



Name and date of meeting: Corporate Governance and Audit Committee
24 November 2023

Cabinet
21 December 2023

Council
17 January 2024

Title of report: Half Yearly Monitoring report on Treasury Management activities 2023/24

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 2023/24 covering the period 1 April to 30 September 2023.

| | |
|---|---|
| Key Decision - Is it likely to result in spending or saving £500k 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 | N/A |
| Date signed off by Service Director | Isabel Brittain – 15 November 2023 |
| Is it also signed off by the Service Director Legal Governance and Monitoring? | Julie Muscroft – 15 November 2023 |
| Cabinet member portfolio | Corporate Cllr Graham Turner |

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 the £10.0 million Local Authority Property Fund (LAPF), averaged £44.5 million during the period at an average rate of 4.43%. Investments have ranged from a peak of £76.1 million in April to a low of £25.8 million in August.
- 1.2 All treasury management activities undertaken during the period complied fully with the principles in the Treasury Management Code and the Council's approved Treasury Management Strategy. Compliance with specific investment limits is demonstrated in Appendix 1.
- 1.3 The treasury management revenue budget is £33.4 million. This is covered in more detail at paragraph 2.19 later in this report.
- 1.4 This report includes the new requirement in the 2021 Code, mandatory from 1st April 2023, of quarterly reporting of the treasury management prudential indicators – shown in Appendix 4. The non-treasury prudential indicators are now incorporated in the Council's normal quarterly revenue reports along with the treasury management indicators.

2 Information required to take a decision:

- 2.1 The treasury management strategy for 2023/24 was approved by Council on 8 March 2023. 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 £30.0 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 Money Market Funds, the Debt Management Office (DMO), Local Authorities and major British owned banks and building societies. Diversification amongst counterparties is key.

Economic Context

- 2.3 *The following economic update has been provided via our external advisors Arlingclose (paragraphs 2.4 to 2.11 below):*
- 2.4 UK inflation remained stubbornly high over much of the period compared to the US and euro zone, keeping expectations elevated of how much further the Bank of England (BoE) would hike rates compared to other regions. However, inflation data published in the latter part of the period undershot expectations, causing financial markets to reassess the peak in BoE Bank Rate. This was followed very soon after by the BoE deciding to keep Bank Rate on hold at 5.25% in September, against expectation for another 0.25% rise.
- 2.5 Economic growth in the UK remained relatively weak over the period. In calendar Q2 2023, the economy expanded by 0.4%, beating expectations of a 0.2% increase. However, monthly GDP data showed a 0.5% contraction in

July, the largest fall to date in 2023 and worse than the 0.2% decline predicted which could be an indication the monetary tightening cycle is starting to cause recessionary or at the very least stagnating economic conditions.

- 2.6 July data showed the unemployment rate increased to 4.3% (3mth/year) while the employment rate rose to 75.5%. Pay growth was 8.5% for total pay (including bonuses) and 7.8% for regular pay, which for the latter was the highest recorded annual growth rate. Adjusting for inflation, pay growth in real terms were positive at 1.2% and 0.6% for total pay and regular pay respectively.
- 2.7 Inflation continued to fall from its peak as annual headline CPI declined to 6.7% in July 2023 from 6.8% in the previous month against expectations for a tick back up to 7.0%. The largest downward contribution came from food prices. The core rate also surprised on the downside, falling to 6.2% from 6.9% compared to predictions for it to only edge down to 6.8%.
- 2.8 The Bank of England's Monetary Policy Committee continued tightening monetary policy over most of the period, taking Bank Rate to 5.25% in August. Against expectations of a further hike in September, the Committee voted 5-4 to maintain Bank Rate at 5.25%. Each of the four dissenters were in favour of another 0.25% increase.
- 2.9 Financial market Bank Rate expectations moderated over the period as falling inflation and weakening data gave some indication that higher interest rates were working. Following the September MPC meeting, Arlingclose, the Council's treasury adviser, modestly revised its interest forecast to reflect the central view that 5.25% will now be the peak in Bank Rate. In the short term the risks are to the upside if inflation increases again, but over the remaining part of the time horizon the risks are to the downside from economic activity weakening more than expected.
- 2.10 The lagged effect of monetary policy together with the staggered fixed term mortgage maturities over the next 12-24 months means the full impact from Bank Rate rises are still yet to be felt by households.
- 2.11 Financial market sentiment and bond yields remained volatile, with the latter generally trending downwards as there were signs inflation, while still high, was moderating and interest rates were at a peak. Gilt yields fell towards the end of the period. The 5-year UK benchmark gilt yield rose from 3.30% to peak at 4.91% in July before trending downwards to 4.29%, the 10-year gilt yield rose from 3.43% to 4.75% in August before declining to 4.45%, and the 20-year yield from 3.75% to 4.97% in August and then fell back to 4.84%.

Investment Performance

- 2.12 The Council invested an average balance of £34.5 million externally (excluding the LAPF) during the period (£59.7 million in the first six months of 2022/23), generating £789k in investment income over the period (£285k in 2022/23). The LAPF investment of £10.0 million generated £198k of dividend income during the period (£174k in the first six months of 2022/23).

- 2.13 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. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk on incurring losses from defaults and the risk of receiving unsuitably low investment income.
- 2.14 Balances were invested in instant access accounts such as Money Market Funds, short term deposits, Debt Management Office (DMO), Local Authority fixed 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.
- 2.15 As demonstrated by the liability benchmark in this report (Appendix 4), the Council expects to be a long-term borrower and treasury investments are therefore primarily made to manage day-to-day cash flows using short-term low risk instruments. The existing portfolio of strategic pooled funds will be maintained to diversify risk into different asset classes and boost investment income.
- 2.16 The Bank Rate increased by 1%, from 4.25% at the beginning of April to 5.25% by the end of September. Short-dated cash rates rose proportionately, with 3-month rates rising to around 5.25% and 12-month rates to nearly 6%. The rates on Debt Management Account Deposit Facility (DMADF) also rose, ranging between 4.8% and 5.4% by the end of June and Money Market Rates between 4.6% and 4.9%.
- 2.17 The Council's average investment rate for the period was 4.43%. This is higher than the average in the same period in 2022/23 of 1.32%, as the base rate rose rapidly during the previous year. Returns on liquid cash balances were 4.57% and 3.97% on the LAPF (after deducting charges). The actual gross dividend yield quoted from the fund on Net Asset Value was 4.66% at the end of September for the last 12 months, and the fund size was £1,186.3 million (3.40% and £1,451.4 million respectively for the 12 months to September 2022).
- 2.18 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.

Revenue Budget Monitoring

- 2.19 The treasury management budget is £33.4 million. Forecasted outturn is currently over budget by £2.3 million. This reflects increased borrowing costs as a result of the in-year overspend along with the depletion of reserves beyond the assumptions made in the budget, resulting in the requirement for extra borrowing and the resulting interest charges. The change in Minimum Revenue Provision (MRP) policy allowed for a planned release of £9.1 million MRP budget over provision in 2023/24. The budget strategy update report 2024/25 re-affirmed the decision taken in the annual budget report in March 2023 to forward profile the release of the MRP over-provision with an additional £4.6 million. The MRP policy is to provide for MRP on the basis of the asset life to which external

Treasury Management Summary

| | 31.03.23 Balance £m | Movement £m | 30.09.23 Balance £m |
|-----------------------------|------------------------------------|------------------------|------------------------------------|
| <i>Long-term borrowing:</i> | | | |
| PWLB | 379.0 | 31.0 | 410.0 |
| LOBOs | 61.5 | 0 | 61.5 |
| Other | 91.3 | 9.3 | 100.6 |
| Short-term borrowing | 82.0 | (3.9) | 78.1 |
| Total borrowing | 613.8 | 36.4 | 650.2 |
| Long-term investments | 10.0 | 0 | 10.0 |
| Short-term investments | 15.0 | 17.6 | 32.6 |
| Cash and cash equivalents | 19.0 | 2.4 | 21.4 |
| Total investments | 44.0 | 20.0 | 64.0 |
| Net borrowing | 569.8 | 16.4 | 586.2 |

Borrowing strategy and activity

- 2.23 CIPFA's 2021 Prudential Code is clear that local authorities must not borrow to invest primarily for financial return and that it is not prudent for local authorities to make any investment or spending decisions that will increase the Capital Financing Requirement, and so may lead to new borrowing, unless directly and primarily related to the functions of the Council. The Council has not invested in assets primarily for financial return or that are not primarily related to the functions of the Council. It has no plans to do so in the future.
- 2.24 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.
- 2.25 There was a substantial rise in the cost of both short and long-term borrowing over the last 18 months. Bank Rate rose by 1% from 4.25% at the beginning of April to 5.25% at the end of September. Bank Rate was 2% higher than at the end of September 2022.
- 2.26 UK gilt yields were volatile, mainly facing upward pressure since early April following signs that UK growth had been more resilient, inflation stickier than expected, and that the Bank of England saw persistently higher rates through 2023/24 as key to dampening domestic demand. Gilt yields, and consequently PWLB borrowing rates, rose and broadly remained at elevated levels. On 30 September, the PWLB certainty rates for maturity loans were 5.26% for 10-year loans, 5.64% for 20-year loans and 5.43% for 50-year loans. Their equivalents on 31st March 2023 were 4.33%, 4.70% and 4.41% respectively.
- 2.27 A new PWLB HRA rate which is 0.4% below the certainty rate was made available from 15 June 2023. Initially available for a period of one year, this discounted rate is to support local authorities borrowing for the Housing Revenue Account.

Borrowing performance

- 2.28 Long-term loans at the end of September totalled £562.1 million (£531.8 million 31 March 2023) and short-term loans £96.7 million (£80.7 million 31 March 2023).
- 2.29 Fixed rate loans account for 89.5% 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 6.5% 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.
- 2.30 The mid-year forecasted liability benchmark (shown in Appendix 4), based on updated capital plans, highlights that there is an expectation of additional long-term borrowing of £106.0 million for the year. In July a £10.0 million EIP loan was arranged and further EIP loans of £30.0 million were arranged from the PWLB in September. These loans provide some longer-term certainty and stability to the debt portfolio. A mixture of medium-term loans and further PWLB will be taken during the remainder of the year to fund the additional borrowing required.
- 2.31 Appendix 5 sets out in year repayments on long-term borrowing and further repayments for the next 6 months.
- 2.32 The Council's borrowing costs has continued to increase with the rise in Bank Rate and short-dated market rates. The Council's borrowing decisions are not predicated on any one outcome for interest rates and a balanced portfolio of short, medium and long-term borrowing was maintained.

Future Treasury Management Strategy

- 2.33 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 £20.0 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.
- 2.34 There remains a strong argument for diversifying funding sources, particularly if rates can be achieved on alternatives which are below gilt yields +0.8%. The Council will evaluate and pursue these lower cost solutions and opportunities with its advisor, Arlingclose.
- 2.35 The UK Infrastructure bank is one alternative source of funding which offers funding at gilt yields +0.40% (0.40% below the PWLB certainty rate) and the possibility of more flexible funding structures than the PWLB. Funding from UKIP is generally only available for certain types of projects that meet its criteria of green energy, transport, digital, water and waste. The minimum loan size is £5.0 million.

2.36 On 1 April 2023 the Council held £61.5 million of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Council has the option to either accept the new rate and terms or to repay the loan at no additional cost.

2.37 As market interest rates rose, there was increased probability of call options on the LOBOs being exercised by lenders. No LOBO loans were called during the 6 month period to September 2023.

2.38 All the Council LOBO loans could be called within the next 12 months. If the option is exercised and an increased rate proposed, the Council plans to repay the loan at no additional cost as accepting the revised terms would mean the Council would still have refinancing risk in later years. If required, the Council will repay the LOBO's by borrowing from other local authorities or the PWLB.

Risk and Compliance issues

2.39 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 Financial Implications for the people living or working in Kirklees: N/A

3.7 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

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

5 Next steps

Not applicable – for information only.

6 Officer recommendations and reasons

6.1 Note the half-year treasury management performance in 2023/24 as set out in the report.

7 Contact Officer

| | | |
|----------------|---------------------|--------------|
| James Anderson | Head of Accountancy | 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 2023/24 - Council 8 March 2023

Council Budget Strategy Update Report 2024/25 – Council 13 September 2023

Annual Report on Treasury Management 2022/23 - Annual Financial Outturn Report 2022/23; Council 12 July 2023

9 Service Director (Interim) responsible

Isabel Brittain

01484 221000

Appendix 1

| Kirklees Council Investments 2023/24 | | | | | | | | | | | | | |
|---|--------------------|----------------------------|--------------------------|--------------------------|------------------------|---------------|--------------------|-------------|---------------|--------------------|-------------|---------------|--------------------|
| Counterparty | | Approved Strategy Limit £m | Approved Strategy Credit | Credit Rating Sept 2023* | 1 April 2023 (opening) | | | 30-Jun-23 | | | 30-Sep-23 | | |
| | | | | | £m | Interest Rate | Type of Investment | £m | Interest Rate | Type of Investment | £m | Interest Rate | Type of Investment |
| Specified Investments | | | | | | | | | | | | | |
| LAPF | Property Fund | 10.0 | - | - | 10.0 | - | *** | 10.0 | - | *** | 10.0 | - | *** |
| DMD | Central Government | Unlimited | - | F1+/AA- | - | - | Fixed Deposit | 5.8 | 4.88% | Fixed Deposit | - | - | Fixed Deposit |
| North Northamptonshire Council | Local Authority | 10.0 | - | F1+/AA- | 5.0 | 4.50% | Fixed Deposit | 0.0 | - | Fixed Deposit | - | - | Fixed Deposit |
| PCC for West Mercia | Local Authority | 10.0 | - | F1+/AA- | 3.0 | 4.60% | Fixed Deposit | 0.0 | - | Fixed Deposit | 7.0 | 5.40% | Fixed Deposit |
| PCC for Warwickshire | Local Authority | 10.0 | - | F1+/AA- | 2.0 | 4.60% | Fixed Deposit | 0.0 | - | Fixed Deposit | - | - | Fixed Deposit |
| PCC for West Yorkshire | Local Authority | 10.0 | - | F1+/AA- | 5.0 | 4.65% | Fixed Deposit | 5.0 | 5.00% | Fixed Deposit | - | - | Fixed Deposit |
| Wakefield MDC | Local Authority | 10.0 | - | F1+/AA- | - | - | Fixed Deposit | 5.0 | 4.75% | Fixed Deposit | 5.0 | 5.35% | Fixed Deposit |
| Manchester City Council | Local Authority | 10.0 | - | F1+/AA- | - | - | Fixed Deposit | 5.0 | 4.80% | Fixed Deposit | - | - | Fixed Deposit |
| PCC for Hertfordshire | Local Authority | 10.0 | - | F1+/AA- | - | - | Fixed Deposit | 6.0 | 5.00% | Fixed Deposit | - | - | Fixed Deposit |
| Eastleigh Borough Council | Local Authority | 10.0 | - | F1+/AA- | - | - | Fixed Deposit | - | - | Fixed Deposit | 3.0 | 5.40% | Fixed Deposit |
| Uttersford District Council | Local Authority | 10.0 | - | F1+/AA- | - | - | Fixed Deposit | - | - | Fixed Deposit | 4.5 | 5.40% | Fixed Deposit |
| Cheltenham Borough Council | Local Authority | 10.0 | - | F1+/AA- | - | - | Fixed Deposit | - | - | Fixed Deposit | 1.1 | 5.38% | Fixed Deposit |
| Leeds City Council | Local Authority | 10.0 | - | F1+/AA- | - | - | Fixed Deposit | - | - | Fixed Deposit | 5.0 | 5.40% | Fixed Deposit |
| Central Bedfordshire Council | Local Authority | 10.0 | - | F1+/AA- | - | - | Fixed Deposit | - | - | Fixed Deposit | 5.0 | 5.35% | Fixed Deposit |
| Dover District Council | Local Authority | 10.0 | - | F1+/AA- | - | - | Fixed Deposit | - | - | Fixed Deposit | 2.0 | 5.40% | Fixed Deposit |
| Barclays Deposit Account | Bank | 3.0 | - | F1A+ | 0.5 | 3.57% | Fixed Deposit | 0.0 | - | Fixed Deposit | 0.2 | 3.57% | Fixed Deposit |
| Aberdeen Standard | MMF** | 10.0 | AAA-A | AAA | 0.2 | 4.06% | MMF | 6.7 | 4.84% | MMF | 10.0 | 5.29% | MMF |
| Aviva | MMF** | 10.0 | Aaa-A2 | Aaa* | 8.3 | 4.12% | MMF | 2.3 | 4.84% | MMF | 10.0 | 5.32% | MMF |
| Deutsche | MMF** | 10.0 | AAA-A | AAA | 10.0 | 4.16% | MMF | 0.3 | 4.80% | MMF | 0.0 | 5.23% | MMF |
| Goldman Sachs | MMF** | 10.0 | AAA-A | AAA | 0.0 | 4.01% | MMF | 0.0 | 4.70% | MMF | 1.2 | 5.22% | MMF |
| | | | | | 44.0 | | | 46.1 | | | 64.0 | | |
| Sector analysis | | | | | | | | | | | | | |
| Property Fund | | 10.0 | | | 10.0 | 23% | | 10.0 | 22% | | 10.0 | 16% | |
| Local Authorities | | 10.0 | | | 15.0 | 34% | | 21.0 | 46% | | 32.6 | 51% | |
| Bank | | 3.0 | | | 0.5 | 1% | | 0.0 | 0% | | 0.2 | 0% | |
| MMF** | | 50.0 | | | 18.5 | 42% | | 9.3 | 20% | | 21.2 | 33% | |
| Central Government | | Unlimited | | | 0.0 | 0% | | 5.8 | 12% | | 0.0 | 0% | |
| | | | | | 44.0 | 100% | | 46.1 | 100% | | 64.0 | 100% | |
| Country analysis | | | | | | | | | | | | | |
| UK | | | | | 25.5 | 58% | | 36.8 | 80% | | 42.8 | 67% | |
| MMF** | | | | | 18.5 | 42% | | 9.3 | 20% | | 21.2 | 33% | |
| | | | | | 44.0 | 100% | | 46.1 | 100% | | 64.0 | 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.

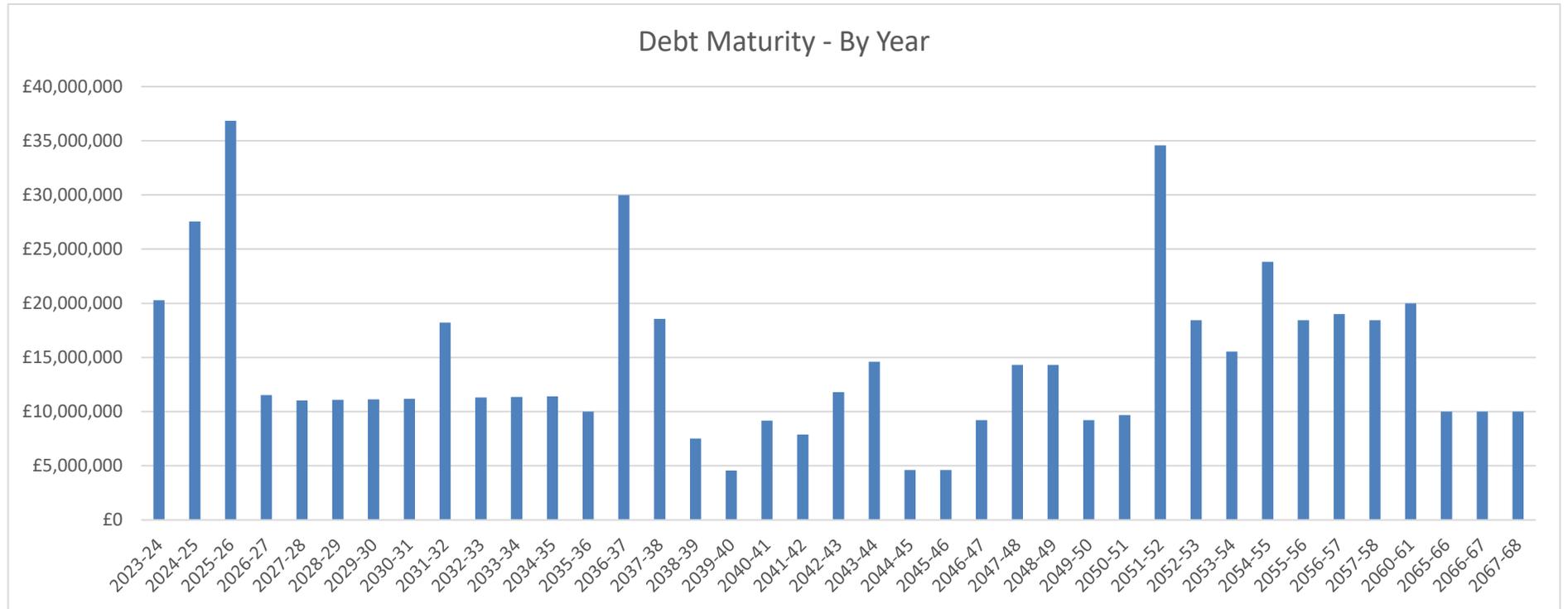
**MMF – Money Market Fund. These funds are domiciled in Ireland for tax reasons, but the funds are made up of numerous diverse investments with highly rated banks and other institutions. The credit risk is therefore spread over numerous countries, including the UK. The exception to this is the Aviva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

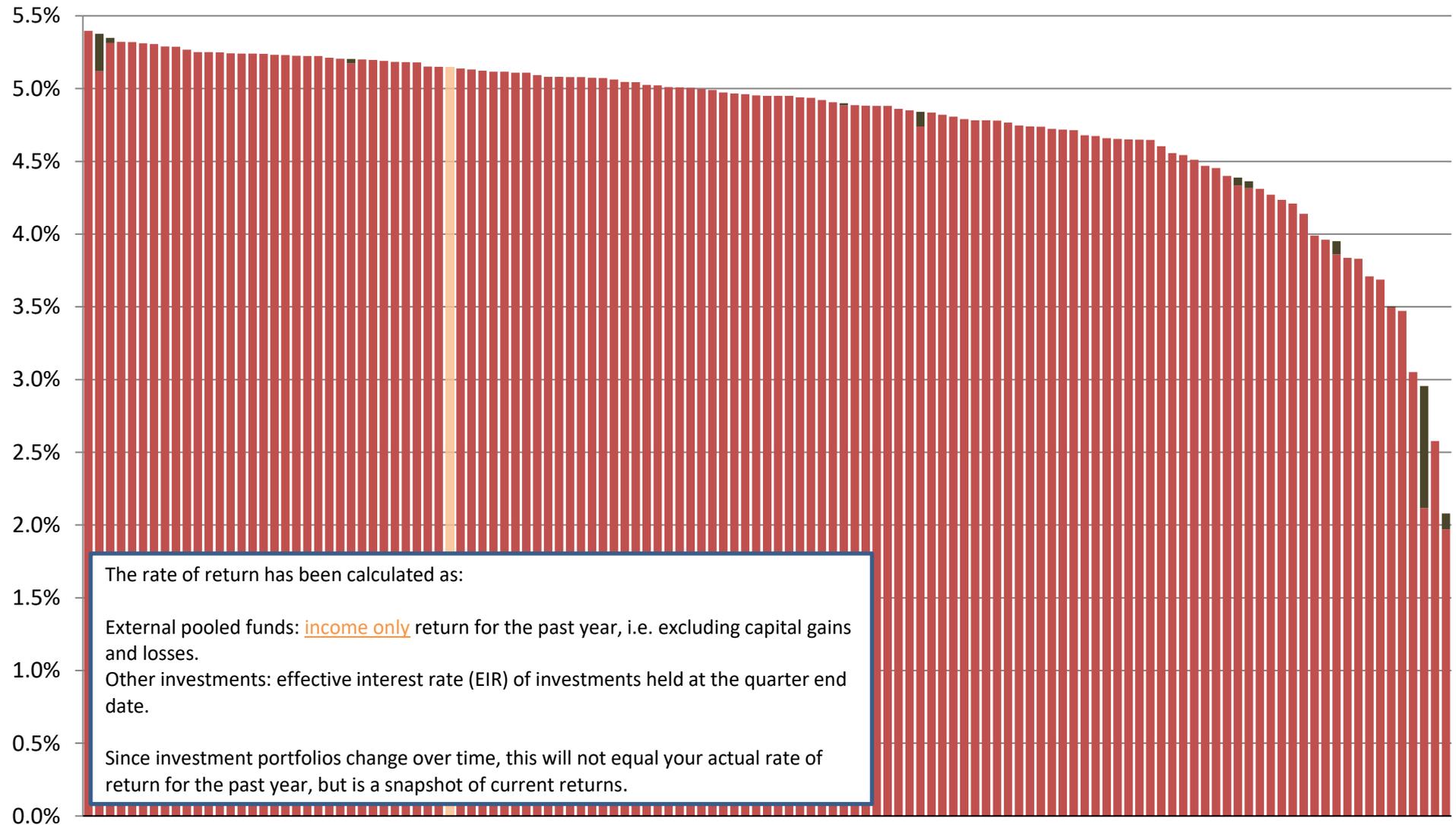
Key – Fitch’s credit ratings:

Appendix 1 Continued

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



Income Only Return on Total Investments (Internal & External Funds)



■ Average income on internal investments ■ Over-performance of external funds ■ Kirklees - 30/09/23

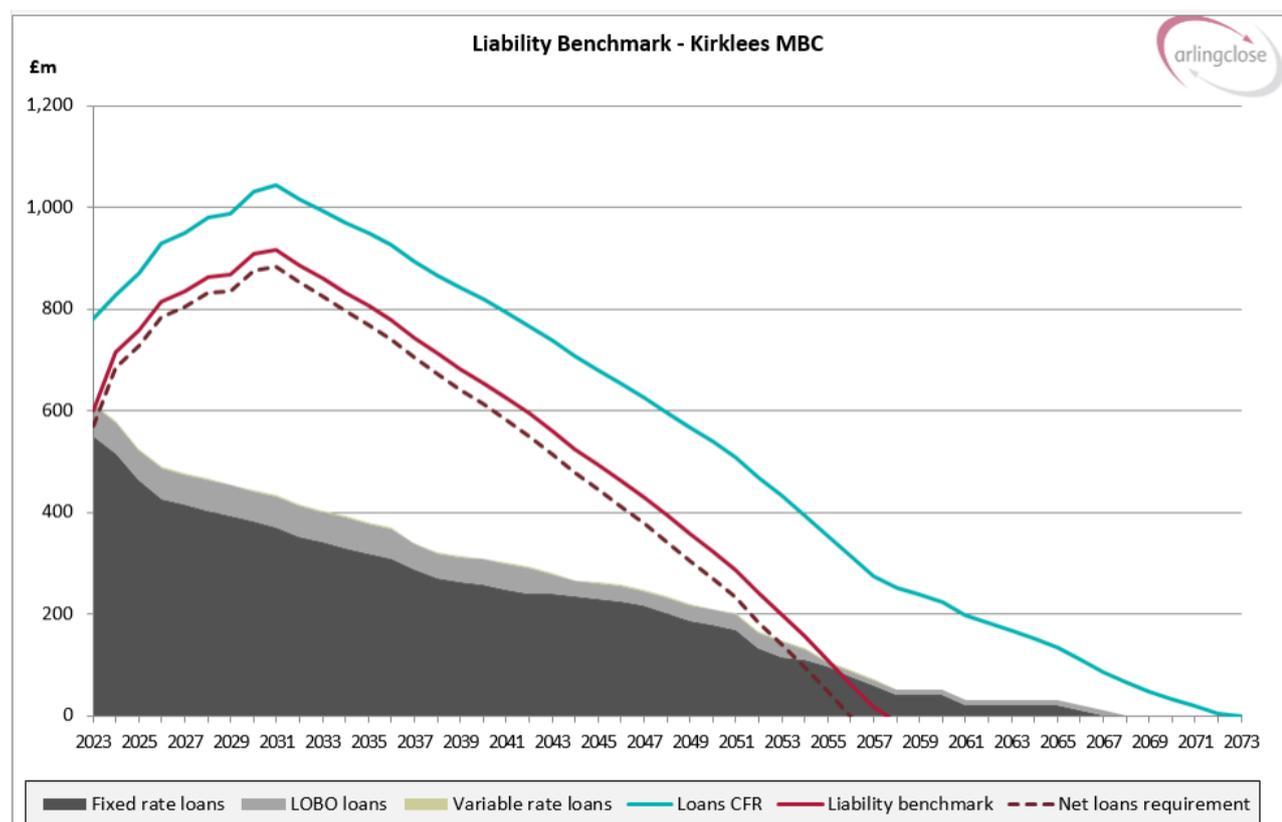
Treasury Management Prudential Indicators

Liability Benchmark

This new indicator 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 an important tool to help establish whether the Council is likely to be a long-term borrower or long-term investor in the future, and so shape its strategic focus and decision making. It represents an estimate of the cumulative amount of external borrowing the Council must hold to fund its current capital and revenue plans while keeping treasury investments at the minimum level of £30.0 million required to manage day-to-day cash flow.

| | 31.03.23 actual £m | 31.03.24 forecast £m | 31.03.25 forecast £m | 31.03.26 forecast £m |
|-------------------------------|--------------------------|----------------------------|----------------------------|----------------------------|
| Loans CFR | 781.5 | 833.6 | 883.5 | 947.5 |
| Less: Balance sheet resources | 210.6 | 143.8 | 143.8 | 143.8 |
| Net loans requirement | 570.9 | 689.8 | 739.7 | 803.7 |
| Plus: Liquidity allowance | 30.0 | 30.0 | 30.0 | 30.0 |
| Liability benchmark | 600.9 | 719.8 | 769.7 | 833.7 |
| Existing borrowing | 613.8 | 578.1 | 526.0 | 489.1 |

Following on from the medium term forecast above, the long the long-term liability benchmark assumes capital expenditure funded by borrowing of £57.0 million in 2023/24, minimum revenue provision on new building capital expenditure based on a 50-year asset life and reduction in balance sheet resources of £67.0 million.



The total liability benchmark is shown in the chart above together with the maturity profile of the Council's existing borrowing. The red line is the liability benchmark reaching a peak in 2032 highlighting the gap between current borrowing identified in grey, which is reducing over time with repayments, and the additional borrowing required to fund the capital plan.

Maturity Structure of Borrowing

This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of all borrowing were:

| | Upper limit | Lower limit | 30.09.23 actual | Complied |
|--------------------------------|-------------|-------------|-----------------|----------|
| Under 12 months | 20% | 0% | 23% | No |
| 12 months and within 24 months | 20% | 0% | 5% | Yes |
| 24 months and within 5 years | 60% | 0% | 8% | Yes |
| 5 years and within 10 years | 80% | 0% | 8% | Yes |
| 10 years and above | 100% | 20% | 55% | Yes |

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment. LOBO options of £61.5 million have a potential repayment date during 2023/24 and have been included in the under 12 months line.

Long term Treasury Management Investments

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

| | 2023/24 | 2024/25 | 2025/26 | No fixed date |
|---|---------|---------|---------|---------------|
| Limit on principal invested beyond year end | n/a | n/a | n/a | n/a |
| Actual principal invested beyond year end | £10.0m | £10.0m | £10.0m | £10.0m |
| Complied | Yes | Yes | Yes | Yes |

Long-term investments with no fixed maturity date include strategic pooled funds, real estate investment trusts and directly held equity but exclude money market funds and bank accounts with no fixed maturity date as these are considered short-term.

Interest Rate Exposures

Bank Rate rose by 1.25% from 4.25% on 1st April to 5.25% by 30th September. For context, the changes in interest rates during the quarter were:

| | 31.03.23 | 30.09.23 |
|---|----------|----------|
| Bank Rate | 4.25% | 5.25% |
| 1-year PWLB certainty rate, maturity loans | 4.78% | 5.69% |
| 5-year PWLB certainty rate, maturity loans | 4.31% | 5.22% |
| 10-year PWLB certainty rate, maturity loans | 4.33% | 5.26% |
| 20-year PWLB certainty rate, maturity loans | 4.70% | 5.64% |
| 50-year PWLB certainty rate, maturity loans | 4.41% | 5.43% |

Appendix 5

Long-term loans repaid during the period 01/04/23 to 30/09/23

| | Amount £000s | Rate % | Date repaid |
|------------------------|-------------------------|---------------|--------------------|
| Salix - Annuity | 490 | 0.00% | 01-Apr-23 |
| PWLB (Maturity) 480127 | 4,889 | 6.63% | 15-Apr-23 |
| PWLB (EIP) 340221 | 250 | 1.63% | 27-Apr-23 |
| PWLB (EIP) 439173 | 250 | 1.66% | 17-May-23 |
| PWLB (EIP) 373440 | 250 | 1.46% | 12-Jul-23 |
| PWLB (EIP) 594601 | 500 | 4.10% | 31-Jul-23 |
| PWLB (EIP) 594848 | 536 | 3.99% | 01-Aug-23 |
| PWLB (EIP) 538379 | 500 | 2.60% | 09-Aug-23 |
| PWLB (EIP) 487385 | 250 | 2.28% | 21-Aug-23 |
| Salix - Annuity | 186 | 0.00% | 01-Sep-23 |
| PWLB (EIP) 313112 | 250 | 1.64% | 04-Sep-23 |
| PWLB (EIP) 493145 | 250 | 1.98% | 11-Sep-23 |
| PWLB (EIP) 608189 | 667 | 4.15% | 21-Sep-23 |
| PWLB (Annuity) 496956 | 423 | 4.58% | 29-Sep-23 |
| Total | 9,691 | | |

Long-term loans to be repaid during the period 01/10/23 to 31/03/24

| | Amount £000s | Rate % | Date to be repaid |
|------------------------|-------------------------|---------------|------------------------------|
| Salix - Annuity | 490 | 0.00 | 02-Oct-23 |
| PWLB (Maturity) 480128 | 4,613 | 6.63% | 15-Oct-23 |
| PWLB (EIP) 340221 | 250 | 1.63% | 27-Oct-23 |
| PWLB (EIP) 439173 | 250 | 1.66% | 17-Nov-23 |
| PWLB (EIP) 373440 | 250 | 1.46% | 12-Jan-24 |
| PWLB (EIP) 643579 | 278 | 5.01% | 29-Jan-24 |
| PWLB (EIP) 594601 | 500 | 4.10% | 31-Jan-24 |
| PWLB (EIP) 594848 | 536 | 3.99% | 01-Feb-24 |
| PWLB (EIP) 538379 | 500 | 2.60% | 09-Feb-24 |
| PWLB (EIP) 487385 | 250 | 2.28% | 21-Feb-24 |
| WYCA | 200 | 2.02% | 28-Feb-24 |
| WYCA | 109 | 0.00% | 28-Feb-24 |
| Salix - Annuity | 186 | 0.00% | 01-Mar-24 |
| PWLB (EIP) 313112 | 250 | 1.64% | 04-Mar-24 |
| PWLB (EIP) 493145 | 250 | 1.98% | 11-Mar-24 |
| PWLB (EIP) 608189 | 667 | 4.15% | 21-Mar-24 |
| PWLB (EIP) 659904 | 333 | 5.06% | 21-Mar-24 |
| PWLB (EIP) 660447 | 333 | 5.08% | 22-Mar-24 |
| PWLB (EIP) 661522 | 357 | 5.00% | 27-Mar-24 |
| Total | 10,602 | | |

Medium and Long-term loans taken during the period 01/04/23 to 30/09/23

| | Loan Period | Amount £m | Rate % | Date to be repaid |
|-------------------|--------------------|------------------|---------------|--------------------------|
| PWLB 643579 – EIP | 18 years | 10.0 | 5.01% | 27/07/2041 |
| PWLB 659904 – EIP | 15 years | 10.0 | 5.06% | 21/09/2038 |
| PWLB 660447 – EIP | 15 years | 10.0 | 5.08% | 22/09/2038 |
| PWLB 661522 – EIP | 14 years | 10.0 | 5.00% | 27/09/2037 |
| Total | | 40.0 | | |

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 % | | | | | | | |
|-------------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| | 29/09/2023 | 31/03/2023 | 30/09/2022 | 31/03/2022 | 30/09/2021 | 31/03/2021 | 30/09/2020 |
| Annuity | | | | | | | |
| 15 years | 5.39 | 4.46 | 5.17 | 2.54 | 1.87 | 1.74 | 2.09 |
| 20 years | 5.54 | 4.60 | 5.14 | 2.67 | 2.07 | 1.97 | 2.27 |
| 30 years | 5.81 | 4.87 | 5.15 | 2.84 | 2.31 | 2.26 | 2.58 |
| 50 years | 5.80 | 4.83 | 4.80 | 2.79 | 2.38 | 2.38 | 2.76 |
| Maturity | | | | | | | |
| 15 years | 5.70 | 4.78 | 5.15 | 2.81 | 2.28 | 2.22 | 2.56 |
| 20 years | 5.83 | 4.90 | 5.11 | 2.86 | 2.38 | 2.35 | 2.72 |
| 30 years | 5.84 | 4.86 | 4.85 | 2.78 | 2.36 | 2.37 | 2.74 |
| 50 years | 5.61 | 4.61 | 4.41 | 2.59 | 2.17 | 2.20 | 2.60 |
| EIP | | | | | | | |
| 15 years | 5.36 | 4.45 | 5.20 | 2.54 | 1.86 | 1.72 | 2.09 |
| 20 years | 5.46 | 4.54 | 5.14 | 2.65 | 2.04 | 1.95 | 2.26 |
| 30 years | 5.71 | 4.79 | 5.15 | 2.82 | 2.28 | 2.22 | 2.56 |
| 50 years | 5.86 | 4.90 | 4.99 | 2.83 | 2.39 | 2.39 | 2.77 |

Glossary of Treasury Terms

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| Authorised Limit | The affordable borrowing limit determined in compliance with the Local Government Act 2003 (English and Welsh authorities) and the Local Government in Scotland Act 2003. This Prudential Indicator is a statutory limit for total external debt. It is set by the Authority and needs to be consistent with the Authority's plans for capital expenditure financing and funding. The Authorised Limit provides headroom over and above the <i>Operational Boundary</i> to accommodate expected cash movements. Affordability and prudence are matters which must be taken into account when setting this limit. |
| Balances and Reserves | Accumulated sums that are maintained either earmarked for specific future costs or commitments or generally held to meet unforeseen or emergency expenditure. |
| Bank Rate | The official interest rate set by the Bank of England's Monetary Policy Committee and what is generally termed at the "base rate". This rate is also referred to as the 'repo rate'. |
| Basis Point | 1/100th of 1%, i.e. 0.01% |
| Bill | A certificate of short-term debt issued by a company, government or other institution, tradable on the financial market |
| Bond | A certificate of debt issued by a company, government, or other institution. The bond holder receives interest at a rate stated at the time of issue of the bond. The price of a bond may vary during its life. |
| Capital Expenditure | Expenditure on the acquisition, creation or enhancement of capital assets. |
| Capital Financing Requirement (CFR) | The Council's underlying need to borrow for capital purposes representing the cumulative capital expenditure of the local authority that has not been financed. |
| Capital gain or loss | An increase or decrease in the capital value of an investment, for example through movements in its market price. |
| Capital growth | Increase in the value of the asset (in the context of a collective investment scheme, it will be the increase in the unit price of the fund). |
| Capital receipts | Money obtained on the sale of a capital asset. |
| Certainty Rate | The government has reduced by 20 basis points (0.20%) the interest rates on loans via the Public Works Loan Board (PWLb) to principal local authorities who provide information as specified on their plans for long-term borrowing and associated capital spending. |
| CIPFA | Chartered Institute of Public Finance and Accountancy |
| Collective Investment Schemes | Funds in which several investors collectively hold units or shares. The assets in the fund are not held directly by each investor, but as part of a pool (hence these funds are also referred to as 'Pooled Funds'). Unit Trusts and Open-Ended Investment Companies are types of collective investment schemes/pooled funds. |
| Corporate Bonds | Corporate bonds are bonds issued by companies. The term is often used to cover all bonds other than those issued by governments in their own currencies and includes issues by companies, supranational organisations and government agencies. |
| Corporate Bond Funds | Collective Investment Schemes investing predominantly in bonds issued by companies and supranational organisations. |
| CPI <i>Also see RPI</i> | Consumer Price Index. (This measure is used as the Bank of England's inflation target.) |
| Cost of carry | When a loan is borrowed in advance of requirement, this is the difference between the interest rate and (other associated costs) on the loan and the income earned from investing the cash in the interim. |
| Counterparty List | List of approved financial institutions with which the Council can place investments. |
| Credit Default Swap (CDS) | A Credit Default Swap is similar to an insurance policy against a credit default. Both the buyer and seller of a CDS are exposed to credit risk. Naked CDS, i.e. one which is not linked to an underlying security, can lead to speculative trading. |
| Credit Rating | Formal opinion by a registered rating agency of a counterparty's future ability to meet its financial liabilities; these are opinions only and not guarantees. |

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| Debt Management Office (DMO) | The DMO is an Executive Agency of Her Majesty's Treasury and provides direct access for local authorities into a government deposit facility known as the Debt Management Account Deposit Fund (DMADF). All deposits are guaranteed by HM Government and therefore have the equivalent of a sovereign triple-A credit rating. |
| Diversification / diversified exposure | The spreading of investments among different types of assets or between markets in order to reduce risk. |
| Derivatives | Financial instruments whose value, and price, are dependent on one or more underlying assets. Derivatives can be used to gain exposure to, or to help protect against, expected changes in the value of the underlying investments. Derivatives may be traded on a regulated exchange or traded 'over the counter'. |
| ECB | European Central Bank |
| Fair Value | Fair value is defined as a sale price agreed to by a willing buyer and seller, assuming both parties enter the transaction freely. Many investments have a fair value determined by a market where the security is traded. |
| Federal Reserve | The US central bank. (Often referred to as "the Fed") |
| Floating Rate Notes | A bond issued by a company where the interest rate paid on the bond changes at set intervals (generally every 3 months). The rate of interest is linked to LIBOR and may therefore increase or decrease at each rate setting. |
| GDP | Gross domestic product – also termed as "growth" in the economy. The value of the national aggregate production of goods and services in the economy. |
| General Fund | This includes most of the day-to-day spending and income. (All spending and income related to the management and maintenance of the housing stock is kept separately in the Housing Revenue Account). |
| Gilts (UK Govt) | Gilts are bonds issued by the UK Government. They take their name from 'gilt-edged': being issued by the UK government, they are deemed to be very secure as the investor expects to receive the full face value of the bond to be repaid on maturity. |
| Housing Revenue Account (HRA) | A ring-fenced account of all housing income and expenditure, required by statute. |
| IFRS | International Financial Reporting Standards. |
| Income Distribution | The payment made to investors from the income generated by a fund; such a payment can also be referred to as a 'dividend'. |
| Local Authority Property Fund (LAPF) | A pooled property collective investment scheme for Churches, Charities and Local Authorities. (See Collective Investment Scheme). |
| Liability Benchmark | Term in CIPFA's Risk Management Toolkit which refers to the minimum amount of borrowing required to keep investments at a minimum liquidity level (which may be zero). |
| LOBOs | LOBO stands for 'Lender's Option Borrower's Option'. The underlying loan facility is typically long term and the interest rate is fixed. However, in the LOBO facility the lender has the option to call on the facilities at pre-determined future dates. On these call dates, the lender can propose or impose a new fixed rate for the remaining term of the facility and the borrower has the 'option' to either accept the new imposed fixed rate or repay the loan facility. |
| Maturity | The date when an investment or borrowing is repaid. |
| Maturity profile | A table or graph showing the amount (or percentage) of debt or investments maturing over a time period. The amount or percent maturing could be shown on a year-by-year or quarter-by-quarter or month-by-month basis. |
| MiFID II | MiFID II replaced the Markets in Financial Instruments Directive (MiFID I) from 3 January 2018. It is a legislative framework instituted by the European Union to regulate financial markets in the bloc and improve protections for investors. |
| Minimum Revenue Provision (MRP) | An annual provision that the Authority is statutorily required to set aside and charge to the Revenue Account for the repayment of debt associated with expenditure incurred on capital assets. |
| Money Market Funds (MMF) | Pooled funds which invest in a range of short term assets providing high credit quality and high liquidity. |

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| Net Asset Value (NAV) | A fund's net asset value is calculated by taking the current value of the fund's assets and subtracting its liabilities. |
| Operational Boundary | This is the limit set by the Authority as its most likely, i.e. prudent, estimate level of external debt, but not the worst case scenario. This limit links directly to the Authority's plans for capital expenditure, the estimates of the Capital Financing Requirement (CFR) and the estimate of cashflow requirements for the year. |
| Pooled funds | See Collective Investment Schemes (above). |
| Premiums and Discounts | <p>In the context of local authority borrowing, (a) the premium is the penalty arising when a loan is redeemed prior to its maturity date and (b) the discount is the gain arising when a loan is redeemed prior to its maturity date. If on a £1 million loan, it is calculated* that a £100,000 premium is payable on premature redemption, then the amount paid by the borrower to redeem the loan is £1,100,000 plus accrued interest. If on a £1 million loan, it is calculated that a £100,000 discount receivable on premature redemption, then the amount paid by the borrower to redeem the loan is £900,000 plus accrued interest. PWLB premium/discount rates are calculated according to the length of time to maturity, current market rates (plus a margin), and the existing loan rate which then produces a premium/discount dependent on whether the discount rate is lower/higher than the coupon rate.</p> <p>*The calculation of the total amount payable to redeem a loan borrowed from the Public Works Loans Board (PWLB) is the present value of the remaining payments of principal and interest due in respect of the loan being repaid prematurely, calculated on normal actuarial principles. More details are contained in the PWLB's lending arrangements circular.</p> |
| Private Finance Initiative (PFI) | Private Finance Initiative (PFI) provides a way of funding major capital investments, without immediate recourse to the public purse. Private consortia, usually involving large construction firms, are contracted to design, build, and in some cases manage new projects. Contracts can typically last for 30 years, during which time the asset is leased by a public authority. |
| Investment Property | Property (land or a building or part of a building or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both. |
| Prudential Code | Developed by CIPFA and introduced on 01/4/2004 as a professional code of practice to support local authority capital investment planning within a clear, affordable, prudent and sustainable framework and in accordance with good professional practice. |
| Prudential Indicators | Indicators determined by the local authority to define its capital expenditure and asset management framework. They are designed to support and record local decision making in a manner that is publicly accountable; they are not intended to be comparative performance indicators between authorities. |
| PWLB | Public Works Loans Board. It is a statutory body operating within the United Kingdom Debt Management Office, an Executive Agency of HM Treasury. The PWLB's function is to lend money from the National Loans Fund to local authorities and other prescribed bodies, and to collect the repayments. |
| Revenue Expenditure | Expenditure to meet the continuing cost of delivery of services including salaries and wages, the purchase of materials and capital financing charges. |
| Risk | <p>Credit and counterparty risk The risk of failure by a counterparty to meet its contractual obligations to the organisation under an investment, borrowing, capital, project or partnership financing, particularly as a result of the counterparty's diminished creditworthiness, and the resulting detrimental effect on the organisation's capital or current (revenue) resources.</p> <p>Liquidity risk The risk that cash will not be available when it is needed, that ineffective management of liquidity creates additional unbudgeted costs, and that the organisation's business/service objectives will be thereby compromised.</p> <p>Refinancing risk The risk that maturing borrowings, capital, project or partnership financings cannot be refinanced on terms that reflect the provisions made by the organisation for those refinancings, both capital and current (revenue), and/or that the terms are inconsistent with prevailing market conditions at the time.</p> <p>Interest Rate risk</p> |

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| | <p>The risk that fluctuations in the levels of interest rates create an unexpected or unbudgeted burden on the organisation's finances, against which the organisation has failed to protect itself adequately.</p> <p>Legal risk The risk that the organisation itself, or an organisation with which it is dealing in its treasury management activities, fails to act in accordance with its legal powers or regulatory requirements, and that the organisation suffers losses accordingly.</p> <p>Operational risk The risk that an organisation fails to identify the circumstances in which it may be exposed to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings, and fails to employ suitable systems and procedures and maintain effective contingency management arrangements to these ends. It includes the area of risk commonly referred to as operational risk.</p> <p>Market Risk The risk that, through adverse market fluctuations in the value of the principal sums an organisation borrows and invests, its stated treasury management policies and objectives are compromised, against which effects it has failed to protect itself adequately.</p> |
| RPI | Retail Prices Index. A monthly index demonstrating the movement in the cost of living as it tracks the prices of goods and services including mortgage interest and rent. Pensions and index-linked gilts are updated using the CPI index. |
| SORP | Statement of Recommended Practice for Accounting (Code of Practice on Local Authority Accounting in the United Kingdom). |
| Specified Investments | Term used in the CLG Guidance and Welsh Assembly Guidance for Local Authority Investments. Investments that offer high security and high liquidity, in sterling and for no more than 1 year. UK government, local authorities and bodies that have a high credit rating. |
| Supported Borrowing | Borrowing for which the costs are supported by the government or third party. |
| Temporary Borrowing | Borrowing to cover peaks and troughs of cash flow, not to fund spending. |
| Term Deposits | Deposits of cash with terms attached relating to maturity and rate of return (interest). |
| Treasury (T) -Bills | Treasury Bills are short term Government debt instruments and, just like temporary loans used by local authorities, are a means to manage cash flow. Treasury Bills (T-Bills) are issued by the Debt Management Office and are an eligible sovereign instrument, meaning that they have a AAA-rating. |
| Treasury Management Code | CIPFA's Code of Practice for Treasury Management in the Public Services. The current Code is the edition released in 2021. |
| Treasury Management Practices (TMP) | Treasury Management Practices set out the manner in which the Council will seek to achieve its policies and objectives and prescribe how it will manage and control these activities. |
| Unsupported Borrowing | Borrowing which is self-financed by the local authority. This is also sometimes referred to as Prudential Borrowing. |
| Usable Reserves | Resources available to finance future revenue and capital expenditure. |
| Variable Net Asset Value (VNAV) | A term used in relation to the valuation of 1 share in a fund. This means that the net asset value (NAV) of these funds is calculated daily based on market prices. |
| Working Capital | Timing differences between income/expenditure and receipts/payments |
| Yield | The measure of the return on an investment instrument. |