Name and date of meeting: **Cabinet**
21 December 2022

Title of report: **Half Yearly Monitoring report on Treasury Management activities 2022/23**

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 2022/23 covering the period 1 April to 30 September 2022.

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 – 15 November 2022** **Julie Muscroft – 15 November 2022**
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 £69.7 million during the period at an average rate of 0.66%. Investments have ranged from a peak of £111.1 million in August and a low of £34.7 million in June. The high investment balance was due to the receipt of £25.6 million of Council Tax Energy Rebate grant at the end of March which was paid out over a few months, along with taking advantage of medium-term Local Authority loans and arranging a £20.0 million PWLB loan in August from HM Treasury.

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 £26.7 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 2022/23 was approved by Council on 16 February 2022. 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 August was mainly invested in the Debt Management Office (DMO) which is an Executive Agency of Her Majesty's Treasury.

Economic Context

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

2.4 The ongoing conflict in Ukraine has continued to put pressure on global inflation and the economic outlook for UK and world growth remains weak. The UK political situation towards the end of the period following the 'fiscal event' increased uncertainty further. The economic backdrop during the April to September period continued to be characterised by high oil, gas and commodity prices, ongoing high inflation and its impact on consumers' cost of living, no imminent end in sight to the Russia-Ukraine hostilities and its associated impact on the supply chain, and China's zero-Covid policy.

2.5 The Bank of England pushed up interest rates over the period and committed to fighting inflation, even when the consequence was, in all likelihood, recession. UK inflation remained extremely high. Annual headline CPI hit 10.1% in July, the

highest rate for 40 years, before falling modestly to 9.9% in August. RPI registered 12.3% in both July and August.

2.6 The labour market remained tight through the period but there was some evidence of easing demand and falling supply. The unemployment rate fell to 3.8% and declined further to 3.6% in July. Although now back below pre-pandemic levels, the recent decline was driven by an increase in inactivity rather than demand for labour. Pay growth in July was 5.5% for total pay (including bonuses) and 5.2% for regular pay. Once adjusted for inflation, however, growth in total pay was -2.6% and -2.8% for regular pay.

2.7 The Bank of England increased the official Bank Rate to 2.25% over the period. From 0.75% in March, the Monetary Policy Committee (MPC) pushed through rises of 0.25% in each of the following two MPC meetings, before hiking by 0.50% in August and again in September. The Committee noted that domestic inflationary pressures are expected to remain strong and so given ongoing strong rhetoric around tackling inflation further Bank Rate rises should be expected.

2.8 On 23rd September the UK government, following a change of leadership, announced a raft of measures in a 'mini budget', loosening fiscal policy with a view to boosting the UK's trend growth rate to 2.5%. With little detail on how government borrowing would be returned to a sustainable path, financial markets reacted negatively. Gilt yields rose dramatically by between 0.7% - 1% for all maturities with the rise most pronounced for shorter dated gilts. The swift rise in gilt yields left pension funds vulnerable, as it led to margin calls on their interest rate swaps and risked triggering large scale redemptions of assets across their portfolios to meet these demands. It became necessary for the Bank of England to intervene to preserve market stability through the purchase of long-dated gilts, albeit as a temporary measure, which has had the desired effect with 50-year gilt yields falling over 100bps in a single day. Bank of England policymakers noted that any resulting inflationary impact of increased demand would be met with monetary tightening, raising the prospect of much higher Bank Rate and consequential negative impacts on the housing market.

2.9 Uncertainty remained in control of financial market sentiment and bond yields remained volatile, continuing their general upward trend as concern over higher inflation and higher interest rates continued to dominate. Towards the end of September, volatility in financial markets was significantly exacerbated by the UK government's fiscal plans, leading to an acceleration in the rate of the rise in gilt yields and decline in the value of sterling. Due to pressure on pension funds, the Bank of England announced a direct intervention in the gilt market to increase liquidity and reduce yields. Over the period the 5-year UK benchmark gilt yield rose from 1.41% to 4.40%, the 10-year gilt yield rose from 1.61% to 4.15%, the 20-year yield from 1.82% to 4.13% and the 50-year yield from 1.56% to 3.25%.

Investment Performance

2.10 The Council invested an average balance of £59.7 million externally (excluding the LAPF) during the period (£27.6 million in the first six months of 2021/22),

generating £285k in investment income over the period (£4k in 2021/22). The LAPF investment of £10.0 million generated £174k of dividend income during the period (£180k in the first six months of 2021/22). 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 0.66%. This is slightly higher than the average in the same period in 2021/22 of 0.49%, as the base rate started to rise. Returns on liquid cash balances were 0.48% and 3.47% on the LAPF (after deducting charges). The actual gross dividend yield quoted from the fund on Net Asset Value was 3.40% at the end of September for the last 12 months, and the fund size was £1,451.4 million (3.91% and £1,296.7 million respectively for the 12 months to September 2021).

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 £499.9 million (£447.4 million 31 March 2022) and short-term loans £31.0 million (£21.5 million 31 March 2022).

2.15 Fixed rate loans account for 88.1% of total long-term debt giving the Council stability in its interest costs. The maturity profile for long-term loans is shown in Appendix 2 and shows that no more than 7.8% of 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 forecasted liability benchmark, based on updated capital plans, highlights that there is an expectation of additional long-term borrowing of £81.3 million for the year. Following a slight dip in gilt yields in August, a £20.0 million 20 year EIP loan was arranged from the PWLB. This is in addition to £60.0 million borrowed since March 2021. These loans provide some longer-term certainty and stability to the debt portfolio. The remainder of the borrowing will be funded by short and medium loans. Further detail on this and the increase in PWLB interest rates is covered in paragraph 2.26 and 2.27.

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 budget is £26.7 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 2022/23. The budget strategy update report 2023/24 re-affirmed the decision taken in the annual budget report in February 2022 to forward profile the release of the MRP over-provision with an additional £4.6 million, 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 2022/23

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 A Council can choose to finance its CFR through internal or external borrowing or a combination of the two.

2.23 Forecast changes in the CFR and how these will be financed are shown in the balance sheet analysis table below:

Balance Sheet Forecast

	Actual 2021/22 £m	**Strategy Estimate 2022/23 £m**	**Revised Forecast 2022/23 £m**

General Fund CFR - Non PFI	556.1	610.7	617.9
PFI	39.4	35.5	35.5
HRA CFR - Non PFI	166.0	177.3	168.6
PFI	45.2	42.7	42.7
Total CFR	806.7	866.2	864.7
Less: PFI debt liabilities	84.6	78.2	78.2
Borrowing CFR	**722.1**	**788.0**	**786.5**
Financed via:			
Deferred Liabilities	3.7	3.6	3.6
Internal Borrowing	249.6	197.8	232.7
External Borrowing	468.8	586.6	550.2
Total	**722.1**	**788.0**	**786.5**
Investments	78.9	30.0	30.0

2.24 The Council has an increasing CFR due to the capital programme and an estimated borrowing requirement as determined by the Liability Benchmark which also takes into account usable reserves and working capital.

2.25 The Council's chief 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. The Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. PWLB is the primary source of borrowing alongside cheaper short-term borrowing for a mixed portfolio of debt.

2.26 Over the April to September period short term PWLB rates rose dramatically, particularly in late September after the Chancellor's 'mini-budget' prompted a fall in sterling and rise in market interest rate expectations. Interest rates rose by over 2% during the period in both the long and short term. As an indication the 5 year maturity certainty rate rose from 2.30% on 1st April to 5.09% on 30th September; over the same period the 30-year maturity certainty rate rose from 2.63% to 4.68%. Although interest rates across the board have risen, short-term borrowing from other local authorities remains at slightly lower interest rates than long term borrowing.

2.27 Having considered the appropriate duration and structure of the borrowing need based on realistic projections, it was decided to take a combination of short-term borrowing and long-term repayment loans. In the six-month period the Council borrowed £55.0 million medium/longer-term fixed rate loans, details of which are shown in Appendix 5. These loans provide some longer-term certainty and stability to the debt portfolio and will guard against future increases in interest rates.

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, short-term deposits, Local Authorities 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 CIPFA published its revised Treasury Management Code of Practice and Prudential Code for Capital Finance in December 2021. The principles within the two codes took immediate effect although Local Authorities could defer introducing the revised reporting requirements within the revised codes until the 2023/24 financial year, which the Council has elected to do.

2.31 The key changes in the two codes are around permitted reasons to borrow, knowledge and skills, and the management of non-treasury investments. The code stipulates restrictions on borrowing primarily for financial return, including commercial property. The Council's current and proposed capital plans do not include any capital investment funded by borrowing primarily for commercial return, that may otherwise have restricted access to PWLB borrowing going forward. The new code does not introduce restrictions on Councils borrowing for purposes essential to their core aims, such as for housing and regeneration projects, or for treasury management purposes.

2.32 Arlingclose expects the Bank Rate to rise further during 2022/23 and to reach 4.25% by June 2023. UK interest rate expectations have eased following the mini-budget, with a growing expectation that UK fiscal policy will now be tightened to restore investor confidence. The Monetary Policy Committee (MPC) however remains concerned with rising inflation and the tight labour market. The MPC may therefore raise the Bank Rate more quickly and to a higher level to dampen aggregate demand and reduce the risk of sustained higher inflation. This action by the MPC will slow the economy, necessitating cuts in the Bank Rate later in 2024.

2.33 Gilt yields are expected to remain broadly at current levels over the 3 year medium term period to September 2025. The risks for short, medium and longer term yields are judged to be broadly balanced over the forecast horizon. As ever, there will undoubtedly be short term volatility due to economic and political uncertainty and events. Officers will continue to review funding options going forward in conjunction with its external advisors.

2.34 Budget developments for 2023/24 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.

Risk and Compliance issues

2.35 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 Working with People: N/A
3.2 Working with Partners: N/A
3.3 Placed based working: N/A
3.4 Climate Change and Air Quality: N/A
3.5 Improving Outcomes for Children: N/A

3.6 Other (e.g. Legal/Financial or Human Resources):
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

This report was considered and endorsed at Corporate Governance and Audit Committee on 25 November 2022 and will be presented to Cabinet on 21 December 2022. Arlingclose, the treasury management advisors to the Council, have provided the economic context commentary contained in this report.

5 Next steps

Following consideration at Cabinet, this report will be presented to Council on 11 January 2023.

6 Officer recommendations and reasons

Having read this report and the accompanying Appendices, Cabinet are asked to:

6.1 Note the half-year treasury management performance in 2022/23 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 2022/23 - Council 16 February 2022
Council Budget Strategy Update Report 2023/24 – Council 7 September 2022
Annual Report on Treasury Management 2021/22 - Annual Financial Outturn Report 2021/22; Council 7 September 2022

9 Service Director responsible

Eamon Croston 01484 221000

Appendix 1

Kirklees Council Investments 2022/23

Counterparty		Approved Strategy Limit £m	Approved Strategy Credit Rating	Credit Rating Sept 2022*	1 April 2022 (opening) £m	Interest Rate	Type of Investment	30 June 2022 £m	Interest Rate	Type of Investment	30 September 2022 £m	Interest Rate	Type of Investment
Specified Investments													
LAPF Property Fund		10.0	-	-	10.0	-	***	10.0	-	***	10.0	-	***
DMO	Govt	Unlimited	-	F1+/AA-	16.1	0.55%	Fixed Deposit	0.0	-	-	5.0	1.93%	Fixed Deposit
DMO	Govt	Unlimited	-	F1+/AA-	10.6	0.55%	Fixed Deposit	0.0	-	-	5.0	1.96%	Fixed Deposit
DMO	Govt	Unlimited	-	F1+/AA-	0.0	-	-	0.0	-	-	6.0	2.00%	Fixed Deposit
DMO	Govt	Unlimited	-	F1+/AA-	0.0	-	-	0.0	-	-	5.0	2.01%	Fixed Deposit
DMO	Govt	Unlimited	-	F1+/AA-	0.0	-	-	0.0	-	-	10.0	2.09%	Fixed Deposit
DMO	Govt	Unlimited	-	F1+/AA-	0.0	-	-	0.0	-	-	5.0	2.10%	Fixed Deposit
PCC Devon & Cornwall	LA	10.0	-	F1+/AA-	10.0	0.60%	Fixed Deposit	0.0	-	-	0.0	-	-
PCC Dorset	LA	10.0	-	F1+/AA-	10.0	0.60%	Fixed Deposit	0.0	-	-	0.0	-	-
Cornwall Council	LA	10.0	-	F1+/AA-	0.0	-	-	5.0	0.91%	Fixed Deposit	0.0	-	-
Leeds City Council	LA	10.0	-	F1+/AA-	0.0	-	-	0.0	-	-	5.0	2.00%	Fixed Deposit
PCC West Yorkshire	LA	10.0	-	F1+/AA-	0.0	-	-	0.0	-	-	3.0	2.20%	Fixed Deposit
Aberdeen Standard	MMF**	10.0	AAA-A	AAA	8.9	0.54%	MMF	8.6	1.08%	MMF	10.0	2.14%	MMF
Aviva	MMF**	10.0	Aaa-A2	Aaa*	10.0	0.53%	MMF	10.0	1.11%	MMF	10.0	1.94%	MMF
Deutsche	MMF**	10.0	AAA-A	AAA	0.0	0.52%	MMF	10.0	1.07%	MMF	0.0	1.78%	MMF
Goldman Sachs	MMF**	10.0	AAA-A	AAA	3.3	0.53%	MMF	10.0	1.07%	MMF	7.3	1.97%	MMF
					78.9			**53.6**			**81.3**		
Sector analysis													
Property Fund		10.0			10.0	13%		10.0	19%		10.0	12%	
Local Authorities		10.0			20.0	25%		5.0	9%		8.0	10%	
MMF**		50.0			22.2	28%		38.6	72%		27.3	34%	
Central Govt		Unlimited			26.7	34%		0.0	0%		36.0	44%	
					78.9	100%		**53.6**	100%		**81.3**	100%	
Country analysis													
UK					56.7	72%		15.0	28%		54.0	66%	
MMF**					22.2	28%		38.6	72%		27.3	34%	
					78.9	100%		**53.6**	100%		**81.3**	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.

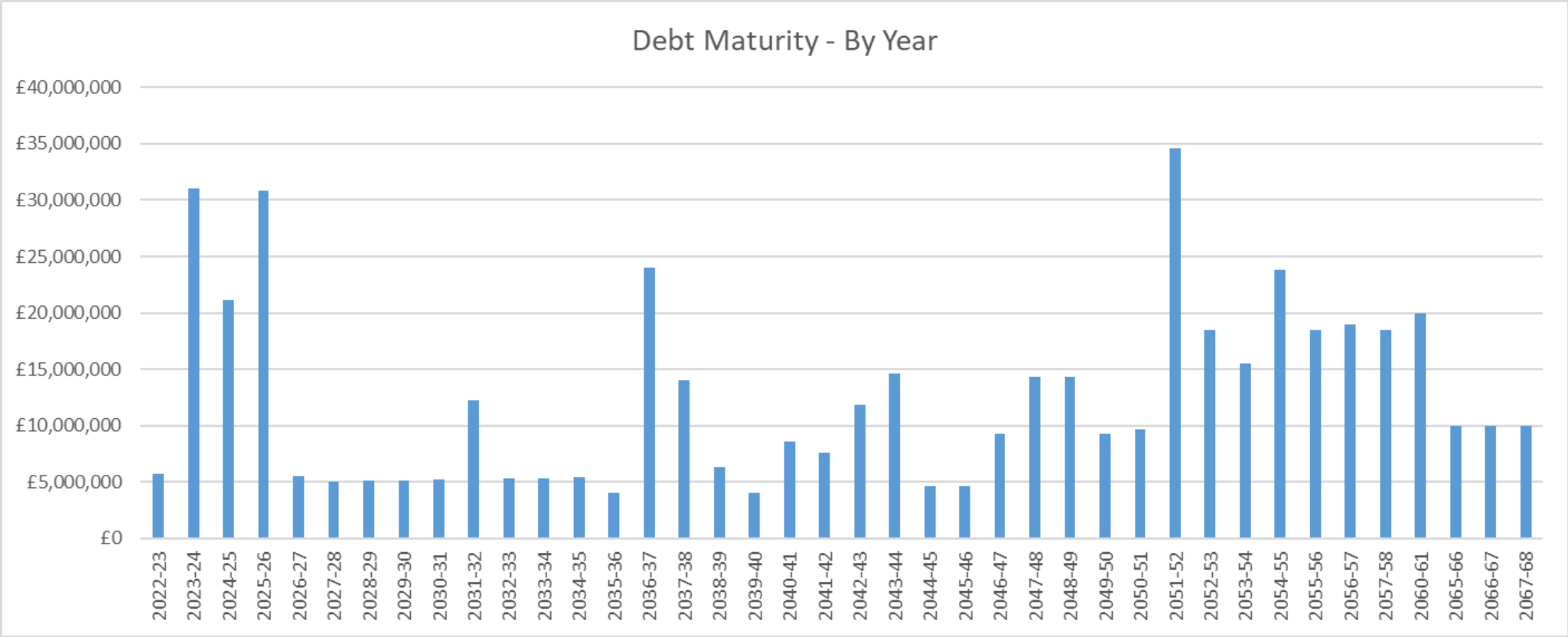
**MMF – Money Market Fund. These funds are domiciled in Ireland for tax reasons, but the funds are made up of numerous diverse investments with highly rated banks and other institutions. The credit risk is therefore spread over numerous countries, including the UK. The exception to this is the Aviva 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.

Key – Fitch's credit ratings: **Appendix 1 Continued**

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

Appendix 2


Debt Maturity - By Year
£40,000,000
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£30,000,000
£25,000,000
£20,000,000
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£10,000,000
£5,000,000
£0
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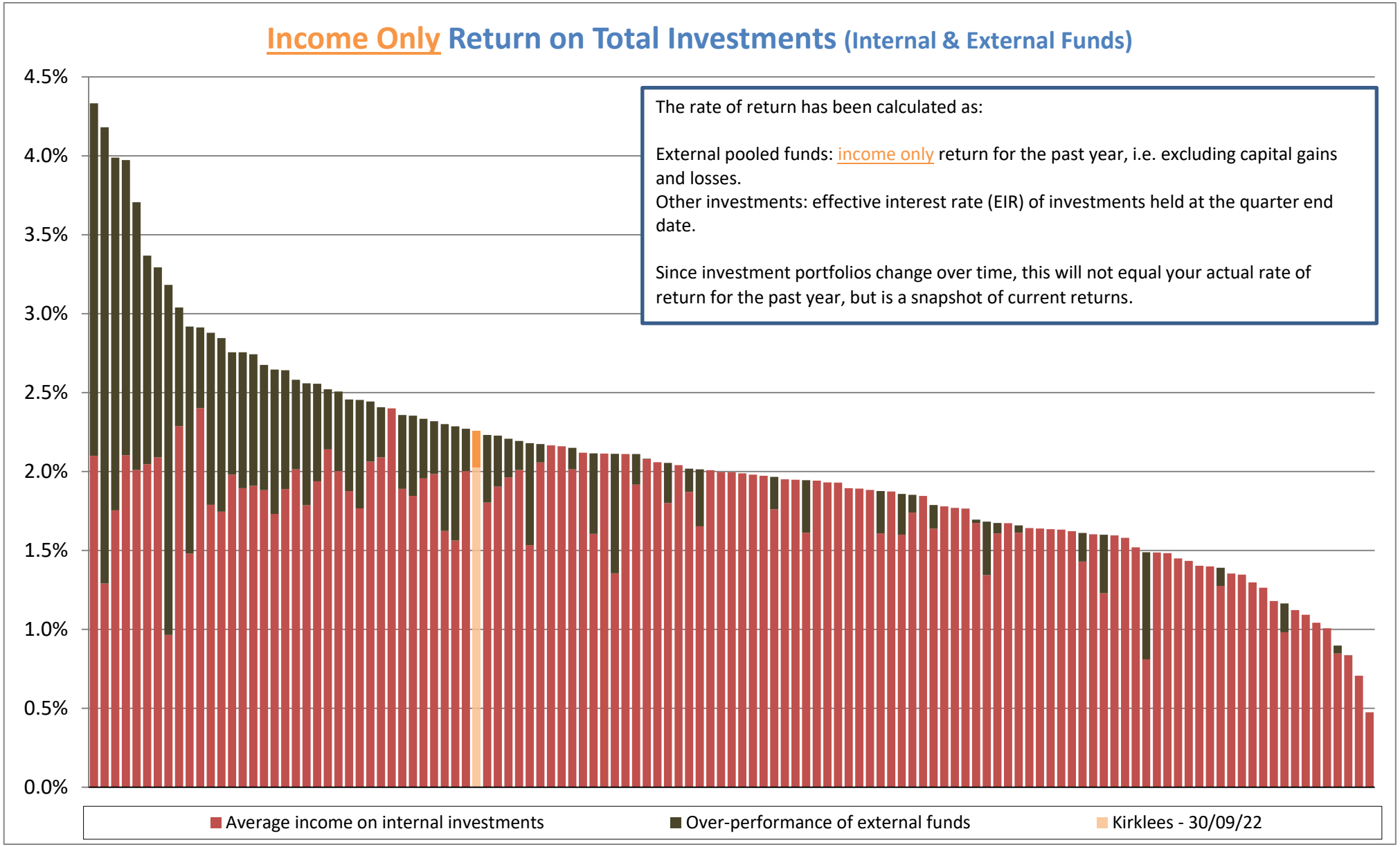
Appendix 3


Income Only Return on Total Investments (Internal & 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 - 30/09/22

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 2022/23	Estimated Actual* 2022/23
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 2022/23	Estimated Actual 2022/23
Under 12 months	0% - 20%	1%
12 months to 2 years	0% - 20%	7%
2 years to 5 years	0% - 60%	13%
5 years to 10 years	0% - 80%	8%
More than 10 years	20% - 100%	71%

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 01/04/22 to 30/09/22

	Amount £000s	Rate %	Date repaid
Salix - Annuity	490	0.00	1 April 22
PWLB (340221) - EIP	250	1.63	27 April 22
PWLB (439173) - EIP	250	1.66	17 May 22
PWLB (373440) - EIP	250	1.46	12 July 22
PWLB (487385) - EIP	250	2.28	22 Aug 22
Salix - Annuity	186	0.00	1 Sept 22
PWLB (313112) - EIP	250	1.64	5 Sept 22
PWLB (493145) - EIP	250	1.98	9 Sept 22
PWLB (496956) - Annuity	404	4.58	29 Sept 22
Total	**2,580**		

Long-term loans to be repaid during the period 01/10/22 to 31/03/23

	Amount £000s	Rate %	Date to be repaid
Salix - Annuity	490	0.00	3 Oct 22
PWLB (340221) - EIP	250	1.63	27 Oct 22
PWLB (439173) - EIP	250	1.66	17 Nov 22
PWLB (373440) - EIP	250	1.46	12 Jan 23
PWLB (538379) - EIP	500	2.60	9 Feb 23
PWLB (487385) - EIP	250	2.28	21 Feb 23
Salix - Annuity	186	0.00	1 Mar 23
PWLB (313112) - EIP	250	1.64	6 Mar 23
PWLB (493145) - EIP	250	1.98	9 Mar 23
PWLB (496956) - Annuity	413	4.58	29 Mar 23
Total	**3,089**		

Medium and Long-term loans taken during the period 01/04/22 to 30/09/22

	Loan Period	Amount £m	Rate %	Date to be repaid
Crawley Borough Council	2 Years	5.0	0.50	2 Apr 24
Leicester City Council	2 Years	5.0	0.75	12 Apr 24
South Yorkshire Mayoral Combined Authority	3 Years	10.0	1.50	1 Apr 25
Leicester City Council	3 Years	10.0	2.00	15 Jul 25
Oxfordshire County Council	3 Years	5.0	2.00	15 Aug 25
PWLB (538379) - EIP	20 Years	20.0	2.60	9 Aug 42
Total		**55.0**		

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 affect 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.

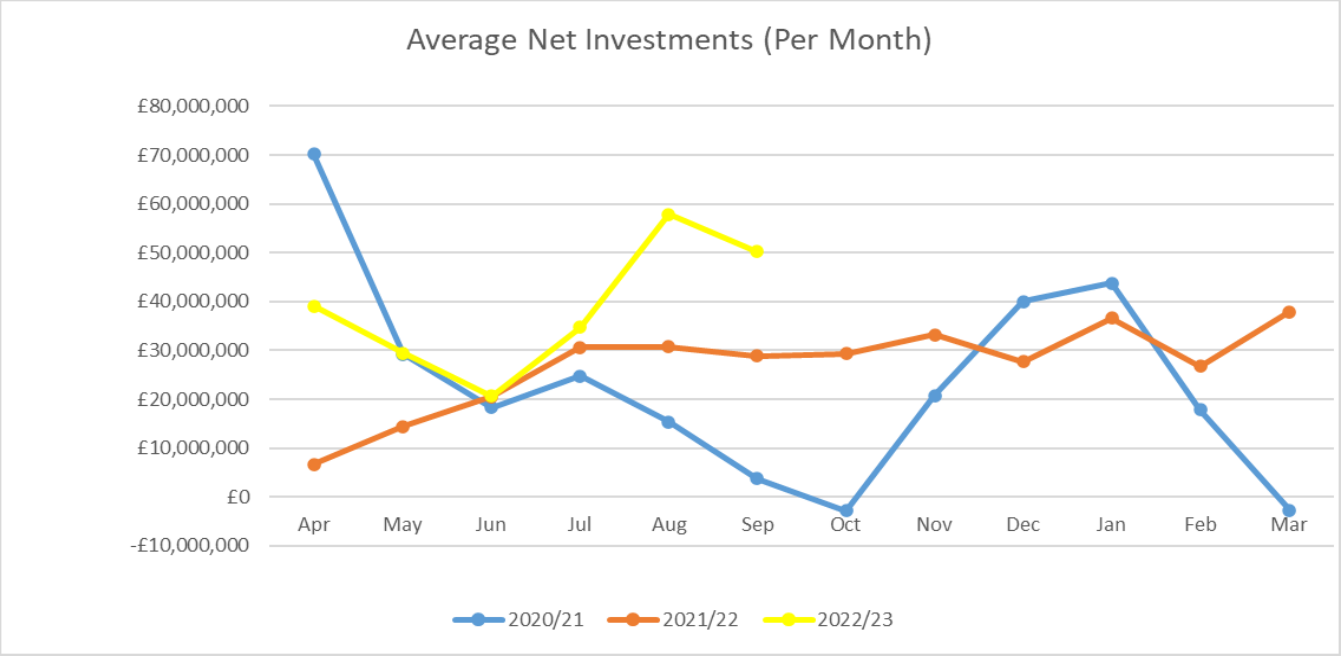
Management Practices for Non-Treasury Investments

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 %

	30/09/22	31/03/22	30/09/21	31/03/21	30/09/20	31/03/20	31/10/19
Annuity							
15 years	5.17	2.55	1.87	1.74	2.09	2.24	2.50
20 years	5.14	2.68	2.07	1.97	2.27	2.40	2.67
30 years	5.13	2.84	2.31	2.26	2.58	2.69	3.00
50 years	4.79	2.79	2.38	2.38	2.76	2.84	3.20
Maturity							
15 years	5.15	2.82	2.28	2.22	2.56	2.66	2.96
20 years	5.11	2.86	2.38	2.35	2.72	2.84	3.16
30 years	4.85	2.77	2.36	2.37	2.74	2.79	3.18
50 years	4.41	2.58	2.17	2.20	2.60	2.59	3.05
EIP							
15 years	5.20	2.54	1.86	1.72	2.09	2.26	2.51
20 years	5.14	2.65	2.04	1.95	2.26	2.40	2.66
30 years	5.15	2.85	2.28	2.22	2.56	2.68	2.97
50 years	4.99	2.83	2.39	2.39	2.77	2.87	3.21