Council

Treasury Management Mid-Year Review 2022/23

Date: 18 January 2023

Key decision: No.

Class: Part 1.

Ward(s) affected: All

Contributors: Director of Finance

Outline:

The purpose of this report is to set out the following:

- A review of the Treasury Management position as at 31 March 2022;
- An economic update for the five months of the 2022/23 financial year;
- An update of the Treasury Management Strategy for 2022/23;
- An update on the Council's capital expenditure programme and prudential indicators;
- A review of the Council's investment portfolio for 2022/23;
- A review of the Council's borrowing strategy for 2022/23; and
- A review of compliance with treasury and prudential limits for 2022/23.

Recommendation:

Council are recommended to:

1. Note the report, in particular the macroeconomic updates, performance of investments to date, updates on capital expenditure and borrowing in line with the Chartered Institute of Public Finance and Accountancy's (CIPFA) prudential indicators, and the update of the Council's Treasury Management Strategy.

2. To approve the following changes to our current approved borrowing counterparties

   i. Individuals lending via a peer-to-peer platform where appropriate counterparty checks are conducted by the platform;
   ii. Investors in capital market bonds and retail bonds issued by the council

3. To approve the updated Treasury Management Strategy.

Timeline of engagement and decision-making:

5 October 2022 – Treasury Management Mid-Year review approved by Mayor & Cabinet

2 March 2022 – 2022/23 Budget Report to Council (Section 5.21 onwards: Treasury Management Strategy)

9 February 2022 – 2021/22 Budget Update Report to Mayor & Cabinet

2 February 2022 – 2021/22 Budget Report to Mayor & Cabinet

1. Executive Summary

1.1. This report sets out the current economic conditions in which the Council is operating in respect of its investments and borrowing. It details the Council's treasury performance (focused on security, liquidity and return in that order) and forecast capital position as at 31 August 2022 (or alternative date as stated) and provides updates on performance against the current Treasury Management Strategy as required by the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice.

1.2. Inflation has risen dramatically following the war in Ukraine and this has led to a large increase in the cost of energy, food, goods and services. The Bank of England has subsequently raised interest rates to combat inflation. There is uncertainty in the financial markets due to the Covid pandemic recovery, the war in Ukraine and climate events. The Bank of England is expected to continue to increase interest rates and the UK Government is expected to increase its borrowing to support individuals and businesses during the energy and cost of living crisis.

1.3. The overall capital programme for 2022/23 was agreed as £244.8m in February 2022, and is now forecast to be £230.1m as at 31 July 2022, a £14.7m reduction. The main reduction comes from the decrease in the HRA of £36m due to re-profiling of the current schemes into future years and £21.5m rise in General Fund forecasts focused on accelerating temporary accommodation schemes.

1.4. The Council has added a new source of borrowing (see 10.4 item 9). The current Treasury Management Strategy does not cover the issuance of a bond/ISA via a peer to peer platform that will attract retail investors or local residents. This report seeks authority to expand to specifically allow that activity. This borrowing will allow for schemes such as a Community Municipal Investment to be launched which supports wider benefits such as resident engagement with key capital projects. Given that the change allows borrowing from non-institutional investors, the platform hosts will perform all the appropriate checks including required monitoring and money laundering checks of prospective investors. The Treasury Management Strategy Statement approved by Council in March 2022 has been updated to include this.

1.5. The Council's Operational Boundary (being the limit which external debt is not normally expected to exceed) and Authorised Limit (being the limit beyond which borrowing is prohibited) have not been breached in the year to date, and no difficulties are envisaged for the current or future years in complying with the Code's requirements for prudential borrowing. These borrowing limits for 2022/23 that were set by the Council in March 2022 have not been changed by this report.

1.6. The current investments of £384.9m will give the Council a 1.6% return compared to 0.16% at September 2021. With interest rates continuing to rise it is likely that the final 2022/23 yield will exceed the returns of 2021/22. The investment return is expected to continue to increase as the Bank of England raises the bank rate in the coming months, although working cash balances will reduce in line with the planned capital programme spending.

1.7. Council investments are managed within the guideline parameters however the investment into a Canadian bank Toronto-Dominion Bank on 25 May 2022 exceeded the guideline limits for this bank by £5m. Part of the investment to Toronto-Dominion Bank will be repaid on 21 December 2022 when the council will be back within its investment limits for this bank.

2. Recommendations

2.1. Council is recommended to:

2.1.1. Note the report, in particular the macroeconomic updates, performance of investments to date, updates on capital expenditure and borrowing in line with the Chartered Institute of Public Finance and Accountancy's (CIPFA) prudential indicators, and the update of the Council's Treasury Management Strategy.

2.1.2. To approve the following changes to our current approved borrowing counterparties

i. Individuals lending via a peer-to-peer platform where appropriate counterparty checks are conducted by the platform;

ii. Investors in capital market bonds and retail bonds issued by the council

2.1.3. To approve the updated Treasury Management Strategy.

3. Policy Context

3.1. The Council's 2018 to 2022 Corporate Strategy identifies seven corporate priorities and four core values which are the driving force behind what we do as an organisation. It sets out a vision for Lewisham and priority outcomes that organisations, communities and individuals can work towards to make this vision a reality. Through the work on Covid recovery these are also supported by the four Future Lewisham themes.

3.2. In taking action to implement and review the Council's treasury management function, with the overriding objective to achieve security, maintain adequate liquidity, and seek yield in line with the Council's risk appetite, we will be driven by the Council's four core values:

- We put service to the public first;
- We respect all people and all communities;
- We invest in employees; and
- We are open, honest and fair in all we do.

3.3. These core values align with the Council's seven corporate priorities, as follows:

- **Open Lewisham** - Lewisham is a welcoming place of safety for all where we celebrate the diversity that strengthens us.
- **Tackling the housing crisis** - Everyone has a decent home that is secure and affordable.
- **Giving children and young people the best start in life** - Every child has access to an outstanding and inspiring education, and is given the support they need to keep them safe, well and able to achieve their full potential.
- **Building an inclusive local economy** - Everyone can access high quality job opportunities, with decent pay and security in our thriving and inclusive local economy.
- **Delivering and defending health, social care and support** - Ensuring everyone receives the health, mental health, social care and support services they need.
- **Making Lewisham greener** - Everyone enjoys our green spaces and benefits from a healthy environment as we work to protect and improve our local environment.
- **Building safer communities** - Every resident feels safe and secure living here as

we work together towards a borough free from the fear of crime.

3.4. As the Council seeks to support the borough and its businesses and residents through the pandemic and beyond, this recovery is based on the four key themes of Future Lewisham, these are:

- A Greener Lewisham;
- A healthy and well future;
- An economically sound future; and
- A future we all have a part in.

3.5. The Treasury Management Strategy will directly support the theme of an economically sound future for the borough and its residents.

4. Structure of the Report

4.1. The remainder of this report is structured as follows:

5. Background and Prior Year Outturn
6. Economic Update
7. Annual Investment Strategy
8. Investment Portfolio 2022/23
9. Capital Position (Prudential Indicators)
10. Borrowing, Treasury Indicators and Debt Rescheduling
11. Minimum Revenue Provision (MRP) Policy Statement
12. Financial Implications
13. Legal Implications
14. Equalities Implications
15. Climate Change and Environmental Implications
16. Crime and Disorder Implications
17. Health and Wellbeing Implications
18. Background Papers
19. Report Author and Contacts

Appendix 1 – Interest Rate Forecasts 2022 – 2024

Appendix 2 – Extract from Credit Worthiness Policy

Appendix 3 – Benchmarking Extract

Appendix 4 – Economic Update from Link Asset Services

Appendix 5 – Approved Countries for Investment

Appendix 6 – CIPFA Treasury Management Code of Practice

5. Background and Prior Year Outturn

5.1. The Council is required to operate a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the treasury management operations ensure this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity initially before

considering optimising investment return. The onset of the war in Ukraine has led to unprecedented levels of economic and fiscal uncertainty as well as the challenges of high inflation. This has made the balanced budget even more challenging to achieve than in the previous years.

5.2. The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure the Council can meet its capital spending operations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses, and on occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

5.3. The contribution the treasury management function makes to the authority is critical, as the balance of debt and investment operations ensure liquidity and the ability to meet spending commitments as they fall due, either for day-to-day revenue purposes or for larger capital projects. Treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund.

5.4. Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activities, arising usually from capital expenditure, and are separate from the day to day treasury management activities.

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

5.6. The Council complies with the requirements of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised 2017). The primary requirements of the Code are as follows:

a) Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.

b) Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.

c) Receipt by the full Council of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a Mid-year Review Report and an Annual Report covering activities during the previous year.

d) Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.

e) Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body. For this Council the delegated body is the Public Accounts Select Committee.

a) Capital Strategy

5.7. The CIPFA 2021 Prudential and Treasury Management Codes require all local

authorities to produce a Capital Strategy, which will provide the following:

- A high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services;
- An overview of how the associated risk is managed; and
- The implications for future financial stability.

5.8. The CIPFA 2021 replaces the 2017 code but is not required to be in effect until 1 April 2023 and therefore the Treasury Management Strategy will be updated for 2023/24 and presented to Council in March 2023. It is not expected that the updated Code will necessitate significant changes for the Council.

5.9. The aim of the strategy is to ensure that all elected Members on full Council fully understand the overall long-term policy objectives and resulting Capital Strategy requirements, governance procedures and risk appetite

5.10. The Capital Strategy is reported separately from the Treasury Management Strategy; non-treasury investments will be reported through the former. This ensures the separation of the core treasury function under security, liquidity and yield principles, and the policy and strategic investments are usually driven by expenditure on an asset.

The Capital Strategy shows:

- The corporate governance arrangements for these types of activities;
- Any service objectives relating to the investments;
- The expected income, costs and resulting contribution;
- The debt related to the activity and the associated interest costs;
- The payback period (MRP policy);
- For non-loan type investments, the cost against the current market value; and
- The risks associated with each activity.

5.11. On 9 February 2022, Mayor & Cabinet agreed the Capital Strategy for 2022/23.

b) 2021/22 Treasury Management Outturn

5.12. The overall treasury management outturn for the year ending 31 March 2022 is set out in the table below:

BORROWING	Outstanding at 31 March 2022	Weighted Average Coupon Rate	Weighted Average Remaining Duration	Outstanding at 31 March 2021
	£m	%	Years	£m
Fixed Rate Borrowing				
Public Works Loan	92.9	4.3	25.3	92.9
Market Loans	82.5	4.0	33.2	82.5
Subtotal – Fixed Rate Borrowing	***175.4***	***4.2***	***29.0***	***175.4***
Variable Rate Borrowing				
Public Works Loan	0.0	0.0	0.0	0.0
Market Loans	37.4	2.2	36.4	37.6
Subtotal – Variable Rate Borrowing	***37.4***	***2.2***	***36.4***	***37.6***
Total Debt	**212.8**	**3.8**	**30.4**	**213.0**

INVESTMENTS (short term investment for 0 -12 months)	Outstanding at 31 March 2022	Weighted Average Coupon Rate	Outstanding at 31 March 2021
	£m	%	£m
Banks and Building Societies	185.0	0.2	215.0
Local Authorities	0	0	8.0
Subtotal – Fixed Rate Investments	***185.0***	***0.2***	***223.0***
Money Markets	116.2	0.1	74.2
Notice Accounts	90.0	0.1	90.0
Subtotal – Variable Rate Investments	***206.2***	***0.1***	***164.2***
Total Investments	**391.2**	**0.2**	**387.2**

5.13. In respect of the net borrowing requirement for 2021/22 it was (£2.1m), this being £10.5m lower than the net borrowing requirement of (£12.6m) for 2020/21 as set out in the table below:

Net Borrowing Requirement	2021/22 £m	2020/21 £m
Capital Investment	117.6	107.7
Capital Grants	(20.8)	(36.2)
Capital Receipts	(7.8)	(12.4)
Repair Reserves	(27.1)	(38.0)
Revenue	(51.7)	(13.0)
Net position	***10.2***	***8.1***
MRP	(4.3)	(4.1)
Other Financing	(8.0)	(16.6)
Net Borrowing Requirement	**(2.1)**	**(12.6)**

5.14. As at 31 March 2022, this internal borrowing was £72.8m, which is the difference between the Capital Financing Requirement (CFR) and the Council's actual borrowing.

Debt and CFR Movement	2021/22 £m	2020/21 £m
Capital Financing Requirement*	295.8	298.1
External Debt**	(223.0)	(223.5)
Difference – Internal Borrowing	***72.8***	***74.6***

* Excluding other long term liabilities.

**Excluding Fair Value adjustments.

6. Economic Update

6.1. The Economic update is provided by the Council's treasury advisors Link Treasury Services and is at Appendix 4; this includes commentary on the impact of the war in Ukraine on global markets.

a) Interest Rate Forecasts

6.2. The Council's treasury adviser, Link Treasury Services, has published its latest interest rate forecasts up to 30 June 2024 as below:

	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24
Bank Rate View	2.25%	2.50%	2.75%	2.75%	2.75%	2.50%	2.50%	2.25%
5yr PWLB Rate	2.80%	3.00%	3.10%	3.10%	3.00%	3.00%	2.90%	2.90%
10yr PWLB Rate	3.00%	3.20%	3.30%	3.30%	3.20%	3.20%	3.10%	3.00%
25yr PWLB Rate	3.40%	3.50%	3.50%	3.50%	3.50%	3.40%	3.40%	3.30%
50yr PWLB Rate	3.10%	3.20%	3.20%	3.20%	3.20%	3.10%	3.10%	3.00%

The war in Ukraine has affected economies around the world with increases in energy and food cost it has put up the rate of inflation. The Bank of England's Monitory Policy Committee (MPC) are trying to reduce inflation by increasing the Bank Rate. The Bank of England increased the Bank Rate for a sixth consecutive meeting in August, hiking Bank Rate to 1.75%. The headline Consumer Prices Index (CPI) rate is now forecast to rise above 13% year-on-year in quarter four of this year.

The upside is that the increasing interest rates is that the Council to earn a higher return on its investments in 2022/23 which will help to meet higher costs of providing local services.

b) Balance of Risks to the UK

6.3. The overall balance of risks to economic growth in the UK is very low due to the war in Ukraine and the effects of high inflation on world prices. It is likely that the UK will go into recession as the UK population cuts back on retail spending in order to pay for the increasing energy and food costs. Interest rate will continue to increase as the Bank of England raises interest rates to combat inflation.

6.4. The FTSE 100 continues to decline as investors continued to weigh anti-inflation pledges from the US Federal Reserve and concerns over a looming economic downturn. Shares of utilities, healthcare and oil companies were the biggest laggards while basic materials outperformed.

7. Annual Investment Strategy

7.1. The Treasury Management Strategy Statement (TMSS) for 2022/23 was approved by Council on 2 March 2022.

Investment Policy – Management of Risk

7.2. The DLUHC (Department for Levelling Up, Housing and Communities) and CIPFA (Chartered Institute of Public Finance and Accountancy) have extended the meaning of 'investments' to include both financial and non-financial investments. This report deals predominantly with financial instruments (as managed by the Strategic Finance – Treasury Team); non-financial investments, essentially the purchase of income yielding assets, are summarised at the end of Section 7 and covered in detail within the separate Capital Strategy.

7.3. The Council's investment policy has regard to MHCLG's Guidance on Local Government Investments ("the Guidance"), the CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"), and CIPFA's Treasury Management Guidance Notes 2018.

7.4. The Council's investment priorities will be security first, liquidity second, then return. The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and within the Council's risk appetite. In the current economic climate it is considered appropriate to keep investments short term to cover cash flow needs. However, given increasing interest rates, where appropriate (from an internal as well as external perspective), the Council will also consider the value available in periods up to 12 months with high credit rated financial institutions, as well as wider range fund options.

7.5. The Council uses Link Treasury Solutions as its external treasury management advisor. The Council recognises that responsibility for treasury management decisions remains with the Council at all times and will ensure that undue reliance is not placed upon our external service providers. All decisions will be undertaken with regards to all available information including, but not solely, our treasury advisors. It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

7.6. The Guidance and CIPFA TM Code place 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 following means:

1. Minimum acceptable credit criteria are applied in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short term and long term ratings.
2. Other information; ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To this end, the Council will engage with its advisors to maintain a monitor on market pricing such as "credit default swaps" and overlay that information on top of the credit ratings, as well as information on outlooks and watches. This is fully integrated into the credit methodology provided by the advisors in producing its colour codings which show the varying degrees of suggested institution creditworthiness. This has been set out in more detail at Appendix 2.

3. Other information sources used will include the financial press, share prices and other such information pertaining to the financial sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.
4. The Council has defined the list of types of investment instruments that the treasury team are authorised to use in the financial year, and these are listed in Appendix 2 under the categories of “specified” and “non-specified” investments
    - Specified investments are those with a high level of credit quality and subject to a maturity limit of one year.
    - Non-specified investments are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by Members and officers before being authorised for use.
5. Lending limits (amounts and maturity) for each counterparty will be set through applying the credit criteria provided by advisors, and are set out in Appendix 2.
6. Interest rate limits are set out in paragraph 10.7 and place restrictions on the exposure to variable and fixed rate investments.
7. The Council has placed a limit on the amount of its investments which are invested for longer than 365 days (see paragraph 10.9).
8. Investments will only be placed with counterparties from countries with a specified minimum sovereign rating (see Appendix 5).
9. All investments will be denominated in sterling.
10. As a result of the change in accounting standards for 2018/19 under IFRS 9, the Council will, on an ongoing basis, consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant changes at the end of the year to the General Fund. The DLUHC enacted a statutory override in 2018/19 for a five year period over the requirement for any unrealised capital gains or losses on marketable pooled funds to be chargeable in year. The statutory override is being reviewed by DLUHC and is out for consultation for authorities to provide feedback on wheather to keep the override. The Council would not be affected if the override was removed as it does not at present have any pooled investments. Although the Council has scope to do so as per the creditworthiness policy in Appendix 2.

7.7. Investments will be made with reference to the core balances and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months). In order to maintain sufficient liquidity, the Council will seek to utilise its notice accounts, money market funds and short-dated deposits (overnight to three months. The remainder of its investments will be placed in fixed term deposits of up to 36 months to generate improved returns, depending on prevailing market conditions.

Creditworthiness Policy

7.8. The Council’s Treasury Team applies the creditworthiness service provided by its advisors Link Group. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody’s and Standard & Poor’s. The credit ratings of counterparties are supplemented with the following overlays:

- Credit watches and credit outlooks from credit rating agencies;
- CDS spreads that may give early warning of changes in credit ratings; and

- Sovereign ratings to select counterparties from only the most creditworthy countries.

7.9. This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the suggested duration for investments:

- Yellow 5 years*
- Purple 2 years
- Blue 1 year (only applies to nationalised or semi nationalised UK Banks)
- Orange 1 year
- Red 6 months
- Green 100 days
- No colour Not to be used**

*for UK Government debt, or its equivalent, Constant Net Asset Value (CNAV) money market funds and collateralised deposits where the collateral is UK Government debt.

**except for those building societies rated BBB- or higher as set out in the policy.

7.10. The Council's creditworthiness policy has been set out at Appendix 2.

Country limits

7.11. The Council has determined that it will only use approved counterparties from the UK and from other countries with a minimum sovereign credit rating of AA- from Fitch. The list of countries that qualify using this credit criteria as at the date of this report are shown in Appendix 5. This list will be added to, or deducted from, by officers should country ratings change in accordance with this policy.

Updates to Investment Strategy

Prospects for Investment Returns

7.12. Investment returns are likely to continue to increase due to the rise in inflation and the continued increases in the Bank of England interest rate. The war in Ukraine has caused huge economic damage to the UK and world economies and has caused large increases in the cost of energy and food.

7.13. The Bank of England is combatting the rise in inflation by increasing the Base Rate, on an almost monthly basis. The base rate has increased from 0.1% in December 2021 to 1.75% in August 2022.

7.14. Money market yields have risen in line with the Bank of England base rate rises and now offers a better return for cash held for the Council's cashflow. The Money Market rates are expected to continue to increase through 2022 and into 2023.

7.15. The Council uses the services of its advisor, Link Group, to formulate a view on interest rates; their view is that the Bank Rate will continue to increase through 2022 and into 2023. Given the increasing interest rates the Council will continue to invest on a short term basis and not to lock into long term fixed rates so that it can take advantage of the rising rates.

7.16. In light of these predictions for increasing returns the Council continues to assess, with support from its advisors, the potential risk and return offered by investing for longer (five or more years) in pooled asset funds. Any investments entered into will be taken after taking advice from the Council's advisors and will continue to meet the objectives of security, liquidity and return.

7.17. A more extensive table of interest rate forecasts for September 2022 onwards, including Public Works Loan Board (PWLB) borrowing rate forecasts, is set out in Appendix 1.

Non-Treasury Investments

7.18. Treasury management investments represent the placement of cash in relation to the S12 Local Government Act 2003 investment powers, i.e. they represent investments using the residual cash available to the authority from its day to day activities, under security, liquidity and yield principles.

7.19. The Council recognises that non-treasury investments in other financial assets and property, primarily for financial return, taken for non-treasury management purposes, requires careful management. Such investments tend to be either:

- Policy type investments; whereby capital or revenue cash is advanced for a specific Council objective and will be approved directly through Committee. This may be an advance to a third party for economic regeneration, investments in subsidiaries and joint ventures, etc.
- Strategic type investments; whereby the objective is primarily to generate capital or revenue resources to help facilitate Council services.

7.20. The Council's risk appetite for these investments is reviewed on a case-by-case basis depending on the scale and nature, and strategic fit, of the proposed investment. Where such non-treasury investments exist, they will be identified and summarised at high level within this strategy. The detail and rationale for non-treasury investments are covered in the separate Capital Strategy.

Subsidiary Companies

7.21. The Council has two wholly owned subsidiary companies, Lewisham Homes Limited and Catford Regeneration Partnership Limited (CRPL). It has invested in these subsidiaries as summarised below.

<u>Lewisham Homes Limited</u>

7.22. Lewisham Homes is an arms-length management organisation (ALMO) set up in 2007 as part of the Council's initiative to deliver better housing services and achieve the Decent Homes Standard. The company manages approximately 18,000 homes.

7.23. The Council has to date agreed two separate loan facilities with Lewisham Homes, the first on proxy commercial terms financed from internal borrowing and the second on cost-neutral terms financed through the PWLB. Both loans allow Lewisham Homes to purchase properties to address temporary accommodation needs in the borough, and will be repaid on set maturity dates.

7.24. Agreement of the property acquisition programme and relevant loan agreements was obtained from Mayor and Cabinet. State Aid issues and other risks and mitigations were considered in the approval of the loan facilities, including for the second loan the requirement for collateral against the loan in order to obtain MRP exemption.

7.25. The Council has provided a £40m commercial loan facility to Lewisham Homes Ltd and the agreed facility financed from PWLB debt.

<u>Catford Regeneration Partnership Limited (CRPL)</u>

7.26. The CRPL is a property investment company created in January 2010 which owns the Catford Shopping Centre and several neighbouring properties used to generate income whilst driving forward a regeneration programme for the town centre and surrounding area.

The Council has provided CRPL with loans totalling £16.1m, currently on an interest only basis, with interest being capitalised until 2024/25.

Other Non-Treasury Investments

Besson Street Joint Venture

7.27. The Council is an equal equity partner in a joint venture with Grainger Plc. to bring forward the development of the currently vacant Besson Street site to provide properties for the Private Rented Sector on long term tenancies. The Council has invested land at this stage and will be required to put forward an estimated £22-27m of cash to make up its share (50%) of the assumed 40% equity, with 60% external long-term borrowing, to be invested once the scheme is built. This is currently forecast to be in 2026/27.

7.28. The Council also holds minority stakes in the following:

- 10% in Lewisham Schools for the Future LEP Limited, a Local Education Partnership established under the Council's Building Schools for the Future (BSF) programme to rebuild and refurbish secondary schools within the borough;
- Less than 1% in South-East London Combined Heat and Power Ltd (SELCHP), a joint venture with the London Borough of Greenwich for the provision of waste disposal and waste to energy processes; and

8. Investment Portfolio 2022/23

8.1. In accordance with the Code, it is the Council's priority to ensure security of capital and liquidity, and to obtain an appropriate level of return which is consistent with the Council's risk appetite. In the current economic climate it is considered appropriate to keep investments short term to cover cash flow needs, but also to seek out value available in periods up to 12 months with high credit rated financial institutions, using the Link suggested creditworthiness approach, including a minimum sovereign credit rating and Credit Default Swap (CDS) overlay information. As set out in Section 6, the rising Bank of England base rates will help the Council to earn a higher return on its investments in 2022/23 and this will help to meet higher costs of providing local services.

a) Performance as at 31 August 2022

8.2. The Council held £384.9m of investments as at 31 August 2022 (£418m at 31 March 2021) and the current annualised yield as at 31 August 2022 is 1.6% (compared to 0.16% at September 2021). These investments provide some assurance when matched to the level of debt held, represent the reserves held for investment, and provide the working balances and cash flow to support the Council's service delivery.

8.3. The Council is a member of a treasury benchmarking group (organised by Link Asset Services) containing 15 authorities, including 12 other London authorities. An extract from the latest available benchmarking report is shown in Appendix 3; this shows that the return on investments as at June 2022 is below the Council's model weighted average rate of return provided by the treasury advisors, which is adjusted for the risks inherent in the portfolio. Compared to our peers Lewisham has slightly more fixed term short term investments and were therefore more impacted by the extremely low bank rates during Covid. The Council is now however obtaining improved investment returns as its short term investments mature and it takes advantage of the rising interest rates.

A full list of outstanding investments held as at 31 August 2022 is shown below:

Counterparty	Duration (Days)	Principal £m	Interest Rate	Interest £
Fixed Rate Investments – Banks and Building Societies				
Norddeutsche Landesbank Girozentrale	92	15.0	1.67%	63,140
DBS Bank Ltd.	183	5.0	1.40%	35,096
National Westminster Bank PLC (RFB)	364	10.0	0.23%	22,937
National Bank of Canada	183	20.0	1.30%	130,356
Landesbank Hessen-Thueringen Girozentrale	92	15.0	1.83%	69,189
Standard Chartered Bank	184	15.0	1.55%	117,205
Bank of Montreal	364	10.0	0.60%	59,836
SMBC Bank International Plc	184	20.0	1.55%	156,274
Toronto-Dominion Bank	364	20.0	0.68%	135,627
National Westminster Bank PLC (RFB)	364	10.0	1.03%	102,718
DBS Bank Ltd.	365	5.0	0.95%	47,500
Goldman Sachs International Bank	184	20.0	2.94%	296,416
Standard Chartered Bank	184	5.0	3.02%	76,121
Bank of Montreal	364	15.0	1.83%	273,748
Landesbank Hessen-Thueringen Girozentrale	273	10.0	2.80%	209,425
Toronto-Dominion Bank	365	5.0	1.98%	99,000
Australia and New Zealand Banking Group Ltd.	364	15.0	2.05%	306,658
Toronto-Dominion Bank	365	5.0	2.10%	5,105
DBS Bank Ltd.	365	15.0	2.75%	15,412
OP Corporate Bank plc	365	25.0	2.95%	25,737
Variable Rate Investments – Notice Accounts				
Australia and New Zealand Banking Group	26	10.0	0.02%	N/A
Santander UK Plc	30	20.0	0.02%	N/A
Variable Rate Investments – Money Markets				
Aberdeen Standard	N/A	4.9	1.65%	N/A
BlackRock	N/A	30.0	1.67%	N/A
Federated Hermes	N/A	30.0	1.72%	N/A
Insight	N/A	30.0	1.69%	N/A
TOTAL INVESTMENTS		**384.9**	**1.65%**	

8.4. The Executive Director of Corporate Resources confirms that there were no breaches of the approved limits within the Annual Investment Strategy during the first five months of 2022/23, although there was the £5m over investment with Toronto-Dominion Bank, where discretion was applied.

8.5. The current investment counterparty criteria as set out in the Credit Worthiness Policy and included at Appendix 2 of this report are meeting the requirements of the treasury management function, although the current low rate environment and the reluctance of banks and building societies to accept new deposits reduces the available pool of counterparties that meet guideline investment rates.

9. Capital Position (Prudential Indicators)

9.1. This section of the report is structured to update on:

- The Council's capital expenditure plans;
- How these plans are being financed;
- The impact of any changes in the capital expenditure plans on the prudential indicators and the underlying need to borrow; and
- Compliance with the limits in place for borrowing activity.

a) Prudential Indicator for Capital Expenditure

9.2. The table below shows the original estimates for capital expenditure in 2022/23 as agreed by Council in March 2022 and the latest revised estimates, with change recorded (this is also showing the percentage change where a scheme has been amended, but not where a new scheme has been introduced):

2022/23 Capital Programme	Budget (M&C Feb 22) Budget £m	Revised Budget 2022/23 £m	Diff	Change
Major Programmes & Projects				
GENERAL FUND				
CCTV Modernisation	0.0	0.5	0.5	N/A
ICT - Tech Refresh	0.0	0.6	0.6	N/A
Schools - School Places Programme	6.0	0.9	(5.1)	(85)%
Watergate School	0.0	0.2	0.2	N/A
Greenvale School	0.0	2.1	2.1	N/A
Riverside Youth Club	0.0	0.6	0.6	N/A
Schools – Minor Works	4.0	4.5	0.5	13%
Schools – Other	1.5	1.1	(0.4)	(28)%
Highways & Bridges – TfL	0.0	0.4	0.4	N/A
Highways & Bridges – LBL	3.1	4.3	1.2	39%
Asset Management Programme	1.7	0.3	(1.4)	(80)%
Leisure Schemes	0.2	0.0	(0.2)	(100%)
Corporate Estate Maintenance	0.0	2.3	2.3	N/A
Other AMP Schemes	1.4	1.7	0.3	21%
Unallocated AMP	0.8	0.3	(0.5)	(60)%
Broadway Theatre	4.8	6.2	1.4	29%
Catford Phase 1 – Thomas Lane Yard/ CCC	1.3	1.2	(0.1)	(4)%
Catford Station Improvements	0.5	0.5	0.0	1%
Travellers Site Relocation	1.0	0.6	(0.4)	(44)%
Lewisham Gateway (Phase 2)	0.0	2.9	2.9	N/A
Beckenham Place Park (Inc. Eastern Part)	0.9	1.3	0.4	44%
Catford Library (Winslade Way)	0.0	0.4	0.4	N/A
Catford Town Centre	0.8	0.3	(0.5)	(63%)
Public Sector Decarbonisation	0.0	1.6	1.6	N/A
Other Miscellaneous Schemes	1.2	2.3	1.1	92%
Other General Fund Housing Schemes	1.0	0.7	(0.3)	(26)%
Deptford Southern Sites Regeneration	0.0	1.0	1.0	N/A

Milford Towers Decant	0.3	0.3	(0.1)	N/A
Edward St. Development	0.0	7.6	7.6	N/A
Achilles St Development	0.0	0.8	0.8	N/A
Place Ladywell	0.8	1.0	0.2	25%
Temporary Accommodation - Mayow Rd	1.1	5.9	4.8	435%
Temporary Accommodation - Canonbie Rd	0.3	0.8	0.5	171%
Temporary Accommodation - Morton House	1.0	0.5	(0.5)	(47)%
Temporary Accommodation - Manor Avenue	0.9	0.2	(0.8)	(83)%
Private Sector Grants and Loans	0.6	0.6	0.0	0%
TOTAL GENERAL FUND	**35.2**	**56.7**	**21.5**	**61%**
HOUSING REVENUE ACCOUNT				
Building For Lewisham Programme (BfL)	121.2	84.8	(36.4)	(30)%
Decent Homes Programme	83.4	81.4	(2.0)	(2)%
Housing Management System	1.2	2.2	1.0	84%
Other Schemes	3.8	0.9	(2.9)	(77)%
HRA Unallocated	0.0	4.2	4.2	N/A
TOTAL HRA PROGRAMME	**209.6**	**173.4**	**(36.2)**	**(17)%**
TOTAL PROGRAMME	**244.8**	**230.1**	**(14.7)**	**(6)%**

9.3. The overall capital programme for 2022/23 was agreed as £244.8m in February 2022, and has decreased by £14.7m to £230.1m as at 31 July 2022. The main reduction has come from the decrease in the HRA of £36m due to re-profiling of the current schemes over future years.

9.4. The General Fund's revised capital expenditure forecast at July 2022 has increased by £21.5m, or 36% from the position reported in the February budget report, with main adjustments coming from:

- An additional £4.8m has been allocated towards temporary accommodation at Mayow Road.
- An additional £7.6m has been allocated towards providing temporary accommodation at Edward Street.
- Lewisham Gateway (Phase 2) has been allocated an additional £2.9m.
- Corporate Estate Maintenance have also seen the estimated spend increase of £2.3m.

b) Financing of the Capital Programme

9.5. The table below draws together the main strategy elements of the capital expenditure plans (above), highlighting the original supported and unsupported elements of the capital programme, and the expected financing arrangements of this capital expenditure in 2022/23. The borrowing element of the table increases the underlying indebtedness of the Council by way of the Capital Financing Requirement (CFR), although this will be reduced in part by revenue charges for the repayment of debt (the Minimum Revenue Provision). If the CFR is positive, the Council may borrow from the PWLB or the market (external borrowing), or from internal balances on a temporary basis (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions

9.6. This direct borrowing need may also be supplemented by maturing debt and other

treasury requirements. The table below shows a decrease of £12.2m in the amount of prudential borrowing required to meet the revised capital programme; this is the result of new schemes that have been implemented since the budget report was agreed in March 2022, along with a decrease in HRA schemes and the re-profiling of projects.

9.7. Capital Expenditure Financing

Capital Expenditure Financing	Original Feb 22 £m	Revised Jul 22 £m	Change £m	Change %
Grants and contributions	53.9	37.2	(16.7)	(31)%
Capital Receipts	10.8	9.8	(1.0)	(90%
General reserves / revenue	60.5	75.7	15.2	25%
Subtotal	**125.2**	**122.7**	**(2.5)**	**(2)%**
Borrowing Required	119.6	107.4	(12.2)	(10)%
Total	**244.8**	**230.1**	**(14.7)**	**(6)%**

c) Prudential Indicators

9.8. Forward projections for borrowing as at 31 March 2022 are summarised in the table below, which shows the actual external debt from treasury management operations and other long-term liabilities against the underlying capital borrowing need (the Capital Financing Requirement - CFR) which is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's indebtedness, and its underlying borrowing need; any increase to capital expenditure which has not immediately been paid for through a revenue or capital resource will increase the CFR.

9.9. 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.

9.10. The CFR includes any other long-term liabilities (e.g. PFI liabilities). Whilst these increase the CFR and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility by the PFI or PPP provider and so the Council is not required to separately borrow for these schemes.

9.11. Changes in external debt incorporate upcoming loan maturities and projected prudential borrowing requirements in both the General Fund and the Housing Revenue Account (HRA).

9.12. The table below illustrates over/(under) borrowing relative to the combined CFR for the General Fund and HRA.

<u>External Debt Projections</u>

	2022/23 Forecast £m	2023/24 Forecast £m	2024/25 Forecast £m	2025/26 Forecast £m
External Debt at 1 April	212.8	310.6	408.5	530.9
Prudential Borrowing – General Fund	15.1	4.4	0.6	0
Prudential Borrowing – HRA	82.7	93.5	121.8	78.7

	2022/23 Forecast £m	2023/24 Forecast £m	2024/25 Forecast £m	2025/26 Forecast £m
Other Long-Term Liabilities	209.8	198.4	186.1	172.2
Gross Debt at 31 March	**520.4**	**606.9**	**717.0**	**781.8**
Total Capital Financing Requirement at 31 March*	**602.9**	**700.8**	**823.2**	**901.9**
Borrowing – over / (under)	**(82.5)**	**(93.9)**	**(106.2)**	**(120.1)**

***The Capital Financing Requirement includes the prudential borrowing figures.

9.13. The borrowing requirements will be reviewed on a regular basis and will be dependent on the progress of the Capital Programme therefore the borrowing forecast will be updated in later reports and aligned to the budget setting of the Capital Programme for the TMS for 2023/24.

9.14. Within the prudential indicators, there are a number of key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for the current and following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue or speculative purposes.

9.15. The Executive Director for Corporate Resources officer reports that the Council has complied with this prudential indicator in the current year to date and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this report.

10. Borrowing

Borrowing Strategy

10.1. The Council's external debt as at 31 August 2022, gross borrowing plus long term liabilities, is expected to be £520.4m. The Council's borrowing strategy is consistent with last year's strategy. The Council is currently maintaining an under-borrowed position in that the CFR is not fully funded with loan debt, as cash supporting the Council's reserves, balances and cash flow has been used as an alternative funding measure. In the current economic climate, this strategy is considered prudent while investment returns are lower than the cost of borrowing.

10.2. The Executive Director for Corporate Resources will continue to monitor interest rates in the financial markets and adopt a pragmatic and cautious approach to changing circumstances. With the interest rates rising the cost of borrowing has been increased so it is less expensive to use internal borrowing (cash held from reserves and balances).

Policy on Borrowing in Advance of Need

10.3. Members should note that the Council's policy is not to borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within the approved forward CFR estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

Sources of borrowing (new section for 2022/23)

10.4. Previously approved sources of borrowing: The approved sources of long-term and

short-term borrowing are:

1. HM Treasury's PWLB lending facility (formerly the Public Works Loan Board)
2. any institution approved for investments (see below)
3. any other bank or building society authorised to operate in the UK
4. any other UK public sector body
5. UK public and private sector pension funds (except Lewisham Pension Fund)
6. capital market bond investors
7. UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues
8. Investors in capital market bonds and retail bonds issued by the Council

New sources of borrowing

9. Individuals lending via a peer-to-peer platform where appropriate Individuals lending via a peer-to-peer platform where any necessary counterparty checks (for example proof of identity or money laundering requirements) are conducted by the platform.
10. Investors in capital market bonds and retail bonds issued by the Council.

The Council will want to use a Financial Conduct Authority (FCA) registered provider to be the platform. The rationale for using an FCA regulated company is that these will usually have a governance and risk management framework and hold high levels of regulatory capital to safeguard against risk of failure. The Financial Conduct Authority regulates the UK financial services industry and will review company reports (including quarterly management accounts and audited annual accounts). The Council will want to ensure that it does not work with any organisations which have been subject to any sanctions by the regulator, nor that there are any customer complaints been reviewed and upheld by the Financial Ombudsman Service.

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

1. leasing
2. hire purchase
3. Private Finance Initiative
4. sale and leaseback

Treasury Indicators

10.5. There are three debt-related treasury activity limits. The purpose of these are to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. These limits need to be balanced against the requirement for the treasury function to retain some flexibility to enable it to respond quickly to opportunities to reduce costs and improve performance.

10.6. The debt related indicators are:

- Upper limits on variable interest rate exposure. This identifies a maximum limit for variable interest rates based upon the debt position net of investments;
- Upper limits on fixed interest rate exposure. This is similar to the previous indicator and covers a maximum limit on fixed interest rates; and
- Maturity structure of borrowing. These gross limits are set to reduce the

Council's exposure to large fixed rate sums falling due for refinancing and are required for upper and lower limits.

10.7. The treasury indicators and limits are set out below:

Limits on Interest Rate Exposures	2022/23	2023/24	2024/25
	Upper	**Upper**	**Upper**
Limits on fixed interest rates: • **Debt only** • **Investments only***	 100% 90%	 100% 90%	 100% 90%
Limits on variable interest rates • **Debt only** • **Investments only***	 15% 50%	 15% 50%	 15% 50%
* For this calculation short term (less than 12 months) investments for 1-12 months are treated as fixed interest rates.			
Limits on Maturity Structure of Fixed Interest Rate Borrowing 2022/23			
		Lower	**Upper**
Under 12 months		0%	10%
12 months to 2 years		0%	10%
2 years to 5 years		0%	10%
5 years to 10 years		0%	25%
10 years to 20 years		0%	25%
20 years to 30 years		0%	25%
30 years to 40 years		0%	50%
40 years to 50 years		0%	60%
Limits on Maturity Structure of Variable Interest Rate Borrowing 2021/22			
		Lower	**Upper**
30 years to 40 years		0%	60%
40 years to 50 years		0%	40%

Long Term Investments Indicator

10.8. This indicator sets a limit on the total principal funds invested for greater than 365 days. This limit is set with regard to the Council's liquidity requirements and to manage the risks associated with the possibility of loss which may arise as a result of having to seek early repayment, or redemption of, principal sums invested.

10.9. The indicator is set out below. As at 31 August 2022, the Council is not expected to hold any investments for longer than 365 days.

Maximum Principal Sums Invested for Longer than 365 days

	2022/23 £m	2023/24 £m	2024/25 £m
Limit on principal sums invested for longer than 365 days	50.0	50.0	50.0

Debt Rescheduling

10.10. As short-term borrowing rates will be considerably cheaper than longer term fixed interest rates, there may be potential opportunities to generate efficiencies by switching from long-term debt to short-term debt. However, these efficiencies will need to be considered in light of the current treasury position and the size of the cost of debt repayment (premiums incurred).

10.11. The reasons for any rescheduling to take place will include:

- The generation of cash savings and/or discounted cash flow savings;
- Helping to fulfil the Treasury Strategy; and
- Enhancing the balance of the portfolio (to amend the maturity profile and/or the balance of volatility).

10.12. The Council will continue to explore rescheduling opportunities as appropriate in respect of the financing of its PFIs and external loans.

10.13. The Council has £120m of LOBO loans at nominal value as at 31 August 2022, of which £57.6m will be in their call period in 2022/23. In the event that the lender exercises the option to change the rate or terms of the loans within their call period, the Council will consider the terms being provided and also the option of repayment of the loan without penalty.

10.14. The Council continuously reviews its debt position to optimise its cash flow. Any consideration of debt rescheduling will be reported to Mayor and Cabinet and subsequently to Council at the earliest meeting possible.

10.15. No new external borrowing has been undertaken to date in 2022/23 because the Council uses its internal borrowing when required in this financial year.

10.16. Debt rescheduling opportunities have been very limited in the current economic climate therefore no debt rescheduling has been undertaken to date in the current financial year.

d) Limits to Borrowing Activity (remain unchanged from the approved limits set by Council in March 2022)

10.17. There are two measures of limiting external debt; the ‘operational boundary’ and ‘authorised limit for external debt’, which the Council reports on as part of its prudential indicators. Both are described in further detail in the following paragraphs.

<u>The Operational Boundary for External Debt</u>

10.18. This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt and the ability to fund under-borrowing by other cash resources. The Council’s operational boundary is set out below:

Operational Boundary (unchanged)	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m
Maximum External Debt at 31 March	387.2	532.5	602.0	629.9
Other Long-Term Liabilities	219.8	209.0	197.5	199.7
Operational Boundary for Year	**607.0**	**741.5**	**799.5**	**829.6**

The Authorised Limit for External Debt

10.19. This key indicator represents a control on the maximum level of borrowing, and provides a limit beyond which external debt is prohibited. It reflects the level of external debt which, while not desired, could be afforded in the short term but is not sustainable in the longer term.

10.20. This is a statutory limit determined under Section 3(1) of the Local Government Act 2003, and needs to be set and revised by full Council. The Government retains an option to control either the total of all Councils' plans, or those of a specific Council, although this power has not yet been exercised.

10.21. The authorised limits are set out as below:

Authorised Limits (unchanged)	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m
Operational Boundary for Year	**607.0**	**741.5**	**799.5**	**829.6**
Provision for Non Receipt of Expected Income	56.0	56.0	56.0	56.0
Additional 10% Margin	60.7	74.1	79.9	79.9
Authorised Limit for Year	**723.7**	**871.6**	**935.4**	**965.5**

11. Minimum Revenue Provision (MRP) Policy Statement

11.1. The Council is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the MRP), although it is also allowed to undertake additional voluntary payments if required (Voluntary Revenue Provision – VRP). The MRP must be determined by the Council as being a prudent provision having regard to the MHCLG Statutory Guidance on Minimum Revenue Provision.

11.2. The MRP is the amount the Council charges to the revenue account and does not correspond to the actual amount of debt repaid, which is determined by treasury related issues. Historically the Council has applied a consistent MRP policy which comprises prudential borrowing being repaid over the useful life of the asset concerned and previous borrowing being repaid at the rate of 4% (equivalent to 25 years) of the outstanding balance.

11.3. In 2016/17, this policy was changed to reflect the useful lives of the specific asset classes on the Council's balance sheet. It moved to:

- A straight line MRP of 14% equivalent to seven years for plant and equipment (such as IT and vehicles); and
- A straight line MRP of 2.5% equivalent to forty years for property (such as land and buildings).

11.4. In 2017/18 a third element was added to the Council's MRP policy, whereby no MRP need be charged on capital expenditure where the Council has assessed that sufficient collateral is held at a current valuation to meet the outstanding CFR liability, and that should it be determined at any point that insufficient collateral is held to match the Council's CFR liability a prudent MRP charge will commence.

11.5. In 2019/20 the Council commissioned an independent review of its current MRP policy to ensure it is fit for current and future spending plans, as well as a review of historic calculations and a reconciliation to the CFR to identify any potential efficiencies. The review was undertaken by the Council's treasury advisors, Link Group.

11.6. The Council implemented one of the recommendations from the report from 2019/20 onwards, specifically to adjust for an historic overcharging of MRP from 2003/04 as a result of a miscalculation in the 'Adjustment A' figure (an accounting adjustment designed to ensure minimal changes in liability when new capital financing regulations were introduced in 2003/04). The Prudential Code allows for MRP to be reduced appropriately, in line with an authority's own judgement, where Adjustment A reflects an error that increases the current MRP liability. As such, the Council reduced its ongoing liability by reducing its MRP charge to account for the higher Adjustment A figure, whilst additionally offsetting current and future years' MRP charges to recover the historic overcharging since 2003/04.

11.7. The value of the overcharge has been calculated as £10.1m, which will be recovered from 2019/20 over a 10 year period via an annual reduction to MRP. The outstanding value of the overcharge to be recovered as at 31 March 2022 is £7.1m.

12. Financial Implications

12.1. There are no additional financial implications besides those mentioned elsewhere in this report.

13. Legal Implications

13.1. This report is consistent with legislation governing the financial affairs of the Council. In particular, the Council must comply with the requirements of the Local Government Act 2003, the Local Authorities (Capital Financing & Accounting – England) Regulations 2003, the Localism Act 2011 and have regard to the CIPFA Treasury Management and Prudential Codes.

14. Equalities Implications

14.1. There are no direct equalities implications arising from this report.

15. Climate Change and Environmental Implications

15.1. There are no direct climate or environmental implications arising from this report.

16. Crime and Disorder Implications

16.1. There are no direct crime and disorder implications arising from this report.

17. Health and Wellbeing Implications

17.1. There are no direct health and wellbeing implications arising from this report.

18. Background Papers

18.1. The following papers are appended to this report:

- *Appendix 1 – Interest Rate Forecasts 2021 – 2024*
- *Appendix 2 – Extract from Credit Worthiness Policy*
- *Appendix 3 – Benchmarking Extract*
- *Appendix 4 – Economic Update from Link Asset Services*
- *Appendix 5 – Approved Countries for Investment*
- *Appendix 6 – Requirement of the CIPFA Treasury Management Code of Practice*

19. Report Author and Contacts

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