

LONDON BOROUGH OF CAMDEN	WARDS: All
REPORT TITLE Treasury Management Strategy (CS/2024/05)	
REPORT OF Cabinet Member for Finance and Cost of Living	
FOR SUBMISSION TO Cabinet Council	DATE 28 February 2024 4 March 2024
STRATEGIC CONTEXT We Make Camden is our joint vision for the borough, developed in partnership with our community. A robust and effective Treasury Management Strategy is crucial to enabling this ambition. Inappropriate management of the risks surrounding treasury management could lead to a deterioration of the Council’s financial position which would significantly curtail the Council’s ability to fulfil this ambition.	
SUMMARY OF REPORT This report sets out the annual update of the Treasury Management Strategy for 2024/25 including the Borrowing and Investment Strategies and provides a perspective on the management of investments of £592m (£407m Council related funds and £185m North London Waste Authority (NLWA) balances). The NLWA also have earmarked Euro investments of €214m. Council debt stands at £314m. The report also updates on the market environment that impacts on future treasury management plans. In summary the report: <ul style="list-style-type: none"> • Presents the current economic background and outlook for interest rates which inform the operating environment for the Council’s investment and borrowing strategies. • The investment strategy has been reviewed in light of the evolving investment environment and the proposed investment strategy for 2024/25. The strategy lengthens the maximum duration to 2 years (from 1 year) for banks which meet the Council’s high credit rating criteria. • Summarises the Council’s capital expenditure plans and forecast capital financing requirements and considers long-term borrowing needs. • Proposes a continuation of the existing borrowing strategy using internal borrowing to reduce costs. There is one loan of £20.7m from the existing debt maturing in 2024/25 and the Council does not plan to take on any new borrowing in the immediate future. This will minimise debt costs and is the most efficient way to approach borrowing. • Proposes the investment strategy for the coming year, with no change to the minimum credit rating criteria for investments, maintaining the focus on investment security and very high credit quality. <p>The report is coming to Cabinet and Council because it is a Chartered Institute of Public Finance and Accountancy (CIPFA) requirement for the Treasury Management Strategy to be agreed by those committees.</p>	

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RECOMMENDATIONS

The Cabinet is asked to recommend the **Council** to agree the following:

- (1) The Borrowing Strategy as set out in section 3 and Appendix 2;
- (2) The operational boundaries and authorised limits in Appendix 2 (treasury indicators 1 and 2);
- (3) The prudential and treasury management indicators set out in the tables presented in Appendices 1, 2 and 3;
- (4) The Investment Strategy as set out in section 4 and Appendix 3;
- (5) The creditworthiness policy and credit rating criteria as set out in Appendix 3 (Table 1);
- (6) The investment instruments categorised as specified and non-specified in Appendix 4; and
- (7) The Minimum Revenue Provision (MRP) Policy for depreciating assets set out in Appendix 6.

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- (3) The prudential and treasury management indicators set out in the tables presented in Appendices 1, 2 and 3;
- (4) The Investment Strategy as set out in section 4 and Appendix 3;
- (5) The creditworthiness policy and credit rating criteria as set out in Appendix 3 (Table 1);
- (6) The investment instruments categorised as specified and non-specified in Appendix 4; and
- (7) The Minimum Revenue Provision (MRP) Policy for depreciating assets set out in Appendix 6.

Signed: "Agreed, Jon Rowney Executive Director Corporate Services"

Date: 14 February 2024

1. Context and background

1.1. This report presents the 2024/25 Treasury Management Strategy, which will govern the Council's treasury management activities for the coming year. CIPFA (the Chartered Institute of Public Finance and Accountancy – the public sector accountancy body) defines treasury management as:

“The management of the organisation's borrowing, investments and cash flows, including its banking, money market and capital market transactions, the effective control of the risks associated with those activities, and the pursuit of optimum performance consistent with those risks.”¹

1.2. Issues at other Local Authorities involving non-financial and property transactions highlight the need for appropriate scrutiny, disclosure and understanding of treasury management.

1.3. The Council is required to operate a balanced budget with expenditure being matched by income. Treasury management ensures cash is available when required. Any surplus funds are invested within the Council's low risk appetite. Any investments are made with liquidity in mind, ensuring that cash will be available when needed.

1.4. Another key aim of the treasury management strategy is to fund the Council's capital plans. The Capital programme provides a guide to the Council's borrowing need and is longer-term in nature than the revenue cash flow requirements.

1.5. The treasury management function is critical to the Council, as the balance of debt and investment operations ensure liquidity in day-to-day revenue or for larger capital projects. Investment balances generally result from reserves and balances and it is paramount to ensure security of any invested sums.

1.6. Commercial initiatives or loans to third parties are classed as non-treasury activities (arising generally from capital expenditure) and are separate from the day-to-day treasury management activities.

1.7. The report addresses a number of key concerns including:

- How the Council will fund its past and future capital plans;
- How borrowing and investments will be managed;
- How surplus cash balances will be invested to ensure cash is available when necessary and to prioritise security; and
- How the Council will use its revenue resources to pay down debt (the Minimum Revenue Provision or MRP policy)

1.8. The following bullet points are an executive summary of the report:

- There are no significant changes proposed to the current treasury strategy.
- There is no increase in the risk profile and appetite and the Council continues to operate prudent debt and investment strategies.
- The Council has not engaged in the arguably riskier commercial activities that have led to a tightening of the treasury framework for all Councils. Maximising investment returns has not been at the expense of investment security.
- The Council considers investment policy in relation to environmental, social and governance aspects.
- The Council has adopted a liability benchmark treasury indicator to support the financing risk management of the capital financing requirement; this is shown in

¹ CIPFA Treasury Management in the Public Services Code of Practice and Cross Sectoral Guidance Notes 2017

chart form for a minimum of ten years, with material differences between the liability benchmark and actual loans explained.

- The Council does not borrow to finance capital expenditure to invest primarily for commercial return.
- Increases in the Capital Financing Requirement (CFR) and borrowing are undertaken solely for purposes directly and primarily related to the functions of the authority.
- There are no immediate plans for new borrowing at this time. The internal borrowing policy continues to be sensible and appropriate given reducing interest rates on debt and investment. The policy ensures the Council minimises interest paid on debt and uses investment resources efficiently.
- The Council has operated within its treasury and prudential indicators set which demonstrates good governance and control.
- North London Waste Authority (NLWA) can undertake further borrowing for the North London Heat and Power Project. The [midyear report 2021/22](#) gave the Executive Director Corporate Services delegated authority to increase limits as and when this happens to manage these higher investment balances. While this may affect the scale of those investments, the underlying strategy remains unaffected.

2. Proposals and reasons

- 2.1. A snapshot of the current treasury position is outlined in Table 1 which shows that the Council's debt and investment balances are significant in relation to the Council's gross revenue budget for 2023/24 (£965.6m) and balance sheet (£3.8bn as at 31 March 2022). It is therefore important that the Council manages the risks associated with its treasury position in order to safeguard the authority's financial robustness.

TABLE 1 - CURRENT TREASURY POSITION (31 December 2023)

		Principal	Average rate
Fixed rate funding	PWLB ²	£190m	4.68%
Variable rate funding	Market	£124m	4.63%
Gross debt		£314m	4.66%
Short Term investments		(£592m)	5.40%
Net investment		(£278m)	

- 2.2. The Local Government Act 2003 requires the Council to 'have regard' to the CIPFA Treasury Management Code of Practice and the CIPFA Prudential Code for Capital Finance. The 2021 Code of Practice specifies that the Council should receive and approve an annual report covering its treasury management strategy.
- 2.3. The objectives of the Prudential Code are to ensure that the Council's capital investment plans are affordable, prudent and sustainable and it therefore requires the Council to annually set prudential indicators for capital finance to help the Council demonstrate that it has fulfilled these objectives. The Council continues to follow the principles enshrined in these codes, which includes the principle that the Authority will not borrow to invest primarily for financial return. Quarterly reports from 2024/25 are required to monitor and report performance against all forward-looking prudential indicators and highlight significant actual or forecast deviations from the approved indicators. These additional reports do not have to be reported to Full Council but do need to be adequately scrutinised.

² The Public Works Loan Board is a statutory body operating within the UK Debt Management Office, an Executive Agency of HM Treasury

- 2.4. The Council is required by the Department of Levelling Up, Housing and Communities (DLUHC) guidance to set an Investment Strategy for the forthcoming year. There is also DLUHC guidance on making a minimum revenue provision to repay debt (Appendix 6). This report fulfils these requirements.
- 2.5. The Council has adopted the Treasury Management Policy Statement (a high-level statement about the treasury management function). This forms part of our financial standing orders.
- 2.6. The Council uses Link Asset Services (Link) as its external treasury management consultant. This gives the Council access to specialist skills and resources. However, responsibility rests with the authority for the treasury management function and Link has a supporting role.

Economic Background

- 2.7. The Council's approach to treasury management is driven by its capital plans which determine the size and nature of both the borrowing requirement. Aside from internal drivers, the direction of both the borrowing and the investment strategy will be influenced by the Council's view of the current economic environment and the likely direction of interest rates.
- 2.8. In response to persistent inflationary pressures and to help sustain growth and employment the Bank of England maintained Base Rate at 5.25% in December 2023 (the third time rates have been left on hold). Link forecast future interest rates over the coming three years. During the period to 2024, they expect rates to decrease to 4.25%.
- 2.9. Rising inflation over the last year has caused interest rates globally to increase dramatically from very low bases. In the UK since the beginning of 2022 we have had 13 increases from 0.5% ending at 5.25%. Whilst the Bank of England are still balancing further tightening in base rates, markets as well as other Central Banks (the Fed in the US and ECB in the Eurozone) are considering reducing rates. A falling interest rate environment depends on how quickly inflation is controlled and how strong growth is.
- 2.10. Table 2 shows the latest interest rate forecasts for the Bank of England base rate and Public Works Loan Board (PWLB) borrowing over the coming years provided by Link. This shows a downward forecast for bank rate and from March 2024 a downward forecast for PWLB borrowing over the coming three years. Table 2 shows PWLB rates with the 0.2% certainty rate discount applied. From 1 November 2012, the Government introduced the Certainty Rate which reduced the PWLB standard interest rate by 0.20% so long as local authorities provide information on their plans for long-term borrowing and associated capital spending.

TABLE 2: INTEREST RATE FORECASTS

	Bank Rate (%)		50yr PWLB Rate (%)	
	Link	Capital Economics	Link	Capital Economics
NOW	5.25	5.25	4.95	4.95
Mar-24	5.25	5.25	5.00	4.70
Jun-24	5.25	5.00	4.90	4.60
Sep-24	4.75	4.50	4.70	4.50
Dec-24	4.25	4.00	4.60	4.30
Mar-25	3.75	3.50	4.40	4.30
Jun-25	3.25	3.00	4.20	4.30
Sep-25	3.00	3.00	4.10	4.40
Dec-25	3.00	3.00	4.00	4.40
Mar-26	3.00	-	4.00	-
Jun-26	3.00	-	3.90	-
Sep-26	3.00	-	3.90	-
Dec-26	3.00	-	3.90	-
Mar-27	3.00	-	3.90	-

3. Borrowing Strategy

- 3.1. The Council's underlying need to borrow is referred to as the 'Capital Financing Requirement', or CFR. The CFR represents the total amount of capital expenditure (both past and present) that is yet to be financed from capital resources (capital grants, capital receipts, and revenue contributions). The CFR is notionally earmarked to be financed by borrowing, but the timing and nature of this borrowing is determined by market factors such as availability of attractive interest rates, the future direction of rates and the availability of investment balances to offset borrowing in the short term.
- 3.2. The Council currently has external debt of £314m. The CFR (excluding Private finance initiative and finance leases which do not require borrowing) is currently £646m. Currently investment balances are used to reduce borrowing rather than entering into new external borrowing at higher rates to its investment rates. The Council is presently "under-borrowed" by £332m and, if no new borrowing is undertaken, this amount is set to increase to £415m in 2026/27 (Table 3).

TABLE 3: CAPITAL FINANCING REQUIREMENT

	2022/23	2023/24	2024/25	2025/26	2026/27
	Actual	Estimate	Estimate	Estimate	Estimate
GF	£100m	£123m	£54m	£73m	£101m
HRA	£477m	£523m	£592m	£606m	£595m
Total CFR	£577m	£646m	£646m	£679m	£696m
GF	£41m	£41m	£38m	£38m	£36m
HRA	£273m	£273m	£255m	£255m	£245m
Total debt	£314m	£314m	£293m	£293m	£281m
GF	£59m	£82m	£17m	£35m	£65m
HRA	£204m	£250m	£336m	£351m	£350m
Total under-borrowing	£263m	£332m	£353m	£386m	£415m

- 3.3. The borrowing strategy (Appendix 2) proposes a continuation of the current approach, based on the temporary use of internal resources (reserves and working capital) rather than taking on new debt. The medium-term outlook for interest rates supports this strategy with PWLB rates forecast to fall from c5% to 4.60% by the end

of 2024 and, in the investment portfolio, Base Rates set to fall from 5.25% to 4.25% by the end of 2024. Internal borrowing therefore remains appropriate.

- 3.4. If the Council did take on new borrowing it would immediately increase investment balances, which would increase credit risk (more invested with external banks). Internal borrowing therefore reduces exposure to default risk (a borrower not repaying investments).
- 3.5. The rate of return on investments (currently 5.38%) is above the cost of new borrowing (4.95% for 50-year General Fund borrowing). However, borrowing rates are historically high and are forecast to decrease to 4.60% by the end of 2024 and continue to fall as the inflationary environment dissipates. Unless there is a cash need to borrow, the Council will continue to offset borrowing need against investments until long term borrowing becomes more affordable. Should cash balances become scarce the Council could look to borrow temporarily from local authorities or use short-dated PWLB loans.
- 3.6. If the economic outlook and interest rate environment diverge from the expectations set out in this report, the Council will not be restricted from entering into new borrowing.
- 3.7. As a part of the Council's Medium Term Financial Strategy (MTFS), four loans have or will shortly mature. The loans will either end and further internal borrowing will be used or they will be refinanced at lower average rates to their current running rates. This will save the Council anywhere between £420k and £770k per annum and demonstrates good treasury management practice.
- 3.8. Table 3 also illustrates the two debt pools and CFRs that the Council operates for the General Fund and the Housing Revenue Account (HRA). Both pools are significantly under-borrowed. The projected growth in the HRA CFR is driven by major projects including the ongoing essential fire safety prevention works and regeneration schemes under the Community Investment Programme (CIP).
- 3.9. The Council is using a local climate bond in the form of a Community Municipal Investment (CMI). Launched on 29 June 2022 at a value of £1m and a rate of 1.75%. This is an innovative financing route which gives the Council another way to realise its ambitious 2030 zero carbon target and is a first step towards introducing new financing measures towards reducing carbon emissions.
- 3.10. The Capital Strategy for 2024/25 has £20m of prudential borrowing (£78m in 2023/24) which will increase the CFR and MRP. Whilst this is an outline permission the ultimate timing of any borrowing will be driven by this Treasury Management Strategy which aims to avoid additional debt and instead use internal resources to fund capital spend.
- 3.11. The borrowing strategy (in Appendix 2) sets levels for the Operational Boundary and Authorised Limit on external debt (Treasury Indicators 1 and 2) which are the key controls on external borrowing.

4. Investment Strategy

- 4.1. The Council's investment priorities are:
 - (a) security of capital (primarily) and
 - (b) liquidity of its investments (secondly).
- 4.2. After these overriding priorities, the Council will aim to optimise returns on its investments. The Council's risk appetite is low in order to prioritise security of its investments, which is paramount.

- 4.3. On 31 December 2023 the Council's investment balances totalled £592m. Investment balances fluctuate daily with receipts and payment cash flows. The Council's investments are held in various instruments with money market funds (MMFs) (£24m) used for managing daily cash flow. The Council also held investment in banks (£470m) and Government Treasury Bills (£97m).
- 4.4. The investment strategy has been reviewed in light of the evolving investment environment and the proposed investment strategy for 2024/25 (Appendix 3) is largely the same as the existing strategy. However, given we are at or close to the peak in interest rates, and all central banks including the Bank of England are likely to reduce interest rates, as inflationary pressures are held in check, the strategy moving forwards looks to ensure high rates can be locked into in the medium term where possible. The Council continues to invest in the most credit worthy banks globally. The strategy (Table 1 Credit rating criteria Appendix 3) therefore lengthens the maximum duration to 2 years (from 1 year) for banks which meet the Council's high credit rating criteria.
- 4.5. The Council has some cash balances which are expected to be available for investment on a long-term basis, which will help to offset the effects of inflation. The Council already has the ability to invest with the UK Government and local authorities for up to five years.
- 4.6. While the Council continues to use investments with local authorities the current day to day approach has been to limit lending to local authorities. Income streams for local authorities have become less certain with rents, council tax and business rates all being impacted. Robust credit analysis will continue to be carried out before investing any fixed deposits with local authorities.
- 4.7. The Council uses three money market funds for its sterling balances: Goldman Sachs, JP Morgan and Aberdeen. These funds allow the Council to manage day-to-day liquidity requirements very effectively and their use will continue in 2024/25. The Council and Link remain comfortable with the operation and suitability of these Money Market Funds (MMFs). These investments are professionally managed funds with significant resource capability to carry out detailed credit analysis on underlying investments. The MMFs are AAA rated and are made up of a diverse number of underlying assets and therefore present better management of risk.
- 4.8. The credit rating criteria (the policy by which banks are selected for the Council's counterparty list) remains unchanged from the existing strategy and is detailed in the investment strategy (Appendix 3 Table 1). The counterparty criteria are judged to be consistent with the Council's objective of achieving best value in treasury management only after security concerns have been satisfied. If there was a marked improvement in the financial markets and robust evidence demonstrated an easing of counterparty risk, then this would be reflected in the counterparty criteria. A perceived reduction in risk would correspond to increased time limits of investments beyond the proposed 2-year maximum time limit for banks. Officers consider that the current credit rating criteria is still appropriate for banks on our lending list. Significant factors that could impact on this are how deep any impending recessionary environment is and the current inflationary environment.
- 4.9. The Council provides treasury management services to the North London Waste Authority (NLWA) under the terms of a treasury management agreement, including investment of surplus balances. The NLWA is building an £850m energy recovery facility (ERF) to replace its existing facility.
- 4.10. As at 31 December the NLWA had £185m invested alongside Council investments. In December 2021 the NLWA borrowed £280m from the Public Works Loan Board

(PWLB) to fund this project. This was invested in Euro MMFs as their contractual commitment for the plant is in Euros. Four Euro MMFs were used and current balances of €226m are invested to fund euro contractual payments (hence eliminating currency fluctuations).

- 4.11. The NLWA has £1bn of borrowing to finance its capital plans. These monies have been invested alongside the Council's investment balances, with the current NLWA balance of £185m within the investment portfolio. Investment limits were increased in a report to the Executive Director Corporate Services on 11 May 2022 and then again on 17 January 2023 to accommodate higher investment balances and to ensure a suitable diversification and spread of risk. This was within delegated responsibility agreed by Council in the [Treasury Management Annual Report and midyear strategy report](#) (November 2021).
- 4.12. The Council continues to view NatWest as part-nationalised given the Government's continued ownership. Given the Government's significant holding it is still not considered to be pure banking risk and is eligible for investments of up to one year on the Council's counterparty list. In the Autumn Statement the Chancellor outlined plans for a retail share offer in NatWest and the Council will follow these plans to understand the changing ownership and this policy.

5. OPTIONS APPRAISAL

- 5.1. The Council has an outstanding borrowing requirement (Table 3). It can either enter into new borrowing now or continue to meet this requirement temporarily by offsetting borrowing against investments. Entering into new debt now would reduce 'interest rate risk' (the possibility that future debt will be more expensive than current rates). However, borrowing now would entail additional interest costs and lower investment returns means forgoing investment interest and avoiding borrowing is cheaper. Alternatively, the Council could temporarily use its own resources (reserves and working capital) to avoid borrowing in the medium term.
- 5.2. The Council has investments of £592m which will need to be managed in a way that meets the objectives of security, liquidity and yield (in order of priority). If the Council expands its risk appetite, it will increase the opportunity to earn higher rates of interest. However, there will also be a greater risk of default from investments with weaker financial standings. The Council's attitude to risk is low and it has chosen to be more risk averse than standard methodology adopted by Link. There is no increase in our risk exposure from the recommended investment strategy.

6. WHAT ARE THE KEY IMPACTS / RISKS? HOW WILL THEY BE ADDRESSED?

- 6.1. This Treasury management strategy and the Council's risk profile are similar to previous years. There are a number of risks inherent in treasury management and the prime objective of the Council's approach is the effective control of such risks.
- 6.2. A key risk is that a bank held as an investment defaults on repayment. This risk is mitigated by a strict credit rating criteria which aims to minimise the risk of default.
- 6.3. In the borrowing strategy there are risks around the rate at which borrowing is locked into and the interest costs associated with carrying the debt. As the Council is under-borrowed, there is a risk that it will be forced to borrow at a time when interest rates are high. The borrowing strategy is based upon interest rate views as well as detailed cash flow forecasting which indicates that the Council will have sufficient resources to pursue the proposed strategy and avoid having to borrow at any time when rates are high in future years.

- 6.4. Economic forecasts change and there is a risk that actual experience does not reflect forecasts. The treasury strategy is monitored regularly during the year by officers and Link to ensure it is current and relevant.
- 6.5. The CIPFA Code of Practice acknowledges that the avoidance of risk is neither appropriate nor possible. However, an effective treasury management strategy will enable the Council to manage risks successfully.

7. CONSULTATION/ ENGAGEMENT

- 7.1. There is no consultation required for this report.

8. LEGAL IMPLICATIONS

- 8.1. Local Authorities' powers of treasury management are governed by the Local Government Act 2003 ("the Act"). The Act sets out authorities' powers to borrow (s.1 and additional provisions in Part 1 of the Act) and to invest (s.12 of the Act).
- 8.2. The power to borrow under the Act, up to the affordable limit, is determined by the Local Authority itself, having regard to the Chartered Institute of Public Finance and Accountancy (CIPFA) codes of practice, "Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes".
- 8.3. Local Authorities also have the power to invest (s. 12 of the Act) for "any purpose relevant to their functions under any enactment or for the purposes of the prudent management of their financial affairs". This power is subject to restrictions contained in the Local Authorities (Funds) (England) Regulations 1992/2428.
- 8.4. The Act (including subordinate legislation (Local Authorities (Capital Finance and Accounting) (England) Regulations 2003) states that in carrying out its functions a Local Authority must show regard to relevant guidance, including the CIPFA codes of practice (Prudential Code for Capital Finance in Local Authorities and Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes). Local authorities must also have regard to Statutory Guidance issued by the Department of Levelling Up, Housing and Communities (DLUHC) itself (issued under s.15 of the Act).

9. RESOURCE IMPLICATIONS

- 9.1. The comments of the Executive Director Corporate Services have been incorporated into this report.

10. ENVIRONMENTAL IMPLICATIONS

- 10.1. The Community Municipal Investment is a means of funding ongoing local net zero projects via green finance. These projects include electrical vehicle charging points, healthy school streets, solar on council estate roofs and greening of Camden's transport fleet.

11. TIMETABLE FOR IMPLEMENTATION

- 11.1. Once this report is agreed, all limits will be immediately effective. Activity will be reported to Audit and Corporate Governance Committee semi-annually. The Annual Report and Mid-year Strategy will be reported to Cabinet and Council.

12. APPENDICES

- Appendix 1 – Capital Expenditure and Prudential Indicators
- Appendix 2 – Borrowing Strategy
- Appendix 3 – Investment Strategy
- Appendix 4 – Specified and Non-Specified Investments
- Appendix 5 - Training

APPENDIX 1: CAPITAL EXPENDITURE AND PRUDENTIAL INDICATORS

- 1.1. The Council's approach to treasury management is driven by its capital expenditure plans as the amount of capital expenditure which is not immediately financed will need to be funded by borrowing.
- 1.2. The overall control of the Council's capital plans is determined through a series of prudential indicators which demonstrate that total capital investment remains within sustainable limits and require Council's approval.
- 1.3. The prudential indicator underneath outlines the capital expenditure forecasts for this year and the next three years.

PRUDENTIAL INDICATOR 1 – CAPITAL EXPENDITURE**TABLE 1 CAPITAL EXPENDITURE**

TABLE 1 CAPITAL EXPENDITURE					
Capital expenditure	2022/23	2023/24	2024/25	2025/26	2026/27
	Actual	Estimate	Estimate	Estimate	Estimate
Community Services	£8 m	£6 m	£3 m	£1 m	£0 m
Development - CIP & Major Projects	£113 m	£101 m	£105 m	£83 m	£97 m
Corporate Services	£5 m	£1 m	£0 m	£0 m	£0 m
Property Management	£173 m	£149 m	£114 m	£77 m	£59 m
Environment & Sustainability	£29 m	£3 m	£1 m	£1 m	£1 m
Total	£328 m	£259 m	£223 m	£162 m	£157 m
GF	£90 m	£52 m	£50 m	£66 m	£64 m
HRA	£238 m	£207 m	£173 m	£96 m	£93 m
Total	£328 m	£259 m	£223 m	£162 m	£157 m

- 1.4. The Council has a number of financing options available to resource planned expenditure including capital receipts, capital grants, contributions, reserves and direct contributions from revenue. This information is summarised in the table below, which also shows the borrowing requirement in each year (the net financing need).

TABLE 2 FINANCING OF CAPITAL EXPENDITURE

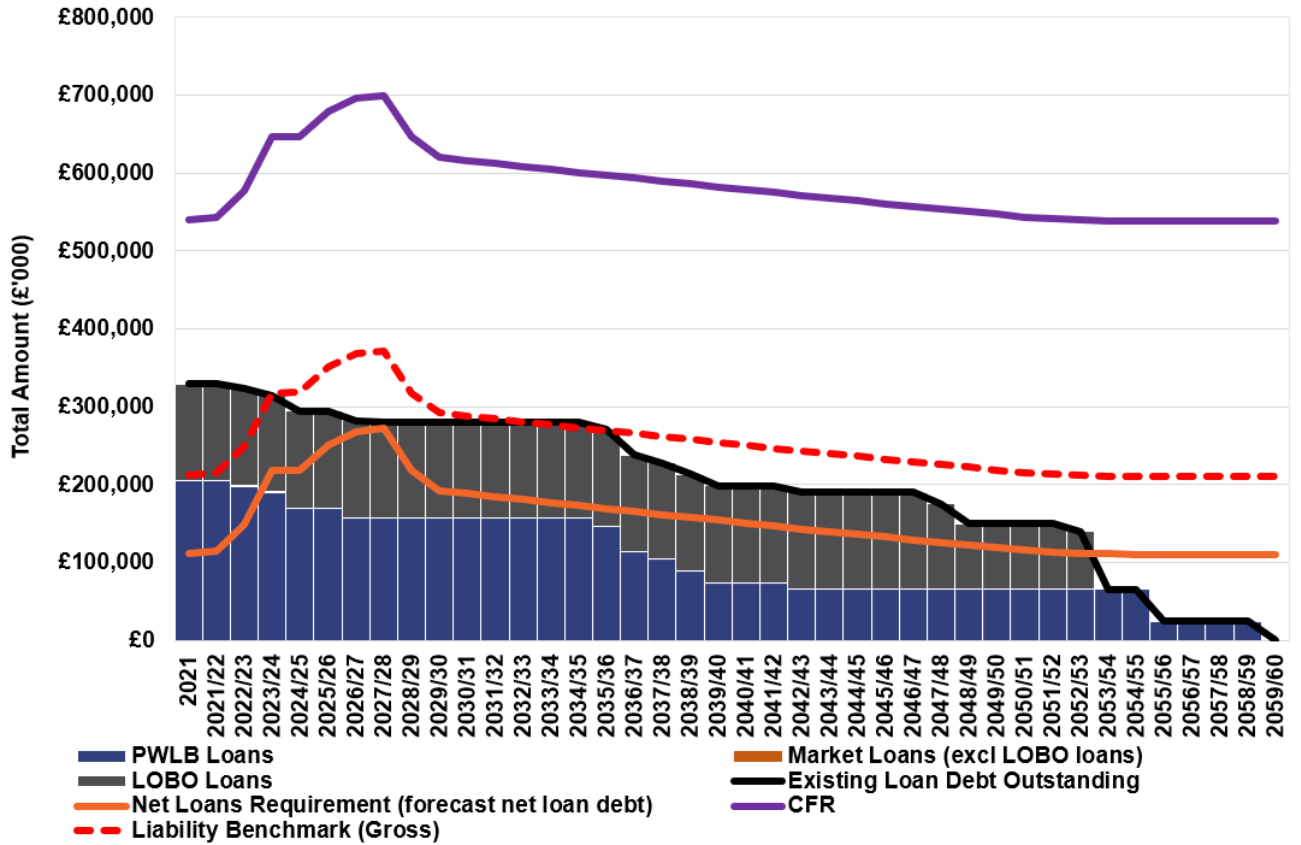
Financing of Capital Expenditure	2022/23	2023/24	2024/25	2025/26	2026/27
	Actual	Estimate	Estimate	Estimate	Estimate
Capital Receipts	£40 m	£82 m	£130 m	£97 m	£126 m
Capital Grants	£86 m	£40 m	£19 m	£10 m	£6 m
Other contributions	£48 m	£22 m	£17 m	£6 m	£2 m
Capital Reserves	£39 m	£34 m	£36 m	£32 m	£0 m
Revenue	£9 m	£2 m	£1 m	£0 m	£0 m
Net financing need (borrowing need)	£107 m	£78 m	£20 m	£18 m	£22 m
Total	£328 m	£259 m	£223 m	£162 m	£157 m

- 1.5. The capital expenditure and financing figures above exclude the Council's PFI schemes and finance leases which are already financed.

PRUDENTIAL INDICATOR 2 – LIABILITY BENCHMARK

- 1.1. The Council is required to present the Liability Benchmark as a Prudential Indicator. While CIPFA acknowledge that the minimum time horizon should be over three years in-line with other Prudential Indicators, they strongly recommend that this is provided for at least 10 years and ideally cover the length of the full external borrowing maturity profile.
- 1.2. The benchmark compares the borrowing in each year (blue and grey bars) with the CFR (purple line). It then deducts forecast spare cash to arrive at a net loans requirement (i.e. assuming all spare cash is available to use for internal borrowing). A margin of £100m is deducted to ensure that there is ample room in the revenue operations to cope with timings differences in cash flow.
- 1.3. There are four components:
 - Existing loan debt outstanding: this is the maturity profile of the Council's existing external borrowing portfolio, based on final maturity dates.
 - Loans CFR: this is the Council's Capital Financing Requirement excluding PFI and Finance lease liabilities and is calculated in accordance with the CIPFA Prudential Code. It is projected into the future based on prudential borrowing that has been approved, it also includes planned MRP.
 - Net loans requirement: This shows the Council's gross loan debt less treasury management investments at the last financial year end. This is projected into the future and based on prudential borrowing approved, planned MRP and any other major cash flows forecast.
 - Liability Benchmark (also known as the Gross Loans Requirement): this equals the Net Loans Requirement plus a short term liquidity allowance. CIPFA have defined the liquidity allowance as an adequate allowance for a level of excess cash to be invested short-term to provide sufficient liquidity for treasury management operations. The Council has incorporated a liquidity allowance of £100m within the liability benchmark workings.
- 1.4. The table below suggests a borrowing requirement is needed to maintain £100m of treasury investments through 2023/24 – 2029/30 (the red dashed line is above the black line). It also indicates that by 2027/28 cash balances (without the £100m buffer) would be near £0 based on the net loans requirement line (the orange line meets the black line). Officers will monitor this position which is driven by the CFR which evolves as projects are re-profiled.

TABLE 3 LIABILITY BENCHMARK



PRUDENTIAL INDICATOR 3 – CAPITAL FINANCING REQUIREMENT

- 1.5. The Capital Financing Requirement (CFR) refers simply to the total historic outstanding capital expenditure which the Council is yet to resource.
- 1.6. The net financing need for each of the years shown above will increase the CFR. However, the CFR does not grow indefinitely as the Council is required by statute to pay down debt with an annual revenue charge (the Minimum revenue provision) which reduces the CFR in line with the useful life of assets.

TABLE 4 CAPITAL FINANCING REQUIREMENT

Capital Financing Requirement	2022/23	2023/24	2024/25	2025/26	2026/27
	Actual	Estimate	Estimate	Estimate	Estimate
GF	£100 m	£123 m	£54 m	£73 m	£101 m
HRA	£477 m	£523 m	£592 m	£606 m	£595 m
Total CFR (excl. PFI & Finance leases)	£577 m	£646 m	£646 m	£679 m	£696 m
Movement in CFR (excluding PFI & FL)	£34 m	£69 m	£0 m	£33 m	£16 m
GF PFI	£45 m	£43 m	£40 m	£38 m	£35 m
GF Finance Leases	-£0 m	-£0 m	-£0 m	-£0 m	-£0 m
HRA PFI	£0 m	£0 m	£0 m	£0 m	£0 m
Total CFR (PFI & finance leases)	£45 m	£43 m	£40 m	£38 m	£35 m
Total CFR	£622 m	£689 m	£687 m	£717 m	£731 m
Movement in CFR	£32 m	£66 m	-£2 m	£31 m	£14 m

- 1.7. The CFR includes the Council's other long-term liabilities (PFI schemes and finance leases). Although these schemes increase the CFR they are already financed and so are excluded from the borrowing requirement. The total value of these liabilities is £43m at the end of 2023/24 and predominantly is comprised of three PFI schemes as well as a number of small finance leases. A new International Financial Reporting Standard, IFRS 16, on leases will come into force in the 2024/25 financial year. While this will increase the Capital Financing Requirement there will not be a material change in the underlying need to borrow.

PRUDENTIAL INDICATOR 4 – CAPITAL FINANCING REQUIREMENT AND GROSS DEBT

- 1.8. In order to ensure that over the medium-term debt will only be for a capital purpose, the Council should ensure that debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years. Gross debt includes other long-term liabilities.

TABLE 5 CAPITAL FINANCING REQUIREMENT AND GROSS DEBT

	2022/23	2023/24	2024/25	2025/26	2026/27
	Actual	Estimate	Estimate	Estimate	Estimate
GF	£100m	£123m	£54m	£73m	£101m
HRA	£477m	£523m	£592m	£606m	£595m
Total CFR	£577m	£646m	£646m	£679m	£696m
GF	£42m	£41m	£38m	£38m	£36m
HRA	£281m	£273m	£255m	£255m	£245m
Total Gross Debt	£322m	£314m	£293m	£293m	£281m
GF	£58m	£82m	£17m	£35m	£65m
HRA	£197m	£250m	£336m	£351m	£350m
Total Under borrowing	£255m	£332m	£353m	£386m	£415m

- 1.9. The Council complied with this indicator in the current year and does not envisage any problems in meeting this requirement in future years with an under-borrowed position of £332m set to increase to £415m. When borrowing rates settle at more affordable rates – c4% the Council will look to lock out interest rate exposure especially on the HRA.
- 1.10. The affordability of the Council's capital plans is ultimately determined by the revenue consequences of its investment. The following indicators provide an indication of the impact of the capital plans on the Council's overall finances.

PRUDENTIAL INDICATOR 5 – RATIO OF FINANCING COSTS TO NET REVENUE STREAM

- 1.11. This indicator estimates the authority's capital financing costs as a percentage of overall revenue. The ratio distinguishes between the financing costs and revenues that pertain to the HRA and those that relate to the General Fund. The ratio now includes financing costs associated with the Council's PFI contracts for completeness. This shows increasing financing costs especially for the HRA as the internal borrowing costs have risen due to higher interest rates which the HRA is compensating the General Fund for.

TABLE 6 RATIO OF FINANCING COSTS TO NET REVENUE STREAM

	2022/23	2023/24	2024/25	2025/26	2026/27
	Estimate	Estimate	Estimate	Estimate	Estimate
GF	-0.66%	-0.65%	0.19%	0.84%	0.65%
HRA	8.36%	10.85%	14.18%	14.12%	13.64%

APPENDIX 2: BORROWING STRATEGY

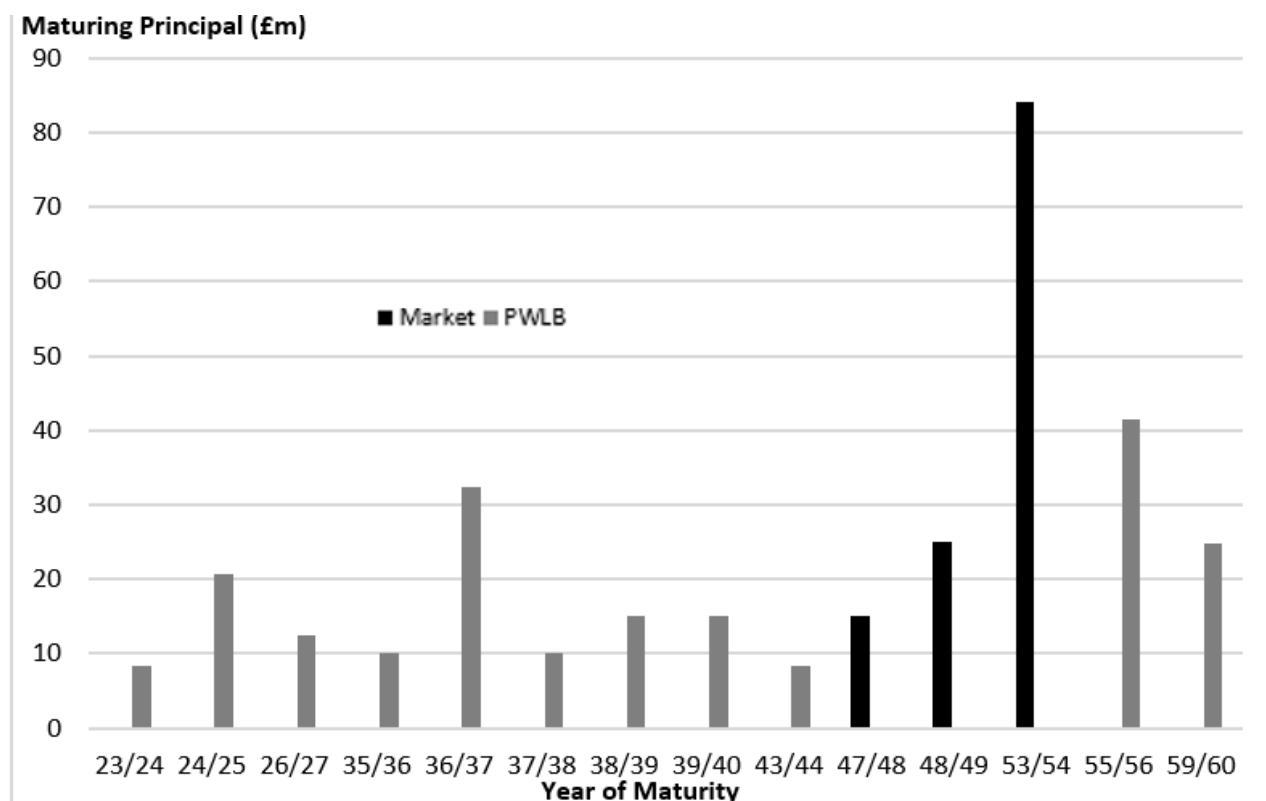
- 1.1. The capital plans outlined in Appendix 1 underpin the borrowing strategy for the forthcoming year and the Treasury Management Strategy aims to ensure that borrowing requirements flowing from these capital plans are managed so that sufficient cash is available to ensure the capital programme functions alongside normal revenue operations. This means that borrowing will be undertaken where necessary.

CURRENT DEBT PORTFOLIO

- 1.2. As shown in the main report, the Council has an existing debt portfolio totalling £314m which is predominantly made up of PWLB fixed rate borrowing and market debt with a small CMI loan. The maturity profile of the current debt portfolio is shown below.

TABLE 1 Debt Maturity Profile

- 1.3. Two pools are operated, with debt attributable to the HRA and the General Fund.



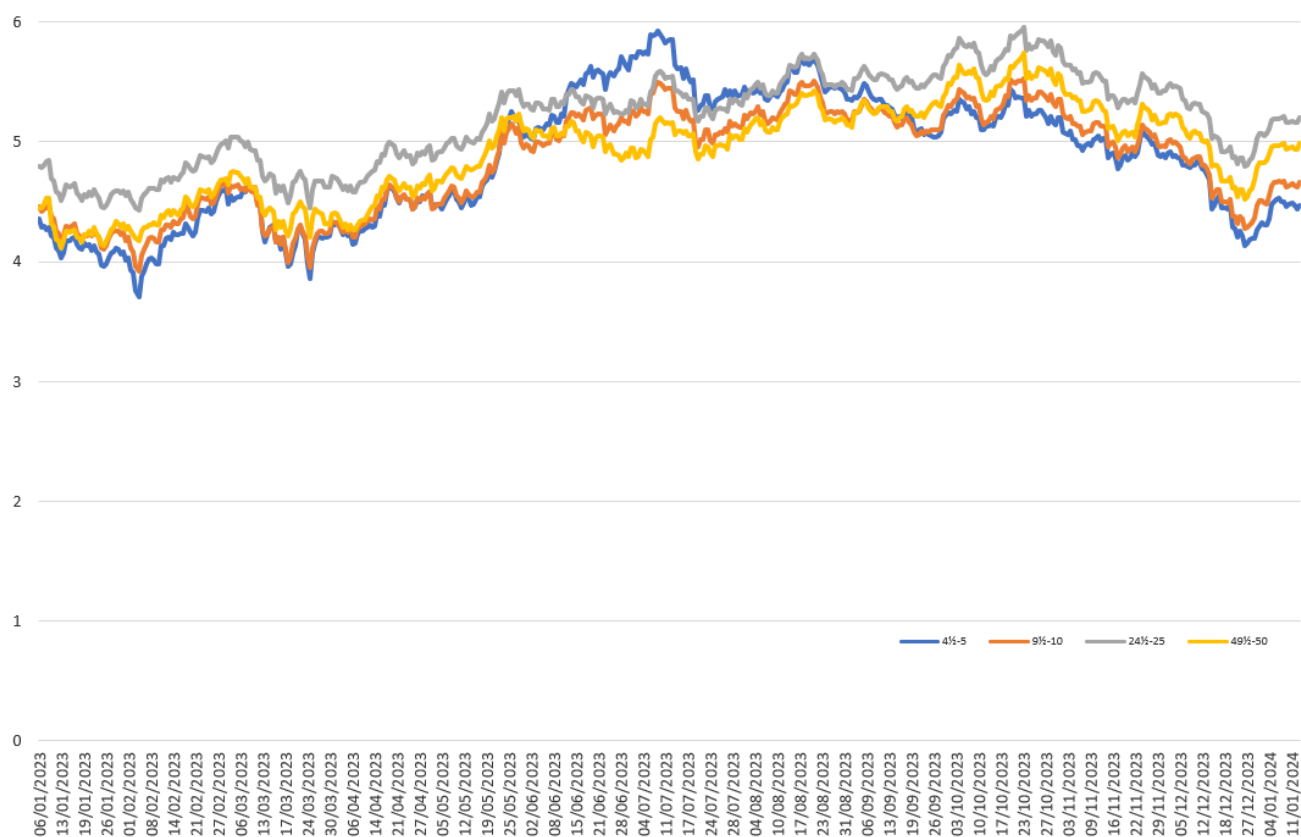
- 1.4. Market debt is comprised of six 'Lenders Option Borrowers Option' (LOBO) loans. These loans give the lender an option to vary the loan's interest rate every six months and when this event happens the Council has the option to either accept the revised rate or repay the loan in full. No lender has exercised their option to date and our treasury advisors continue to judge the probability of this happening as low. The loans are shown at their ultimate maturity dates in the profile. However, the loans could be shown as maturing in the forthcoming year given the LOBO structure.
- 1.5. Officers will progress the restructuring of these loans, should the opportunity arise and if it is to the Council's advantage. At present, the breakage costs incurred in restructuring any of the loans are prohibitively expensive.
- 1.6. The weighted average life of the overall debt portfolio is 22 years as at 31 December 2023. Market debt has a longer life than PWLB loans. When new debt is considered,

it is important that this profile is kept broadly flat and even to mitigate against refinancing risk (i.e. the risk that the Council needs to refinance debt in any year when rates are high).

BORROWING STRATEGY

- 1.7. Based on the current levels of external borrowing and the medium-term CFR forecast presented in Appendix 1, the Council will be under-borrowed by £332m at the end of 2023/24, and this figure will increase to £415m by 2026/27.
- 1.8. Councils must now submit their capital expenditure plans in order to access PWLB borrowing, giving assurance that they are not borrowing solely to make a return. In the unlikely event the Council were to undertake borrowing next financial year, it would need to consider PWLB levels against other local authorities, commercial lenders and the Municipal Bonds Agency. With many local authorities having high cash balances, it is likely cheap short-term borrowing from other Councils would be available.

TABLE 2 PWLB CERTAINTY RATE



- 1.9. It is recommended that the existing internal borrowing approach is continued for 2024/25, based on the Council's financial position as well as the outlook for interest rates (see main report, paragraph 2.14 onwards) which shows both PWLB rates and rates on the investment portfolio decreasing. Lower PWLB rates mean that the Council can lock into cheaper rates for the long term and lower investment portfolio rates means the cost of the HRA internally borrowing from the Council reduces over time.
- 1.10. At present, the Council's core funds are projected to provide sufficient cover to enable the continuation of the current internal borrowing approach for the medium term. During the next few years reserves are currently projected to reduce; other internal resources, including working capital, provisions and capital grants unapplied, are expected to remain stable.

TABLE 3 – CORE FUNDS

£m	2022/23	2023/24	2024/25	2025/26	2026/27
	Estimate	Estimate	Estimate	Estimate	Estimate
Earmarked Reserves	148	141	147	156	158
General Balances	16	17	18	20	21
Housing Revenue Account	23	21	24	28	32
Schools Balances	18	18	18	18	18
Capital Receipts Reserve	89	18	13	41	13
Total Reserves	294	214	220	262	241
Provisions & Capital Grants Unapplied	24	24	24	24	24
Working Capital Surplus	178	178	178	178	178
Total Core Funds	496	416	422	464	443
Internal Borrowing	-255	-332	-353	-386	-415
Implied Investments	241	84	69	78	28

- 1.11. A key benefit of using internal borrowing is the impact on revenue. Currently the rate of return on investments (5.38%) is higher than the cost of new borrowing (4.95%). However, borrowing rates are forecast to reduce to 4.6% by the end of 2024. Additionally, the bank rate and hence rate of return on the investment portfolio is set to reduce from 5.25% currently to 4.25% by the end of 2024. This will also reduce costs for the HRA on internal borrowing.
- 1.12. A further advantage of this strategy is the reduction in the Council's exposure to credit risk. The temporary use of cash balances to cover the remaining capital financing requirement means that cash balances held with external counterparties are smaller, which reduces the Council's exposure to the risk of a counterparty defaulting. Conversely, if new borrowing is undertaken, cash balances will be larger.
- 1.13. The main inherent risk relates to interest rates. Eventually the Council will need to arrange new external borrowing to replace the temporary use of internal resources and there is a risk that it will need to source new debt at a time when interest rates are high. Officers are mindful of this risk and monitor borrowing rates on a daily basis.
- 1.14. Therefore, the Council's borrowing strategy will give consideration to new borrowing in the following order of priority:
- i. The Council will pursue an internal borrowing strategy (reducing investments to finance capital spend). This is supported by an analysis of core funds which are forecast to be £422m by the end of 2024/25 from current levels of £416m (Table 3). This core cash position will allow the Council to continue netting down debt.
 - ii. The Council will monitor rates on borrowing from the PWLB and will continue to review with our treasury management consultants. The Executive Director Corporate Services will make any final decision whether or not to borrow from the PLWB given market conditions and the latest views of officers and our treasury consultants.
 - iii. The Municipal Bond Agency (MBA) is now established and issuing bonds. The Council has a £50k shareholding in the MBA and approved the Framework Agreement required for participation in the 2016/17 Treasury Management Strategy. The Council will monitor rates on borrowing from the MBA. As with PWLB borrowing, the Executive Director Corporate Services will make any final decision whether or not to borrow from the MBA given market conditions and the latest views of officers and our treasury consultants.

- iv. The Council could consider issuing bonds.
 - v. The Council will consider further use of market loans. To this end, the prudential indicator on variable rate debt was increased from 34-37% to 50% of debt in a previous TMS. Unlike PWLB loans, market loans in the form of private placements can be forward fixed (i.e. arranged so the loan starts at pre-agreed date in the future). Presently, the ratio of variable debt within the portfolio is 39% (£124m out of £314m).
 - vi. At the end of 2021, LIBID and LIBOR ceased to exist and was replaced by the Sterling Overnight Index Average (SONIA), which will mean lenders will need to offer a fix to market rates using SONIA. LIBOR is forward looking, where lenders would be willing to offer to lend, whereas SONIA is backward looking, measuring overnight rates paid by banks on overnight funds. The Bank of England's Working Group on Sterling Risk-Free Reference Rates believe SONIA to reflect actual interest rates more accurately in markets.
- 1.15. Sensitivity of the forecast – In normal circumstances the main sensitivities of the forecast are likely to be the two scenarios noted below. Officers, in conjunction with the treasury consultants, will continually monitor both the prevailing interest rates and the market forecasts, adopting the following responses to a change of sentiment towards external borrowing:
- *if it were felt that there was a significant risk of a sharp FALL in long and short term rates, e.g. due to a marked increase of risks around relapse into recession or of risks of deflation, then long term borrowing will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.*
 - *if it were felt that there was a significant risk of a much sharper RISE in long and short term rates than that currently forecast, perhaps arising from a greater than expected increase in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates were still relatively cheap.*

TREASURY INDICATORS

- 1.16. In order to ensure that borrowing is affordable and remains consistent with the Council's capital expenditure requirements, the Prudential Code requires local authorities to set upper limits on the total amount of external debt on the balance sheet. Council is asked to approve both the operational boundary and the authorised limit for external debt presented here.

TREASURY INDICATOR 1 – OPERATIONAL BOUNDARY FOR EXTERNAL DEBT

- 1.17. The operational boundary should be based on the estimate of the most likely scenario for capital expenditure and financing and should equate to the maximum level of external debt projected by this estimate. The operational boundary is therefore set to mirror the CFR.
- 1.18. The operational boundary is not a worst case scenario and it is possible that the limit will be exceeded temporarily on occasions due to variations in cash flow.

TABLE 4 OPERATIONAL BOUNDARY

Operational boundary	2022/23	2023/24	2024/25	2025/26	2026/27
	Actual	Estimate	Estimate	Estimate	Estimate
Borrowing	£577m	£646m	£646m	£679m	£696m
Other long-term liabilities	£45m	£43m	£40m	£38m	£35m
Total	£622m	£689m	£687m	£717m	£731m

TREASURY INDICATOR 2 – AUTHORISED LIMIT FOR EXTERNAL DEBT

- 1.19. The Council is also required to set a maximum limit for external debt for the forthcoming financial year and the following two financial years. External debt is prohibited beyond this limit. The authorised limit is set £100m above the operational boundary to ensure that there is sufficient room to deal with unusual cash movements through debt restructuring, for example.

TABLE 5 AUTHORISED LIMIT

Authorised limit	2022/23	2023/24	2024/25	2025/26	2026/27
	Actual	Estimate	Estimate	Estimate	Estimate
Borrowing	£677m	£746m	£746m	£779m	£796m
Other long term liabilities	£45m	£43m	£40m	£38m	£35m
Total	£722m	£789m	£787m	£817m	£831m

TREASURY INDICATOR 3 – MATURITY STRUCTURE OF BORROWING

- 1.20. The Council is exposed to the risk of having to refinance debt at a time in the future when interest rates may be volatile or uncertain. The following indicator helps the Council to manage this risk and avoid large concentrations of fixed rate debt maturing at the same time.

TABLE 6 MATURITY STRUCTURE OF BORROWING

Maturity Structure of Borrowing for 2024/25	Lower Limit	Upper Limit	Current Position
Under 12 months	0%	20%	7%
12 months and within 24 months	0%	20%	0%
24 months and within 5 years	0%	25%	4%
5 years and within 10 years	0%	50%	21%
10 years and within 20 years	0%	50%	20%
20 years and within 30 years	0%	50%	40%
30 years and within 40 years	0%	50%	8%
40 years and within 50 years	0%	50%	0%

- 1.21. The debt portfolio includes £124m of LOBO loans which have been included at their ultimate maturity date. The limits have been designed to allow the Council to take advantage of any refinancing or new borrowing opportunities that may arise. There is a standard requirement for a single limit for debt maturing in 10 years and above, but the Council follows best practice by setting limits for each subsequent 10-year interval to provide a more comprehensive indication of refinancing risk.

POLICY ON BORROWING IN ADVANCE OF NEED

- 1.22. 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 borrowing (capital financing requirement) estimates over the three-year planning period 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.
- 1.23. Risks associated with any borrowing in advance of activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting cycle.

DEBT RESCHEDULING

- 1.24. Currently short-term borrowing rates are broadly similar to longer term rates, and so there is no potential to generate savings by switching from long term debt to short term debt. Additionally, the cost of getting out of expensive debt would need to be considered (the premia incurred).
- 1.25. The reasons for any rescheduling to take place will include:
- the generation of cash savings and/or discounted cash flow savings;
 - helping to fulfil the borrowing strategy;
 - enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).
- 1.26. Consideration will also be given to identify whether there is any residual potential left for making savings by running down investment balances to repay debt prematurely, as short-term rates on investments are likely to be much lower than rates paid on current debt.

- 1.27. The introduction in 2007 of a “spread” between the rates applied to new borrowing and the rates used to calculate premia or discounts on the early repayment of PWLB debt has served to make debt restructuring less attractive. The situation has been compounded since 2010 by a considerable further widening of the difference between these two rates and the resulting premia on PWLB debt make refinancing prohibitively expensive.
- 1.28. All rescheduling will be reported to the Council and the Audit and Governance Committee at the earliest meeting following its action.

MUNICIPAL BONDS AGENCY

- 1.29. The Municipal Bonds Agency (MBA) was set up with the purpose of offering loans to local authorities. On 5 March 2020, they issued their first £350m 5-year floating rate note, priced at 0.8% above SONIA which at the time of issue offered a 0.81% saving on the PWLB 3-month variable rate and was 1.08% lower than the 5-year maturity rate.

APPENDIX 3 – INVESTMENT STRATEGY

INVESTMENT POLICY

1. The Council's investment strategy has regard to the Guidance on Local Government Investments issued by the Department of Levelling Up, Housing and Communities, and the CIPFA Code of Practice on Treasury Management. The objectives for the investment strategy are security (protecting the capital sum from loss), liquidity (keeping money readily available for expenditure when needed) and yield, in order of priority.
2. In pursuing the primary goal of preserving capital from loss, the investment strategy operates a minimum level of credit quality to produce a list of highly creditworthy counterparties. Long-term and short-term credit ratings from the three main rating agencies will be used for this purpose.
3. Credit ratings will not be the only means by which the creditworthiness of potential and ongoing investments will be established. Officers will continue to monitor market information including the pricing of shares and "credit default swaps" as well as financial news reported in the quality press. A dialogue with relevant professionals in the financial sector, including money market brokers, is also maintained for this purpose.
4. The Council will engage its treasury management advisors, Link Asset Services, on a regular basis to discuss its investment strategy.
5. In alignment with DLUHC's Guidance, investment instruments to be used are listed in Appendix 4 under categories of "specified" and "non-specified" investments.
6. The borrowing of money purely to invest or on lend and make a return is unlawful and this Council does not engage in such activity.
7. If the investment strategy is approved by the Council on 4 March, it will be used to control investment activity with immediate effect.
8. Environmental, Social and Governance (ESG) issues are becoming a significant consideration. This is currently better developed in the equity and bond markets rather than for short-term cash deposits. There are a diverse range of market approaches to ESG classification and analysis and so a consistent approach to ESG is currently difficult for public service organisations. This is currently a developing area and counterparty policies will be considered in light of ESG information and develop our own ESG policies.
9. The Council is currently taking ESG into account, by using credit ratings. All the main ratings agencies are now considering how they incorporate ESG risks alongside traditional financial risk matrix to assess counterparty ratings. The "G" within ESG is the most important aspect when considering treasury investments. As poor governance can have an immediate impact on the amount the Council receive back from their investments. Financial institutions with poor/weak corporate governance are generally less well rated or are likely to be subject to a negative rating.
10. European Sustainable Finance Disclosures Regulation (SFDR) is a European regulation introduced to improve transparency in the market for sustainable investment products, to prevent 'greenwashing' and to increase transparency around sustainability claims made by financial market participants.
11. MMFs will classify themselves into various categories based on 'Articles' within the EU Regulation on sustainability:
 - Article 6: A requirement to integrate sustainability considerations into all investment decisions;

- Article 8: Actively ‘promote among other characteristics, environmental or social characteristics’ – part of the funds investment objective must focus or place an emphasis on environmental or social characteristics;
 - Article 9: Sustainable investment is the funds primary objective, and investments made solely with achieving that objective.
12. Our sterling MMFs are rated as follows: Aberdeen - Article 6, Goldman Sachs – Article 8, JP Morgan – Article 8. Due to the liquidity and characteristics of our MMFs they will never be classified as Article 9 (sustainable investment is the primary objective).

CREDITWORTHINESS POLICY

13. The creditworthiness policy establishes how suitable counterparties of an adequate credit standing will be selected and how their creditworthiness will be monitored.
14. The types of investments the Council will make use of are listed in Appendix 4. By engaging in an array of investment instruments the Council is able to maximise its access to high-quality counterparties. However, instruments vary in their complexity, and those with a more complicated nature will only be used with the approval of the Executive Director Corporate Services. The list of specified investment instruments is unchanged from last year. There have been very minor changes to the non-specified investments (gilts can be bought a primary investments direct from a gilt broker or bought on the secondary market – the underlying risk and instrument is the same in either case).
15. The Executive Director Corporate Services will maintain a list of eligible counterparties (a “counterparty list”) in compliance with the following criteria. Any proposal to alter the credit rating criteria or maximum sums invested per counterparty will need to be agreed by full Council.
16. The 2021/22 Mid-Year report agreed delegating authority to the Executive Director Corporate Services to increase the following limits as and when the NLWA borrows in order to manage these increased investment balances:
- Money Market Funds from £150m per fund (we have three) to £600m per fund
 - NatWest Bank - £135m (previously £60m) limit increased to £240m
 - The Credit Rating Criteria for banks would also be multiplied by four (see brackets in Table 1 for proposed limits).
17. The Council will only use banks which meet the criteria outlined in Table 1 and will only make investments with banks in line with the cash limits and durations specified below. This year because interest rates are forecast to fall the maximum duration has been widened from 1 to 2 years. This is only to be applied to banks that meet Link’s credit rating methodology.

TABLE 1 CREDIT RATING CRITERIA

Fitch		Moody’s		S&P		Cash limit	Maximum Duration
Long Term	Short Term	Long Term	Short Term	Long Term	Short Term		
AA-	F1+	Aa3	P-1	AA-	A-1+	£45m (£80m)	2 years
AA	F1+	Aa2	P-1	AA	A-1+	£60m (£100m)	2 years
AA+	F1+	Aa1	P-1	AA+	A-1+	£80m (£140m)	2 years
AAA	F1+	Aaa	P-1	AAA	A-1+	£95m (£160m)	2 years

18. All three rating agencies will be used and in the case of divergent opinion amongst the agencies, the lowest commonly held rating will be used to assess creditworthiness.
19. Additional requirements under the Code of Practice require the Council to supplement credit rating information. Whilst the above criteria rely primarily on the application of credit ratings to provide a pool of appropriate counterparties for officers to use, additional operational market information will be applied before making any specific investment decision from the agreed pool of counterparties. This additional market information (for example Credit Default Swaps, negative rating Watches/Outlooks) will be applied to compare the relative security of differing investment counterparties.
20. The Council is responsible for agreeing the credit rating criteria. The Executive Director Corporate Services has delegated authority to maintain banks on the counterparty list at an operational level. This may mean throughout the year that banks are removed from the list as ratings are downgraded, or their cash limits are amended. It is possible that banks are added to the list if their ratings improve (and the Executive Director Corporate Services will update the counterparty list following due diligence).
21. All credit ratings are monitored weekly. The Council is alerted to changes to ratings of all three agencies through its treasury consultants immediately after they occur, and so is able to act swiftly to a change the lending list.
 - if a downgrade results in the counterparty/investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
 - in addition to the use of credit ratings the Council is advised of information in movements in Credit Default Swap information against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in downgrade of a bank or removal from the Council's lending list.
22. The Council's creditworthiness policy has regard to Link Asset Services' creditworthiness methodology. Link use a mathematical scoring system to determine appropriate investment durations for counterparties of differing credit quality. The Council operates with maximum investment durations which are stricter than this. The Executive Director Corporate Services has discretion to lengthen the maximum 12 month investment duration should conditions improve and this report recommends this is increased to 2 years in line with Table 1 above.
23. The Council no longer uses a minimum sovereign credit rating criteria due to credit rating agencies placing no value on this given banking resolution regimes across the world. It is worth noting the UK sovereign debt rating has been placed on Negative Outlook by one of the three major rating agencies (Fitch).
24. The Council recognises the **NatWest's** status as a part-nationalised institution, and accordingly will make use of the bank for a maximum investment duration of 12 months, with a total investment limit of £135m at any given time. Its current holding is 38.69% as at December 2023. This will be kept under review, although Government ownership is set to decrease over the course of this Parliament. The Chancellor announced in his Autumn statement plans to explore options for a NatWest retail share offer in the next 12 months. Officers will follow this proposal and assess the implications for our counterparty list.
25. The Council's main bank arrangements for transactional purposes are held with the NatWest. The Council aims to leave minimal balances overnight with its bankers.

26. The Council will continue to lend to other UK local authorities through term deposits. Lending to local authorities will be restricted to £40m per authority for a maximum of one year, although loans of up to five years may be made with the approval of the Executive Director Corporate Services.
27. From time to time the Council will invest in the UK Government itself through the use of gilts, treasury bills and the DMADF (an overnight deposit facility). Treasury bills are loans issued by the Government to fund short term liquidity. They are similar to gilts in nature, but have a term of less than 1 year, whereas gilts are issued for more than one year.
28. The Council has made use of **money market funds** since 2012 and will continue to use these in the year ahead. The Council uses three funds with a AAA rating and each fund has an individual cash limit of £150m. Money market funds offer access to a much larger and diverse range of the counterparties than the Council could access independently. The size of the Council's investment can be increased or reduced on a daily basis and therefore the funds provide a very effective means of managing day-to-day liquidity. All the Funds are very large in comparison to the sums Camden has deposited with them and are monitored on a daily basis by officers.
29. **Certificates of deposit** (CDs) have been approved investment instruments since 2012/13 subject to sign off by the Executive Director Corporate Services and compliance with the credit rating criteria. CDs are tradable loans issued by banks and are generally issued with maturity ranging from one month to a year. Officers started using these instruments in 2015/16 and they have proved a useful means of accessing high quality counterparties. Furthermore, unlike most investments, the Council would be able to sell out of a CD should it no longer meet the Council's risk profile or for cash flow purposes.
30. Corporate Bonds were added to the list of non-specified investments in the 2016/17 strategy. These instruments have not been used to date and will only be used in future to access banks that are eligible for inclusion on the approved lending list. They allow the Council to diversify its investments as officers may be able to use bonds when certificates of deposit or fixed term deposits are unavailable. There are also different types of bond which offer various levels of security. The Council will only use bonds that offer a level of security commensurate with traditional fixed term deposits. Any use of these instruments would need to be agreed with the Executive Director Corporate Services.
31. In principle, property funds are usable as a potential means of investing longer term cash balances. While investment in property can be made on a direct basis, the use of property funds provides a wider array of exposure to the asset class in terms of usage/type and, location, as well as efficiencies in terms of fees and maintenance and access to specialist investment managers. The authority views property as a long-term investment and there are a wide range of property funds suitable for local authority investing. However, at this stage it is not envisaged that the Council would use property funds. Appropriate due diligence will be undertaken before investment of this type is undertaken. The use of these instruments can be deemed to be capital expenditure, and as such will be an application (spending) of capital resources. The Council will seek guidance on the status of any fund it may consider using.

TREASURY INDICATOR 4 – UPPER LIMIT FOR PRINCIPAL SUMS INVESTED FOR OVER 364 DAYS

32. A key risk inherent in investment activity is that the Council may be forced to liquidate an investment before it reaches final maturity, and thus at a time when its value may be dependent on market conditions that are unlikely to be known in advance. In order to mitigate this risk, an upper limit will be set on the total principal sums invested for periods longer than 364 days. The indicator has been calculated as 50% of expected investment balances at the end of the year (when investment balances are traditionally at the lowest level – see Table 3 Appendix 2).

TABLE 2 UPPER LIMIT FOR PRINCIPAL SUMS INVESTED FOR OVER 364 DAYS

£m	2024/25	2025/26	2026/27
Total Investments at 31 March	69	78	28
Principal sums invested > 364 days	35	39	14

APPENDIX 4 – SPECIFIED AND NON-SPECIFIED INVESTMENTS

1. In accordance with Department of Levelling Up, Housing and Communities (DLUHC) Guidance, the investments to be used in pursuit of the investment strategy can be categorised into two types based on the following distinctions:
 - **Specified** investments will be denominated in sterling and with a maturity of no more than a year, meeting the minimum high credit quality criteria as applicable.
 - **Non-specified** investments are any investments which do not meet the specified investment criteria.

TABLE 1 – SPECIFIED INVESTMENTS

	Minimum ‘High’ Credit Criteria	Limit
Debt Management Agency Deposit Facility	n/a	Unlimited
Term deposits – local authorities	n/a	£40m per authority
UK Government bonds (Gilts)	UK sovereign rating	Unlimited
Treasury Bills (government bonds up to one year)	UK sovereign rating	Unlimited
Bonds issued by multilateral development banks	AAA	£200m
Certificates of deposit issued by banks and building societies	As per credit rating criteria	As per credit rating criteria
Term deposits – banks and building societies	As per credit rating criteria	As per credit rating criteria
Call accounts - banks	As per credit rating criteria	As per credit rating criteria

2. Credit rating criteria are set out in the investment strategy (Table 1) along with the maximum duration of investments.
3. These limits apply to in-house investments. Should external fund managers be appointed, the same criteria will apply to funds placed under their management.

4. The following funds are also permissible under the investment strategy although they will only be used if the investment has been considered and approved by the Executive Director Corporate Services. At this stage only money market funds have been agreed for use. Any decision to invest using other funds will be reviewable by the Audit and Corporate Governance Committee and will be reported to Council as part of the Annual Report and Mid-Year Review.

TABLE 2 COLLECTIVE INVESTMENT SCHEMES STRUCTURED AS OPEN ENDED INVESTMENT COMPANIES (OEICS)

Fund Type	Minimum rating	Limit
Money market funds (Sterling)	Fitch AAA mmf – Stable LVNAV funds	£150m per fund
Money market funds (Euro)	Fitch AAA mmf – Stable LVNAV funds	€82.5m per fund
Government liquidity funds	AAA	Not set
Enhanced cash funds	AAA	Not set
Bond funds	AAA	Not set
Gilt funds	AAA	Not set

5. The below investment categories can have a time limit of any length. They have been classified as “non-specified” because of their complex nature and the level of expertise needed to enter into and monitor such transactions.

TABLE 3 NON-SPECIFIED STERLING INVESTMENTS

	Minimum Credit Criteria	Cash Limit	Max. maturity period	Comment
Bank structured deposits	As per credit rating criteria	As per credit rating criteria	As per credit rating criteria	These are fixed term deposits with variable rate and variable maturities and are becoming increasingly popular. Any use will need to be sanctioned directly by the Executive Director Corporate Services.
UK Government Gilts (primary and secondary)	As per country rating criteria	unlimited	10 years	Internally it is not expected that gilts will be used. Should a cash manager be appointed gilts would usually form part of their portfolio.
Commercial paper and corporate bonds (including Covered bonds)	As per credit rating criteria	As per credit rating criteria	As per credit rating criteria	Any use of these instruments would need to be agreed with the Executive Director Corporate Services.
Certificates of deposit	As per credit rating criteria	As per credit rating criteria	As per credit rating criteria	The use of these has been agreed and they now form part of the council's investment portfolio.
Multilateral development bank bonds	AA-, F1+ (and equivalent from other agencies)	£200m for any one counterparty	As per credit rating criteria	The use of these has been agreed and they now form part of the council's investment portfolio.
Floating rate notes	As per credit rating criteria		As per credit rating criteria	Any use of these instruments would need to be agreed with the Executive Director Corporate Services.
Local authority mortgage guarantee scheme				Any use of these instruments would need to be agreed with the Executive Director Corporate Services.
Term deposits - local authorities (1 - 5 Years)	n/a	As per credit rating criteria	5 years	Any use of these instruments would need to be agreed with the Executive Director Corporate Services.
Property funds (the use of which may constitute capital expenditure)	UK property only	£20m per fund	None	Any use of these instruments would need to be agreed with the Executive Director Corporate Services.

6. This year the Gilts investment class has been widened to include both primary gilts (bought directly from the Government) as well as gilts which can be bought on the secondary market. The underlying credit quality would be exactly the same – merely that the purchase would be via a market broker rather than direct from the debt Management Office who acts to sell Gilts for the Government.
7. This year we have also added in a table for non-specified Euro Investments. The only investments the Council holds in Euros relate to the NLWA's Energy Recycling Facility. These are held in Euro Money Market Funds. Given the falling interest rate environment the strategy looks to permit the same standard instruments available for sterling investments in Euros. Table 4 below makes these instruments explicit and will allow the Treasury function to manage these balances effectively.

TABLE 4 NON-SPECIFIED EURO INVESTMENTS

	Minimum Credit Criteria	Cash Limit	Max. maturity period	Comment
Bank structured deposits	As per credit rating criteria	As per credit rating criteria	As per credit rating criteria	These are fixed term deposits with variable rate and variable maturities and are becoming increasingly popular. Any use will need to be sanctioned directly by the Executive Director Corporate Services.
Euro Government Gilts (primary and secondary)	As per country rating criteria	unlimited	10 years	Internally it is not expected that gilts will be used. Should a cash manager be appointed gilts would usually form part of their portfolio.
Commercial paper and corporate bonds (including Covered bonds)	As per credit rating criteria	As per credit rating criteria	As per credit rating criteria	Any use of these instruments would need to be agreed with the Executive Director Corporate Services.
Certificates of deposit	As per credit rating criteria	As per credit rating criteria	As per credit rating criteria	The use of these has been agreed and they now form part of the council's investment portfolio.
Multilateral development bank bonds	AA-, F1+ (and equivalent from other agencies)	£200m for any one counterparty	As per credit rating criteria	The use of these has been agreed and they now form part of the council's investment portfolio.

8. The Council benchmarks its returns against other local authorities and at the latest benchmarking round in September 2023, Camden Council was performing above trend when compared to other London Councils. The Weighted Average Rate of Return was 5.07% for a weighted average maturity of 164 days. This compared to the benchmarking group average of 5.07% and a weighted average maturity of 61 days.

APPENDIX 5 - TRAINING

1. The CIPFA Treasury Management Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management, this is especially applicable to members responsible for scrutiny.
2. Council members have had a training session with Link last financial year (2023/24). Treasury officers attend Link webinars, these records are kept on file. Members were able to gain an appreciation of what Treasury Management involved; gain an understanding of how Treasury Management is undertaken; understanding the role of Officers and Members in Treasury Management decisions; understanding the risks in Treasury Management and how they should be managed; develop the skills and knowledge for Member scrutiny of Treasury Management decisions. This included training the Members to understand the CFR, the legislation involved and to help in their understanding of the balance sheet review.
3. Pages 47 and 48 of the Code state that they expect “all organisations to have a formal and comprehensive knowledge and skills or training policy for the effective acquisition and retention of treasury management knowledge and skills for those responsible for management, delivery, governance and decision making.
 - Attendance at training is recorded and ensure action is taken where poor attendance is identified.
 - Tailored learning plans are prepared for treasury management officers and board/council members.
 - Require treasury management officers and board/council members to undertake self-assessment against the required competencies (as set out in the schedule that may be adopted by the Council).
 - Have regular communication with officers and board/council members, encouraging them to highlight training needs on an ongoing basis.”

APPENDIX 6 - MINIMUM REVENUE PROVISION POLICY

1. For local authorities, depreciation on fixed assets is a notional charge which gets reversed out of the accounts. In its place, a 'Minimum Revenue Provision' (MRP) is required to be charged for the General Fund. Fixed assets (capital spend) are funded from a number of sources including borrowing. Traditionally MRP has been based upon depreciating the CFR (the Council's underlying need to borrow) over 25 years.
2. MRP is governed by the 'Local Authorities (Capital Finance and Accounting) (England) Regulations 2003', which came into force in 2008 and applies to the General Fund.
3. Local Authorities have a duty to "determine for the current financial year an amount of MRP which it considers prudent". Guidance has been issued by the Secretary of State in respect of MRP. In principle councils must arrange for debt liabilities to be repaid over a period commensurate with asset lives
4. The guidance states that before the start of each financial year, a local authority should prepare a statement of its policy on making MRP in respect of that financial year and submit it to Full Council for approval. This should sit alongside reports on Prudential Borrowing limits and the Treasury Management Strategy.
5. The guidance provides four ready-made options which local authorities can use to calculate MRP. In the guidance, Options 1 and 2 deal with debt which is supported by the government through the grant system (historical debt), whilst Options 3 and 4 deal with new borrowing under the prudential regime, for which no support is given.
6. **Option 1 – Regulatory Method** for calculating MRP on borrowing supported by the government through the grant system requires that local authorities charge 4% on a reducing balance on that borrowing, since the Revenue Support Grant is calculated on that basis. An adjustment, known as 'Adjustment A' would then be applied to these figures. Although the existing regulation 28, which contained this adjustment, was revoked by regulation 4(1) of the 2008 Regulations, authorities are able to calculate MRP as if it were still in force under Option 1. **Option 2** is more straightforward than Option 1, and requires that MRP is charged on a 4% reducing balance basis, but without deducting Adjustment A. It is proposed that the Council uses Option 2 to calculate MRP on historical (supported) borrowing.
7. For new borrowing under the prudential system, **Option 3 – Asset Life Method** is to make provision over the estimated life of the asset for which borrowing is undertaken. Camden uses the equal instalment method for existing borrowing (there are options around annuity depreciation) and it is proposed that this continues. It is also intended that for future schemes funded in this way MRP is charged in the year following the one that borrowing has been entered into. Option 4 aims to provide depreciation taking into account residual value, impairment and revaluations.

MRP Policy for Camden

8. For 2024/25 it is proposed that the Council continues to apply Option 2 for supported borrowing and Option 3 for borrowing under the prudential system.
9. The Council will also credit, where possible, unapplied General Fund capital receipts to the Capital Adjustment Account, which has the effect of reducing the General Fund CFR until such time as the capital receipts are used to fund capital expenditure.
10. In 2024/25, the MRP charged to the General Fund will rise. This is in respect of increased borrowing to fund the Capital Strategy investment schemes approved in July 2023. The estimated MRP for 2024/25, excluding that for PFI and finance leases, is shown below, alongside the 2023/24 MRP.

TABLE 1 MINIMUM REVENUE PROVISION

As at December 2023 (Quarter 3)	2023/24 £m	2024/25 £m
Minimum Revenue Provision	4.464	6.219