Appendix A

Draft Capital and Treasury Management Strategy

2023/24

CAPITAL AND TREASURY MANAGEMENT STRATEGY

This Strategy explains how decisions are made about capital expenditure, investments and treasury management. The Strategy contains several distinct but related elements as follows:

- **Capital expenditure**

  In this section, the process for approving, monitoring and financing capital projects is explained.

- **Capital financing and borrowing**

  This section provides a projection of the Council's Capital Financing Requirement and the external borrowing required. It also explains how the Council will discharge its duty to repay debt.

- **Treasury management investments**

  This section explains how and where cash balances arising as a result of the Council's day-to-day activities will be invested to ensure that the funds are protected from loss and are available when needed.

- **Other investments**

  This section contains an overview of the Council's other investment activities.

- **Treasury Management Policy Statement and Treasury Management Practices**

  This section contains the Council's Treasury Management Policy Statement and Treasury Management Practices.

- **Knowledge and skills**

  The final section explains the knowledge and skills available to the Council in relation to management of borrowing and investment activities.

Further details are provided in the following sections.

CAPITAL EXPENDITURE

Capitalisation policies

Capital expenditure is expenditure incurred by the Council on the acquisition or construction of land, buildings, roads and bridges, vehicles, plant and equipment and other assets that:

- Will be held for use in the delivery of services, for rental to others, or for administrative purposes; and
- Will be of continuing benefit to the Council for a period extending beyond one financial year.

Subsequent expenditure on existing assets is also classified as capital expenditure if these two criteria are met.

There may be instances where expenditure does not meet this definition but would still be treated as capital expenditure, including:

- Where the Council has no direct future control or benefit from the resulting assets, but would treat the expenditure as capital if it did control or benefit from the resulting assets; and
- Where statutory regulations require the Council to capitalise expenditure that would not otherwise have expenditure implications according to accounting rules.

The Council operates several limits for capital expenditure which means that items below these limits are charged to revenue rather than capital.

The limits are currently as follows:

De-minimis limits	£
General limit (applied where no specific limit is applicable)	**10,000**
Specific limits:	
▪ Schools' capital projects funded or supported by Formula Capital Grant	**2,000**
▪ Transport (highways) infrastructure	**Nil**
▪ Land	**Nil**

Governance

The Cabinet Member for Finance, Resources and Corporate Affairs, in conjunction with the Executive Director, Corporate Services, manages the preparation of an annual capital programme, on behalf of the Council, in accordance with the Council's capital projects governance arrangements and capitalisation criteria.

Each project that is added to the Capital Programme is for the provision and for the purposes of delivering public services (including housing, regeneration and local infrastructure) or in support of joint working with others to deliver such services. No schemes are added to the Capital Programme if their only purpose is to achieve a financial return.

Each scheme that is added to the Capital Programme is allocated:

- A 'start date' for planning purposes.
- An overall 'scheme approval' which sets the overall budget for the scheme.
- An 'annual payments guideline' which sets the parameters for expenditure in each of the financial years over which the scheme is expected to span.

Once the capital programme or a scheme is approved, Executive Directors are, subject to the rule in the Constitution that officers may not take a Key Decision and limits within the scheme of delegation to officers, authorised to progress with capital projects that have:

- An approved 'start' date in the current or a prior financial year (i.e. schemes with a start date in a future financial year are indicative only, and do not constitute approval to spend).
- Adequate scheme and payments approval in the capital programme to finance these projects.

Schemes will usually only be added to, or removed from, the Capital Programme as part of the annual budget setting process. Any request outside of this process to change the capital programme by adding or removing schemes, or by allocating additional scheme and payment approvals to an approved scheme, must be approved by the Cabinet Member for Finance, Resources and Corporate Affairs (up to a limit of **£5m**) or by the Cabinet (for schemes of **£5m** or more).

Executive Directors will ensure that:

- All officers responsible for committing expenditure on any approved capital project comply with all relevant guidance and follow approved certification processes.
- Budget holders are accountable for the effective management of the scheme and payment approvals allocated to them to either oversee or directly manage.
- Appropriate monitoring processes are in place to ensure that the scheme and payment approvals for a capital project are not overspent.
- Reports are made to the relevant Cabinet Member(s) on expenditure compared with the scheme and payment approvals for the capital projects for which they are accountable.

The Executive Director, Corporate Services will ensure that timely information is available on expenditure for each capital project, which is sufficiently detailed to enable Executive Directors and their managers to fulfil their budgetary responsibilities.

The Executive Director, Corporate Services will also monitor performance against the Council's approved capital programme on an on-going basis and will advise upon the overall financial position. Specifically, the Executive Director, Corporate Services will prepare financial overview reports for the Cabinet Member for Finance, Resources and Corporate Affairs to present to Cabinet on a regular basis. These financial overview reports will provide a comparison of the Council's projected expenditure with the latest approved capital programme and assess the financing implications of variations in forecast under / over-spends against payment approvals.

Capital Expenditure Plans

The proposal is for capital investment of **£258m** for the 2023/24 programme, with an indicative programme for the subsequent three years totalling **£1.039bn**. These planning levels represent a continued major investment in the infrastructure and economy of Essex. Further details are presented elsewhere within the Council's 2023/24 Organisation Plan.

When expenditure is classified as capital expenditure for capital financing purposes, this means that the Council can finance that expenditure from any of the following sources:

- **Capital grants and contributions -** amounts awarded to the Council in return for past or future compliance with certain stipulations.
- **Capital receipts** – amounts generated from the sale of assets and from the repayment of capital loans, grants or other financial assistance.
- **Revenue contributions** – amounts set aside from the revenue budget in the Reserve for Future Capital Funding.
- **Borrowing -** amounts that the Council does not need to fund immediately from cash resources, but instead charges to future years' revenue budgets in annual instalments.

Actual capital expenditure and financing sources for 2021/22 (*provisional, pending conclusion of the external audits of the Council's Statement of Accounts for 2020/21 and 2021/22*), together with the original and updated plans for 2022/23, proposals for 2023/24 and the indicative guidelines for the subsequent three years, are summarised in **Annex A**, with detailed plans presented elsewhere within the Organisation Plan.

CAPITAL FINANCING REQUIREMENT AND BORROWING

Context

The Council is required by regulation to comply with the **CIPFA Prudential Code for Capital Finance in Local Authorities** (the 'Prudential Code') when assessing the affordability, prudence and sustainability of its capital investment plans.

Fundamental to the prudential framework is a requirement to set a series of prudential indicators. These prudential indicators collectively build a picture that demonstrates the impact over time of the Council's capital expenditure plans upon the revenue budget and upon borrowing and investment levels and explain the overall controls that will ensure that the activity remains affordable, prudent and sustainable.

A summary of the Prudential Indicators for the period 2021/22 through to 2026/27 is provided in **Annex A**. The Prudential Indicators for 2021/22 are provisional, pending conclusion of the external audits of the Council's 2020/21 and 2021/22 Statement of Accounts.

Explanatory comments are provided in the following paragraphs.

Capital Financing Requirement

When the Council decides to finance capital expenditure from borrowing, this actually means that it is electing to incur capital expenditure now that it will need to charge to its revenue budget in annual instalments over a number of years into the future (a process referred to as making annual **Minimum Revenue Provision** or MRP).

The **Capital Financing Requirement** (CFR) provides a measure of the capital expenditure that will need to be charged to the revenue budget in future years.

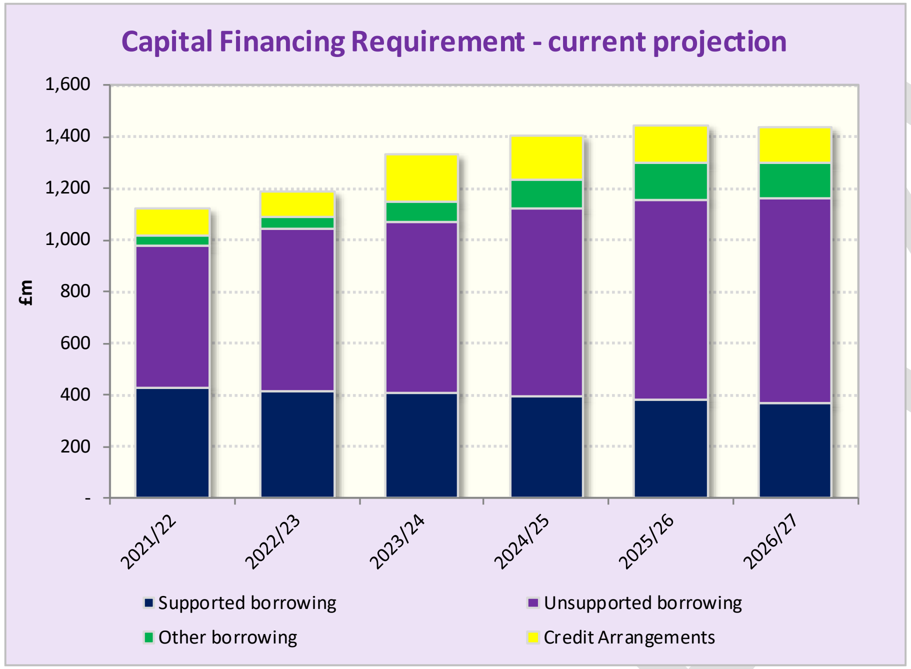
The actual Capital Financing Requirement (CFR) for 2021/22 is derived from the Council's Balance Sheet for 2021/22. It provides a measure of the amount of capital expenditure that the Council has already spent that has yet to be funded from cash resources.

Forward projections of the Capital Financing Requirement incorporate the Council's plans to finance further capital expenditure from borrowing and discount the amounts that will be charged to the revenue budget each year as MRP.

In addition to quantifying the capital expenditure that will need to be charged to the revenue budget in future years, the Capital Financing Requirement also provides a measure of the Council's indebtedness, and hence of its need to borrow for capital financing purposes.

Credit arrangements are also included in the calculation of the CFR because they have the same practical impact as borrowing; credit arrangements are those that enable the Council to acquire the use of assets on deferred payment terms – typical examples include finance leases and Private Finance Initiative schemes.

The actual CFR for 2021/22 and forward projections for the current and forthcoming years are illustrated in the graph below:

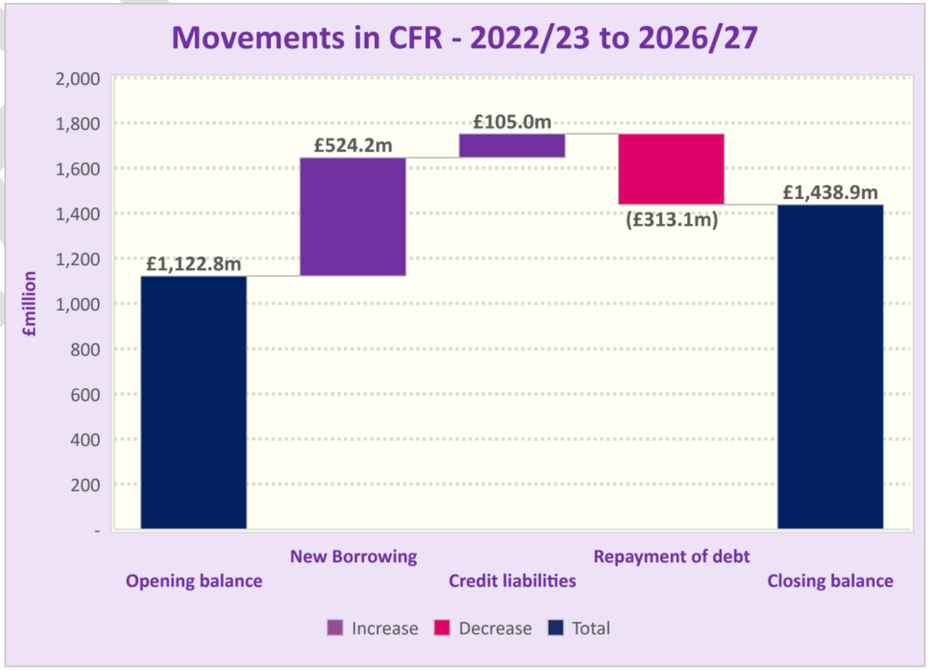


The forward projections of the CFR incorporate the Council's plans to:

- Finance further capital expenditure from borrowing and credit arrangements (*which **increases** the CFR*); and
- Make provision for the repayment of debt (*which **reduces** the CFR*).

The CFR is on an upward trajectory until 2025/26, after which it starts to level off.

The Capital Financing Requirement increases over this period because the amount of capital expenditure that the Council plans to finance from borrowing over the period (at **£524.2m**) exceeds the amount of debt that will be repaid (**£313.1m**) over the same period.



There is also a substantial increase in credit arrangements (**£105m**), largely reflecting the estimated impact of bringing leases currently classified as operating leases onto the Council's Balance Sheet in 2023/24 or 2024/25, which is a requirement of the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom. This does not change the costs to the Council of these arrangements.

The estimates of the CFR assume that the Council will repay debt on the basis set out in **Annex C**.

Revenue Provision for the repayment of debt policy

The Council sets cash resources aside from the Revenue Budget each year to pay for capital expenditure financed from borrowing. This practice is referred to as making **minimum revenue provision** (or MRP) for the repayment of debt.

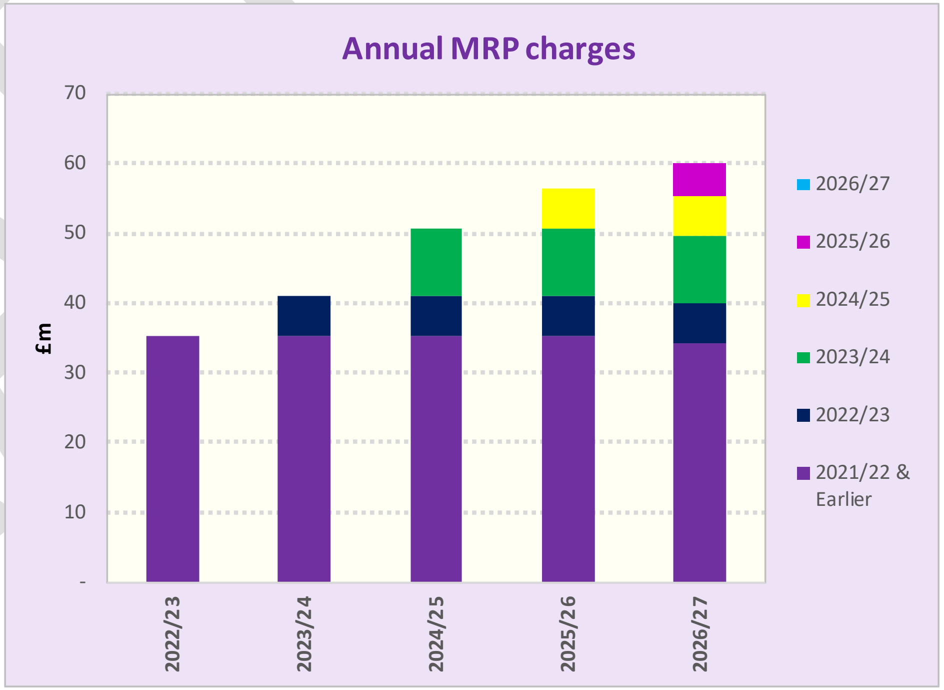
Statutory guidance requires MRP to be provided annually on a prudent basis, and interprets 'prudent' to mean that:

- MRP charges on government **supported** and **pre-April 2008** borrowing should (as a minimum) be made over a period commensurate with the period implicit in the determination of the original grant; and
- MRP charges on **unsupported** borrowing should be made over a period commensurate with the period the capital expenditure provides benefit.

Alternative methods to those listed above are permitted, but only if they result in a prudent basis of repayment.

In accordance with the requirement to make a prudent 'revenue provision for the repayment of debt', the Council ensures that debt is repaid over a period that is commensurate with the period over which the capital expenditure provides benefit. This is achieved by applying the methodologies set out in **Annex C**.

The 'revenue provision' charges resulting from applying the policies set out in **Annex C** are shown below**.**



The charges increase incrementally as a consequence of the proposals presented elsewhere in the Organisation Plan to incur capital expenditure that will be financed from borrowing in each year of the Council's current financial planning horizon.

External Borrowing Limits

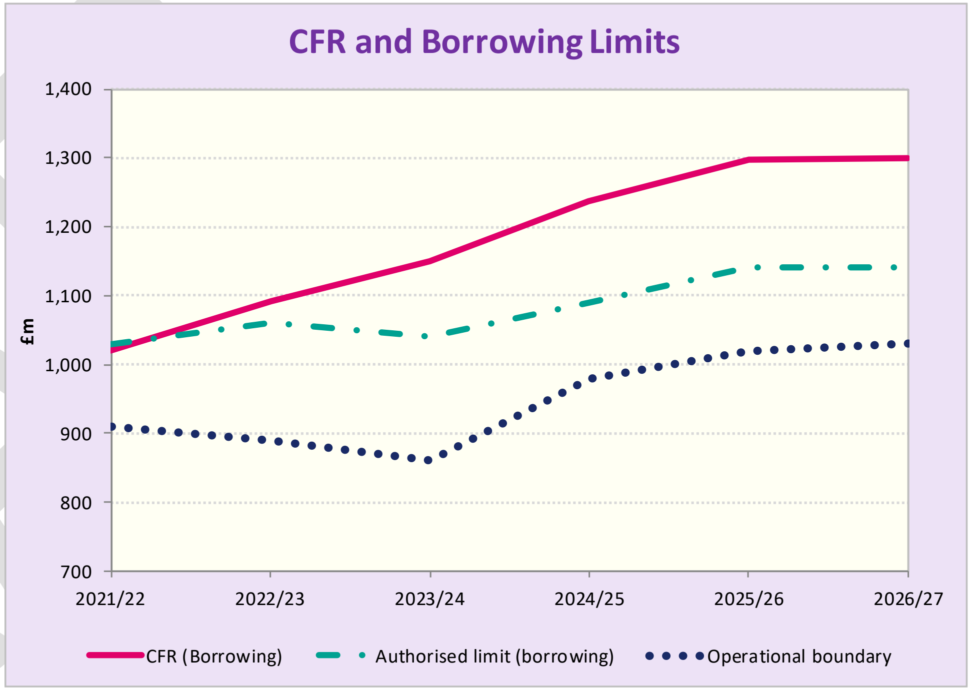
The Council is only permitted to borrow externally (including via credit arrangements) up to the level implied by its Capital Financing Requirement (CFR). However, the Council must not borrow if there is no identified need for it; neither can it borrow to invest for the primary purpose of generating a financial return.

To ensure compliance with these principles, limits are established for external debt, as follows:

- **Authorised limit** – this defines the maximum amount of external debt permitted by the Council, and represents the statutory limit determined under section 3 (1) of the Local Government Act 2003.
- **Operational boundary** – this is an estimate of the probable level of the Council's external debt and provides the means by which external debt is managed to ensure that the 'authorised limit' is not breached.

The proposed limits, which are set out in **Annex A**, make separate provision for external borrowing and other long-term liabilities, and are based upon an estimate of the most likely but not worst-case scenarios. They allow enough headroom for fluctuations in the level of cash balances and in the level of the Capital Financing Requirement.

As illustrated in the graph below, the authorised limit and operational boundary related to external borrowing are below the current estimates of the Capital Financing Requirement for borrowing.



Borrowing Strategy

Whilst the Capital Financing Requirement provides a measure of the Council's need to borrow externally, borrowing up to the level implied by its Capital Financing Requirement would result in the Council borrowing excessively. This is because the Council holds temporary surplus cash balances by virtue of its decisions to hold funds in reserves and balances etc that can be used to offset or defer the need for external borrowing (a treasury management practice referred to as **internal borrowing**).

Consequently, the assessment of the need for external borrowing considers the forward projections of the Capital Financing Requirement, the Council's prevailing cash flow position and the need for a reasonable but not excessive holding of short term investments for liquidity management.

Currently, long-term external borrowing amounts to **£582m** which is equivalent to around **53%** of the estimated CFR for borrowing as at 31 March 2023. It is however possible (and assumed for the purposes of this Strategy) that further external borrowing (up to **£49m**) will be undertaken before 31 March 2023. This would increase external borrowing to **£631m** as at 31 March 2023, which will be equivalent to **58%** of the estimated CFR at that point.

Internal borrowing does not reduce the magnitude of funds held in reserves and balances; the funds are merely being borrowed until they are required for their intended purpose.

The Council will externalise its borrowing when it needs to do so to ensure that it has sufficient liquidity to meet its day-to-day cashflow requirements. It has been assumed, for the purposes of this Strategy, that further long-term external borrowing will be undertaken when the cash held for liquidity purposes falls below **£200m** on a sustained basis.

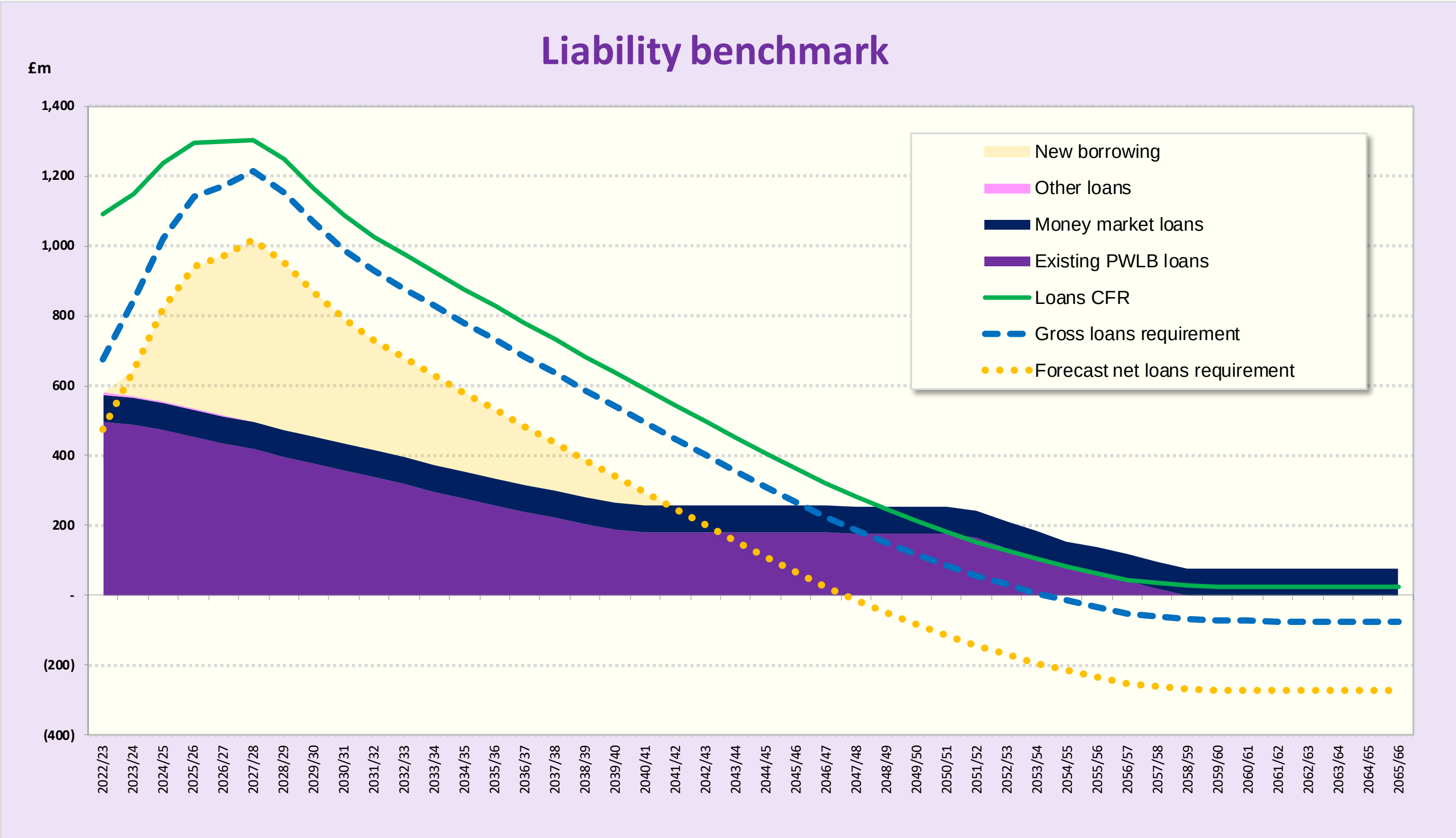
A **liability benchmark** is used to inform the assessment of the amount of loan debt that the Council needs each year into the future to fund its existing debt liabilities, planned prudential borrowing and other cash flows.

The purpose of the liability benchmark is to compare the Council's existing loans against its future need for loan debt.

The liability benchmark is presented graphically, and comprises long term forecasts for each of the following:

- Existing loan debt outstanding.
- Loans Capital Financing Requirement (Capital Financing Requirement excluding any part related to credit arrangements).
- Net loans requirement (forecast of the Council's loan debt, net of investments).
- Gross loan debt (forecast of the gross debt required in accordance with the Council's budget plans).

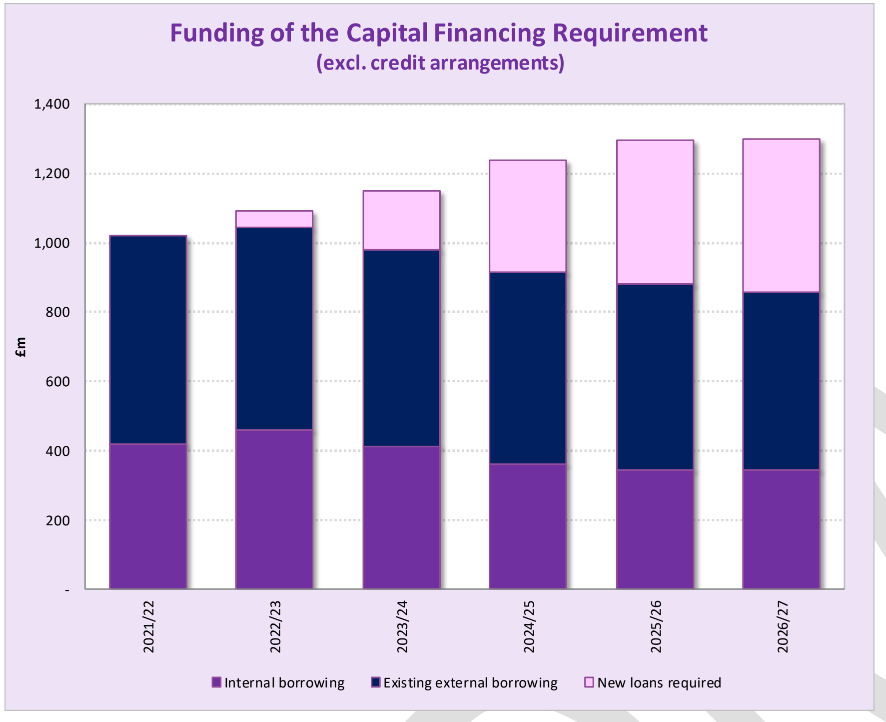
The need for further external borrowing is represented by the gap between the existing loans and the Council's future need for borrowing.



The liability benchmark also shows how closely the existing loans book fits the future needs of the Council, and the maturities needed for new borrowing in order to match liabilities.

Whilst the projections show that the Council has existing commitments that exceed the liability benchmark in the future, there is no requirement for these loans to be repaid in order to meet the benchmark. However, the liability benchmark does act as a mechanism for preventing future over-borrowing.

The following graph shows how it is anticipated to fund the Capital Financing Requirement:



That is, it shows how much it is expected will be funded from internal borrowing and how external borrowing is likely to increase. This translates into the following forecasts of long-term external borrowing over the current planning horizon:

Current Forecast	Long term borrowing requirement				
	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m
Existing external loans	582	**570**	553	535	514
Requirement for further borrowing					
2022/23	49	**49**	49	49	49
2023/24	-	**119**	119	119	119
2024/25	-	-	155	155	155
2025/26	-	-	-	94	94
2026/27	-	-	-	-	25
New external borrowing	49	**168**	323	417	323
Total external borrowing	**631**	**738**	**876**	**952**	**956**
Internal borrowing	461	**411**	361	345	344
Total borrowing	**1,092**	**1,149**	**1,237**	**1,297**	**1,300**

However, the external borrowing requirement will be kept under review, and new long-term external loans will only be secured:

- When the funds are required to meet the Council's expected cash flows and to provide liquidity; and
- Within the parameters established by the **authorised limit** and **operational boundary** for external debt (as set out within **Annex A**).

Prospects for interest rates

The Council predominantly expects to satisfy its borrowing requirement from the Public Works Loan Board (PWLB). PWLB interest rates are set with reference to gilt rates.

There has been a lot of volatility in gilt yields, and hence in PWLB rates, during 2022/23 although the underlying trend has been upward.

Monetary policy in the UK will have a major impact on gilt yields, but rising treasury yields in America could also impact on UK gilt yields, although gilt yields and treasury yields do not always move in unison.

Maturity structure of borrowing

Limits are proposed, in **Annex A**, for the maturity structure of borrowing. The purpose of these limits is to guide decisions about the period over which new borrowing will be secured, to ensure that the Council does not have:

- A large amount of debt maturing in any one year that it may need to refinance in that year alongside any new borrowing that may be required; and
- External loans in excess of its CFR, other than in the short term.

Interest rate exposure

In order to manage and minimise the impact of movements in interest rates, limits are proposed within **Annex B** that will establish the ranges within which fixed and variable rate borrowing will be undertaken.

The Council usually secures its long-term loans at fixed rates of interest, to provide certainty over the cost of maintaining the loans over their lifetime (indeed, all the Council's current long-term borrowing is at rates of interest that were fixed at the outset, for the whole duration of the loans).

Whilst any new loans secured over the period of this strategy are likely to also be secured at fixed rates of interest, up to **30%** could, alternatively, be secured at variable rates of interest.

Performance indicators

If long-term borrowing is undertaken, performance will be assessed against the average PWLB rate for the year for the applicable loan type and interest rate banding.

Short term borrowing will be assessed against the Sterling Overnight Index Average (SONIA). SONIA is published by the Bank of England and is based on actual transactions and reflects the average of the interest rates that banks pay to borrow sterling overnight from other financial institutions and other institutional investors.

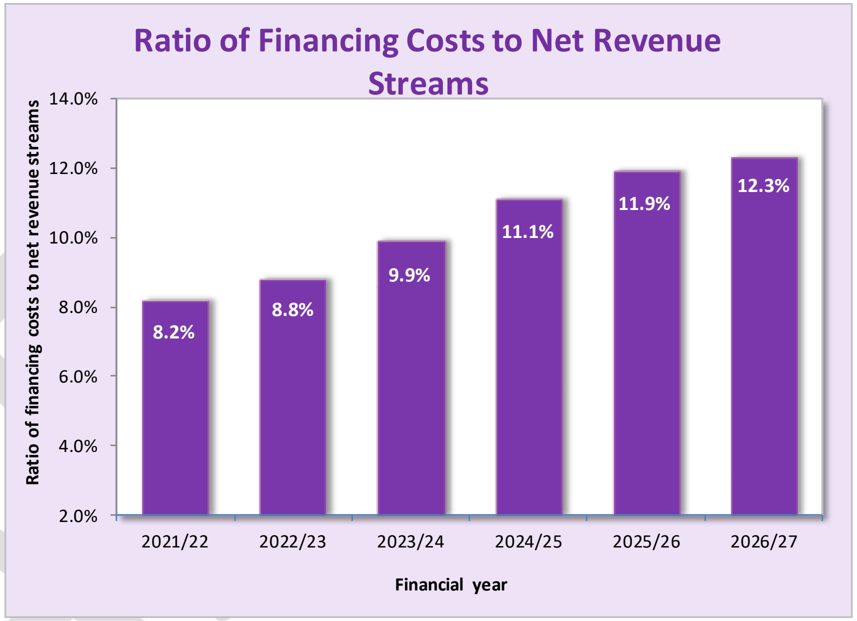
Ratio of financing costs to net revenue streams

The trend in the '**cost of capital**' is provided by the **ratio of financing costs to net revenue streams**.

This ratio provides a key indicator of affordability, as it shows the proportion of the annual revenue budget that is being consumed year on year in order to finance the costs of borrowing (i.e. interest payable on external loans and leases and the amount required for the statutory provision for the repayment of debt).

The actual ratios for 2021/22 and the latest estimates for 2022/23 and the forthcoming four years, are provided in **Annex A**.

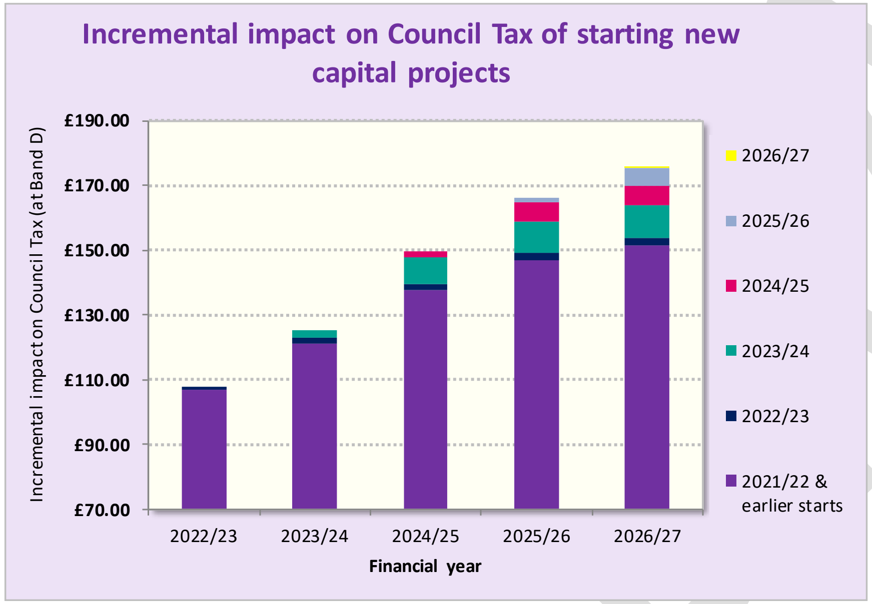
The trend in this ratio over this period is illustrated in the adjacent graph. This shows that the proportion of the revenue budget that is required to fund borrowing costs is expected to increase from **8.2%** in 2021/22 to **12.2%** by 2027/28.



Incremental impact upon Council Tax

Another measure of the affordability of the capital programme proposals is their impact upon council tax.

The incremental impact upon council tax (at **band D**) from continuing with capital schemes started in, and prior to, 2021/22 and the additional amounts that result from commencing new capital projects in 2022/23 and the subsequent four years is illustrated in the graph below and set out in **Annex A.**



The above graph shows the amount of council tax required to meet the costs of borrowing (*i.e. interest payable on external loans and leases and the amount required for the statutory provision for the repayment of debt*) split between the amounts that arise because of capital projects that started in 2021/22 or earlier years, and the amounts arising as a consequence of commencing additional capital projects in each year of the Council's current planning horizon.

The actual impact upon council tax may be lower than that implied in **Annex A** because:

- The indicator is calculated on the basis that the revenue implications of borrowing decisions will be funded entirely from council tax; the Budget Requirement is funded from a combination of financing sources, including council tax, business rates and general government grants.
- No account has been taken of the savings that may accrue from invest to save / improve schemes.

TREASURY MANAGEMENT INVESTMENTS

Introduction

The Council holds cash balances as a consequence of timing differences between its cash inflows and outflows. These cash balances need to be invested until they are required for use in the course of the Council's day-to-day activities. The investment of funds for this purpose is referred to as treasury management.

The Council's treasury management investment activities must be undertaken in compliance both with the CIPFA Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes (referred to as the Treasury Management Code) and with statutory guidance.

The Treasury Management Code and statutory guidance require the Council to prepare an annual strategy that explains how the Council will invest its funds for treasury management purposes, giving priority to security and liquidity, and then to yield.

Outlook for interest rates

At the time of writing, the Bank of England's Monetary Policy Committee (MPC) had increased the Bank Rate five times during 2022/23, from **0.75%** in April 2022, to **3%** in November 2022.

Market expectations are for further increases over coming months, with rates now expected to peak at between **4.5%** and **4.75%** by May 2023. Rates may remain at this level until early 2024.

Investment projections

As noted elsewhere, the Council must use its cash balances to defer external borrowing for as long as possible. However, it must also retain sufficient liquidity of funds to ensure that it has cash available when it needs it, to cover its outgoings.

In practice, this means that the cash balances the Council holds for investment can be subject to significant fluctuation. However, for planning purposes, it is assumed that the Council will maintain cash balances for investment of circa **£471m** for the duration of the current financial planning horizon (as set out in **Annex B**).

Investment strategy

When the Council has surplus cash balances, these are invested until they are next required. Usually, this means that funds are invested on a short-term basis (i.e. up to a maximum period of 365 days), but up to **£30m** may be invested for periods beyond 365 days.

In accordance with regulatory requirements, the primary objectives, when investing the Council's funds, are **security** (*protecting the capital sum invested from loss*) and **liquidity** (*ensuring the funds invested are available for expenditure when needed*). The generation of **yield** is distinct from these prudential objectives. However, this does not mean that the Council ignores yield; once proper levels of security and liquidity are determined, yield is then considered.

The Council's funds will primarily be invested according to the Secretary of State's definition of **specified** investments. These are sterling deposits made for periods of less than one year with investment schemes of high quality and which are not defined by regulation as capital expenditure. Specified investments include deposits with the UK Government, other local authorities, money market funds and bodies of high credit quality.

Funds may also be invested according to the Secretary of State's definition of **non-specified investments**. Non specified investments are any financial investments that do not meet the criteria to be treated as a specified investment. The inclusion of non-specified investments in the Council's investment strategy is to allow funds (up to a maximum of **£30m**) to be invested for periods of in excess of one year.

A lending list will be compiled to include counterparties satisfying the criteria set out within **Annex D**. The lending limits that will be applied to counterparties satisfying these criteria are also set out within **Annex D**. Additional operational market information (including Credit Default Swaps and negative rating watches and outlooks) will also be considered before making any specific investment decisions.

The criteria for choosing counterparties (as set out within **Annex D**) provide a sound approach to investing in normal market circumstances. However, the Executive Director, Corporate Services will determine the extent to which the criteria set out within **Annex D** will be applied in practice.

Interest rate exposure

In order to manage and minimise the impact of movements in interest rates, limits are proposed within **Annex B** that will establish the ranges within which fixed and variable rate investments will be undertaken. As noted elsewhere, most of the Council's investments are made for periods of less than 365 days, for durations that ensure that the cash is available to meet expenditure when needed. Because of the relatively short-term nature of these deposits, there is little to differentiate between fixed and variable rates of interest – funds could equally be invested fully at fixed rates of interest or fully at variable rates.

Liquidity

Liquidity is defined as having adequate, but not excessive cash resources, borrowing arrangements and overdraft or standby facilities to ensure that funds are always available for the achievement of the Council's objectives. In this respect, the Council will seek to maintain liquid short-term deposits of at least **£50m** available with a week's notice.

Environmental, Social and Governance issues

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 values. This would include, inter alia, avoiding direct investment in institutions with material links to:

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

Performance

Performance on cash invested short term, in order to maintain liquidity of funds, will be benchmarked against the Sterling Overnight Index Average (**SONIA**) rate; the aim being to achieve investment returns that are equivalent to, or greater than, the average SONIA rate for the year.

Treasury Management advisors

The Council employs **Link Asset Services, Treasury Solutions** to provide it with treasury management advice.

The services provided by Link Asset Services, Treasury Solutions include advice on treasury matters and capital finance issues, economic and interest rate analysis and creditworthiness information. Notwithstanding this, the final decision on all treasury matters remains vested with the Council.

The services received from Link Asset Services; Treasury Solutions are subject to regular review.

Support to subsidiaries and partnerships

The Council currently provides treasury management support to its subsidiaries Essex Cares Ltd and the Essex Housing Development LLP and holds cash balances on behalf of the partnerships for which it is the 'accountable' body (principally the South East Local Enterprise Partnership).

As part of the agreement to provide treasury management support to its subsidiaries, the Council provides a working capital loan facility of up to **£5m** to each of Essex Cares Ltd and the Essex Housing Development LLP. These are bridging facilities that enable both entities to manage temporary shortfalls of cash. In addition, in relation to Essex Cares Ltd and the partnerships for which the Council is the accountable body, the Council temporarily borrows any surplus cash balances they have and returns these sums when they are required to cover their outgoings.

Any amounts lent to, or borrowed from, these organisations are consolidated with the Council's own cash balances daily, and the Council invests or borrows on the net position.

The Council charges interest on amounts lent to these organisations and pays interest on any amounts it borrows from them, in accordance with the terms of formal agreements between the respective parties.

Longer term treasury management investments

Treasury management investments normally arise from a cash flow surplus. The cash will be needed in due course to meet the service delivery needs of the Council, and that determines how long the cash should be invested for. Because the Council has a net borrowing requirement, any investments that are of a longer term nature are unlikely to be considered as investments for treasury management purposes.

OTHER INVESTMENTS

Introduction

Other investments are those made or held:

- For longer term treasury management purposes.
- Primarily to generate a financial return and are neither linked to treasury management activities or directly part of delivering services.
- For service purposes (including housing, regeneration and local infrastructure) which may achieve a commercial return but obtaining these returns is not the primary purpose of the investment.

The latter two of the above categories of ‘other’ investment invariably constitute capital expenditure. However, it is only permissible to finance the latter category from borrowing.

The following paragraphs provide an overview of the Council’s current ‘other’ investments and those included within the proposed 2023/23 capital programme or in the indicative programme for the subsequent three years.

Longer term treasury management investments

The Council has one long term investment of **£10m** in the CCLA Property Fund, made in two instalments in **2013** and **2016**. When the funds were placed in this Fund, they were deemed to be treasury management investments. However, as there is no fixed maturity date for this investment, it is categorised as a long term investment.

Because the Council has a net borrowing requirement and is unlikely to have a surplus cash balance long enough to justify a long term investment, the CCLA property fund investment is now considered to be a commercial, rather than treasury management, investment.

From an accounting perspective, the investment in the CCLA Property Fund is classified as ‘fair value through profit and loss (FVPL). Any movements in the fair value of investments categorised as FVPL (i.e. valuation gains and losses) are usually recognised in the Revenue Account. However, statutory regulations currently allow revaluation gains and losses on investments to be held in an unusable reserve instead. The statutory regulations are currently only valid until **31 March 2023**, although the Government has recently consulted on an extension to the statutory regulations.

The investment in the CCLA Property Fund will be kept under review.

Investment properties

The Council acquired three properties, at a total cost of **£33.9m** (two in 2017/18 and one in 2018/19), which are held for capital appreciation and/or to earn rental income.

A proportion of the annual rental income from these properties has been set aside in the Property Investment earmarked revenue reserve to mitigate against the risk of future losses.

These investment properties are measured at their fair value (which ensures the valuation reflects the market conditions at the end of each reporting period). The fair value measurements enable the Council to assess whether the underlying assets provide security for capital investment.

As these properties were acquired primarily to generate a financial return, the Council will not add to the current portfolio of properties.

Shareholdings

Medtech Accelerator Ltd

The Council holds **500,000** ordinary **£1** shares in the company **Medtech Accelerator Ltd** (this currently represents a **20%** holding in the company). The company facilitates the early-stage development of innovations in medical technology by financing projects at an early stage in order to maximise the potential for success in bringing new life enhancing technologies to patients.

Harlow Investment Fund

The Cabinet has agreed, in principle, to enter into an agreement to subscribe for or purchase shares in the **Harlow Investment Fund Ltd** partnership, a proposed fund seeking to invest in property to secure the growth and regeneration required in Harlow.

The Council's investment in the Fund (included in the capital programme for 2022/23) will be capped at **£5m** (equivalent to a 10% equity holding).

Loans to local enterprises and third parties

The Council has awarded loans towards expenditure which would, if incurred by the Council, be capital expenditure. Both loans were awarded on behalf of the South East Local Enterprise Partnership. The loans that are currently outstanding are as follows:

Essex University – Centre for Advanced engineering	Year to be repaid	Loan amount (£)	Interest rate %
Instalment one	2025/26	**1,000**	0%
Instalment two	2026/27	**1,000**	0%
Total		**2,000**	

Loans to subsidiaries of the Council

As noted in the Treasury Management Investments section, the Council provides treasury management support to its subsidiary companies, **Essex Cares Ltd** and **Essex Housing Development LLP**.

In addition to providing treasury management support to these entities, the Council has also provided (or will provide) capital loans to the Essex Housing Development LLP, to facilitate approved housing development projects.

The Council advanced loans totalling **£4.3m** to the LLP in 2021/22 and, based on the current capital programme proposals, could advance further loans totalling **£133.7m** to the LLP over the period 2022/23 to 2026/27. However, each housing project will be subject to Cabinet approval, following submission of robust business cases and delivery plans.

A separate loan agreement is put in place for each Essex Housing project that the Council agrees to support. These loan agreements set out the repayment terms and the interest charges.

TREASURY MANAGEMENT POLICY STATEMENT AND TREASURY MANAGEMENT PRACTICES

The Council must have regard to the CIPFA Treasury Management Code under the provisions of the Local Government Act 2003.

The Treasury Management Code identifies several key principles for treasury management, including that:

- Objectives, policies, practices, strategies and reporting arrangements should be in place to ensure that treasury management activities are effectively managed and controlled.
- The policies, practices and strategies should prioritise security and liquidity when investing treasury management funds.
- The policies, practices and strategies should also explain how value for money will be secured, and the arrangements to ensure effective control of risks.

The Council's **Treasury Management Policy Statement** (*which set out the policies, objectives and approach to risk management of its treasury management activities*), and its **Treasury Management Practices** (*which set out the way the Council sought to achieve its policies and objectives for treasury management*) are presented for information in the following annexes:

- **Annex E** – Treasury Management Policy Statement
- **Annex F** – Treasury Management Practices
- **Annex G** – Management practices for non-treasury investments

KNOWLEDGE AND SKILLS

The Council recognises the importance of ensuring that all officers involved in the treasury management function and other investment activities are fully equipped to undertake the duties and responsibilities allocated to them. The Executive Director, Corporate Services is responsible for recommending and implementing the necessary arrangements and does this by:

- **Appointing individuals who are both capable and experienced**

  All individuals involved in the delivery of the treasury management function are required to be professionally qualified accountants, who have a responsibility to undertake continuing professional development.

- **Providing training and technical guidance**

  All individuals involved in the delivery of the treasury management function are provided with access to relevant technical guidance and training necessary to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills to undertake the duties and responsibilities allocated to them.

- **Appointing a treasury management and other professional advisors**

  By employing external providers of treasury management services, the Executive Director, Corporate Services ensures that the individuals involved in delivery of the Council's treasury management activities have access to specialist skills and resources.

  In addition, professional advisors are employed as required to ensure that the Council has access to the specialist skills and resources necessary to undertake other investment activities.

The Executive Director, Corporate Services will ensure that elected members tasked with treasury management responsibilities, including those responsible for scrutiny, have access to training relevant to their needs and those responsibilities.

Those charged with governance recognise their individual responsibility to ensure that they have the necessary skills to complete their role effectively.

ANNEX A - PRUDENTIAL INDICATORS

Summary of prudential indicators		2021/22	2022/23		2023/24	2024/25	2025/26	2026/27
		Actual	Original Estimate	Updated Estimate	Forecast	Forecast	Forecast	Forecast
Capital expenditure & financing								
Capital Expenditure	**£m**	221	284	258	**258**	422	404	213
Capital Financing								
Borrowing	**£m**	62	131	108	**98**	139	116	63
Grants and contributions	**£m**	151	142	139	**147**	276	284	146
Capital receipts and earmarked reserves	**£m**	8	11	11	**13**	7	4	4
Total capital financing	**£m**	**221**	**284**	**258**	**258**	**422**	**404**	**213**
Capital financing requirement								
Capital financing requirement (CFR)								
Opening CFR	**£m**	1,106	1,145	1,123	**1,187**	1,329	1,402	1,447
Add								
Additional borrowing	**£m**	62	131	108	**98**	139	116	63
Additional credit liabilities (PFI / Finance leases)	**£m**	4	100	5	**100**	-	-	-
		1,172	**1,376**	**1,236**	**1,385**	**1,468**	**1,518**	**1,510**
Less								
Revenue provision for debt repayment	**£m**	(45)	(53)	(49)	**(56)**	(66)	(71)	(71)
Capital receipts applied to repay debt	**£m**	(4)	-	-	**-**	-	-	-
Capital Financing Requirement	**£m**	**1,123**	**1,323**	**1,187**	**1,329**	**1,402**	**1,447**	**1,439**

Summary of prudential indicators		2021/22	2022/23		2023/24	2024/25	2025/26	2026/27
		Actual	Original Estimate	Updated Estimate	Forecast	Forecast	Forecast	Forecast
Analysis of the Capital Financing Requirement								
Supported borrowing and pre 2008/09 unsupported borrowing	£m	430	418	418	406	394	382	370
Unsupported borrowing								
General	£m	575	664	649	690	752	797	813
Deferred (loans, housing and investment properties)	£m	15	52	25	53	91	118	117
Sub total - borrowing	£m	**1,020**	**1,134**	**1,092**	**1,149**	**1,237**	**1,297**	**1,300**
Credit arrangements (PFI / Finance leases)	£m	103	189	95	180	165	150	139
Total	£m	**1,123**	**1,323**	**1,187**	**1,329**	**1,402**	**1,447**	**1,439**
Gross borrowing and the CFR								
Medium term forecast of CFR	£m	1,329	1,548	1,402	1,447	1,439	1,430	1,365
Forecast external debt (long term) and credit arrangements	£m	703	764	582	571	553	534	514
Headroom	£m	**626**	**784**	**820**	**876**	**886**	**896**	**851**
External debt								
Authorised limit								
Borrowing	£m	620	1,060	880	1,040	1,090	1,140	1,140
Other long term liabilities	£m	284	189	95	180	163	150	139
Total authorised limit	£m	**904**	**1,249**	**975**	**1,220**	**1,253**	**1,290**	**1,279**
Operational boundary								
Borrowing	£m	520	890	760	860	980	1,020	1,030
Other long term liabilities	£m	265	184	90	175	159	145	134
Total operational boundary	£m	**785**	**1,074**	**850**	**1,035**	**1,139**	**1,165**	**1,164**
Actual external debt (incl. credit arrangements)	£m	**737**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**

Summary of prudential indicators		2021/22	2022/23		2023/24	2024/25	2025/26	2026/27
		Actual	Original Estimate	Updated Estimate	Forecast	Forecast	Forecast	Forecast
Financing to net revenue streams								
Financing to Net Revenue Streams	**%**	8.20%	8.60%	8.80%	9.90%	11.10%	11.90%	12.30%
Incremental impact on Council Tax								
Effect of capital schemes starting in:								
2021/22 and earlier years	**£**	100.46	104.87	107.08	121.32	137.60	147.00	151.37
2022/23	**£**	-	2.50	0.54	1.82	1.94	2.09	2.23
2023/24	**£**	-	-	-	1.97	8.22	9.67	10.33
2024/25	**£**	-	-	-	-	1.69	6.03	5.97
2025/26	**£**	-	-	-	-	-	1.27	5.63
2026/27	**£**	-	-	-	-	-	-	0.34
Total	**£**	**100.46**	**107.37**	**107.62**	**125.11**	**149.45**	**166.06**	**175.87**

ANNEX B - TREASURY MANAGEMENT SUMMARY

Treasury Management Summary		2021-22 Actual	2022-23 Original Estimate	2022-23 Latest Estimate	2023-24 Estimate	2024-25 Forecast	2025-26 Forecast	2026-27 Forecast
Estimated debt and investments								
Investments (estimated balance at each 31st March)	**£m**	555	445	408	**471**	539	569	558
External debt (operational boundary for borrowing)	**£m**	520	890	760	**860**	980	1,020	1,030
Expected movement in interest rates								
Bank Rate *(at each 31st March)*	**%**	0.10%	0.75%	3.50%	**4.50%**	3.25%	2.50%	2.50%
PWLB (borrowing) rates								
5 year	**%**	2.45%	1.70%	4.30%	**4.00%**	3.50%	3.10%	3.10%
10 year	**%**	2.64%	1.90%	4.50%	**4.20%**	3.60%	3.20%	3.20%
25 year	**%**	2.82%	2.20%	4.70%	**4.40%**	3.90%	3.50%	3.50%
50 year	**%**	2.57%	2.00%	4.30%	**4.10%**	3.60%	3.20%	3.20%
Source: Link Asset Services (Treasury Solutions) (**November 2022**)								
Effect of 1% increase in interest rates								
Interest on borrowing	**£000**	N/A	1,265	245	**1,085**	2,455	3,700	4,295
Interest on investments	**£000**	N/A	(4,542)	(4,170)	**(3,000)**	(3,390)	(3,690)	(3,740)
Interest attributed to reserves & balances	**£000**	N/A	2,052	2,397	**2,397**	2,397	2,397	2,397
Interest attributed to other bodies	**£000**	N/A	61	91	**91**	91	91	91
Net total	**£000**	N/A	**(1,164)**	**(1,437)**	**573**	**1,553**	**2,498**	**3,043**
Borrowing requirement (external borrowing)	**£m**	5	189	49	**119**	155	94	25

Treasury Management Summary		2021-22 Actual	2022-23 Original Estimate	2022-23 Latest Estimate	2023-24 Estimate	2024-25 Forecast	2025-26 Forecast	2026-27 Forecast
Interest rate exposures								
Upper limits for exposure to fixed rates								
Net exposure	**£m**	620	1,060	880	**1,040**	1,090	1,140	1,140
Debt	**%**	100%	100%	100%	**100%**	100%	100%	100%
Investments	**%**	100%	100%	100%	**100%**	100%	100%	100%
Upper limits for exposure to variable rates								
Net exposure	**£m**	186	318	264	**312**	327	342	342
Debt	**%**	30%	30%	30%	**30%**	30%	30%	30%
Investments	**%**	100%	100%	100%	**100%**	100%	100%	100%
Maturity structure of borrowing (upper limit)								
Under 12 months	**%**	1%	40%	40%	**40%**	40%	40%	40%
12 months and within 24 months	**%**	3%	40%	40%	**40%**	40%	40%	40%
24 months and within 5 years	**%**	5%	40%	40%	**40%**	40%	40%	40%
5 years and within 10 years	**%**	15%	40%	40%	**40%**	40%	40%	40%
10 years and within 25 years	**%**	35%	75%	71%	**81%**	70%	70%	70%
25 years and within 40 years	**%**	29%	40%	40%	**40%**	40%	40%	40%
40 years and within 50 years	**%**	0%	20%	20%	**20%**	20%	20%	20%
50 years and above	**%**	12%	20%	20%	**20%**	20%	20%	20%
Maturity structure of borrowing (lower limit)								
All maturity periods	**%**	0%	0%	0%	**0%**	0%	0%	0%
Total sums invested for more than 364 days								
Upper limit for sums invested for more than 364 days	**£m**	13	30	30	**30**	30	30	30

ANNEX C – REVENUE PROVISION FOR THE REPAYMENT OF DEBT POLICY

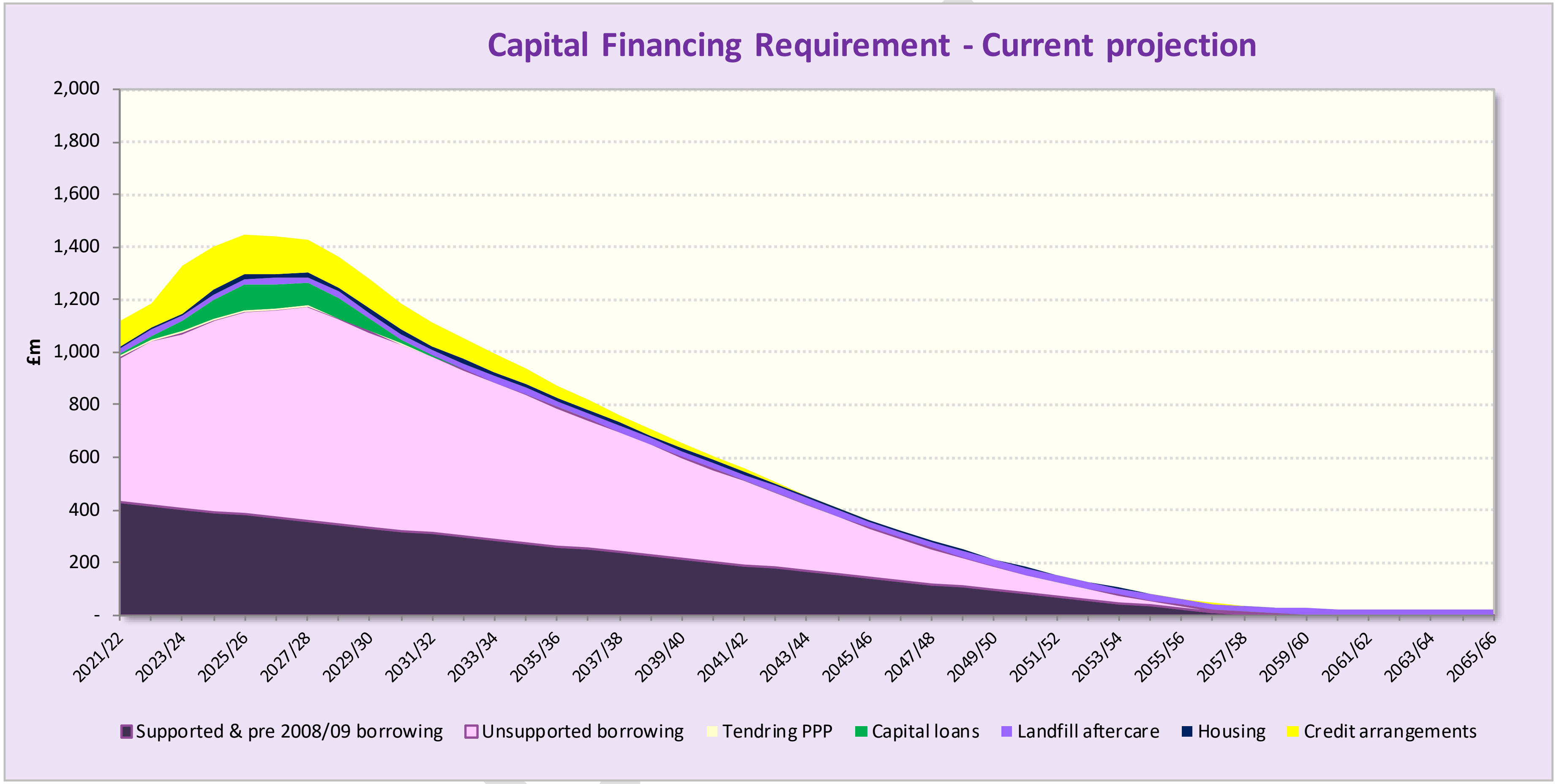
In accordance with the requirement to make a prudent 'revenue provision for the repayment of debt', the Council ensures that debt is repaid over a period that is commensurate with the period over which the capital expenditure provides benefit. This is achieved by applying the following methodology:

Borrowing	MRP repayment basis
Pre 1st April 2008 debt	This element of the Capital Financing Requirement is being repaid on a 50-year '**Equal instalments**' basis, with commencement of the 50-year term in 2007/08.
Government supported debt (2008/09 onwards)	This element of the Capital Financing Requirement is being repaid on a 50-year '**Equal Instalments**' basis, with commencement of the 50-year term in the financial year following the capital expenditure.
Unsupported borrowing General	This element of the Capital Financing Requirement is being repaid using the **Asset Life** method. This spreads the unsupported borrowing over the useful life estimated at the start of the relevant asset lives (or over a shorter period where use of the standard useful life would not be supportable as prudent).
Unsupported borrowing Loans awarded for capital purposes	This element of the Capital Financing Requirement is being repaid using the **Asset Life** method, which spreads the unsupported borrowing over the estimated useful life of the assets for which the loans are awarded or, if shorter, over the term of the loans. Where the Council receives the repayment of an amount loaned, the income is classified as a capital receipt. The first call on the capital receipt will be to repay the related Capital Financing Requirement.
Credit arrangements	MRP is met by a charge equal to the element of rent/charge that goes to write down the balance sheet liability.

Revenue provision is chargeable in the first financial year after the relevant capital expenditure is incurred.

Where it is practical or appropriate to do so, the Council may make voluntary revenue provision, or apply capital receipts, to reduce debt over a shorter period.

On the basis of the MRP policies outlined above, and the capital programme proposals outlined elsewhere within the Capital and Treasury Management Strategy, the longer-term forecast of the Capital Financing Requirement is as follows:



ANNEX D - COUNTERPARTY CRITERIA FOR INVESTMENTS

1. Context

In order to minimise the risk to investments, the Council stipulates the minimum acceptable credit quality of counterparties for inclusion on its lending list. Where applicable, it does this by reference to the credit ratings, watches and outlooks published by all three ratings agencies (i.e. Fitch, Standard and Poor and Moody's). Definitions of the credit ratings of the three main rating agencies are available upon request.

2. Banks and building societies

The Council will invest funds with:

- UK banks and building societies
- Non-UK banks domiciled in a country with a minimum sovereign rating of **AA-**

that have credit ratings equivalent to, or better than, the following:

Rating category	Credit rating agencies		
	Fitch	Standard & Poor's	Moody's
Short term	**F1**	**A-1**	**P-1**
Long term	**A**	**A**	**A2**

These ratings will be used to determine the pool of counterparties with whom the Council can transact for **term/call deposits** and **certificates of deposit**. This will ensure that funds are invested with high quality counterparties.

Where counterparties are rated by more than one credit rating agency, the lowest ratings will be used to determine whether they are included on the counterparty list.

The short and long-term ratings will be further applied to determine the maximum amount that will be invested with each of the counterparties in the 'pool', and for what duration.

Credit rating information is supplied by Link Asset Services, the Council's appointed treasury advisor, on all active counterparties that comply with the criteria above.

Credit ratings will be kept under review. Counterparties will be removed from the Council's lending list in the event that they receive a downgrading to their credit rating below the minimum criteria outlined above.

Counterparties placed on '**negative ratings watch**' (which indicate a likely change in the counterparty's credit rating) will remain on the Council's lending list at the discretion of the Executive Director, Corporate Services, in consultation with the Cabinet Member for Finance, Resources and Corporate Affairs.

Although non-UK banks domiciled in a country with a minimum sovereign rating of **AA-** may be included on the lending list, due regard will be given to the country exposure of the Council's investments.

In the event that the Council's own banker falls below the minimum credit rating criteria outlined above, and is not nationalised or part nationalised, the bank will be used for transactional purposes only, and not as an active outlet for investments.

3. Financial institutions nationalised (or part nationalised) by the UK Government

UK banks that do not fully meet the credit rating criteria outlined in the previous paragraph, but which have been nationalised or part nationalised, will remain on the counterparty list whilst they continue to be nationalised (or part nationalised).

4. Money Market Funds

Money Market Funds (MMFs) are short term, pooled investments that are placed, by a manager, in a wide range of money market instruments. The size of the investment pool of a MMF enables the manager to not only offer the flexibility of overnight and call money, but also the stability and returns of longer dated deposits.

Strict rules and criteria are set down by the official rating agencies, covering the types of investment counterparties used, the maturity distribution of the funds and investment concentrations.

There are three permitted structural options for money market funds, as follows:

- Constant Net Asset Value (CNAV)
- Low Volatility Net Asset Value (LVNAV)
- Variable Net Asset Value (VNAV)

The Council will only use **CNAV** and **LVNAV** MMFs with an **AAA** credit rating that are denominated in sterling and regulated within the EU and **VNAV** MMFs with an **AAA** credit rating and a minimum credit score of **1.25** that are denominated in sterling and regulated within the UK.

5. UK Government

No restrictions are placed on the amounts that can be invested with the UK Government for deposits of up to 364 days (i.e. with the Debt Management Office or via UK treasury bills or Gilts with less than 1 year to maturity).

Longer term deposits are restricted by the Council's upper limit for sums invested for more than 364 days.

6. Other local authorities

Other local authorities are included within the counterparty 'pool'. The amount that can be invested will be determined with regard to their size. That is:

- Upper tier local authorities comprise county councils, unitary and metropolitan authorities and London boroughs; and
- Lower tier local authorities include district / borough councils and police and fire authorities.

7. Property Funds

Property Funds are a long term, and relatively illiquid form of investment, which are expected to yield both rental income and capital gains.

They do not have a defined maturity date and the Funds may need to sell their underlying assets in order to repay the sums invested by the Council.

8. Time and monetary limits applying to investments

The time and monetary limits for counterparties satisfying the criteria outlined in the previous paragraphs will be determined with reference to the counterparties' short and long term credit ratings (or to other criteria where applicable), as outlined in the table overleaf.

Notwithstanding these limits, the Executive Director, Corporate Services will ensure appropriate operational boundaries are in place to avoid over exposure to any country, sector or group.

Time and monetary limits

Counterparty type	Short and long term credit rating criteria						Investment Limit £m	Maximum duration (No. years)
	Fitch		Standard & Poor's		Moody's			
	Short term	Long term	Short term	Long term	Short term	Long term		
UK Banks and building societies	F1+	AA-	A-1+	AA-	P-1	Aa3	**75**	3 years
	F1	A	A-1	A	P-1	A2	**65**	1 year
UK banks and building societies (nationalised)							**65**	1 year
Non UK financial institutions	F1	A	A-1	A	P-1	A2	**35**	1 year
AAA' rated Money Market Funds (CNAV)							**60**	Not fixed
'AAA' rated Money Market Funds (LVNAV)							**60**	Not fixed
'AAA' rated / 1.25 credit score Money Market Funds (VNAV)							**20**	Not fixed
UK Government							**No limit**	1 year
UK Government							**30**	3 years
Local authorities - upper tier							**30**	3 years
Local authorities - lower tier							**15**	3 years
Property Funds							**20**	Not fixed

Notes:

Forward deals - If forward deposits are made, the forward period plus the deal period should not exceed the maximum duration specified above.

ANNEX E – TREASURY MANAGEMENT POLICY STATEMENT

The following statement defines the policy and objectives of the Council's treasury management activities:

1. The Council defines its treasury management activities as:

- The management of its investments and cash flows, its banking, money market and capital market transactions.
- The effective control of the risks associated with those activities.
- The pursuit of optimum performance consistent with those risks.

2. The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the Council.

3. The Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, within the context of effective risk management.

4. The Council's policies for borrowing and investments are set out within the annual Capital and Treasury Management Strategy.

ANNEX F – TREASURY MANAGEMENT PRACTICES

TMP 1 - Risk Management

A key objective of the Council's treasury management activities is to safeguard the principal sums it invests from loss.

The Section 151 Officer will ensure there are arrangements in place for the identification, management and control of treasury management risk and will report on the adequacy of these arrangements and on the circumstances of any actual or likely difficulty in achieving the Councils objectives in this respect.

[1] Credit and counterparty risk management

The Council will ensure that its counterparty lists and limits reflect a prudent attitude towards organisations with whom funds may be deposited. The Council will also maintain a policy in respect of those organisations from which it may borrow, or with whom it may enter into other financing arrangements.

[2] Liquidity risk management

The Council will ensure it has adequate though not excessive cash resources, borrowing arrangements, overdraft or standby facilities to enable it to have the level of funds available to it which are necessary for the achievement of its business objectives.

The Council will not borrow earlier than required to meet its cash flow needs, unless there is a clear business case for doing so and will only do so for the current capital programme, to fund future debt maturities and/or to ensure an adequate level of liquidity of funds.

[3] Interest rate risk management

The Council will manage its exposure to fluctuations in interest rates with a view to containing its net interest costs by the prudent use of its approved instruments, methods and techniques, primarily to create stability and certainty of costs and revenues, but at the same time retaining a sufficient degree of flexibility to take advantage of unexpected, potentially advantageous changes interest rates.

[4] Exchange rate risk management

The Council will manage its exposure to fluctuations in exchange rates to minimise any detrimental impact on its budgeted income and expenditure levels.

[5] Inflation risk management

The Council will keep under review the sensitivity of its treasury management activities to inflation and will seek to manage the risk accordingly in the context of its wider exposure to inflation.

[6] Refinancing risk management

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

The Council will actively manage its relationships with its counterparties in these transactions in such a manner as to secure this objective.

[7] Legal and regulatory risk management

The Council will ensure that its treasury management activities comply with its statutory powers and regulatory requirements.

The Council will also ensure that there is evidence of counterparties' powers, authority and compliance in respect of the transactions they may affect with the Council, particularly with regard to duty of care and fees charged.

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

[8] Operational risk, including fraud, error and corruption

The Council will ensure that it has identified the circumstances which may expose it to the risk of loss through inadequate or failed internal processes, people and systems or from external events. Accordingly, it will employ suitable systems and procedures, and will maintain effective contingency management arrangements.

[9] Price risk management

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

TMP 2 - Performance measurement

The Council is committed to the pursuit of value for money in its treasury management activities within the framework set out in its treasury management policy statement.

TMP 3 - Decision-making and analysis

The Council will maintain full records of its treasury management decisions, and of the processes and practices applied in reaching those decisions, in order to demonstrate that reasonable steps were taken to ensure that all issues relevant to those decisions were considered.

TMP 4 - Approved instruments, methods and techniques

The Council will undertake its treasury management activities by employing only those instruments, methods and techniques detailed in its annual Capital and Treasury Management Strategy.

The Council has reviewed its classification with financial institutions under MIFID II and will set out in its annual Capital and Treasury Management Strategy those organisations with which it is registered as a professional client.

TMP 5 - Organisation, clarity and segregation of responsibilities, and dealing arrangements

The Council considers it essential, for the purposes of the effective control and monitoring of its treasury management activities, for the reduction of the risk of fraud or error, and for the pursuit of optimum performance, that these activities are structured and managed in a fully integrated manner, and that there is always a clarity of treasury management responsibilities.

The principle on which this will be based is a clear distinction between those charged with setting treasury management policies and those charged with implementing and controlling these policies, particularly regarding the execution and transmission of funds, the recording and administering of treasury management decisions, and the audit and review of the treasury management function.

If it is intended to depart from these principles, the Section 151 Officer will ensure that the reasons are properly reported, and the implications properly considered and evaluated.

The Section 151 Officer will ensure that the responsibilities for each post engaged in treasury management are understood and adhered to.

The Section 151 Officer will ensure there is proper documentation for all deals and transactions, and that procedures exist for the effective transmission of funds.

The delegations to the Section 151 Officer in respect of treasury management are set out in the Council's Financial Regulations and Scheme of Delegation for Financial Management. The Section 151 Officer will fulfil all such responsibilities in accordance with the Council's policy statement and TMPs and the CIPFA Standard of Professional Practice on Treasury Management.

TMP 6 - Reporting requirements and management information arrangements

Regular reports will be prepared and considered on the implementation of the Council's treasury management policies; on the effects of decisions taken and transactions executed in pursuit of those policies; on the implications of changes, particularly budgetary, resulting from regulatory, economic, market or other factors affecting its treasury management activities; and on the performance of the treasury management function.

As a minimum:

- Full Council will receive an annual report on the strategy and plan to be pursued in the coming year.
- The Cabinet will receive reports on the performance of the treasury management function, and on any circumstances of non-compliance with the Council's Treasury Management Policy Statement and TMP's, as part of the Council's quarterly financial overview reporting.

The Council's **Corporate Policy and Scrutiny Committee** have responsibility for the scrutiny of treasury management policies and practices.

TMP 7 - Budgeting, accounting and audit arrangements

The Section 151 Officer will prepare, and full Council will approve and, if necessary, from time to time will amend, an annual budget for treasury management, which will bring together all of the costs involved in running the treasury management function, together with associated income.

The Section 151 Officer will exercise effective controls over this budget and will report upon and recommend any changes required in accordance with TMP 6 Reporting requirements and management information arrangements.

The Council will account for its treasury management activities, for decisions made and transactions executed, in accordance with appropriate accounting practices and standards, and with statutory and regulatory requirements in force for the time being.

TMP 8 - Cash and cash flow management

Unless statutory or regulatory requirements demand otherwise, all monies in the hands of the Council will be under the control of the Section 151 Officer and will be aggregated for cash flow and investment management purposes.

Cash flow projections will be prepared on a regular and timely basis, and the Section 151 Officer will ensure that these are adequate for the purposes of monitoring compliance with TMP1[2] liquidity risk management.

TMP 9 - Money laundering

The Council is alert to the possibility that it may become the subject of an attempt to involve it in a transaction involving the laundering of money. Accordingly, it will maintain procedures for verifying and recording the identity of counterparties and reporting suspicions and will ensure that staff involved in this are properly trained. The present arrangements, including the name of the officer to whom reports should be made, are detailed in the Council's Anti-Money Laundering Policy.

TMP 10 - Training and qualifications

The Council recognises the importance of ensuring that all staff involved in the treasury management function are fully equipped to undertake the duties and responsibilities allocated to them. It will therefore seek to appoint individuals who are both capable and experienced and will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills.

The Section 151 Officer will recommend and implement the necessary arrangements, including the specification of the expertise, knowledge and skills required by each role or member of staff.

The Section 151 Officer will also ensure that elected members tasked with treasury management responsibilities, including those responsible for scrutiny, have access to training relevant to their needs and those responsibilities.

Those charged with governance recognise their individual responsibility to ensure that they have the necessary skills to complete their role effectively.

TMP 11 - Use of external service providers

The Council recognises that responsibility for treasury management decisions remains with the Council at all times. However, the Council recognises that there may be value in employing external providers of treasury management services, in order to acquire access to specialist skills and resources.

When it employs such service providers, it will do so following a full evaluation of the costs and benefits and will also 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.

Where services are subject to formal tender or re-tender arrangements, legislative requirements will always be observed.

The monitoring of such arrangements rests with the Section 151 Officer.

TMP 12 - Corporate governance

The Council is committed to the pursuit of proper corporate governance throughout its businesses and services, and to establishing the principles and practices by which this can be achieved. Accordingly, the treasury management function and its activities will be undertaken with openness and transparency, honesty, integrity and accountability.

This organisation has adopted and has implemented the key principles of the CIPFA Treasury Management in the Public Services Code of Practice and Cross Sectoral Guidance Notes.

ANNEX G - Investment management practices for non-treasury investments

The Council recognises that investment in other financial assets and property primarily for financial return, taken for non-treasury management purposes, requires careful investment management.

New investments will only be undertaken following the Council's business case and governance framework for decision making.

Each proposal to make a non-treasury management investment will articulate:

- The objectives and management arrangements for the investment.
- The risk of loss and the arrangements for mitigating such losses.
- The decision making and reporting arrangements.
- The performance management arrangements.

The Council will maintain a schedule setting out a summary of existing material investments, subsidiaries, joint ventures and liabilities including financial guarantees and the Council's risk exposure.