Stafford
BOROUGH COUNCIL

Civic Centre, Riverside, Stafford

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Dear Members

Audit and Accounts Committee

A meeting of the Audit and Accounts Committee will be held in the **Craddock Room, Civic Centre, Riverside, Stafford on Tuesday 13 February 2024 at the conclusion of the joint meeting of the Cabinet and Audit and Accounts Committee** to deal with the business as set out on the agenda.

Please note that this meeting will be recorded.

Members are reminded that contact officers are shown in each report and members are welcome to raise questions etc in advance of the meeting with the appropriate officer.

I. Curran

Head of Law and Governance

AUDIT AND ACCOUNTS COMMITTEE

13 FEBRUARY 2024

Chair - Councillor M G Dodson

AGENDA

1 Minutes of 13 December 2023 as circulated and published on 2 January 2024.

2 Apologies

3 Officers' Reports

Chair - Councillor M G Dodson

M G Dodson	A M Loughran
R A James	A R McNaughton
P A Leason	D P Rouxel

Agenda Item 3(a)

Treasury Management Strategy, Minimum Revenue Provision Policy, Annual Investment Strategy 2024/25

Committee: Audit and Accounts Committee

Date of Meeting: 13 February 2024

Report of: S151 Officer and Deputy Chief Executive

Portfolio: Resources Portfolio

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1 Purpose of Report

This report is presented to obtain the Council's approval to: -

1.1. Prudential and Treasury Indicators - setting of indicators to ensure that the capital investment plans of the Council are affordable, prudent and sustainable;

1.2. The Minimum Revenue Provision (MRP) Policy;

1.3. Treasury Management Strategy Statement for 2024/25 - to set treasury limits for 2024/25 to 2025/26 and to provide a background to the latest economic forecasts of interest rates; and

1.4. Annual Investment Strategy 2024/25 - to set out the strategy of investment of surplus funds.

2 Recommendations

2.1 That the following be approved:-

(a) The Prudential and Treasury Indicators;

(b) The MRP Policy Statement;

(c) The Treasury Management Policy;

(d) The Annual Investment Strategy for 2024/25.

Reasons for Recommendations

2.2 To note that indicators may change in accordance with the final recommendations from Cabinet to Council in relation to both the General Fund Revenue Budget and the Capital Programme.

3 Key Issues

3.1 The Council is required to approve its treasury management, investment and capital strategies to ensure that cash flow is adequately planned and that surplus monies are invested appropriately.

4 Relationship to Corporate Priorities

4.1 Treasury management and investment activities are interwoven with all of the Council's priorities and their spending plans.

5 Report Detail

Background

5.1 The Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Accordingly, a significant function of Treasury Management is ensuring that cash flows are adequately planned and controlled to meet this objective. Any surplus monies are invested with low-risk counterparties, and managed appropriately so that sufficient levels of liquid cash are available to meet any payment obligations as well as offer headroom for unexpected circumstances. Such considerations underpin the day-to-day operations of Treasury Management when determining investment-related outcomes rather than the sole factor of yield that aims to generate higher return on investments with little or no regards to financial risks.

5.2 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 the Council can meet its capital spending operations. This management of longer-term cash may involve arranging long or short-term loans, or using longer term cash flow surpluses, and on occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

5.3 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.

5.4 CIPFA defines treasury management as:

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

5.5 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.

This Council has not engaged in any commercial investments and has no non-treasury investments.

Reporting Requirements

Capital Strategy

5.6 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

5.7 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.

5.8 The capital strategy is in the process of being updated and will then come to a cabinet and council meeting for adoption.

Treasury Management reporting

5.9 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.

5.10 **Prudential and treasury indicators and treasury strategy** (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).

5.11 **A mid-year treasury management report** - This is primarily a progress report and will update members on the capital position, amending Prudential Indicators as necessary, and whether any policies require revision.

5.12 **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.

5.13 **Scrutiny** - The above reports are required to be adequately scrutinised before being recommended to the Council. This role is undertaken by the Audit and Accounts Committee.

5.14 The Council has adopted the following reporting arrangements in accordance with the requirements of the CIPFA Code of Practice:-

Area of Responsibility	Council/Committee	Frequency
Treasury Management Strategy/ Annual Investment Strategy/ MRP policy	Full Council	Annually in January/February each year
Treasury Management Strategy/ Annual Investment Strategy/ MRP policy/Monitoring of Prudential Indicators	Full Council	Mid-year
Treasury Management Strategy/ Annual Investment Strategy/ MRP policy - updates or revisions at other times	Full Council	As required
Annual Treasury Outturn Report	Audit and Accounts Committee and Council	Annually by 30 September after the end of the year
Scrutiny of treasury management strategy	Audit and Accounts Committee	Annually in February before the start of the year

Treasury Management Strategy for 2024/25

5.15 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
- policy on use of external service providers.

5.16 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.

Training

5.17 The CIPFA Treasury Management Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny.

Furthermore, pages 47 and 48 of the Code state that they expect “all organisations to have a formal and comprehensive knowledge and skills or training policy for the effective acquisition and retention of treasury management knowledge and skills for those responsible for management, delivery, governance and decision making.

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 board/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.

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.”

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.

5.18 Training has been undertaken by members of the Audit and Accounts Committee in January 2020 but there has been a gap in training due to the Covid pandemic and lockdown restrictions since. Discussions have been undertaken with our external treasury advisors who will deliver training at an upcoming audit committee once the dates have been finalised.

Treasury Management Consultants

5.19 The Council uses Link Asset Services, Treasury Solutions as its external treasury management advisors.

5.20 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 our external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisers.

It also recognises that there is value in employing 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.

The Capital Prudential Indicators 2024/24 - 2026/27

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

Capital expenditure

5.22 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, which include a review of current schemes together with the continuation of the applicable rolling programme schemes, but to note these may change as part of the scrutiny process and finalisation of the Budget.

5.23 Any change to the forecast and any new growth bids will be separately identified in future Budget Reports and reflected in this indicator as reported to full Council.

Capital Expenditure (£m)	2022/23 Actual £'000	2023/24 Estimate £'000	2024/25 Estimate £'000	2025/26 Estimate £'000	2026/27 Estimate £'000	Unallocated £'000
Community Portfolio	1,467	1,766	2,017	1,522	1,522	3,434
Environment Portfolio	186	200	317	50	50	101
Leisure and Culture Portfolio	104	1,870	541	0	0	16
Planning and Regeneration	532	16,690	8,242	0	0	3,548
Resources Portfolio	80	122	50	50	50	750
Total	**2,369**	**20,648**	**11,167**	**1,622**	**1,622**	**7,849**

5.24 In addition to the above Capital Programme, the expenditure and borrowing of the Council may increase as a result of match funding requirements for bids in relation to such projects like the Future High Streets Fund. Such capital schemes and business cases will be subject to reports to Cabinet and Council and their respective approvals. If a borrowing requirement emerges, the Council shall consider the use of the Public Works Loan Board (PWLB) discount rate as well other sources of funding as prescribed under paragraph 5.65. An appraisal will be undertaken to determine and ensure that, amongst other things, any new borrowings are affordable and work within the Prudential Indicators limits before entering into such borrowing facilities.

5.25 Other long-term liabilities. The financing need excludes other long-term liabilities, such leasing arrangements which already include borrowing instruments.

5.26 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.

Capital expenditure	**2022/23 Actual £’000**	**2023/24 Estimate £’000**	**2024/25 Estimate £’000**	**2025/26 Estimate £’000**	**2026/27 Estimate £’000**	**Unallocated £’000**
Total Spend	2,369	20,648	11,167	1,622	1,622	7,849
Financed by:						
Capital receipts	89	1,048	320	43	0	6
Capital grants/ contributions	2,107	18,494	6,929	1,578	1,603	3,478
Revenue	173	1,106	3,918	1	19	4,365
Net financing need for the year	0	0	0	0	0	0

5.27 The capital financing of the programme will similarly be reviewed as part of the Budget process and any change will be separately identified in future Budget Reports and reflected in this indicator.

The Council’s borrowing need (the Capital Financing Requirement)

5.28 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. It is essentially a measure of the Council’s indebtedness and so it’s underlying borrowing need. Any capital expenditure above, which has not immediately been paid for through a revenue or capital resource, will increase the CFR.

5.29 The CFR does not increase indefinitely, as the Minimum Revenue Provision (MRP) is a statutory annual revenue charge which broadly reduces the borrowing need in line with each assets life and so charges the economic consumption of capital assets as they are used.

5.30 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 schemes include a borrowing facility by the PPP lease provider and so the Council is not required to separately borrow for these schemes. As at the end of 2022/23, the Council currently has £1.580m of such Finance Leases within the CFR. However, it is anticipated that this figure will rise during 2024/25 in respect of the new IFRS 16 leasing requirements. Further work will be undertaken to ensure that this is reflected in the calculations when appropriate.

5.31 The Council is asked to approve the following CFR projections, subject to any changes arising from the budget process:-

Capital Financing Requirement (CFR)

	2022/23 Actual £'000	**2023/24** Estimate £'000	**2024/25** Estimate £'000	**2025/26** Estimate £'000	**2026/27** Estimate £'000
Total CFR	3,778	3,587	4,925	4,765	4,633
Movement in CFR		(191)	1,338	(160)	(132)

Movement in CFR represented by

	2022/23 Actual £'000	**2023/24** Estimate £'000	**2024/25** Estimate £'000	**2025/26** Estimate £'000	**2026/27** Estimate £'000
Net financing need for the year	0	0	0	0	0
Less MRP and other financing movements	(299)	(191)	1,338	(160)	(132)
Movement in CFR	(299)	(191)	1,338	(160)	(132)

Liability Benchmark

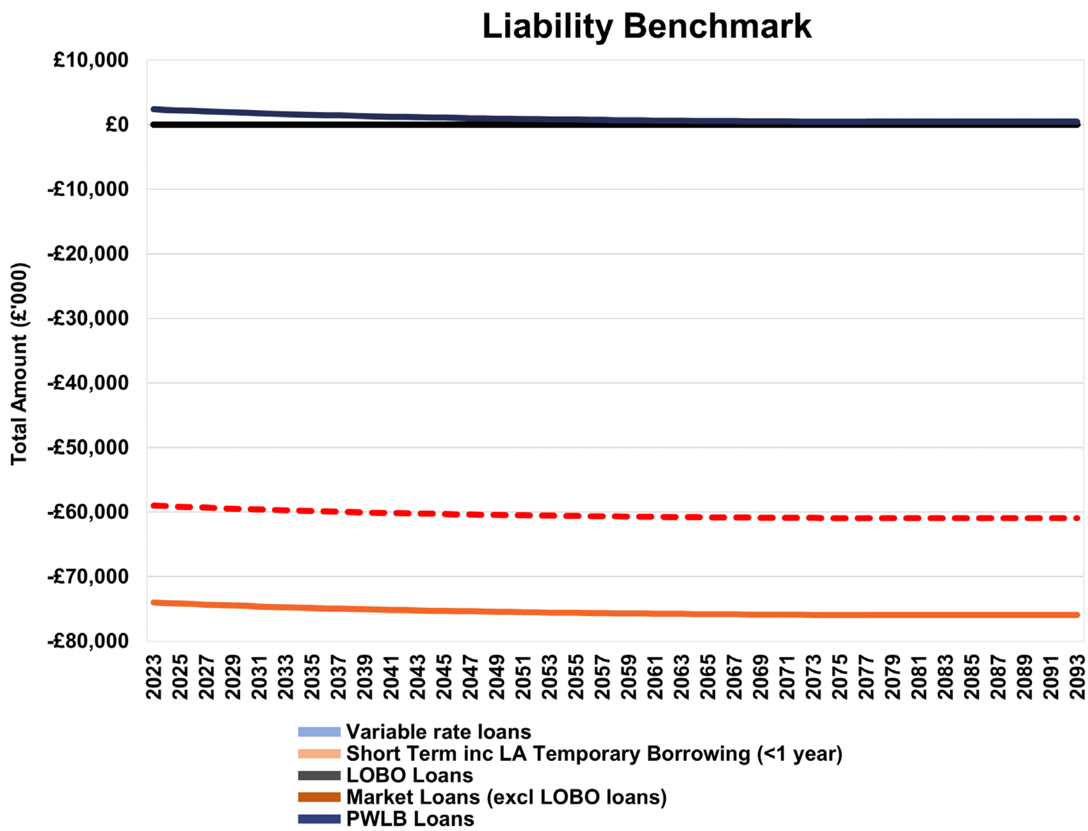
5.32 A third Prudential Indicator for 2024/25 is the Liability Benchmark (LB). The Council is required to estimate and measure the LB for the forthcoming financial year and the following two financial years, as a minimum.

There are four components to the LB: -

1. **Existing loan debt outstanding**: the Authority's existing loans that are still outstanding in future years.
2. **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.

3. **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.
4. **Liability benchmark** (or gross loans requirement): this equals net loans requirement plus short-term liquidity allowance.

The Liability Benchmark is effectively the Net Borrowing Requirement of a local authority plus a liquidity allowance. In its simplest form, it is calculated by deducting the amount of investable resources available on the balance sheet (reserves, cash flow balances) from the amount of outstanding external debt and then adding the minimum level of investments required to manage day-to-day cash flow.



As the Council's Treasury position is debt-free across the entire forecast period, the Council's Liability Benchmark is also negative across the same time horizon. The Graph therefore indicates that there is no present need to borrow given the Council's current resources and capital intentions.

Core funds and expected investment balances

5.33 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 (£m)	2022/23 Actual £'000	2023/24 Estimate £'000	2024/25 Estimate £'000	2025/26 Estimate £'000	2026/27 Estimate £'000
Fund balances / reserves	32,415	33,155	32,061	33,624	29,899
Unallocated Reserves	1,569	1,618	1,741	1,775	1,511
Capital receipts	1,443	744	424	381	375
Capital grants unapplied	15,860	4,780	4,205	721	696
Provisions	3,374	851	0	0	0
Section 106 (Other) 6000-7853	3,689	3,163	2,149	2,149	2,149
Section 106 (Other) Revenue	2,495	2,030	2,010	2,010	2,010
Total core funds	**60,845**	**46,341**	**42,590**	**40,660**	**36,640**
Working capital*	(15,353)	5,000	5,000	5,000	5,000
Under/over borrowing	2,198	2,110	2,025	1,944	1,866
Expected investments	**74,000**	**39,231**	**35,565**	**33,716**	**29,774**

*Working cashflow requirement shown are estimated year-end; these may be higher mid-year.

Minimum revenue provision (MRP) Policy Statement

5.34 Under Regulation 27 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, where the Authority has financed capital expenditure by borrowing it is required to make a provision each year through a revenue charge (the Minimum Revenue Provision - MRP).

5.35 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. The MRP Policy Statement requires Full Council approval in advance of each financial year.

5.36 The Authority is recommended to approve the following MRP Statement:

Under powers delegated to the Section 151 Officer, the Council's Annual MRP provision for expenditure incurred after 1 April 2008 which forms part of supported capital expenditure will be based on the uniform rate of 4% of the Capital Financing Requirement (CFR).

The Council's Annual MRP provision for all unsupported capital expenditure incurred on or after 1 April 2008 will be determined by charging the expenditure over the expected useful life of the relevant asset in equal instalments or as the principal repayment on an annuity with an annual interest rate 4%, starting in the year after the asset becomes operational.

5.37 Capital expenditure incurred during 2024/25 will not be subject to an MRP charge until 2025/26, or in the year after the asset becomes operational.

5.38 The Authority will apply the asset life method for any expenditure capitalised under a Capitalisation Direction.

5.39 Repayments included in finance leases are applied as MRP.

5.40 The Council are satisfied that the policy for calculating MRP set out in this Policy Statement will result in the Council continuing to make prudent provision for the repayment of debt, over a period that is on average reasonably commensurate with that over which the expenditure provides benefit.

5.41 The Section 151 Officer will, where it is prudent to do so, use discretion to review the overall financing of the Capital Programme and the opportunities afforded by the regulations, to maximise the benefit to the Council whilst ensuring the Council meets its duty to charge a prudent provision.

5.42 For capital expenditure on loans to third parties where the principal element of the loan is being repaid in annual instalments, the capital receipts arising from the principal loan repayments will be used to reduce the CFR instead of MRP.

Where no principal repayment is made in a given year, MRP will be charged at a rate in line with the life of the assets funded by the loan.

5.43 **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.

The Council has previously not made any VRP overpayments.

Affordability Prudential Indicators

5.44 The previous sections cover the overall capital and control of borrowing Prudential Indicators, but within this framework 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:-

Ratio of financing costs to net revenue stream

5.45 This indicator identifies the trend in the cost of capital (borrowing and other long-term obligation costs net of investment income) against the net revenue stream. The figures below show a negative ratio due to the investment income being recevied by the council on its treasury investments.

%	2022/23 Actual	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
Ratio of financing costs	-8.6%	-18.1%	-13.9%	-7.9%	-7.1%

Borrowing

5.46 The capital expenditure plans above 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 Authority'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.

Current portfolio position

5.47 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**
	£'000	£'000	£'000	£'000	£'000
External Debt:					
PWLB debt at 1 April	0	0	0	0	0
Expected change in Debt	0	0	0	0	0
Other long-term liabilities (OLTL)	1,788	1,580	1,477	2,900	2,821
Expected in-year change in OLTL	(208)	(103)	1,423	(79)	(54)
Actual gross debt at 31 March	1,580	1,477	2,900	2,821	2,767
The Capital Financing Requirement	3,778	3,587	4,925	4,765	4,633
Under / (over) borrowing	**2,198**	**2,110**	**2,025**	**1,944**	**1,866**

5.48 Within the range of Prudential Indicators there are several key indicators to ensure that the Authority operates its activities within well-defined limits. One of these is that the Authority 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 2024/25 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.

5.49 The Deputy Chief Executive Resources reports that the Authority complied with this Prudential Indicator in the current year and does not envisage difficulties for the future. This view takes account of current commitments, existing plans and the proposals in this budget report.

Treasury Indicators: limits to borrowing activity

5.50 **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 £m	**2022/23 Actual** £'000	**2023/24 Estimate** £'000	**2024/25 Estimate** £'000	**2025/26 Estimate** £'000	**2026/27 Estimate** £'000
Debt	2,385	2,385	17,385	17,385	17,385
Other long-term liabilities	1,580	1,477	2,900	2,822	2,768
Total	3,965	3,862	20,285	20,207	20,153

5.51 **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.

1. 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.

2. The Council is asked to approve the following authorised limit:-

Authorised limit £m	**2022/23 Actual** £'000	**2023/24 Estimate** £'000	**2024/25 Estimate** £'000	**2025/26 Estimate** £'000	**2026/27 Estimate** £'000
Debt	5,385	5,385	20,385	20,385	20,385
Other long-term liabilities	1,580	1,477	2,900	2,822	2,768
Total	6,965	6,862	23,285	23,207	23,153

Prospects for interest rates

5.52 The Council has appointed Link Group as its treasury advisor and part of their service is to assist the Authority to formulate a view on interest rates. Link provided the following forecasts on 7 November 2023. These are forecasts for Bank Rate, average earnings and PWLB certainty rates, gilt yields plus 80 bps.

Link Group Interest Rate View	07.11.23												
	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
BANK RATE	5.25	5.25	5.25	5.00	4.50	4.00	3.50	3.25	3.00	3.00	3.00	3.00	3.00
3 month ave earnings	5.30	5.30	5.30	5.00	4.50	4.00	3.50	3.30	3.00	3.00	3.00	3.00	3.00
6 month ave earnings	5.60	5.50	5.40	5.10	4.60	4.10	3.60	3.40	3.10	3.10	3.10	3.10	3.10
12 month ave earnings	5.80	5.70	5.50	5.20	4.70	4.20	3.70	3.50	3.30	3.30	3.30	3.30	3.30
5 yr PWLB	5.00	4.90	4.80	4.70	4.40	4.20	4.00	3.80	3.70	3.60	3.50	3.50	3.50
10 yr PWLB	5.10	5.00	4.80	4.70	4.40	4.20	4.00	3.80	3.70	3.70	3.60	3.60	3.50
25 yr PWLB	5.50	5.30	5.10	4.90	4.70	4.50	4.30	4.20	4.10	4.10	4.00	4.00	4.00
50 yr PWLB	5.30	5.10	4.90	4.70	4.50	4.30	4.10	4.00	3.90	3.90	3.80	3.80	3.80

5.53 Link's central forecast for interest rates was previously updated on 25 September and reflected a view that the MPC would be keen to further demonstrate its anti-inflation credentials by keeping Bank Rate at 5.25% until at least Q2 2024. 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 mild recession over the coming months, although most recent GDP releases have surprised with their on-going robustness.

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.

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.

On the positive side, consumers are still anticipated to be sitting on some excess savings left over from the pandemic, which could cushion some of the impact of the above challenges and may be the reason why the economy is performing somewhat better at this stage of the economic cycle than may have been expected. However, as noted previously, most of those excess savings are held by more affluent households whereas lower income families already spend nearly all their income on essentials such as food, energy and rent/mortgage payments.

5.54 **PWLB rates.** Gilt yield curve movements have broadened since Link's review. The short part of the curve has not moved far but the longer-end continues to reflect inflation concerns. At the time of writing, there is 60 basis points difference between the 5 and 50 year parts of the curve.

The balance of risks to the UK economy: -

- The overall balance of risks to economic growth in the UK is to the downside.

Downside risks to current forecasts for UK gilt yields and PWLB rates include: -

- **Labour and supply shortages** prove more enduring and disruptive and depress economic activity (accepting that in the near-term this is also an upside risk to inflation and, thus, could keep gilt yields high for longer).

- **The Bank of England** has increased Bank Rate too fast and too far over recent months, and subsequently brings about a deeper and longer UK recession than we currently anticipate.

- **UK / EU trade arrangements** – if there was a major impact on trade flows and financial services due to complications or lack of co-operation in sorting out significant remaining issues.

- **Geopolitical risks,** for example in Ukraine/Russia, the Middle East, China/Taiwan/US, Iran and North Korea, which could lead to increasing safe-haven flows.

Upside risks to current forecasts for UK gilt yields and PWLB rates: -

- Despite the recent tightening to 5.25%, the **Bank of England proves too timid** in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to remain elevated for a longer period within the UK economy, which then necessitates Bank Rate staying higher for longer than we currently project.

- **The pound weakens** because of a lack of confidence in the UK Government's pre-election fiscal policies, resulting in investors pricing in a risk premium for holding UK sovereign debt.

- Longer-term **US treasury yields** rise strongly if inflation remains more stubborn there than the market currently anticipates, consequently pulling gilt yields up higher. (We saw some movements of this type through October although generally reversed in the last week or so.)

- Projected **gilt issuance, inclusive of natural maturities and QT,** could be too much for the markets to comfortably digest without higher yields compensating.

LINK GROUP FORECASTS

Link now expect the MPC will keep Bank Rate at 5.25% for the remainder of 2023 and the first half of 2024 to combat on-going inflationary and wage pressures. They do not think that the MPC will increase Bank Rate above 5.25%, but it is possible.

Gilt yields and PWLB rates

The overall longer-run trend is for gilt yields and PWLB rates to fall back over the timeline of our forecasts, as inflation starts to fall through the remainder of 2023 and into 2024.

Our target borrowing rates are set **two years forward** (as we expect rates to fall back) and the current PWLB (certainty) borrowing rates are set out below:-

PWLB debt	Current borrowing rate as at 06.11.23 p.m.	Target borrowing rate now (end of Q3 2025)	Target borrowing rate previous (end of Q3 2025)
5 years	5.02%	3.80%	3.90%
10 years	5.15%	3.80%	3.80%
25 years	5.61%	4.20%	4.10%
50 years	5.38%	4.00%	3.90%

5.55 **Borrowing advice:** Link's Our long-term (beyond 10 years) forecast for Bank Rate has increased from 2.75% to 3% and reflects Capital Economics' research that suggests AI and general improvements in productivity will be supportive of a higher neutral interest rate. As all PWLB certainty rates are currently significantly above this level, borrowing strategies will need to be reviewed in that context. Overall, better value can generally be obtained at the shorter end of the curve and short-dated fixed LA to LA monies should be considered. Temporary borrowing rates will remain elevated for some time to come but may prove the best option whilst the market continues to wait for inflation, and therein gilt yields, to drop back later in 2024.

Link's suggested budgeted earnings rates for investments up to about three months' duration in each financial year are rounded to the nearest 10bps and set out below. You will note that investment earnings have been revised somewhat higher for all years from 2025/26 as Bank Rate remains higher for longer.

Average earnings in each year	Now	Previously
2023/24 (residual)	5.30%	5.30%
2024/25	4.70%	4.70%
2025/26	3.20%	3.00%
2026/27	3.00%	2.80%
2027/28	3.25%	3.05%
Years 6 to 10	3.25%	3.05%
Years 10+	3.25%	3.05%

5.56 As there are so many variables at this time, caution must be exercised in respect of all interest rate forecasts.

Link's interest rate forecast for Bank Rate is in steps of 25 bps, whereas PWLB forecasts have been rounded to the nearest 10 bps and are central forecasts within bands of + / - 25 bps. Naturally, we continue to monitor events and will update our forecasts as and when appropriate.

Borrowing Strategy

5.57 The Council is currently maintaining an under-borrowed position. 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. That is, Bank Rate remains elevated through to the second half of 2024.

5.58 Against this background and the risks within the economic forecast, caution will be adopted with the 2024/25 treasury operations. The Deputy Chief Executive Resources 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,* then borrowing will 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.

5.59 Any decisions will be reported to Members appropriately at the next available opportunity.

Treasury management limits on activity

5.60 **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.

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

Maturity structure of fixed interest rate borrowing 2024/25

	Lower	Upper
Under 12 months	0%	100%
12 months to 2 years	0%	100%
2 years to 5 years	0%	100%
5 years to 10 years	0%	100%
10 years and above	0%	100%

Maturity structure of variable interest rate borrowing 2024/25

	Lower	Upper
Under 12 months	0%	75%
12 months to 2 years	0%	75%
2 years to 5 years	0%	75%
5 years to 10 years	0%	75%
10 years and above	0%	75%

Policy on borrowing in advance of need

5.62 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.

5.63 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.

Rescheduling

5.64 Debt rescheduling of external borrowing can help with migitating against exposure to the risk of interest rate movements, lower the cost of servicing debt and alter the maturity profile to avoid refinancing risk.

The Council's current debt portfolio does not consist of borrowing but of leases and, accordingly, debt rescheduling will not occur.

New Financial Institutions as a Source of Borrowing and / or Types of Borrowing

5.65 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 - generally 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).
- UK Municipal Bonds Agency
- UK Infrastructure Bank - where the project meets its investment principles (namely, economic regeneration and tackling climate change), the Infrastructure Bank offers loans at the relevant Gilts rate + 60 basis points (20 basis points lower than the PWLB Certainty rate) and can match the length of the loan and repayment profile to needs of the project.

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

Annual Investment Strategy

Investment policy - management of risk

5.66 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).

The Authority'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

5.67 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 with the Council's risk appetite. Consistent with the spirit of the Code's treaury management practices (namely, TMP1 on credit and counterparty risk management), the Council shall be mindful of environmental, social and governance (ESG) considerations in its decision-making outcomes. To that end, the Council will not knowingly invest directly with financial participants whose activities and practices pose a risk of serious damage or whose activities are inconsistent with the Council's mission and values. In the current economic climate, it is considered appropriate to maintain a degree of liquidity to cover cash flow needs but to also consider "laddering" investments for periods up to 12 months with high credit rated financial institutions, whilst investment rates remain elevated, as well as wider range fund options.

5.68 The above guidance from the DLUHC and CIPFA places 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 Authority 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.

5.69 This Authority has defined the list of types of investment instruments that the Treasury Management Team are authorised to use, as per **APPENDIX 2**. This Authority has defined the list of types of investment instruments that the Treasury Management Team are authorised to use, as per **APPENDIX 2**. These financial instruments can be separated into two 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 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.

5.70 **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.

5.71 **Lending limits**, (amounts and maturity), for each counterparty will be set through applying the matrix table in the **APPENDIX 2**.

5.72 **Transaction limits** are set for each type of investment in **APPENDIX 2**.

5.73 The Council will set a limit for the amount of its investments which are invested for longer than 365 days.

5.74 Investments will only be placed with counterparties from countries with a specified minimum sovereign rating.

5.75 The Council has engaged external consultants, 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.

5.76 All investments will be denominated in sterling.

5.77 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 31.3.23. More recently, a further extension to the over-ride to 31.3.25 has been agreed by Government.

5.78 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. Regular monitoring of investment performance will be carried out during the financial year.

Creditworthiness policy

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

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

5.80 This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS 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 (only applies to nationalised or semi nationalised UK Banks)
- Orange 1 year
- Red 6 months
- Green 100 days
- No colour not to be used

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

5.82 Typically, the minimum credit ratings criteria the Council uses 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.

5.83 All credit ratings will be monitored weekly. The Council is alerted to changes to ratings of all three agencies through its use of our 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 weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

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

5.85 The Council has determined that it will only use approved counterparties from the UK and countries with a minimum sovereign credit rating of AA- from Fitch or equivalent. The list of countries that qualify using this credit criteria as at the date of this report are shown in **APPENDIX 3**. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

Creditworthiness

5.86 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.

CDS Prices

5.87 Although bank CDS prices, (these are market indicators of credit risk), spiked upwards during the days of the Truss/Kwarteng government in the autumn of 2022, 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.

Investment Strategy

5.88 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.

5.89 Accordingly, while most cash balances are required in order to manage the peaks and troughs of cash flows, 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.

5.90 **Investment returns expectations.** It should be observed that there is a relationship with inflation and interest rates. Rise in inflation will invariably lead to a rise in interests. The same wisdom holds turn from the opposite situation. Holding true to this relationship, the persistent rise of inflation as seen at the time of writing this report, has correspondingly increased the Bank Rate. The Bank of England (BoE) has opted to increase Bank Rate on 14 successive occasions, starting around mid-December 2021. At the beginning of April 2022, Bank Rate was set at 0.75% and moved up in stepped increases of either 0.25% or 0.5% thereafter, reaching 4.25% by the end of 2022/23 and to the current 5.25% in October 2023. Based on current modelling, Bank Rate has peaked. Amongst other things, the Bank of England’s short-term fiscal strategy and tight monetary mechanisms to control the rampant rise of inflation has had its desired effects. Inflationary pressures are cooling, moving downwards from 40-year highs of around 11% in October 2022 through to 4.6% in November 2023. As with the current trajectory of inflation, it is projected that Bank Rate will gradually decline during 2024/25.

5.91 The suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year are as follows: -

Average earnings in each year	
2023/24 (residual)	5.30%
2024/25	4.70%
2025/26	3.20%
2026/27	3.00%
2027/28	3.25%
Years 6 to 10	3.25%
Years 10+	3.25%

It should be observed, however, that as there are so many variables at this time, caution must be exercised in respect of all interest rate forecasts.

5.92 **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 Authority is asked to approve the Treasury Indicator and limit:-

Maximum principal sums invested > 365 days

	2024/25	2025/26	2026/27
Principal sums invested > 365 days	£10m	£10m	£10m

5.93 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 182 days) in order to benefit from the compounding of interest whilst preserving the security of invested funds and liquidity.

Investment risk benchmarking

5.94 This Council will use an investment benchmark to assess the investment performance of its investment portfolio of overnight, 7 day, 1, 3, 6 or 12 month compounded / SONIA.

End of year investment report

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

6 Implications

6.1 **Financial**

Included in this Report

6.2 **Legal**

None

6.3 **Human Resources**

None

6.4 **Risk Management**

The Council regards security of the sums it invests to be the key objective of its Treasury Management activity. Close management of counterparty risk is therefore a key element of day-to-day management of treasury activity. The practices designed to ensure that risks are managed effectively are set out in the Treasury Management Practices available on the Council's website.

6.5 **Equalities and Diversity**

The Council considers the effect of its actions on all sections of our community and has addressed all of the following Equality Strands in the production of this report, as appropriate:-

Age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex, sexual orientation.

None

6.6 **Health**

None

6.7 **Climate Change**

None

7 Appendices

Appendix 1: Economic Update (provided by Link Asset Services as of November 2023)

Appendix 2: Treasury Management Practice (TMP1) - Credit and Counterparty Risk Management

Appendix 3: Approved Countries for Investment

Appendix 4: Treasury Management Scheme of Delegation

Appendix 5: The Treasury Management Role of The Section 151 Officer

8 Previous Consideration

None

9 Background Papers

Available in Financial Services

Contact Officer:	Chris Forrester
Telephone Number:	01543 464334
Ward Interest:	Nil
Report Track:	Audit and Accounts Committee 13 February 2024
	Council 27 February 2024
Key Decision:	Yes

Appendix 1

Economic Update (Provided by Link Asset Services as of November 2023)

- The first half of 2023/24 saw:
  - Interest rates rise by a further 100bps, taking Bank Rate from 4.25% to 5.25% and, possibly, the peak in the tightening cycle.
  - Short, medium and long-dated gilts remain elevated as inflation continually surprised to the upside.
  - CPI inflation falling from 8.7% in April to 6.7% in September, its lowest rate since February 2022, but still the highest in the G7.
  - Core CPI inflation declining to 6.1% in September from 7.1% in April and May, a then 31 years high.
  - A cooling in labour market conditions, but no evidence yet that it has led to an easing in wage growth (as the 3myy growth of average earnings rose by 7.8% for the period June to August, excluding bonuses).
- The registering of 0% GDP for Q3 suggests that underlying growth has lost momentum since earlier in the year. Some of the weakness in July was due to there being almost twice as many working days lost to strikes in July (281,000) than in June (160,000). But with output falling in 10 out of the 17 sectors, there is an air of underlying weakness.
- The fall in the composite Purchasing Managers Index from 48.6 in August to 46.7 in September left it at its lowest level since COVID-19 lockdowns reduced activity in January 2021. At face value, it is consistent with the 0% q/q rise in real GDP in the period July to September, being followed by a contraction in the next couple of quarters.
- The 0.4% m/m rebound in retail sales volumes in August is not as good as it looks as it partly reflected a pickup in sales after the unusually wet weather in July. Sales volumes in August were 0.2% below their level in May, suggesting much of the resilience in retail activity in the first half of the year has faded.
- As the growing drag from higher interest rates intensifies over the next six months, we think the economy will continue to lose momentum and soon fall into a mild recession. Strong labour demand, fast wage growth and government handouts have all supported household incomes over the past year. And with CPI inflation past its peak and expected to decline further, the economy has got

through the cost-of- living crisis without recession. But even though the worst of the falls in real household disposable incomes are behind us, the phasing out of financial support packages provided by the government during the energy crisis means real incomes are unlikely to grow strongly. Higher interest rates will soon bite harder too. We expect the Bank of England to keep interest rates at the probable peak of 5.25% until the second half of 2024. Mortgage rates are likely to stay above 5.0% for around a year.

- The tightness of the labour market continued to ease, with employment in the three months to July falling by 207,000. The further decline in the number of job vacancies from 1.017m in July to 0.989m in August suggests that the labour market has loosened a bit further since July. That is the first time it has fallen below 1m since July 2021. At 3.0% in July, and likely to have fallen to 2.9% in August, the job vacancy rate is getting closer to 2.5%, which would be consistent with slower wage growth. Meanwhile, the 48,000 decline in the supply of workers in the three months to July offset some of the loosening in the tightness of the labour market. That was due to a 63,000 increase in inactivity in the three months to July as more people left the labour market due to long term sickness or to enter education. The supply of labour is still 0.3% below its pre-pandemic February 2020 level.

- But the cooling in labour market conditions still has not fed through to an easing in wage growth. The headline 3myy rate rose 7.8% for the period June to August, which meant UK wage growth remains much faster than in the US and in the Euro-zone. Moreover, while the Bank of England's closely watched measure of regular annual average total pay growth for the private sector was 7.1% in June to August 2023, for the public sector this was 12.5% and is the highest total pay annual growth rate since comparable records began in 2001. However, this is affected by the NHS and civil service one-off non-consolidated payments made in June, July and August 2023. The Bank of England's prediction was for private sector wage growth to fall to 6.9% in September.

- CPI inflation declined from 6.8% in July to 6.7% in August and September, the lowest rate since February 2022. The biggest positive surprise was the drop in core CPI inflation, which declined from 6.9% to 6.1%. That reverses all the rise since March.

- In its latest monetary policy meeting on 06 November, the Bank of England left interest rates unchanged at 5.25%. The vote to keep rates on hold was a split vote, 6-3. It is clear that some members of the MPC are still concerned about the stickiness of inflation.

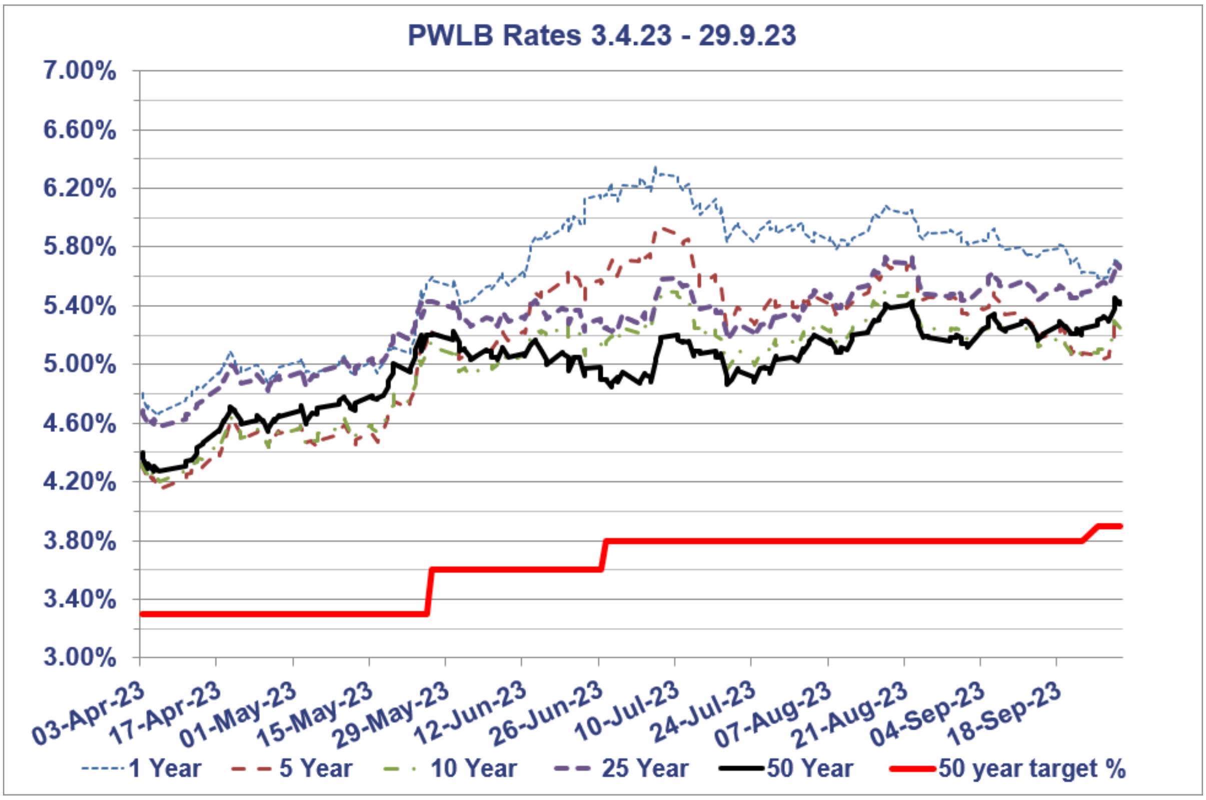
- Like the US Fed, the Bank of England wants the markets to believe in the higher for longer narrative. In terms of messaging, the Bank once again said that "further tightening in monetary policy would be required if there were evidence of more persistent inflationary pressures", citing the rise in global bond yields and the upside risks to inflation from "energy prices given events in the Middle East".

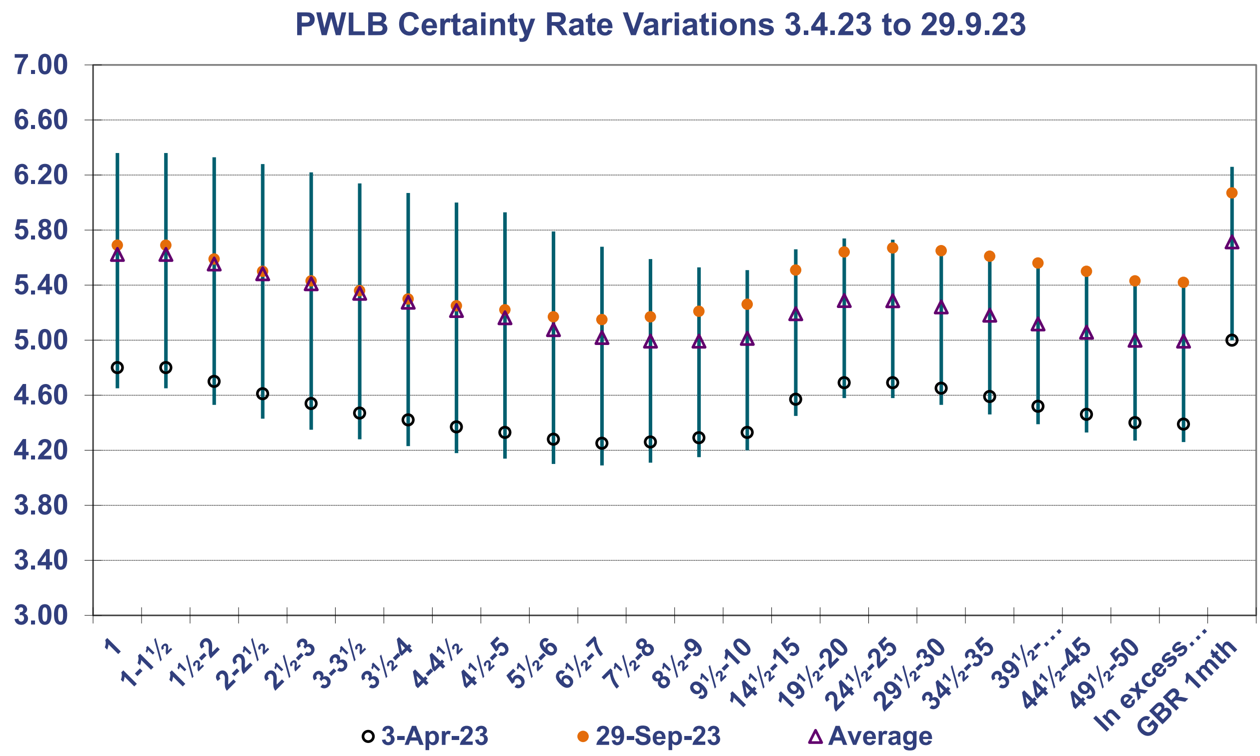
So, like the Fed, the Bank is keeping the door open to the possibility of further rate hikes. However, it also repeated the phrase that policy will be “sufficiently restrictive for sufficiently long” and that the “MPC’s projections indicate that monetary policy is likely to need to be restrictive for an extended period of time”. Indeed, Governor Bailey was at pains in his press conference to drum home to markets that the Bank means business in squeezing inflation out of the economy.

- This narrative makes sense as the Bank of England does not want the markets to decide that a peak in rates will be soon followed by rate cuts, which would loosen financial conditions and undermine its attempts to quash inflation. The language also gives the Bank of England the flexibility to respond to new developments. A rebound in services inflation, another surge in wage growth and/or a further leap in oil prices could conceivably force it to raise rates in the future.

In the table below, the rise in gilt yields across the curve as a whole in 2023/24, and therein PWLB rates, is clear to see.

PWLB RATES 01.04.23 - 29.09.23





HIGH/LOW/AVERAGE PWLB RATES FOR 01.04.23 – 29.09.23

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	4.65%	4.14%	4.20%	4.58%	4.27%
Date	06/04/2023	06/04/2023	06/04/2023	06/04/2023	05/04/2023
High	6.36%	5.93%	5.51%	5.73%	5.45%
Date	06/07/2023	07/07/2023	22/08/2023	17/08/2023	28/09/2023
Average	5.62%	5.16%	5.01%	5.29%	5.00%
Spread	1.71%	1.79%	1.31%	1.15%	1.18%

The peak in medium to longer dated rates has generally arisen in August and September and has been primarily driven by continuing high UK inflation, concerns that gilt issuance may be too much for the market to absorb comfortably, and unfavourable movements in US Treasuries.

The S&P 500 and FTSE 100 have struggled to make much ground through 2023.

CENTRAL BANK CONCERNS

Currently, the Fed has pushed up US rates to a range of 5.25% to 5.5%, whilst the MPC followed by raising Bank Rate to 5.25%. EZ rates have also increased to 4% with further tightening a possibility.

Ultimately, however, from a UK perspective it will not only be inflation data but also employment data that will mostly impact the decision-making process, although any softening in the interest rate outlook in the US may also have an effect (just as, conversely, greater tightening may also).

Appendix 2

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

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.)

NON-SPECIFIED INVESTMENTS: These are any investments which do not meet the specified investment criteria. A maximum of 50% will be held in aggregate in non-specified investments.

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 above categories.

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

	Minimum credit criteria / colour band	**Max % of total investments/ £ limit per institution**	**Max. maturity period**
DMADF – UK Government	Yellow	100%	6 months (max. is set by the DMO*)
UK Government gilts	UK sovereign rating	£6 million	5 years
UK Government Treasury bills	UK sovereign rating	£6 million	12 months
Bonds issued by multilateral development banks	AAA	£6 million	5 years
Money Market Funds CNAV	AAA	£9 million	Liquid
Money Market Funds LNVAV	AAA	£9 million	Liquid

	Minimum credit criteria / colour band	Max % of total investments/ £ limit per institution	Max. maturity period
Money Market Funds VNAV	AAA	£9 million	Liquid
Ultra-Short Dated Bond Funds with a credit score of 1.25	AAA	£6 million	Liquid
Ultra-Short Dated Bond Funds with a credit score of 1.5	AAA	£6 million	Liquid
Local authorities	N/A	£3 million	12 months
Call Accounts	N/A	£6 million	Liquid
Term deposits with housing associations	Blue Orange Red Green No Colour	£3 million	12 months 12 months 6 months 100 days Not for use
Term deposits with banks and building societies	Blue Orange Red Green No Colour	£6 million	12 months 12 months 6 months 100 days Not for use
CDs or corporate bonds with banks and building societies	Blue Orange Red Green No Colour	£6 million	12 months 12 months 6 months 100 days Not for use
Gilt funds	UK sovereign rating	£6 million	12 months

* DMO – is the Debt Management Office of HM Treasury

Accounting treatment of investments. The accounting treatment may differ from the underlying cash transactions arising from investment decisions made by this Council. To ensure that 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 3

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 creditworthiness service.

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
U.K.

Appendix 4

Treasury Management Scheme of Delegation

Full Council

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

Committees/Council

- 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.

Body/person(s) with responsibility for scrutiny

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

Appendix 5

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;

Agenda Item 3(b)

Revision of Internal Audit Plan 2023-24

Committee:	Audit and Accounts Committee
Date of Meeting:	13 February 2024
Report of:	Chief Internal Auditor & Risk Manager
Portfolio:	Resources Portfolio

1 Purpose of Report

1.1 To present to the Audit and Accounts Committee the Revised Internal Audit Plan for 2023-24.

2 Recommendations

2.1 That the Committee approves the revised Audit Plan for 2023-24.

Reasons for Recommendations

2.2 The Audit Committee has to approve the Internal Audit Plan and as the plan has been revised the changes need to be approved by the committee.

3 Key Issues

3.1 Internal Audit has a duty to provide the Council with an annual opinion on the effectiveness of its internal control environment and governance arrangements. The work of Internal Audit is also used as one of the sources of assurance for the Annual Governance Statement.

3.2 Internal Audit is required to produce a plan of work to ensure that it can give an appropriate opinion on the Council's key risk areas and systems and provide sufficient coverage to inform the Annual Governance Statement. Changes in resources in the team in the year have led to a need to revise the Audit Plan Agreed in March.

4 Relationship to Corporate Priorities

4.1 This report supports all of the Council's Corporate Priorities by helping to ensure that there are effective governance arrangements in place.

5 Report Detail

5.1 Internal Audit is an assurance function which primarily provides an independent and objective opinion to the Council on its governance arrangements and internal controls. The Internal Audit Section does this by conducting an independent appraisal of all the Council's activities, financial and otherwise. It provides a service to the whole of the Council and to all levels of management.

5.2 The resource available for the delivery of the Audit Plan across both authorities in 2023-24 has been reduced following the resignation of the Auditor postholder. As a temporary measure to reduce the impact on the Audit Plan an experienced auditor has been brought into the team on an Agency Staff basis for 3 months starting in December 2023 and funded from the salary saving on the vacant Auditor post. However there will be a shortfall in days which will require some audits to be deferred.

5.3 The Audit Plan agreed in March 2023 has been reviewed and audits reprioritised. In addition due to delays in 2022-23 a number of audits from that Audit Plan have been completed in the current year. As a result a decision has been taken to defer a number of audits from the 2023-24 Audit Plan, some have already been re-scheduled and will be part of the 2024-25 Audit Plan others have been removed entirely due to changes in the priorities of the Council until the new Audit Plan has been agreed.

5.4 Audits deferred from the 2023-24 are set out below:

Audit	CCDC	SBC	Notes
General Ledger	Y	Y	The finance team have been unable to accommodate this review in 2023-24 as focus has remained on addressing issues with the new ledger. Aim to complete in 2024-25 dependant on other reviews of the system and implementation.
Bank Reconciliation	Y	Y	The finance team have been unable to accommodate this review in 2023-24 as focus has remained on addressing issues with the new ledger. Plan to complete in 2024-25.
New Social Housing Building Schemes	Y		No new schemes are being progressed in the year. Therefore there was nothing to review.
Stores	Y		A decision has been taken to defer this review as it is seen as a lower risk area against other items on the plan.
Shared Service Organisational Implementation and Transformation	Y	Y	With other scrutiny of this area and delays of the roll-out of the management restructure it was not felt assurance was needed from Internal Audit on this area.

Audit	CCDC	SBC	Notes
Service Transformation Projects	Y	Y	Transformation projects have been put on hold at the current time pending the management restructure. Therefore there is nothing for Internal Audit to review.
SBC Income Collection/Recording System		Y	This system was requested to be examined but it has not been progressed in the year and there is nothing for Internal Audit to review.
SBC Leisure Contract Monitoring		Y	A revision of the risk scores led to this audit not being classed as a high priority to review in the year. It has been deferred due to changes in the way the contract will be monitored in 2024-25
Homelessness and Housing Advice	Y	Y	It was not possible to schedule this review and it has been agreed with management that it will be deferred until Summer 2024.
Closed Churchyards	Y	Y	A revision of the risk scores led to this audit not being classed as a high priority to review in the year.

5.5 An additional audit has been added into the Audit Plan. This is to revisit the s106 Agreements and Projects Audit following on from major work in 2022-23 to revise the system. Management requested Internal Audit add in the review to provide assurance on the new arrangements.

5.6 With the proposed changes to the Audit Plan and the completion of work from the 2022-23 Audit Plan it is considered that sufficient work will be undertaken by Internal Audit to allow the Chief Internal Auditor to provide an opinion on the effectiveness of the Council's governance arrangements as required by the Public Sector Internal Audit Standards.

6 Implications

6.1 Financial

None

6.2 Legal

None

6.3 Human Resources

None

6.4 Risk Management

None

6.5 Equalities and Diversity

None

6.6 Health

None

6.7 Climate Change

None

7 Appendices

Appendix: Revised Audit Plan for 2023-24

8 Previous Consideration

None

9 Background Papers

None

Contact Officer:	Stephen Baddeley
Telephone Number:	01543 464415
Ward Interest:	Nil
Report Track:	Audit and Accounts Committee 13 February 2024 (Only)
Key Decision:	No

Appendix

Revised Internal Audit Plan for 2023-24

Audit Area	Description	Days	Head of Service	CCDC	SBC
Housing Benefits	A review of the processes and procedures for the operation of the Housing Benefits Function.	25	DCE - Resources	Y	Y
Council Tax	A review of the processes and procedures for the operation of the of the Council Tax function	20	DCE - Resources	Y	Y
National Non-Domestic Rates	A review of the processes and procedures for the operation of the National Non-Domestic Rates function.	20	DCE - Resources	Y	Y
Treasury Management	A review of the processes and procedures for the operation of the Council's Treasury Management functions	20	DCE - Resources	Y	Y
Council Tax Reduction Scheme	A review of the process for the development of the scheme and its amendments/approval. Awards are reviewed as part of the Housing Benefit Audit.	15	DCE - Resources	Y	Y
Economic Regeneration Projects	A review of major economic regeneration projects including Future High Streets, Garden Community, Station Gateway	25	Economic Development and Planning		Y
Levelling-Up Project/Town Centre Redevelopment	A review of the Levelling-up Fund projects covering Town Centre redevelopment and Civic Hub Project	20	Economic Development and Planning	Y	
S106 Agreements and Community Infrastructure Levy	A review of the processes and procedures for the operation of the Council's s106 and Community Infrastructure Levy arrangements	10	Economic Development and Planning	Y	

Audit Area	Description	Days	Head of Service	CCDC	SBC
Land Charges Transfer to Land Registry Project	To review the project management arrangements and work being carried out to implement the transfer of searches to the Land Registry.	10	Regulatory	Y	Y
Shared Prosperity Fund	A review of the setting up of the Shared Prosperity Funds at each Council and processes for the award of grants for projects	20	Economic Development and Planning	Y	Y
Sheltered Housing Schemes	A review of the processes and procedures for the operation of the Council's Sheltered Housing Schemes.	10	Housing HRA and Corporate Assets	Y	
Leaseholder Management and Sale of Council Houses	A review of the processes and procedures for the operation of the Council's Leasehold flats and Right-to-Buy scheme.	10	Housing HRA and Corporate Assets	Y	
Landscape/Leisure Projects	A review of the Council's projects for landscaping and leisure including parks and play-areas.	25	Operations	Y	Y
Car Parking	A review of the processes and procedures for the operation of the Council's Car Parking functions.	20	Operations	Y	Y
Garden Waste Project	A review of the implementation of a charging system for the collection of Garden Waste at CCDC.	10	Operations	Y	
Bereavement Services	A review of the processes and procedures for the operation of the Council's Bereavement Services arrangements covering cemeteries and the crematoria.	20	Operations	Y	Y
Pest and Dog Control	A review of the processes and procedures for the operation of the Council's Pest and Dog Control functions.	10	Operations	Y	Y

Audit Area	Description	Days	Head of Service	CCDC	SBC
Environmental Protection and Pollution Control	A review of the processes and procedures for the operation of the Council's responsibilities for Environmental Protection and Pollution Control	20	Regulatory Services	Y	Y
Climate Change	A review of the processes and procedures for the Council's Climate Change responsibilities and action plans	20	Regulatory Services	Y	Y
Payroll	A review of the processes and procedures for the operation of the Council's Payroll functions.	20	Transformation	Y	Y
Risk Management	A review of the processes and procedures for the operation of the Council's Risk Management arrangements.	15	Transformation	Y	Y
Replacement Customer Relationship Management System Project	A review of the project to introduce a replacement Customer Relationship Management System	10	Transformation	Y	Y
Disabled Facilities Grants	A review of the Disabled Facilities Grants process including the in-sourcing of the processing at SBC and sign-off of the Assurance Statements for both Councils required by Staffordshire County Council.	15	Wellbeing	Y	Y
S106 Agreements and Projects (Audit Added)	**A review of the processes and procedures for the operation of the Council's s106 arrangements including the delivery of s106 Projects.**	**10**	**Economic Development and Planning**		**Y**
		400			

Items Removed from the 2023-24 Audit Plan

Audit Area	Description	Days	Head of Service	CCDC	SBC
General Ledger	A review of the processes and procedures for the operation of the General Ledger	20	DCE - Resources	Y	Y
Bank Reconciliation	A review of the processes and procedures for the reconciliation of income and expenditure to Council Bank Accounts	20	DCE - Resources	Y	Y
New Social Housing Builds	A review of the new social housing build projects currently in operation.	10	Housing HRA and Corporate Assets	Y	
Stores	A review of the CCDC Stores function at Hawks Green Depot	10	Housing HRA and Corporate Assets	Y	
SBC Income Collection/Recording System	A review of the new system introduced for the recording of cash income at SBC sites (Markets, Glover Street etc)	5	Operations		Y
Closed Churchyards	A review of the processes and procedures for the operation of the Council's management of Closed Churchyards.	20	Operations	Y	Y
Shared Service Organisational Implementation and Transformation	A review of the overarching Shared Services project including review the specific overarching processes and arrangements established at a corporate level.	30	Transformation	Y	Y
Service Transformation Projects	Work to review the transformation projects being implemented at a Service/departmental level.	10	Transformation	Y	Y
Leisure Contract Management	A review of the contract management arrangements for the Council's Leisure Contract.	10	Wellbeing		Y
Homelessness and Housing Advice	A review of the processes and procedures for the operation of the Council's Homelessness and Housing Advice functions.	20	Wellbeing	Y	Y
		155			