



Dacorum Borough Council

Treasury Management Strategy Statement

Minimum Revenue Provision Policy Statement and Annual
Investment Strategy

2022/23

1. Introduction

1.1 Background

The Council is required to operate a balanced budget, which broadly means cash raised during the year will meet cash expenditure. A primary function of the Treasury Management service is to ensure cash flow is adequately planned, with cash being available when 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.

The second main function of the Treasury Management service is 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 the Council can meet its capital spending obligations. Longer term cash management may involve arranging long or short term loans, or using longer term cash flow surpluses, or restructuring debt to meet Council risk or cost objectives.

The contribution the treasury management function makes to the authority is critical, as the balance of debt and investment operations ensure liquidity and hence the councils ability to meet spending commitments as they fall due, either on day-to-day revenue or in the medium term 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.

1.2 Clauses to be formally adopted

1. Dacorum Borough Council will create and maintain the following for effective treasury management:
 - a treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities;
 - Suitable treasury management principles and practices (TMPPs), setting out the manner in which the organisation will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.
2. Full Council will receive reports on its treasury management policies and activities, including, as a minimum, a mid-year review and an annual year end report.

Responsibility is delegated to the Section 151 Officer for the implementation and regular monitoring of its treasury management policies and practices, and for the execution and administration of treasury management decisions. They will act in accordance with the policy statement and TMPPs and, if he/she is a CIPFA member, CIPFA's Standard of Professional Practice on Treasury Management.

3. This organisation nominates Cabinet to be responsible for ensuring effective scrutiny of the treasury management strategy, policies and monitoring before recommendation to Full Council.

1.3 Treasury Management Policy Statement

The Council defines its treasury management activities as:

The management of the organisation's borrowing, investments, cash flows, 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.

The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.

The Council acknowledges that effective treasury management will provide support towards the achievement of the Council's business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management and employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

1.4 Reporting requirements

Capital Strategy

The CIPFA revised 2017 Prudential and Treasury Management Codes requires 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 service provision
- an overview of how the associated risk is managed
- the implications for future financial sustainability

Treasury Management reporting

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

Treasury Management Strategy Statement (this report) - The first, and most important report, 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).

A mid- year treasury management report – This is primarily a progress report and will update members on the capital position and amend prudential indicators and policies as necessary.

An annual treasury report – This provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

Scrutiny – The above reports are required to be adequately scrutinised before being recommended to the Council. The Cabinet undertakes this role.

1.5 Treasury Management Strategy for 2022/23

The strategy for 2022/23 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.

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

1.6 Training

The CIPFA Code requires the responsible officer ensures Councillors with responsibility for treasury management receive adequate training. The training needs of treasury management officers are regularly reviewed.

1.7 Treasury management consultants

The Council uses Link Group, Treasury Solutions as its external treasury management advisors. The Council recognises the value in employing external

providers of treasury management services to acquire access to specialist skills and resources. The Council will ensure the terms of their appointment and methods by which their value are assessed are properly agreed and documented, and subject to regular review.

The Council recognises responsibility for treasury management decisions remains with the organisation at all times and will ensure undue reliance is not placed upon our external service provider.

2. The Capital Prudential Indicators 2022/23 – 2025/26

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

2.1 Capital expenditure

The first prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. The table below summarises the capital expenditure plans and financing. Any shortfall of resources results in a borrowing need. Members are asked to approve the capital expenditure forecast:

| Capital expenditure | 2020/21 Actual £m | 2021/22 Q3 Forecast £m | 2022/23 Estimate £m | 2023/24 Estimate £m | 2024/25 Estimate £m | 2025/26 Estimate £m |
|--|-------------------------|---------------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
| General Fund | 9.373 | 10.259 | 22.854 | 27.424 | 15.233 | 8.122 |
| HRA | 17.027 | 21.617 | 67.920 | 65.619 | 55.111 | 45.558 |
| Total | 26.400 | 31.876 | 90.774 | 93.043 | 70.344 | 53.680 |
| Financed by: | | | | | | |
| Capital grants & S106 | 1.554 | 3.602 | 5.002 | 5.882 | 3.313 | 0.741 |
| Capital receipts & reserves | 20.184 | 23.302 | 70.925 | 32.753 | 17.134 | 18.519 |
| Revenue contribution to Capital | 4.662 | 4.972 | 4.649 | 4.667 | 5.915 | 5.445 |
| Borrowing- General Fund | 0.000 | 0.000 | 0.000 | 18.115 | 14.492 | 7.381 |
| Borrowing- HRA | 0.000 | 0.000 | 10.199 | 31.626 | 29.490 | 21.594 |
| Net financing need for the year | 26.400 | 31.876 | 90.774 | 93.043 | 70.344 | 53.680 |

The financing need excludes other long-term liabilities, such as leasing arrangements. Capital Expenditure excludes Capital loans to other bodies.

2.2 The Council's borrowing need (the Capital Financing Requirement)

The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is the total capital expenditure which has not yet been paid for

from either revenue or capital resources. It is a measure of the Council's underlying borrowing need. Capital expenditure, which is not immediately paid for, increases the CFR.

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

The CFR includes long term liabilities like finance leases. Whilst these increase the CFR, and therefore the Council's borrowing requirement, they include a borrowing facility so the Council is not required to separately borrow.

The Council is asked to approve the CFR projections below:

| | 2020/21 Actuals £m | 2021/22 Estimate £m | 2022/23 Estimate £m | 2023/24 Estimate £m | 2024/25 Estimate £m | 2025/26 Estimate £m |
|--|--------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
| Capital Financing Requirement | | | | | | |
| CFR – non housing | 12.945 | 18.60 | 19.26 | 37.03 | 50.84 | 57.24 |
| CFR – housing | 335.928 | 332.45 | 341.28 | 370.59 | 396.75 | 413.90 |
| Total CFR | 348.873 | 351.051 | 360.537 | 407.627 | 447.584 | 471.143 |
| Movement in CFR | | 2.178 | 9.486 | 47.090 | 39.957 | 23.559 |
| Movement in CFR represented by: | | | | | | |
| Net financing need for the year the Capital Programme | | 0.000 | 10.199 | 49.741 | 43.982 | 28.974 |
| Net financing need for the year-Loans for Capital Purposes | | 5.990 | (0.010) | (0.010) | (0.010) | (0.010) |
| Accounting changes in lease treatments | | 0.000 | 1.000 | 0.000 | 0.000 | 0.000 |
| Minimum Revenue Provision & HRA Debt Repayment | | (3.812) | (1.702) | (2.642) | (4.015) | (5.405) |
| Movement in CFR | | 2.178 | 9.486 | 47.090 | 39.957 | 23.559 |

2.3 Minimum revenue provision (MRP) policy statement

The Council is required to pay off an element of the Capital Financing Requirement through a charge to revenue known as the minimum revenue provision (MRP). DLUHC regulations require the full Council to approve an MRP Statement in advance of each year. A variety of options for calculating MRP are allowed so long as there is a prudent provision. The Council is recommended to approve the following MRP Statement:

The MRP policy will be:

Asset life method – MRP will be based on the estimated life of the assets, in accordance with the regulations;

This option provides for a reduction in the borrowing need over approximately the asset's life.

There is no requirement on the HRA to make a minimum revenue provision but a charge for depreciation must be made. Repayments included in finance leases are applied as MRP.

MRP Overpayments/Voluntary Revenue Provisions - DLUHC MRP Guidance allows that any charges made over the statutory minimum revenue provision (MRP), can be reclaimed in later years if deemed necessary or prudent. In order for MRP to be reclaimed for use in the budget, this policy must disclose the cumulative overpayment made. Up until the 31 March 2022, the total VRP overpayments are forecast at £0.481m.

The Council has and may provide loans to Parish Councils and other public sector bodies for capital purposes. The Capital Financing Requirement (CFR) will increase by the principal amount of the loan. The loan will be repaid in full and may include interest. The repayment of principal is classed as a capital receipt, and the CFR will reduce accordingly. As this is, a temporary arrangement and the funds will be returned in full, there is no need to set aside prudent provision to repay the debt liability in the interim period, so there is no MRP charge.

2.4 Core funds and expected investment balances

The use of funds to finance capital expenditure or 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 and anticipated day to day cash flow balances.

| Year End Resources | 2020/21 Actual £m | 2021/22 Estimate £m | 2022/23 Estimate £m | 2023/24 Estimate £m | 2024/25 Estimate £m | 2025/26 Estimate £m |
|-----------------------------|-------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
| Fund balances / reserves | 32.717 | 34.531 | 30.618 | 26.548 | 27.949 | 28.984 |
| Capital receipts | 46.180 | 43.694 | 6.143 | 0.000 | 0.000 | 0.000 |
| Provisions | 8.319 | 5 | 5 | 5 | 5 | 5 |
| Other | 0 | 0 | 0 | 0 | 0 | 0 |
| Total core funds | 87.216 | 83.225 | 41.761 | 31.548 | 32.949 | 33.984 |
| Working capital | | 5 | 5 | 5 | 5 | 5 |
| (Under)/over borrowing | | (1.183) | (11.375) | (29.477) | (29.112) | (28.474) |
| Expected investments | | 87.042 | 35.386 | 7.071 | 8.837 | 10.510 |

2.5 Affordability prudential indicators

Prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital

investment plans on the Council's overall finances. The Council is asked to approve the following indicators:

2.6 Ratio of financing costs to net revenue stream

This indicator identifies the trend in the cost of capital (borrowing and other long-term costs net of investment income) against the net revenue stream.

| | 2020/21 Actual | 2021/22 Estimate | 2022/23 Estimate | 2023/24 Estimate | 2024/25 Estimate | 2025/26 Estimate |
|--------------|-------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| General Fund | 1.11% | 0.84% | 0.98% | 1.04% | 1.02% | 1.01% |
| HRA | 20.78% | 19.68% | 18.77% | 19.06% | 19.21% | 20.78% |

2.7 HRA ratios

| | 2020/21 Actual | 2021/22 Estimate | 2022/23 Estimate | 2023/24 Estimate | 2024/25 Estimate | 2025/26 Estimate |
|-----------------------------|-------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| HRA debt £m | 335.93 | 332.45 | 331.08 | 360.39 | 386.55 | 403.70 |
| HRA revenues £m | 54.916 | 57.862 | 60.199 | 62.771 | 67.037 | 68.809 |
| Ratio of debt to revenues % | 612% | 575% | 550% | 574% | 577% | 587% |
| Number of HRA dwellings | 10,140 | 10,106 | 10,086 | 10,220 | 10,441 | 10,442 |
| Debt per dwelling £ | 33,129 | 32,896 | 32,825 | 35,264 | 37,022 | 38,661 |

3. Borrowing

The capital expenditure plans set out in Section 2 provide details of the service activity of the Council.

The treasury management function ensures the Council's cash is organised in accordance with the relevant professional codes, so 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.

3.1 Current portfolio position

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

| | TREASURY PORTFOLIO | | | |
|---|-------------------------|------------------------|---------------------------|--------------------------|
| | Actual 31.3.21 £0 | Actual 31.3.21 % | Current 31.12.21 £0 | Current 31.12.21 % |
| Treasury investments | | | | |
| Banks | 52,467 | 47% | 67,248 | 42% |
| Building societies - rated | 39,000 | 35% | 51,000 | 32% |
| Local authorities | 0 | 0% | 0 | 0% |
| DMADF (HM Treasury) | 0 | 0% | 19,000 | 12% |
| money market funds | 21,000 | 19% | 21,000 | 13% |
| Total managed in house | 112,467 | 100% | 158,248 | 100% |
| Total managed externally | 0 | 0% | 0 | 0% |
| Total treasury investments | 112,467 | 100% | 158,248 | 100% |
| Treasury external borrowing | | | | |
| PWLB | 353,502 | 100% | 353,502 | 100% |
| Total external borrowing | 353,502 | 100% | 362,383 | 100% |
| | | | | |
| Net treasury investments / (borrowing) | (241,035) | 0 | (204,135) | 0 |

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.

There are a number of key indicators to ensure the Council operates its activities within well-defined limits. One is that the Council needs to ensure 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 2022/23 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures borrowing is not undertaken for revenue purposes or to generate a profit. The Council complies with this indicator.

| | 2020/21 Actual £m | 2021/22 Estimate £m | 2022/23 Estimate £m | 2023/24 Estimate £m | 2024/25 Estimate £m | 2025/26 Estimate £m |
|--------------------------------------|-------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
| External Debt | | | | | | |
| Debt at 1 April | 358.441 | 353.502 | 349.680 | 347.974 | 376.962 | 417.284 |
| Expected change in Debt | (4.939) | (3.822) | (1.705) | 28.988 | 40.321 | 24.198 |
| Other long-term liabilities | 0.188 | 0.188 | 1.188 | 1.188 | 1.188 | 1.188 |
| Actual gross debt at 31 March | 353.690 | 349.868 | 349.162 | 378.150 | 418.472 | 442.669 |
| The Capital Financing Requirement | 348.873 | 351.051 | 360.537 | 407.627 | 447.584 | 471.143 |
| (Under) /over borrowing | 4.817 | (1.183) | (11.375) | (29.477) | (29.112) | (28.474) |

3.2 Treasury Indicators: Limits to borrowing activity

- a) The operational boundary. This is the limit beyond which external debt is not normally expected to exceed.

| Operational boundary | 2021/22 | 2022/23 | 2023/24 | 2024/25 | 2025/26 |
|-----------------------------|----------------|----------------|----------------|----------------|----------------|
| | Estimate £m | Estimate £m | Estimate £m | Estimate £m | Estimate £m |
| Debt | 353.502 | 349.680 | 376.962 | 417.284 | 441.481 |
| Other long term liabilities | 0.188 | 1.188 | 1.188 | 1.188 | 1.188 |
| Total | 353.690 | 350.868 | 378.150 | 418.472 | 442.669 |

- b) **The authorised limit for external debt.** This represents a limit beyond which external debt is prohibited and needs to be set or revised by full Council. It reflects the level of external debt, which, while not desired, could be afforded in the short term, but is not sustainable long term.

Under section 3 (1) of the Local Government Act 2003, the Government can control the total of all councils' plans or those of a specific council. The Council is asked to approve the following authorised limits to 2025/26:

| Authorised limit | 2021/22 Estimate £m | 2022/23 Estimate £m | 2023/24 Estimate £m | 2024/25 Estimate £m | 2025/26 Estimate £m |
|-----------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
| Debt | 400 | 400 | 400 | 420 | 450 |
| Other long term liabilities | 10 | 10 | 10 | 10 | 10 |
| Total | 410 | 410 | 410 | 430 | 460 |

The table below shows projections of CFR and borrowing:

| Capital Financing Requirement including leases | | | | | | |
|--|----------------|----------------|----------------|----------------|----------------|----------------|
| | Actual | Estimate | Estimate | Estimate | Estimate | Estimate |
| | 2020/21 | 2021/22 | 2022/23 | 2023/24 | 2024/25 | 2025/26 |
| | £m | £m | £m | £m | £m | £m |
| HRA CFR | 335.928 | 332.448 | 341.276 | 370.593 | 396.748 | 413.900 |
| GF CFR | 12.945 | 18.603 | 19.261 | 37.034 | 50.836 | 57.243 |
| Total CFR | 348.873 | 351.051 | 360.537 | 407.627 | 447.584 | 471.143 |
| External Borrowing | 353.502 | 349.680 | 347.974 | 376.962 | 417.284 | 441.481 |
| Other long term liabilities | 0.188 | 0.188 | 1.188 | 1.188 | 1.188 | 1.188 |
| Total Debt | 353.690 | 349.868 | 349.162 | 378.150 | 418.472 | 442.669 |
| Authorised Limit* | | 410 | 410 | 410 | 430 | 460 |
| Operational Boundary | | 353.690 | 350.868 | 378.150 | 418.472 | 442.669 |

3.3 Maturity Structure of borrowing

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.

The Council is asked to approve the following treasury indicators and limits:

| Maturity structure of fixed interest rate borrowing 2022/23 | | |
|---|-------|-------|
| | Lower | Upper |
| Under 12 months | 0.0% | 2.0% |
| 12 months to 2 years | 0.0% | 2.0% |
| 2 years to 5 years | 0.0% | 5.0% |
| 5 years to 10 years | 2.0% | 12.0% |
| 10 years and above | 5.0% | 90.0% |
| Maturity structure of variable interest rate borrowing 2022/23 | | |
| | Lower | Upper |
| Under 12 months | 0.00% | 1.00% |
| 12 months to 2 years | 0.00% | 2.00% |
| 2 years to 5 years | 0.00% | 2.00% |
| 5 years to 10 years | 0.00% | 0.00% |
| 10 years and above | 0.00% | 0.00% |

3.4 Borrowing strategy

The Chief Finance Officer will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances, specifically in relation to refinancing, delaying capital expenditure and taking on new borrowing. Any decisions will be reported to the appropriate decision making body at the next available opportunity.

3.5 Policy on borrowing in advance of need

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 value for money and that the Council can ensure security of such funds.

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

3.6 Prospects for Interest Rates

The Council's Treasury Advisors provided the following view for interest rates in 20th December 2021. The Bank Rate is the Bank of England base rate of interest.

| Link Group Interest Rate View 20.12.21 | | | | | | | | | | | | | | |
|--|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| | Dec-21 | Mar-22 | Jun-22 | Sep-22 | Dec-22 | Mar-23 | Jun-23 | Sep-23 | Dec-23 | Mar-24 | Jun-24 | Sep-24 | Dec-24 | Mar-25 |
| BANK RATE | 0.25 | 0.25 | 0.50 | 0.50 | 0.50 | 0.75 | 0.75 | 0.75 | 0.75 | 1.00 | 1.00 | 1.00 | 1.00 | 1.25 |
| 3 month ave earnings | 0.20 | 0.30 | 0.50 | 0.50 | 0.60 | 0.70 | 0.80 | 0.90 | 0.90 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 |
| 6 month ave earnings | 0.40 | 0.50 | 0.60 | 0.60 | 0.70 | 0.80 | 0.90 | 1.00 | 1.00 | 1.10 | 1.10 | 1.10 | 1.10 | 1.10 |
| 12 month ave earnings | 0.70 | 0.70 | 0.70 | 0.70 | 0.80 | 0.90 | 1.00 | 1.10 | 1.10 | 1.20 | 1.20 | 1.20 | 1.20 | 1.20 |
| 5 yr PWLB | 1.40 | 1.50 | 1.50 | 1.60 | 1.60 | 1.70 | 1.80 | 1.80 | 1.80 | 1.90 | 1.90 | 1.90 | 2.00 | 2.00 |
| 10 yr PWLB | 1.60 | 1.70 | 1.80 | 1.80 | 1.90 | 1.90 | 2.00 | 2.00 | 2.00 | 2.10 | 2.10 | 2.10 | 2.20 | 2.30 |
| 25 yr PWLB | 1.80 | 1.90 | 2.00 | 2.10 | 2.10 | 2.20 | 2.20 | 2.20 | 2.30 | 2.30 | 2.40 | 2.40 | 2.50 | 2.50 |
| 50 yr PWLB | 1.50 | 1.70 | 1.80 | 1.90 | 1.90 | 2.00 | 2.00 | 2.00 | 2.10 | 2.10 | 2.20 | 2.20 | 2.30 | 2.30 |

Over the last two years, the coronavirus outbreak has done huge economic damage to the UK and to economies around the world. After the Bank of England took emergency action in March 2020 to cut Bank Rate to 0.10%, it left Bank Rate unchanged at its subsequent meetings until raising it to 0.25% at its meeting on 16th December 2021.

As shown in the forecast table above, the forecast for Bank Rate now includes increases in quarter 2 of 2022 to 0.50%, quarter 1 of 2023 to 0.75%, quarter 1 of 2024 to 1.00% and in quarter 1 of 2025 to 1.25%. However, due to the ongoing high level of uncertainty prevailing on several different economic fronts such as Covid and inflation, it is likely that these forecasts will need revising within a relatively short timeframe.

3.7 Investment and borrowing rates

- Investment returns are expected to improve in 2022/23. However, while markets are pricing in a series of Bank Rate hikes, actual economic circumstances may see the MPC fall short of these elevated expectations. The overall balance of risks to economic growth in the UK is now to the downside, including risks from Covid and its variants - both domestically and their potential effects worldwide.

Borrowing interest rates fell to historically very low rates as a result of the COVID crisis and the quantitative easing operations of the Bank of England and still remain at historically low levels.

- In November, the Chancellor announced the conclusion to the review of margins over gilt yields for PWLB rates which had been increased by 100 bps in October 2019. The standard and certainty margins were reduced by 100 bps but a prohibition was introduced to deny access to borrowing from the PWLB for any local authority which had purchase of assets for yield in its three-year capital programme.

3.8 Debt rescheduling

Debt rescheduling involves the Council paying off its debt prior to the agreed maturity date. The rescheduling of current borrowing in the Council's debt portfolio is unlikely to occur. There is still a significant difference between premature

redemption rates and new borrowing rates, so premature redemption of debt is likely to result in additional cost to the Council under present conditions.

If any rescheduling and/or early repayment of existing debt is considered prudent, this will be reported to Cabinet at the earliest meeting following completion of the repayment.

3.9 New financial institutions as a source of borrowing and / or types of borrowing

The Council's current source of borrowing is the PWLB. Other borrowing sources available to the Council to finance its capital programme are:

- Local authorities
- Financial institutions
- Municipal Bonds Agency

This Authority may make use of these alternative sources of borrowing as and when appropriate.

4. Annual Investment Strategy

4.1 Investment policy

The DLUHC 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, are covered in the Capital Strategy.

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 2017 ("the Code")

CIPFA Treasury Management Guidance Notes 2018. The Council's investment priorities will be security first, liquidity second and then yield.

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: -

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

- 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 Treasury advisors Link Asset Services to maintain a monitor on market pricing such as “credit default swaps” and overlay that information on top of the credit ratings.
 - Other information sources used will include the financial press and share prices in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.
 - Dacorum Borough Council has defined the list of types of investment instruments that the treasury management team are authorised to use. There are two lists in Appendix 1 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 originally they were originally classified as being non-specified investments solely due to the maturity period exceeding one year.
 - **Non-specified investments** are those with a high credit quality, but lower than specified investments, 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.
 - Non-specified investments limit. The Council has determined that it will limit the maximum total exposure to non-specified investments as being 50% of the total investment portfolio.
 - Lending limits, (amounts and maturity), for each counterparty will be set through applying the matrix table described in paragraph 4.2.
 - Transaction limits are set for each type of investment in Appendix 1.
 - The Council will set a limit for the amount of its investments which are invested for longer than 365 days, (see paragraph 4.5).
 - Investments will only be placed with counterparties from countries with a specified minimum sovereign rating, (see paragraph 4.2).
 - The Council has engaged external consultants, (see paragraph 1.7), to provide expert 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.

- All investments will be denominated in sterling.
- a result of the change in accounting standards 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. (MHCLG (DLUHC) allowed a statutory temporary override to delay implementation of IFRS 9 for five years ending March 2023 to allow English local authorities time to adjust their portfolio of all pooled investments. There is no currently no impact for the Council).

The Council 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 4.7). Regular monitoring of investment performance will be carried out during the year.

4.2 Creditworthiness policy

Dacorum uses the creditworthiness service provided by the Link Group. This service employs a modelling approach using credit ratings from the three main credit rating agencies.

The credit ratings of counterparties are supplemented with the following overlays:

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

This modelling approach combines credit ratings, credit Watches and credit Outlooks in a weighted scoring system which is then combined with an overlay of credit default swap spreads for which the end product 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 (Nationalised or semi nationalised UK Banks only)
-

- Orange 1 year
- Red 6 months
- Green 100 days
- No colour not to be used

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.

Typically the minimum credit ratings criteria the Council use will be a Short Term rating (Fitch or equivalent) 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.

All credit ratings will be monitored weekly. The Council is alerted to changes to ratings of all three agencies through its use of Link's 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 benchmark and other market data on a daily basis via its Passport website, provided exclusively to it by Link Asset Services. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

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

4.3 Country limits

Due care will be taken to consider the exposure of the Council's total investment portfolio to non-specified investments, countries, groups and sectors. The Section 151 Officer will determine approved counterparties from countries with a minimum sovereign credit rating of AA- from Fitch (or equivalent) as appropriate, with durations following the same colour coded criteria, as set out in 4.2. Officers will remove counterparties from this list should ratings change in accordance with this policy. Counterparties will only be added with approval from the Section 151 Officer.

4.4 Local Authority Counterparties

In light of some Local Authorities issuing s114 notices (issued by an authority's s151 office is of the view that expenditure of the authority is likely to exceed the resources available to meet that expenditure), the Council has taken advice in respect of Local Authority counterparties. This states that local authorities continue to represent a low risk investment. The Council will continue to include Local Authority counterparties in its list of potential investment counterparties.

4.5 Investment strategy

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).

If it is thought that Bank Rate is likely to rise significantly within the time horizon being considered, then consideration will be given to keeping most investments as being short term or variable.

Conversely, if it is thought that Bank Rate is likely to fall within that time period, consideration will be given to locking in higher rates currently obtainable, for longer periods.

Investment returns expectations: Links forecast in paragraph 3.3 includes a forecast increase in bank rate in the first quarter of 2022/23.

The suggested budgeted investment earnings rates for returns on investments placed for periods up to 100 days during each financial year are as follows:

| | |
|-------------|--------|
| 2022/23 | 0.50% |
| 2023/24 | 0.75% |
| 2024/25 | 0.100% |
| 2025/26 | 1.25 |
| Later years | 2.00% |

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.

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

| Upper limit for principal sums invested for longer than 365 days | | | |
|--|------------------|------------------|------------------|
| £m | 2022/23 | 2023/24 | 2024/25 |
| Principal sums invested for longer than 365 days | 20% of portfolio | 20% of portfolio | 20% of portfolio |

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

4.6 Treasury Management Counterparty Limits.

The Investment limits for counterparties is set as part of the annual Treasury Management Strategy. The counterparty limits were increased in 2021/22, no changes have been made for 2022/23. The Council is asked to approve the limits in the table below:

Table 1: Counter Party Limits .
Average Forecast DBC Investment balance 2022/23: £122m

| Counterparty Limits | | |
|---------------------------------------|----------|---|
| Colour Band (duration) | Limit £m | Current limit as a % of total average investment balance* |
| Green (3 months) | 9 | 7.38% |
| Red (6 months) | 11 | 9.02% |
| Orange (1 year) | 12.5 | 10.25% |
| Purple (2 years) | 12.5 | 10.25% |
| Blue (1 year, incl. NatWest own Bank) | 14.5 | 11.89% |

*the Council is able to invest in 'yellow' banded counterparties (duration up to 5 years), which are not shown in this table. These include investments with the DMO and MMFs.

4.7 Investment performance / risk benchmarking

These benchmarks are simple guides to minimise risk; so may be breached from time to time, depending on movements in interest rates and counterparty criteria.

The purpose of the benchmark is that officers will monitor the position and amend the operational strategy to manage risk as conditions change. Any breach of the benchmarks will be reported to Cabinet, with supporting reasons in the mid-year and annual report.

Security - The Council's maximum security risk benchmark for the current portfolio, when compared to historic default tables is 0.013%.

Liquidity – in respect of this area the Council seeks to maintain:

- Maximum bank overdraft - £0.25m
- Liquid deposits of at least £5m available with a week's notice.
- Weighted average life benchmark is expected to be around 100 days

Yield - local measures of yield benchmarks for investments is to achieve internal returns above the 7 day SONIA (Sterling Overnight Index Average) rate .

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

4.8 Transactional Limits

There may be occasions that the council is in receipt of large income transactions from land and property sales etc. In instances such as these, every effort is made to ensure the council remains within the counterparty limits as set by the Treasury Management Strategy. Due to the nature of these types of transactions, a provision

of 'one working day' is given in order to allow for any surplus funds to be redistributed from the Councils bank to available counterparties as per the creditworthiness policy in 4.2.

4.9 External fund managers

The Council does not currently use fund managers. If deemed appropriate in the future, the decision go through Cabinet for recommendation to Full Council.

4.10 Non - Treasury Investments

The Council recognises investment in other financial assets and property primarily for financial return, taken for non-treasury management purposes, requires careful management. Such activity may include loans to support service outcomes, investment in subsidiaries and investment property portfolios and is covered by the Council's normal approvals processes for revenue and capital expenditure. The Council's portfolio of investment properties are managed as part of the Council's asset management strategy.

Appendix 1: Credit and Counterparty Risk Management

A variety of investment instruments will be used, subject to the credit quality of the institution, and depending on the type of investment made it will fall into one of the below categories.

The criteria, time limits and monetary limits applying to institutions or investment vehicles are:

Specified Investments: All such investments will be sterling denominated, with maturities up to maximum of 1 year, meeting the minimum 'high' quality criteria where applicable. (Non-specified investments which would be specified investments apart from originally being for a period longer than 12 months, will be classified as being specified once the remaining period to maturity falls to under twelve months.)

| | Minimum Credit criteria / colour band | Use |
|---|---------------------------------------|----------------------------|
| Debt Management Agency Deposit Facility | Yellow | In-house and Fund Managers |
| Term deposits – UK Government (including other local authorities) | Yellow | In-house and Fund Managers |
| Term deposits – banks and building societies | See 4.2 | In-house and Fund Managers |
| Term deposits – housing associations | See 4.2 | In-house and Fund Managers |
| Certificates of deposit issued by banks and building societies | See 4.2 | In-house and Fund Managers |
| UK Government Gilts | Yellow | In-house and Fund Managers |
| Money Market Funds (CNAV) | AAA | In-house and Fund Managers |
| Money Market Funds (LVNAV) | AAA | In-house and Fund Managers |
| Money Market Funds (VNAV) | AAA | In-house and Fund Managers |
| Ultra-Short Dated Bond Funds with a credit score of 1.25 | AAA | In-house and Fund Managers |
| Ultra-Short Dated Bond Funds with a credit score of 1.5 | AAA | In-house and Fund Managers |
| UK Government Treasury bills | Yellow | In-house and Fund Managers |

Term deposits with nationalised banks and banks and building societies

| | * Minimum Credit Criteria | Use | *** Max % of total investments | Max. maturity period |
|----------------------------|------------------------------|----------------------------|--------------------------------|----------------------|
| UK part nationalised banks | See Link's Creditworthy list | In-house and Fund Managers | £14.5M per institution | 12 months |

Non-specified Investments: These are any investments which do not meet the specified investment criteria. A maximum of the lower of 50% of the portfolio, or £20m will be held in aggregate in non-specified investment.

| | * Minimum Credit Criteria | Use | Max. maturity period |
|--|---------------------------|----------------------------|----------------------|
| Term deposits – UK Government and Other Local Authorities | Yellow | In-house and Fund Managers | 5 years |
| Term deposits – housing associations | See 4.2 | In-House and Fund Managers | 5 years |
| Term deposits – banks and building societies | See 4.2 | In-house and Fund Managers | 5 years |
| Certificates of deposit issued by banks and building societies | See 4.2 | In-house and Fund Managers | 5 years |
| Gilt Funds | UK sovereign rating | In-house and Fund Managers | 5 years |
| UK Government gilts | Yellow | In-house and Fund Managers | 5 years |
| Bonds issued by multilateral development banks | AAA | In-house and Fund Managers | 5 years |

Accounting treatment of investments. The accounting treatment may differ from the underlying cash transactions arising from investment decisions. To ensure the Council is protected from any adverse revenue impact, which may arise from these differences, we will review the accounting implications of new transactions before they are undertaken.

Appendix 2- Treasury Management Principle 1: Risk Management (Extract from Treasury Management Principles and Practices

Treasury Management Practice 1: Risk Management

The responsible officer will, in accordance with the procedures set out in TMP6 Reporting Requirements and Management Information Arrangements:

- *Design, implement and monitor all arrangements for the identification, management and control of treasury management risk;*
- *Report at least annually on the adequacy/suitability thereof;*
- *Report, as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the organisation's objectives in this respect;*

In respect of each of the following risks, the arrangements which seek to ensure compliance with these objectives are set out in this document.

1. Liquidity Risk Management

Dacorum Borough Council (DBC) will ensure it has adequate, though not excessive cash resources, borrowing arrangements, overdraft or standby facilities to enable it at all times to have the level of funds available which are necessary for the achievement of its business/service objectives.

DBC will only borrow in advance of need where there is a clear business case for doing so, and will only do so for the current capital programme or to finance future debt maturities.

Liquidity risk is the risk cash will not be available when required. This can jeopardise the ability of the Council to carry out its functions, or disrupt those functions being carried out in the most cost-effective manner. The Council will ensure its cash flow forecasting gives as accurate a picture as possible of income and expenditure, and the resulting daily cash balances.

Amounts of Approved Minimum Cash Balances and Short-term Investments

The Treasury Management team shall seek to minimise the balance held in the Council's main bank accounts at the close of each working day, to minimise credit interest foregone and overdraft interest payable. Borrowing and lending shall be arranged, in conjunction with 'auto-sweeping' of balances, to achieve this aim.

Investment of Short-Term Funds

Each morning the Bank's forecast figures for the day are aggregated with any other anticipated cash flows (e.g. cash courier receipts, RTB funds flows income) to produce a consolidated forecast balance for the end of the day. Any short-term credit balance will be either:

- Transferred in to the Council's Call Account with its bankers NatWest plc (RBS);
or

- Placed in a Business Reserve Account with selected approved counterparties who offer this facility;
- Placed into a Money Market Fund.

All funds lodged in these ways are instantly available if required.

The Council receives interest if its consolidated balance on any particular night shows a credit balance.

Bank Overdraft Arrangements

A £0.25m net overdraft facility is available with the Council's bankers. Overdraft charges are only applicable if the Council's consolidated balance on any particular night is overdrawn, and charged in line with the Bank Contract.

Short-Term Borrowing Facilities

Short-term borrowing is very rarely required. If undertaken, this is done through brokers on the London Money Market, or Public Works Loan Board. Approved borrowing limits are set out in the Treasury Management Strategy Statement.

Insurance/Guarantee Facilities

There are no specific insurance or guarantee facilities as the above arrangements are regarded as adequate to cover all unforeseen occurrences.

2. Interest Rate Risk Management

DBC will manage its exposure to fluctuations in interest rates with a view to containing its interest costs, or securing its interest revenues, in accordance with the amounts provided in its budgetary arrangements, as described in TMP6 Reporting Requirements and Management Information Arrangements.

The Council will achieve this objective by the prudent use of its approved financing and investment instruments, methods and techniques. This will be done primarily to create stability and certainty of costs and revenues, whilst at the same time retaining a sufficient degree of flexibility to take advantage of unexpected (potentially advantageous) changes in the level or structure of interest rates. The above is subject at all times to the consideration and, if required, approval of any policy or budgetary implications.

Interest rate risk is the risk unexpected changes in interest rates expose the Council to greater costs or a shortfall in income than budgeted. The Council will minimise this risk by seeking expert advice on forecasts of interest rates from treasury management consultants and discussing with them its strategy for the coming year for the investments and debt portfolios. It will also determine appropriate limits and trigger points as set out below.

The limits and strategy are set out in the annual Treasury Management Strategy Statement including details on the approved interest rate exposure limit, trigger

points and guidelines for managing changes to interest rate levels and minimum/maximum proportions of variable/fixed rate debt and interest. The strategy is produced before the start of each financial year and will be periodically reviewed during the year to see whether any modifications are required in the light of actual movements in interest rates.

Forward Dealing

Consideration will be given to dealing on forward periods dependent upon market conditions. Investments may be agreed weeks or months in advance if market conditions suggest this is appropriate. Any forward deals, whose maturity date is over one year hence at the time the investment is agreed, will only be undertaken with the approval of the Section 151 Officer. Occasionally investments are agreed a few days in advance for administrative convenience (e.g. due to annual leave).

Callable Deposits

The Council will use callable deposits. The credit criteria and maximum periods are set out in the Schedule of Specified and Non-Specified Investments included within the Treasury Management Strategy Statement.

3. Exchange Rate Risk Management

Dacorum Borough Council will manage its exposure to fluctuations in exchange rates so as to minimise any detrimental impact on its budgeted income/expenditure levels.

Exchange rate risk is the risk unexpected changes in exchange rates expose the Council to greater costs or a shortfall in income than budgeted. The Council has a minimal exposure to exchange rate risk as it has no powers to enter into loans or investments in foreign currency for treasury management purposes. It will seek to minimise what risk it does have by using the policies below.

Approved Criteria for Managing Changes in Exchange Rate Levels

As a result of the nature of the Council's business, the Council may have an exposure to exchange rate risk from time to time. This will mainly arise from the receipt of income or the incurring of expenditure in a currency other than sterling.

The Council will adopt a full hedging strategy to control and add certainty to the sterling value of any foreign currency transactions above £10,000 in value (at the prevailing exchange rate). This will mean the Council will eliminate all material foreign exchange exposures as soon as they are identified.

Where there is a contractual obligation to receive income or make a payment in a currency other than sterling at a date in the future, forward foreign exchange transactions will be considered, with professional advice, to comply with this full cover hedging policy for material foreign currency transactions. Unexpected receipt of foreign currency income will be converted to sterling at the earliest opportunity unless the Council has a contractual obligation to make a payment in the same

currency at a date in the future. In this instance, the currency will be held on deposit to meet this expenditure commitment

4. Credit and Counterparty Risk Management

Dacorum Borough Council regards the primary objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, the Council will ensure its counterparty lists and limits reflect a prudent attitude towards counterparties with whom funds may be deposited. Furthermore, the Council will limit its investment activities to the instruments, methods and techniques referred to in TMP4 Approved Instruments, Methods and Techniques and listed in the schedule to this document.

The Council also recognises the need to have, and will therefore maintain, a formal counterparty policy in respect of those organisations from which it may borrow, or with whom it may enter into other financing arrangements.

Credit and counterparty risk is the risk of failure by a third party to meet its contractual obligations under an investment, loan or other commitment, especially due to deterioration in its creditworthiness, which causes the Council an unexpected burden on its capital or revenue resources.

As a holder of public funds, the Council recognises its prime responsibility to always put first preserving the principal of the sums it invests. Consequently, it will optimise returns commensurate with the management of the associated risk.

Criteria to be used for Creating/Managing Approved Counterparty Lists/Limits

The Council places a strong reliance on its treasury adviser Link Group to help manage credit and counterparty risk. Link has much greater market expertise and direct access to market knowledge than the Council. None the less, the Council recognises all advice provided by its treasury adviser is precisely that, and full responsibility for all counterparties used, and investments placed, rests entirely with the Council.

The three elements to managing credit and counterparty risk are:

- 1) Determining '*Specified and Non-Specified Investments*' criteria;
- 2) Determining '*Approved Lending Policy*', which sets out minimum credit criteria, duration and monetary amount limits;
- 3) Managing the *Approved Lending List* (or list of counterparties).

Specified and Non-Specified Investments

The Council will determine through its Treasury Management Strategy the credit criteria for various investment instruments in the 'Specified' and 'Non-Specified' Investments categories. Specified Investments are sterling investments of not more than one year maturity (or the ability to be repaid within one year), meeting the minimum 'high' rating criteria and require '*minimal procedural formalities*'. Non-specified investments are any other type of investment. The maximum amounts

and maturity periods along with the overall limits are set out in the Treasury Management Strategy Statement.

Lending Policy

The Lending Policy is based on Link guidance. This uses different ratings combinations and allocates those meeting the minimum criteria a colour as set out in the Treasury Management Strategy Statement. The Council has allocated each of these colour bands a maximum duration and amount. Any changes to the Treasury Management Statement require approval of Full Council.

Money Market Funds

Money Market Funds will be used in line with the Council's Treasury Management Strategy. Funds used will be reviewed on at least an annual basis in March, unless market conditions, trends and external advice suggests reviews should be undertaken sooner.

Approved Lending List

The list of approved counterparties is derived from applying the limits in the Treasury Management Strategy to the weekly ratings list of deposit takers provided by Link. The list includes domestic and foreign banks, building societies, supranational institutions and multi-lateral development banks. It is supplemented by a ratings alert service for changes to the ratings of individual counterparties. If the Council uses external fund managers, they will adhere to the counterparty credit criteria and maximum individual limits set by the Council; however the fund managers may use a subset of the derived counterparty list.

The Regulatory and Financial Accounting Team is responsible for maintaining the Approved Lending List on the Council's Investment System and for ensuring any changes are communicated to the fund manager, where appropriate.

A full copy of the Council's approved counterparties, along with their individual amount and duration limits, will be included in the Treasury Management Annual Report.

5. Refinancing Risk Management

The Council will ensure its borrowing, private financing and partnership arrangements are negotiated, structured and documented, and the maturity profile of the monies so raised are managed, with a view to obtaining offer terms for renewal or refinancing, if required, which are competitive and as favourable to the Council as can reasonably be achieved in the light of market conditions prevailing at the time.

The Council will actively manage its relationships with its counterparties in these transactions in such a manner as to secure this objective, and will avoid over-reliance on any one source of funding if this might jeopardise achievement of the above.

Refinancing risk is the risk when loans or other forms of capital financing mature, they cannot be refinanced where necessary on terms reflecting assumptions made in formulating the budget.

Debt / Other Capital Financing Maturity Profiling, Policies and Practices

The Council holds debt that arose from the Housing Self Financing in March 2012. This transaction was subject to detailed reports and approvals, and a specific audit. Debt has been acquired over a thirty year period as fixed term loans from the Public Works Loan Board (PWLb).

The Council acquired new borrowing in May 2015 to support General Fund Capital Expenditure. Borrowing activities and strategies and limits are identified within the Treasury Management Strategy Statement.

The Council will establish through its Prudential and Treasury Indicators the amount of debt maturing in any year/period.

Any debt rescheduling will be considered when the difference between the refinancing rate and the redemption rate is most advantageous and the situation will be continually monitored in order to take advantage of any perceived anomalies in the yield curve. The reasons for any rescheduling to take place will include:

- the generation of cash savings at minimum risk;
- to reduce the average interest rate;
- to amend the maturity profile and /or the balance of volatility of the debt portfolio.

Rescheduling will be reported to Cabinet at the meeting immediately following its action.

Projected Capital Investment Requirements

Regular updates are made to the Authority's revenue and capital budget projections. These projections identify the key capital items (both expenditure and income) forecast for forthcoming years, and this analysis is used to ensure the Council will have sufficient funds available in forthcoming years. In addition, the responsible officer will draw up a capital strategy report which will give a longer term view.

Capital expenditure and long-term liabilities definition will follow recommended accounting practice.

Policy Concerning Limits on Revenue Consequences of Capital Financing

The Council will consider all the resources currently available/estimated for the future together with the totality of its capital plans, revenue income and revenue forecasts for the forthcoming year and the two following years and the impact these will have on council tax and housing rent levels. It will take into account affordability in the longer term beyond this three year period. The Council will use the definitions

in the Prudential Code for borrowing, capital expenditure, financing costs, investments, net borrowing, net revenue stream, and other long-term liabilities.

Whenever major capital projects are planned, a full examination is undertaken of the potential revenue impact. Issues considered include revenue costs/benefits resulting directly from the project, and the impact on revenue of interest receipts foregone as a consequence of undertaking the capital investment.

Capital Receipts Generated by the HRA

For each Right to Buy council house disposal, the Council must pay a proportion to Central Government. The Council retains the '1-4-1' receipt, which can be used to fund 40% of new build expenditure within 3 years. Any unused '1-4-1' receipts are to be returned to Government.

The Council also has the ability to utilise 100% of its non- Right to Buy Housing receipts and a small proportion of right to buy council house sales relating to adjusted allowable debt and the local authority's share capital. Receipts under £10,000 are not subject to pooling.

6. Legal and Regulatory Risk Management

Dacorum Borough Council will ensure that all of its treasury management activities comply with its statutory powers and regulatory requirements. It will demonstrate such compliance, if required to do so, to all parties with whom it deals in such activities. In framing its credit and counterparty policy under TMP1[4] Credit and Counterparty Risk Management, it will ensure that there is evidence of counterparties' powers, authority and compliance in respect of the transactions they may effect with the Council, particularly with regard to duty of care and fees charged.

The Council also recognises that future legislative or regulatory changes may impact on its treasury management activities and, so far as it is reasonably able to do so, will seek to minimise the risk of these impacting adversely on the organisation.

Legal and regulatory risk is the risk either the Council or a third party it is dealing with in its treasury management activities, acts outside of its legal powers or regulatory requirements and as a result the Council incurs loss.

References to Relevant Statutes and Regulations

The treasury management activities of the Council shall comply fully with legal statute, guidance, Codes of Practice and the regulations of the Council. These are:

Legislation

Statutes

- Local Government Finance Act 1988 section 114 – duty on the responsible officer to issue a report if the Council is likely to get into a financially unviable position.

- Requirement to set a balanced budget - Local Government Finance Act 1992 section 32 for billing authorities and section 43 for major precepting authorities.
- Local Government Act 2003
- Local Government Act 2003 (Commencement No.1 and Transitional Provisions and Savings) Order 2003
- Local Authorities (Capital Finance and Accounting) (England) Regulations 2003
- Local Authorities (Capital Finance and Accounting) (Amendment) (England) Regulations 2004, 2006, 2007, 2008, 2009, 2010, 2012, 2013, 2017, 2018, 2019
- Local Authorities (Capital Finance) (Consequential, Transitional and Savings Provisions) Order 2004
- Local Government and Public Involvement in Health Act 2007 s238 (2) – power to issue guidance; to be used re: MRP
- The Local Government Pension Fund Scheme (Management and Investment of Funds) Regulations 2009
- Localism Act 2011
- Accounts and Audit Regulations 2015
- Statutory Guidance on Investments 2018
- Statutory Guidance on MRP 2018
- Exiting the European Union financial services: The Money Market Funds (Amendment) (EU Exit) Regulations 2019

Guidance and codes of practice

- CIPFA's Treasury Management Codes of Practice and Guidance Notes 2017
- CIPFA Prudential Code for Capital Finance in Local Authorities revised 2017 & Guidance Notes 2018
- CIPFA Local Authority Capital Accounting - a reference manual for practitioners latest year Edition
- CIPFA Guide for Chief Financial Officers on Treasury Management in Local Authorities 1996
- CIPFA Standard of Professional Practice on Treasury Management 2002
- CIPFA Standard of Professional Practice on Continuous professional Development 2005
- CIPFA Standard of Professional Practice on Ethics 2006
- The Good Governance Standard for Public Services 2004
- LAAP Bulletins
- CIPFA Code of Practice on Local Authority Accounting in the United Kingdom: A statement of recommended Practice
- PWLB circulars on Lending Policy
- The UK Money Markets Guide. Formally the Financial Conduct Authority's Code of Market Conduct

Dacorum Borough Council

- The Council's Standing Orders;
- The Council's Financial Regulations;
- The Council's Scheme of Delegation;
- The Council's Treasury Management Strategy;

- The Council's Treasury Management Practices – Principles & Practices;

Procedures for Evidencing the Council's Powers / Authorities to Counterparties

The Council's powers to borrow and invest are contained in legislation as follows:

Investing: Local Government Act 2003, section 12;

Borrowing: Local Government Act 2003, section 1;

Required Information from Counterparties Concerning their Powers / Authorities

Lending shall only be made to counterparties on the Council's Approved Lending List. This list has been compiled using advice from the Council's treasury advisers based upon credit ratings supplied by various credit agencies and the Council's own data.

Statement on the Council's Political Risks and Management of these Risks

The Chief Financial Officer shall take appropriate action with the Council, the Chief Executive and the Leader of the Council to respond to, and manage appropriately, political risks such as a change of the majority Group, in the Leader of the Council or a change of Government.

Monitoring Officer

The Monitoring officer is the Assistant Director Corporate and Contracted Services. The duty of this officer is to ensure treasury management activities of the Council are lawful.

Chief Financial Officer/ S151 Officer

The Chief Financial Officer and S151 Officer is the Assistant Director Finance and Resources. The duty of this officer is to ensure financial affairs of the Council are conducted in a prudent manner and report to the Council if he/she has concerns as to the financial prudence of its actions or its expected financial position.

The Deputy S151 Officer is the Group Manager (Financial Services), who can deputise fully for the S151 Officer.

7. Fraud, Error and Corruption, and Contingency Management

Dacorum Borough Council will ensure that it has identified any circumstances that may expose it to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings. Accordingly, it will employ suitable systems and procedures, and will maintain effective contingency management arrangements, to these ends.

Fraud, error and corruption risk is the risk the Council may fail to employ adequate systems, procedures and other arrangements which identify and prevent losses through such occurrences. The Council will:

- a) Seek to ensure an adequate division of responsibilities and maintenance at all times of an adequate level of internal check which minimises such risks;
- b) Fully document all its treasury management activities so there can be no possible confusion as to what proper procedures are;
- c) Ensure staff will not be allowed to engage in treasury management activities until they have had proper training in procedures; and are then subject to an adequate and appropriate level of supervision
- d) Ensure records are maintained of all treasury management transactions, so there is a full audit trail and evidence of the appropriate checks being carried out.

Details of Systems and Procedures to be followed, Including Internet Services

Authority

The Council's Financial Regulations sets out the Council's delegation arrangements with regard to Treasury Management. These are summarised in *TMP5*.

Investment and Borrowing Transactions

Adequate and effective cash flow forecasting records are maintained on the Council's Investments system to support any decisions made to place investments.

A detailed register of all investments is maintained within the Council's Investments system. This system includes full details of counterparty limits, along with other information including investment amounts, value and maturity dates, interest rates, and gross interest receivable.

All transactions placed through brokers or via direct dealing are confirmed, showing details of the transaction. Written confirmation is received from both broker and borrower and checked against the dealer's records. Any discrepancies are immediately reported to the Team Leader Financial and Regulatory Accounting for resolution. The Council does not send any confirmations of its own.

Regularity and Security

All lending, for investment purposes, is only made to counterparties on the Council's Approved Lending List. This list provides individual authorisation limits for each counter party.

Investments are paid direct into the appropriate counterparty's bank account (as advised by the broker or counterparty as appropriate), and investments are repaid direct from the counterparty into the Council's General Account.

Counterparty limits are set for every institution that the Council invests with.

Brokers have been provided with a list of named Council officials who are authorised to place investments on the Council's behalf.

The Council's Bank holds a list of Council officials who are authorised signatories. The list of authorised bank account signatories has been agreed with the Council's current bankers, and updates of this list are notified to the bank as appropriate when current authorised signatories leave, or new signatories join.

Notifications of amendments are only accepted by the bank if they are signed by an existing (non-departing) authorised signatory. The only member of the treasury management team that is an authorised signatory is the Team Leader Financial and Regulatory Accounting. There is a separation of duties in the section between the officer placing the deals and the officer checking counterparty confirmations. In addition, if an authorising officer were to create a payment transaction online, the transaction would still need the usual approval by one/two other authorising officers.

All investments are paid by CHAPS instruction through the online banking system. This is undertaken by two of the authorised bank account signatories and the officer agreeing an investment cannot be one of the signatories for that particular investment.

Checks

The Investment System balances are reconciled to the balance sheet ledger codes at the end of each month and at the financial year-end. The System includes comprehensive reconciliation checks back to the Council's banking system to ensure all investments transactions are correctly recorded and processed.

An investment income listing is produced every month and reported on the Council's performance system.

Emergency and Contingency Planning Arrangements

All computer files are backed up on the server to enable files to be accessed from remote sites.

The Council's Investment and banking systems are both internet based so can be accessed from any site or computer, subject to the user having the appropriate access and security information.

Insurance Cover Details

The Council has Crime insurance cover provided by Travelers Insurance Co Ltd. This policy covers loss resulting directly from any crime committed by any employee or any third party. The total limit of indemnity provided is £1,000,000, a policy excess of £100,000 for each and every claim applies.

The Council also has Officials Indemnity cover with Aspen Insurance UK Ltd. This provides cover in respect of the Council's legal liability to pay claimant's damages and costs for financial losses arising as a result of the negligent acts or accidental errors and omissions of Council employees, occurring in the course of their duties.

The limit of indemnity is £5,000,000, a policy excess of £75,000 for each and every claim applies.

The Council has Business Interruption cover as part of its property insurance with Protector Insurance. This covers additional costs of working and loss of revenue if an insured event occurs.

8. Market Risk Management

Dacorum Borough Council will seek to ensure that its stated treasury management policies and objectives will not be compromised by adverse market fluctuations in the value of the principal sums it invests, and will accordingly seek to protect itself from the effects of such fluctuations.

Market risk is the risk through adverse market fluctuations in the value of principal sums, the Council borrows and invests, its stated policies and objectives are compromised, against which it had failed to protect itself adequately. The Council does not currently have exposure to investments whose capital may fluctuate (gilts, Corporate Deposits), and will only undertake such activities on discussion with the S151 Officer and Portfolio Holder (Finance & Resources), and if the current Investment Strategy allows such investments.

Appendix 3 – Link Asset Services’ Approved Lending List – UK Banks and Financial Institutions

| Country | Counterparty | Approved Duration | DBC Current Limit (M) |
|----------------|--|--------------------------|------------------------------|
| U.K | Al Rayan Bank Plc | 6 months | 11 |
| U.K | Bank of Scotland PLC (RFB) | 6 months | 11 |
| U.K | Barclays Bank PLC (NRFB) | 6 months | 11 |
| U.K | Barclays Bank UK PLC (RFB) | 6 months | 11 |
| U.K | Close Brothers Ltd | 6 months | 11 |
| U.K | Goldman Sachs International Bank | 6 months | 11 |
| U.K | Handelsbanken Plc | 12 months | 12.5 |
| U.K | HSBC Bank PLC (NRFB) | 12 months | 12.5 |
| U.K | HSBC UK Bank Plc (RFB) | 12 months | 12.5 |
| U.K | Lloyds Bank Corporate Markets Plc (NRFB) | 6 months | 11 |
| U.K | Lloyds Bank Plc (RFB) | 6 months | 11 |
| U.K | NatWest Markets Plc (NRFB) | 6 months | 11 |
| U.K | Santander Financial Services plc (NRFB) | 6 months | 11 |
| U.K | Santander UK plc | 6 months | 11 |
| U.K | SMBC Bank International Plc | 6 months | 11 |
| U.K | Standard Chartered Bank | 6 months | 11 |
| U.K | Coventry BS | 6 months | 11 |
| U.K | Leeds BS | 100 days | 9 |
| U.K | Nationwide BS | 6 months | 11 |
| U.K | Skipton Building Society | 6 months | 11 |
| U.K | Yorkshire BS | 100 days | 9 |
| U.K | National Westminster Bank PLC (RFB) | 12 months | 14 |
| U.K | The Royal Bank of Scotland Plc (RFB) | 12 months | 14 |

Appendix 4: Treasury management roles and scheme of delegation

Full Council

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

Cabinet

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

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;
- approving the selection of external service providers and agreeing terms of appointment;
- approving the use of non-UK counterparties as appropriate;
- preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments and treasury management, with a long term time frame;
- ensuring the capital strategy is prudent, sustainable, affordable in the long term and provides value for money;
- ensuring due diligence has been carried out on all 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.