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South Hams Audit and Governance Committee

South Hams District Council

Title:	**Agenda**
Date:	**Thursday, 21st March, 2024**
Time:	**11.00 am**
Venue:	**Council Chamber - Follaton House**
Full Members:	***Chairman*** Cllr Bonham ***Vice Chairman*** Cllr Nix *Members:* Cllr Dennis, Cllr Hancock, Cllr Oram, Cllr Presswell, Cllr Rake, Cllr Yardy
Interests – Declaration and Restriction on Participation:	Members are reminded of their responsibility to declare any disclosable pecuniary interest not entered in the Authority's register or local non pecuniary interest which they have in any item of business on the agenda (subject to the exception for sensitive information) and to leave the meeting prior to discussion and voting on an item in which they have a disclosable pecuniary interest.
Committee administrator:	Democratic.Services@swdevon.gov.uk

Page No

1. Apologies for Absence

2. Minutes **1 - 8**

To approve as a correct record the minutes of the Audit Committee held on 14 December 2023;

3. Urgent Business

Brought forward at the discretion of the Chairman;

4. Division of Agenda

To consider whether the discussion of any item of business is likely to lead to the disclosure of exempt information;

5. Declarations of Interest

In accordance with the Code of Conduct, Members are invited to declare any Disclosable Pecuniary Interests, Other Registerable Interests and Non-Registerable Interests including the nature and extent of such interests they may have in any items to be considered at this meeting;

6. 2024/25 Capital Strategy, 2024/25 Treasury Management Strategy and 2024/25 Investment Strategy **9 - 64**

MINUTES OF A MEETING OF THE AUDIT AND GOVERNANCE COMMITTEE HELD IN THE COUNCIL CHAMBER, FOLLATON HOUSE, PLYMOUTH ROAD, TOTNES ON THURSDAY, 14 DECEMBER 2023

Members in attendance * **Denotes attendance** **Ø Denotes apology for absence**			
*	Cllr L Bonham (Chairman)	*	Cllr C Oram
*	Cllr S Dennis	*	Cllr A Presswell
*	Cllr D Hancock	*	Cllr S Rake
*	Cllr A Nix (Vice-Chairman)	*	Cllr G Yardy

Member(s) also in attendance:
Cllrs Birch and Hopwood

Item No	**Minute Ref No below refers**	**Officers and Visitors in attendance**
All Items		Section 151 Officer; Director – Strategy & Governance; Assistance Director of Strategy and Organisational Development; Head of Finance; Senior Democratic Services Officer; Internal Audit Manager; Grant Thornton – Key Audit Manager

AG.25/23 **MINUTES**

The minutes of the Audit and Governance Committee meeting held on 28 September 2023 were confirmed as a true and correct record.

AG.26/23 **DECLARATIONS OF INTEREST**

Members and officers were invited to declare any interests in the items of business to be considered during the course of the meeting, but there were none made.

AG.27/23 **GRANT THORNTON INTERIM AUDITOR'S ANNUAL REPORT – COMBINED REPORTING FOR 2021-22 AND 2022-23**

Consideration was given to the Audit Report for 2021-22 and 2022-23. The report was presented by Grant Thornton.

In discussion, particular reference was made to:

(a) SHDC compared to similar councils was in a very good position with no significant weaknesses identified and minimal improvement recommendations. The Engagement Lead for Grant Thornton, stated that for his audit clients, South Hams benchmarked very well with appropriate arrangements in place in each of the three areas.

(b) Stakeholder engagement and it was reported that the community development team would be out listening to residents and undertaking a series of engagement sessions on town plans.

(c) The high costs for waste predominantly related to the rural nature of the district. SHDC recently moved to the Devon Aligned Service which would reduce future waste costs. Also SHDC receives just under £500k Rural Services Delivery Grant per annum.

It was then:

RESOLVED

The Committee noted the Interim Auditor's Report – combined reporting for 2021-22 and 2022-23 and for Officers to ensure the amber risks are mitigated, monitored and reviewed.

AG.28/23 **GRANT THORNTON – EXTERNAL AUDIT PLAN FOR 2022/23**

The Committee considered a report from Grant Thornton which sought to provide Members of the principal activities and findings of the External Audit Plan for 2022/23.

In discussion, particular reference was made to areas of risks identified and it was reported that procurement and stakeholder engagement wouldn't be highlighted as a risk however internal audit would follow up on those recommendations.

RESOLVED

The External Audit Plan for 2022/23 be noted.

AG.29/23 **UPDATE ON THE 2023-24 INTERNAL AUDIT PLAN, AND CHARTER AND STRATEGY**

Members considered a report that sets out to inform Members of the principal activities and findings of the Council's Internal Audit team and to obtain approval for the Audit Charter and Strategy.

In discussion, particular reference was made to:
(a) The Procurement Strategy was currently being developed and would reflect social values.
(b) An audit would take place in Jan/Feb 2024 to look at the planning process and S106 to ensure that no significant decisions were being made by a single officer under delegated authority.

It was then:

RESOLVED
That the Audit Committee:
1. Note and approve the progress made against the 2023/24 internal audit plan, and any key issues arising; and
2. Approve the Internal Audit Charter and Strategy.

AG.30/23 **SUMMARY ACCOUNTS 2022/2023 (DRAFT, UNAUDITED)**

Members considered the report which provides Members with a summarised version of the draft (unaudited) accounts, including the main statements and key points from 2022/23.

In discussion, Members welcomed the report and debated how the report should be laid out and presented and felt that the following changes be made:

- change to pound millions.
- include decimals instead of commas.
- shorten the numbers.
- move the columns – 2021/22 aligned to 2022/23 column.

It was also raised that this should be a live document and open to feedback from residents. The report to include a small paragraph on how the document should be read. It was reported that in January, a statutory consultation would be undertaken with businesses and suggested that Members also share this with their Parish Councils.

RESOLVED
That the Audit Committee:
1. That the Summary Accounts (Draft, Unaudited) for the financial year ended 31 March 2023 are noted; and
2. That the Committee RECOMMEND to Council to note the production of Summary Accounts (Draft, Unaudited) for 2022/23. These Summary Accounts have been prepared at the request of the Audit and Governance Committee for the ease of public consumption and to further the transparency and readability of the Council's financial position.

AG.31/23 **TREASURY MANAGEMENT MID-YEAR REVIEW**

Members considered a report that set out the Council's Treasury Management mid-year review.

In discussion, particular reference was made to:

(a) It was highlighted in para 5.5 a figure of £800k will be exceeded by £1.75m and elsewhere it says £775,000. It was reported that this need to be corrected and the budget is £800,000 to be exceeded by £775,000.

(b) Investments and making more than 4.73% return would depend on the project and whether Members wanted to see a financial return or other benefits to undertaking that project. A limit of £60m had been in place for many years and Members may wish to review this figure.

(c) Borrowing currently above liability benchmark.

(d) PWLB have tighten the rules and a Council can only borrow for capital purposes and within the 4 categories stated. A Council is not permitted to borrow purely for yield and there is a process to go through to borrow from the PWLB. If we wanted to pay off borrowing early, then we would be subject to early redemption penalties and as such it isn't cost effective.

(e) Generally, the strategy for short term investment was for 12 months and invested with banks and building societies within the

UK.

(f) If the Council wanted to continue with ESG ratings there was an additional cost for this service. The Treasury Management Investments were currently out to tender and Members have suggested that we ask suppliers as part of the tender process to provide a quote around ESG scoring.

It was then:

RESOLVED
That the contents of the report be endorsed.

AG.32/23 **STRATEGIC RISK UPDATE AND FRAMEWORK**

Consideration was given to a report that provided Members with an update of the position with regard to Strategic Risk Update and Framework.

In discussion, particular reference was made to:

(a) Aims established for net zero delivery by 2030 with an overall aim by 2050 working with partners in Devon. Whilst in transition to a new set aims and objectives to be shared with Members in February/March 2024 which means they are ready to be added but not yet on the register – in a holding position.

(b) Recruitment downgraded slightly and it was reported that this was an improving situation and now filling those vacancies, however some areas still challenging and therefore took the decision to downgrade.

(c) The Performance Board reviewing risks and the decisions around which risks are escalated up to the strategic risk register and how the Committee can receive more information on these decisions.

It was then:

RESOLVED
That the Audit & Governance Committee:

1. Consider the updated Risk and Opportunity Management Strategy (Appendix A);
2. RECOMMEND to Council that the updated Risk and Opportunity Management Strategy be adopted; and
3. Consider the updated Strategic Risk Register (Appendix B)
4. The Committee to have access to the full list of risks that are considered by the Performance Board

AG.33/23 **ANTI-FRAUD, BRIBERY AND CORRUPTION (POLICY AND RESPONSE PLAN), COUNTER FRAUD RESILLIENCE AND ASSESSMENT REPORT AND WHISTLEBLOWING POLICY**

Consideration was given to the reports included within the agenda and it was highlighted that these were policies already in place and good practice to keep them updated. Fraud Awareness training would be provided to Members next year.

In discussion, the following points were raised:

(a) An invite to the Fraud Awareness Training would also be extended to Town and Parish Councils.

(b) Whistleblowing and no protection for people that speak up and whether there could be an independent guardian. It was reported that included within the policy, you can refer a matter to the Head of Devon Audit Partnership and that procedure was in place and to make this more explicit within the report and to ensure that the process was being fully investigated and followed.

(c) Whether specific reference to Members could also be made within the Whistleblwoing policy. The s151 Officer will update the policy for this.

(d) These policies were static rather than learning documents and there was a need to formally map out the risks that council could face. This piece of work would be brought back to the Committee in March on a fraud risk assessment and how the council mitigates these risks.

It was then:

RESOLVED

That the Audit and Governance Committee approve the contents of the following documents attached:

1. Anti-Fraud, Bribery and Corruption Policy (Appendix A refers);
2. Anti-Fraud, Bribery and Corruption Strategy/Response Plan (Appendix B refers);
3. Counter Fraud Resilience and Assessment Report (Appendix C refers); and
4. Whistleblowing Policy (Appendix D refers)

AG.34/23 **LOCAL GOVERNMENT OMBUDSMAN – ANNUAL REVIEW LETTER**

The Lead Executive Member for Customer Service. Improvement, IT and Digital Services presented the report and highlighted the excellent complaints handling by the Council.

It was then:

RESOLVED

That the Ombudsman Annual Letter for 2022-23 (attached at Appendix A) has been reviewed.

AG.35/23 **TOTNES MARKET – VERBAL UPDATE FROM DEPUTY CHIEF EXECUTIVE**

It was reported that following concerns, changes had been made to personnel and the way payments were made at Totnes Market. The market would now be managed by the Localities Team and Environmental Health and Licensing Team have the statutory overview. The development of the market to be part of the new community development team. This will ensure a more robust audit trail and will be in place by end of this financial year.

In discussion, Members welcomed this and questioned whether this would be applied to all markets across the district. It was reported that this was applicable to Totnes. A correction to the previous minutes AG.14/23 – Kingsbridge and Dartmouth to be included as part of the audit report. To remove Kingsbridge and Dartmouth from those minutes.

It was then:

RESOLVED
The verbal update was noted.

AG.36/23 **ST ANN'S CHAPEL AND HOUSING OFFER TASK AND FINISH GROUP: DRAFT TERMS OF REFERENCE**

Consideration was given to the Terms of Reference.

RESOLVED
The Committee agreed the Terms of Reference and confirmed the membership of the Task & Finish Group.

AG.37/23 **PROPOSED WORKPLAN FOR THE AUDIT AND GOVERNANCE COMMITTEE FOR THE 2023/24 MUNCIPICAL YEAR**

Members were presented with the latest version of the Committee Work Programme and noted its contents.

In discussion, particular reference was made to:

The next meeting moved to 28 March 2024 at 2.30 pm to allow the external auditors finish the audit and to issue an audit opinion. This would be Grant Thornton's last year and Bishop Fleming the new auditors for next 5 years from 2024. Also on at that meeting:

- Capital, Treasury Management and Investment Strategies
- Budget Book
- Shared services methodology
- Report from St Ann's Chapel and Housing Offer Task and Finish
- Annual Standards Report from Monitoring Officer
- Internal audit tracker
- Fraud reports

A private meeting for Audit and Governance Committee Members and the Leader with Grant Thornton and the Devon Audit Partnership is being set up for 11 am on 28 March 2024. Members raised whether the new auditors should be invited to the meeting.

Sundry Debts is proposed to go to the Executive in June with the end of March position.

Following a recommendation from Executive Meeting on 30 November:

"That the Audit and Governance Committee be requested to review the merits of awarding Yealm Community Energy a grant in the order of £100,000 to further the Council's strategic ambitions around climate change and biodiversity".

Officers reported that Members have met with Yealm Community Energy, however Officers need to also meet with them to get some background work to understand the context of this potential grant and the first task and finish group will be set up and Terms of Reference to be circulated and agreed at the first meeting.

A meeting looking at the Format of the Annual Statement of Accounts will be taking place on 24 January on MS Teams. Invitation to be extended to the Members of Audit and Governance Committee.

It was then:

RESOLVED

That Cllrs Bonham, Presswell, Hancock, Dennis and Oram would sit on Yealm Community Energy Task and Finish Group.

(Meeting commenced at 9:30 am and concluded at 12.11 pm)

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Chairman

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Report to:	**Audit and Governance Committee**
Date:	**21 March 2024**
Title:	**2024/25 Capital Strategy, 2024/25 Treasury Management Strategy and 2024/25 Investment Strategy**
Portfolio Area:	**Finance – Cllr Brazil**
Wards Affected:	**All**
Urgent Decision: **Y**	Approval and clearance obtained: **Y**

Author:	**Lisa Buckle**	Role:	**Corporate Director for Strategic Finance** **(S151 Officer)**
	Clare Scotton		**Principal Accountant**

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RECOMMENDATIONS

That the Audit and Governance Committee:

1. scrutinises and RECOMMENDS to Council the approval of the 2024/25:

(a) Capital Strategy (as attached at Appendix A);

(b) Treasury Management Strategy (as attached at Appendix B);

(c) Investment Strategy (as attached at Appendix C); and

2. agrees that delegated authority be given to the Section 151 Officer, in consultation with the Leader of the Council, to make any minor amendments to these Strategies if required throughout the 2024/25 Financial Year.

1. Executive summary

1.1 This report recommends to Council approval of the proposed Capital Strategy, Investment Strategy and Treasury Management for 2024/25, together with their associated prudential indicators. It is a legal requirement to publish these strategies by 31 March 2024.

1.2 Revised reporting is required since the 2019/20 reporting cycle due to revisions of the MHCLG Investment Guidance, the MHCLG Minimum Revenue Provision (MRP) Guidance, the CIPFA Prudential Code and the CIPFA Treasury Management Code. The primary reporting changes included the introduction of a capital strategy, to provide a longer-term focus to the capital plans and greater reporting requirements surrounding any commercial activity undertaken.

1.3 The current guidance for a Council's level of borrowing is the Prudential Code (2021) and "proper practice" must be adhered to. The following extracts from the Code summarise the Code's approach to level of borrowing (self-regulating) and the governance that should apply.

"the local authority shall ensure that all its capital and investment plans are affordable, prudent and sustainable.

'A local authority shall determine and keep under review how much money it can afford to borrow.'

"the level of capital investment that can be supported will, subject to affordability and sustainability, be a matter for local discretion"

Capital Strategy - As from 2019/20, all local authorities are required to prepare an additional Capital Strategy report. The Capital Strategy for 2024/25 is attached in Appendix A.

In 4.3, the Capital Financing Requirement, the measure of the Council's potential underlying need to borrow for the capital programme, has been projected to be £19.5 million for 2024/25. This includes borrowing for leisure, an investment property in Dartmouth, waste, Housing, Batson Creek (Salcombe) commercial units and Batson Creek (Salcombe) Harbour Depot and Dartmouth Health and Wellbeing Hub.

Investment Strategy – The guidance includes a new requirement for Councils to prepare an Investment Strategy since 2019/20. Councils are required to prepare indicators that enable Members and the public to assess the Council's investments and the decisions taken. The new indicator measures net commercial income as a percentage of net service expenditure and total investment exposure.

Treasury Management Strategy - Treasury risk management at the Council is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2021 Edition* (the CIPFA Code) which requires the Council to approve a treasury management strategy before the start of each financial year. This report fulfils the Council's legal obligation under the *Local Government Act 2003* to have regard to the CIPFA Code.

1.4 To demonstrate the proportionality between the treasury operations and the non-treasury operation, high-level comparators are shown throughout all three of the Strategies presented for approval.

2. Outcomes/outputs

2.1 In light of the recent raise in interest rates, the budget for investment income has increased for 2024/25 and has been set at £1.6million.

2.2 External treasury management training (by Link Group) was arranged for all Members in December 2023 to ensure Members have up to date skills to continue to make capital and treasury management decisions.

3. Options available and consideration of risk

3.1 It is a statutory requirement for the Council to annually approve its Capital Strategy, Treasury Management Strategy and Investment Strategy.

4. Proposed Way Forward

4.1 That Audit Committee scrutinises and recommends to Council the approval of the Capital Strategy (Appendix A), Treasury Management Strategy (Appendix B) and Investment Strategy (Appendix C) for 2024/25.

5. Implications

Implications	Relevant to proposals Y/N	Details and proposed measures to address
Legal/Governance	Y	The elements set out in paragraph 2 cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, MHCLG MRP Guidance, the CIPFA Treasury Management Code and MHCLG Investment Guidance. It is within the Terms of Reference of the Audit Committee to receive regular reports on the treasury management function. It is within the Terms of Reference of the Executive to receive regular monitoring reports on the Council's Capital Programme and Capital Plans.

Financial implications to include reference to value for money	Y	Good financial management and administration underpins the entire treasury management strategy. The budget for investment income for 2024/25 has been set at £1.6million.
Risk	Y	The security risk is the risk of failure of a counterparty. The liquidity risk is that there are liquidity constraints that affect the interest rate performance. The yield risk is regarding the volatility of interest rates/inflation. The Council produces an Annual Capital Strategy, Investment Strategy and Treasury Management Strategy in accordance with CIPFA guidelines. The Council engages a Treasury Management advisor and a prudent view is always taken regarding future interest rate movements. Investment interest income is reported quarterly to SLT and the Executive as part of budget monitoring reports.
Supporting Corporate Strategy		The treasury management function supports all of the thematic delivery plans within the 'Better Lives for All' strategy.
Climate Change - Carbon / Biodiversity Impact		The Council declared a Climate Change and Biodiversity Emergency on 25 July 2019 and a Climate Change Action Plan was presented to Council in December 2019. Further detail is set out in the Council's 'Better Lives for All' strategy.
Comprehensive Impact Assessment Implications		
Equality and Diversity		None directly arising from this report.
Safeguarding		None directly arising from this report.
Community Safety, Crime and Disorder		None directly arising from this report.
Health, Safety and Wellbeing		None directly arising from this report.

Other implications		None directly arising from this report.

Supporting Information

Appendices:
Appendix A – Capital Strategy 2024/25
Appendix B – Treasury Management 2024/25
Appendix C – Investment Strategy 2024/25

Background Papers:
None

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APPENDIX A

Capital Strategy 2024/25

1 Introduction

1.1 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 associated risk is managed.
- The implications for future sustainability

2 Capital Expenditure and Financing

2.1 Capital expenditure is where the Council spends money on assets, e.g. property/ vehicles that will be used for more than one year. In Local Government this includes spending on assets owned by other bodies and loans and grants to other bodies, enabling them to buy assets. The Council has some limited discretion on what counts as capital expenditure, e.g. assets costing below £10,000 are not capitalised and are charged to revenue in the year.

2.2 As at the end of January 2024, the Council has incurred capital expenditure of £8.29 million and will incur further capital expenditure by the end of March 2024. The Council's capital expenditure is summarised below:

Capital expenditure	2022/23 Actual	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
Services	9,379,000	11,190,000	7,556,000	4,858,000	1,912,000
Total	**9,379,000**	**11,190,000**	**7,556,000**	**4,858,000**	**1,912,000**

Housing projects

2.3 Full Council approved the recommendations made on 25th November 2021 relating to the St Ann's Chapel Housing Project. £4.2million was approved to deliver 8 affordable homes, 3 open market units and 2 serviced plots. Completion is expected in 2024.

2.4 A scheme has been agreed to create and launch the South Hams Housing Offer. This new scheme will support communities and land owners who would like to bring forward affordable housing in their area, technical advice on housing need data, site advice through funded pre-planning and some initial surveys, site massing and facilitating conversations with registered providers with a track record of working with communities.

2.5 Better Car Funding is awarded annually by Government to effectively deliver schemes to support independent living (Disabled Facilities Grants) by increasing awareness of funding availability. The Better Care funding is passported from DCC to SHDC to administer the scheme.

2.6 A scheme to conduct targeted activity to ensure maximum uptake of Home Upgrade Grants facilitated by the Council has also been included in the Capital Programme. The plan is to retrofit 55 properties.

2.7 S106 Affordable Housing contributions will be used for the delivery of a new temporary accommodation unit in Kingsbridge.

Climate & Biodiversity

2.8 Funds from capital receipts will be used to purchase land to support the planting of trees with contributions from Plymouth and South Devon Community Forest funding.

2.9 UK Shared Prosperity funding (UKSPF) will be used to explore the feasibility of a pilot e-bike hub scheme consisting of 10 hubs with 70 bikes in total, spread over the hubs. The success of the scheme will be reviewed and plans developed for incremental roll out across the District.

Plymouth and South Devon Freeport

2.10 Council has also approved future borrowing of up to £5.5million for the Plymouth and South Devon Freeport (Council report 30th March 2023, Council Minute CM 77/22). The borrowing will be paid for from the business rates income generated by the Freeport and therefore it will be self-financing.

Regeneration and Investment Strategy

2.11 The Council has approved a Regeneration and Investment Strategy (Minute Reference CM 75/21, Council 31/3/2022). To date, Investment Properties have a value of £16.89 million in aggregate as at 31 March 2023.

Overall Borrowing Limit

2.12 In September 2019, Council approved an overall Borrowing Limit (for all Council Services) of £40 million. As at the end of January 2024, the Council's current level of external borrowing is £13.8m.

2.13 Local Authorities are required to submit a summary of their planned capital spending and PWLB borrowing for the following three years. This is updated on at least an annual basis. PWLB borrowing is permitted in the future for the four categories of regeneration, service delivery, housing and refinancing.

Governance

2.14 The Head of Finance Practice invites bids for capital funding from all service managers annually on the strict proviso that all bids must go towards meeting a strategic priority. All capital bids are ranked against a prescribed priority criteria which is set out in the bid process. Submitted capital bids are assessed against the categories in each priority. Priority 1 categories include meeting strategic priorities and statutory obligations (e.g. Health and Safety, Disability Discrimination Act etc.) and other capital works required to ensure the existing Council property assets remain open. Priority 2 categories link to good asset management whereby the capital work proposed would either generate capital/revenue income or reduce revenue spending. A capital bid that will enable rationalised service delivery or improvement is also considered a Priority 2 category to meet the Council's aims and objectives. The final capital programme is then presented to Executive and to Council in February each year.

2.15 All capital expenditure must be financed, either from external sources (government grants and other contributions), the Council's own resources (revenue, reserves and capital receipts) or debt (borrowing, leasing and Private Finance Initiative). The planned financing of the above capital expenditure is as follows:

Financing of capital expenditure	**2022/23 Actual**	**2023/24 Estimate**	**2024/25 Estimate**	**2025/26 Estimate**	**2026/27 Estimate**
Capital Expenditure	**9,379,000**	**11,190,000**	**7,556,000**	**4,858,000**	**1,912,000**
Financed by:					
External sources (Capital grants, NHB, S106)	2,596,000	5,484,000	5,109,000	1,918,000	306,000
Own resources (Capital receipts, Earmarked reserves)	1,312,000	2,739,000	1,938,000	440,000	106,000
Net financing need for the year (This is the prudential borrowing required)	**5,471,000**	**2,967,000**	**509,000**	**2,500,000**	**1,500,000**

2.16 Debt is only a temporary source of finance, since loans must be repaid, and this is therefore replaced over time by other financing, usually from revenue which is known as Minimum Revenue Provision (MRP). Alternatively, proceeds from selling capital assets (known as capital receipts) may be used to replace debt finance. Planned MRP and use of capital receipts are as follows:

Replacement of debt finance	**2022/23 Actual**	**2023/24 Estimate**	**2024/25 Estimate**	**2025/26 Estimate**	**2026/27 Estimate**
MRP	487,000	489,000	606,000	609,000	761,000
Use of capital receipts	0	0	*1,400,000	0	0

**Capital receipts generated from the sale of houses (St Ann's Chapel housing scheme)*

3 Treasury Management

3.1 Treasury management is concerned with keeping sufficient but not excessive cash available to meet the Council's spending needs, while managing the risks involved. Surplus cash is invested until required, while a shortage of cash will be met by borrowing, to avoid excessive credit balances or overdrafts in the bank current account.

3.2 The Council is typically more cash rich in the short-term as revenue income is received before it is spent, but cash poor in the long-term as capital expenditure is incurred before being financed. The revenue cash surpluses are offset against capital cash shortfalls to reduce overall borrowing.

3.3 As at 31 January 2024, the Council had external borrowing of £13.851 million.

3.4 As at 30 September 2023, the Council held £38.032m of Investments.

4 Borrowing Strategy

4.1 The Council's main objectives when borrowing are to achieve a low but certain cost of finance while retaining flexibility should plans change in future.

4.2 These objectives are often conflicting, and the Council therefore will seek to strike a balance between cheap short-term loans and long-term fixed rate loans where the future cost is known but higher.

4.3 Projected levels of the Council's total outstanding debt which comprises borrowing is shown below, compared with the capital financing requirement.

	2022/23 Actual	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
Debt at 31 March	14,284,000	13,825,000	13,364,000	16,900,000	16,433,000
Capital Financing Requirement	18,520,000	20,998,000	19,501,000	21,393,000	22,132,000

4.4 The Capital Financing Requirement is the measure of the Council's underlying need to borrow for the capital programme. This has been projected to be £19.5 million for 2024/25. This includes borrowing for leisure, an investment property in Dartmouth, waste, housing, Batson Creek (Salcombe) commercial units, Batson Creek (Salcombe) Harbour Depot and Dartmouth Health and Wellbeing Hub.

5 Investment Strategy

5.1 Treasury investments arise from receiving cash before it is paid out again. Investments made for service reasons or for pure financial gain are not generally considered to be part of treasury management.

5.2 The Council's policy on treasury investments is to prioritise security and liquidity over yield, i.e. to focus on minimising risk rather than maximising returns. Cash that is likely to be spent in the near term is invested securely, for example with the government, other local authorities or selected high-quality banks, to minimise the risk of loss.

5.3 Money that will be held for longer terms is invested more widely including in collective investment schemes (pooled funds whose underlying assets are company shares, bonds, property etc.). Examples of which are the CCLA Local Authorities' Property Fund and the CCLA Diversified Income Fund in which the Council is invested to balance the risk of loss against the risk of receiving returns below inflation.

5.4 Both near-term and longer-term investments may be held in pooled funds, where an external fund manager makes decisions on which particular investments to buy and the Council may request its money back at short notice.

5.5 Further details on treasury investments can be found in the treasury management strategy (Appendix B).

Governance

5.6 Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the Corporate Director for Strategic Finance (S151 Officer) and finance staff (where appropriate), who must act in line with the treasury management strategy approved by Council.

5.7 Semi-annual reports on treasury management activity are presented to the Audit and Governance Committee which is responsible for scrutinising treasury management decisions.

6 Investments for Service Purposes

6.1 Decisions on service investments are made by the relevant service manager in consultation with the Corporate Director for Strategic Finance (Section 151 Officer) and must meet pre-approved criteria and limits. Most loans and shares are capital expenditure and purchases will therefore also be approved as part of the capital programme.

7 <u>Risk Management and Due Diligence</u>

7.1 The Council accepts there is a higher risk on property investments than with treasury investments. Financial risk will be weighed up against social and economic benefits of the investment. The principal risk exposures include variances resulting in a disruption or fall in income streams, fall in capital value which is either site-specific or due to general market conditions, deterioration in the credit quality of the tenant.

7.2 The Council assesses the risk of loss before entering into and whilst holding property investments/property opportunities by carrying out appropriate due diligence checks and implementing mitigation measures in managing risk:

- The tenants need to be of good financial standing (this is assessed using Dun & Bradstreet credit rating reports and annual accounts). The number of tenants e.g. sole tenant or multi tenanted will be assessed.

- The property condition such as date of construction and any imminent or significant refurbishment or modernisation requirements (forecast capital expenditure).

- How the property investment, financial or non-specified investment meets the Council's multiple objectives as set out in the Council's strategy.

- The lease must meet certain standards, such as being in a commercial popular location and have a number of years left on the lease providing a certain and contractually secure rental income stream into the future. Any break clauses will be assessed along with the number of unexpired years, bank guarantees and rent reviews.

- The location will be within the South Hams District Council's boundary as set out in the Investment Strategy. The population of the catchment area, the economic vibrancy and known or anticipated market demand as well as proximity to travel infrastructure and other similar properties will be assessed.

- Rental income paid by the tenant must exceed the cost of repaying the borrowed money from the Public Works Loan Board (which is itself funded by the Government). The surplus is then an ancillary benefit which supports the Council's budget position and enables the Council to continue to provide services for local people.

- Future borrowing from the Public Works Loan Board must meet one of the four permitted categories of borrowing of regeneration, service delivery, housing or re-financing of existing debt.

- The gross and net yield are assessed against the Council's criteria.

- The prevailing interest rates for borrowing at the time.

- Debt proportionality considerations.

- The life and condition of the property is assessed by a valuer and the borrowing is taken out over the life of the asset. The amount of management and maintenance charges are assessed as well as the ease of in-house management. 10% of all rental income (or an amount as deemed prudent) is put into a Maintenance and Management Reserve to cover any longer-term maintenance issues.

- The potential for property growth in terms of both revenue and capital growth will be assessed.

- The risks are determined by the property sector e.g. office, retail, industrial, associated with specific properties and the mix of sectors within the Council's portfolio.

- Details of acquisition costs e.g. stamp duty land tax, legal costs

- The documented exit strategy for a purchase/new build.

- The legal and technical due diligence checks will also identify any specific problems such as anomalies in the title deed, restrictive use classes, indemnities, local competition, construction or refurbishment requirements.

- The Council engages the use of external advisors to assist in undertaking elements of the due diligence checks such as technical, legal, accounting, property and taxation advice.

- The Council undertakes sensitivity analysis of the interest repayments on its borrowing requirements as a percentage of its available reserves to ensure there is sufficient coverage in the event that rental income is below that forecasted. This ensures that the Council has the available reserves to enable service delivery to be maintained in the short to medium term, whilst alternative solutions are implemented.

7.3 Risk of loss shall be assessed on a case by case basis as part of the acquisition due diligence and will be a criteria considered throughout the approval process. Risk of loss during the management phase of the investment shall be reported in accordance with the criteria below. In accordance with Para 23-25 of Statutory Guidance on Local Government Investments, quantitative indicators or risk and portfolio performance will be reported to the Audit and Governance Committee. This will include the following indicators (as applicable):

- Rental value by property
- Rental value by tenant
- Sector split by purchase price
- Purchase price
- Rental income profile
- Tenant lease length
- Gross Yield
- Management, Maintenance and Risk Mitigation Reserve (MMRM)
- Current value

Governance

7.4 Acquisitions must conform to the adopted Regeneration and Investment Strategy. Any deviation from the agreed Strategy will require Council approval.

7.5 The Council's Senior Leadership Team will initially consider each proposal as an initial step and recommend that the proposal proceeds in principle.

7.6 When any decision to proceed with a development or acquisition is being considered, local Ward Members will be consulted at the earliest opportunity and be able to share their views with Executive Members and be consulted before the final decision is made.

7.7 Executive Members, along with the Head of Paid Service and S151 officer, will consider each and every proposal on its own merits and specifically how each proposal meets the Council's multiple objectives and desired outcomes.

7.8 Executive Members will consider debt proportionality (the amount borrowed to date against the net service expenditure ratio) on a case by case basis for each acquisition as part of the decision making process, with information provided to them as well as the S151 officer, the Head of Paid Service and the Leader of the Council. Investment indicators are set out within the Council's Treasury Management Strategy.

7.9 The Council undertakes sensitivity analysis of the interest repayments on its borrowing requirements as a percentage of its available reserves to ensure there is sufficient coverage in the event that rental income is below forecast. The Council also sets aside 10% annually of all rental income into a Maintenance, Management and Risk Mitigation (MMRM) Reserve. This is part of the Council's contingency arrangements.

7.10 Officers, working with their specialist advisors in the market will sift opportunities and only present to Executive Members, opportunities that closely meet the Strategy. They will then lead the Executive Members into debate over specific benefits and risks of each opportunity before the Executive Members make a decision. In this way, risk will be transparent through the process.

7.11 An annual report on Investment Properties will be presented to the Audit and Governance Committee.

Regeneration and Investment Strategy

7.12 The Council has approved a Regeneration and Investment Strategy (Minute Reference CM 75/21, Council 31/3/2022). To date, Investment Properties have a value of £16.89 million in aggregate as at 31 March 2023.

Debt Proportionality

7.13 The investment strategy considers the risks of investment and the Council engaged Treasury Management advisors to analyse the level of debt proportionality to the Council's finances (e.g. levels of reserves, asset base and level of interest costs as a percentage of income).

7.14 Investment Property acquisitions expand the Council's balance sheet and interest costs will form a higher percentage of locally derived income. It would absorb some reserves if there are shortfalls in or disruption to the income stream required to meet the additional expenditure.

7.15 Sensitivity analysis on the level of debt interest against the Council's level of reserves is considered as part of the Medium Term Financial Strategy and as part of the budget proposals each year. This ensures that the Council has the available reserves to enable service delivery to be maintained in the short to medium term, whilst alternative solutions are implemented.

7.16 In order that property investments remain proportionate to the size of the Council, borrowing for the Investment Strategy is subject to an overall limit (for all Council services) of £50 million.

7.17 The Council set an upper limit on External Borrowing (for all Council services) as part of the Medium Term Financial Strategy of £50 million. Interest payments at 2.5% (current borrowing) and 5% (borrowing headroom) would equate to 19.9% of available reserves (Appendix G to the Budget Proposals report for 2024/25 – Council 15th February 2024).

Liquidity

7.18 Compared with other investment types, property is relatively difficult to sell and convert to cash at short notice and can take a considerable period to sell in certain market conditions. To ensure that the invested funds can be accessed when they are needed, for example to repay capital borrowed, the Council will spread its liquidity profile across its portfolio and also have a spread of the sector in which the Council invests. The Council also documents potential exit strategies as part of its due diligence checks.

7.19 Liquidity will be a factor in determining the amount of rent set aside in the Maintenance Management and Risk Mitigation Reserve for each investment which has a balance of £124,000 as at 31 March 2024. This will be reviewed with the same frequency as the risk reporting procedure set out in the Council's Commercial Investment Strategy.

8 Asset Management

8.1 To ensure that capital assets continue to be of long-term use, the Council has an asset management strategy in place.

8.2 When a capital asset is no longer needed, it may be sold so that the proceeds, known as capital receipts, can be spent on new assets or to repay debt.

8.3 Repayments of capital grants, loans to third parties for capital expenditure and investments also generate capital receipts.

8.4 The Council estimates to receive £200,000 capital receipts in the coming financial year as follows:

Capital Receipts	2022/23 actual	2023/24 forecast	2024/25 budget	2025/26 budget	2026/27 budget
Asset sales	150,000	200,000	1,400,000	200,000	200,000
Loans repaid	0	0	*(1,400,000)	0	0
TOTAL	**150,000**	**200,000**	**0**	**200,000**	**200,000**

**Capital receipts generated from the sale of houses (St Ann's Chapel housing scheme)*

9 Liabilities

Governance

9.1 Decisions on incurring new discretional liabilities are taken by Head of Practice in consultation with the Corporate Director for Strategic Finance (Section 151 Officer).

9.2 The risk of liabilities crystallising and requiring payment is monitored as part of the budget monitoring and reported to the Executive quarterly.

10 Revenue Budget Implications

10.1 Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue, offset by any investment income receivable. The net annual charge is known as financing costs; this is compared to the net revenue stream i.e. the amount funded from Council Tax, business rates and general government grants.

Proportion of financing costs to net revenue stream

	2022/23 actual	2023/24 forecast	2024/25 budget	2025/26 budget	2026/27 budget
Financing costs	(296,783)	(1,046,498)	(649,071)	(131,729)	(28,718)
Proportion of net revenue stream	(2.8%)	(8.9%)	(4.9%)	(1.0%)	(0.2%)

The financing costs are a net income stream due the level of projected treasury management income.

10.2 Further details on the revenue implications of capital expenditure are included in the Revenue Budget.

Sustainability

10.3 Due to the very long-term nature of capital expenditure and financing, the revenue budget implications of expenditure incurred in the next few years will extend for up to 50 years into the future.

10.4 The Corporate Director of Strategic Finance (S151 Officer) is satisfied that the proposed capital programme is prudent, affordable and sustainable and it is fully integrated with the Council's 2024/25 Medium Term Financial Strategy, Treasury Management Strategy and Investment Strategy and other strategic plans. The Capital Strategy is compiled in line with the requirements of the

2021 CIPFA Prudential Code and 2021 Treasury Management Code. The risks associated with the Investment Strategy are covered within the Strategy.

10.5 The delivery of the individual capital schemes on the plan is directly linked to the original approval of the capital project supported by each project having a project lead who is responsible for the delivery of the project (appropriate skills, contracting, planning etc.) and the subsequent achievement of the objectives of that project.

10.6 Members, via the Executive meetings, receive quarterly budget monitoring reports on the Council's Capital Programme as well as quarterly integrated performance management reports. Through these updates, which are driven by the requirement of financial reporting, Members can review and challenge the delivery of projects and any changes to both the timing and expenditure of the capital project.

10.7 If subsequent to the capital project being completed there are variations to the income expected to be generated from that asset, this will be reported as a variance in the quarterly budget monitoring reporting and if ongoing will be included in the following year's revenue budget proposals.

10.8 The Council's Senior Leadership Team has oversight for the delivery of and challenge to the Capital Strategy and Capital Programme.

Affordability

10.9 Affordability is critical in applying the capital strategy and approving projects for inclusion in the capital programme. This is either demonstrated by a report on the project being presented to Executive/Council for approval supported by a business case identifying the expenditure and funding, appraisal of alternative options and the risks and rewards for the approval of the scheme, or by delegated procedures set out within the commercial investment strategy (containing this information).

10.10 All projects need to have a clear funding source. If external funding such as an external grant is to be used, there needs to be a clear funding commitment.

10.11 Affordability of each project needs to be clear, not only for the funding of the capital spend, but also to cover any ongoing costs of the operation and funding of that capital spend.

10.12 Where borrowing is to be used the affordability is of greater importance and the affordability has to include the interest costs of that borrowing and the provision for the repayment of the borrowing (MRP). This repayment is matched to a prudent asset life and any income streams estimated to fund this asset must be sustainable. The rules around the governance of this borrowing are outlined in the Prudential Code (as summarised above).

10.13 At no stage should the asset value be lower than the value of outstanding debt unless there is a clear plan to mitigate that shortfall or to sell that asset.

Risks

10.14 The risks associated with a significant Capital Programme and a significant level of borrowing can be mitigated through all capital projects being supported by a business case, having adequate project management and/or project boards, suitable skills for the delivery of the project, tax planning, cash flow, clear operational plan for the use of the asset, security and due diligence on loans and purchases, use of external advice where appropriate, project contingencies, full tender process and regular and transparent reporting to Members.

10.15 There are clear links from the capital strategy to both the treasury management strategy, prudential indicators, authorised borrowing limits and the revenue budget. These are also subject to review and oversight by Members at the Audit and Governance Committee and Council. For any new borrowing, and this is a greater risk as the value of borrowing increases, this does increase the Council's overall liabilities that will need to be repaid in the future.

10.16 In addition, this increases the Council's level of fixed interest and repayment costs that it will incur each year. In 2024/25 the borrowing liability is estimated at a maximum of £13.4m with ongoing financing costs of the borrowing of approx. £0.965m. This is a clear risk that all Members need to be aware of.

10.17 However, this risk for assets is mitigated by a robust business case and a MRP that will repay the borrowing costs over a (prudent) asset life. Any variations from this are set out in the MRP Policy (section 2.5 of the Treasury Management Strategy). Any variation in expected income is an issue, however given the wide range of operational assets and different income streams this helps to mitigate this risk.

10.18 As outlined above in the position statement, investment properties have a different type and level of risk. Risk arises from both variations in income streams (tenant non-renewal etc.) and from asset values (impact economic conditions and retail trends etc.). The Council has established a clear strategy, criteria and a governance route for these purchases which has included member training, second opinion on asset values, due diligence, site visits, surveys etc. The Council currently owns one investment property in Dartmouth.

10.19 There are risks (and rewards) associated with the purchase of these type of assets.

11 Knowledge and Skills

11.1 The Council employs professionally qualified and experienced staff in senior positions with responsibility for recommending capital expenditure, borrowing and investment decisions to Members.

11.2 The Director of Place & Enterprise is a Chartered Civic Engineer with 20 years of experience. In addition, the Director of Place & Enterprise holds a MSc in Construction Law.

11.3 The Corporate Director of Strategic Finance (S.151 Officer) is a Chartered Accountant (ICAEW) with 20 years of experience of being a S151 Officer (Chief Finance Officer). In addition, the Corporate Director for Strategic Finance holds a BSc in Mathematics and has previously worked in the private sector for accountancy firms.

11.4 The Principal Estates Specialist is a Chartered Surveyor, with over 15 years post qualification experience.

11.5 The Monitoring Officer is a qualified solicitor with over 20 years public sector experience as a Monitoring Officer.

11.6 Where Council staff do not have the knowledge and skills required, use is made of external advisers and consultants that are specialists in their field. The appropriate expertise is always resourced in relation to any financial, legal and asset related due diligence required. The Council tendered its Treasury Management services for a three year contract term starting from 1st April 2024. The successful tender was Link Asset Services. A list is below of advisers that the Council has used in the past:-

- Link Group – Treasury Management Advice
- Savills – Property Agents
- Womble Bond Dickinson - Solicitors

11.7 This approach is more cost effective than employing such staff directly, and ensures that the Council has access to knowledge and skills commensurate with its risk appetite.

11.8 External treasury management training (by Link Group) for Members will be carried out every two years to ensure the up to date skills are in place to make capital and treasury management decisions. Training was completed in December 2023.

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APPENDIX B

Treasury Management Strategy Statement 2024/25

1. <u>Introduction</u>

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. In addition, this Authority will receive quarterly update reports.

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 21st March 2024, the strategies are presented to the Council's Audit and Governance Committee on 21st March 2024 for scrutiny.

Quarterly reports

1.2.10 In addition to the three major reports detailed above, from 2023/24 quarterly reporting (end of June/end of December) is also required via the budget monitoring process. Whilst these additional reports do not have to be reported to Full Council, they do require to be adequately scrutinised. This role is undertaken by the Audit and Governance Committee. (The reports, specifically, should comprise a brief overview of treasury management performance updated Treasury/Prudential Indicators.)

1.3 Treasury Management Strategy for 2024/25

1.3.1 The strategy for 2024/25 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.

1.4.2 The Code states 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. The scale and nature of this will depend on the size and complexity of the organisation's treasury management needs. Organisations should consider how to assess whether treasury management staff and council Members have the required knowledge and skills to undertake their roles and whether they have been able to maintain those skills and keep them up to date.

1.4.3 As a minimum, authorities should carry out the following to monitor and review knowledge and skills:

- Record attendance at training and ensure action is taken where poor attendance is identified.
- Prepare tailored learning plans 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 organisation).

- Have regular communication with officers and board/council members, encouraging them to highlight training needs on an ongoing basis."

1.4.4 In further support of the revised training requirements, CIPFA's Better Governance Forum and Treasury Management Network have produced a 'self-assessment by members responsible for the scrutiny of treasury management' which is available from the CIPFA website to download.

1.4.5 Training was undertaken by Members on 4 December 2023 and further training will be arranged on an annual basis.

1.4.6 The training needs of treasury management officers are periodically reviewed

1.5 Treasury Management advisors

1.5.1 The Council tendered its Treasury Management services for a three year contract term starting from 1st April 2024. The successful tender was Link Asset Services.

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
- Womble Bond Dickinson – Solicitors

2. The Capital Prudential Indicators 2024/25 – 2026/27

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 and prudent, affordable and sustainable.

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	2022/23 Actual	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
Services	9,379,000	11,190,000	7,556,000	4,858,000	1,912,000
Total	**9,379,000**	**11,190,000**	**7,556,000**	**4,858,000**	**1,912,000**

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	2022/23 Actual	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
Capital Expenditure	**9,379,000**	**11,190,000**	**7,556,000**	**4,858,000**	**1,912,000**
Financed by:					
External sources (Capital grants, NHB, S106)	2,596,000	5,484,000	5,109,000	1,918,000	306,000
Own resources (Capital receipts, Earmarked reserves)	1,312,000	2,739,000	1,938,000	440,000	106,000
Net financing need for the year (This is the prudential borrowing requirement)	**5,471,000**	**2,967,000**	**509,000**	**2,500,000**	**1,500,000**

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:

	2022/23 Actual	**2023/24 Estimate**	**2024/25 Estimate**	**2025/26 Estimate**	**2026/27 Estimate**
Capital Financing Requirement					
CFR – services	13,659,000	16,185,000	14,737,000	16,680,000	17,470,000
CFR - Non-financial investments	4,861,000	4,813,000	4,764,000	4,713,000	4,662,000
Total CFR	**18,520,000**	**20,998,000**	**19,501,000**	**21,393,000**	**22,132,000**
Movement in CFR	**4,984,000**	**2,478,000**	**(1,497,000)**	**1,892,000**	**739,000**

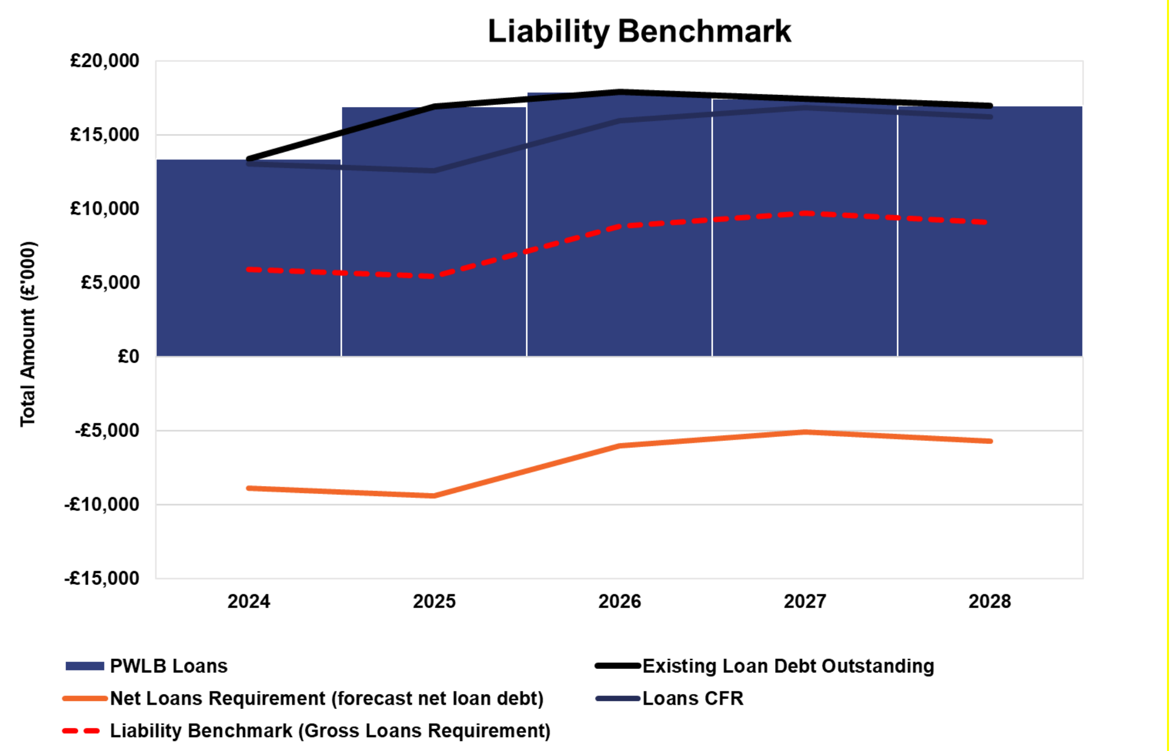
Movement in CFR represented by					
Net financing need for the year (above)	5,471,000	2,967,000	509,000	2,500,000	1,500,000
Less MRP/VRP and other financing movements	(487,000)	(489,000)	(2,006,000)	(608,000)	(761,000)
Movement in CFR	**4,984,000**	**2,478,000**	**(1,497,000)**	**1,892,000**	**739,000**

2.4 Liability Benchmark

2.4.1 A third The Council is required to estimate and measure the Liability Benchmark (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	2022/23 Actual	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
Fund balances / reserves	17,537,000	17,225,000	17,090,000	16,090,000	15,090,000
Capital receipts	2,920,000	2,709,000	2,109,000	2,424,000	2,739,000
Provisions	1,494,000	1,500,000	1,500,000	1,500,000	1,500,000
Other	4,366,000	500,000	500,000	500,000	500,000
Total core funds	**26,317,000**	**21,934,000**	**21,199,000**	**20,514,000**	**19,829,000**
Working capital*	12,655,000	16,000,000	16,000,000	14,000,000	14,000,000
(Under)/over borrowing	(4,236,000)	(7,173,000)	(6,137,000)	(4,493,000)	(5,699,000)
Expected cash position	**8,419,000**	**8,827,000**	**9,863,000**	**9,507,000**	**8,301,000**

**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 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. <u>Borrowing</u>

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 2031 and for the position as at 31 January 2024 are shown below for both borrowing and investments.

Treasury Portfolio	**31 March 2023 Actual**		**31 January 2024 Current**	
Treasury Investments:				
Short term – fixed	17,900,000	4.24%	22,000,000	5.10%
Money Market Funds	14,200,000	3.99%	13,000,000	4.98%
Heritable Bank	11,000		11,000	
CCLA – Local Authority Property Fund	1,313,000	4.26%	1,286,000	4.94%
CCLA – Diversified Income Fund	1,312,000	3.02%	1,915,000	3.25%
Total treasury investments	**34,736,000**		**38,212,000***	
Treasury External Borrowing				
PWLB (average rate)	14,284,000	2.49%	13,851,000	2.49%
Total external borrowing	**14,284,000**		**13,851,000**	
Net treasury investments / (borrowing)	**20,452,000**		**24,361,000**	

**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 summarised below.

Asset	**Year Purchased**	**Asset life for the calculation of MRP (Years)**	**Value at 31 March 2022 (£)**	**Value at 31 March 2023* (£)**
Two Investment Properties at Lee Mill and Dartmouth	2019/20	50	18,610,000	16,890,000

*following fair value adjustments

3.2.3 The Fair Value Valuation at 31.3.2023 of the two investment properties was £16.890 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 There has been a downward movement in Investment Properties which relates to the reduction in the value of these properties, predominantly the property at Lee Mill, Ivybridge. The valuation has been carried out using the investment method and comparison approach, taking into account prevailing real estate property yields as well as UK 30-year gilt rates.

3.2.6 Although the fair value valuation has decreased, there is no loss to the Council as this is a desktop valuation at a point in time and the changes in valuation do not have an impact on the Council's 'bottom line' in its revenue account. Any loss would only be crystallised if the Council sold the asset, which the Council does not intend to do. These investment properties are long term strategic assets of the Council which are held for the long term and the foreseeable future.

3.2.7 Indicators for the Council's Non-Treasury Investment portfolio are shown below.

Non-Treasury Investment Indicators	**Actual 2022/23**	**Estimate as at 31 Mar 24**
Total investment income as a proportion of the Council's Net Budget	6.23%	5.55%
Borrowing for Non-Treasury investments as a proportion of the Council's Net Budget	47.44%	41.89%
Investment income from Investment Properties compared to the interest expense incurred by them	572.10%	577.57%

3.2.8 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.

	2022/23 Actual	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
External Debt					
Debt at 1 April	14,381,000	14,284,000	13,825,000	13,364,000	16,900,000
Expected change in Debt	(97,000)	(459,000)	(461,000)	3,536,000	(467,000)
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	14,284,000	13,825,000	13,364,000	16,900,000	16,433,000
The Capital Financing Requirement	18,520,000	20,998,000	19,501,000	21,393,000	22,132,000
Under / (over) borrowing*	4,236,000	7,173,000	6,137,000	4,493,000	5,699,000

* the under-borrowing mainly represents capital projects for which the Council has internally borrowed

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

	2022/23 Actual	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
External Debt for investment activities / non-financial investments					
Actual debt at 31 March for Investment activities	4,965,000	4,917,000	4,867,000	4,816,000	4,764,000
Percentage of all PWLB external debt %	35%	36%	36%	28%	29%

3.2.10 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 2024/54 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.

3.2.11 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 2024/25.

3.3 Treasury Indicators: Limits to Borrowing Activity

3.3.1 **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	**2023/24 Estimate**	**2024/25 Estimate**	**2025/26 Estimate**	**2026/27 Estimate**
Total external debt	35,000,000	35,000,000	35,000,000	35,000,000

3.3.2 **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.

3.3.3 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.

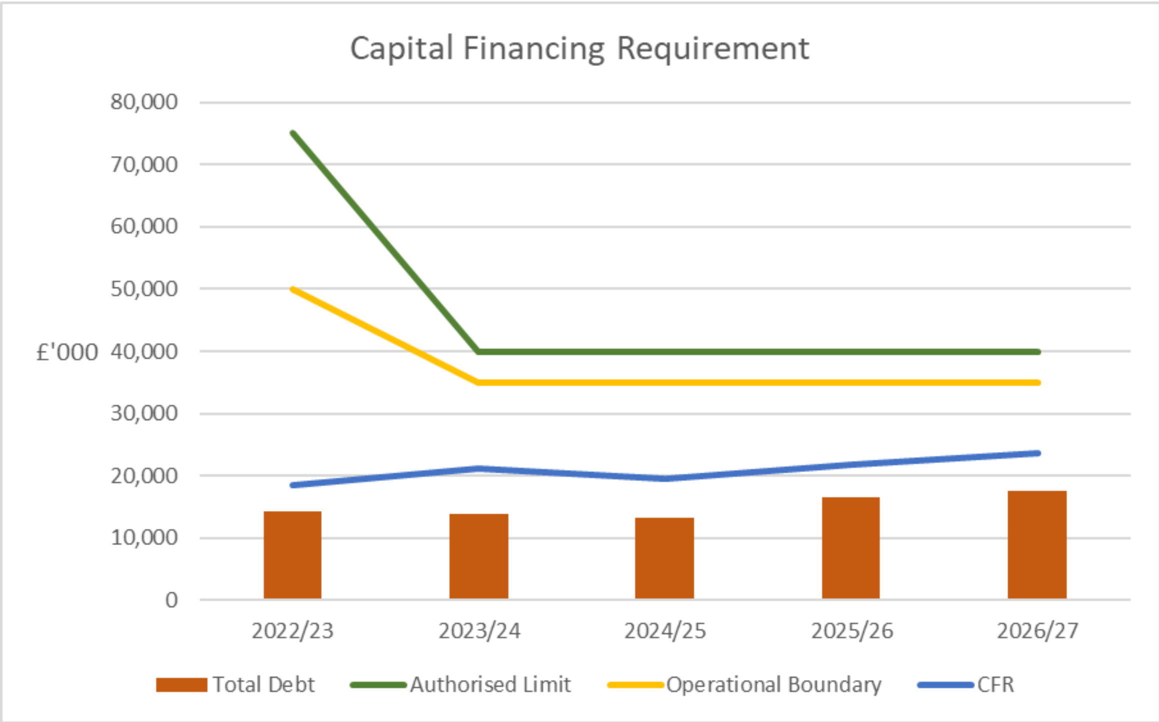
3.3.4 The Council is asked to approve the following authorised limit of £40 million:

Authorised limit	**2023/24 Estimate**	**2024/25 Estimate**	**2025/26 Estimate**	**2026/27 Estimate**
Total external debt	40,000,000	40,000,000	40,000,000	40,000,000

Note that this authorised limit can be approved to be changed during the year if the Council has a higher borrowing requirement in year (up to a limit of £75m).

3.3.5 The graph below shows the CFR and borrowing projections.

	Actual 2022/23	Estimate 2023/24	Estimate 2024/25	Estimate 2025/26	Estimate 2026/27
General Fund	13,659,000	16,185,000	14,737,000	16,680,000	17,470,000
Investment activities / non-financial investments	4,861,000	4,813,000	4,764,000	4,713,000	4,662,000
Total CFR	**18,520,000**	**20,998,000**	**19,501,000**	**21,393,000**	**22,132,000**
External Borrowing	**14,284,000**	**13,825,000**	**13,364,000**	**16,900,000**	**16,433,000**
Authorised Limit (see 3.3.4)	**75,000,000**	**40,000,000**	**40,000,000**	**40,000,000**	**40,000,000**
Operational Boundary	**50,000,000**	**35,000,000**	**35,000,000**	**35,000,000**	**35,000,000**



3.4 Prospects for Interest Rates

3.4.1 The Council engages 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..

Link Group Interest Rate View 08.01.24	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27
BANK RATE	5.25	5.25	4.75	4.25	3.75	3.25	3.00	3.00	3.00	3.00	3.00	3.00	3.00
3 month ave earnings	5.30	5.30	4.80	4.30	3.80	3.30	3.00	3.00	3.00	3.00	3.00	3.00	3.00
6 month ave earnings	5.20	5.10	4.60	4.10	3.70	3.30	3.10	3.10	3.10	3.10	3.10	3.10	3.10
12 month ave earnings	5.00	4.90	4.40	3.90	3.60	3.20	3.10	3.10	3.10	3.10	3.10	3.20	3.20
5 yr PWLB	4.50	4.40	4.30	4.20	4.10	4.00	3.80	3.70	3.60	3.60	3.50	3.50	3.50
10 yr PWLB	4.70	4.50	4.40	4.30	4.20	4.10	4.00	3.90	3.80	3.70	3.70	3.70	3.70
25 yr PWLB	5.20	5.10	4.90	4.80	4.60	4.40	4.30	4.20	4.20	4.10	4.10	4.10	4.10
50 yr PWLB	5.00	4.90	4.70	4.60	4.40	4.20	4.10	4.00	4.00	3.90	3.90	3.90	3.90

3.4.2 It is expected that the MPC will keep Bank Rate at 5.25% until the second half of 2024 to combat on-going inflationary and wage pressures, even if they have dampened somewhat of late. It is not thought that the MPC will increase Bank Rate above 5.25%.

3.4.3 We expect rate cuts to start when both the CPI inflation and wage/employment data are supportive of such a move, and that there is a likelihood of the overall economy enduring at least a slowdown or mild recession over the coming months, although most recent GDP releases have surprised with their on-going robustness.

3.4.4 Naturally, timing on this matter will remain 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.

3.4.5 On 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 also international factors such as policy development in the US and Europe, the provision of fresh support packages to support the faltering recovery in China as well as the on-going conflict between Russia and Ukraine, and Gaza and Israel.

3.4.6 **PWLB rates** – The short and medium part of the gilt curve has rallied since the start of November as markets price in a quicker reduction in Bank Rate through 2024 and 2025 than held sway back then. This reflects market confidence in inflation falling back in a similar manner to that already seen in the US and the Euro-zone. At the time of writing there is c70 basis points difference between the 5 and 50 year parts of the curve.

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 2024/25 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 may be considered whilst premature redemption rates remain elevated but only if there is surplus cash available to facilitate any repayment, or rebalancing of the portfolio to provide more certainty is considered appropriate.

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)

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 2024/25		
	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	●	●
Market (long-term)	●	●
Market (temporary)	●	●
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 and Governance 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)
- Principal Accountants

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.

APPENDIX C

Annual Investment Strategy 2024/25

1. Annual Investment Strategy

1.1 Investment Policy – Management of Risk

1.1.1 The Department of Levelling Up, Housing and Communities (DLUHC - this was formerly the Ministry of Housing, Communities and Local Government (MHCLG) and CIPFA have extended the meaning of 'investments' to include both financial and non-financial investments. This report deals solely with treasury (financial) investments, (as managed by the treasury management team). Non-financial investments, essentially the purchase of income yielding assets and service investments, are covered in the Capital Strategy, (a separate report).

1.1.2 The Council's investment policy has regard to the following: -

- DLUHC's Guidance on Local Government Investments ("the Guidance")
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2021 ("the Code")
- CIPFA Treasury Management Guidance Notes 2021

1.1.3 The Council's investment priorities will be security first, portfolio liquidity second and then yield, (return). The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and within the Council's risk appetite. In the current economic climate it is considered appropriate to keep investments short term to cover cash flow needs. However, where appropriate (from an internal as well as external perspective), the Council will also consider the value available in periods up to 12 months with high credit rated financial institutions, as well as wider range fund options.

1.1.4 The above guidance from the DLUHC and CIPFA place a high priority on the management of risk. This authority has adopted a prudent approach to managing risk and defines its risk appetite by the following means: -

1. Minimum acceptable **credit criteria** are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short term and long-term ratings.

2. **Other information:** ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration the Council will engage with its advisors to maintain a monitor on market pricing such as **"credit default swaps"** and overlay that information on top of the credit ratings.
3. **Other information sources** used will include the financial press, share price and other such information pertaining to the financial sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.
4. This authority has defined the list of **types of investment instruments** that the treasury management team are authorised to use. There are two lists in appendix C1 under the categories of 'specified' and 'non-specified' investments.
    - **Specified investments** are those with a high level of credit quality and subject to a maturity limit of one year or have less than a year left to run to maturity if they were originally classified as being non-specified investments solely due to the maturity period exceeding one year.
    - **Non-specified investments** are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by Members and officers before being authorised for use.
5. **Non-specified investments limit.** The Council has determined that it will limit the maximum total exposure to non-specified investments as being £6.86 million of the total investment portfolio, (see Appendix C1).
6. **Lending limits**, (amounts and maturity), for each counterparty will be set through applying the matrix table in paragraph 1.2.6.
7. **Transaction limits** are set for each type of investment in 1.2.6.
8. This Council will set a limit for the amount of its investments which are invested for **longer than 365 days**, (see paragraph 1.4.6).
9. Investments will only be placed with counterparties from countries with a specified minimum **sovereign rating**, (see paragraph 1.3.1).
10. This authority has engaged **external advisers**, to provide expert treasury management advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of this authority in the context of the expected level of cash balances and need for liquidity throughout the year.

11. All investments will be denominated in **sterling.**

12. As a result of the change in accounting standards for 2023/24 under IFRS 9, this Authority will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. (In November 2018, the MHCLG, concluded a consultation for a temporary override to allow English local authorities time to adjust their portfolio of all pooled investments by announcing a statutory override to delay implementation of IFRS 9 for five years ending 31 March 23. More recently, a further extension to the over-ride to 31 March 25 has been agreed by Government).

13. **Investments in equity instruments designated at fair value through other comprehensive income**. Upon transition to IFRS9 – Financial Instruments on 1 April 2018, the Council elected to designate the CCLA Property Fund investment (£0.5m) and the CCLA Diversified Income Fund (£1m) as fair value through other comprehensive income. These investments are eligible for the election because they meet the definition of equity instruments in paragraph 11 of IAS32 and are neither held for trading (the Council holds this investment as a long term strategic investment) nor contingent consideration recognised by an acquirer in a business combination to which IFRS3 applies. They are not considered to be puttable instruments because the Council does not have a contractual right to put the instrument back to the issuer for cash. The Council currently holds £1.5m in the CCLA Property Fund and £2m in the CCLA Diversified Income Fund.

    However, this authority will also pursue **value for money** in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance, (see paragraph 1.5.1). Regular monitoring of investment performance will be carried out during the year.

1.2 Creditworthiness Policy

1.2.1 This Council applies the creditworthiness service provided by Link Group. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard & Poor's. The credit ratings of counterparties are supplemented with the following overlays:

- "watches" and "outlooks" from credit rating agencies;
- CDS spreads that may give early warning of likely changes in credit ratings;
- sovereign ratings to select counterparties from only the most creditworthy countries.

1.2.2 This modelling approach combines credit ratings, and any assigned Watches and Outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads. The end product of this is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the suggested duration for investments. The Council will, therefore, use counterparties within the following durational bands:

- Yellow 5 years *
- Dark pink 5 years for Ultra-Short Dated Bond Funds with a credit score of 1.25
- Light pink 5 years for Ultra-Short Dated Bond Funds with a credit score of 1.5
- Purple 2 years
- Blue 1 year (only applies to nationalised or semi nationalised UK Banks)
- Orange 1 year
- Red 6 months
- Green 100 days
- No colour - not to be used

1.2.3 The Link creditworthiness service uses a wider array of information other than just primary ratings. Furthermore, by using a risk weighted scoring system, it does not give undue preponderance to just one agency's ratings.

1.2.4 Typically, the minimum credit ratings criteria the Council use will be a short term rating (Fitch or equivalents) of F1 and a long term rating of A-. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances, consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

1.2.5 All credit ratings will be monitored on a real-time basis. The Council is alerted to changes to ratings of all three agencies through its use of the creditworthiness service.

- 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 will be advised of information in movements in Credit Default Swap spreads against the iTraxx European Senior Financials benchmark and other market data on a daily basis via its Passport website, provided exclusively to it by Link. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

1.2.6 Sole reliance will not be placed on the use of this external service. In addition this Council will also use market data and market information, as well as information on any external support for banks to help support its decision making process.

Y	Pi1	Pi2	P	B	O	R	G	N/C
1	1.25	1.5	2	3	4	5	6	7
Up to 5 years	Up to 5 years	Up to 5 years	Up to 2 years	Up to 1 year	Up to 1 year	Up to 6 months	Up to 100 days	No colour

	Minimum credit criteria/colour band	**Limit per institution** **Max % of total investments**	**Maximum maturity**
DMADF	n/a	100%	6 months
Money Market Funds	AAA	£7.5m	Daily liquidity
Cash Plus Funds/ Ultra short bond funds	AAA, AA	£6m	T+1 to T+4
CCLA Local Authorities Property Fund	Not credit rated	£1.5m	No fixed maturity date but will generally be held for up to 7 years
CCLA Diversified Income Fund	Not credit rated	£2m	No fixed maturity date but will generally be held for up to 7 years
Local Authorities	Yellow	£6 million per institution	5 years
Unsecured investments with banks and building societies	Yellow Purple Blue Orange Red Green No Colour	£7.5m (£8.5m for Lloyds plc)	Up to 5 years Up to 2 years Up to 1 years Up to 1 years Up to 6 months Up to 100 days Not for use
Share capital in a body corporate	N/A	£0.20 million	N/A
Loan capital in a body corporate	N/A	£0.36 million	N/A

Creditworthiness

1.2.7 Significant levels of downgrades to Short- and Long-Term credit ratings have not materialised since the crisis in March 2020. In the main, where they did change, any alterations were limited to Outlooks. Nonetheless, when setting minimum sovereign debt ratings, this Authority will not set a minimum rating for the UK.

1.2.8 **CDS prices.** Although bank CDS prices (these are market indicators of credit risk) spiked upwards during the days of the Truss/Kwarteng government, they have returned to more average levels since then. However, sentiment can easily shift, so it will remain important to undertake continual monitoring of all aspects of risk and return in the current circumstances. Link monitor CDS prices as part of their creditworthiness service to local authorities and the Authority has access to this information via its Link-provided Passport portal.

1.3 Limits

1.3.1 Due care will be taken to consider the exposure of the Council's total investment portfolio to non-specified investments, countries, groups and sectors.

a) **Non-specified investment limit.** The Council has determined that it will limit the maximum total exposure to non-specified investments as being £6.86 million of the total investment portfolio.

b) **Country limit.** The Council has determined that it will only use approved counterparties from the UK and from countries with a **minimum sovereign credit rating of AA**- (see Appendix C2).

c) **Other limits.** In addition:

- no more than £6 million will be placed with any non-UK country at any time;
- limits in place above will apply to a group of companies;
- sector limits will be monitored regularly for appropriateness.

1.3.2 **Loans**

In accordance with the Statutory Guidance on Local Government Investments, a local authority may choose to make loans to local enterprises, local charities, wholly owned companies and joint ventures as part of a wider strategy for local economic growth.

The Council can make such loans whilst continuing to have regard to this guidance, subject to the following requirements of the Council's strategy, being:-

i) Total financial exposure to these type of loans is proportionate;

ii) The Council uses an allowed "expected credit loss" model for loans and receivables as set out in International Financial Reporting Standard (IFRS)

9 Financial Instruments as adopted by proper practices to measure the credit risk of its loan portfolio;

iii) The appropriate credit control arrangements to recover overdue repayments are in place; and

iv) The local authority has formally agreed the total level of loans by type that it is willing to make and the total loan book is within the self-assessed limit.

1.4 **Investment Strategy**

1.4.1 **In-house Funds**. Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e., rates for investments up to 12 months). Greater returns are usually obtainable by investing for longer periods. The current shape of the yield curve suggests that is the case at present, but there is the prospect of Bank Rate having peaked in the second half of 2023 and possibly reducing as early as the second half of 2024 so an agile investment strategy would be appropriate to optimise returns.

1.4.2 Accordingly, while most cash balances are required in order to manage the ups and downs of cash flow, where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer-term investments will be carefully assessed.

1.4.3 **Investment Returns Expectations.** The current forecast includes a forecast for Bank Rate to have peaked at 5.25% in Q4 of 2023.

1.4.4 **Investment treasury indicator and limit** - total principal funds invested for greater than 365 days. These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.

1.4.5 The Council is asked to approve the following treasury indicator and limit:

Upper limit for principal sums invested for longer than 365 days			
	2024/25	**2025/26**	**2026/27**
Principal sums invested for longer than 365 days	£3,500,000	£3,500,000	£3,500,000
Current investments as at 31.01.23 in excess of 1 year maturing in each year*	£3,500,000	£3,500,000	£3,500,000

**Monies already invested in the CCLA Property Fund (£1.5 million) and the CCLA Diversified Income Fund (£2 million)*

1.4.6 For its cash flow generated balances, the Council will seek to utilise its money market funds and short-dated deposits, (overnight to 100 days), in order to benefit from the compounding of interest.

1.4.7 The Council’s investments are predominantly sterling-denominated term deposits. These are not long-term investments that are specifically used by financial institutions to “on-finance” projects, but used as part of day-to-day cash flow balances. The Council also does not make equity investments in financial institutions.

ESG (Environmental, Social and Governance)

1.4.8 For short term investments with counterparties, the Council utilises the ratings provided by Fitch, Moody’s and Standard & Poor’s to assess creditworthiness, which do include analysis of ESG factors when assigning ratings:

Environmental: Emissions and air quality, energy and waste management, waste and hazardous material, exposure to environmental impact.

Social: Human rights, community relations, customer welfare, labour relations, employee wellbeing, exposure to social impacts.

Governance: Management structure, governance structure, group structure, financial transparency

The Council will continue to evaluate additional ESG-related metrics and assessment processes that it could incorporate into its investment process and will update accordingly.

1.5 **Investment Performance / Risk Benchmarking**

1.5.1 The Council will use an investment benchmark to assess the investment performance of its investment portfolio of the Sterling Overnight Interbank Average rate (SONIA).

1.6 **End of Year Investment Report**

1.6.1 At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Report.

Treasury Management Practice (TMP1) – Credit and Counterparty Risk Management

Specified Investments

All such investments will be sterling denominated, with **maturities up to a maximum of 1 year**, meeting the minimum 'high' quality criteria where applicable.

	Minimum credit criteria / colour band	**Max % of total investments/ £ limit per institution**	**Max. maturity period**
DMADF – UK Government	N/A	100%	6 months
Money Market Funds	AAA	£7.5m per fund	Liquid
Ultra Short Dated Bond Funds	AAA	£6m	Liquid
Local authorities	Yellow	£6m per institution	12 months
Term deposits with banks and building societies	Blue	£7.5m per institution (£8.5m for Lloyds)	Up to 1 Year
	Orange		Up to 1 Year
	Red		Up to 6 months
	Green		Up to 100 days
	No Colour		Not for use

Non-Specified Investments

Investment instruments with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by Members and officers before being authorised for use. The Council's CCLA Property Fund investment (£1.5m) and CCLA Diversified Income Fund investment (£2m) are the only investment types that the Council has which meets the definition of a non-specified investment.

The limits shown below for share capital and loan capital are the maximum limits for this investment type.

	Minimum credit criteria / colour band	**Max % of total investments/ £ limit per institution**	**Max. maturity period**
Property Investment Funds – CCLA	N/A	£1,500,000	No fixed maturity date but will generally be up to 7 years
Diversified Income Fund – CCLA	N/A	£2,000,000	No fixed maturity date but will generally be up to 7 years
UK Government Gilts	Yellow	£3,000,000	5 Years
Share capital in a body corporate (See note 1 and note 2 below)	N/A	£200,000	N/A
Loan capital in a body corporate (See note 1 and note 2 below)	N/A	£360,000	N/A
TOTAL		**£7,060,000**	

Note 1. The use of these instruments will be deemed to be capital expenditure, and as such will be an application (spending) of capital resources. Revenue resources will not be invested in corporate bodies. The Council will seek further advice on the appropriateness and associated risks with investments in these categories.

Note 2. The Executive report on 28 January 2021 set out the details of a secured loan of up to £360,000 for seven years for a housing project. Although this has not progressed to date, the limit has been retained in this report if the project were to be progressed in the future.

APPENDIX C2

APPROVED COUNTRIES FOR INVESTMENTS

This list is based on those countries which have sovereign ratings of AA- or higher, (we show the lowest rating from Fitch, Moody's and S&P) and also, (except - at the time of writing - for Hong Kong and Luxembourg), have banks operating in sterling markets which have credit ratings of green or above in the Link Group credit worthiness service.

Although the countries listed below are eligible for Investment as their credit rating is AA- or higher, the Council mainly invests with Banks or Building Societies within the UK.

Based on lowest available rating

AAA

- Australia
- Denmark
- Germany
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland

AA+

- Canada
- Finland
- U.S.A.

AA

- Abu Dhabi (UAE)

AA-

- Belgium
- France
- Qatar
- U.K

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