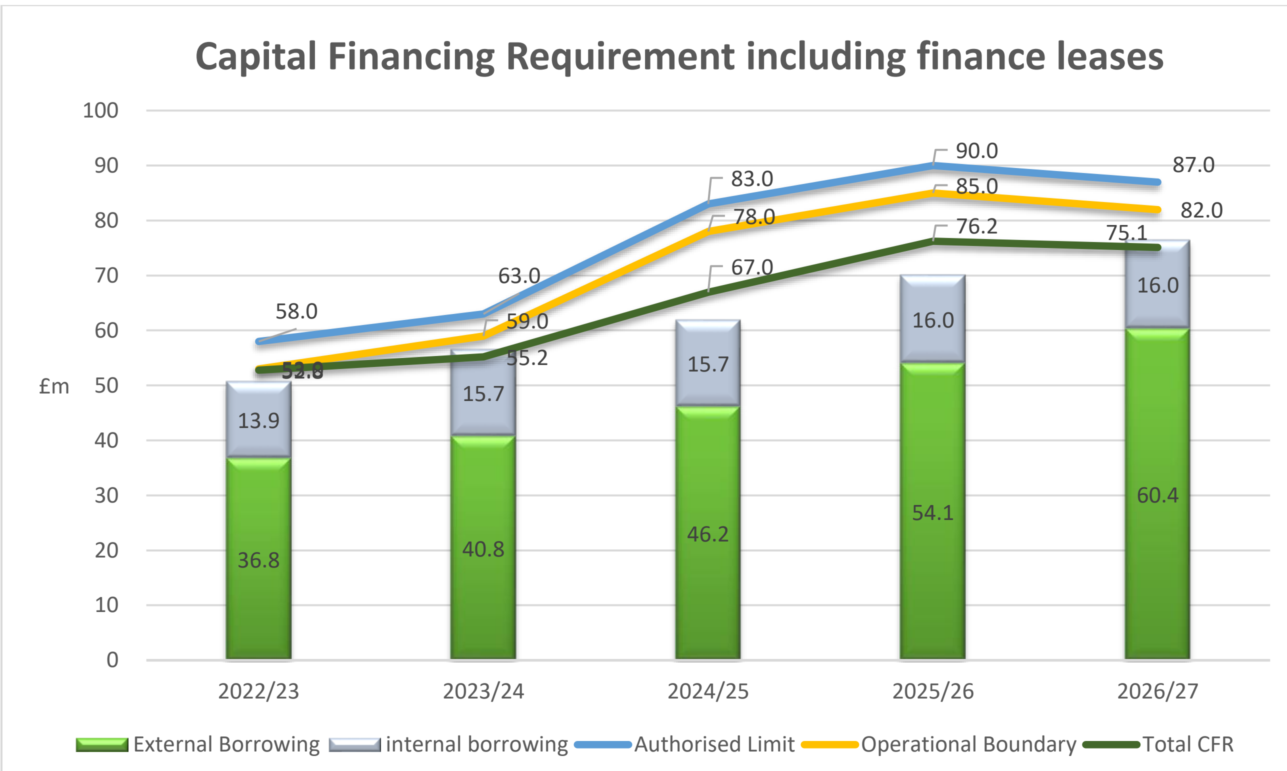
This is a key prudential indicator and represents a control on the maximum level of borrowing.

This represents a legal limit beyond which external debt is prohibited, and this limit needs to be set or revised by the Full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all Councils' plans, or those of a specific Council, although this power has not yet been exercised.

The Council is asked to approve an Authorised Limit of £83M appendix 2 (2024/25).

3.2.3 The chart below shows the Council's projection of CFR and borrowing forecast.



The bars in the chart above show the forecasted external debt and includes potential future borrowing and internal borrowing. The Authorised Limit and Operational Boundary factor in new potential borrowing which allows for expenditure on sheltered accommodation, HRA improvements and developments, Bognor Regis Arcade, and the levelling Up project, plus smaller projects.

3.3 Prospects for Interest Rates

The Council has appointed Link Group as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. Link provided the following forecasts on 08 January 2024. These are forecasts for Bank Rate, average earnings and PWLB certainty rates, gilt yields plus 80 bps, followed by their commentary.

Link Group Interest Rate View 08.01.24													
	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27
BANK RATE	5.25	5.25	4.75	4.25	3.75	3.25	3.00	3.00	3.00	3.00	3.00	3.00	3.00
3 month ave earnings	5.30	5.30	4.80	4.30	3.80	3.30	3.00	3.00	3.00	3.00	3.00	3.00	3.00
6 month ave earnings	5.20	5.10	4.60	4.10	3.70	3.30	3.10	3.10	3.10	3.10	3.10	3.10	3.10
12 month ave earnings	5.00	4.90	4.40	3.90	3.60	3.20	3.10	3.10	3.10	3.10	3.10	3.20	3.20
5 yr PWLB	4.50	4.40	4.30	4.20	4.10	4.00	3.80	3.70	3.60	3.60	3.50	3.50	3.50
10 yr PWLB	4.70	4.50	4.40	4.30	4.20	4.10	4.00	3.90	3.80	3.70	3.70	3.70	3.70
25 yr PWLB	5.20	5.10	4.90	4.80	4.60	4.40	4.30	4.20	4.20	4.10	4.10	4.10	4.10
50 yr PWLB	5.00	4.90	4.70	4.60	4.40	4.20	4.10	4.00	4.00	3.90	3.90	3.90	3.90

Link Group's central forecast for interest rates was updated on 7 November and reflected a view that the MPC would be keen to further demonstrate its anti-inflation credentials by keeping Bank Rate at 5.25% until at least H2 2024. We expect rate cuts to start when both the CPI inflation and wage/employment data are supportive of such a move, and when there is a likelihood of the overall economy enduring at least a slowdown or mild recession over the coming months (although most recent GDP releases have surprised with their on-going robustness).

Naturally, timing on this matter will remain one of fine judgment: cut too soon, and inflationary pressures may well build up further; cut too late and any downturn or recession may be prolonged.

In the upcoming months, our forecasts will be guided not only by economic data releases and clarifications from the MPC over its monetary policies and the Government over its fiscal policies, but also international factors such as policy development in the US and Europe, the provision of fresh support packages to support the faltering recovery in China as well as the on-going conflict between Russia and Ukraine, and Gaza and Israel.

PWLB RATES

The short and medium part of the gilt curve has rallied since the start of November as markets price in a quicker reduction in Bank Rate through 2024 and 2025 than held sway back then. This reflects market confidence in inflation falling back in a similar manner to that already seen in the US and the Euro-zone. At the time of writing there is c70 basis points difference between the 5 and 50 year parts of the curve.

The balance of risks to the UK economy: -

- The overall balance of risks to economic growth in the UK is even.

Downside risks to current forecasts for UK gilt yields and PWLB rates include: -

- **Labour and supply shortages** prove more enduring and disruptive and depress economic activity (accepting that in the near-term this is also an upside risk to inflation and, thus, could keep gilt yields high for longer).

- **The Bank of England** has increased Bank Rate too fast and too far over recent months, and subsequently brings about a deeper and longer UK recession than we currently anticipate.

- **Geopolitical risks,** for example in Ukraine/Russia, the Middle East, China/Taiwan/US, Iran and North Korea, which could lead to increasing safe-haven flows.

Upside risks to current forecasts for UK gilt yields and PWLB rates: -

- Despite the tightening in Bank Rate to 5.25%, the **Bank of England allows inflationary pressures to remain elevated** for a long period within the UK economy, which then necessitates Bank Rate staying higher for longer than we currently project.

- **The pound weakens** because of a lack of confidence in the UK Government's pre-election fiscal policies, which may prove inflationary, resulting in investors pricing in a risk premium for holding UK sovereign debt.

- Projected **gilt issuance, inclusive of natural maturities and QT,** could be too much for the markets to comfortably digest without higher yields compensating.

3.4 Borrowing Strategy

3.4.1 The Council has a significant capital programme in 2024-2025 but reducing over the subsequent years. The 2024-25 programme consists of expenditure largely relating to the Levelling Up project, Alexandra theatre, Bognor Regis arcade, Alexandra Theatre, sheltered accommodation, Stock developments and housing improvements, Housing IT system, and smaller schemes.

The Council is currently maintaining an under borrowed position. This means that the capital borrowing need, (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as medium and longer dated borrowing rates are expected to fall from their current levels once prevailing inflation concerns are addressed by tighter near-term monetary policy. That is, Bank Rate remains elevated through to the second half of 2024.

Against this background and the risks within the economic forecast, caution will be adopted with the 2024/25 treasury operations. The Group Head of Finance will monitor interest rates in financial markets and information provided by the Council's Treasury advisors to adopt a pragmatic approach to changing circumstances:

- *if it was felt that there was a significant risk of a sharp FALL in borrowing rates,* then borrowing will be postponed.

- *if it was felt that there was a significant risk of a much sharper RISE in borrowing rates than that currently forecast,* fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.

The level of expenditure expected within the HRA will almost certainly require additional borrowing which is reflected in the HRA 30-year financial model which will form an integral part of the Business Plan. The HRA business plan will include a programme of new build/stock acquisition, in addition to ongoing maintenance programmes. There are also plans to borrow for General Fund purposes. The timing of any new borrowing has not been identified at the time of writing, but all borrowing and its sources will be assessed for viability and affordability before any action is taken.

Given the expected under borrowing position of the Council, the borrowing strategy will give consideration to the most appropriate source of funding from the following list:

- Internal borrowing, by running down cash balances and foregoing interest earned, as this is the cheapest form of borrowing:
- Weighing the short term advantage of internal borrowing against potential long term borrowing costs:
- PWLB loans up to 50 years (Certainty Rate is available to the Council at 0.2% below the normal terms):
- Local authorities (primarily shorter dated maturities):
- Other forms of borrowing where appropriate e.g., Municipal Bonds Agency or Bonds (Green or Local climate) where these offer better value than the PWLB.

Any decisions will be reported to the Audit and Governance Committee at the next available opportunity.

There may be an occasional need to borrow for liquidity purposes especially as the Council no longer has an overdraft facility. The facility was removed as banking costs made it very expensive and rather than incurring any costs for the facility, the treasury team will maintain approximately £200k in the Lloyds liquidity accounts (bank account or call account) on a daily basis. Both are available until the close of business each day.

3.4.2 Maturity structure of borrowing

These gross limits are set to reduce the Council's exposure to large, fixed rate sums falling due for refinancing and are required for upper and lower limits.

The Council is asked to approve the treasury indicators and limits in Appendix 2 also shown below:

Maturity structure of fixed interest rate borrowing 2024/25			
	Actual at 31/12/23	**Lower**	**Upper**
Under 12 months	0%	0%	40%
12 months and within 24 months	0%	0%	40%
24 months and within 5 years	0%	0%	50%
5 years and within 10 years	25%	0%	60%
10 years and above	75%	0%	100%

The Council currently has no variable rate borrowing.

3.5 Policy of Borrowing in Advance of Need

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

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

3.6 Debt Rescheduling

The only loans that the Council currently hold are those taken to fund the housing reform payment.

Rescheduling of current borrowing may be considered whilst premature redemption rates remain elevated but only if there is surplus cash available to facilitate any repayment, or rebalancing of the portfolio to provide more certainty is considered appropriate.

If rescheduling is to be undertaken, it will be reported to Full Council at the earliest meeting following its action.

3.7 New financial Institutions as a source of borrowing

Currently the PWLB Certainty Rate is set at gilts + 80 basis points. However, consideration may also still need to be given to sourcing funding from the following sources for the following reasons:

- Local authorities (primarily shorter dated maturities out to 3 years or so – generally still cheaper than the Certainty Rate).
- Financial institutions (primarily insurance companies and pension funds but also some banks, out of forward dates where the objective is to avoid a “cost of carry” or to achieve refinancing certainty over the next few years).
- Municipal Bonds Agency who may from time to time offer options to borrow more cheaply than from the PWLB, and therefore will be considered.

This is a more complicated source of finance than the PWLB for two reasons. Firstly, borrowing authorities will be required to provide bond investors with a guarantee to refund their investment if the agency is unable to for any reason. Secondly, 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.

- “Green Bonds” or “Local Climate Bonds”

Green Bond borrowing is usually only available for significant amounts and takes time to arrange due to a due diligence process to safeguard the Council. Local Climate Bonds may offer another alternative for funding carbon reduction projects.

Our advisors will keep us informed as to the relative merits of each of these alternative funding sources.

4 Annual Investment Policy and Strategy

4.1 Investment Policy – Management of risk

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

The Council's investment policy has regard to the following: -

- DLUHC's Guidance on Local Government Investments ("the Guidance")
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2021 ("the Code")
- CIPFA Treasury Management Guidance Notes 2021

The Council's investment priorities will be security first, portfolio liquidity second and then yield, (return) (SLY). The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and with the Council's risk appetite.

In the current economic climate, it is considered appropriate to maintain a degree of liquidity to cover cash flow needs, but to also consider "laddering" investments for periods up to 2 years with high credit rated financial institutions, whilst investment rates remain elevated, as well as wider range fund options.

The above guidance from the DLUHC and CIPFA places a high priority on the management of risk. This Council has adopted a prudent approach to managing risk and defines its risk appetite by the following means: -

1. Minimum acceptable **credit criteria** are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short term and long-term ratings.

2. **Other information:** ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration the Council will engage with its advisors to maintain a monitor on market pricing such as **"credit default swaps"** and overlay that information on top of the credit ratings.

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

4. This Council has defined the list of **types of investment instruments** that the treasury management team are authorised to use. There are two lists in appendix 6 under the categories of ‘specified’ and ‘non-specified’ investments.

   - **Specified investments;** are those with a high level of credit quality and subject to a maturity limit of one year or have less than a year left to run to maturity if originally, they were classified as being non-specified investments solely due to the maturity period exceeding one year.

   - **Non-specified investments** are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use.

5. **Lending limits**, amounts and maturity, for each counterparty category will be set as shown in Appendix 6.

6. This Council will set a limit for the amount of its investments which are invested for **longer than 365 days**, (Appendix 2).

7. Investments will only be placed with counterparties from countries with a specified minimum **sovereign rating** (Appendix 8). The UK is excluded from this limit because it will be necessary to invest in UK banks and other institutions even if the sovereign rating is cut, but this will be done with caution.

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

9. All investments will be denominated in **sterling**.

10. The Council may invest in investments that are termed **“alternative investments”.** These include, but are not limited to, things such as renewable energy bonds (Solar farms). These are asset backed bonds, offering good returns, and will enable the Council to enter new markets, thus furthering the diversification of our investment portfolio with secured investments and enhancing yield. Any investments entered into of this type will be subject to a full due diligence review prior to investment. (Category 7, Appendix 6)

11. The Council may invest in **Open Ended Investment Companies (OEICs)** such as diversified funds (currently the CCLA property fund and diversified fund) subject to some form of due diligence. These funds diversify the risk and offer enhanced returns (Category 10 & 11, Appendix 6)

12. As a result of the change in accounting standards for 2023/24 under IFRS 9, this Council will consider the implications of investment instruments (such as 10 and 11) which could

result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. A temporary override was put in place to allow English local authorities time to adjust their portfolio of all pooled investments by announcing a statutory override to delay implementation of IFRS 9 for five years ending 31 March 2023. In December 2022, a further extension to the over-ride to 31 March 25 was agreed by Government.

Consequently, any fluctuations in the value of the Councils' investments in the Property or diversified Fund will not be taken through the General Fund for the override period. Appendix 11 gives more details of the potential impact if the override was not in place at 31 December 2023.

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

The Council does not strictly adhere to the advisor's suggested lending list and durations, but does take account of the advice offered before making any investment decisions. The Council will take advantage of any attractive rates available from counterparties of high creditworthiness for longer periods while interest rates remain at these increased levels.

4.2 Investment Policy – Environmental, Social and Governance (ESG) and Ethical considerations

Environmental, Social and Governance (ESG) issues are increasingly significant for investors and investment managers. The Council will consider ESG factors when placing any investment with current or new counterparties. Where matters for concern are identified for any specific counterparty, alternative counterparties will be considered.

A process for ongoing monitoring is being explored and a methodology will be documented in the treasury management practices once established (TMP1).

To comply with treasury management guidance, the Council's investments will prioritise security, liquidity and yield in that order. The Ethical consideration thereby becomes a fourth consideration in the decision-making process.

Current Investments with CCLA (diversified fund and property fund) and Standard Chartered (Sustainable deposits) all have positive ESG factors.

4.3 Creditworthiness policy

The primary principle governing the Council's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. After this main principle, the Council will ensure that:

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

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

The Group Head of Finance will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to Full Council for approval as necessary. These criteria are separate to that which determines which types of investment instrument are either specified or non-specified as it provides an overall pool of counterparties considered high quality which the Council may use, rather than defining what types of investment instruments are to be used.

Credit rating information (from the three main credit rating agencies - Fitch, Moody's and Standard & Poor's) is supplied by Link Group, our treasury advisors, on all active counterparties. Any rating changes, rating Watches (notification of a likely change), rating Outlooks (notification of the longer-term bias outside the central rating view) are provided to officers almost immediately after they occur, and this information is considered before dealing.

The Council achieves a high credit quality by using a minimum rating criteria (where rated). It does not use the approach suggested by CIPFA of using the lowest common denominator method of selecting counterparties. The Council applies a majority rule where a counterparty would be removed immediately from the lending list if 2 or more rating agencies downgrade the counterparty below the minimum criteria. The Council's minimum criteria, time and monetary limits for each counterparty can be seen in Appendix 7.

Use of additional information other than credit ratings.

Additional requirements under the Code require the Council to supplement credit rating information. Whilst the Council's rating criteria relies primarily on the application of credit ratings to provide a pool of appropriate counterparties for officers to use, additional market information will be applied before making any specific investment decision from the agreed pool of counterparties.

These credit ratings are supplemented with:

- watches and credit outlooks from credit rating agencies;
- CDS spreads to give early warning of likely changes in credit ratings;
- sovereign ratings to select counterparties from only the most creditworthy countries.

Credit ratings and CDS spreads of the Council's approved counterparty list are monitored on a real time basis. Using Link's rating service, the Council is alerted to any changes to ratings of all three agencies electronically.

The Council's officers recognise that this external service and ratings should not be the sole determinant of the quality of an institution. In addition, it is important to continually assess and monitor the market data, market information and the economic and political environments in which they operate to help support its decision-making process.

The current list of approved counterparties is included in Appendix 7. Lloyds being the incumbent bank, has no limit however the Council will only invest up to the category limit that it falls in, for term deposits (currently category 2- £9M).

Creditworthiness
Significant levels of downgrades to Short and Long-Term credit ratings have not materialised since the crisis in March 2020. In the main, where they did change, any alterations were limited to Outlooks.

CDS prices
Although bank CDS prices, (these are market indicators of credit risk), spiked upwards during the autumn of 2022, they have returned to more average levels since then. However, sentiment can easily shift, so it will remain important to undertake continual monitoring of all aspects of risk and return in the current circumstances.

4.4 Limits

Due care will be taken to consider the exposure of the Council's total investment portfolio to non-specified investments, countries, groups and sectors.

- **Non-specified treasury management investment limit.** The Council has determined that it will limit the maximum total exposure to non-specified investments as being £30M (24/25) of the total treasury management investment portfolio.
- **Country limit.** The Council has determined that it will only use approved counterparties from the UK and from countries with a minimum sovereign credit rating of AA- from Fitch (or equivalent). The list of countries that qualify using this credit criteria as at the date of this report are shown in Appendix 8. This list will be added to or deducted from by officers should ratings change in accordance with this policy.

The exception to this policy is the UK, which is currently rated AA- by 2 of the rating agencies. If the UK's credit rating should fall below the minimum criteria set above, investment will continue to be made in UK financial institutions if after careful consideration it is deemed appropriate to do so.

No more than 25% will be placed with any individual non-UK country or 50% total non-UK at any time.

Sector limits. The Council does not currently use sector limits e.g., banks v. building societies due to the limited number of quality counterparties available. The Council has a limit of between £4M and £10M (see Appendix 6 and 7 for investment categories) which can be invested with a single counterparty (or group) depending on the credit quality of the counterparty.

Building Societies. The Council includes building societies with assets greater than £10 billion (category 4). It recognises that this may carry a lower credit rating than the Council's other counterparties, therefore the lending limits are set at £4m for each counterparty in this category. (Nationwide is the exception as it fits into category 3 with a limit of £6m.)

Every effort will be made to spread the maturity profile (laddering) of investments to compensate for the lack of sector or country spreads (due to limited counterparties).

4.5 Investment Strategy

In-house funds.

Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e., rates for investments up to 12 months). Greater returns are usually obtainable by investing for longer periods. The current shape of the yield curve suggests that is the case at present, but there is the prospect of Bank Rate having peaked in the second half of 2023 and possibly reducing as early as the second half of 2024 so an agile investment strategy would be appropriate to optimise returns. Accordingly, while most cash balances are required in order to manage the ups and downs of cash flow, where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer-term investments will be carefully assessed. For cashflow balances, the Council will seek to use Money Market Funds (MMF's), call accounts, notice accounts and short dated deposits to benefit from the compounding of interest.

Investment returns expectations.

The current forecast shown in paragraph 3.3, includes a forecast for Bank Rate to have peaked at 5.25% and then gradually come down to 3%.

The average level of funds available for investment purposes is currently £48M (as at 31 December 2023). These funds are partially cash-flow derived and there is a core balance of approximately £30M which is available for investments over a year (maximum 5 years or 25 years for property funds). The core balance is comprised of funds that are available due to a number of factors including the setting aside of funds to repay the HRA loans for when they become repayable, the Earmarked Reserves, Capital Receipt, Capital grants unapplied, General Fund and HRA balances which were £20.8m, £1.71m, £1.67, £5m and £5.4m at 31 March 2023 respectively (as shown in table 2.4).

The Council's budgeted rate of return for 2024/25 is 3.89% based on a return of 5.36% for funds that are already invested; 4.5% for the property fund (£5M), 3.6% for the diversified fund (£2m), 4.0% for the remaining core balances; and 4.69% for short term cash flow derived balances. The total investment income budget for 2024/25 is £1.57m (compared to £1.54m in 2023/24).

The Council currently uses three types of Pooled Funds; property funds, diversified funds and MMFs. Pooled funds enable the Council to diversify the assets and the underlying risk in the investment portfolio and provide the potential for enhanced returns particulary in the case of the property fund.

MMFs are used for short term daily surpluses of cash as they provide instant liquidity with high quality counterparties. Current rates are around 5.3%.

The MMFs are "triple A" rated, liquid, and are currently all LVNAV (Low Volatility net asset value). This is a change from the previous constant net asset value (CNAV) as a result of the MMF reform where typically for every pound of principal invested you got a pound back. It is not guaranteed, but LVNAV offers better protection than using the VNAV (Variable net asset value) MMFs.

Investment treasury indicator and limit - total principal funds invested for greater than 365 days. These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment and are based on the availability of funds after each year-end.

The Council is asked to approve the treasury indicator and limits in appendix 2 (shown below):

Upper limit for principal sums invested for longer than 365 days			
£m	**2024/25**	**2025/26**	**2026/27**
Principal sums invested for longer than 365 days	£30m	£26m	£24m
Current investments as at 31/12/23 in excess of 1 year	£9m	£7m	£7m

The Council has the following spanning the financial year and there are no forward commitments (deals) for the financial year 2024/25;

- £5m invested in the CCLA property fund
- £2m invested in the CCLA diversified fund
- £1m invested with Goldman Sachs for 2 years (maturity – 6 January 2025).
- £1m invested with Close Brothers for 2 years (maturity – 6 November 2025).

Changes of investment strategy from previous year

- This report includes additions to the counterparty lending list (appendix 7), namely State Street Global Advisors Money Market Fund (MMF).

- The “List of Authorised Counterparties” (Appendix 7) has had 3 category limits reduced as below:

    - Category 1 has reduced from a limit of £12m to £10m
    - Category 2 has reduced from a limit of £11m to £9m and
    - Category 3 has reduced from a limit of £8m to £6m

  This is because the average level of funds available to invest has reduced and it will encourage better diversification and spreading of any “risk of default”.

4.6 Investment risk benchmarking

This Council will use an investment benchmark to assess the investment performance of its investment portfolio of O/N SONIA (Sterling Overnight Index Average) compounded rate.

The SONIA is a risk-free rate for sterling markets administered by the Bank of England. It is based on actual transactions and reflects the average of the interest rates that banks pay to borrow sterling overnight from other financial institutions and institutional investors.

These benchmarks are simple guides to minimal risk, so they may be breached from time to time, depending on movements in interest rates and counterparty criteria. The purpose of the benchmark is that officers will monitor the current and trend position and amend the operational strategy to manage risk as conditions change.

The Council has also subscribed to Link's Investment Benchmarking Club to review the investment performance and risk of the portfolios. Reports are received quarterly.

4.7 End of year investment report

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

4.8 External Fund Managers

The Council invests in externally managed pooled funds managed by CCLA (Churches, Charities and Local Authorities). £7m is currently invested split between: -

- £5m in a property fund and
- £2m in a diversified fund

The treasury officers receive regular reports and notifications of quarterly dividends payable on both funds.

A representative of CCLA gave a presentation at the members training evening on 18 July 2023 on the performance of the funds held with CCLA and 25 members attended.

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4.9 Scheme of delegation

Please see Appendix 9.

4.10 Role of the section 151 officer

Please see Appendix 10.

Prudential and treasury indicators

APPENDIX 2

1. PRUDENTIAL INDICATORS	2022/23	2023/24	2023/24	2024/25	2025/26	2026/27
Extract from budget and rent setting report	**Actual**	**Budget**	**Q3 Forecast**	**Original**	**Original**	**Original**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Capital Expenditure						
Non – HRA	7,024	14,457	10,721	24,020	6,466	2,735
HRA	6,442	16,007	9,598	15,151	7,107	5,516
TOTAL	**13,466**	**30,465**	**20,319**	**39,171**	**13,573**	**8,251**
Ratio of financing costs to net revenue stream						
Non – HRA	(5.45)%	(6.51)%	(8.88)%	(6.22)%	(4.67)%	(4.00)%
HRA	16.60%	18.19%	19.06%	16.96%	15.39%	14.40%
Capital Financing Requirement as at 31 March						
Non – HRA	(19)	996	744	6,451	9,925	11,012
HRA	52,876	61,132	54,469	60,538	66,263	64,123
TOTAL	**52,858**	**62,128**	**55,212**	**66,989**	**76,188**	**75,135**
Annual change in Cap. Financing Requirement						
Non – HRA	4,423	1,015	763	5,707	3,474	1,087
HRA	345	8,256	1,592	6,069	5,725	(2,140)
TOTAL	**4,768**	**9,270**	**2,355**	**11,776**	**9,199**	**(1,053)**

2. TREASURY MANAGEMENT INDICATORS	2022/23	2023/24	2024/25	2025/26	2026/27
	Actual	Probable outturn	Original	Original	Original
	£'000	£'000	£'000	£'000	£'000
Authorised Limit for external debt					
Borrowing	53,000	59,000	75,000	93,000	94,000
Other long term liabilities	5,000	4,000	8,000	6,000	4,000
TOTAL	**58,000**	**63,000**	**83,000**	**99,000**	**98,000**
Operational Boundary for external debt					
Borrowing	48,000	55,000	70,000	88,000	89,000
other long term liabilities	5,000	4,000	8,000	6,000	4,000
TOTAL	**53,000**	**59,000**	**78,000**	**94,000**	**93,000**
Actual external debt	35,460	35,460	35,460	35,460	35,460
Upper limit for total principal sums invested for over 365 days (£m)	**24,000**	**36,000**	**30,000**	**26,000**	**24,000**

The operational Boundary and Authorised Limit for external debt have been increase over the next 3 years due to expected expenditure on the following:

- Sheltered accommodation
- Housing new build programme & Improvements
- Bognor Regis Arcade
- Levelling up Project
- General Fund programme (smaller projects)

Maturity structure of fixed rate borrowing - upper & Lower limits	**Actual at 31/12/23**	lower limit	upper limit
under 12 months	0%	0%	40%
12 months and within 24 months	0%	0%	40%
24 months and within 5 years	0%	0%	50%
5 years and within 10 years	25%	0%	60%
10 years and above	75%	0%	100%

APPENDIX 3

Minimum Revenue Provision Policy

1. Introduction

1.1 DLUHC guidance on Minimum Revenue Provision (fourth edition issued in 2018) is currently out for consultation. It places a duty on local authorities to make a prudent provision for debt redemption. Where the Council finances capital expenditure by debt it must set aside resources to repay that debt in later years. The amount charged to revenue for the repayment of this debt is known as the Minimum Revenue Provision (MRP). The MRP charge is the means by which capital expenditure which has been funded by borrowing is paid for by Council taxpayers.

1.2. From 2007/08 onwards there has been no statutory minimum and the requirement is simply for local authorities to make a prudent level of provision, and the government has instead issued statutory guidance, which local authorities are required to 'have regard to' when setting a prudent level of MRP. The guidance gives local authorities more freedom to determine what would be a prudent level of MRP.

1.3. The DLUHC guidance requires the Council to approve an annual MRP statement and recommends 4 options for calculating a prudent amount of MRP, for approval by Full Council in advance of the year to which it applies. Any subsequent revisions to that policy should also be approved by Full Council.

2. Details of DLUHC Guidance on MRP

2.1. The statutory guidance issued by DLUHC sets out the broad aims of a prudent MRP Policy as being "to ensure that debt is repaid over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of the grant." It then identifies four options for calculating MRP and recommends the circumstances in which each option should be used, but states that other approaches are not ruled out.

2.2. The four MRP options available are:

- **Option 1**: Regulatory Method - is the previous statutory method, which is calculated as 4% of the Council's General Fund Capital Financing Requirement, adjusted for smoothing factors from the transition to the prudential capital financing regime in 2003.

- **Option 2**: CFR Method - Option 2 differs from Option 1 only in that the smoothing factors are removed. Option 2 has been included by DLUHC to provide a simpler calculation for those Councils for whom it would have a minimal impact, but the draft guidance does not expect it to be used by Councils for whom it would significantly increase MRP.

- **Option 3**: Asset Life Method – MRP is charged over the expected useful life of the asset either in equal instalments or using an annuity method whereby the MRP increases in later years.

- **Option 4**: Depreciation Method - MRP is charged over the expected life of the asset in accordance with depreciation accounting. This would mean that the rate at which the MRP is charged could increase (or, more rarely, decrease) from year to year.

  The guidance clearly states this does not preclude other prudent methods to provide for the repayment of debt principal.

2.3 Under the statutory guidance, it is recommended that local authorities use Options 3 or 4 for all prudential borrowing and for all borrowing to fund capitalised expenditure (such as capital grants to other bodies and capital expenditure on IT developments). Authorities may use any of the four options for MRP for their remaining borrowing to fund capital expenditure.

2.4. For balance sheet liabilities relating to finance leases and PFI schemes, the guidance recommends that one prudent approach would be for local authorities to make an MRP charge equal to the element of the annual rental which goes to write down the balance sheet liability. This would have the effect that the total impact on the bottom line would be equal to the actual rentals paid for the year. However the guidance also mentions that Option 3 could be used for this type of debt.

2.5 The guidance also allows authorities to take an MRP Holiday where assets do not become operational for perhaps 2 or 3 years or longer. It proposes that MRP would not be charged until the year following the one in which the asset became operational.

3. Details of Statute - Part 4 Section 23 b of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003

3.1 In deciding on the appropriate level of MRP to charge and the most appropriate method of financing the capital programme, the Council needs to have regard to the wider legislation regarding the use of capital receipts.

3.2 Statute gives local authorities the option to apply capital receipts to fund the payment of any liabilities relating to finance leases and PFI schemes. This is a reflection of the fact that such schemes are being treated in accounting terms as the acquisition of fixed assets, and the liability represents the amount being paid towards the purchase of the asset itself, rather than interest or service charges payable.

3.3 Local authorities may also use capital receipts to repay any borrowing that was incurred to fund capital expenditure in previous years.

4. MRP Policy

It is recommended the Council adopt the following MRP policy:

- MRP will be charged utilising **option 3** for assets which have been funded from prudential borrowing.
- MRP will only be charged in the year following the asset becoming operational.
- If capital receipts are utilised to repay debt in year, the value of MRP chargeable will be reduced by the value of the receipts utilised.
- Whether an annuity or equal instalment method is adopted for option 3 will be dependent on the most financially beneficial method as determined by the Group Head of Finance.
- For PFI and Finance lease liabilities an MRP charge will be made to match the value of any liabilities that have not been funded from capital receipts.
- The Group Head of Finance will determine annually the most prudent use of Capital Receipts, taking into account forecasts for future expenditure and the generation of further receipts.
- There is no requirement for the HRA to make debt repayments but it has opted to make voluntary repayments relating to debt inherited due to HRA self-financing settlement and provision has been made within the business plan to show that it can pay down the remaining debt over the life of the business plan.
- Any major revisions to this policy will be presented to Full Council for approval.

Appendix 4

Reference no.	Counterparty	Issue Date	Maturity Date	Principal	Current Interest Rate
863	Standard Chartered Bank - Sustainable Deposits	05/01/2023	05/01/2024	£1,000,000.00	4.650
897	Lloyds Bank	13/12/2023	10/01/2024	£1,000,000.00	5.380
867	Goldman Sachs International	27/04/2023	26/01/2024	£1,000,000.00	4.900
879	Development Bank of Singapore (DBS)	12/07/2023	05/02/2024	£1,000,000.00	6.010
880	Development Bank of Singapore (DBS)	07/08/2023	07/02/2024	£1,000,000.00	5.750
881	Close Brothers Limited	10/08/2023	12/02/2024	£1,000,000.00	5.800
883	National Westminster Bank PLC	07/09/2023	12/02/2024	£1,000,000.00	5.690
874	National Westminster Bank PLC (RFB)	14/06/2023	14/02/2024	£1,000,000.00	4.970
886	Goldman Sachs International	28/09/2023	28/02/2024	£1,000,000.00	5.560
887	Standard Chartered Bank - Sustainable Deposits	28/09/2023	28/02/2024	£2,000,000.00	5.440
895	Lancashire County Council	04/12/2023	04/03/2024	£3,000,000.00	5.650
871	Goldman Sachs International	15/05/2023	05/03/2024	£2,000,000.00	5.030
882	Goldman Sachs International	01/09/2023	05/03/2024	£1,000,000.00	5.850
885	Standard Chartered Bank - Sustainable Deposits	27/09/2023	05/03/2024	£1,000,000.00	5.450
877	Standard Chartered Bank - Sustainable Deposits	10/07/2023	06/03/2024	£1,000,000.00	6.150
873	Goldman Sachs International	07/06/2023	07/03/2024	£1,000,000.00	5.200
891	Goldman Sachs International	26/10/2023	26/03/2024	£1,000,000.00	5.470
878	Standard Chartered Bank - Sustainable Deposits	10/07/2023	05/04/2024	£1,000,000.00	6.260
884	Goldman Sachs International	15/09/2023	05/04/2024	£1,000,000.00	5.780
866	Close Brothers Limited	14/04/2023	17/04/2024	£4,000,000.00	5.300
872	Close Brothers Limited	19/05/2023	17/05/2024	£1,000,000.00	5.540
896	Lancashire County Council	13/12/2023	13/06/2024	£1,000,000.00	5.750
876	Nationwide Building Society	15/06/2023	14/06/2024	£1,000,000.00	5.120
890	DBS Bank Ltd	25/10/2023	25/07/2024	£1,000,000.00	5.620
892	Goldman Sachs International	01/11/2023	01/08/2024	£1,000,000.00	5.620
894	DBS Bank Ltd	15/11/2023	15/08/2024	£1,000,000.00	5.500
888	Standard Chartered Bank - Sustainable Deposits	18/10/2023	17/10/2024	£1,000,000.00	5.820
889	Goldman Sachs International	20/10/2023	18/10/2024	£1,000,000.00	5.750
865	Goldman Sachs International	05/01/2023	06/01/2025	£1,000,000.00	5.310
893	Close Brothers Limited	06/11/2023	06/11/2025	£1,000,000.00	5.350
44447	Lloyds Bank			£7,250,000.00	5.140
100500	CCLA (Churches, Charities and LA's) (MMF)			£10,000.00	5.3013
110000	Federated Investors LLP (MMF)			£4,000,000.00	5.3764
99999	Fidelity Fund Management Ltd (MMF)			£2,620,000.00	5.2853
130000	Deutsche Bank (MMF)			£10,000.00	5.2502
140000	CCLA (Churches, Charities and LA's) LAPF			£5,000,000.00	*4.92
140500	CCLA (Churches, Charities and LA's) DIF			£2,000,000.00	*3.25
				£57,890,000.00	

* rates at 31-12-23

MMF- Money Market Fund
LAPF - Local Authority Property Fund
DIF-Diversified Income Fund

Interest Rate Forecast 2023- 2026

APPENDIX 5

PWLB forecasts shown below have taken into account the 20 basis point certainty rate reduction effective as of the 19th November 2012.

Link Group Interest Rate View 08.01.24													
	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27
BANK RATE	5.25	5.25	4.75	4.25	3.75	3.25	3.00	3.00	3.00	3.00	3.00	3.00	3.00
3 month ave earnings	5.30	5.30	4.80	4.30	3.80	3.30	3.00	3.00	3.00	3.00	3.00	3.00	3.00
6 month ave earnings	5.20	5.10	4.60	4.10	3.70	3.30	3.10	3.10	3.10	3.10	3.10	3.10	3.10
12 month ave earnings	5.00	4.90	4.40	3.90	3.60	3.20	3.10	3.10	3.10	3.10	3.10	3.20	3.20
5 yr PWLB	4.50	4.40	4.30	4.20	4.10	4.00	3.80	3.70	3.60	3.60	3.50	3.50	3.50
10 yr PWLB	4.70	4.50	4.40	4.30	4.20	4.10	4.00	3.90	3.80	3.70	3.70	3.70	3.70
25 yr PWLB	5.20	5.10	4.90	4.80	4.60	4.40	4.30	4.20	4.20	4.10	4.10	4.10	4.10
50 yr PWLB	5.00	4.90	4.70	4.60	4.40	4.20	4.10	4.00	4.00	3.90	3.90	3.90	3.90

Specified and Non-Specified Investments **APPENDIX 6**

	specified	non-specified	Minimum Credit Criteria Fitch (and equivalent) / Minimum Criteria	Maximum Investment per Institution	Max. maturity period
Term deposits – Local Authorities **(category 1)**	✓	✓	--	£10M	5 years
Term deposits – banks and building societies **(category 1)**	✓	✓	Short-term F1+ Long-term AA-	£10M	5 years
Term deposits – banks and building societies **(category 2)**	✓	✓	Short-term F1 Long-term A+	£9M	3 years
Term deposits – banks and building societies **(category 3)**	✓	✓	Short-term F1 Long-term A-	£6M	2 years
Term deposits – building societies **(Category 4)**	✓	✓	Assets in Excess of £10 billion	£4M	1 year
Council's bank (for term deposits use appropriate category 1 to 3) **(category 5)**	✓	✓	n/a	No limit *Although category limit for term deposits*	As category 1 to 3
Callable deposits	✓	✓	As category 1,2,3,4, and 5	As category 1,2,3,4 and 5	As category 1,2,3,4 and 5
Forward deposits	✓	✓	As category 1,2,3,4 and 5	As category 1,2,3,4 and 5	As category 1,2,3,4 and 5

Debt Management Agency Deposit Facility (DMADF) – UK Government **(category 8)**	✓	✓	--	No limit	Liquid (max is set by DMO - Debt Management Office of HM Treasury)
Bonds Issued by multilateral development banks **(category 9)**		✓	Long term AAA	£4M	5 years
Collective Investment Schemes structured as Open Ended Investment Companies (OEICs)					
Money Market Funds (CNAV, LVNAV & VNAV) Government Liquidity Fund **(Category 6)**	✓	✓	AAA	£4M	liquid
Alternative Investments • Ultra-Short dated Bond Funds **(Category 7)**	✓ ✓	✓	--	£4M	liquid
Property Funds approved by HM Treasury and operated by managers regulated by the Financial Conduct Authority (FCA), such as the Local Authorities' Property Fund **(Category 10)**		✓	--	£6M	These funds do not have a defined maturity date
Multi-Asset Funds – such as the Local Authorities' Diversified Fund **(Category 11)**		✓	--	£6M	These funds do not have a defined maturity date

APPENDIX 7

LIST OF AUTHORISED COUNTERPARTIES

Category 1 - Limit of £10 million for each institution - Maximum investment period - 5 Years

		Long Term	Short Term
Min Criteria	**Fitch**	**AA-**	**F1+**
	Moody	**Aa3**	**P-1**
	S&P	**AA-**	**A-1+**

All Local Authorities

Australia & New Zealand banking Group Ltd (ANZ - AUS)
Bank of Nova Scotia (CAN)
Development Bank of Singapore Ltd (DBS-SING)
Handelsbanken Plc (UK)
National Australia Bank (AUS)
Oversea-Chinese Banking Corp Ltd (OCBC-SING)
JP Morgan Chase (USA)
United Overseas Bank Ltd (UOB - SING)

Category 2 - Limit of £9 million for each institution - Maximum investment period - 3 Years

		Long Term	Short Term
Min Criteria			
	Fitch	**A+**	**F1**
	Moody	**A1**	**P-2**
	S&P	**A+**	**A-1**

Barclays Bank plc (RFB & NRFB) (UK)
Bank of Scotland PLC (RFB) (Lloyds Banking Group-UK)
Goldman Sachs International Bank (UK)
HSBC Bank plc (RFB &NRFB) (UK)
National Bank of Canada (CAN)
National Westminster Bank PLC (RFB) (UK)
Natwest Markets Plc (NRFB) (UK)
Santander (UK)
Standard Charted Bank (UK)
The Royal Bank of Scotland PLC (RFB) (UK)

Category 3 - Limit of £6 million for each institution - Maximum investment period - 2 Years

		Long Term	Short Term
Min Criteria	**Fitch**	**A-**	**F1**
	Moody	**A3**	**P-2**
	S&P	**A-**	**A-1**

Nationwide Building Society (UK)
Close Brothers (UK)

Category 4 - Limit of £4 million for each institution - Maximum Investment period - 1 year
Building Society with Assets greater than £10 billion

Coventry Building Society (UK)
Leeds Building Society (UK)
Principality Building Society (UK)
Skipton Building Society (UK)
Yorkshire Building Society (UK)

<u>Category 5 - Council's Bank</u>
NO LIMIT - appropriate category 1 to 3 (Max of £9M term deposit)

Lloyds Bank Plc (RFB) (Cat 2 for Term deposit limit)
Lloyds Bank Corporate Markets Plc (NRFB) (Cat 2 for Term deposit limit)

<u>Collective Investment Schemes structured as Open Ended Investment Companies (OEICs)</u>

<u>Category 6 - Money Market Funds (MMF's)</u>
(CNAV, LVNAV, VNAV & Enhanced MMF's

Limit of £4million for each institution

	Fitch	NAV
Aberdeen Standard (GBP)	AAA	LVNAV
CCLA Public sector deposit fund (PSDF)	AAA	LVNAV
Deutsche Banking Group	AAA	LVNAV
Federated Investors Ltd	AAA	LVNAV
Fidelity (GBP)	AAA	LVNAV
State Street Global Advisors	AAA	LVNAV
Northern Trust	AAA	

<u>Category 7 - Alternative Investments - No defined maturity date</u>
Maximum investment £4 million

Ultra-Short dated Bond Funds

<u>Category 8 - Debt Management Agency Deposit Facility (DMADF)</u>
NO LIMIT (UK Govt)

Debt management Office (DMO)

<u>Category 9 - Bonds issued by multilateral development banks - 5 Years</u>
Maximum investment £4 million AAA

<u>Category 10 – Property Funds - No defined maturity date</u>
Maximum investment £6 million

CCLA - Property Fund

<u>Category 11 - Multi-Asset Funds - No defined maturity date</u>
Maximum investment £6 million

CCLA - Diversified Income Fund

Appendix 8

Approved countries for investments

This list is based on those countries which have sovereign ratings of AA- or higher, (we show the lowest of 2 or more rating agencies).

AAA

- Australia
- Canada (Fitch AA+)
- Denmark
- Germany
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland

AA+

- Finland
- U.S.A.

AA

- France (Fitch AA-)

AA-

- Belgium (S&P AA)
- **U.K.** (S&P AA)

Consideration will be given to other factors, including Ethical, Environmental, Social and Governance standards when considering investments in Non-Uk destination.
As such, countries with an appropriate sovereign rating will not be used where matters identified do not align with the respective Council's values.

As detailed in 4.1 (7) it has been determined that the UK will remain an approved country for investments regardless of its sovereign rating if after careful consideration, it is deemed appropriate to do so.

APPENDIX 9

Treasury management scheme of delegation

(i) Full Council

- receiving and reviewing reports on treasury management policies, practices and activities;
- approval of annual Treasury Management Strategy Statement and Annual Investment Strategy;
- approval of MRP Statement.

(ii) Policy and Finance Committee

- approval of/amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices;
- budget consideration and approval;
- approval of the division of responsibilities;
- receiving and reviewing regular monitoring reports and acting on recommendations;
- approving the selection of external service providers and agreeing terms of appointment.

(iii) Audit and Governance Committee (responsibility for scrutiny)

Receiving and reviewing the following and making recommendations to Full Council (the responsible body).

- the Treasury Management Strategy Statement (TMSS) and regular monitoring reports on compliance with the Treasury Management Strategy, practices and procedures.

APPENDIX 10

The treasury management role of the section 151 officer

The S151 (responsible) officer

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance
- submitting regular treasury management policy reports
- submitting budgets and budget variations
- receiving and reviewing management information reports
- reviewing the performance of the treasury management function
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function
- ensuring the adequacy of internal audit, and liaising with external audit;
- recommending the appointment of external service providers.
- preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments and treasury management, with a long-term timeframe
- ensuring that the capital strategy is prudent, sustainable, affordable and prudent in the long-term and provides value for money
- ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the Council
- ensure that the Council has appropriate legal powers to undertake expenditure on non-financial assets and their financing
- ensuring the proportionality of all investments so that the Council does not undertake a level of investing which exposes the Council to an excessive level of risk compared to its financial resources
- ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long term liabilities
- provision to members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees
- ensuring that members are adequately informed and understand the risk exposures taken on by the Council
- ensuring that the Council has adequate expertise, either in house or externally provided, to carry out the above
- creation of Treasury Management Practices which specifically deal with how non treasury investments will be carried out and managed.

APPENDIX 11

Removal of IFRS 9 Override - Impact Assessment

1.0 Background

IFRS 9, (International Financial Reporting Standard 9), is an accounting standard issued by the International Accounting Standards Board to address the classification and measurement of financial instruments, impairment of financial assets, and hedge accounting. It enhances the financial reporting of financial instruments, fostering a more consistent and relevant representation of an entity's financial position and performance.

Local authorities have expressed concerns to Department for Levelling Up, Housing, and Communities (DLUHC) regarding the impact of IFRS 9, particularly on pooled investment funds. This transition to the new IFRS 9 requirements for collective investment vehicles has raised nationwide implications and added complexity and prompting scrutiny of its potential effects on the statutory duty to set a balanced budget. Currently, an override is in effect, exempting the Council's financial statement preparation from IFRS 9.

Following a consultation by DLUHC in Autumn 2022, the override was extended for an additional two years. As a result, IFRS 9 is anticipated to be applicable to the Councils' financial statements from April 2025.

2.0 Changes in Accounting for Pooled Investment Funds

2.1 The Council currently has investments in the CCLA Local Authorities Property Fund (LAPF) and the CCLA Diversified Income Fund (DIF). As the override comes to an end, these funds will adhere to the standard accounting provisions, potentially resulting in their categorisation as financial assets at fair value through the revenue account. This reclassification signifies that fluctuations in the fair value of these pooled investment funds will directly affect the revenue account of the Council. In simple terms, a decrease in value during the fiscal year will be treated as expenditure, while an increase in value will be regarded as income.

2.2 The tables below give some further information on the current position of the funds, and information on the income over the life of the holding so that a full assessment of the performance of these investments can be made.

Local Authorities Property Fund Holding				
Initial Investment	**31/12/2023 Valuation**	**Movement**	**Dividends To 31/12/2023**	**Net Gain (over the life of the investment)**
£5,000,000	£4,663,691,000	(£336,309.00)	£1,619,397.82	£1,283,088.82
Diversified Income Fund				
Initial Investment	**31/12/2023 Valuation**	**Movement (£)**	**Dividends To 31/12/2023**	**Net Gain (over the life of the investment)**
£2,000,000	£1,974,042	(£25,958)	£192,389.67	£166,431.67

2.3 If IFRS 9 was applied to these investments as at 31st December 2023 the result would be a realisation of a loss (akin to an expense in the revenue account) of £365,256 which has the potential to have a significant impact on the Councils' budget as the capital loss to date will need to be realised in full in financial statements for the year ended 31st March 2026. Moving forward this movement should only be year on year and assuming relatively stable fund values can be managed via a reserves provision.

3.0 Action Points

The option remains for the Government to review the adoption of IFRS 9 or to review the expiry of the current override but recent comments by Ministers indicates that this is not the intention. With careful consideration to the Councils' revenue position, officers will explore options to manage the risks associated with this change in regulation. This will include, but not be limited to, discussion with CCLA as the fund manager, Ernst & Young as the external auditor and Link Group (treasury management advisors).