Report Title:	Draft Treasury Management Strategy & Prudential Indicator Report 2022/23
Contains Confidential or Exempt Information	No - Part I
Cabinet Member:	Councillor Hilton, Cabinet Member for Finance and Ascot
Meeting and Date:	Audit and Governance Committee – 21st October 2021
Responsible Officer(s):	Adele Taylor – Executive Director of Resources & Section 151 Officer
Wards affected:	All

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Royal Borough of Windsor & Maidenhead

REPORT SUMMARY

1. In accordance with the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2017 and the CIPFA Prudential Code, the Council is required to approve a Treasury Management Strategy before the start of each financial year. The final report to Full Council in February 2022 alongside the budget will fulfil that obligation.

2. The draft Treasury Management Strategy 2022/23 as set out in section 4 of this report has been written to comply with the CIPFA Code of Practice. It sets out the parameters for the Council's planned treasury activity.

3. The Council's self-imposed limits on sustainable, affordable and prudent borrowing and investment, the Prudential Indicators that need to be approved by Full Council, are set out in Appendix B.

1. DETAILS OF RECOMMENDATION(S)

RECOMMENDATION: That Audit and Governance Committee notes and comments on:

i) The Council's draft Treasury Management Strategy for 2022/23 as set out in section 4 of this report.

ii) The Council's draft Prudential Indicators set out in Appendix B.

2. REASON(S) FOR RECOMMENDATION(S) AND OPTIONS CONSIDERED

2.1 The Authority has adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA Code) which requires the Authority to approve a treasury management strategy before the start of the financial year.

3. KEY IMPLICATIONS

Table 1: Key Implications

Outcome	Unmet	Met	Exceeded	Significantly Exceeded	Date of delivery
No. of days that counterpart limits are exceeded	>0	<=0	N/A	N/A	March 2023
No of days that the operational boundary for long-term debt is exceeded	>0	<=0	N/A	N/A	May 2023

4. FINANCIAL DETAILS / VALUE FOR MONEY

Treasury Management Strategy 2022/23

Introduction

4.1 Treasury management is how the Authority's cash flows, borrowing and investments, and the associated risks are both monitored and actively controlled. The Authority borrows and invests substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue impact of changing interest rates. The successful identification, monitoring and control of financial risk are therefore central to the Authority's prudent financial management.

4.2 Treasury risk management at the Authority is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2017 Edition* (the CIPFA Code) which requires the Authority to approve a treasury management strategy before the start of each financial year. This report fulfils the Authority's legal obligation under the *Local Government Act 2003* to have regard to the CIPFA Code.

<u>Local Context</u>

4.3 On 31st March 2022 the Authority is projected to hold £212m of borrowing and £13.1m of treasury investments. Forecast changes in these sums are shown in the balance sheet analysis in table 2 below.

Table 2: Treasury balances summary and forecast

	31.3.21 Actual £m	31.3.22 Estimate £m	31.3.23 Forecast £m	31.3.24 Forecast £m	31.3.25 Forecast £m
Capital Financing Requirement	**214.4**	**246.0**	**264.9**	**281.1**	**281.5**
Long term borrowing	57.0	81.3	81.3	81.3	81.3
Short term borrowing	134.7	131.0	131.4	143.6	138.6
Gross borrowing	**191.7**	**212.3**	**212.7**	**224.9**	**219.9**
Working capital	(13.7)	(7.0)	(7.0)	(7.0)	(7.0)
Loans to partners*	(10.2)	(6.1)	(7.3)	(7.3)	(7.3)
Net borrowing	**167.8**	**199.2**	**198.4**	**210.6**	**205.6**

*loans to Achieving for Children and RBWM Property Company

4.4 The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR). The Authority has an increasing CFR due to the capital programme but has minimal investments. Gross borrowing is expected to increase up to £224.9m over the forecast period, in line with forecasts in the Council's medium term financial plans over a number of years. Revenue funding for this borrowing has been built into those plans. The Authority's forecast of its capital cashflow that will determine its CFR is shown in Appendix C.

4.5 CIPFA's *Prudential Code for Capital Finance in Local Authorities* recommends that the Authority's total debt should be lower than its highest forecast CFR over the next three years. Table 1 shows that the Authority expects to comply with this recommendation during 2022/23.

<u>Borrowing Strategy</u>

4.6 Table 2 above shows at the end of 2021/22 the Authority is forecast to hold £212.3 million of loans, an increase of £20.6 million on the previous year. A small increase in total borrowing to £212.7 million is projected at the end of 2022/23.

Objectives:

4.7 The Authority's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should the Authority's long-term plans change is a secondary objective.

Strategy:

4.8 The Authority's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead.

4.9 The Authority will keep borrowing costs down by using short-term money instead of long-term loans. Arlingclose (our financial advisors) continue to l assist the Authority with this 'cost of carry' and breakeven analysis. Its output may determine whether the Authority swop borrowing from short term to long term.

4.10 The Authority will consider obtaining further long-term loans from the PWLB and other sources including banks, pensions and local authorities. It will also investigate the possibility of issuing bonds and similar instruments, in order to lower interest costs and reduce over-reliance on one source of funding in line with the CIPFA Code. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield; the Authority's planned capital expenditure does not include this activity and so is able to retain its access to PWLB loans.

4.11

Sources of borrowing:

4.12 The approved sources of long-term and short-term borrowing are:

- HM Treasury's PWLB lending facility (formerly the Public Works Loan Board)
- any institution approved for investments (see below)
- any other bank or building society authorised to operate in the UK
- any other UK public sector body
- UK public and private sector pension funds
- capital market bond investors
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues

Other sources of debt finance:

4.13 In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- leasing
- hire purchase
- Private Finance Initiative
- sale and leaseback

Municipal Bonds Agency:

4.14 UK Municipal Bonds Agency plc was established in 2014 by the Local Government Association as an alternative to the PWLB. It issues bonds on the

capital markets and lends the proceeds to local authorities. This is a more complicated source of finance than the PWLB for two reasons: borrowing authorities will be required to provide bond investors with a guarantee to refund their investment in the event that the agency is unable to for any reason; and there will be a lead time of several months between committing to borrow and knowing the interest rate payable. Any decision to borrow from the Agency will therefore be the subject of a separate report to full Council.

LOBOs:

4.15 The Authority holds £13m LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Authority has the option to either accept the new rate or to repay the loan at no additional cost. The lenders of the LOBO loans are Barclays (£5m) and Dexia (£8m). Barclays have withdrawn their option to change the rate so this is now effectively a fixed rate loan. Dexia have retained their option which can be taken every 5 years on 25th January, with the next option date being 25 January 2023. Although the Authority understands that lenders are unlikely to exercise their options in the current low interest rate environment, there remains an element of refinancing risk. The Authority will take the option to repay LOBO loans at no cost if it has the opportunity to do so. Total borrowing via LOBO loans will be limited to this existing £13m.

Short-term and variable rate loans:

4.16 These loans leave the Authority exposed to the risk of short-term interest rate rises and are therefore subject to the interest rate exposure limits in the treasury management indicators below.

Debt rescheduling:

4.17 The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The Authority may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk.

<u>Treasury Investment Strategy</u>

4.18 The Authority holds invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Authority's treasury investment balance has ranged between £3.2 and £27.3 million.

Objectives:

4.19 The CIPFA Code requires the Authority to invest its treasury funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising

the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the Authority will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested.

Negative interest rates:

4.20 If the Bank of England set its Bank Rate at or below zero, this would likely feed through to negative interest rates on all low risk, short-term investment options. Since investments cannot pay negative income, negative rates would be applied by reducing the value of investments. In this event, security will be measured as receiving the contractually agreed amount at maturity, even though this may be less than the amount originally invested.

Strategy:

4.21 In conjunction with its treasury advisors the Authority will continue to regularly review its approved counterparties and limits to ensure they allow the appropriate balance between risk and return.

Business models:

4.22 Under the IFRS 9 standard, the accounting for certain investments depends on the Authority's "business model" for managing them. The Authority aims to achieve value from its treasury investments by a business model of collecting the contractual cash flows and therefore, where other criteria are also met, these investments will continue to be accounted for at amortised cost.

Approved counterparties:

4.23 The Authority may invest its surplus funds with any of the counterparty types in table 3 below, subject to the limits shown.

Table 3: Treasury investment counterparties and limits

Sector	**Time limit**	**Counterparty limit**	**Sector limit**
The UK Government	50 years	Unlimited	n/a
Local authorities & other government entities	25 years	£5m	Unlimited
Secured investments *	25 years	£5m	Unlimited
Lloyds Bank – (the Council's bankers)	13 months	£7.5m	£7.5m
Other Banks (unsecured) *	13 months	£5m	Unlimited
Building societies (unsecured) *	13 months	£5m	Unlimited

Money market funds *	n/a	£5m	Unlimited
Achieving for Children	n/a	£11.7m	£11.7m
Aegon (previously Kames Capital)	n/a	£1m	£1m
Legal and General Trust	n/a	£1.5m	£1.5m
Flexible Home Improvement Loans Ltd	n/a	£0.5m	£0.5m
RBWM Property Company	n/a	£1.5m	£1.5m
Leisure Focus Trust	n/a	£0.35m	£0.35m

This table must be read in conjunction with the notes below

*** Minimum credit rating:** Treasury investments in the sectors marked with an asterisk will only be made with entities whose lowest published long-term credit rating is no lower than A-. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account. For entities without published credit ratings, investments may be made where external advice indicates the entity to be of similar credit quality.

Government: Loans to, and bonds and bills issued or guaranteed by, national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk. Investments with the UK Government are deemed to be zero credit risk due to its ability to create additional currency and therefore may be made in unlimited amounts for up to 50 years.

Secured investments: Investments secured on the borrower's assets, which limits the potential losses in the event of insolvency. The amount and quality of the security will be a key factor in the investment decision. Covered bonds and reverse repurchase agreements with banks and building societies are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used. The combined secured and unsecured investments with any one counterparty will not exceed the cash limit for secured investments.

Banks and building societies (unsecured): Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See below for arrangements relating to operational bank accounts.

Money market funds: Pooled funds that offer same-day or short notice liquidity and very low or no price volatility by investing in short-term money markets. They have the advantage over bank accounts of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a small fee. Although no sector limit applies to money market funds, the Authority will take care to diversify its liquid investments over a variety of providers to ensure access to cash at all times.

Operational bank accounts: The Authority may incur operational exposures, for example though current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments but are still subject to the risk of a bank bail-in, and balances will therefore be kept below £7.5m per bank. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Authority maintaining operational continuity. The Authority's current bank account provider is Lloyds Bank.

Risk assessment and credit ratings:

4.24 Credit ratings are obtained and monitored by the Authority's treasury advisers, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made,
- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "negative watch") so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

Other information on the security of investments:

4.25 The Authority understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support, reports in the quality financial press and analysis and advice from the Authority's treasury management adviser. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may otherwise meet the above criteria.

4.26 When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2020, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Authority will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Authority's cash balances, then the surplus will be deposited with the UK Government, or with other local authorities. This will cause investment returns to fall but will protect the principal sum invested.

Liquidity management:

4.28 The Authority produces a detailed cash flow forecast to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the Authority being forced to borrow on unfavourable terms to meet its financial commitments. The Authority will spread its liquid cash over at least four providers (e.g. bank accounts and money market funds) to ensure that access to cash is maintained in the event of operational difficulties at any one provider.

Treasury Management Indicators

Interest rate exposures:

4.29 This indicator is set to control the Authority's exposure to interest rate risk. The upper limits on the one-year revenue impact of a 1% rise or fall in interest rates will be:

Interest rate risk indicator	Limit
Upper limit on one-year revenue impact of a 1% rise in interest rates	£2.58m
Upper limit on one-year revenue impact of a 1% fall in interest rates	£0.50m

The impact of a change in interest rates is calculated on the assumption that maturing loans and investments will be replaced at current rates.

Maturity structure of borrowing:

4.30 This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of borrowing will be:

Refinancing rate risk indicator	Upper limit	Lower limit
Under 12 months	80%	0%
12 months and within 24 months	80%	0%
24 months and within 5 years	100%	0%

5 years and within 10 years	100%	0%
10 years and above	100%	0%

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

Principal sums invested for periods longer than a year:

4.31 The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end will be:

Price risk indicator	2022/23	2023/24	2024/25
Limit on principal invested beyond year end	£25m	£25m	£25m

Related Matters

The CIPFA Code requires the Authority to include the following in its treasury management strategy.

Financial derivatives:

4.32 Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in section 1 of the *Localism Act 2011* removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).

The Authority will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Authority is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.
Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria, assessed using the appropriate credit rating for derivative exposures. An allowance for credit risk calculated using the methodology in the Treasury Management Practices document will count against the counterparty credit limit and the relevant foreign country limit. In line with the CIPFA Code, the Authority will seek external advice and will consider that advice before entering into financial derivatives to ensure that it fully understands the implications.

External Funds:

4.33 The Authority holds funds on behalf of the Local Enterprise Partnership and a number of small trusts. It pays these organisations interest at the Bank of England base rate on the balance of their funds that it holds.

Markets in Financial Instruments Directive:

4.34 The Authority has opted up to professional client status with some of its providers of financial services, including its Money Market Funds and brokers, allowing it access to a greater range of services but without the greater regulatory protections afforded to individuals and small companies. Given the size and range of the Authority's treasury management activities with these organisations the Executive Director of Resources believes this to be the most appropriate status.

Financial Implications

4.35 The forecast for investment income in 2022/23 is £92,000, based on an average investment portfolio of £17.258 million at an interest rate of 0.1%. The forecast for debt interest paid in 2022/23 is £3.46 million, based on an average debt portfolio of £212.5 million at an average interest rate of 1.63%. If actual levels of investments and borrowing, or actual interest rates, differ from those forecast, performance against budget will be correspondingly different.

Capital Financing Strategy

4.36 The current ("Prudential") System of capital controls allows the Council to determine its own level of capital investment. However, the Council must demonstrate that its capital programme is affordable, prudent and sustainable. In the short-term the proposed capital programme will be financed from external borrowing. Any delays in receiving cash from anticipated receipts will be covered through the temporary use of unsupported short-term borrowing.

4.37 Although the capital programme is planned with reference to the total level of resources available to finance capital expenditure, the method of financing individual capital schemes will be determined by the s151 Officer at the end of the financial year. The order of use of sources of finance for the capital programme is:

1. Capital Grants
2. Capital Contributions from outside bodies e.g. Section 106 / CIL
3. Capital Receipts
4. Direct Revenue Contributions – mainly for short life assets
5. Draw down from accumulated investments (set aside to repay debt)
6. Prudential Borrowing (unsupported) to finance 'invest to save' schemes and pending the arrival of future known capital receipts
7. Leasing will also be considered if more cost effective.

4.38 Capital Grants and external contributions are likely to have been received for specific schemes and therefore cannot be used for any other purpose. For other schemes, capital receipts are to be used in preference to revenue contributions or borrowing.

4.39 Capital Receipts will be fully applied in the year in which they are received if possible, to reduce the level of Minimum Revenue Provision (MRP), i.e. the monies that the Council sets aside for debt repayment.

4.40 The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. The Authority's main objective when borrowing is to strike a balance between securing low interest rates and achieving cost certainty over the period for which funds are required. This position provides short-term savings with the flexibility to secure longer dated loans as and when financial forecasts indicate that external borrowing rates may increase.

Minimum Revenue Provision (MRP) Policy

4.41 Regulation 27 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 ('the 2003 Regulations') requires local authorities to 'charge to a revenue account a minimum revenue provision (MRP) for that year'. The minimum revenue provision is an annual amount set aside from the General Fund to meet the cost of capital expenditure that has not been financed from available resources, namely: grants, developer contributions (e.g. s.106 and community infrastructure levy) revenue contributions, earmarked reserves or capital receipts.

4.42 Setting aside MRP is sometimes referred to as setting aside monies for borrowing, implying that this is setting aside money for repaying external borrowing. In fact, the requirement for MRP set aside applies even if the capital expenditure is being financed from the council's own cash resources and no external borrowing or new credit arrangement has been entered into.

4.43 Regulation 28 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, as amended (Statutory Instrument 3146/2003) requires full Council to approve a Minimum Revenue Provision (MRP) Statement setting out the policy for making MRP and the amount of MRP to be calculated which the Council considers to be prudent. This statement is designed to meet that requirement.

4.44 In setting a prudent level of MRP local authorities are required to "have regard" to guidance issued from time to time by the Secretary of State for Housing, Communities and Local Government. The latest version of this guidance (version four) was issued by the Ministry of Housing, Communities and Local Government (MHCLG) in February 2018.

4.45 In setting a level which the Council considers to be prudent, the Guidance states that the broad aim is to ensure that debt is repaid over a period reasonably commensurate with that over which the capital expenditure provides benefits to the Council.

4.46 The Guidance sets out four “possible” options for calculating MRP, as set out below:

Option	Calculation method	Applies to
1: Regulatory method	Formulae set out in 2003 Regulations (later revoked)	Expenditure incurred before 1 April 2008
2: CFR method	4% of Capital Financing Requirement	Expenditure incurred before 1 April 2008
3: Asset life method	Amortises MRP over the expected life of the asset	Expenditure incurred after 1 April 2008
4: Depreciation method	Charge MRP on the same basis as depreciation	Expenditure incurred after 1 April 2008

4.47 Two main variants of Option 3 are set out in the Guidance: (i) the equal instalment method and (ii) the annuity method. The annuity method weights the MRP charge towards the later part of the asset’s expected useful life and is increasingly becoming the most common MRP method for local authorities.

4.48 The Guidance also includes specific recommendations for setting MRP in respect of finance lease, investment properties and revenue expenditure which is statutorily defined as capital expenditure under the 2003 Regulations (also referred to as revenue expenditure funded from capital under statute or REFCUS). Examples of REFCUS include: capitalised redundancy costs, loans or grants to third parties for capital purposes, and the purchase of shares in limited companies.

4.49 Other approaches are not ruled out however they must meet the statutory duty to make prudent provision each financial year.

4.50 Having regard to current Guidance on MRP issued by MHCLG and the “options” outlined in that Guidance and to even out the financing costs of assets over their anticipated life, on 3rd December 2019 Full Council approved the following MRP Statement to take effect from 1 April 2019:

- for all capital expenditure, MRP will be based on expected useful asset lives (Option 3 – asset life), calculated using the annuity method;
- asset lives will be arrived at after discussion with valuers, but on a basis consistent with depreciation policies set out in the Council’s annual Statement of Accounts, and will be kept under regular review;

4.51 The annuity method is a similar approach to a repayment mortgage where the principal repayments increase through the life of the asset in comparison to a straight-line method which repays the same amount of principal each year. This will result in the Council paying less for its capital financing costs over the

medium-term than it otherwise would have under the old methodology, although principal repayments will increase as interest rate payments reduce over the life of the asset. An approach now being taken by most large authorities as more accurately reflecting the value of the asset.

4.52 MRP for finance leases and service concession contracts shall be charged over the primary period of the lease, in line with the Guidance,

4.53 For expenditure capitalised by virtue of a capitalisation direction under section 16(2)(b) of the Local Government Act 2003 or Regulation 25(1) of the 2003 regulations, the 'asset' life should equate to the value specified in the statutory Guidance.

In applying 'Option 3':

- MRP should normally begin in the financial year following the one in which the expenditure was incurred. However, in accordance with the statutory guidance, commencement of MRP may be deferred until the financial year following the one in which the asset becomes operational;
- the estimated useful lives of assets used to calculate MRP should not exceed a maximum of 50 years except as otherwise permitted by the guidance (and supported by valuer's advice);
- if no life can reasonably be attributed to an asset, such as freehold land, the estimated useful life should be taken to be a maximum of 50 years;

5. LEGAL IMPLICATIONS

5.1 This report assists the Council in fulfilling its statutory obligation to set out its Treasury Strategy for borrowing and to prepare an Annual Investment Strategy for the coming year setting out the Council's policies for managing its borrowing and investments and giving priority to the security and liquidity of those investments.

6. RISK MANAGEMENT

Risks	Uncontrolled Risk	Controls	Controlled Risk
That a counterparty defaults on repayment of a loan resulting in a loss of capital for the Council	MEDIUM	Loans are only made to counterparties on the approved lending list. The credit ratings of counterparties on	LOW

Risks	Uncontrolled Risk	Controls	Controlled Risk
		the lending list are monitored regularly Counterparty limits reviewed and reduced to limit individual exposure.	
That funds are invested in fixed-term deposits and are not available to meet the council's commitment to pay suppliers and payroll.	MEDIUM	A cashflow forecast is maintained and referred to when investment decisions are made to ensure that funds are available to meet the council's commitment to pay suppliers and payroll.	LOW

7. POTENTIAL IMPACTS

7.1 Equalities. None identified.

7.2 Climate change/sustainability. None identified

7.3 Data Protection/GDPR. None identified.

8. CONSULTATION

8.1 Not applicable

9. TIMETABLE FOR IMPLEMENTATION

9.1 The strategy will be used from 1 April 2022 in line with the commencement of the 2022/23 budget.

10. APPENDICES

10.1 This report is supported by four appendices:

- Appendix A Treasury Management Policies
- Appendix B Prudential Indicators
- Appendix C Capital Cashflow

11. BACKGROUND DOCUMENTS

11.1 None

12. CONSULTATION (MANDATORY)

Name of consultee	**Post held**	**Date sent**	**Date returned**
Mandatory:	*Statutory Officers (or deputy)*		
Adele Taylor	Executive Director of Resources/S151 Officer	8/10/21	13/10/21
Emma Duncan	Deputy Director of Law and Strategy / Monitoring Officer	8/10/21	13/10/21
Deputies:			
Andrew Vallance	Head of Finance (Deputy S151 Officer)	**Report Author**	
Elaine Browne	Head of Law (Deputy Monitoring Officer)	8/10/21	
Karen Shepherd	Head of Governance (Deputy Monitoring Officer)	8/10/21	
Other consultees:			
Duncan Sharkey	Chief Executive	8/10/21	13/10/21
Cllr Hilton	Cabinet Member for Finance and Ascot	12/10/21	13/10/21

REPORT HISTORY

Decision type: Council decision	**Urgency item?** No	**To Follow item?** Not applicable
Report Author: Andrew Vallance, Head of Finance.		

APPENDIX A - TREASURY MANAGEMENT POLICIES

1. INTRODUCTION

1.1. In the preparation of this Treasury Management Strategy a number of key areas are considered to be fundamental to our treasury management activity. They are listed below and covered in more detail in the body of this strategy.

- Risk Management
- Performance Measurement
- Decision-making and analysis
- Approved instruments, methods and techniques
- Organisation, clarity and segregation of responsibilities, and dealing arrangements
- Reporting requirements and management information arrangements
- Budgeting, accounting and audit arrangements
- Cash and cash flow management
- Money laundering
- Training and qualifications
- Use of external service providers
- Corporate governance

2.1. General Statement

2.1.1. The S151 Officer will design, implement and monitor all arrangements for the identification, management and control of treasury management risk and will report annually to Cabinet on their adequacy and suitability. Any actual or likely difficulty in achieving the organisation's objectives will be reported to Cabinet in accordance with the procedures set out in Section 7: *Reporting Requirements and Management Information Arrangements*.

2.2. Credit and Counter Party Risk Management

2.2.1. 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 counter party limits reflect a prudent attitude towards organisations with whom it trades. It also recognises the need to have and maintain a formal counter party policy in respect of those organisations from which it may borrow, or with whom it may enter into other financing arrangements.

2.3. Liquidity Risk Management

2.3.1. The Council will ensure it has adequate cash resources, borrowing arrangements, overdraft or standby facilities to enable it to have the necessary level of funds available for the achievement of its business / service objectives.

2.3.2. The Council will only borrow in advance of need where there is a clear business case for doing so and will only do so for the current Capital Programme or to finance future debt maturities.

2.4. Interest Rate Risk Management

2.4.1. The Council will manage its exposure to fluctuations in interest rates with a view to containing its interest costs, in line with the amounts provided in its budget.

2.4.2. It will achieve this by the prudent use of its approved financing and investment instruments, methods and techniques, primarily to create stability and certainty of costs and revenues. At the same time retaining a degree of flexibility to take advantage of unexpected, potentially advantageous changes in the level or structure of interest rates.

2.4.3. Any decision will be subject to the consideration of this strategy and, if required, approval of Cabinet or Council.

2.5. Exchange Rate Risk Management

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

2.6. Refinancing Risk Management

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

2.6.2. 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.

2.7. Legal and Regulatory Risk Management

2.7.1. The Council will ensure that all of its treasury management activities comply with its statutory powers. It will demonstrate such compliance, if required to do so, to all parties with whom it deals in such activities.

2.7.2. 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.

2.8. Fraud, Error and Corruption, and Contingency Management

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

2.9. Market Risk Management

2.9.1. 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.

3.1. The Council is committed to the pursuit of value in its treasury management activities, and to the use of performance methodology in support of that aim, within the framework set out in the Council's Treasury Management Strategy.

3.2. Accordingly, the treasury management function will be the subject of ongoing analysis of the value it adds in support of the organisation's stated 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.

4.1. 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 demonstrating that reasonable steps were taken to ensure that all issues relevant to those decisions were taken into account at the time.

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

6.1. 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.

6.2. 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.

6.3. If and when the Council intends, as a result of lack of resources or other circumstances, to depart from these principles, the S151 Officer will ensure that

the reasons are properly reported in accordance with Section 7 Reporting Requirements and Management Information Arrangements, and the implications properly considered and evaluated.

6.4. The S151 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 S151 Officer will also ensure that at all times those engaged in treasury management will follow the policies and procedures set out.

6.5. The S151 Officer will ensure there is proper documentation for all deals and transactions, and that procedures exist for the effective transmission of funds.

6.6. The S151 Officer will fulfil all such responsibilities in accordance with the policy statement.

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

7.2. As a minimum Audit and Governance Committee will receive:

- An annual report on the strategy and plan to be pursued in the coming year;
- Mid-year and annual reports on the performance of the treasury management function, on the effects of the decisions taken and the transactions executed, and on any circumstances of non-compliance with the organisation's Treasury Management Policy Statement.

8.1. The S151 Officer will prepare, and the Council will approve and, if necessary, from time to time will amend, an annual budget for treasury management, which will bring together all of the costs involved in running the treasury management function, together with associated income. The 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 *Sections 2 Risk management, 3 Performance measurement, and 5 Approved Instruments, Methods and Techniques.* The S151 Officer will exercise effective controls over this budget and will report upon and recommend any changes required in accordance with *Section 7 Reporting requirements and management information arrangements*.

8.2. 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.

9.1. Unless statutory or regulatory requirements demand otherwise, all monies in the hands of the Council will be under the control of the S151 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 S151 Officer will ensure that these are adequate for the purposes of monitoring compliance with Section 2 Liquidity Risk Management.

10.1. 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.

11.1. 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 S151 Officer will recommend and implement the necessary arrangements.

11.2. The S151 Officer will ensure that members of the Audit and Governance Committee have access to training relevant to their needs and responsibilities

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

12.1. The Council recognises that the responsibility for treasury management decisions remains with the Council 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 that 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.

13.1. 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.

13.2. The Council has adopted and has implemented the key principles of the Code. This, together with the other arrangements detailed in the Treasury Management Strategy, are considered vital to the achievement of proper corporate governance in treasury management, and the S151 Officer will monitor and, if and when necessary, report upon the effectiveness of these arrangements.

PRUDENTIAL INDICATORS 2020/21 TO 2024/25

The actual figures for 2020/21 and the estimates for four further years are shown below. These prudential indicators are prepared in accordance with the CIPFA Prudential Code for Capital Financing in Local Authorities

The figures set out below include this council's share of the old Berkshire County Council debt that is now managed by the Royal Borough.

	2020/21 Actual	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
Capital Expenditure (£m)	£27.2m	£57.8m	£36.8m	£34.3m	£18.9m
Ratio of financing costs to net revenue stream					
- Non-loan financed	20.5%	22.0%	15.3%	15.2%	14.7%
- Loan financed	5.4%	5.5%	6.2%	6.6%	8.0%
Capital Financing Requirement (£m)	214.4	246.0	264.9	281.1	281.5

In respect of its external debt, the Council approves the following authorised limits for its external debt gross of investments for the next three financial years.

	2020/21	2021/22	2022/23	2023/24	2024/25
Authorised limit for external debt (£m)	£284m	£291m	£323m	£344m	£379m

The Council also approves the following boundary for external debt for the same period.

	2020/21	2021/22	2022/23	2023/24	2024/25
Operational boundary for external debt (£m)	£261m	£266m	£298m	£317m	£334m

The proposed operational boundary for external debt is based on the same estimates as the authorised limit but reflects the Head of Finance's estimate of the most likely, prudent but not worse case scenario, without the additional headroom included within the authorised limit to allow for example for unusual cash movements, and equates to the maximum of external debt projected by this estimate. It include both long and short term (i.e. less than 365 day) borrowing.

Appendix C - Major Capital Cashflows - Proposed & Agreed

Based on a Short term interest rate of 0.09%

STATUS
Green - Planning obtained, project proceeding, On Site or transaction Complete
Amber - In Progress, still subject to planning, will happen but high chance of delays
Red - Subject to Planning & chance of not proceeding.

		STATUS	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14	Year 15	Year 16	
			2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33	2033/34	2034/35	2035/36	2036/37	Total
			£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
	Capital Receipts		**0.09%**	**0.50%**	**0.80%**	**1.30%**	**1.50%**	**2.00%**	**2.00%**	**2.00%**	**2.00%**	**2.00%**	**2.00%**	**2.00%**	**2.00%**	**2.00%**	**2.00%**	**2.00%**	
1	CIL - Projections		6,536	3,200	3,200	3,200	3,200	3,200	3,200	3,200	3,200	3,200	3,200	3,200	3,200				44,936
2	Use of s106		2,490	500	500	500	500	500	500	500	500	500	500	500	500				8,490
3	Use of capital receipts carried forward		1,347																1,347
4	Use of Capital Fund		400																400
5	Capital Receipt - Ray Mill Road East	Red	-	8,050	-	-	-	-	-	-	-	-	-	-	-	-	-		8,050
6	Ray Mill Road East CALA shared ownership receipts	Red			258	2,062													2,320
7	Capital Receipt Golf Course Framework Fee	Amber					3,000	750	750	750	750	750	750	750					8,250
8	Capital Receipt - Golf Course	Amber	-	-			1,226	17,085	20,403	31,411	23,418	19,562	20,705	19,943	19,562	24,381	19,169	10,136	227,000
9	JV - York Road Phase One (units 85 private)	Green	3,879	2,990	-	-	-	-	-	-	-	-	-	-	-	-	-		6,869
10	JV - York Road Phase Two (units 34 private)	Green	589	-	5,305	-	-	-	-	-	-	-	-	-	-	-	-		5,895
11	JV - York Road Phase Three (units 22 private)	Green	-	-	173	623	934	-	-	-	-	-	-	-	-	-	-		1,730
12	JV - West Street (97 units)	Amber	-	-	-	-	12,766	-	-	-	-	-	-	-	-	-	-		12,766
13	JV - St Cloud Way Phase One (units 131 private)	Amber	162	1,873	1,727	6,280	3,297	3,061	3,218	-	-	-	-	-	-	-	-		19,618
14	JV - St Cloud Way Phase Two (units 166 private)	Amber	-	-		1,498	1,727	2,198	863	-	-	-	-	-	-	-	-		6,286
15	JV - St Cloud Way - Framework Fee	Amber	200	200	200	200													800
16	JV - St Cloud Way - Management Fee	Amber		300	300	300	300	300											1,500
17	JV - Windsor site	Red	-	-	3,000	-	27,000	-	-	-	-	-	-	-	-	-	-		30,000
18	Nicholsons Walk Shopping Centre	Amber	-	1,000	-	-	-	-	-	-	-	-	-	-	-	-	-		1,000
19	Central House	Amber	-	5,000	-	-	-	-	-	-	-	-	-	-	-	-	-		5,000
20	Sienna House	Amber	-	7,950	-	-	-	-	-	-	-	-	-	-	-	-	-		7,950
21	Sierra House disposal		525	-	-	-	-	-	-	-	-	-	-	-	-	-	-		525
22	St Edmunds House - shared ownership receipts	Green		350	1,050														1,400
23	18 Ray Mill Rd East sale	Amber	625																625
24	Land north of Ransworth, Oakley Green Road, Windsor					500													500
	Total Capital Receipts		**16,753**	**31,413**	**15,713**	**15,163**	**53,950**	**27,094**	**28,935**	**35,861**	**27,868**	**24,012**	**25,155**	**24,393**	**23,262**	**24,381**	**19,169**	**10,136**	**403,257**
	Capital Expenditure																		
25	Broadway Car Park expansion	Amber	3,541	13,756	10,231	-	-	-	-	-	-	-	-	-	-	-	-		27,528
26	Nicholsons shopping centre	Amber	132	-	-	-	-	-	-	-	-	-	-	-	-	-	-		132
27	Braywick Leisure Centre		46	-	-	-	-	-	-	-	-	-	-	-	-	-	-		46
28	Maidenhead Golf Club - Lease Surrender Purchase	Amber	15,950		-	-	-	-	-	-	-	-	-	-	-	-	-		15,950
29	LEP Front of Maidenhead Station		1,770	-	-	-	-	-	-	-	-	-	-	-	-	-	-		1,770
30	Annual Capital Programme		2,560	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000		72,560
31	RBWM affordable housing development St Edmunds	Amber	140	1,793	1,200	-	-	-	-	-	-	-	-	-	-	-	-		3,134
32	Affordable Key Worker Housing School House	Amber	52	843	9														904
33	Maidenhead Golf Course Framework Fee	Amber	500	500	500	500	500	500	500	500	500	500	500	500					6,000
34	St Cloud Way - Framework Fee	Amber	213	200	200	200	200												1,013
35	York Road - RVS/MCC	Green	365	-	-														365
36	106 Westborough Road	Green	21	2	-														23
37	Land at Ray Mill Road East (CALA)	Red	1,500	2,734	735														4,969
38	Family Centre relocation	Green	264	7	-														271
39	Vicus Way Car Park	Green	7,766	2,824	-	-	-	-	-	-	-	-	-	-	-	-	-		10,590
40	River Thames Scheme		450	450	8,650											-	-		9,550
41	Investment need - Education primary and secondary		-	-	-		5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	-		50,000
42	LEP Maidenhead Local Plan Housing Site Enabling Works		5,185	-	-	-	-	-	-	-	-	-	-	-	-	-	-		5,185
43	LEP Windsor Town Centre Package		1,428	-	-	-	-	-	-	-	-	-	-	-	-	-	-		1,428
44	St Peters Middle		684	-	-	-	-	-	-	-	-	-	-	-	-	-	-		684
45	Regen Improvement Projects	Green	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		-
46	Legal & Consultancy fees	Green	500	-	-	-	-	-	-	-	-	-	-	-	-	-	-		500
47	York Rd Ph 2 - Access rights	Green	100	-	-	-	-	-	-	-	-	-	-	-	-	-	-		100
48	Modern Workplace Project		90	-	-	-	-	-	-	-	-	-	-	-	-	-	-		90
49	Braywick Pedestrian crossing		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		-
50	LEP Missing links		1,966	-	-	-	-	-	-	-	-	-	-	-	-	-	-		1,966
51	Hostile vehicle mitigation measures for Windsor		481	-	-	-	-	-	-	-	-	-	-	-	-	-	-		481
52	Capitalised debt charges		231	248	413	-	-	-	-	-	-	-	-	-	-	-	-		892
53	Capital Programme slippage in		11,169	11,421	7,956	6,979	2,536	2,647	2,629	2,626	2,625	2,625	2,625	2,625	2,625	2,525	2,505		66,118
54	Capital Programme slippage out		(11,421)	(7,956)	(6,979)	(2,536)	(2,647)	(2,629)	(2,626)	(2,625)	(2,625)	(2,625)	(2,625)	(2,625)	(2,525)	(2,505)	(1,501)	-	56,450
	Total Capital Expenditure		**45,683**	**31,822**	**27,915**	**10,143**	**10,589**	**10,518**	**10,504**	**10,501**	**10,500**	**10,500**	**10,500**	**10,500**	**10,100**	**10,020**	**6,004**	**0**	**225,798**