

**To:** Cabinet  
**Date:** 7 February 2024  
**Report of:** Head of Financial Services  
**Title of Report:** Treasury Management Strategy 2024/25

<b>Summary and recommendations</b>	
<b>Purpose of report:</b>	To present the Council's Treasury Management Strategy for 2024/25 together with the Prudential Indicators for 2024/25 to 2027/28
<b>Key decision:</b>	Yes
<b>Executive Board Member:</b>	Councillor Ed Turner, Deputy Leader (Statutory) and Cabinet Member for Finance and Asset Management
<b>Corporate Priority:</b>	All
<b>Policy Framework:</b>	Council Strategy 2024-25
<b>Recommendations:</b> That Cabinet resolves to:	
<b>Recommend that Council approves:</b>	
<ol style="list-style-type: none"> <li>1. The Treasury Management Strategy 2024/25 as set out in paragraphs 12 to 60 of this report and the Prudential Indicators for 2024/25 – 2027/28 as set out in Appendix 2;</li> <li>2. The Borrowing Strategy 2024/25 at paragraphs 34 to 36 of this report;</li> <li>3. The Minimum Revenue Provision (MRP) Statement at Appendix 3 which sets out the Council's policy on charging borrowing to the revenue account;</li> <li>4. The Investment Strategy for 2024/25 and the investment criteria as set out in paragraphs 38 to 56 of this report and in Appendix 1; and</li> <li>5. The Treasury Management Scheme of Delegation at Appendix 4.</li> </ol>	

<b>Appendices</b>	
Appendix 1	Credit and Counterparty Risk Management
Appendix 2	Prudential Indicators 2024/25 – 2027/28
Appendix 3	Minimum Revenue Provision (MRP) Statement and Policy
Appendix 4	Environmental, Social and Governance (ESG) Policy
Appendix 5	Scheme of Delegation
Appendix 6	Risk Register

## Summary

1. The Council's Treasury Management Strategy has been written in accordance with the CIPFA Prudential Code, the CIPFA Treasury Management Code of Practice (the Codes) and the Department of Levelling Up, Housing and Communities' (DLUHC) Guidance on Local Government Investments.
2. The report presents the Council's Prudential Indicators for 2024/25 – 2027/2028. Notable indicators include capital expenditure and borrowing limits as these are areas of significant activity.
3. The average value of investments during the calendar year to 31<sup>st</sup> December 2023 was £61.3 million. The actual daily value fluctuated between £82.7 million and £42.4 million. For the previous calendar year, average balances were £107.7 million and daily values ranged from £135.0 million to £82.7 million.
4. All external debt as at 31 March 2023 (£198.5m) relates to the Housing Revenue Account (HRA) self-financing debt originally taken out in 2012 which is held at fixed rates with varying fixed periods to maturity.
5. The Council's General Fund Capital Programme over the next four years is funded from a combination of government grants, capital receipts, revenue, Community Infrastructure Levy receipts and prudential borrowing. However, due to the scale of investment over the period to 2024/25 to 2027/28, including the loans to the Council's wholly owned housing company (£100.7 million), the level of prudential borrowing will increase to over £904.3 million in 2027/28 from the projected £394.0 million at the end of 2023/24. Borrowing from internal resources will be maximised on the General Fund, however much of the borrowing will need to be from external resources with anticipated external borrowing increasing from £198.5 million to £795.5 million in 2027/28. The Housing Revenue Account Capital Programme is largely funded from council house rents over time but includes £413.4 million borrowing from 2023/24 to 2027/28. Since the Council operates a two pool system for borrowing, any prudential borrowing on the HRA will be funded by external borrowing to the same value.
6. The CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice were revised in late 2021 and these versions have been fully adopted from 2023/24 onwards in line with the required adoption timescale.
7. All Prudential Indicators continue to be covered together in the Treasury Strategy. This will allow the indicators to be seen as a whole and in the context of Treasury Management activity to which they are closely related. There are, however, some cross-overs to areas covered in more detail by the Capital Strategy. There have been changes to the indicators in line with the requirements of the codes.
8. The Department for Levelling Up, Housing and Communities (DLUHC) has recently undertaken an additional consultation on the detail of proposed changes to regulations around Minimum Revenue Provision (MRP). Although the outcome of this is not yet known, the treasury budgets and, consequently, the Prudential Indicators include the latest assessment of potential financial impacts which,

based on the latest consultation documents are now expected to have limited impact on the Council. The driver for this change was to restrict local authorities financing capital expenditure on investments in commercial projects made primarily for yield, although it has wider implications. The Government has already closed access to all Public Works Loans Board (PWLB) borrowing if such schemes are included in an authority's capital programme. The new CIPFA codes have also adopted a similar set of restrictions to discourage further capital expenditure on commercial investments for yield.

### Key Changes from Previous Years

- The results from latest consultation on the statutory guidance on MRP and associated capital regulations will not be known, according to the timetable, until mid-March. One of the changes is in respect of the MRP Policy making specific reference to the regulations. The MRP Policy has therefore been separated from this report into an appendix for ease of update. There are no substantive changes needed to the MRP Policy from previous years except for making reference to the regulations which, for the purposes of the approval of the MRP Policy for 2024/25, will refer to the draft regulations as currently published.

### Interest and Economic Outlook

- The Council has appointed Link Group as its treasury advisor and part of the service is to assist the Council to formulate a view on interest rates. Link Group provided the forecasts below on 8<sup>th</sup> January 2024. This includes forecasts for Public Works Loans Board (PWLB) interest rates which represent gilt yields plus 80 bps (0.8%) and a forecast of the bank rate based on market data as at the date of publication.

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

- Link Group's suggested budgeted earnings rates for investments up to about three months' duration in each financial year are as follows: -

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%

This shows the expected trajectory in interest rates. This profile has been built into the Council's Medium Term Financial Plan.

## **Treasury Management Strategy Statement**

### **Background**

12. The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in counterparties or instruments commensurate with the Council's risk appetite, providing adequate liquidity initially before considering investment return.
13. The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning, to ensure that the Council can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans, or using longer-term cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet Council risk or cost objectives.
14. 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. Additionally reserves and balances are forecast to reduce over the short to medium term which will lead to reduced balances available for investment or to use for internal borrowing.
15. Whilst any 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 and need different consideration and due diligence.
16. CIPFA defines treasury management as:  
*"The management of the local authority's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."*

### **Treasury Management Advisors**

17. Treasury advice and market information is provided by Link Group. A procurement exercise was undertaken during 2023 and the contract was awarded to Link Group in November 2023 for 3 years and options to extend for a further 2

periods of 2 years each (to a maximum contract length of 7 years). The information provided by Link Group that is used for making investment decisions has been considered in the writing of this report and its associated appendices.

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

## **Training**

19. The CIPFA Treasury Management Code requires the responsible officer to ensure that officers and members with responsibility for treasury management receive adequate training in treasury management. This focus of this is on members responsible for scrutiny.
20. The code also says that 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.
  - Have regular communication with officers and board/council members, encouraging them to highlight training needs on an ongoing basis.”
21. The training needs of treasury management officers are periodically reviewed. A formal record of the training received by officers central to the Treasury function will be maintained by the Treasury Manager. Similarly, a formal record of the treasury management / capital finance training received by members will also be maintained.
22. Officers will identify a training plan to be delivered over 2024/25, probably using the independent expertise of the Council’s treasury advisers, Link Group.

## **Bank Account Management**

23. Bank accounts for the Council and its wholly owned companies are with the same banker. The bank accounts have a grouping arrangement in place which means that overall there are limits of a net overdraft of £100k and aggregate overdraft balances cannot exceed £5 million.
24. The daily treasury function aims to keep net overnight balances as close to zero as possible to maximise the level of funds invested and balances between accounts are managed by making temporary cash transfers between the entities.

25. Interest is paid / charged based on the true balance (i.e. excluding any temporary cash transfers). Overdrawn balances are charged at a rate based on PWLB 1 year borrowing rates plus a supplement to account for arms-length transfer pricing; interest is paid at the average interest earned on investments (excluding the pooled funds).

### **Borrowing and Debt**

26. Under the Prudential Code, individual authorities are responsible for deciding their level of borrowing. The system is designed to allow authorities with an affordable borrowing requirement, to borrow in order to pay for capital investment. The arrangements also facilitate 'invest to save' schemes where they are affordable, prudent and sustainable.
27. In the Prudential Code guidance, CIPFA has defined the Council's investments in Property Funds and Multi Asset Funds as "Commercial Investments". It then goes on to say "Authorities with existing commercial investments (including property) are not required by this Code to sell these investments. Such authorities may carry out prudent active management and rebalancing of their portfolios. However, authorities that have an expected need to borrow should review options for exiting their financial investments for commercial purposes and summarise the review in their annual treasury management or investment strategies." Accordingly, the Council's Chief Financial Officer has considered these investments and does not believe that divesting from them is prudent or appropriate given the current economic climate and also does not consider that divestment is in the best interest of the Council or its Medium Term Financial Plan at this time.
28. The parameters for determining the level of prudential borrowing are:
- A balanced revenue budget that includes the revenue consequences of any capital financing i.e. interest, debt repayment and running costs of any new project; and
  - That the impact of the Authorised Borrowing Limit on Council Tax or council rents is reasonable.
29. The Council's draft Capital Programme for 2024/25 to 2027/28, which appears elsewhere on the Agenda; includes the £510.3 million expenditure which is currently planned to be financed by borrowing of which £413.4 million relates to the Housing Revenue Account.
30. The Council Chief Financial Officer (the Section 151 officer) has delegated authority to determine the need for external borrowing taking into account prevailing interest rates and associated risks. Borrowing may be undertaken to fund the approved Capital Programme or to fund future debt maturities and a combination of long-term and short-term fixed and variable rate borrowing may be considered which may include borrowing in advance of future years' requirements. In using the delegated authority, the S151 Officer will take into account the following factors:
- The on-going revenue liabilities created, and the implications for the future plans and budgets;

- The economic and market factors that might influence the manner and timing of any decision to borrow;
  - The pros and cons of alternative forms of funding including internal borrowing; and
  - The impact of borrowing in advance on cash balances and the consequent increase in counterparty risk.
31. Council officers, in conjunction with the Council's treasury advisors, Link Group, monitor prevailing interest rates and market forecasts, thereby allowing the Council to respond to any changes that may impact on the timing and manner of borrowing decisions, to ensure these are optimised.
32. The Council currently has £198.5m of external debt held at fixed rates with varying maturity terms up to 2057. This debt relates to the Council's housing stock within its HRA. The first repayment, of £20 million, was made at the end of 2020/21. Debt to the same value was taken out in order to replace the debt repaid. The first repayment of the remaining existing debt, in the sum of £20 million, will now take place in 2025-26 and it is currently expected that this will be refinanced.
33. The Council's Capital Financing Requirement (CFR) is an indication of the Council's underlying need to borrow to fund its capital investments; this borrowing can be undertaken internally using available resources or externally by borrowing from a reputable institution or the Public Works Loans Board (PWLB). The estimated level of CFR for each year can be found in the Prudential Indicators in Appendix 2.

### **Borrowing Strategy 2024/25**

34. The Council had an estimated £78.1 million internal borrowing as at 1<sup>st</sup> April 2023. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with external loan debt because cash supporting the Council's reserves, balances and cash flow has been used as a funding source. This strategy is prudent as investment returns are low and counterparty risk is still an issue that needs to be considered.
35. The Head of Financial Services will continue to monitor interest rates and take a pragmatic approach to changing circumstances. Due to the risks within the economic forecast, and the increased fluctuations in cashflow being experienced, caution will be adopted with the 2024/25 treasury operations. Additionally the Council will consider carefully when to take out borrowing, balancing the need for cash to fund capital expenditure and the cost of borrowing:
- If it is considered that there is a likelihood of a significant fall in long and short term rates (e.g. due to a marked increase of risks in respect of recession or deflation), then long term borrowing will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.
  - Alternatively, if it is felt that there is a significant risk of a sharp increase in long and short term rates than currently forecast, then external borrowing is likely to be taken earlier.

## **Borrowing in Advance of Need**

36. 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. Prior to borrowing in advance the risks and benefits of undertaking the borrowing will be considered. Actual borrowing will be subsequently reported through either the mid-year performance report or annual report as appropriate. Due to the amount of prudential borrowing in the Capital Programme, the potential benefits of earlier borrowing will be closely monitored.

## **Minimum Revenue Provision (MRP) Statement 2024/25**

37. The Minimum Revenue Provision (MRP) Statement and Policy is now shown in Appendix 3.

## **Annual Investment Strategy 2024/25**

38. This Treasury Management Strategy and the Annual Investment Strategy deals solely with treasury management investments; the categories of service delivery and commercial investments are addressed as part of the Capital Strategy report and appendix and also appear within the Prudential Indicators set out in appendix 2 to this report.

## **Management of Risk**

39. The Department for Levelling Up, Housing and Communities (DLUHC) and CIPFA have extended the meaning of ‘investments’ to include both financial and non-financial investments. This report deals solely with financial investments, (as managed by the Council’s treasury management team). Non-financial investments, essentially the purchase of income yielding assets, are covered in the Capital Strategy which is presented in a separate report.
40. The Council’s investment policy has regard to the following:
- DLUHC’s (then MHCLG) 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 Prudential Code for Capital Finance 2021
  - Prudential Code for Capital Finance Guidance Notes 2021
- The Council’s investment priorities will be security first, portfolio liquidity second and then yield (return).
41. The guidance from 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:
- a) 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.



- b) **Other information:** ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration the Council will engage with its advisors to maintain a monitor on market pricing such as “**credit default swaps**” and overlay that information on top of the credit ratings.
- c) **Other information sources** used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.
- d) This authority has defined the list of **types of investment instruments** that the treasury management team are authorised to use. There are two lists in Appendix 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.
  - **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.

42. As a result of the change in accounting standards for 2018/19 under IFRS 9, the Council 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, 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 commencing from 1<sup>st</sup> April 2018. Even were this over-ride removed now, this would not give cause for concern since the value of investments is higher than the original balance sheet value, although it is worth noting this may not always be the case.

### **Investment Levels and Interest Rates**

43. The average value of the Council’s investments during the calendar year to 31<sup>st</sup> December 2023 was £61.3 million. The actual daily value fluctuated between £82.7 million and £42.4 million. For the previous calendar year, average balances were £107.7 million and daily values ranged from £135.0 million to £82.7 million.

### **Investment Durations**

44. Most existing investment deal terms are for 6 months or 364 days. Investments are made in accordance with the Council’s Treasury Management Strategy such that returns are balanced against security of investment and liquidity of cash to ensure funding of day to day cash flows and yield. Consequently, procedures

are in place to determine the maximum periods that funds may be invested for, as well as the nature of those investments. The Council works to achieve the optimum rate of return on its investments commensurate with proper levels of security and liquidity.

### **Creditworthiness**

45. Investment instruments identified for use are listed in Appendix 1 under the Specified and Non-specified investment categories. Counterparty limits are set in accordance with the Council's Treasury Management Practices (TMPs).
46. The Council utilises the creditworthiness services provided by Link Group. The model combines the credit ratings, credit watches and credit outlooks provided by the credit rating agencies - Fitch, Moody's and Standard and Poor's in a weighted scoring system which is then combined with an overlay of Credit Default Swap (CDS) spreads and sovereign ratings. 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 duration of investments.
47. The Council is alerted to changes to ratings by Link Group's creditworthiness service and takes the following action in respect of updates:
  - If a downgrade results in the counterparty/investment scheme no longer meeting the Council's minimum criteria, it is withdrawn immediately from further use.
  - If a counterparty's credit rating is placed on negative watch or negative outlook, officers carry out a review to determine whether the institution is still worthy of inclusion on the counterparty list. If there is any doubt, the counterparty is temporarily suspended pending the credit rating agency's full review.
48. As part of the creditworthiness methodology a minimum sovereign rating equal to the UK sovereign rating from Fitch (or equivalent from other agencies if Fitch does not provide one) has been determined.
49. In addition to the recommendations from Link Group, the S151 Officer and the Council's Treasury Management Team have agreed to limit the amounts invested with any one country (excluding the UK) or sector as follows:
  - No more than 20% of the previous year's average investment balance (to 31<sup>st</sup> December) with any one counterparty or group or £15 million, whichever is the greater
  - Maximum of 10% of total investments to be with institutions in other countries that meet the required criteria.
50. To ensure that the Investment Strategy is not breached and to also be aware of any new opportunities, the Council's counterparty list is reviewed on a daily basis taking into account market information and changes to the methodology used. The list is maintained by the Treasury Management Team, and reported to the S151 Officer on a regular basis.

51. The Investment Strategy provides delegated authority for the S151 Officer to determine the most appropriate form of investment dependant on prevailing interest rates and counterparty risk at the time.

### **Specified and Non-Specified investments**

52. In approving the Investment Strategy, Members are approving the types of investments the Council can undertake. Investments are classified as either Specified or Non-specified and are shown in more detail in Appendix 1.
53. The Investment Strategy defines a Specified Investment as one that is in sterling, no more than one year in duration or, if in excess of one year can be repaid earlier on request and with counterparties that meet the Council's credit rating criteria. Additionally, once the duration of a Non-specified Investment falls below 365 days, it also falls into the Specified Investment category.
54. Non-specified investments are any other type of investment including pooled investment funds. Whilst generally these investments will earn a higher rate of return they are inherently more risky in nature and therefore limited to either a maximum of 25% of the previous full year's average monthly investment balance to 31<sup>st</sup> December, or £25 million, whichever is the greater. The Council currently has £10 million of property investments; £7 million with Lothbury property fund and £3 million with CCLA Investment Management Ltd property fund and £5 million with each of the Fidelity and Artemis multi asset funds.
55. Investments may be arranged in advance. Trades arranged up to four weeks in advance of the start date are still classified as Specified Investments provided the duration of the investment from the start date to the maturity is no longer than 364 days. Trade dates are factored into the duration of the investment if arranged more than four weeks in advance because there is an increased risk due to funds being contractually committed.

### **Ethical Investment Policy**

56. The Council adopted an Ethical Investment Policy in 2015/16. No changes are proposed to the policy which is set out below:

The Council will not knowingly invest directly in businesses whose activities and practices pose a risk of serious harm to individuals or groups, or whose activities are inconsistent with the Council's mission and values. This would include, inter alia, avoiding direct investment in institutions with material links to:

- a. Human rights abuse (e.g. child labour, political oppression)
- b. Environmentally harmful activities (e.g. pollutants, destruction of habitat, fossil fuels)
- c. Socially harmful activities (e.g. tobacco, gambling)

There is an Environmental, Social and Governance (ESG) Policy attached at Appendix 4. This will be refined over time as more consistent metrics are developed but it is an important step in raising the consideration of ESG matters, informing investment decisions and offering appropriate challenge where there is room for improvement.

## Prudential Indicators

57. The Council is required to set out a number of indicators, relating to the affordability and prudence of its Treasury Strategy. These indicators are detailed in Appendix 2 for the period 2023/24 – 2027/28 and will be monitored and reported on an annual basis.

## Other implications

58. Environmental Impact –the inclusion of the Ethical Investment Policy, ensures that, through the Council’s treasury management investments, the Council will not knowingly, directly invest in businesses that undertake harmful environmental activities. In addition, environmental measures are covered in our Environmental, Social and Governance policy in Appendix 4.

## Financial implications

59. All financial issues are addressed in the body and appendices of the report. The Council’s assumptions for net investment interest for the General Fund for 2024/25 to 2027/28 are as follows:

	2024/25	2025/26	2026/27	2027/28
	£000's	£000's	£000's	£000's
Interest Payable	15,171	20,714	25,414	30,329
Interest from companies on borrowing	-3,413	-4,434	-5,834	-7,434
Transfer from HRA	-14,018	-18,011	-20,535	-23,800
Treasury management investment interest	-1,718	-1,456	-1,432	-1,456
<b>Net investment interest</b>	<b>-3,978</b>	<b>-3,187</b>	<b>-2,387</b>	<b>-2,361</b>

60. This includes the cost of borrowing, interest from companies and interest from external investments.

## Legal issues

61. This report fulfils four key requirements:
- The reporting of the Prudential Indicators setting out the Council’s expected capital activities (as required by the CIPFA Prudential Code for Capital Finance in Local Authorities).
  - Agreeing the Council’s Minimum Revenue Provision (MRP) Policy, which sets out how the Council will pay for capital assets through revenue each year.
  - Agreeing the Treasury Management Strategy, which links day to day Treasury Management to the Capital Programme and the Treasury Management Prudential Indicators. The key indicator is the Authorised Limit, the maximum amount of debt the Council could afford in the short term, but which would not be sustainable in the longer term. This is the Affordable Borrowing limit required by Section 3 of the Local Government Act 2003.
  - Agreeing the Annual Investment Strategy, this sets out the Council’s criteria for choosing investment counterparties and limiting exposure to the risk of loss.

62. The Local Government Act 2003 and supporting regulations require the Council to have regard to the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice to set prudential and treasury indicators to ensure that the Council's capital investment plans are affordable, prudent and sustainable.
63. The Council's Constitution requires the Treasury Management Strategy to be reported to the Cabinet on an annual basis outlining the expected treasury activity for the forthcoming four years and for it to be approved by a Council meeting.

#### **Level of risk**

64. Risks are managed as set out in this report and appendices.
65. The value of property funds is reliant on the value of the property held by the funds and of multi-asset funds on the value of the assets held by those funds. Property and investment asset values can go down as well as up. The Funds that the Council uses are monitored to ensure that they hold an asset portfolio which will mitigate the risk of specific sectors suffering a loss. The regular returns from property funds are from property rentals so as long as the properties remain tenanted there will be a return. The risk of holding property is also affected by the uncertainty over the UK's exit from the EU and changes in markets, especially retail. The regular returns from multi-asset funds are from income returns which are reliant on the earnings of the underlying assets. Increases and decreases in the value of funds now have to be charged to the revenue account, although there is a statutory mitigation from Government that allows these impacts to be reversed out for the next few years. Returns from the funds are around 3 to 4% of the original investment value.

#### **Equalities impact**

66. The Council has adopted an ethical investment policy to help reduce the environmental, health and wellbeing impacts that could potentially arise from investments. There are no other equalities impacts relating to this report.

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**Background Papers:** None

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