Kirklees COUNCIL

Name and date of meeting: **Corporate Governance and Audit Committee 26 November 2021**

Cabinet
14 December 2021

Council
19 January 2022

Title of report: **Half Yearly Monitoring report on Treasury Management activities 2021/22**

Purpose of report

The Council has adopted the CIPFA Code of Practice on Treasury Management. It is a requirement of the Code that regular reports be submitted to Members detailing treasury management operational activity. This report is the mid-year for 2021/22 covering the period 1 April to 30 September 2021.

Key Decision - Is it likely to result in spending or saving £250k or more, or to have a significant effect on two or more electoral wards?	**No**
Key Decision - Is it in the [Council's Forward Plan (key decisions and private reports?)]	**Key Decision: Yes** **Private Report/Private Appendix: N/A**
The Decision - Is it eligible for call in by Scrutiny?	**No**
Date signed off by Strategic Director and name **Date signed off by Service Director** **Is it also signed off by the Service Director Legal Governance and Monitoring?**	**N/A** **Eamonn Croston – 16 November 2021** **Julie Muscroft – 16 November 2021**
Cabinet member [portfolio]	**Corporate** **Cllr Paul Davies**

Electoral wards affected: **N/A**
Ward councillors consulted: **N/A**
Public or Private: **Public**
GDPR: This report contains no information that falls within the scope of General Data Protection Regulations.

1 Summary

1.1 The report gives assurance that the Council's treasury management function is being managed prudently and pro-actively. External investments, including £10.0 million invested in the Local Authorities Pooled Investment Fund (LAPF), averaged £37.6 million during the period at an average rate of 0.49%. Investments have ranged from a peak of £68.8 million and a low of £16.6 million both in April. The high investment balance in April was due to receiving a restart grant of £22.4 million from Central Government but this was paid out to local businesses in mid-April.

1.2 Balances were invested in line with the approved treasury management strategy (see Appendix 1), in instant access accounts or short-term deposits.

1.3 The treasury management revenue budget is £24.3 million. This is covered in more detail at paragraph 2.18 later in this report.

1.4 In-year treasury management performance is in line with the treasury management prudential indicators set for the year (see Appendix 4).

2 Information required to take a decision

2.1 The treasury management strategy for 2021/22 was approved by Council on 10 February 2021. The over-riding policy continues to be one of ensuring the security of the Council's balances. The Council aims to invest externally balances of around £30 million, largely for the purpose of managing day-to-day cash flow requirements, with any remaining balances invested "internally", offsetting borrowing requirements.

2.2 The investment strategy is designed to minimise risk, with investments being made primarily in instant access accounts or short-term deposits, with the major British owned banks and building societies, or Money Market Funds. Diversification amongst counterparties is key. The additional cash received in April was mainly invested in the Debt Management Office (DMO) which is an Executive Agency of Her Majesty's Treasury.

<u>Economic Context</u>

2.3 *The following economic update has been provided via our external advisors Arlingclose (paragraphs 2.4 to 2.9 below):*

2.4 The economic recovery from coronavirus pandemic continued to dominate the first half of the financial year. By the end of the period over 48 million people in the UK had received their first dose of a Covid-19 vaccine and almost 45 million their second dose.

2.5 The Bank of England (BoE) held Bank Rate at 0.1% throughout the period and maintained its Quantitative Easing programme at £895 billion, unchanged since the November 2020 meeting. In its September 2021 policy announcement, the BoE noted it now expected the UK economy to grow at a slower pace than was predicted in August, as the pace of the global recovery had shown signs of slowing and there were concerns inflationary pressures may be more persistent. Within the announcement, Bank expectations for GDP growth for the third (calendar) quarter were revised down to 2.1% (from 2.9%), in part reflecting tighter supply conditions.

2.6 Government initiatives continued to support the economy over the quarter but came to an end on 30th September 2021 for the remaining 1.6 million workers still on the furlough scheme at that point.

2.7 The latest labour market data showed that in the three months to July 2021 the unemployment rate fell to 4.6%. The employment rate increased, and economic activity rates decreased, suggesting an improving labour market picture. Latest data showed growth in average total pay (including bonuses) and regular pay (excluding bonuses) among employees was 8.3% and 6.3% respectively over the period. However, part of the robust growth figures is due to a base effect from a decline in average pay in the spring of last year associated with the furlough scheme.

2.8 Annual CPI inflation rose to 3.2% in August, exceeding expectations for 2.9%, with the largest upward contribution coming from restaurants and hotels. The Bank of England now expects inflation to exceed 4% by the end of the calendar year owing largely to developments in energy and goods prices. The Office of National Statistics' (ONS') preferred measure of CPIH which includes owner-occupied housing was 3.0% year/year, marginally higher than expectations for 2.7%. The easing of restrictions boosted activity in the second quarter of calendar year, helping push GDP up by 5.5% quarter on quarter (final estimate vs 4.8% quarter on quarter initial estimate). Household consumption was the largest contributor. Within the sector breakdown production contributed 1.0% quarter on quarter, construction 3.8% quarter on quarter and services 6.5% quarter on quarter, taking all of these close to their pre-pandemic levels.

2.9 Inflation worries continued during the period. Declines in bond yields in the first quarter of the financial year suggested bond markets were expecting any general price increases to be less severe, or more transitory, that was previously thought. However, an increase in gas prices in the UK and EU, supply shortages and a dearth of HGV and lorry drivers with companies willing to pay more to secure their services, has caused problems for a range of industries and, in some instance, lead to higher prices. The 5-year UK benchmark gilt yield began the financial year at 0.36% before declining to 0.33% by the end of June 2021 and then climbing to 0.64% on 30th September. Over the same period the 10 year gilt yield fell from 0.80% to 0.71% before rising to 1.03% and the 20-year yield declined from 1.31% to 1.21% and then increased to 1.37%.

Investment Performance

2.10 The Council invested an average balance of £27.6 million externally (excluding the LAPF) during the period (£43.4 million in the first six months of 2020/21), generating £4k in investment income over the period (£64k in 2020/21). The LAPF investment of £10.0 million generated £180k of dividend income (£155k in 2020/21). Appendix 7 shows a comparative average net monthly balances invested over the last 3 years.

2.11 Both the CIPFA Code and government guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. Balances were invested in instant access accounts, short term deposits and the LAPF. Appendix 1 shows where investments were held at the start of April, the end of June and September by counterparty, by sector and by country.

2.12 The Council's average investment rate for the period was 0.49%. This is higher than the average in the same period in 2020/21 of 0.41%. This is mainly due to the dividend returns on the LAPF investment. Returns on liquid cash balances were 0.01% and 3.60% on the LAPF (after deducting charges). The actual gross dividend yield quoted from the fund on Net Asset Value was 3.91% at the end of September for the last 12 months, and the fund size was £1,296.7 million (4.36% and £1,155.8 million respectively for the 12 months to September 2020).

2.13 Appendix 3, provided by Arlingclose, compares the Council's performance against other Local Authorities at the end of September. In order to gain better rates of return, the majority of Local Authorities with a higher rate of return have further external investments creating a more diverse portfolio.

Borrowing Performance

2.14 Long-term loans at the end September totalled £404.2 million (£384.4 million 31 March 2021) and short-term loans £5.9 million (£40.9 million 31 March 2021).

2.15 Fixed rate loans account for 85.2% of total long-term debt giving the Council stability in its interest costs. The maturity profile for fixed rate long-term loans is shown in Appendix 2 and shows that no more than 10.1% of fixed rate debt is due to be repaid in any one year. This is good practice as it reduces the Council's exposure to a substantial borrowing requirement in future years when interest rates might be at a relatively high level.

2.16 The mid-year liability benchmark highlights that there is an expectation of new additional long term borrowing of £76.6 million. Having considered the appropriate duration and structure of the Authority's borrowing need based on realistic projections, the Council decided to take advantage in the fall of external borrowing rates and borrowed two £10.0 million 20 year EIP loans from the PWLB in April and July. This is in addition to the £10.0 million borrowed in March 2021. These loans provide some longer-term certainty and stability to the debt portfolio. Further detail on the reduction in PWLB interest rates is covered in paragraph 2.26.

2.17 Appendix 5 sets out in year repayments on long term borrowing and also further re-payments for the next 6 months.

Revenue Budget Monitoring

2.18 The treasury management revenue budget is £24.3 million. Forecasted outturn is currently in line with budget. The change in Minimum Revenue Provision (MRP) policy allowed for a planned release of £9.1 million MRP budget over-provision in 2021/22. The budget strategy update report 2022/23 re-affirmed the decision taken in the annual budget report in February 2021 to forward profile the release of the MRP over-provision with an additional £4.6m, in light of estimated medium term COVID impacted pressures on the Council finances. The MRP policy is to provide for MRP on the basis of the asset life to which external borrowing is incurred. The MRP calculation is used to determine the amount of revenue resources that need to be set aside annually by the Council to meet its debt obligations.

Prudential Indicators

2.19 The Council is able to undertake borrowing without central government approval under a code of practice called the Prudential Code. Under this Code, certain indicators have to be set at the beginning of the financial year as part of the treasury management strategy.

2.20 The purpose of the indicators is to contain the treasury function within certain limits, thereby reducing the risk or likelihood of an adverse movement in interest rates or borrowing decision impacting negatively on the Council's overall financial position. Appendix 4 provides a schedule of the indicators set for treasury management and the latest position.

Borrowing and Investment – General Strategy for 2021/22

2.21 The Capital Financing Requirement (CFR) represents the Council's underlying need to finance capital expenditure by borrowing or other long-term liability arrangements.

2.22 An authority can choose to finance its CFR through internal or external borrowing or a combination of the two.

2.23 Forecast changes in the Capital Financing Requirement (CFR) and how these will be financed are shown in the balance sheet analysis at Table 1 below:

Table 1: Balance Sheet Forecast

	Actual 2020/21 £m	Strategy Estimate 2021/22 £m	Revised Forecast 2021/22 £m
General Fund CFR - Non PFI	500.1	577.2	571.0
PFI	42.5	39.4	39.4
HRA CFR - Non PFI	170.3	173.8	167.4
PFI	48.1	45.2	45.2
Total CFR	761.0	835.6	823.0
Less: PFI debt liabilities (1)	90.6	84.6	84.6
Borrowing CFR	**670.4**	**751.0**	**738.4**
Financed via:			
Deferred Liabilities (2)	3.7	3.7	3.7
Internal Borrowing	240.9	213.1	202.9
External Borrowing	425.8	534.2	531.8
Total	**670.4**	**751.0**	**738.4**
Investments	37.1	30.0	30.0

2.24 The revised forecast takes into account the following factors;

a) General Fund CFR has reduced slightly from £577.2 million in the 2021/22 Strategy to £571.0 million revised forecast due to re-profiling during the year.

b) Internal borrowing in the 2021/22 Strategy was £213.1 million, this has now been revised down to £202.9 million due to higher than forecast use of reserves. Internal borrowing reflects the totality of General Fund, HRA revenue reserves, Capital Grant Reserves and Capital Receipts reserves.

2.25 The Council currently looks to maximise internal borrowing that can be used in lieu of borrowing due to the relatively low rates of investment income available within the scope of the Treasury Management Strategy.

2.26 At the end of November 2020 the margin on PWLB loans above gilt yields was reduced from 1.8% to 0.8%, providing that the borrowing authority could confirm that it is not planning to purchase ‘investment assets primarily for yield’ in the current or next two financial years. Acceptable use of PWLB borrowing includes service delivery, housing, regeneration, preventative action, refinancing and treasury management. Settlement times for a PWLB loan has been extended from two working days to five working days.

2.27 Short term interest rates remain much lower than longer term rates and with surplus of liquidity continuing to feature in the Local Authority to Local Authority market, the Council considered it to be more cost effective in the near term to use internal resources or borrowed temporary short-term loans when needed.

Future Treasury Management Strategy

2.28 The Council's overall Treasury Management Strategy will continue to maintain a relatively low risk strategy giving priority to security and liquidity, and as such invest an average of around £20 million externally in relatively short-term, liquid investments through the money markets, for the purpose of managing day-to-day cash flow requirements. Any remaining balances, net of investment in the LAPF, will be used internally, offsetting borrowing requirements. The investment strategy is designed to minimise risk, investments being made primarily in instant access accounts or short-term deposits, with the major British owned banks and building societies, or Money Market Funds.

2.29 The Treasury Management Code of Practice ensures management practices are in place for non-treasury management activity in addition to the existing 12 Treasury Management Practices (TMPs). This is identified at the end of this report (Appendix 6).

2.30 In February 2021 CIPFA launched two consultations on changes to its Prudential Code and Treasury Management Code of Practice. These followed the Public Accounts Committee's recommendation that the prudential framework should be further tightened following continued borrowing by some Authorities for investment purposes. In September CIPFA issued the revised Codes and Guidance Notes in draft form and opened the latest consultation process on their proposed changes.

2.31 The main changes include:

- Clarification that Local Authorities must not borrow to invest primarily for financial return and defining acceptable reasons to borrow money.
- For service and commercial investments, in addition to assessments of affordability and prudence, an assessment of proportionality in respect of the Authority's overall financial capacity (i.e. whether plausible losses could be absorbed in budgets or reserves without unmanageable detriment to local services).
- Prudential Indicators, new indicator for net income from commercial and service investments to the budgeted net revenue stream. Inclusion of the liability benchmark as a mandatory treasury management prudential indicator. CIPFA recommends this is presented as a chart of four balances – existing loan debt outstanding; loans CFR, net loans requirement, liability benchmark – over at least 10 years and ideally cover the Authority's full debt maturity profile.
- Excluding investment income from the definition of financing costs.
- Incorporating ESG (Economic, Social, Governance) issues as a consideration within TMP 1 Risk Management.
- Additional focus on the knowledge and skills of officers and elected members involved in decision making

2.32 The Council's objective when borrowing is to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required. PWLB is the primary source of borrowing alongside cheaper short term borrowing for a mixed portfolio of debt.

2.33 PWLB rates remain historically relatively low, although rates have fluctuated by margins around 1% over the last 30 months, as illustrated in the PWLB borrowing rates table at Appendix 7. In light of current inflationary pressures and likelihood of MPC uplifts in base rate over the coming months, this may add some increased short-term volatility on PWLB rates. Officers will continue to review funding options going forward in conjunction with its external advisors.

2.34 Budget developments for 2022/23 and future years include significant regeneration activity which provides potential for diversifying funding sources, particularly if rates can be achieved on alternatives which are below gilt yields, with blending funding approaches alongside the PWLB.

2.35 Current MRP policy calculates MRP on new assets during the construction phase, however in light of the aforementioned significant regeneration activity the Council will consider appropriate revisions to its MRP methodology to align the timing of MRP charges to the point new assets become operational.

<u>Risk and Compliance issues</u>

2.36 In line with the investment strategy, the Council has not placed any direct investments with companies as defined by the Carbon Underground 200.

3 Implications for the Council

3.1 Treasury management budget forecast will continue to be reported as part of the overall quarterly financial monitoring reporting cycle to Cabinet, through the remainder of the year.

4 Consultees and their opinions

Arlingclose, the treasury management advisors to the Council, have provided the economic context commentary contained in this report.

5 Next steps

Following consideration at consideration at Corporate Governance & Audit Committee, this report will be presented to Cabinet on 14 December 2021 and then full Council on 18 January 2022.

6 Officer recommendations and reasons

Having read this report and the accompanying Appendices, Corporate Governance & Audit Committee are asked to:

6.1 Note the half-year treasury management performance in 2021/22 as set out in the report;

7 Contact officer

James Anderson	Head of Accountancy Service	01484 221000
Rachel Firth	Finance Manager	01484 221000

8 Background Papers and History of Decisions

CIPFA’s Prudential Code for Capital Finance in Local Authorities.
CIPFA’s Code of Practice on Treasury Management in the Public Services.
CIPFA’s Treasury Management in the Public Services – Guidance notes
The treasury management strategy report for 2021/22 - Council 10 February 2021
Council Budget Strategy Update Report 2022/23 – Council 13 October 2021
Annual Report on Treasury Management 2020/21 - Annual Financial Outturn and Rollover Report 2020/21; Council 23 July 2021

9 Service Director responsible

Eamon Croston 01484 221000

<u>Appendix 1</u>

Kirklees Council Investments 2021/22

Counterparty		Approved Strategy Limit £m	Approved Strategy Credit Rating	Credit Rating Sept 2021*	1 April 2021 (opening) £m	Interest Rate	Type of Investment	30 June 2021 £m	Interest Rate	Type of Investment	30 September 2021 £m	Interest Rate	Type of Investment
<u>Specified Investments</u>													
LAPF Property Fund		10.0	-	-	10.0	-	***	10.0	-	***	10.0	-	***
DMO	Govt	Unlimited	-	F1+/AA-	0.0	-	-	0.0	-	-	0.0	-	-
Santander	Bank	10.0	F1	F1/A+	5.0	0.30%	35 Day Notice	0.0	0.10%	35 Day Notice	5.0	0.10%	35 Day Notice
Barclays	Bank	10.0	F1	F1/A+	0.6	0.01%	Deposit	0.0	0.01%	Deposit	0.0	0.01%	Deposit
Aberdeen Standard	MMF**	10.0	AAA-A	AAA	8.6	0.01%	MMF	10.0	0.01%	MMF	10.0	0.01%	MMF
Aviva	MMF**	10.0	Aaa-A2	Aaa*	7.0	0.01%	MMF	9.6	0.01%	MMF	6.1	0.01%	MMF
Deutsche	MMF**	10.0	AAA-A	AAA	5.9	0.01%	MMF	9.9	0.02%	MMF	10.0	0.02%	MMF
Goldman Sachs	MMF**	10.0	AAA-A	AAA	0.0	0.00%	MMF	4.0	0.00%	MMF	0.0	0.00%	MMF
					37.1			**43.5**			**41.1**		
<u>Sector analysis</u>													
Property Fund		10.0			10.0	27%		10.0	23%		10.0	24%	
Bank		10.0 each			5.6	15%		0.0	0%		5.0	12%	
MMF**		50.0			21.5	58%		33.5	77%		26.1	64%	
Central Govt		Unlimited			0.0	0%		0.0	0%		0.0	0%	
					37.1	100%		**43.5**	100%		**41.1**	100%	
<u>Country analysis</u>													
UK					15.6	42%		10.0	23%		15.0	36%	
MMF**					21.5	58%		33.5	77%		26.1	64%	
					37.1	100%		**43.5**	100%		**41.1**	100%	

*Fitch short/long term ratings, except Aviva MMF (Moody rating). See next page for key. The use of Fitch ratings is illustrative – the Council assesses counterparty suitability using all 3 credit rating agencies, where applicable, and other information on credit quality.

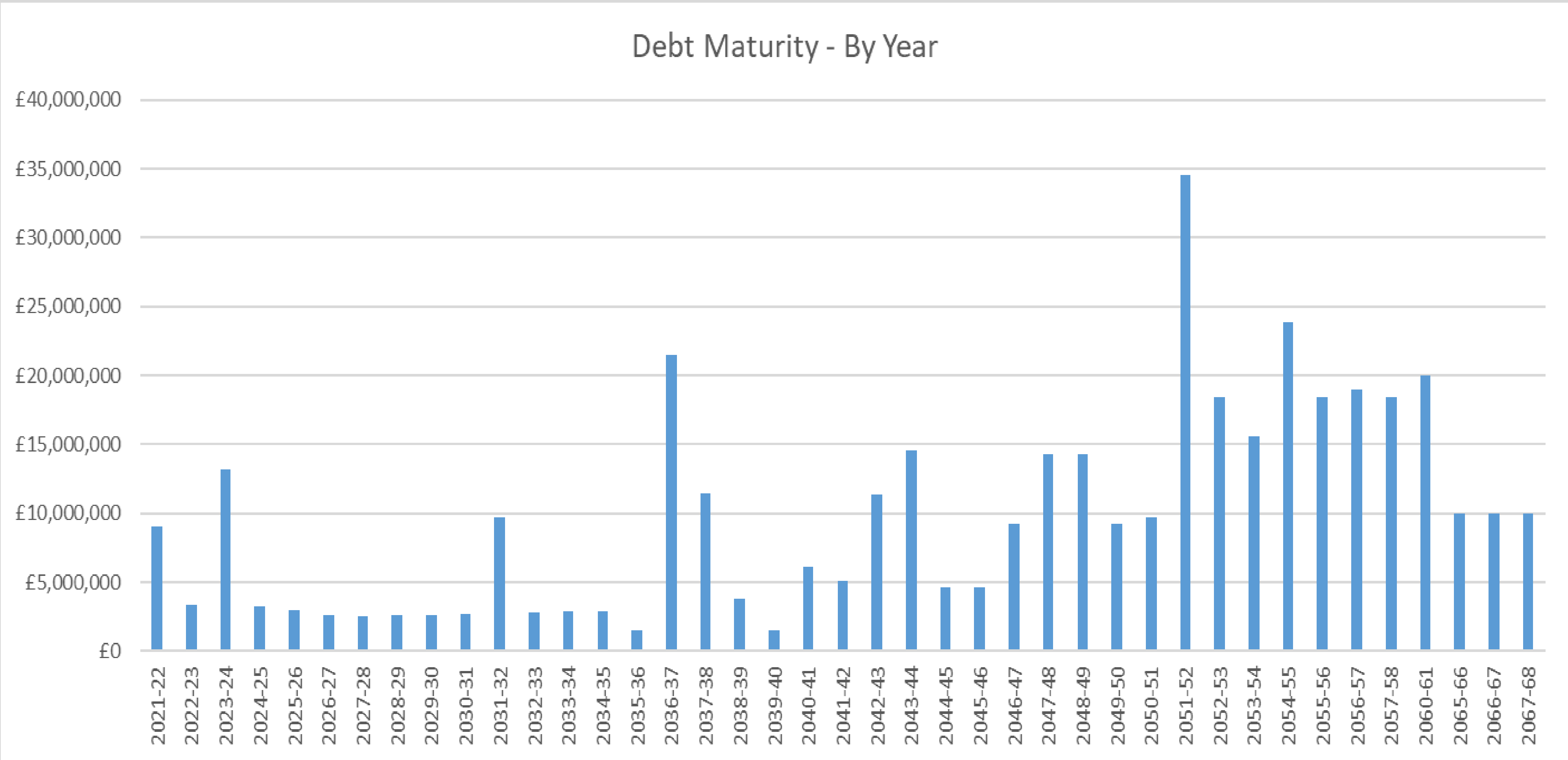
**MMF – Money Market Fund. These funds are domiciled in Ireland for tax reasons, but the funds are made up of numerous diverse investments with highly rated banks and other institutions. The credit risk is therefore spread over numerous countries, including the UK. The exception to this is the Aviva Government Liquidity Fund which invests directly in UK government securities and in short-term deposits secured on those securities.

***Specialised property fund available for Local Authority investors.

<u>Key – Fitch's credit ratings</u>: **Appendix 1 Continued**

		Long	Short
Investment Grade	Extremely Strong	AAA	
		AA+	
	Very Strong	AA	F1+
		AA-	
		A+	
	Strong	A	F1
		A-	
		BBB+	F2
	Adequate	BBB	
		BBB-	F3
Speculative Grade		BB+	
	Speculative	BB	
		BB-	
		B+	B
	Very Speculative	B	
		B-	
		CCC+	
		CCC	
	Vulnerable	CCC-	C
		CC	
		C	
	Defaulting	D	D

Appendix 2


Debt Maturity - By Year
£40,000,000
£35,000,000
£30,000,000
£25,000,000
£20,000,000
£15,000,000
£10,000,000
£5,000,000
£0
2021-22
2022-23
2023-24
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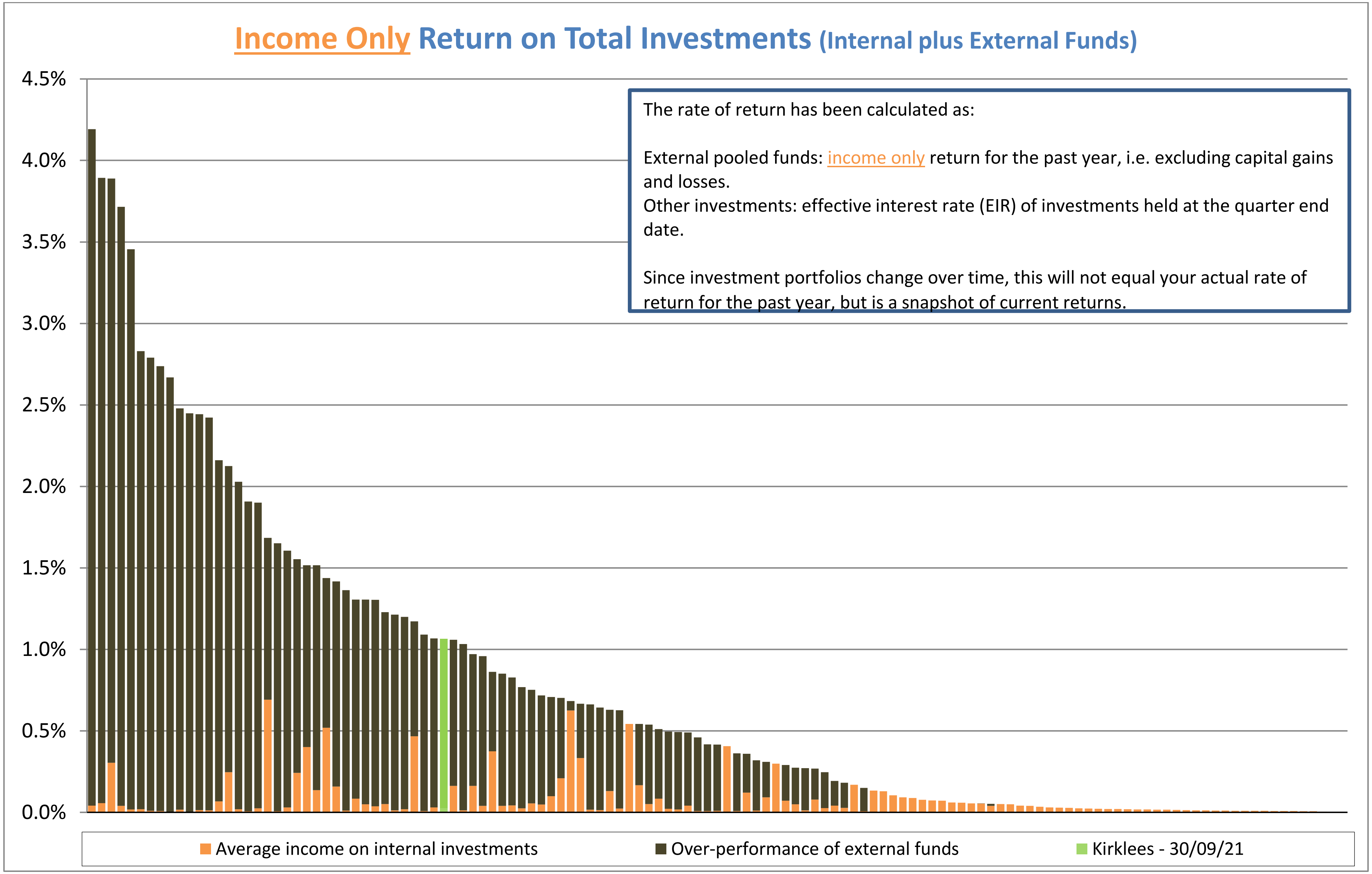
Appendix 3


Income Only Return on Total Investments (Internal plus External Funds)
4.5%
4.0%
3.5%
3.0%
2.5%
2.0%
1.5%
1.0%
0.5%
0.0%
The rate of return has been calculated as:
External pooled funds: income only return for the past year, i.e. excluding capital gains and losses.
Other investments: effective interest rate (EIR) of investments held at the quarter end date.
Since investment portfolios change over time, this will not equal your actual rate of return for the past year, but is a snapshot of current returns.
Average income on internal investments
Over-performance of external funds
Kirklees - 30/09/21

Appendix 4

Treasury Management Prudential Indicators

Interest Rate Exposures

While fixed rate borrowing can contribute significantly to reducing the uncertainty surrounding future interest rate scenarios, the pursuit of optimum performance justifies retaining a degree of flexibility through the use of variable interest rates on at least part of the treasury management portfolio. The Prudential Code requires the setting of upper limits for both variable rate and fixed interest rate exposure:

	Limit Set 2021/22	Estimated Actual* 2021/22
Interest at fixed rates as a percentage of net interest payments	60% - 100%	84%
Interest at variable rates as a percentage of net interest payments	0% - 40%	16%

*The estimated actual is within the limits set.

Maturity Structure of Borrowing

This indicator is designed to prevent the Council having large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates.

Amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate	Limit Set 2021/22	Estimated Actual 2021/22
Under 12 months	0% - 20%	3%
12 months to 2 years	0% - 20%	1%
2 years to 5 years	0% - 60%	5%
5 years to 10 years	0% - 80%	4%
More than 10 years	20% - 100%	87%

The limits on the proportion of fixed rate debt were adhered to.

Total principal sums invested for periods longer than 364 days

The Council will not invest sums for periods longer than 364 days.

Appendix 5

Long-term loans repaid during the period 01/04/21 to 30/09/21

	Amount £000s	Rate %	Date repaid
Salix - Annuity	321	0.00	1 April 21
PWLB (313112) - EIP	250	1.64	6 Sept 21
PWLB (496956) - Annuity	386	4.58	29 Sept 21
Total	957		

Long-term loans to be repaid during the period 01/10/21 to 31/03/22

	Amount £000s	Rate %	Date to be repaid
Salix - Annuity	490	0.00	1 Oct 21
PWLB (340221) - EIP	250	1.63	27 Oct 21
PWLB (373440) - EIP	250	1.46	12 Jan 22
PWLB (475156) - Maturity	6,458	8.63	14 Feb 22
PWLB (313112) - EIP	250	1.64	4 Mar 22
PWLB (496956) - Annuity	395	4.58	29 Mar 22
Total	8,093		

Appendix 6

TREASURY MANAGEMENT PRACTICES

The following Treasury Management Practices (TMPs) set out the manner in which the Council aims to achieve its treasury management policies and objectives, and how it will manage and control those activities.

1. TMP 1 Risk management

The Service Director - Finance will design, implement and monitor all arrangements for the identification, management and control of treasury management risk, will report at least annually on the adequacy/suitability thereof, and will report, as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the organisation's objectives in this respect, all in accordance with the procedures set out in TMP6 Reporting requirements and management information arrangements. In respect of each of the following risks, the arrangements which seek to ensure compliance with these objectives are set out in the schedule to this document.

(i) Credit and counterparty risk management

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

(ii) Liquidity risk management

The Council will ensure it has adequate though not excessive cash resources, borrowing arrangements, overdraft or standby facilities to enable it at all times to have the level of funds available to which are necessary for the achievement of its business/service objectives. The Council will only borrow in advance of need where there is a clear business case for doing so and will only do so for the current capital programme or to finance future debt maturities.

(iii) Interest rate risk management

The Council will manage its exposure to fluctuations in interest rates with a view to containing its net interest costs, or securing its interest revenues, in accordance with the amounts provided in its budgetary arrangements.

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

(iv) Exchange rate risk management

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

(v) Refinancing risk management

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

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

(vi) Legal and regulatory risk management

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

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

(vii) Fraud, error and corruption, and contingency management

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

(viii) Market risk management

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

2. TMP2 Performance measurement

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

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

3. **TMP3 Decision-making and analysis**

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

4. **TMP4 Approved instruments, methods and techniques**

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

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

5. **TMP5 Organisation, clarity and segregation of responsibilities, and dealing arrangements**

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

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

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

The Service Director - Finance will ensure that there are clear written statements of the responsibilities for each post engaged in treasury management, and the arrangement for absence cover. The present arrangements are detailed in the schedule to this document.

The Service Director - Finance will ensure there is proper documentation for all deals and transactions, and that procedures exist for the effective transmission of funds. The present arrangements are detailed in the schedule to this document.

The delegation to the Service Director - Finance in respect of treasury management is set out in the schedule to this document. The Service Director - Finance will fulfil all such responsibilities in accordance with the Council's policy statement and TMPs and, as a CIPFA member, the Standard of Professional Practice on Treasury Management.

6. **TMP6** Reporting requirements and management information arrangements

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

As a minimum, the Council will receive:
- an annual report on the strategy and plan to be pursued in the coming year
- a mid-year review
- an annual report on the performance of the treasury management function, on the effects of the decisions taken and the transactions executed in the past year, and on any circumstances of non-compliance with the organisation's Treasury Management Policy Statement and TMPs.

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

7. **TMP7** Budgeting, accounting and audit arrangements

The Service Director - Finance will prepare, and the Council will approve and, if necessary, from time to time amend, an annual budget for treasury management, which will bring together all of the costs involved in running the treasury management function, together with associated income. The matters to be included in the budget will at a minimum be those required by statute or regulation, together with such information as will demonstrate compliance with the TMPs. Budgeting procedures are set out in the schedule to this document. The Service Director - Finance will exercise effective controls over this budget, and will report any major variations.

The Council will account for its treasury management activities, for decisions made and transactions executed, in accordance with appropriate accounting practices and standards, and with statutory and regulatory requirements in force for the time being. The present form of this function's accounts is set out in the schedule to this document.

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

8. **TMP8** Cash and cash flow management

Unless statutory or regulatory requirements demand otherwise, all monies in the hands of the Council will be under the control of the Service Director - Finance and, with the exception of Secondary Schools' bank accounts, will be aggregated for cash flow purposes. Cash flow projections will be prepared on a regular and timely basis, and the Service Director - Finance will ensure that these are adequate for the purposes of monitoring compliance with TMP1(i)

Liquidity risk management. The present arrangements for preparing cash flow projections are set out in the schedule to this document.

9. **TMP9 Money laundering**

The Council is alert to the possibility that it may become the subject of an attempt to involve it in a transaction involving the laundering of money. Accordingly, it will ensure that staff involved in treasury management activities are fully aware of their responsibilities with regards this. The present safeguards, including the name of the officer to whom any suspicions should be reported, are detailed in the schedule to this document.

10. **TMP10 Training and qualifications**

The Council recognises the importance of ensuring that all staff involved in the treasury management function are fully equipped to undertake the duties and responsibilities allocated to them. It will therefore seek to appoint individuals who are both capable and experienced and will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills. The present arrangements are detailed in the schedule to this document.

The Service Director - Finance will ensure that Members of the committee providing a scrutiny function have access to regular training relevant to their responsibilities.

11. **TMP11 Use of external service providers**

The Council recognises that responsibility for treasury management decisions remains with the organisation at all times. However, it also recognises the potential value of employing external providers of treasury management services, in order to acquire access to specialist skills and resources.

When it employs such service providers, it will ensure it does so for reasons which will have been submitted to full evaluation of the costs and benefits. It will also ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented and subjected to regular review. And it will ensure, where feasible and necessary, that a spread of service providers is used, to avoid over-reliance on one or a small number of companies.

Where services are subject to formal tender or re-tender arrangements, legislative requirements and the Council's Contract Procedure Rules will always be observed. The monitoring of such arrangement's rests with the Service Director - Finance, and details of the current arrangements are set out in the schedule to this document.

12. **TMP12 Corporate governance**

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

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

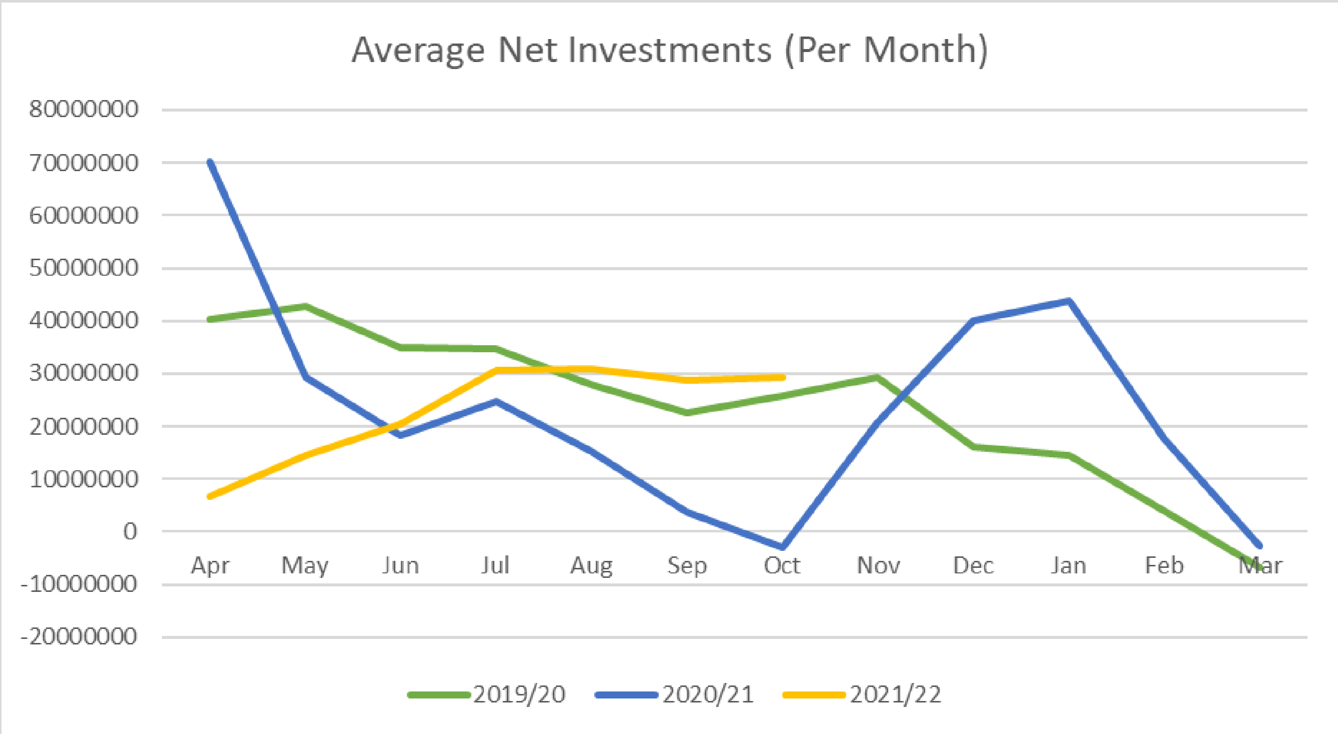
Management Practices for Non-Treasury Investments

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

The Council will ensure that all investments are covered in the Capital and Investment Strategies, and will set out where appropriate, the Councils risk appetite and specific policies and arrangements for non-treasury investments. It will be recognised that the risk appetite for these activities may differ from that of treasury management.

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

Appendix 7



PWLB Borrowing Rates %								
	30/09/21	**31/03/21**	**30/09/20**	**31/03/20**	**31/10/19**	**09/10/19**	**08/10/19**	**29/03/19**
Annuity								
15 years	1.87	1.74	2.09	2.24	2.50	2.30	1.27	1.93
20 years	2.07	1.97	2.27	2.40	2.67	2.46	1.45	2.09
30 years	2.31	2.26	2.58	2.69	3.00	2.79	1.78	2.44
50 years	2.38	2.38	2.76	2.84	3.20	2.99	1.98	2.58
Maturity								
15 years	2.28	2.22	2.56	2.66	2.96	2.76	1.75	2.39
20 years	2.38	2.35	2.72	2.84	3.16	2.95	1.94	2.54
30 years	2.36	2.37	2.74	2.79	3.18	2.97	1.96	2.57
50 years	2.17	2.20	2.60	2.59	3.05	2.82	1.81	2.43
EIP								
15 years	1.86	1.72	2.09	2.26	2.51	2.30	1.29	1.89
20 years	2.04	1.95	2.26	2.40	2.66	2.45	1.44	2.07
30 years	2.28	2.22	2.56	2.68	2.97	2.77	1.76	2.38
50 years	2.39	2.39	2.77	2.87	3.21	3.00	1.99	2.59