APPENDIX B

Treasury Management Strategy Statement 2023/24

1. Introduction

1.1 Background

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

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

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

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

1.1.5 CIPFA defines treasury management as:

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

1.2 **Reporting Requirements**

Capital Strategy

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

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

1.2.2 The aim of this capital strategy is to ensure that all elected Members on the full council fully understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite.

1.2.3 This capital strategy is reported separately from the Treasury Management Strategy Statement; non-treasury investments will be reported through the former. This ensures the separation of the core treasury function under security, liquidity and yield principles, and the policy and commercialism investments usually driven by expenditure on an asset. The capital strategy will show:

- The corporate governance arrangements for these types of activities;
- Any service objectives relating to the investments;
- The expected income, costs and resulting contribution;
- The debt related to the activity and the associated interest costs;
- The payback period (MRP policy – Minimum Revenue Provision);
- For non-loan type investments, the cost against the current market value;
- The risks associated with each activity.

1.2.4 Where a physical asset is being bought, details of market research, advisers used, (and their monitoring), ongoing costs and investment requirements and any credit information will be disclosed, including the ability to sell the asset and realise the investment cash.

1.2.5 The Capital Strategy sets out details of the Council's Investment Strategy, which included multiple objectives: (a) to support regeneration and the economic activity of the Council (b) to enhance economic benefit (c) to grow business rate income (d) to assist with the financial sustainability of the Council as an ancillary benefit and (e) to help continue deliver and/or improve frontline services in keeping with its adopted strategy and objectives.

1.2.6 If any non-treasury investment sustains a loss during the final accounts and audit process, the strategy and revenue implications will be reported through the same procedure as the capital strategy.

1.2.7 To demonstrate the proportionality between the treasury operations and the non-treasury operation, high-level comparators are shown throughout this report.

Treasury Management Reporting

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

a. Prudential and treasury indicators and treasury strategy (this report) - The first, and most important report is forward looking and covers:

- the capital plans, (including prudential indicators);
- a minimum revenue provision (MRP) policy, (how residual capital expenditure is charged to revenue over time);
- the treasury management strategy, (how the investments and borrowings are to be organised), including treasury indicators; and
- an investment strategy, (the parameters on how investments are to be managed).

b. A mid-year treasury management report – This is primarily a progress report and will update Members on the capital position, amending treasury and prudential indicators as necessary, and whether any policies require revision.

c. An annual treasury report – This is a backward looking review document and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

Scrutiny

1.2.9 The above reports are required to be adequately scrutinised before being approved by Council. Periodic Treasury Management reports are reported to the Audit and Governance Committee for this purpose. Prior to the annual strategies being recommended to Council on 30th March 2023, the strategies are presented to the Council's Audit and Governance Committee on 9th March 2023 for scrutiny.

1.3 Treasury Management Strategy for 2023/24

1.3.1 The strategy for 2023/24 covers two main areas:

Capital issues

- the capital expenditure plans and the associated prudential indicators;
- the minimum revenue provision (MRP) policy.

Treasury management issues

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

1.3.2 These elements cover the requirements of the Local Government Act 2003, DLUHC Investment Guidance, DLUHC MRP Guidance, the CIPFA Prudential Code and the CIPFA Treasury Management Code.

1.4 **Training**

1.4.1 The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to Members responsible for scrutiny. Training was last completed in March 2021 and it is planned that the next session will be carried out in the Summer of 2023 as part of the Member Induction programme.

The training needs of treasury management officers are periodically reviewed.

1.5 **Treasury Management advisors**

1.5.1 The Council uses Link Group, Link Treasury solutions as its external treasury management advisors.

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

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

1.5.4 The scope of investments within the Council’s operations now includes both conventional treasury investments (the placing of residual cash from the Council’s functions), and other types of investment, such as investment properties. The Council currently has two investment properties in Dartmouth and Ivybridge (Lee Mill). The Council’s negotiating team includes the Strategic Director of Place and Enterprise and the S.151 Officer, who are both members of the Senior Leadership Team. Both Officers are aware of the core principles of the prudential framework and of the regulatory regime within which Local Authorities operate. The S.151 Officer has attended specific treasury management training courses around the new DLUHC Guidelines on investments and the accounting treatment.

1.5.5 Investments require specialist advisors and the appropriate expertise is always resourced in relation to these activities. The specialist advisors that have been used in the past include:

- Link Group – Treasury Management Advice
- Savills – Property Agents
- JLL – Property and Technical Consultants
- Arcadis – Building Surveyors and Engineers
- Womble Bond Dickinson – Solicitors

2. The Capital Prudential Indicators 2023/24 – 2025/26

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

2.2 Capital Expenditure

2.2.1 This prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. Members are asked to approve the capital expenditure forecasts:

Capital expenditure	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Services	3,991,000	10,669,000	12,312,000	2,363,000	1,500,000
Total	**3,991,000**	**10,669,000**	**12,312,000**	**2,363,000**	**1,500,000**

2.2.2 Other long-term liabilities - The above financing need excludes other long-term liabilities, such as PFI and leasing arrangements that already include borrowing instruments.

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

Financing of capital expenditure	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Capital Expenditure	**3,991,000**	**10,669,000**	**12,312,000**	**2,363,000**	**1,500,000**
Financed by:					
External sources (Capital grants, NHB, S106)	1,156,000	2,656,000	1,604,000	1,200,000	0
Own resources (Capital receipts, Earmarked reserves)	1,815,000	1,494,000	3,478,000	1,163,000	1,500,000
Net financing need for the year (This is the prudential borrowing requirement)	**1,020,000**	**6,519,000**	**7,230,000**	**0**	**0**

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

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

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

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

2.3.4 The Council is asked to approve the CFR projections below:

	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Capital Financing Requirement					
CFR – services	8,629,000	14,707,000	21,440,000	19,345,000	18,645,000
CFR - Non-financial investments	4,907,000	4,861,000	4,813,000	4,764,000	4,713,000
Total CFR	**13,536,000**	**19,568,000**	**26,253,000**	**24,109,000**	**23,358,000**
Movement in CFR	**534,000**	**6,032,000**	**6,685,000**	**(2,144,000)**	**(751,000)**

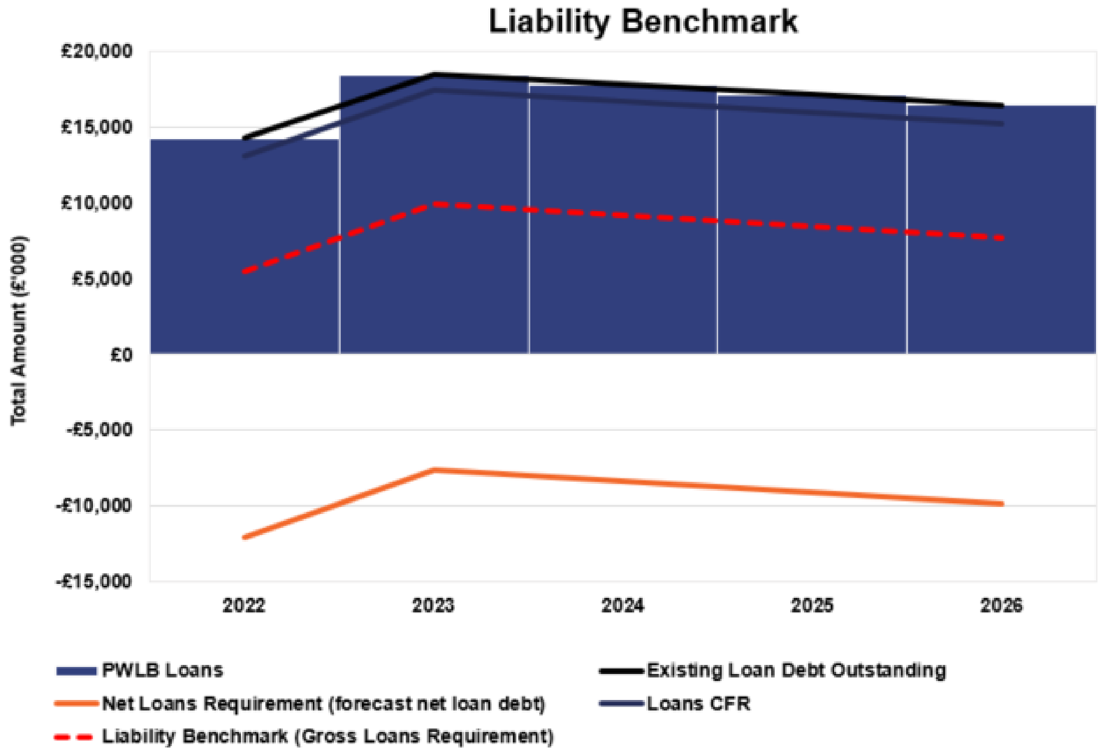
Movement in CFR represented by					
Net financing need for the year (above)	1,020,000	6,519,000	7,230,000	0	0
Less MRP/VRP and other financing movements	(486,000)	(487,000)	(545,000)	(2,144,000)	(751,000)
Movement in CFR	**534,000**	**6,032,000**	**6,685,000**	**(2,144,000)**	**(751,000)**

2.4 Liability Benchmark

2.4.1 A third and new prudential indicator for 2023/24 is the Liability Benchmark (LB). The Council is required to estimate and measure the LB for the forthcoming financial year and the following two financial years, as a minimum.

2.4.2 There are four components to the LB: -

- **Existing loan debt outstanding**: the Council's existing loans that are still outstanding in future years.
- **Loans CFR**: this is calculated in accordance with the loans CFR definition in the Prudential Code and projected into the future based on approved prudential borrowing and planned MRP.
- **Net loans requirement**: this will show the Authority's gross loan debt less treasury management investments at the last financial year-end, projected into the future and based on its approved prudential borrowing, planned MRP and any other major cash flows forecast.
- **Liability benchmark** (or gross loans requirement): this equals net loans requirement plus short-term liquidity allowance.



2.4.3 Borrowing is currently above the liability benchmark which will be utilised when future capital schemes in the Capital Strategy are delivered.

2.5 Core Funds and Expected Investment Balances

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

Year End Resources	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Fund balances / reserves	22,895,000	21,895,000	20,895,000	19,895,000	18,895,000
Capital receipts	2,950,000	3,239,000	1,862,000	2,177,000	2,492,000
Provisions	1,494,000	1,500,000	1,500,000	1,500,000	1,500,000
Other	(1,705,000)	500,000	500,000	500,000	500,000
Total core funds	**25,634,000**	**27,134,000**	**24,757,000**	**24,072,000**	**23,387,000**
Working capital*	30,609,000	18,000,000	16,000,000	14,000,000	14,000,000
(Under)/over borrowing	845,000	(5,284,000)	(7,788,000)	(6,305,000)	(6,218,000)
Expected cash position	**31,454,000**	**12,716,000**	**8,212,000**	**7,695,000**	**7,782,000**

**Working capital balances shown are estimated year-end; these may be higher mid-year*

2.6 Minimum Revenue Provision (MRP) Policy Statement

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

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

2.6.3 For capital expenditure incurred before 1 April 2008 or which in the future will be Supported Capital Expenditure, the MRP policy will be:

- **Based on CFR** – MRP will be based on the CFR.

2.6.4 This option provides for an approximate 4% reduction in the borrowing need (CFR) each year.

2.6.5 From 1 April 2008 for all unsupported borrowing the MRP policy will be:

- **Asset life (equal instalment) method** – MRP will be based on the estimated life of the assets, in accordance with the regulations (this option must be applied for any expenditure capitalised under a Capitalisation Direction);
- **Asset life (annuity) method** – MRP will be based on the estimated life of the assets, in accordance with the regulations (this option must be applied for any expenditure capitalised under a Capitalisation Direction);

2.6.6 These options provide for a reduction in the borrowing need over the asset's life.

2.6.7 The asset life methods are simple to operate and gives certainty in each year as to the level of charge applied. The other advantage is that they make business cases and scheme appraisals easier to compile. The annuity method is intended to have the advantage of linking MRP to the flow of benefits from an asset where these are expected to increase in later years. The annuity method gives rise to a lower charge in the early years, which steadily increases over the asset life. This approach means that the MRP for repayment of the debt liability will increase each year over the life of the asset, as the proportion of the interest calculated each year reduces and the principal repayment increases.

2.6.8 With all options, MRP should normally commence in the financial year following the one in which expenditure was incurred. Regulation 28 does not define 'prudent'.

2.6.9 With all options, MRP should normally commence in the financial year following the one in which expenditure was incurred. Regulation 28 does not define 'prudent'. However, MRP guidance has been issued, which makes recommendations to Councils on the interpretation of that term. Councils are legally obliged to 'have regard' to the guidance. The Council's policy will be that MRP will not normally commence until the start of the financial year following the one in which the expenditure was incurred and the asset became operational. The Council will postpone making MRP until the financial year following the one in which the asset becomes operational.

2.6.10 **MRP Overpayments** - Under the MRP guidance, any charges made in excess of the statutory MRP can be made, known as voluntary revenue provision (VRP).VRP can be reclaimed in later years if deemed necessary or prudent. In order for these amounts to be reclaimed for use in the budget, this policy must disclose the cumulative overpayment made each year. Up until the 31 March 2022 the Council had no VRP overpayments.

2.6.11 **Housing projects** – For the Council's housing programme, some of the assets to be developed will be sold within a short timeframe after they have been built. The Council's MRP policy for these housing assets will be that capital receipts generated on the sale of assets will be set aside and used to reduce the Council's CFR and also the amount that would otherwise be chargeable as MRP in that period. The Council will also defer the provision of MRP that would otherwise be chargeable in a period, in anticipation of capital receipts arising from future sales which have yet to be materialised. If the capital receipts from the sale of assets were insufficient to provide for the CFR relating to the scheme, the Council would commence MRP to recover any sums that were not covered by future capital receipts.

3. Borrowing

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

3.2 Current Portfolio Position

3.2.1 The overall treasury management portfolio as at 31 March 2021 and for the position as at 31 January 2023 are shown below for both borrowing and investments.

Treasury Portfolio	31 March 2022 Actual		31 January 2023 Current	
Treasury Investments:				
Short term – fixed	30,500,000	0.51%	27,900,000	1.79%
Money Market Funds	22,400,000	0.38%	21,300,000	1.83%
Heritable Bank	11,000		11,000	
CCLA – Local Authority Property Fund	1,573,000	3.25%	1,573,000	3.25%
CCLA – Diversified Income Fund	2,032,000	2.39%	2,032,000	2.39%
Total treasury investments	**56,516,000**		**52,816,000***	
Treasury External Borrowing				
PWLB (average rate)	14,380,000	2.43%	14,309,000	2.43%
Total external borrowing	**14,380,000**		**14,309,000**	
Net treasury investments / (borrowing)	**42,136,000**		**38,507,000**	

**The Council's investments mid way through the year are always higher than at the year end due to the cashflow advantage that the Council benefits from part way through the year from the collection of Council Tax, before these are paid out to precepting authorities.*

3.2.2 The Council’s current Non-Treasury Investment portfolio position is shown below.

Asset	Purchase Price (£)	Year Purchased	Asset life for the calculation of MRP (Years)	Value at 31 March 2022* (£)
Lee Mill Tesco	4,400,000		50	13,860,000
Dartmouth M&S	5,029,000	2019/20	50	4,750,000
TOTAL	**9,429,000**			**18,610,000**

*following fair value adjustments

3.2.3 The Fair Value Valuation at 31.3.2022 of the two investment properties was £18.610 million.

3.2.4 During 2017/18, officers undertook a review of existing assets which resulted in the Council reclassifying the site at Lee Mill as an investment property with effect from 31 December 2017. The Council receives rental income from this property and there is no borrowing associated with this non-treasury investment.

3.2.5 Indicators for the Council’s Non-Treasury Investment portfolio are shown below.

Non-Treasury Investment Indicators	Actual 2021/22	Estimate as at 31 Mar 23
Total investment income as a proportion of the Council’s Net Budget	6.71%	6.23%
Borrowing for Non-Treasury investments as a proportion of the Council’s Net Budget	51.06%	47.44%
Investment income from Investment Properties compared to the interest expense incurred by them	571.06%	572.10%

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

	2021/22 Actual	**2022/23 Estimate**	**2023/24 Estimate**	**2024/25 Estimate**	**2025/26 Estimate**
External Debt					
Debt at 1 April	14,474,000	14,381,000	14,284,000	18,465,000	17,804,000
Expected change in Debt	(93,000)	(97,000)	4,181,000	(661,000)	(664,000)
Other long-term liabilities (OLTL)	0	0	0	0	0
Expected change in OLTL	0	0	0	0	0
Actual gross debt at 31 March	14,381,000	14,284,000	18,465,000	17,804,000	17,140,000
The Capital Financing Requirement	13,536,000	19,568,000	26,253,000	24,109,000	23,358,000
Under / (over) borrowing	(845,000)	5,284,000	7,788,000	6,305,000	6,218,000

3.2.7 Within the above figures the level of debt relating to investment activities / non-financial investment is:

	2021/22 Actual	**2022/23 Estimate**	**2023/24 Estimate**	**2024/25 Estimate**	**2025/26 Estimate**
External Debt for investment activities / non-financial investments					
Actual debt at 31 March for Investment activities	5,011,000	4,965,000	4,917,000	4,867,000	4,816,000
Percentage of all PWLB external debt %	35%	35%	27%	27%	28%

3.2.8 Within the range of prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2023/24 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue or speculative purposes.

3.2.9 The Corporate Director for Strategic Finance (S151 Officer) reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in the budget report for 2023/24.

3.3 Treasury Indicators: Limits to Borrowing Activity

3.3.1 In September 2019, Council approved an overall Borrowing Limit (for all Council Services) of £75 million. The Operational Boundary is recommended to be set at £35 million to reflect the current projected levels of borrowing. Council are asked to re-affirm the total Authorised Borrowing Limit of £75 million.

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

Operational boundary	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Total external debt	50,000,000	35,000,000	35,000,000	35,000,000

3.3.3 **The Authorised Limit for external debt.** This is a key prudential indicator and represents a control on the maximum level of borrowing. This represents a legal limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

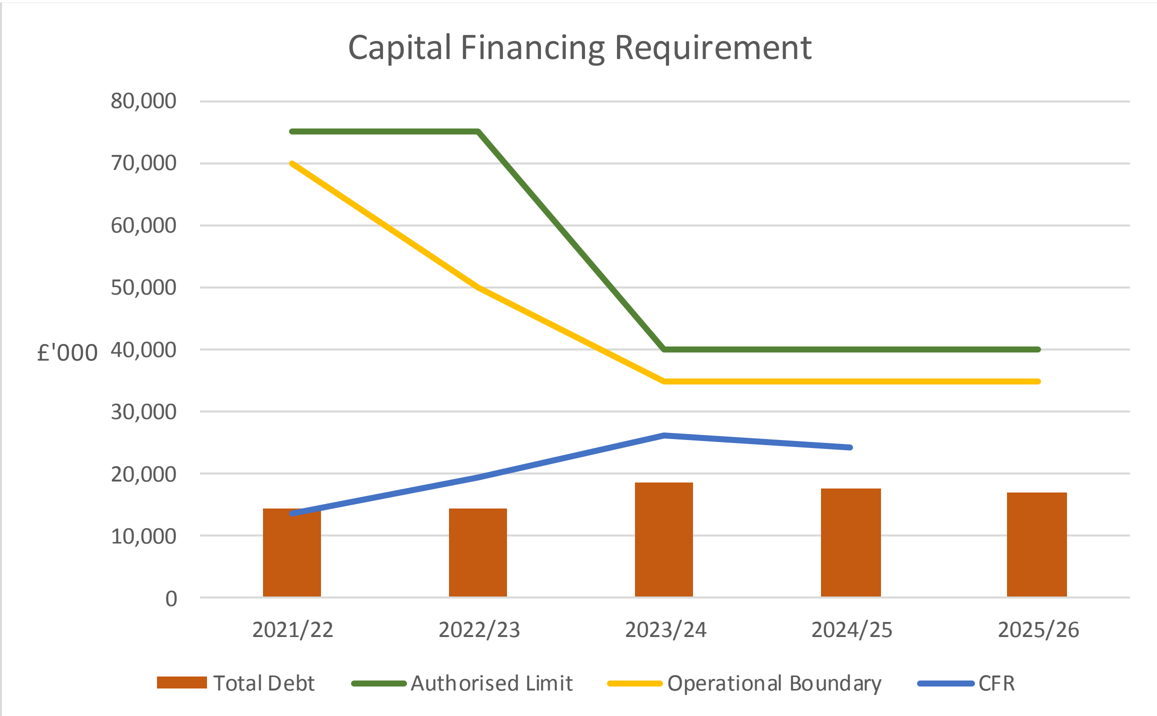
3.3.4 This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.

3.3.5 The Council is asked to approve the following authorised limit of £40 million:

Authorised limit	**2022/23 Estimate**	**2023/24 Estimate**	**2024/25 Estimate**	**2025/26 Estimate**
Total external debt	75,000,000	40,000,000	40,000,000	40,000,000

3.3.6 The graph below shows the CFR and borrowing projections.

	Actual 2021/22	**Estimate 2022/23**	**Estimate 2023/24**	**Estimate 2024/25**	**Estimate 2025/26**
General Fund	8,629,000	14,707,000	21,440,000	19,345,000	18,645,000
Investment activities / non-financial investments	4,907,000	4,861,000	4,813,000	4,764,000	4,713,000
Total CFR	**13,536,000**	**19,568,000**	**26,253,000**	**24,109,000**	**23,358,000**
External Borrowing	**14,381,000**	**14,284,000**	**18,465,000**	**17,804,000**	**17,140,000**
Authorised Limit	**75,000,000**	**75,000,000**	**40,000,000**	**40,000,000**	**40,000,000**
Operational Boundary	**70,000,000**	**50,000,000**	**35,000,000**	**35,000,000**	**35,000,000**



3.4 Prospects for Interest Rates

3.4.1 The Council has appointed Link Group as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. Link provided the following forecasts. These are forecasts for certainty rates, gilt yields plus 80 bps.

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3.4.2 The Bank Rate stands at 4.0% currently but as shown in the forecast table above, it is expected to reach a peak of 4.5% during the first half of 2023.

3.4.3 Further down the road, we anticipate the Bank of England will be keen to loosen monetary policy when the worst of the inflationary pressures are behind us – but that timing will be one of fine judgment: cut too soon, and inflationary pressures may well build up further; cut too late and any downturn or recession may be prolonged.

3.4.4 In the upcoming months, our forecasts will be guided not only by economic data releases and clarifications from the MPC over its monetary policies and the Government over its fiscal policies, but the on-going conflict between Russia and Ukraine. (More recently, the heightened tensions between China/Taiwan/US also have the potential to have a wider and negative economic impact.)

3.4.5 On the positive side, consumers are still estimated to be sitting on over £160bn of excess savings left over from the pandemic so that will cushion some of the impact of the above challenges. However, most of those are held by more affluent people whereas lower income families already spend nearly all their income on essentials such as food, energy and rent/mortgage payments.

3.4.6 **PWLB rates** – The yield curve movements have become less volatile of late and PWLB 5 to 50 years Certainty Rates are, generally, in the range of 4.10% to 4.60%.

3.5 Borrowing Strategy

3.5.1 The Council will continue to assess the opportunities to borrow and look to use a mix of external loans to finance any increase in the Capital Financing Requirement (CFR). Any opportunities to reduce interest costs by maintaining an under-borrowed position will be considered. This means that the capital borrowing need, (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Authority's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as medium and longer dated borrowing rates are expected to fall from their current levels once prevailing inflation concerns are addressed by tighter near-term monetary policy.

3.5.2 Against this background and the risks within the economic forecast, caution will be adopted with the 2023/24 treasury operations. The Corporate Director for Strategic Finance will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- if it was felt that there was a significant risk of a sharp FALL in borrowing rates, (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then any further external borrowing could be postponed.

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

3.5.3 Any decisions will be reported to the appropriate decision making body at the next available opportunity.

3.6 Policy on Borrowing in Advance of Need

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

3.6.2 Borrowing in advance will be made within the constraints that:

- It will be limited to no more than 100% of the expected increase in borrowing need (CFR) over the three year planning period; and

- The authority would not look to borrow more than 36 months in advance of need.

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

3.7 Debt Rescheduling

3.7.1 Rescheduling of current borrowing in our debt portfolio is unlikely to occur as there is still a large difference between premature redemption rates and new borrowing rates.

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

3.8 New Financial Institutions as a Source of Borrowing

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

- Local authorities (primarily shorter dated maturities out to 3 years or so – still cheaper than the Certainty Rate)
- Financial institutions (primarily insurance companies and pension funds but also some banks, out of forward dates where the objective is to avoid a "cost of carry" or to achieve refinancing certainty over the next few years)
- Municipal Bonds Agency (possibly still a viable alternative depending on market circumstances prevailing at the time and minimum amounts of borrowing)

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

3.9 Maturity Structure of Borrowing

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

Maturity structure of fixed interest rate borrowing 2023/24		
	Lower	**Upper**
Less than 1 year	0%	10%
Between 1 and 2 years	0%	10%
Between 2 years to 5 years	0%	50%
Between 5 years to 10 years	0%	50%
Between 10 years to 20 years	0%	50%
20 years and above	0%	100%

3.10 Approved Sources of Long and Short Term Borrowing

3.10.1 Approved sources of borrowing are as follows:

On Balance Sheet	Fixed	Variable
PWLB	●	●
Municipal bond agency	●	●
Local authorities	●	●
Banks	●	●
Pension funds	●	●
Insurance companies	●	●
Market (long-term)	●	●
Market (temporary)	●	●
Stock issues	●	●
Local temporary	●	●
Local Bonds	●	
Local authority bills	●	●
Overdraft		●
Negotiable Bonds	●	●
Internal (capital receipts & revenue balances)	●	●
Medium Term Notes	●	
Finance leases	●	●

APPENDIX B1

TREASURY MANAGEMENT SCHEME OF DELEGATION

(i) Full Council

- receiving and reviewing reports on treasury management policies, practices and activities;
- approval of annual strategy.

(ii) Executive

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

(iii) Audit Committee

- reviewing the treasury management policy and procedures and making recommendations to the responsible body.

(iv) Delegation from the Director of Strategic Finance (S151) to the nominated posts for the taking of investment decisions

- Head of Finance (Deputy S151)
- Finance Business Partners

APPENDIX B2

THE TREASURY MANAGEMENT ROLE OF THE SECTION 151 OFFICER

The S151 (responsible) officer

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance;
- submitting regular treasury management policy reports;
- submitting budgets and budget variations;
- receiving and reviewing management information reports;
- reviewing the performance of the treasury management function;
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
- ensuring the adequacy of internal audit, and liaising with external audit;
- recommending the appointment of external service providers.
- preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments and treasury management, with a long term timeframe for example 25+ years.
- ensuring that the capital strategy is prudent, sustainable, affordable and prudent in the long term and provides value for money
- ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the authority
- ensure that the authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing
- ensuring the proportionality of all investments so that the authority does not undertake a level of investing which exposes the authority to an excessive level of risk compared to its financial resources
- ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long term liabilities
- provision to Members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees
- ensuring that Members are adequately informed and understand the risk exposures taken on by an authority
- ensuring that the authority has adequate expertise, either in house or externally provided, to carry out the above

- creation of Treasury Management Practices which specifically deal with how non treasury investments will be carried out and managed, to include the following *(TM Code p54): -*

  - Risk management (TMP1 and schedules), including investment and risk management criteria for any material non-treasury investment portfolios;

  - Performance measurement and management (TMP2 and schedules), including methodology and criteria for assessing the performance and success of non-treasury investments;

  - Decision making, governance and organisation (TMP5 and schedules), including a statement of the governance requirements for decision making in relation to non-treasury investments; and arrangements to ensure that appropriate professional due diligence is carried out to support decision making;

  - Reporting and management information (TMP6 and schedules), including where and how often monitoring reports are taken;

  - Training and qualifications (TMP10 and schedules), including how the relevant knowledge and skills in relation to non-treasury investments will be arranged.