Appendix 12: Durham County Council Annual Treasury Management Strategy Statement 2025/26

Purpose

1 In accordance with statutory guidance and the Council's Financial Procedure rules, this report sets out the proposed Treasury Management Strategy, the Annual Investment Strategy, Prudential Indicators, Minimum Revenue Provision (MRP) Policy and Treasury Management Policy Statement and Practices (which are detailed at Annex 1) 2025/26.

Background

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

3 The Council operates a balanced budget, which broadly means that cash raised during the year will meet cash expenditure, although there are occasions when the budget needs to be balanced with the temporary use of reserves. Part of the treasury management function is to ensure that cash flow is adequately planned, with surplus monies being invested in low-risk counterparties. This is commensurate with the Council's low risk appetite and provides sufficient liquidity and security, with the achievement of the best possible investment returns ranking as less important.

4 The second main function of the treasury management service is to arrange the funding of the Council's capital programme, which will support the provision of Council services and delivery of Council Plan objectives. Part of the capital programme is financed through external borrowing, so longer term cash flows need to be planned to ensure capital spending requirements can be met. The management of longer-term cash may involve arranging long- or short-term loans, utilising longer term cash flow surpluses and, occasionally when prudent and economic, restructuring debt to meet Council's risk or cost objectives.

5 The Council adopts the latest CIPFA Code of Practice on Treasury Management (the Code) which is regarded as best practice, to ensure there is adequate monitoring of the Council's capital expenditure plans and its Prudential Indicators (PIs). It is recommended in the Treasury Management Code that Members are appraised of the Council's treasury management activity through regular reports, that include the following as a minimum:

(a) an annual Treasury Management Strategy Statement in advance of the year (this report);

(b) a mid-year Treasury Management Review report, covering the first six months of the financial year (the 2024/25 mid-year review was reported to Council on 11 December 2024);

(c) an annual review following the end of the year, describing the activity compared to the strategy (the 2023/24 review was reported to Council on 17 July 2024).

6 The 2021 Prudential Code introduced a requirement for the monitoring and reporting of treasury management performance against forward-looking indicators at least quarterly. A report is not required to be taken to Full Council but the information is reported as part of the Council's integrated revenue and capital monitoring.

7 This report provides a summary of the following for 2025/26:

(a) Summary Treasury Position;

(b) Borrowing Strategy;

(c) Other Debt and Long-Term Liability Plans;

(d) Annual Investment Strategy;

(e) Non-Treasury Investments;

(f) Treasury Management Indicators;

(g) Prudential Indicators;

(h) MRP Policy Statement;

(i) Other Matters.

8 These elements cover the requirements of the various laws, codes and guidance that cover the treasury management activity, including the Local Government Act 2003, the CIPFA Prudential Code, Statutory Guidance on Minimum Revenue Provision, the CIPFA Treasury Management Code and Statutory Guidance on Local Government Investments.

Summary Treasury Position

9 The Council's debt and investment position is organised to ensure adequate liquidity for revenue and capital activities, security for investments, and to manage risks within all treasury management activities.

10 The following table shows the Council's treasury position (excluding borrowing through leasing and the Private Finance Initiative (PFI)) as at 31 March 2024, mid-year as at 30 September 2024, and the expected position for 31 March 2025.

	31/03/2024 Actual £ Million	Average Rate / Return	30/09/2024 Actual £ Million	Average Rate / Return	31/03/2025 Estimate £ Million	Average Rate / Return
Total Debt (principal)	411.632	3.12%	409.445	3.02%	424.770	3.03%
Total Investments (principal)	217.049	5.65%	157.142	5.35%	7.000	4.39%
Net Debt	**194.583**		**252.303**		**417.770**	

11 The main factor representing the movement throughout the year in the Council's borrowing level was the maturity of PWLB borrowing in November 2024 (£32 million), along with repayments of annuity and equal instalment of principal loans in year (£5 million). It is estimated that £50 million of new borrowing will be taken out before 31 March 2025.

12 Working closely with the Council's external treasury management advisers, the Council refinanced £58 million of loans held with Phoenix Finance during the first half of 2024/25. This secured an interest rate saving of 0.68 percentage points on the loans held at no premium refinancing costs. The refinanced loans have been converted to an equal instalment of principal (EIP) basis from an annuity basis and have been refinanced over a shorter period. The refinancing will save £0.383 million in interest costs in 2024/25 and £0.410 million in 2025/26, with small interest savings accruing in the last three years of the MTFP (15) planning period.

13 Investment balances are expected to reduce further towards the end of the financial year, as the Council continues to use internal balances to fund capital expenditure whilst interest rates on borrowing remain high.

Borrowing Strategy

14 The Council held circa £412 million of loans at 31 March 2024. The balance had reduced to circa £409 million at 30 September 2024 and is expected to be circa £425 million at 31 March 2025. The table below provides a breakdown of the Council's borrowing portfolio.

	31/03/2024 Actual £ Million	In Year Movement £ Million	31/03/2025 Estimate £ Million	Average Rate
Public Works Loan Board	325.379	-4.940	320.439	2.75%
Other Local Authorities	-	20.000	20.000	4.75%

Private Sector	86.253	-1.921	84.332	2.97%
Total Borrowing	**411.632**	**13.138**	**424.770**	**3.03%**

15 The Council's chief objective when borrowing has been to strike an appropriate risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required.

16 The difference between the Council's borrowing requirement and the actual borrowing undertaken is met by internal borrowing. This represents the ability of the Council to use its balance sheet reserves to delay the date that loans are taken out.

17 The strength of the Council's balance sheet means that despite the underlying need to take out new borrowing to fund the capital programme, in the past the Council was able to delay borrowing until interest rates have come down. Using internal balances is generally the most cost-effective option, particularly during periods of high inflation and high interest rates.

18 The strategy of maintaining an under-borrowed position is prudent as medium- and longer-dated borrowing rates are expected to fall from their current levels, albeit only once prevailing inflation concerns are addressed by restrictive near-term monetary policy. The Bank Rate is forecast to remain relatively elevated in 2025/26, even if some rate cuts arise.

19 The current MTFP planning assumptions are based on £515 million of new loans being taken out during 2025/26 and 2026/27. This will still leave the Council under-borrowed by the end of 2028/29.

20 The following sources of long-term and short-term borrowing have been identified for approval:

(a) Public Works Loan Board ("PWLB");

(b) UK local authorities;

(c) Any institution approved for investments, as detailed later in this report;

(d) UK public / private sector pension funds;

(e) European Investment Bank; and

(f) Local authority special purpose vehicles created to enable local authority bond issues (for example the Municipal Bonds Agency).

21 A major source of the Council's borrowing is the Public Works Loan Board (PWLB), which is a lending facility operated by the UK Debt Management Office on behalf of HM Treasury. To have access to PWLB loans, the current

arrangements require the Council to confirm that they are not buying investment assets primarily for yield and that they are not borrowing in advance of need, with the aim of making a profit from the sums borrowed.

22 The Council meets this borrowing criteria, so taking out PWLB loans is an option available to the Council. Loan rates are fluid, with PWLB rates changing twice daily, and the Council will continue to work with its external treasury management advisers to monitor rates and cash flow requirements, to determine the timing for taking out further loans.

Policy on Borrowing in Advance of Need

23 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 made based on its estimate of borrowing need, also called the Capital Financing Requirement (CFR) and following careful consideration, to demonstrate value for money and ensure the security of funds received.

24 Any risks associated with activity to borrow in advance will be subject to prior appraisal and will be subsequently accounted for in the Treasury Management report that follows.

Debt Rescheduling

25 Advantages of debt rescheduling include:

(a) generating cash savings and / or discounted cash flow savings;

(b) helping to fulfil the treasury strategy;

(c) enhancing the balance of the portfolio (amending the maturity profile and / or the balance of volatility).

26 Rescheduling of current borrowing in the Council’s debt portfolio may be considered whilst premature redemption rates remain elevated, but only if there is surplus cash available to facilitate any repayment, or rebalancing of the portfolio to provide more certainty is considered appropriate.

Other Debt and Long-Term Liability Plans

27 Although not classed as borrowing, the Council has some long-standing school PFI contractual arrangements, and enters into financial arrangements to hire in replacement fleet vehicles and equipment via finance leases. These financial arrangements must be classified as a form of borrowing, as the Council has entered a contractual commitment to make payments over the

useful economic life of these assets through a recurring payment. Accounting regulations require the Council to classify such arrangements as a form of borrowing.

28 Members were advised of the impact of the application of a new accounting standard - International Financial Reporting Standard (IFRS) 16 – Leases, in a report to the Audit Committee on 29 September 2023 and regular updates on progress have been provided as part of the Treasury Management Mid-Year and Annual reports to Council, the most recent being on 11 December 2024. The implementation of this standard is effective from 1 April 2024 and the impacts will be included in the 2024/25 Statement of Accounts.

29 The main impact of IFRS16 is to remove (for lessees) the traditional distinction between finance leases and operating leases. Finance leases have historically been accounted for as acquisitions, with the asset on the balance sheet, together with a liability to pay for the asset acquired shown in long term liabilities. In contrast, operating leases have been treated as "pay as you go" arrangements, similar to renting an item, with rentals charged to revenue in the year they are paid and no requirement to reflect this in the balance sheet.

30 IFRS16 requires all substantial leases to be accounted for using the acquisition approach, recognising the rights acquired to use an asset.

31 The application of IFRS16 impacts on statutory reporting requirements and lead to an increase in liabilities (debt) on the council's balance sheet. This increase in liabilities will be treated as capital expenditure, which will in turn increase the council's capital financing requirement (CFR).

32 As the council is already making lease payments for these "right of use" assets, budget adjustments are made between services using these assets and the Council's capital financing budgets to account for these costs. The adjustments are equal to the principal element of the existing lease repayments (which will be included in the annual minimum revenue provision (MRP) charge), and therefore there is a net nil effect on the Council's revenue budget.

33 Good progress has been made in preparing for the implementation of IFRS16 and the Council remains on track to fully comply with the changes in accounting practice in advance of preparing the 2024/25 Statement of Accounts. The Treasury Management Outturn report will reflect the impact of these changes in accounting practice.

Annual Investment Strategy

34 The Ministry of Housing, Communities and Local Government (MHCLG) and CIPFA have extended the meaning of “investments” to include both financial and non-financial investments. This report deals solely with treasury (financial) investments, as managed by the treasury management function.

35 The Council’s investment policy has regard to the following:

(a) MHCLG’s Guidance on Local Government Investments.

(b) CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2021.

(c) CIPFA Treasury Management Guidance Notes 2021.

36 The Council’s investment priorities will be security first, portfolio liquidity second, and then yield (return). The Council will aim to achieve the optimum return on its investments commensurate with proper levels of security and liquidity and with regard to the Council’s risk appetite.

37 The above guidance from the MHCLG and CIPFA places a high priority on the management of risk. The Council has adopted a prudent approach to managing risk and defines its risk appetite by the followings means:

(a) Minimum acceptable credit criteria are applied in order to generate a list of creditworthy counterparties, with investment limits set so that investments are diversified. The key ratings used to monitor counterparties are the short-term and long-term ratings.

(b) Credit rating agencies will be used, but will not be the sole determinant of investment quality and the assessments will also take account of other information that reflects the opinion of the markets. To this end the Council will engage with its advisers to maintain a monitor on market pricing (such as credit default swaps) and overlay that information on top of the credit ratings.

(c) Information in the financial press, share price and other banking sector information will also be used as appropriate.

38 There are a wide range of investment instruments which are available for the Council to consider. These can be classified as either Specified or Non-Specified Investments:

(a) **Specified Investments.** These investments are sterling investments of not more than one year maturity, or those which could be for a longer period but where the Council has the right to be repaid within 12 months if it wishes. These are considered to be low risk assets where the possibility of loss of principal or investment income is small and are not defined as capital expenditure. These would include the following sterling investments:

i. Deposit with the UK Government – for example, the Debt Management Office deposit facility, UK treasury bills or gilts with less than one year to maturity.

ii. Term deposits with a body that is considered of a high credit quality, for example UK banks and building societies.

iii. Global bonds of less than one year's duration.

iv. Deposits with a local authority, parish council or community council.

v. Certificates of Deposit.

vi. Pooled investment vehicles (such as money market funds) that have been awarded a high credit rating by a credit rating agency.

(b) **Non-Specified Investments.** These are investments which do not meet the specified criteria as outlined above. The Council is therefore required to examine non-specified investments in more detail. As well as any of the above sterling investments that are of more than one year maturity, non-specified investments include the following sterling investments:

i. Gilt-edged securities with a maturity of greater than one year. These are Government bonds and so provide the highest security of interest and the repayment of principal on maturity.

ii. Deposits with the Council's own banker if it fails to meet the basic credit criteria. In this instance balances will be minimised as far as is possible.

iii. Equity shareholding in businesses, which shall be not more than £30 million in total, and £15 million in any one company. This will only be after undertaking significant due diligence checks. These investments will facilitate a more balanced approach to investing by diversifying the investment portfolio and reducing concentration risk.

iv. Loans and shares in local businesses, to encourage regeneration and economic development in the area. Any new investments will only be agreed after significant due diligence checks have been carried out;

v. Property funds, with not more than £25 million in an individual fund and not more than £50 million in total.

Creditworthiness Policy

39 The primary principle governing the Council's investment criteria is the security of its investments; although the yield or return on the investment is also a key consideration. After this main principle, the Council will ensure that:

(a) it maintains a policy covering the categories of investment types it will invest in, the criteria for choosing investment counterparties with adequate security and arrangements for monitoring their security; and

(b) it has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested.

40 The Corporate Director of Resources will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit these to Full Council for approval as necessary. These criteria provide an overall pool of counterparties considered to be high quality which the Council may use, rather than defining what types of investment instruments are to be used.

41 The Council's external treasury management advisers, MUFG Corporate Markets, provide a creditworthiness service which uses a wider array of information than just primary ratings and by using a risk weighted scoring system, does not give undue weight to only one agency's ratings.

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

43 All credit ratings will be monitored regularly. The Council is alerted to changes to ratings of all three agencies (Fitch, Moody's and Standard and Poor's) through its use of creditworthiness service.

44 If a downgrade results in the counterparty or investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.

45 In addition to the use of credit ratings, the Council will be advised of information in movements in credit default swap spreads against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in the downgrade of an institution or removal from the Council's lending list.

46 Sole reliance will not be placed on the use of the service provided by the Council's external treasury management advisers. The Council will also use market data and market information, information on sovereign support for banks and the credit ratings of that supporting government. This additional market information, for example credit default swaps and negative rating watches/outlooks, will be applied to compare the relative security of differing investment counterparties. The relative value of investments will be reviewed in relation to the counterparty size to ensure an appropriate ratio.

Investment Criteria

47 The criteria for providing a pool of high quality investment counterparties (both specified and non-specified investments) are:

(a) Banks 1 – Good credit quality. The Council will only use banks which are:

i. UK banks; and/or

ii. Non-UK banks domiciled in a country which has a minimum sovereign long-term rating of AA- and have, as a minimum, the following credit ratings (where rated):

	Fitch	**Moody's**	**Standard & Poor's**
Short-term credit rating	F1	P1	A-1
Long-term credit rating	A-	A3	A-

(n.b. viability, financial strength and support ratings have been removed and will not be considered in choosing counterparties).

(b) Banks 2 – The Council's own banker for transactional purposes if the bank falls below the criteria, although in this case, balances will be minimised in both monetary size and time invested.

(c) Bank subsidiary and treasury operation. The Council will use these where the parent bank has provided an appropriate guarantee or has the necessary ratings outlined above.

(d) UK Government (including gilts and the Debt Management Account Deposit Facility (DMADF)).

(e) Local authorities, parish councils, etc.

(f) Housing Associations which meet the ratings for banks outlined above.

(g) Building societies. The Council will use societies which:

i. meet the ratings for banks outlined above; or

ii. have assets in excess of £1 billion.

(h) Money Market Funds.

(i) Ultra-Short Dated Bond Funds.

(j) Property Funds.

Time and Monetary Limits applying to Investments

48 The time and monetary limits for institutions on the council's counterparty list, covering specified and non-specified investments, is reviewed annually in consultation with the council's treasury management advisers.

49 In 2024/25, the counterparty limits were reviewed in line with advice from the Council's external treasury management advisers. Counterparty monetary limits for banks were prudently reduced, with no change to the monetary limits for money market funds and no change to time limits for any of the counterparties. These changes were included in the Mid-Year Treasury Management Report and approved by the Full Council on 11 December 2024.

50 For 2025/26, the part-nationalised category has been removed following advice from the Council's external treasury management advisers.

51 The counterparty limits for 2025/26 are therefore as follows:

Investment Type	Long-Term Rating	Money Limit	Time Limit
Banks / Building Societies	AA-	£60m	2 years
Banks / Building Societies	A	£40m	1 year
Banks / Building Societies	A-	£25m	6 months
Banks – Council's Banker	A-	£35m	3 months
DMADF / Treasury Bills	AAA	unlimited	6 months
Local Authorities	N/A	£20m each	5 years
Housing Associations	A-	£15m	6 months
Building Societies	+£1 billion	£20m	6 months

Investment Type	Long-Term Rating	Money Limit	Time Limit
Money Market Funds	AAA	£200m total	liquid
Money Market Funds CNAV	AAA	£40m each	liquid
Money Market Funds LVNAV	AAA	£40m each	liquid
Money Market Funds VNAV	AAA	£40m each	liquid
Ultra-Short Dated Bond Funds	AAA	£10m each	liquid
Property Funds	N/A	£50m total (£25m each)	Unlimited

Non-Treasury Investments

52 Separately from treasury investments, the Council may make loans and investments in support of service priorities, and this may mean they generate a financial return.

53 Service delivery investments are held primarily and directly for the delivery of public services including housing, regeneration and local infrastructure. Returns on this category of investment which are funded by borrowing are permitted only in cases where the income is either related to the financial viability of the project or otherwise incidental to the primary purpose.

54 Investments held for a commercial return are ones with no treasury management or direct service provision purpose. Risks on such investments should be proportionate to the Council's financial capacity – that is, plausible losses could be absorbed in budgets or reserves without unmanageable detriment to local services. The Council must not borrow to invest primarily for financial return.

55 The Council recognises that investments such as these, taken for non-treasury management purposes, require careful consideration and it is important that there are agreed processes to ensure there is effective due diligence and that the investments fit with the Council's agreed risk profile. This is consistent with the Prudential Code guidance, that the investments should be proportionate to the authority's level of resources and the same robust procedures for the consideration of risk and return should be followed as for other investments.

56 The Council would also follow the above processes when considering the purchase of investment assets primarily for yield. However, following the change to PWLB borrowing rules, councils with plans to buy investment assets primarily for yield cannot take advantage of the 1% reduction in borrowing costs. This applies to all their borrowing requirements, not just the borrowing for investment assets. This creates a financial disadvantage that means it is unlikely that the Council will make investments of this nature, though each potential opportunity would be considered on a case by case

basis. More details are included in the council’s Property Investment Strategy.

Treasury Management Indicators

57 There are three debt-related treasury activity limits which are designed to manage risk and reduce the impact of an adverse movement in interest rates:

(a) **Interest Rate Exposures**. This indicator is set to control the Council’s exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as the proportion of net principal invested, are:

	Limit
Upper limit on fixed interest rate exposure	100%
Upper limit on variable interest rate exposure	70%

(b) **Maturity Structure of Borrowing.** This indicator is set to control the Council’s exposure to refinancing risk and measures the amount of projected borrowing maturing in each period, expressed as a percentage of total projected borrowing at the start of the period. The upper limits on the maturity structure of fixed rate borrowing have been increased from the limits stated for 2024/25 to give the Council more flexibility to borrow on a shorter-term basis if required. The lower and upper limits for 2025/26 are:

Period	Lower Limit	Upper Limit
Under 12 months	0%	40%
12 months to 2 years	0%	50%
2 years to 5 years	0%	70%
5 years to 10 years	0%	80%
10 years and above	0%	100%

In addition, the Council will not agree to borrowing which will result in more than 20% of total borrowing maturing in any one financial year.

(c) **Principal Sums Invested for Periods Longer than 365 days.** The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments:

	2025/26	2026/27	2027/28
Principal sums invested >365 days	£75m	£75m	£75m

Prudential Indicators

58 The Local Government Act 2003 requires the Council to have regard to the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code) when determining how much money it can afford to borrow.

59 The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that the Council has fulfilled these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year.

60 **Capital Expenditure and Financing**. The table below summarises capital expenditure incurred and planned, including amounts included in the revised capital programme in this budget report, and how the expenditure was and will be financed:

	2023/24 Actual £ Million	2024/25 Estimate £ Million	2025/26 Estimate £ Million	2026/27 Estimate £ Million	2027/28 Estimate £ Million
Capital Expenditure	**223.010**	**288.096**	**328.108**	**210.720**	**7.645**
Financed by:					
Capital grants	103.164	140.087	99.130	50.036	-
Revenue and Reserve contributions	14.296	8.584	2.387	0.458	0.454
Capital Receipts	34.608	3.351	3.967	2.967	-
Net financing need for the year	**70.942**	**136.074**	**222.624**	**157.259**	**7.191**

The above financing need excludes other long-term liabilities, such as PFI and leasing arrangements that already include borrowing instruments.

61 **Capital Financing Requirement (CFR).** The CFR is the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's indebtedness and so its underlying borrowing need. Any capital expenditure

which has not immediately been paid for through a revenue or capital resource will increase the CFR.

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

63 The CFR includes other long-term liabilities (such as PFI schemes and finance leases), though these arrangements include an integral borrowing facility, so the Council does not need to borrow separately for them.

64 The table below shows the Council's expenditure incurred and planned, including amounts in the revised capital programme in this budget report and an estimated net capital financing requirement at MTFP(16).

	2023/24 Actual £ Million	**2024/25 Estimate £ Million**	**2025/26 Estimate £ Million**	**2026/27 Estimate £ Million**	**2027/28 Estimate £ Million**
Opening CFR	**525.618**	**586.318**	**720.414**	**932.221**	**1,082.277**
Net financing need for year (table above)	70.942	136.074	222.624	157.259	7.191
Estimated financing need for MTFP(16)	-	-	-	-	40.000
Leasing and PFI financing need for the year	6.619	17.866	5.832	13.347	10.596
Less: MRP/VRP and other financing movements	(16.861)	(19.843)	(16.649)	(20.549)	(23.895)
Closing CFR	**586.318**	**720.414**	**932.221**	**1,082.277**	**1,116.170**
Movement in CFR	60.700	134.096	211.807	150.056	33.892

65 **Gross Debt and CFR.** To ensure that debt held will only be for capital purposes, the Council should ensure that debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years. This is a key indicator of prudence. The table below shows how the Council plans to comply with this requirement, which shows gross borrowing continues to be less than the CFR.

	2023/24 Actual £ Million	**2024/25 Estimate £ Million**	**2025/26 Estimate £ Million**	**2026/27 Estimate £ Million**	**2027/28 Estimate £ Million**
Debt at 1 April	439.652	411.632	424.770	640.320	880.813
Expected change in debt	(28.020)	13.138	215.550	240.493	21.903
Other long-term liabilities at 1 April	83.548	82.647	90.307	86.285	88.392
Expected change in other long-term liabilities	(0.901)	7.660	(4.022)	2.107	(1.150)

	2023/24 Actual £ Million	2024/25 Estimate £ Million	2025/26 Estimate £ Million	2026/27 Estimate £ Million	2027/28 Estimate £ Million
Gross Debt at 31 March	**494.279**	**515.077**	**726.605**	**969.205**	**989.959**
Capital Financing Requirement	586.318	720.414	932.221	1,082.277	1,116.170
Under/(Over) borrowed	**92.039**	**205.337**	**205.616**	**113.072**	**126.211**

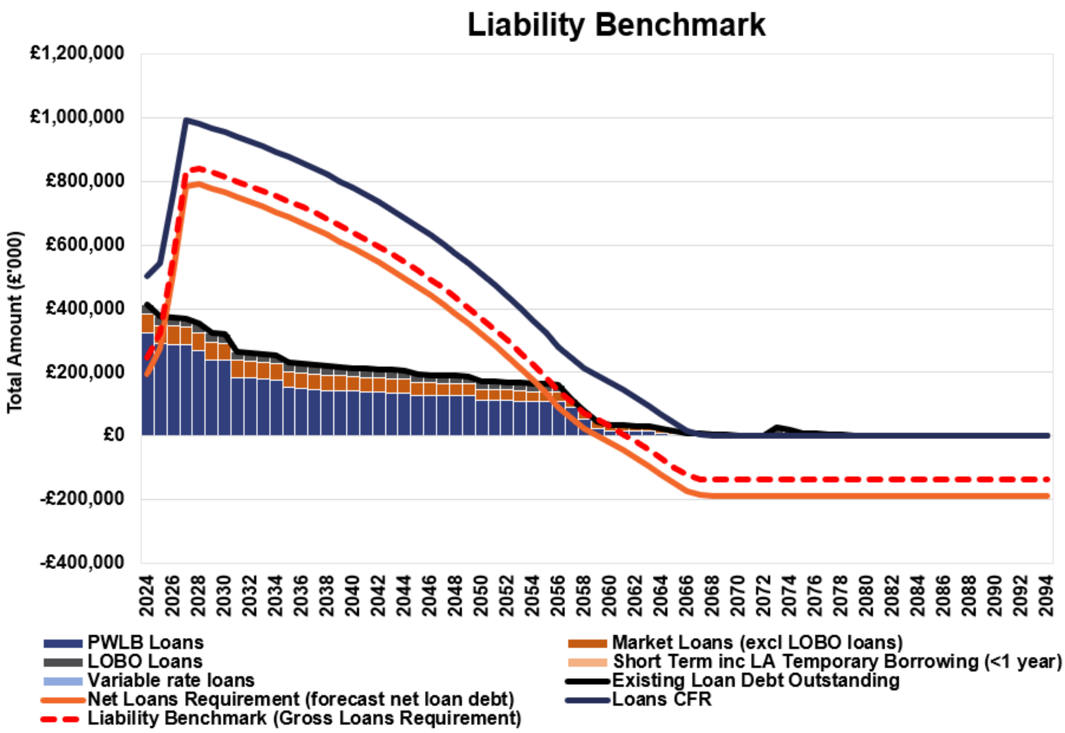
66 **Liability Benchmark (LB).** This benchmark has been introduced to show the link between the Capital Financing Requirement and the profile of the borrowing that the Council has taken out to finance this requirement. There are four components to the LB:

(a) **Existing loan debt outstanding**: the Council's existing loans that are still outstanding in future years.

(b) **Loans CFR**: this is calculated in accordance with the loans CFR definition in the Prudential Code and projected into the future, based on approved prudential borrowing and planned MRP.

(c) **Net loans requirement**: shows the need to borrow after taking account of reserve balances that can be used for internal borrowing.

(d) **Liability Benchmark (Gross loans requirement)**: shows the net borrowing requirement plus a margin to ensure there is an adequate balance to manage cash flows effectively.



67 **Operational Boundary**. This is the limit which external borrowing is not normally expected to exceed and approximates to the CFR for a given year. Periods where the actual position is either below or over the boundary is acceptable subject to the authorised limit not being breached.

	2023/24 Actual £ Million	2024/25 Estimate £ Million	2025/26 Estimate £ Million	2026/27 Estimate £ Million	2027/28 Estimate £ Million
Borrowing	504.000	631.000	846.000	994.000	989.000
Other long term liabilities	83.000	91.000	87.000	89.000	88.000
Total	**587.000**	**722.000**	**933.000**	**1,083.000**	**1,077.000**

68 **Authorised Limit for external borrowing**. This represents a control on the maximum level of borrowing and is a statutory limit determined under section 3 (1) of the Local Government Act 2003. It reflects the level of external borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

	2023/24 Actual £ Million	2024/25 Estimate £ Million	2025/26 Estimate £ Million	2026/27 Estimate £ Million	2027/28 Estimate £ Million
Borrowing	554.000	680.000	896.000	1,044.000	1,039.000
Other long term liabilities	88.000	95.000	91.000	93.000	92.000
Total	**642.000**	**775.000**	**987.000**	**1,137.000**	**1,131.000**

69 **Estimates of the ratio of financing costs to net revenue stream.** This indicator identifies the trend in the cost of capital (borrowing and other long-term obligations) against the net revenue stream. The estimates of financing costs include current commitments and the proposals in this budget report.

	2024/25 Estimate %	2025/26 Estimate %	2026/27 Estimate %	2027/28 Estimate %
Estimate of financing costs to net revenue stream	6.8%	6.8%	8.5%	9.1%

70 **Estimates of the ratio of commercial and service income to net revenue stream.** This indicator identifies the trend in the reliance of the council on income from commercial and service investments against the net revenue stream.

	2024/25 Estimate %	2025/26 Estimate %	2026/27 Estimate %	2027/28 Estimate %
Commercial and service income	1.1%	1.5%	1.5%	1.4%

MRP Policy Statement

71 The CIPFA Prudential Code for Capital Finance in Local Authorities requires the full Council to agree an annual policy for the Minimum Revenue Provision (MRP). These regulations were originally introduced in 2003 but have been updated subsequently on periodic occasions.

72 The MRP is the amount that is set aside each year to provide for the repayment of debt (principal repayments). The regulations require the authority to determine an amount of MRP which it considers to be prudent. The broad aim of a prudent provision is to ensure that debt is repaid over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Revenue Support Grant (RSG), reasonably commensurate with the support provided through the RSG.

73 The guidance provides recommended options for the calculation of a prudent provision, but since 2008 councils have had some discretion in determining the level of MRP which they consider to be prudent. In very broad terms, local authorities are statutorily required to ensure that they set aside MRP over a similar period to which the assets associated with that capital expenditure provide benefits to the local authority – this has the effect of reducing the capital financing requirement.

74 In 2018, the National Audit Office (NAO) published some updated guidance on MRP, which sought to prohibit some overtly aggressive changes in some local authorities MRP policies (some local authorities were changing their policies to significantly reduce their MRP costs as a one-off exercise or to reduce their MRP charges to unsustainably low levels). The MRP guidance was amended so that local authorities would be prevented from:

(a) Retrospectively changing MRP set aside in previous financial years to create a material credit in their current year’s financial accounts.

(b) Making changes to the methodology used to calculate MRP which resulted in a nil charge in a current financial year in order to recover overpayments in previous years.

(c) Extending the assumed economic life of assets to justify the stretching of the period over which MRP is charged to a period in excess of 50 years (thus reducing the annual in-year charge to an unacceptably low level).

(d) Choosing not to provide MRP for expenditure on the basis that the eventual sale of an asset financed by borrowing would generate a capital receipt to repay that borrowing and therefore negate the need to set aside MRP in lieu of the asset eventually being sold.

75 The Council's annual MRP policy was approved on 28 February 2024, as part of the 2024/25 budget setting report. A further review of the Council's MRP Policy was undertaken in year in consultation with the Council's external treasury management advisers. These changes were included in the Mid-Year Treasury Management Report and approved by the Full Council on 11 December 2024. None of the proposed changes contravene the updated guidance on MRP issued by National Audit Office in 2018.

76 The government has recently introduced measures to monitor and review levels of indebtedness and assess if local authorities are setting aside sufficient MRP in their revenue budgets. This is determined to be at least 2% of the Council's CFR. If the Council does not provide a minimum level of MRP, this could trigger a regulator review and could impact on the Value for Money Assessment undertaken by the Council's external auditors. The MRP changes approved by the Council in December 2024 are all within the guidance set out by the Government and the Council will continue to set aside enough MRP to exceed the notional 2% threshold.

77 The Council's MRP policy for 2025/26 has been set in line with the following principles:

(a) In respect of the Council's pre-2008 supported borrowing, MRP will be provided for on a 32-year annuity repayment basis, with annuity rate of 4.5%.

(b) In respect of the Council's post-2008 unsupported borrowing, MRP will be provided for on a 34-year annuity repayment basis, with annuity rate of 4.5%.

(c) MRP charges for the current year's net financing need will be provided for on a 40-year annuity repayment basis, with annuity rate equal to the PWLB rate (including certainty) at 31 March of the financial yaer for which the MRP charge is calculated.

(d) MRP charges for finance leases (non-PFI) will be equal to the principal element of the rental or charge that goes down to write down the balance sheet liability created from such arrangements.

(e) MRP charges for PFI assets will be provided for on a 38-year annuity repayment basis, with annuity rate of 4.5%.

78 When borrowing to provide an asset, the Council commences MRP in the financial year following the one in which the capital expenditure was incurred. For the purposes of borrowing to provide an asset that is currently under construction, MRP is postponed until the financial year following the one in which the asset becomes operational.

79 The regulations allow the Authority to review its policy every year and set a policy that it considers prudent at that time. The impact of a revised MRP policy would be kept under regular review to ensure that the annual provision is prudent.

80 Under MRP Guidance, local authorities are permitted to make additional charges, over and above their standard MRP charges. These are referred to as “Voluntary Revenue Provision (VRP) payments”. VRP can be reclaimed as reductions in later years’ MRP contributions, providing those later years’ MRP contributions remain prudent. For these amounts to be reclaimed in later years, the policy must disclose the cumulative overpayment made each year. Cumulative VRP payments made to date total £2.934 million.

81 The Council retains the right to make additional voluntary payments to reduce debt if deemed prudent.

Other Matters

82 **Policy on use of external advisers.** MUFG Corporate Markets are the Council’s treasury management advisers and whilst they provide professional support to the internal treasury management team, under current market rules and the CIPFA Code of Practice, the final decision on treasury matters remains with the Council. This service is subject to regular review.

83 The range of services provided by the advisers currently includes:

(a) technical support on treasury matters and capital finance issues;

(b) economic and interest rate analysis;

(c) debt services which includes advice on the timing of borrowing;

(d) debt rescheduling advice surrounding the existing portfolio;

(e) generic investment advice on interest rates, timing and investment instruments;

(f) credit ratings and market information service, comprising the three main credit rating agencies.

84 The scope of investments within the Council’s operations includes both conventional treasury investments (the placing of residual cash from the Council’s functions) and more commercial type investments, such as investment properties.

Annex 1: Treasury Management Policy Statement and Practices

Treasury Management Policy Statement

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

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, and any financial instruments entered into to manage these risks.

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, and to employing suitable, comprehensive performance measurement techniques within the context of effective risk management.

Treasury Management Practices

The Council has developed a range of Treasury Management Practices (TMPs) to enable it to implement its Treasury Management Policies.

TMP1 Risk Management

General Statement

The Council regards a key objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, it will ensure that robust due diligence procedures cover all external investment.

The responsible officer will design, implement and monitor all arrangements for the identification, management and control of treasury management risk, will report at least annually on the adequacy/suitability thereof, and will report, as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the organisation's objectives in this respect, all in accordance with the procedures set out in TMP6 *Reporting Requirements and Management Information Arrangements*.

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

Credit and Counterparty Risk Management

The Council regards a key objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, it will ensure that its counterparty lists and limits reflect a prudent attitude towards organisations with whom funds may be deposited or investments made, and will limit its treasury management investment activities to the instruments, methods and techniques referred to in TMP4 *Approved Instruments, Methods and Techniques.*

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

Liquidity Risk Management

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

The Council will only borrow in advance of need where there is a clear business case for doing so and will only do so to: fund the current capital programme; finance future debt maturities; or ensure an adequate level of short-term investments to provide liquidity for the organisation.

Interest Rate Risk Management

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

It will achieve this 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 in the level or structure of interest rates. Before taking action, any policy or budgetary implications would be considered and approval would be sought if required. It will ensure that any hedging tools such as derivatives are only used for the management of risk and the prudent management of financial affairs and that the policy for the use of derivatives is clearly detailed in the annual strategy.

Exchange Rate Risk Management

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

Inflation Risk Management

The Council will keep under review the sensitivity of its treasury assets and liabilities to inflation and will seek to manage the risk accordingly in the context of the whole organisation's inflation exposures.

Refinancing Risk Management

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

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

Legal and Regulatory Risk Management

The Council will ensure that all its treasury management activities comply with its statutory powers and regulatory requirements. It will demonstrate such compliance, if required to do so, to all parties with whom it deals in such activities. In framing its credit and counterparty policy under TMP1 *Risk Management - Credit and Counterparty Risk Management,* it will ensure that there is evidence of counterparties' powers, authority and compliance in respect of the transactions they may affect with the organisation, 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 organisation.

Operational Risk including Fraud, Error and Corruption

The Council will ensure that it has identified the circumstances that 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 to these ends.

The Council will therefore:

(a) Seek to ensure an adequate division of responsibilities and maintenance at all times of an adequate level of internal check which minimises such risks.

(b) Fully document all its treasury management activities so that there can be no possible confusion as to what proper procedures are.

(c) Staff will not be allowed to take up treasury management activities until they have had proper training in procedures and are then subject to an adequate and appropriate level of supervision.

(d) Records will be maintained of all treasury management transactions so that there is a full audit trail and evidence of the appropriate checks being carried out.

Price Risk Management

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

TMP2 Performance Measurement

The Council is committed to the pursuit of value for money in its treasury management activities, and to the use of performance methodology in support of that aim, within the framework set out in its treasury management policy statement.

Accordingly, the treasury management function will be the subject of ongoing analysis of the value it adds in support of the organisation’s stated business or service objectives. It will be the subject of regular examination of alternative methods of service delivery, of the availability of fiscal or other grant or subsidy incentives, and of the scope for other potential improvements.

TMP3 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, both for the purposes of learning from the past and for accountability, demonstrating that reasonable steps were taken to ensure that all issues relevant to those decisions were taken into account at the time.

TMP4 Approved Instruments, Methods and Techniques

The Council will undertake its treasury management activities within the limits and parameters defined in TMP1 *Risk Management*.

Where the Council intends to use derivative instruments for the management of risks, these will be limited to those set out in its annual treasury strategy. The organisation will seek proper advice and will consider that advice when entering into arrangements to use such products to ensure that it fully understands those products.

TMP5 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 at all times 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 with regard to 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 and when the Council intends, as a result of lack of resources or other circumstances, to depart from these principles, the responsible officer will ensure that the reasons are properly reported in accordance with TMP6 *Reporting Requirements and Management Information Arrangements* and the implications properly considered and evaluated.

The responsible officer will ensure that there are clear written statements of the responsibilities for each post engaged in treasury management and the arrangements for absence cover. The responsible officer will also ensure that at all times those engaged in treasury management will follow the policies and procedures set out.

The responsible 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 responsible officer in respect of treasury management are set out in the Council's constitution. The responsible officer will fulfil all such responsibilities in accordance with the organisation's policy statement and TMPs and, if a CIPFA member, the *Standard of Professional Practice on Treasury Management.*

TMP6 Reporting Requirements and Management Information Arrangements

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

Annual reporting requirements:

Annual reporting requirements consist of the following:

(a) Before the start of the year:

i. review of the Council's approved clauses, treasury management policy statement and practices.

ii. Treasury Management Strategy report on proposed treasury management activities for the year, comprising of the Treasury Management Strategy Statement, Annual Investment Strategy and Minimum Revenue Provision Policy Statement

(b) Mid-year review.

(c) Quarterly monitoring and review.

(d) Annual review report after the end of the year.

TMP7 Budgeting, Accounting and Audit Arrangements

The responsible officer will prepare, and the Council will approve and, if necessary from time to time, 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 matters to be included in the budget will at minimum be those required by statute or regulation, together with such information as will demonstrate compliance with TMP1 *Risk* M*anagement*, TMP2 *Performance Measurement*, and TMP4 *Approved Instruments, Methods and Techniques*. The responsible officer will exercise effective controls over this budget, and will report upon and recommend any changes required in accordance with TMP6 *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.

TMP8 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 responsible 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 responsible officer will ensure that these are adequate for the purposes of monitoring compliance with TMP1 *Risk Management - Liquidity Risk Management*.

TMP9 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.

TMP10 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 responsible officer will recommend and implement the necessary arrangements.

The responsible officer will ensure that board/council 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.

TMP11 Use of External Service Providers

The Council recognises that responsibility for treasury management decisions remains with the organisation at all times. It recognises that there may be potential 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 ensure it does so for reasons which have been submitted to a full evaluation of the costs and benefits. It 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. It will ensure, where feasible and necessary, that a spread of service providers is used, to avoid overreliance on one or a small number of companies. 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 responsible officer.

TMP12 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.

The Council has adopted and has implemented the key principles of the Code and this is considered vital to the achievement of proper corporate governance in treasury management, and the responsible officer will monitor and, if and when necessary, report upon the effectiveness of these arrangements.

TREASURY MANAGEMENT PRACTICES – DETAILED SCHEDULES

The following schedules have been prepared to support the implementation of the TMPs.

TMP1	**Risk Management**
TMP2	**Performance Measurement**
TMP3	**Decision Making and Analysis**
TMP4	**Approved Instruments, Methods and Techniques**
TMP5	**Organisation, Clarity and Segregation of Responsibilities, and Dealing Arrangements**
TMP6	**Reporting Requirements and Management Information Arrangements**
TMP7	**Budgeting, Accounting and Audit Arrangements**
TMP8	**Cash and Cash Flow Management**
TMP9	**Money Laundering**
TMP10	**Training and Qualifications**
TMP11	**Use of External Service Providers**
TMP12	**Corporate Governance**

TMP1 Risk Management

1.1 Credit and Counterparty Risk Management

Credit and counterparty risk

The risk of failure by a counterparty to meet its contractual obligations to the Council under an investment, borrowing, capital, project or partnership financing, particularly as a result of the counterparty's diminished creditworthiness, and the resulting detrimental effect on the Council's capital or current (revenue) resources.

1.1.1 Criteria to be used for creating/managing approved counterparty lists/limits:

(a) Suitable criteria for assessing and monitoring the credit risk of investment counterparties will be formulated and a lending list comprising time, type, sector and specific counterparty limits will be constructed. These criteria will follow Statutory Guidance on Local Government Investments issued in February 2018 to cover financial years from 1 April 2018.

(b) The primary criteria used in the selection of counterparties is their creditworthiness. However, the Council will also monitor latest market information and reduce the limits imposed on counterparties where appropriate.

(c) The Council's treasury management advisers provide a regular update of all the ratings relevant to the Council, as well as any changes to the counterparty credit ratings. This information is also available via their website.

(d) Credit ratings will be used as supplied from one or more of the following credit rating agencies:

(i) Fitch Ratings;

(ii) Moody's Investors Services;

(iii) Standard and Poor's.

(e) Counterparty limits will be as set within the Annual Treasury Management Strategy Statement reported to Council.

1.1.2 Credit ratings for individual counterparties can change at any time. The Corporate Director of Resources is responsible for applying the stated credit rating criteria in 1.1.1 for selecting approved counterparties, and will add or delete counterparties as appropriate to / from the approved counterparty list when there is a change in the credit ratings of individual counterparties or in banking structures, for example on mergers or takeovers. This is delegated on a daily basis to the treasury management team.

1.1.3 When there is a change in the credit ratings of individual counterparties or in banking structures (for example on mergers or takeovers in accordance with the criteria in 1.1.1) the Corporate Director of Resources will also adjust lending limits and periods. This is delegated on a daily basis to the treasury management function.

1.1.4 The Council is supportive of the Principles for Responsible Investment (www.unpri.org) and will seek to bring environmental, social and governance (ESG) factors into the decision-making process for investments. Within this, the Council is also appreciative of the Statement on ESG in Credit Risk and Ratings which commits signatories to incorporating ESG into credit ratings and analysis in a systemic and transparent way.

1.1.5 The Council uses ratings from Fitch, Moody's and Standard & Poor's to support its assessment of suitable counterparties for investments. Each of the rating agencies is a signatory to the ESG in credit risk and ratings statement and as such include an analysis of ESG factors when assigning ratings. Typical ESG factors given consideration by the credit rating agencies include:

- Environmental: Emissions and air quality, energy and waste management, waste and hazardous material, exposure to environmental impact.
- Social: Human rights, community relations, customer welfare, labour relations, employee wellbeing, exposure to social impacts.
- Governance: Management structure, governance structure, group structure, financial transparency.

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

1.2 <u>Liquidity Risk Management</u>

Liquidity Risk

The risk that cash will not be available when it is needed, that ineffective management of liquidity creates additional unbudgeted costs, and that the Council's business/service objectives will be thereby compromised.

1.2.1 Cash Flow

The treasury management function will maintain, on a daily basis, a cash flow projection showing:

(a) all known income and expenditure;

(b) all anticipated income and expenditure.

This record will be maintained for a minimum period of 12 months ahead of the current date.

1.2.2 Amounts of approved minimum cash balances and short-term investments

The treasury management function shall seek to ensure that the balance in the Council's main bank accounts at the close of each working day is held at a level in order to maximize the amount of credit interest receivable. Borrowing or lending shall be arranged in order to achieve this aim.

The target is to achieve a net overall pooled bank balance of nil within the Council's current bank accounts on a daily basis. The performance will be monitored on a daily basis by the treasury management function.

1.2.3 Short-term borrowing facilities

The Council can access temporary loans through approved brokers on the London money market. They can be obtained within the Council's borrowing limits to provide short term finance or to match any cashflow shortfall pending receipt of other revenues or longer term loans.

1.2.4 Closure of Council Offices

When the Council offices are closed on a banking day, then provision will be made for expected clearances and receipts. The actual strategy to be adopted will depend on overall liquidity and market conditions at the time and available staff resources. At such times the staff within the treasury management function will undertake transfers, anticipating cash flow within the Council's accounts.

1.3 <u>Interest Rate Risk Management</u>

Interest rate risk

The risk that fluctuations in the levels of interest rates creates an unexpected or unbudgeted burden on the Council's finances against which the Council has failed to protect itself adequately.

1.3.1 Details of approved interest rate exposure limits

This risk is considered as part of the Treasury Management Strategy Statement approved by Council in February/March each year. The Strategy sets interest rate exposure limits in accordance with the requirements of the CIPFA Prudential Code. A variety of Prudential Indicators are required to be approved and monitored by Council. The Council will have regard to potential fluctuations in interest rates when borrowing or lending surplus cash. Advice will be sought from the Council's treasury management advisers before any non-routine transaction is made.

1.3.2 Maximum proportion of variable rate debt/interest

The requirement to set out a series of Prudential Indicators includes a requirement to set upper limits for exposure to fixed interest rates and variable interest rates.

1.4 <u>Exchange Rate Risk Management</u>

Exchange rate risk

The risk that fluctuations in foreign exchange rates create an unexpected or unbudgeted burden on the Council's finances, against which the Council has failed to protect itself adequately.

1.4.1 Approved criteria for managing changes in exchange rate levels

The Council rarely deals with foreign currency, so an exposure to exchange rate risk will be minimal. However, as a result of the nature of the Council's business, the Council may have an exposure to exchange rate risk from time to time. This will mainly arise from the receipt of income or the incurring of expenditure in a currency other than sterling. Where appropriate the Council will adopt a hedging strategy to control and add certainty to the sterling value of these transactions. This will mean that the Council will minimise all foreign exchange exposures as soon as they are identified.

Where there is a contractual obligation to receive income or make a payment in a currency other than sterling at a date in the future, forward foreign exchange transactions will be considered, with professional advice, to comply with this full cover hedging policy. Unexpected receipt of foreign currency income will be converted to sterling at the earliest opportunity unless the Council has a contractual obligation to make a payment in the same currency at a date in the future. In this instance, the currency may be held on deposit to meet this expenditure commitment, depending on the expected timing of transactions.

1.5 <u>Inflation Risk Management</u>

Inflation risk

The risk that prevailing levels of inflation cause an unexpected or unbudgeted burden on the Council's finances, against which the Council has failed to protect itself adequately.

1.5.1 Managing changes in inflation levels

Inflation risk, also called purchasing power risk, is the chance that the cash flows from treasury instruments (such as investments) won't be worth as much in the future because of changes in purchasing power due to inflation.

Inflation, both current and projected, will form part of the debt and investment decision-making criteria within the strategy and operational considerations. The Council will keep under review the sensitivity of its treasury assets and liabilities to inflation and will seek to manage the risk accordingly in the context of the whole organisation's inflation exposures.

1.6 Refinancing Risk Management

Refinancing risk

The risk that maturing borrowings, capital, project or partnership financings cannot be refinanced on terms that reflect the provisions made by the Council for those refinancings, both capital and current (revenue), and/or that the terms are inconsistent with prevailing market conditions at the time.

1.6.1 Debt/other capital financing, maturity profiling, policies and practices

The maturity profile of debt will be monitored and used to minimise any refinancing risk in consultation with the Council's treasury advisers. Any debt rescheduling is likely to take place when the difference between the refinancing rate and the redemption rate is most advantageous and the situation will be continually monitored. The reasons for any rescheduling to take place will include:

(a) the generation of cash savings at minimum risk;

(b) to reduce the average interest rate;

(c) to enhance the balance of the long-term portfolio (amend the maturity profile and/or the balance of volatility)

1.6.2 Projected capital investment requirements

The Council will prepare forecasts of capital investment needs and resources covering at least a three-year period within the Medium Term Financial Plan (MTFP). This will identify capital financing requirements and therefore the need to borrow to finance the capital programme. The MTFP provides details of the Council's financial plans covering a four-year period and is updated on an annual basis.

1.6.3 Policy concerning limits on affordability and revenue consequences of capital financings

In considering the affordability of its capital plans, the Council will consider all the resources currently available/estimated for the future together with the totality of its capital plans, revenue income and revenue expenditure forecasts for the forth coming year and the following two years and the impact these will have on council tax levels. It will also consider affordability in the longer term beyond this three year period and assess the risks and rewards of significant investments to ensure the long term financial sustainability of the Council.

1.7 Legal and Regulatory Risk Management

Legal and regulatory risk

The risk that the Council itself, or a third party with which it is dealing in its treasury management activities, fails to act in accordance with its legal powers or regulatory requirements and that the Council suffers losses accordingly.

1.7.1 References to relevant statutes and regulations

The treasury management activities of the Council shall comply with legal statute and the regulations of the Council.

1.7.2 Procedures for evidencing the Council's powers/authorities to counterparties

The Council's powers to borrow and invest are contained in legislation. Investing: Local Government Act 2003, section 12, and Borrowing: Local Government Act 2003, section 1. In addition, the Council will prepare, adopt and maintain, as the cornerstones for effective treasury management:

(a) a Treasury Management Policy Statement, stating the overriding principles and objectives of its treasury management activities;

(b) Treasury Management Practices, setting out the manner in which the Council will achieve those principles and objectives, and prescribing how it will manage and control those activities.

1.7.3 Required information from counterparties concerning their powers/authorities

Lending shall only be made to counterparties on the authorised list which is compiled using advice from the Council's treasury management advisers based on credit ratings supplied by Fitch, Moody's and Standard & Poor's. Borrowings will only be undertaken from recognised and reputable counterparties to comply with TMP 9 *Money Laundering*.

The Council holds letters verifying that the approved brokers are regulated by the Financial Services Authority under the provisions of the Financial Services and Markets Act 2000, under which Local Authorities are classified as market counterparties.

Building Societies are members of Building Society Association and are governed by Building Society Act 1986.

Banks are regulated by the Financial Services Authority under the provisions of the Financial Services and Markets Act 2000.

1.7.4 Statement on the Council's political risks and their management

The Council recognises that future political, 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.

1.8 <u>Operational Risk, including Fraud, Error and Corruption</u>

The risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events. This includes the risk of fraud, error, corruption or other eventualities in its treasury management dealings.

1.8.1 Details of systems and procedures to be followed, including internet services

The treasury management function is subject to a regular review by the Council's Internal Audit Service. The systems and procedures followed are described below:

Authority:

- The Scheme of Delegation to Officers sets out the appropriate delegated levels. All loans and investments are negotiated by the Corporate Director of Resources or authorised persons.

Occurrence:

- A detailed register of all loans and investments is maintained within our treasury management system, PSLive.
- Adequate and effective cash flow forecasting records are maintained to support the decision to lend or borrow.
- Written confirmation is received from the lending or borrowing institution.
- All transactions placed through the brokers are confirmed by a broker note, showing details of the transaction arranged.

Completeness:

- The loans register is updated to record all lending and borrowing. This includes the date of the transaction, applicable interest rate and term, and covers both treasury management loans and other loans to third parties that are not part of the routine treasury management activity.

Measurement:

- The treasury management function checks the calculation of repayment of principal and interest notified by the lender or borrower for accuracy.
- The treasury management function calculates periodic interest payments of PWLB and other long-term loans. This is used to check the amount paid to these lenders.

Timeliness:

- The treasury management system, PSLive, notifies when money borrowed and lent is due to be repaid.

Regularity:

- Lending is only made to institutions on the approved list or as specifically approved by Cabinet for loans that are outside the usual treasury management activity.
- All loans raised and repayments made go directly to and from the institutions' bank accounts.
- Authorisation limits are set for every institution (see 1.1.1).
- A list of named officials authorised to perform loan transactions is maintained.
- There is adequate Fidelity Guarantee Insurance cover for employees involved in loans management and accounting.

1.8.2 Contingency planning and business continuity management arrangements

If the electronic banking system fails, there is a contingency arrangement in place with the Bank whereby cash balances can be obtained from Lloyds Bank, and the Council can make CHAP payment instructions (which are normally input directly into the electronic payment system) to Lloyds, via telephone and/or e-mail.

In the event of a business continuity event, which prevents access to the electronic payment system, the present contingency management arrangements will be invoked.

1.8.3 Insurance cover details

The officers concerned in the treasury management function are covered by appropriate fidelity guarantee insurance.

1.9 <u>Price Risk Management</u>

Price risk

The risk that, through adverse market fluctuations in the value of the principal sums invested, the Council's stated treasury management policies and objectives are compromised, so it has not protected itself adequately against the effects of the fluctuations.

1.9.1 Details of approved procedures and limits for controlling exposure to investments whose capital value may fluctuate (gilts, CDs, etc.)

The Council does not normally make investments where the capital value may fluctuate. Investment instruments used by external fund managers are subject to fluctuations in capital and exposure to interest rate risk. The Council does not currently use external fund managers but will keep the situation under review. In order to minimise the risk of fluctuations in capital value of investments, capital preservation is set as the primary objective.

TMP2 Performance Measurement

2.1 Evaluation and Review Of Treasury Management Decisions

The Council has a number of approaches to evaluating treasury management decisions:

(a) regular reviews carried out by the treasury management function and senior management;

(b) regular meetings with external treasury management advisers to review the performance of the investment and debt portfolios;

(c) an annual review after the end of year as reported to Council;

(d) quarterly and half yearly monitoring reports to Committee/Council;

(e) comparative reviews.

2.2 Policy Concerning Methods For Testing Value For Money In Treasury Management

2.2.1 Frequency and processes for tendering

Tenders are awarded for a minimum of two years, with an option to extend for up to a further two years. The process for advertising and awarding contracts will be in line with the Council's Contract Standing Orders.

2.2.2 Banking services

Banking services will be reviewed every 5 years to ensure that the level of prices reflect efficiency savings achieved by the supplier and current pricing trends.

2.2.3 Money-broking services

The Council will use money broking services in order to make deposits or to borrow, and will establish charges for all services prior to using them. An approved list of brokers will be established which takes account of both prices and quality of services. The Corporate Director of Resources may add brokers to the list during the year, providing they meet the Council's standards and requirements.

2.2.4 Adviser's services

The Council's policy is to separately appoint professional treasury management advisers and leasing advisers.

2.2.5 Policy on External Managers (Other than relating to Superannuation Funds)

The Council's current policy is not to use an external investment fund manager to manage a proportion of surplus cash. This will be kept under review.

2.3 Methods To Be Employed For Measuring The Performance Of The Council's Treasury Management Activities

Performance of the treasury management function will be measured against the Annual Treasury Management Strategy Statement targets and in compliance with the CIPFA Code of Treasury Practice. Performance will be monitored against approved budgets and internally agreed targets.

TMP3 Decision-Making And Analysis

3.1 Funding, Borrowing, Lending, And New Instruments/Techniques:

3.1.1 Records to be kept

(a) daily cash projections;

(b) telephone/e-mail rates;

(c) dealing ticket for all money market transactions;

(d) PWLB loan schedules;

(e) local bond certificates (if used);

(f) market bond certificates (if used);

(g) temporary loan receipts (if used);

(h) brokers confirmations for deposits/investments;

(i) contract notes received from fund managers (if used);

(j) fund managers valuation statements (if used);

(k) confirmation notes from borrowers.

3.1.2 Processes to be pursued

(a) cash flow analysis;

(b) debt and investment maturity analysis;

(c) ledger reconciliations;

(d) review of borrowing requirement;

(e) monitoring of projected loan charges and interest and expenses costs;

(f) review of opportunities for debt rescheduling;

(g) collation of performance information.

3.1.3 Issues to be addressed

3.1.3.1 In respect of every decision made the Council will:

(a) Above all, be clear about the nature and extent of the risks to which the Council may become exposed.

(b) Be certain about the legality of the decision reached and the nature of the transaction, and that all authorities to proceed have been obtained.

(c) Be content that the documentation is adequate both to deliver the Council's objectives and protect the Council's interests, and to deliver good housekeeping.

(d) Ensure that counterparties are judged satisfactory in the context of the Council's creditworthiness policies, and that limits have not been exceeded.

(e) Be content that the terms of any transactions have been fully checked against the market, and have been found to be competitive.

3.1.3.2 In respect of borrowing and other funding decisions, the Council will:

(a) Consider the ongoing revenue liabilities created and the implications for the Council's future plans and budgets to ensure that its capital plans and investment plans are affordable, proportionate to the Council's overall financial capacity, and are within prudent and sustainable levels. This evaluation will be carried out in detail for three budget years ahead.

(b) Evaluate the economic and market factors that might influence the manner and timing of any decision to fund.

(c) Consider the merits and demerits of alternative forms of funding, including (but not exclusively) funding from revenue, leasing and private partnerships.

(d) Consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use.

3.1.3.3 In respect of investment decisions, the Council will:

(a) Consider the risks to capital and returns and the implications for the Council's future plans and budgets.

(b) Consider the need for borrowing (both the amount and period): if the investment amount or period is not necessary for treasury management liquidity purposes, the objectives and justification for the investment need to be set out clearly.

(c) Consider the optimum period, in the light of cash flow availability and prevailing market conditions.

(d) Consider the alternative investment products and techniques available, especially the implications of using any which may expose the Council to changes in the value of its capital.

TMP4 Approved Instruments, Methods And Techniques

4.1 Approved Activities Of The Treasury Management Function

(a) borrowing;

(b) lending;

(c) debt repayment and rescheduling;

(d) consideration, approval and use of new financial instruments and treasury management techniques;

(e) managing the underlying risk associated with the Council's capital financing and surplus funds activities;

(f) managing cash flow;

(g) banking activities;

(h) leasing.

4.2 Approved Instruments For Investments

All investments will comply with the Council's Annual Investment Strategy (which takes into account guidance issued by the Secretary of State concerning Local Authority investments). The instruments used will be:

(a) term deposits with banks and building societies;

(b) term deposits with non-rated subsidiaries of an institution meeting the basic credit criteria;

(c) Debt Management Office;

(d) Treasury Bills;

(e) term deposits with other Local Authorities and Parish Councils;

(f) Money Market Funds that meet the criteria set in the investment policy;

(g) Ultra-Short dated Bond Funds;

(h) Property Funds.

4.3 Approved Methods And Sources Of Raising Capital Finance

Finance will only be raised in accordance with the Local Government Act 2003, and within this limit the Council has a number of approved methods and sources of raising capital finance.

Borrowing will only be undertaken in keeping with the contents of the Prudential Code and within the limits determined through the approved Prudential Indicators and Treasury Management Strategy and, in respect of any long term borrowings, following consultation with the Corporate Director of Resources.

All forms of funding will be considered dependent on the prevailing economic climate, regulations and local considerations. The Corporate Director of Resources has delegated powers through this policy and the strategy to take the most appropriate form of borrowing from the approved sources.

TMP5 Organisation, Clarity and Segregation Of Responsibilities, and Dealing Arrangements

5.1 Limits To Responsibilities/Discretion At Council/Director Levels

(a) The Council will receive and review reports on its treasury management policies, practices and activities, including as a minimum, an annual Treasury Management Strategy and plan in advance of the year, a mid-year review and an annual report after year's close.

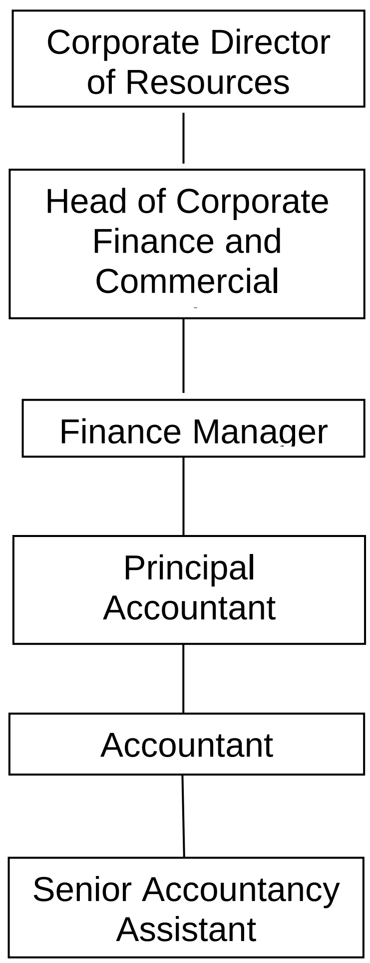
(b) The Council will approve the annual Treasury Management Strategy.

(c) The Corporate Director of Resources will be responsible for amendments to the Council's adopted clauses, treasury management policy statement and treasury management practices.

5.2 Principles And Practices Concerning Segregation Of Duties

The Corporate Director of Resources will ensure there is always adequate segregation of duties in all transactions.

5.3 Treasury Management Organisation Chart



5.4 Statement Of Duties/Responsibilities Of Each Treasury Post And Other Officers Involved With Treasury Management

5.4.1 Corporate Director of Resources

(a) The responsible officer is the person charged with professional responsibility for the treasury management function and in this Council is the Corporate Director of Resources. They will:

(i) recommend clauses, treasury management policy/practices for approval, review the same regularly and monitor compliance;

(ii) submit treasury management reports to Council;

(iii) authorise and maintain TMPs and Schedules;

(iv) set, submit and monitor budgets;

(v) review the performance of the treasury management function;

(vi) ensure the adequacy of treasury management resources and skills and the effective division of responsibilities within the treasury management function;

(vii) ensure the adequacy of internal audit and liaise with external audit;

(viii) recommend the appointment of external service providers and brokers where appropriate;

(ix) approve and authorise investment deals (within dealing limits – see 5.6).

(b) The Corporate Director of Resources has delegated powers to take the most appropriate form of borrowing from the approved sources and to take the most appropriate form of investments in approved instruments.

(c) Prior to entering into any capital financing, lending or investment transaction, it is the responsibility of the Corporate Director of Resources to be satisfied, by reference to legal and external advisers as appropriate, that the proposed transaction does not breach any statute, external regulation or the Council's Financial Regulations.

(d) The Corporate Director of Resources may delegate power to borrow and invest to members of staff to conduct all dealing transactions. All transactions must be processed by at least two specified named officers. Alternatively staff can be authorised to act as temporary cover for leave/sickness.

5.4.2 Head of Corporate Finance and Commercial Services

The treasury responsibilities of this post will be to assist the Corporate Director of Resources to:

(a) formulate the Treasury Management Strategy;

(b) identify and recommend opportunities for improved practices;

(c) supervise treasury management staff;

(d) monitor performance;

(e) review the performance of treasury management functions.

5.4.3 Finance Manager

The treasury responsibilities of this post will be to assist the Corporate Director of Resources and the Head of Corporate Finance and Commercial Services to:

(a) formulate the Treasury Management Strategy;

(b) produce the treasury management reports to Council;

(c) identify and recommend opportunities for improved practices;

(d) supervise treasury management staff;

(e) monitor and review the performance of treasury management functions;

(f) implement the Treasury Management Strategy;

(g) approve and authorise investment deals (within dealing limits – see 5.6);

(h) approve CHAPS payments/Faster Payments according to the limits in the Table of Payment Approval Responsibilities below;

(i) arrange rescheduling or premature repayment of existing borrowings.

5.4.4 Principal Accountant

This post's responsibilities are to assist the Finance Manager to:

(a) formulate the Treasury Management Strategy;

(b) identify and recommend opportunities for improved practices;

(c) supervise treasury management staff;

(d) monitor and review the performance of treasury management functions;

(e) implement the Treasury Management Strategy;

(f) approve and authorise investment deals (within dealing limits – see 5.6);

(g) approve CHAPS payments/Faster Payments according to the limits in the Table of Payment Approval Responsibilities below.

5.4.5 Accountant

This post has responsibilities to:

(a) calculate daily cash balances;

(b) monitor performance and market conditions on a day to day basis and recommend investments;

(c) adhere to agreed policies and procedures on a day to day basis;

(d) enter transmission of monies via Lloyds Banking system;

(e) approve CHAPS payments/Faster Payments according to the limits in the Table of Payment Approval Responsibilities below;

(f) select Brokers from approved list;

(g) submit management information reports;

(h) maintain cash flow projections;

(i) record investment deals and obtain third party loan confirmation;

(j) identify and maintain relationships with third parties and external partners;

(k) ensure counterparty limits are not exceeded.

5.4.6 Senior Accountancy Assistant

This post has responsibilities to:

(a) calculate daily cash balances;

(b) enter transmission of monies via Lloyds Banking system;

(c) select Brokers from approved list;

(d) adhere to agreed policies and practices on a day to day basis;

(e) submit management information reports;

(f) maintain cash flow projections;

(g) obtain third party loan confirmation;

(h) ensure counterparty limits are not exceeded.

Table of Payment Approval Responsibilities

Monetary Limit per Investment	Number of Approvers	Level of Approver Required
Up to £100,000	1	**Any one of:** Accountant Principal Accountant Finance Manager
£100,000 to £20,000,000	2	**Any one of:** Accountant Principal Accountant Finance Manager **And** **Any one of:** Principal Accountant Finance Manager
£20,000,000 to £30,000,000	2	**Any two of:** Principal Accountant Finance Manager

5.5 Absence Cover Arrangements

The Corporate Director of Resources has ensured that adequate arrangements are in place to cover staff absences.

5.6 Investment Dealing Limits

Investments must be with approved counterparties and be within money and time limits determined by the Treasury Management Strategy. Dealing approval limits are detailed in the table below:

Officers	Dealing Approval Limits	
	Call Deposits	Notice & Fixed Term Deposits
Corporate Director of Resources and Head of Corporate Finance and Commercial Services	As per counterparty list, and within money and time limits set out in the Treasury Management Strategy.	As per counterparty list, and within money and time limits set out in the Treasury Management Strategy.
Finance Manager	As per counterparty list, and within money and	As per counterparty list, within money limits set

Officers	Dealing Approval Limits	
	Call Deposits	**Notice & Fixed Term Deposits**
	time limits set out in the Treasury Management Strategy.	out within the Treasury Management Strategy and up to a time limit of 12 months
Principal Accountant	As per counterparty list, and within money and time limits set out in the Treasury Management Strategy.	As per counterparty list set out within the Treasury Management Strategy, up to a money limit of £5m and up to a time limit of 6 months

5.7 List Of Approved Brokers

A list of approved brokers can be found at paragraph 11.1.2.

5.8 Policy On Brokers' Services

It is the Council's policy to divide business between brokers.

5.9 Policy On Recording Of Conversations

It is not Council policy to record broker's conversations.

5.10 Direct Dealing Practices

It is an acceptable practice for the Council to make direct dealings with suitable counterparties if the use of brokers does not provide a satisfactory financial arrangement at any time.

5.11 Settlement Transmission Procedures

All payments and repayments resulting from the treasury management function will be made via the authority's bank account using the electronic payment facility (with Lloyds Banking system). Only authorised officers can transmit, approve or release payments, protected by appropriate passwords and a card operated security arrangement. A manual back up facility, agreed with Lloyds Bank, is in place to cover system failure.

5.12 Documentation Requirements

For each deal undertaken a record is prepared giving details of the amount, period, counterparty, interest rate, dealing date, payment date(s), broker.

5.13 Arrangements Concerning The Management Of Third-Party Funds

The Council manages funds under delegated powers for the Office of the Durham Police, Crime and Victims' Commissioner, the Durham County Council Pension Fund, the North East Combined Authority and Advance Learning Partnership.

TMP6 Reporting Requirements And Management Information Arrangements

6.1 Annual Treasury Management Strategy Statement

The Treasury Management Strategy Statement sets out the specific expected treasury activities for the forthcoming financial year. This strategy will be submitted to Council for approval before the commencement of that financial year.

The formulation of the annual Treasury Management Strategy Statement involves determining the appropriate borrowing and investment decisions in light of the anticipated movement in both fixed and shorter-term variable interest rates.

The Treasury Management Strategy Statement is concerned with the following elements:

(a) Summary Treasury Position;

(b) Borrowing Strategy;

(c) Other Debt and Long Term Liability Plans

(d) Annual Investment Strategy;

(e) Non-Treasury Investments;

(f) Treasury Management Indicators;

(g) Prudential Indicators;

(h) MRP Policy Statement;

(i) Other Matters.

6.2 Mid-Year Review Of Treasury Management Activity

The Council reviews it treasury management activities and strategy on a quarterly and half yearly basis. A report will be presented to Council detailing performance for the six months to 30 September against the items reported in the annual strategy. The report will be presented to Council at the earliest practicable meeting after the mid-year point.

6.3 Annual Performance Report

An annual report will be presented to the Council at the earliest practicable meeting after the end of the financial year, but in any case, by the end of September. This report will include the following:

(a) Summary Treasury Position;

(b) Borrowing Activity;

(c) Other Debt and Long-Term Liability Activity;

(d) Investment Activity;

(e) Treasury Management Indicators;

(f) Prudential Indicators.

6.4 <u>Quarterly Performance Reports</u>

The reporting of treasury management performance against forward looking indicators is reported quarterly as part of the Council's integrated revenue and capital monitoring. A report is not required to be taken to full Council.

TMP7 Budgeting, Accounting And Audit Arrangements

7.1 Statutory/Regulatory Requirements

The Council's accounts are drawn up in accordance with the Code of Practice on Local Authority Accounting in Great Britain. This is recognised by statute as representing proper accounting practices.

7.2 Accounting Practices And Standards

The Council adopts in full the principles set out in:

(a) the CIPFA Code of Practice on Treasury Management in the Public Services;

(b) the CIPFA Prudential Code for Capital Finance in Local Authorities;

(c) the Code of Practice on Local Authority Accounting in the United Kingdom (Statement of Recommended Practice);

(d) Statutory Guidance on Local Authority Investments;

(e) Statutory Guidance on Minimum Revenue Provision; and

(f) any other mandatory guidance covering this service area.

7.3 Budgeting And Accounting Arrangements

The Finance Manager will prepare an annual budget for treasury management, which will bring together all the expenditure incurred with regard to this activity, as well as the associated income. The Finance Manager will exercise effective controls over this budget, and will report upon and recommend any changes required in accordance with section TMP6 *Reporting Requirements and Management Information Arrangements.*

All transactions for loans, repayments and interest paid and received are recorded to general ledger codes reserved for these purposes.

7.4 List Of Information Requirements Of Internal And/Or External Auditors

The Council will ensure that all those charged with regulatory review, including internal and external auditors, have access to all information and papers supporting the activities of the treasury management function.

TMP8 Cash And Cash Flow Management

8.1 <u>Arrangements For Preparing/Submitting Cash Flow Statements</u>

Cash flow projections are prepared annually, monthly and daily. The annual and monthly cash flow projections are prepared from the previous years' cash flow records, adjusted for known changes in levels of income and expenditure and also changes in payment and receipts dates. These details are supplemented on an ongoing basis by information received of new or revised amounts to be paid or received as and when they are known.

TMP9 Money Laundering

9.1 <u>Procedures For Establishing Identity/Authenticity Of Lenders</u>

The Council will only accept loans from individuals where the funds are transferred through a United Kingdom domiciled bank account. All other loans are obtained from the PWLB or from authorised institutions under the Financial Services and Markets Act 2000. The Financial Conduct Authority (FCA) is responsible for maintaining a register of authorised institutions. This register can be accessed through their website at https://register.fca.org.uk/

9.2 <u>Reconciliation of Deposits</u>

All deposits are identified and reconciled on a daily basis. The source of each deposit is verified so they can be allocated to the appropriate fund within the main accounting system. Staff will be kept aware of developments in money laundering regulations and will be encouraged to keep abreast of money laundering issues through specific training, publications and the internet. The Council's nominated Money Laundering Reporting Officer (MLRO), the Chief Internal Auditor & Corporate Fraud Manager is responsible for reporting on the Council's Anti-Money Laundering Policy. The latest policy was approved by Audit Committee on 28 November 2022.

TMP10 Staff Training And Qualifications

10.1 Details Of Training Arrangements

The Corporate Director of Resources will ensure that staff engaged in treasury management activities are appropriately trained, so they can carry out their duties to the required standards.

Staff employed in the treasury management function will be qualified to the level that is appropriate to their post. All staff will be given appropriate basic training before fulfilling their treasury management duties for the first time and will be expected to undertake continuous training as appropriate to enable them to keep up to date with all aspects of treasury management within their responsibility.

Training courses run by CIPFA and other training providers, such as the Council's treasury management advisers, will form the major basis of ongoing staff and member training. Records will be kept of all courses and seminars attended by staff and Members.

CIPFA members are required to abide by CIPFA's Ethics Standard on Professional Practice (SOPP).

TMP11 Use Of External Service Providers

11.1 Details Of Contracts With Service Providers, Including Bankers, Brokers, Consultants, Advisers

11.1.1 Banking services

(a) The supplier of banking services is Lloyds Bank plc. The branch address is
19 Market Place
Durham
DH1 3NL

(b) The current contract commenced on 5 January 2015 for an initial 5 year period (the 'minimum period), and subject to the terms of the contract will continue after the expiry of the minimum period until terminated by either party giving not less than one years written notice.

(c) Cost of service is variable depending on schedule of tariffs and volumes agreed at the beginning of the contract.

11.1.2 Money-broking services

Name of suppliers of service:

(a) Martin Brokers (UK) plc;

(b) Tradition (UK) Ltd;

(c) King and Shaxson;

(d) BGC Brokers;

(e) Tullett Prebon (Europe) Limited;

(f) Imperial Treasury Services Limited.

The Corporate Director of Resources may add brokers to the list during the year, providing they meet the council's standards and requirements. No commission is paid by the Council to any money broker.

11.1.3 Consultants/advisers services

(a) Treasury Consultancy Services are provided by:

MUFG Corporate Markets
19th Floor
51 Lime Street
London
EC3M 7DQ

(b) Leasing Consultancy Services are provided by:

MUFG Corporate Markets
19th Floor
51 Lime Street
London
EC3M 7DQ

(c) External Fund Managers

There are none at present.

External Fund Managers and other consultancy services may be employed on short term contracts as and when required.

TMP12 Corporate Governance

12.1 List Of Documents To Be Made Available For Public Inspection

To support the implementation of a robust corporate governance policy, the following documents are available for public inspection:

(a) Treasury Management Policy Statement;

(b) Treasury Management Strategy Statement;

(c) Annual Investment Strategy;

(d) Minimum Revenue Provision Policy Statement;

(e) Mid-year Treasury Management Review;

(f) Annual Treasury Management Review Report;

(g) Annual Statement of Accounts; and

(h) Annual Budget.