

Section B - Part 2 – Treasury Management

A: Treasury Management and Investment Strategy for 2023/24 Onwards

1 INTRODUCTION

1.1 Background

The council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed, and that any surplus monies are invested in counterparties or instruments with an appropriate level of risk (as defined within the Councils Treasury Management Policies), providing adequate liquidity initially before considering investment return.

The other main function of the treasury management service is to ensure appropriate arrangements are in place to fund the council's approved capital plans. These capital plans provide a guide to the borrowing need of the council, essentially the longer term cash flow planning to ensure that the council can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses. On occasion any debt previously drawn may be restructured to meet council risk or cost objectives.

CIPFA defines treasury management as:

“The management of the local authority’s 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.”

Revised CIPFA Treasury Management Code and Prudential Code

CIPFA published revised Codes on 20th December 2021 and set out that revisions are required to be included in the reporting framework from the 2023/24 financial year.

Where revisions have been made to both the Treasury Management Code and Prudential Code these have been updated where relevant to Walsall within the Treasury Management and Investment Strategy and Policy Statement. A summary of these revisions are as follows:

- Adopt a new liability benchmark treasury indicator to support the financing risk management of the capital financing requirement and will be shown in chart form for a minimum of ten years, with material differences between the liability benchmark and actual loans to be explained;
- TMP 10 has been expanded and CIPFA expects all organisations to have a formal and comprehensive approach to ensuring the effective acquisition and retention of treasury management knowledge and skills for those responsible for management, delivery, governance and decision making, with developments to the existing

knowledge and skills register for officers and members involved in the treasury management function;

- The Chief Finance Officer is required to establish procedures to monitor and report performance against all forward-looking prudential indicators at least quarterly;
- Environmental, social and governance (ESG) policies of the authority to be included within an authority's treasury management policies and practices (TMP1) where relevant.
- As part of the new requirements authorities are required as a minimum to estimate for the forthcoming financial year, and the following two financial years, the proportion of net income from commercial and service investments compared to budgeted net revenue stream. This ratio will consider an authority's exposure to risk from commercial and service investment income.

Reporting requirements

The Council is required to receive and approve, as a minimum, four main reports each year, which incorporate a variety of policies, estimates and actuals.

Prudential and treasury indicators and treasury strategy - This covers:

- the capital plans (including prudential indicators);
- a minimum revenue provision (MRP) policy (how residual capital expenditure i.e. that funded from borrowing, is charged to revenue over time);
- the treasury management strategy (how the investments and borrowings are to be organised) including treasury indicators; and
- an annual investment strategy (the parameters that set out how investments are to be made and managed).

A mid-year treasury management report – This will update members on the progress of the capital plans, amending prudential indicators as necessary, and identify whether any policies require revision. In addition, the Council will receive quarterly update reports on performance throughout the year.

An annual treasury report – This provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates included within the strategy.

A Capital Strategy report – This is intended to 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
- the implications for future financial sustainability

The aim of this report is to ensure that all elected members on the full council fully understand the overall strategy, governance procedures and risk appetite entailed by this Strategy. Further information can be found at **Part 1 Annex 8** of this Budget Plan.

Scrutiny

The above reports are required to be adequately scrutinised before being recommended to the Council. For Walsall Council the Cabinet undertakes this role.

1.2 Treasury Management Strategy for 2023/24

The strategy for 2023/24 covers two main areas:

Capital issues

- capital plans and the prudential indicators;
- the minimum revenue provision (MRP) policy.

Treasury management issues

- the current treasury position;
- treasury indicators which limit the treasury risk and activities of the council;
- prospects for interest rates;
- the borrowing strategy;
- policy on borrowing in advance of need;
- debt rescheduling;
- the investment strategy;
- creditworthiness policy;
- policy on use of external service providers

These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, Department of Levelling Up, Housing and Communities (DLUHC) MRP Guidance, the CIPFA Treasury Management Code and DLUHC Investment Guidance.

1.3 Training

The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny.

Furthermore, the code has been expanded and CIPFA expects all organisations to have a formal and comprehensive approach to ensuring the effective acquisition and retention of treasury management knowledge and skills for those responsible for management, delivery, governance and decision making, with developments to the existing knowledge and skills register for officers and members involved in the treasury management function

As a minimum, authorities should carry out the following to monitor and review knowledge and skills:

- Record attendance at training and ensure action is taken where poor attendance is identified.
- Prepare a learning plan for treasury management officers and council members.
- Have regular communication with officers and council members, encouraging them to highlight training needs on an ongoing basis.”

In further support of the revised training requirements, CIPFA's Better Governance Forum and Treasury Management Network have produced a 'self-assessment for members responsible for the scrutiny of treasury management', which is available from the CIPFA website to download and support members in identifying any further training needs that they may have.

All members were invited to a virtual training event hosted by the Council's Treasury Management Consultants Link Asset Services in November 2022 and further training will be arranged as required.

The training needs of treasury management officers are periodically reviewed.

A formal record of the training received by officers central to the Treasury function is maintained in line with the Council's Annual Performance Conversation (APC) process. Similarly, a formal record of the treasury management / capital finance training received by members is also maintained.

1.4 Treasury Management Consultants

The council uses Link Group, Link Treasury Services Limited as its external treasury management advisors.

The council recognises that the responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers.

1.5 Treasury Management Monitoring

Local and Prudential indicators are used to monitor treasury management activities which are produced monthly and reported at least quarterly to the treasury management panel. The indicators monitored during the year are detailed in **Annex 1**.

2 THE CAPITAL PRUDENTIAL INDICATORS 2023/24 – 2025/26

The council's capital expenditure plans are the key driver of treasury management activity. The output of these plans is reflected in the prudential indicators, designed to assist members' overview and confirm capital expenditure plans.

2.1 Capital Expenditure - Prudential Indicator 1

This prudential indicator is a summary of the council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. Members are recommended to approve the capital expenditure forecasts. The financing need below excludes other long term liabilities, such as Private Finance Initiative and leasing arrangements which already include borrowing instruments within them. The current capital plans which this strategy supports are detailed in Table 1 below.

A summary of the 2023/24 capital programme is outlined in **Part 1 section 3** of this budget plan. The summary of the draft capital programme over the plan period 2023/24 to 2026/27 is outlined at **Part 1 section 4**, with full details by scheme at **Part 1 Annex 9**. The Capital Strategy is attached at **Part 1 Annex 8** of this budget plan.

Table 1 : Current Capital Programme					
	2022/23 Forecast £m	2023/24 Estimated £m	2024/25 Estimated £m	2025/26 Estimated £m	2026/27 Estimated £m
Total Capital Expenditure	121.00	115.27*	117.28	49.00	28.16
Resourced by:					
Capital receipts	1.50	1.50	1.50	1.50	1.50
Capital grants	87.35	48.41	51.54	25.49	18.10
Capital reserves	0.00	0.00	0.00	0.00	0.00
Revenue	0.02	0.02	0.02	0.02	0.02
Borrowing	32.13	65.34	64.22	21.99	8.54
Total resources available	121.00	115.27	117.28	49.00	28.16

*Excludes forecast carry forwards from 2022/23

2.2 Affordability Indicators

The previous prudential code required the authority to prepare an indicator (former prudential indicator 2) so that the council could assess the affordability of its capital investment plans. Although this is no longer required under the code, the authority still prepares the former prudential indicator 2 as this provides an indication of the impact of the capital investment plans on the council's overall finances. Council is recommended to approve the following indicators:

Ratio of financing costs to net revenue stream – Former Prudential Indicator 2

This indicator identifies the trend in the cost of capital financing (borrowing and other long-term obligation costs net of investment income) against the council's net revenue stream.

Table 2 : Former Prudential Indicator 2					
	2022/23 Forecast	2023/24 Estimated	2024/25 Estimated	2025/26 Estimated	2026/27 Estimated
Ratio	9.76%	8.80%	6.54%	3.64%	3.36%

2.3 The council's borrowing need (the Capital Financing Requirement) – Prudential Indicator 4

Prudential indicator 4 is the council's Capital Financing Requirement (CFR). The CFR is the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the council's underlying borrowing need. Any capital expenditure not immediately paid will increase the CFR. The CFR does not increase indefinitely, as the Minimum Revenue Provision (MRP) is a statutory annual revenue charge, which broadly reduces the borrowing need in line with each assets estimated life.

The CFR does include other long-term liabilities (e.g. PFI schemes, finance leases). Whilst these increase the CFR, and therefore the council's borrowing requirement, these types of schemes include a borrowing facility within them and so the council is not required to separately borrow for these schemes. The council currently has £3.89m of such schemes within the CFR. Council is asked to approve the CFR projections in Table 3 which shows that the council's net borrowing need for the period from the start of 2022/23 to the end of 2026/27 is estimated to see an increase of £130.15m. The council's borrowing strategy is set out in section 4.

Table 3 : Analysis of CFR					
	2022/23 Forecast £m	2023/24 Estimate d £m	2024/25 Estimate d £m	2025/26 Estimate d £m	2026/27 Estimate d £m
Opening Capital Financing Requirement	374.499	372.239	433.114	486.644	491.871
<i>Net financing need for the year</i>					
Less MRP and other financing movements	-13.480	-12.675	-14.870	-18.285	-17.143
Additional borrowing	11.220	73.550	68.400	23.512	29.925
Movement in CFR	-2.260	60.875	53.530	5.227	12.782
Closing Capital Financing Requirement	372.239	433.114	486.644	491.871	504.653

The council has maintained an under-borrowed position, which means that the capital borrowing need (the CFR), has not been fully funded with loan debt as cash supporting the council's reserves, balances and cash flow has been used as a temporary measure. This strategy has been prudent whilst investment returns have remained low and counterparty risk is relatively high compared to the historical position.

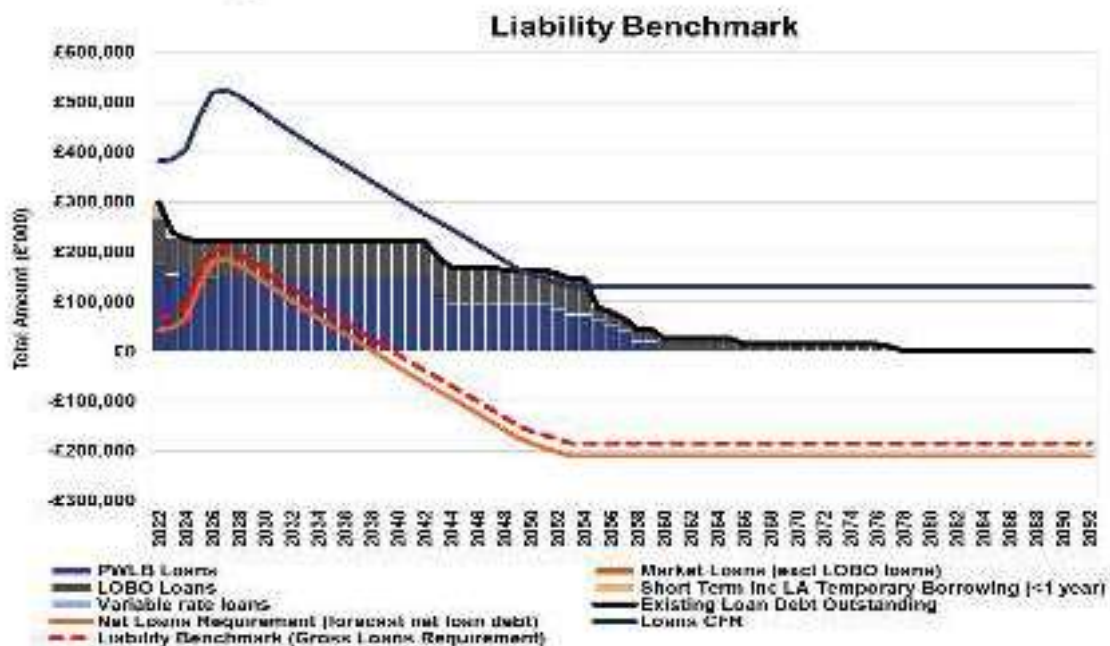
2.4 Liability Benchmark

A new prudential indicator for 2023/24 is the Liability Benchmark (LB). The Authority is required to estimate and measure the LB for the forthcoming financial year and the following two financial years, as a minimum.

There are four components to the LB:

1. **Existing loan debt outstanding:** the Authority's existing loans that are still outstanding in future years.
2. **Loans CFR:** this is calculated in accordance with the loans CFR definition in the Prudential Code and projected into the future based on approved prudential borrowing and planned MRP.
3. **Net loans requirement:** this will show the Authority's gross loan debt less treasury management investments at the last financial year-end, projected into the future and based on its approved prudential borrowing, planned MRP and any other major cash flows forecast.
4. **Liability benchmark (or gross loans requirement):** this equals net loans requirement plus short-term liquidity allowance.

Chart 1 – Liability benchmark for Walsall Council



The chart above shows Walsall Council's liability benchmark. The main point to note is that the benchmark indicates that the Council does not currently have an immediate borrowing need as the benchmark is below the existing loan portfolio. This is mainly due to significant levels of cash and investments currently held by the Council (and is in line with the under-borrowed position highlighted earlier in the strategy).

The benchmark then assumes that over the medium / longer term authorities will run down investments instead of borrowing – however it should be noted that this would not always be the option that the authority chooses to take, as utilising cash balances

potentially represents a re-financing risk (which the liability benchmark does not consider) where borrowing has to be taken once cash is run down at potentially unfavourable interest rates should markets decline in the intervening period.

Additionally, only approved planned borrowing can be included within the benchmark, as such the CFR and forecasts within the liability benchmark are underestimated after year 4 (as they are not allowed to include any potential capital plans the authority may choose / approve to enter in to following that period) and the longer term position shown in the benchmark is therefore not representative of the actual position that the council will realistically see.

The liability benchmark cannot therefore be considered in isolation and needs to be considered alongside the full range of borrowing plans, investment strategies and other indicators set out within this strategy, with the liability benchmark itself being purely a guide to identify borrowing need and providing one of a number of tools that support the authorities ability to make judgements as required, and borrow up to the authorised limits, with any variance from the benchmark able to be explained.

3. MINIMUM REVENUE PROVISION (MRP) POLICY STATEMENT

The MRP policy (see **Annex 2**) details the council's policies for calculating the annual amount charged to revenue for the repayment of debt.

3.1 Background to Annual MRP policy Review

A local authority shall determine each financial year an amount, it considers to be prudent, to be set aside for the repayment of accumulated borrowing relating to capital expenditure. This is known as the minimum revenue provision (MRP). There are four ready-made options available for calculating MRP, however authorities do also have discretion to determine their own MRP, other approaches are not ruled out, as long as the authority is properly reasoned and justified utilising them.

3.2 MRP Policy Objectives

- The council shall determine for each financial year an amount of revenue provision for the future repayment of debt that it considers prudent.
- To set aside funds at a rate such that future generations who benefit from the assets are contributing to the associated debt and avoiding the situation of future generations paying for the debt on assets that are no longer useable.

4 BORROWING

The resourcing of the capital expenditure plans set out in **Section 2** provides details of the proposed capital expenditure that will be incurred in support of the service activity of the council. The treasury management function ensures that the council's cash is organised in accordance with the relevant professional codes so that sufficient cash is available to meet this service activity. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

4.1 Current portfolio position

The council is expected to end 2022/23 with borrowing of over 1 year length of approximately £266m against an asset base of approximately £570m, and investments of approximately £129m. These will be proactively managed to minimise borrowing costs and maximise investment returns within a robust risk management environment. In 2023/24 estimated annual interest payments are £11.39m (£12.94m budget for 2022/23), with the increase due to planned borrowing included within the budget to take account of capital expenditure in line with capital plans set out in table 1 above. Net investment interest income for 2023/24 is estimated to be £4.58m (£2.1m budget for 2022/23), with the increase mainly due to slightly improved interest rates. The net budget for capital financing in 2023/24 is £24.53m (£25.06m in 2022/23).

The council's treasury portfolio position at 31st December 2022 is shown in Table 4; year end forward projections are summarised in Table 5. This shows that the actual external borrowing (the treasury management operations), against the capital borrowing need and operational debt, and highlights any over or under borrowing. It shows that the council's underborrowing position is expected to continue for the medium term.

Table 4 : Borrowing and Investments			
	Borrowing £m	Investments £m	Net Borrowing £m
31 March 2022	328.97	(266.93)	62.04
31 December 2022	280.93	(183.76)	97.17
Change in year	(48.04)	83.17	35.13

Table 5 : Borrowing Forward Projections				
Borrowing profile	2023/24	2024/25	2025/26	2026/27
	£m	£m	£m	£m
Under 12 Months	4.75	6.11	0.00	1.89
12 Months to within 24 Months	6.11	0.00	1.89	0.00
24 Months to within 5 Years	1.89	1.89	0.00	0.00
5 Years to within 10 Years	0.00	0.00	0.46	0.46
10 Years and Above	261.89	340.45	405.74	429.25
Total Borrowing	274.64	348.45	408.09	431.60
Operational Debt - Prudential Indicator 6	423.10	476.97	482.53	495.64
(Under) / Over Borrowed	(148.46)	(128.52)	(74.44)	(64.04)

Within the prudential indicators, there are a number of key indicators to ensure that the council operates its activities within defined limits. **Prudential Indicator 7** relates to the councils need 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 2023/24 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.

The S151 Officer reports that the council complied with **Prudential Indicator 7** in the current year and does not envisage this indicator being breached in the future. This view takes into account current commitments, existing plans, and the proposals in this

budget report. In accordance with **Prudential Indicator 8**, the council has adopted and complies with the CIPFA Code of Practice for Treasury Management.

4.2 Treasury Indicators: Limits to Borrowing Activity

The Authorised Limit for External Debt - Prudential Indicator 5

This prudential indicator represents a control on the maximum level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by Full Council. It reflects the level of external debt, which, whilst not desired, could be afforded in the short term, but is not sustainable in the longer term.

This is based on the requirement to set a statutory limit determined under section 3 (1) of the Local Government Act 2003. 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.

The Council is asked to approve the following authorised limit:

Table 6 : Authorised Limit £m - Prudential Indicator 5					
	2022/23 Forecast £m	2023/24 Estimated £m	2024/25 Estimated £m	2025/26 Estimated £m	2026/27 Estimated £m
Total	474.38	465.41	524.67	530.78	545.21

The Operational Boundary - Prudential Indicator 6

This is the limit beyond which external debt is not normally expected to exceed. It has been calculated by deducting other local authority debt (totalling £5.77m in 2022/23) from the capital financing requirement (CFR) and then adding any expected in year cash-flow borrowing requirements.

Table 7 : Operational Boundary £m - Prudential Indicator 6					
	2022/23 Forecast £m	2023/24 Estimated £m	2024/25 Estimated £m	2025/26 Estimated £m	2026/27 Estimated £m
Total	431.25	423.10	476.97	482.53	495.64

4.3 Prospects for interest rates

The council has appointed Link Group as its treasury advisor and part of their service is to assist the council to formulate a view on interest rates. The following table gives their central view.

Link Group Interest Rate View 18.12.22													
	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
BANK RATE	3.50	4.25	4.50	4.50	4.50	4.00	3.75	3.50	3.25	3.00	2.75	2.50	2.50
3 month ave earnings	3.80	4.30	4.50	4.50	4.50	4.00	3.80	3.50	3.00	3.00	2.80	2.50	2.50
6 month ave earnings	4.20	4.50	4.60	4.50	4.20	4.10	3.90	3.40	3.10	3.00	2.90	2.80	2.80
12 month ave earnings	4.70	4.70	4.70	4.50	4.30	4.20	4.00	3.50	3.20	3.10	3.00	2.70	2.70
5 yr PWLB	4.20	4.20	4.20	4.10	4.00	3.90	3.80	3.60	3.50	3.40	3.30	3.20	3.10
10 yr PWLB	4.30	4.40	4.40	4.30	4.10	4.00	3.90	3.80	3.80	3.50	3.40	3.30	3.30
25 yr PWLB	4.60	4.60	4.60	4.50	4.40	4.20	4.10	4.00	3.90	3.70	3.60	3.50	3.50
50 yr PWLB	4.30	4.30	4.30	4.20	4.10	3.90	3.80	3.70	3.60	3.50	3.30	3.20	3.20

Commentary from Link Group as at December 2022

Our central forecast for interest rates was updated on 19 December and reflected a view that the MPC would be keen to further demonstrate its anti-inflation credentials by delivering a succession of rate increases. Bank Rate stands at 3.5% currently but is expected to reach a peak of 4.5% in H1 2023.

Further down the road, we anticipate the Bank of England will be keen to loosen monetary policy when the worst of the inflationary pressures are behind us – but that timing will be one of fine judgment: cut too soon, and inflationary pressures may well build up further; cut too late and any downturn or recession may be prolonged.

The CPI measure of inflation looks to have peaked at 11.1% in Q4 2022 (currently 10.7%). Despite the cost-of-living squeeze that is still taking shape, the Bank will want to see evidence that wages are not spiralling upwards in what is evidently a very tight labour market.

Regarding the plan to sell £10bn of gilts back into the market each quarter (Quantitative Tightening - QT), this has started and will focus on the short, medium and longer end of the curve in equal measure, now that the short-lived effects of the Truss/Kwarteng government have passed.

In the upcoming months, our forecasts will be guided not only by economic data releases and clarifications from the MPC over its monetary policies and the government over its fiscal policies, but the on-going conflict between Russia and Ukraine. (More recently, the heightened tensions between China/Taiwan/US also have the potential to have a wider and negative economic impact.)

On the positive side, consumers are still estimated to be sitting on over £160bn of excess savings left over from the pandemic so that will cushion some of the impact of the above challenges. However, most of those are held by more affluent people whereas lower income families already spend nearly all their income on essentials such as food, energy and rent/mortgage payments.

PWLB RATES

- The yield curve movements have become less volatile of late and PWLB 5 to 50 years Certainty Rates are, generally, in the range of 4.10% to 4.80%.
- We view the markets as having built in, already, nearly all the effects on gilt yields of the likely increases in Bank Rate and the elevated inflation outlook.

The balance of risks to the UK economy:

- The overall balance of risks to economic growth in the UK is to the downside.

Downside risks to current forecasts for UK gilt yields and PWLB rates include:

- **Labour and supply shortages** prove more enduring and disruptive and depress economic activity (accepting that in the near-term this is also an upside risk to inflation and, thus, rising gilt yields).

- **The Bank of England** acts too quickly, or too far, over the next year to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- **UK / EU trade arrangements** – if there was a major impact on trade flows and financial services due to complications or lack of co-operation in sorting out significant remaining issues.
- **Geopolitical risks**, for example in Ukraine/Russia, China/Taiwan/US, Iran, North Korea and Middle Eastern countries, which could lead to increasing safe-haven flows.

Upside risks to current forecasts for UK gilt yields and PWLB rates:

- The **Bank of England is too slow** in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to build up too strongly and for a longer period within the UK economy, which then necessitates Bank Rate staying higher for longer than we currently project or even necessitates a further series of increases in Bank Rate.
- **The government** acts too quickly to cut taxes and/or increases expenditure in light of the cost-of-living squeeze.
- **The pound weakens** because of a lack of confidence in the UK Government's fiscal policies, resulting in investors pricing in a risk premium for holding UK sovereign debt.
- Longer term **US treasury yields** rise strongly and pull gilt yields up higher than currently forecast.
- Projected **gilt issuance, inclusive of natural maturities and QT**, could be too much for the markets to comfortably digest without higher yields consequently.

Borrowing advice: Our long-term (beyond 10 years) forecast for Bank Rate stands at 2.5%. As all PWLB certainty rates are currently above this level, borrowing strategies will need to be reviewed in that context. Better value can generally be obtained at the shorter end of the curve and short-dated fixed Local Authority to Local Authority monies should be considered. Temporary borrowing rates are likely, however, to remain near Bank Rate and may also prove attractive whilst the market waits for inflation, and therein gilt yields, to drop back later in 2023.

Our interest rate forecast for Bank Rate is in steps of 25 basis points, whereas PWLB forecasts have been rounded to the nearest 10 basis points and are central forecasts within bands of + / - 25 basis points. Naturally, we continue to monitor events and will update our forecasts as and when appropriate.

4.4 Borrowing Strategy

Our borrowing objectives are:

- To minimise the revenue costs of debt whilst maintaining an appropriate level of cash and a balanced loan portfolio

- To manage the council's debt maturity profile, ensuring no single future year has a disproportionate level of repayments
- To maintain a view on current and possible future interest rate movements and borrow accordingly
- To monitor and review the balance between fixed and variable rate loans against the background of interest rate levels and prudential indicators.

Specific Borrowing Objectives

- L1.** Full compliance with the Prudential Code - **No Change.**
- L2.** Average maturity date between 15 and 25 years - **No Change.**
- L3a.** Financing costs as % of council tax requirement 20% – **No Change.**
- L3b.** Financing costs as % of tax revenues 12.5% - **No Change.**
- L4.** Actual debt as a proportion of operational debt range is maintained in the range 65% - 85% - **No Change.**
- L5.** Average interest rate for internally managed debt will increase to **4.21%** - **Changed from 3.69% in view of planned borrowing.**
- L6.** Average interest rate for total debt (including other local authority debt) will be equal to or less than **4.33%** - **Changed from 3.77% in view of planned Borrowing re-profiling.**
- L7.** The gearing effect on capital financing estimates of 1% increase in interest rates must not be greater than 5% - **No Change.**

The capital borrowing need (CFR) has not been fully funded with loan debt and instead the council's cash which would normally be utilised to support the council's reserves, balances and cash flow has been used to fund the borrowing need as a temporary measure. This strategy has proved prudent as investment returns have been low and current levels of counterparty risk are higher than those seen historically and as such this is still an issue that needs to be considered.

Against this background and the risks within the economic forecast, caution will be adopted with the 2023/24 treasury operations. The Head of Finance – Technical & Transactional responsible for Treasury Management will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances. For example:

- if it was felt that there was a significant risk of a sharp FALL in borrowing rates, then borrowing will be postponed.
- if it was felt that there was a significant risk of a much sharper RISE in borrowing rates than that currently forecast, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.

Any changes that are required will be reported to the treasury management panel at the next available opportunity.

4.5 Treasury Management Limits on Activity

There are three debt related treasury activity limits. The purpose of these is 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. However, if these are set to be too restrictive they will impair the opportunities to reduce costs / improve performance. These limits have been reviewed. The indicators the Council is asked to approve are in Table 10 below (please note there are no changes proposed to the targets approved for 2022/23):

Table 8: Borrowing Limits	2022/23	2023/24	2024/25
Prudential Code Indicator 10 Upper limits on fixed interest rate exposures.	95%	95%	95%
Lower limits on fixed interest rate exposures	40%	40%	40%
Prudential Code Indicator 11 Upper limits on variable interest rate exposures	45%	45%	45%
Lower limits on variable interest rate exposures	0%	0%	0%
Prudential Code Indicator 12 Lower limits for the maturity structure of borrowings:			
Under 12 Months	0%	0%	0%
12 months and within 24 months	0%	0%	0%
24 months and within 5 years	0%	0%	0%
5 years and within 10 years	5%	5%	5%
Upper limits for the maturity structure of borrowings:			
Under 12 Months	25%	25%	25%
12 months and within 24 months	25%	25%	25%
24 months and within 5 years	40%	40%	40%
5 years and within 10 years	50%	50%	50%
10 years and above	85%	85%	85%

The council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved 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.

4.6 Debt rescheduling

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

- the generation of cash savings and / or discounted cash flow savings.
- helping to fulfil the treasury strategy.
- enhancing the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

Consideration will also be given to identify if there is any residual potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt. All potential rescheduling would require the approval of the treasury management panel.

Rescheduling of debt would normally be undertaken where there is an opportunity to deliver ongoing interest rate savings to the council. However rescheduling of debt does normally incur a premium cost (i.e. upfront break cost to end the borrowing agreement early). A reserve is therefore held by the authority to support any potential opportunities, and the current position of that reserve along with the forecast over the MTFO period is set out below.

	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m
Opening Balance	9.168	14.889	16.041	13.400
Transfer to Reserves	5.721	1.152	-2.640	-1.290
Closing Balance	14.889	16.041	13.400	12.111

Analysis of previous rescheduling indicates that the cost of any premium may be up to £15m. Additionally this reserve is also used to help mitigate the risk of interest rate rises on planned borrowing across the MTFO period, which is important at present where this is a positive outlook for interest rates but uncertainty around exact timing of these and associated impact on borrowing rates.

5. ANNUAL INVESTMENT STRATEGY

5.1 Investment Policy

The Department of Levelling Up, Housing and Communities (DLUHC - this was formerly the Ministry of Housing, Communities and Local Government (MHCLG)) and CIPFA have extended the meaning of ‘investments’ to include both financial and non-financial investments. This report deals solely with treasury (financial) investments, (as managed by the treasury management team). Non-financial investments, essentially the purchase of income yielding assets, are covered in the Capital Strategy (see **Part 1 Annex 8** of this Budget Plan)

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

- DLUHC’s Guidance on Local Government Investments (“the Guidance”)
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2021 (“the Code”)
- CIPFA Treasury Management Guidance Notes 2021

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

In accordance with the above guidance from the DLUHC and CIPFA and in order to minimise the risk to investments, the council applies minimum acceptable credit criteria 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.

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.

Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties. Counterparty limits are set through the council’s treasury management practices – schedules. This year the TM policies have been reviewed to ensure that any Banking Regulation changes are appropriately reflected to make certain that the security of the council’s deposits remain the highest priority whilst the council seeks a fair return for its investment. See TMP 1 section on Credit and Counterparty Risk Management paragraph h. TMP 1 also allows the undertaking of non-specified investments on the approval of the S151 Officer e.g. loans to housing associations, property funds and bond issues by other public sector projects etc. The use of property funds can be deemed to be capital expenditure, and as such in some instances will be an application (spending) of capital resources. This Authority will undertake due diligence and appropriate checks, and if required seek guidance, on the status of any fund it may consider using.

5.2 Creditworthiness Policy

Approved Organisations for Investments

Only organisations that are eligible to receive investments from local authorities may be used. The council’s credit worthiness policy forms part of this document for review and approval.

5.3 The Monitoring of Investment Counterparties

The credit rating and financial resilience of counter parties are monitored regularly. The council receives credit rating information from Link Asset Services as and when ratings change and counterparties are checked promptly. On occasion ratings may be downgraded when an investment has already been made. The criteria used are such that a minor downgrading should not affect the full receipt of the principal and interest. Any counterparty failing to meet the criteria will be removed from the list by the Head of Finance – Technical & Transactional and / or Finance Manager – Technical Accounting, Treasury Management & Education, and if required new counterparties which meet the criteria will be added to the list.

5.4 Investment strategy

The general policy objective for this council is for the prudent investment of its treasury balances. The council’s investment priorities are:

- The security of capital
- Liquidity of its investments
- All investments will be in sterling
- The council will aim to achieve the optimum return on its investments commensurate with the proper levels of security and liquidity.

In-house funds. Investments will be made with reference to the core balance and cash flow requirements and the outlook for interest rates.

Investment returns expectations

Investment returns are expected to improve in 2023/24. However, while markets are pricing in a series of Bank Rate hikes, actual economic circumstances may see the Monetary Policy Committee (MPC) fall short of these elevated expectations.

5.5 Specific Investment Objectives

Specific investment objectives are set out below.

- L8.** Difference between average interest rate received on short-term interest (STI) versus at call interest rate on main bank account – comparing investment performance of proactively managing cash balances against doing nothing – 50% - **no change**
- L9.** Average interest rate received on:
 At call investments – 2.50% - **a change from 0.10%**
 Short-term investments – 3.75% - **a change from 0.50%**
 Long-term investments – 4.00% - **a change from 0.80%**
 Property Funds – 3.56% - **a change from 3.34%**
- L10** Average rate on at call and short-term investments will be equal to or greater than 3.39% - **a change from 0.45%**
- L11** Average interest rate received on all investments:
 Including Property Funds – 4.54% - **a change from 0.91%**
 Excluding Property Funds – 3.48% - **a change from 0.48%**
- L12** % daily bank balances within a target range of 99% - **no change.**

Should the pace of growth quicken and / or forecasts for increases in inflation rise, there could be an upside risk i.e. Bank Rate increases occur earlier and / or at a quicker pace.

Investment treasury indicator and limit - total principal funds invested for greater than 365 days. These limits are set with regard to the council's liquidity requirements and to reduce the need for early sale of an investment and are based on the availability of funds after each year end.

The Council is asked to approve Prudential Indicator 13. Treasury indicator and limit:

Prudential Indicator 13 Maximum principal sums invested > 365 days			
£m	2021/22	2022/23	2023/24
Principal sums invested > 365 days	£25m	£35m	£35m
Property Funds	£30m	£30m	£30m

5.6 Additional disclosures required within the statutory guidance on local government investments

The updated statutory guidance on local government investments, which was issued in February 2018, identifies specific disclosures that the authority should identify within its Investment Strategy for all investments that it holds. The required disclosures for investments held by the authority are set out at Annex 3.

5.7 End of year investment report

At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Report.

Part 2 Annex 1 – In Year Treasury Management Indicators to be monitored

No.	Indicator	2022/23 Forecast	2023/24 Estimated	2024/25 Estimated	2025/26 Estimated
PRL 1	a. Capital expenditure - Council Resources - £m	33.65	66.86	65.74	23.51
	b. Capital expenditure - External Resources - £m	87.35	48.41	51.54	25.49
Former PRL 2	Estimates of the ratio of financing costs to the net revenue stream	8.80%	6.54%	3.64%	3.36%
L. 3	a. Financing costs as % of Council Tax Requirement	11%	20%	20%	20%
	b. Financing costs as % of Tax Revenues	7.51%	12.50%	12.50%	12.50%
L. 4	Actual debt v operational debt within the following range	65.14%	85.00%	85.00%	85.00%
L. 5	Average interest rate of debt excluding other local authority debt	3.69%	4.21%	4.25%	4.13%
L. 6	Average interest rate of debt including other local authority debt	3.77%	4.33%	4.32%	4.17%
L. 9	Average interest rate received on:				
	a. At Call Investments	1.17%	2.50%	2.00%	1.50%
	b. Short Term Investments	1.22%	3.75%	2.75%	1.85%
	c. Long Term Investments	0.90%	4.00%	3.00%	2.75%
	d. Property Fund	3.56%	3.56%	3.56%	3.56%
L. 10	Average interest rate on all ST investments (ST and At Call)	1.20%	3.39%	2.35%	1.75%
L. 11	a. Average interest rate on all investments (excluding property fund)	1.17%	3.48%	2.51%	1.90%
	b. Average interest rate on all investments (including property fund)	1.49%	4.54%	4.22%	2.98%
L. 12	% daily bank balances within target range	99%	99%	99%	99%

Part 2 Annex 2 – Minimum Revenue Provision (MRP) Policy

Under the Local Authorities (Capital Finance and Accounting) (Amendment) (England) Regulations 2018, local authorities have a duty to produce an annual statement on its policy for making a minimum revenue provision (MRP).

For the financial year **2022/23** (no change to the policy in 2021/22) the authority will be adopting the following policies in determining the MRP:

1. For all existing capital expenditure balances within the Capital Financing Requirement (CFR) held as at 1 April 2022 MRP will be applied on an annuity basis with the write down period determined by asset lives up to the maximum allowable by the regulations set out above.
2. For all capital expenditure incurred from 1 April 2022 MRP will be applied on an annuity basis with the write down period determined by asset lives up to the maximum allowable by the regulations set out above.
3. The authority will treat the asset life as commencing in the year in which the asset first becomes operationally available. Noting that in accordance with the regulations the authority may postpone the beginning of the associated MRP until the financial year following the one in which the asset becomes operational, there will be an annual adjustment for Assets Under Construction.
4. If determined by the S151 Officer the annual instalment may be calculated by the equal instalment method or other appropriate methods dependant up on the nature of the capital expenditure.
5. In all years, the CFR for the purposes of the MRP calculation will be adjusted for other local authority transferred debt, finance lease and Private Finance Initiative (PFI).
6. The Section 151 officer shall on an annual basis review the level of MRP to be charged, as calculated as per paragraphs 1, 2 and 3 above to determine if this is at a level, which is considered prudent. The amount of MRP charged shall not be less than zero in any financial year.

Part 2 Annex 3 – Additional Disclosures Required Within Statutory Guidance on Local Government investments

The updated statutory guidance on local government investments, which was issued in February 2018, identifies specific disclosures that the authority should identify within its Investment Strategy for all investments that it holds.

The required disclosures for investments held by the authority are set out below.

1. Types of Investment

1.1 Investments made by local authorities can be classified into one of two main categories:

- Investments held for treasury management purposes
- Other investments

2. Contribution of investments toward the service delivery objectives and / or the place making role of the local authority

2.1 For each type of investment the disclosure guidelines require the authority to identify the contribution that the investments make. For Walsall's investments details of this contribution are set out below.

Investments held for treasury management purposes

The contribution that these investments make to the objectives of the local authority is to support effective treasury management activities, with the requirement to prioritise Security, Liquidity and Yield in that order of importance.

Other Investments

Details of all Other Investments that the authority holds, and the contribution that each makes to the service delivery objectives and / or the place making role of the local authority is set out below:

i. Investment Properties

The acquisition of the Saddlers Shopping Centre provided the Council with an opportunity to add to an existing but small investment portfolio. It is intended that further investment opportunities will be considered in the future following the completion of the review of the investment portfolio as part of the asset management improvement plan (asset management planning).

The potential income generation from The Saddlers Centre will provide additional revenue (after the capital is repaid) to the Council. However the acquisition of the Saddlers Centre was not undertaken solely for the purposes of supporting the Council's revenue position.

Likewise the redevelopment of the Old Square Shopping Centre represented significant movement towards the delivery of the Council's aspirations for the regeneration of St Matthew's Quarter. In particularly difficult market conditions for the retail sector, the redevelopment of the shopping centre improved Walsall's retail offer and helped to cement the town centre's position as an important sub-

regional centre. The new retail floorspace delivered through the first phase of the scheme provided over 4,100 sq metres/44,000 sq ft of floorspace for a new Primark store and over 900 sq metres/9,800 sq ft of floorspace for a new Co-op food store. These two new stores provided around 150 new jobs in the town centre, resulted annual business rate and rental income, and increased footfall and expenditure in the town centre, making it a more attractive destination for shoppers, retailers and other investors.

3. Use of Indicators

3.1 The disclosure guidelines require the authority to produce relevant indicators for investments to support the ability of the public to assess the level of risk exposure. These are provided below for Walsall’s investments.

Investments held for treasury management purposes

These investments are funded through the council’s cash balances. The authorities published Treasury Management and Investment Strategy already includes a range of Prudential and Local indicators that support the assessment of performance management and risk exposure in this area.

Additionally the disclosure guidelines recommend that the authority to also publish the following two indicators.

Indicator	Description	Ratio (2022/23 Forecast)	Ratio (2023/24 Estimate)	Ratio (2024/25 Estimate)	Ratio (2025/26 Estimate)	Ratio (2026/27 Estimate)
Debt to Net Service Expenditure (NSE) Ratio	Gross debt as a percentage of net service expenditure (where net service expenditure is a proxy for the size and financial strength of a local authority).	1.92:1	1.26:1	1.44:1	1.64:1	1.71:1
Commercial income to NSE Ratio	A measure of the authorities dependence on non-fees and charges income to deliver core services (where estimated fees and charges are netted off gross expenditure to calculate NSE).	0.004:1	0.004:1	0.004:1	0.004:1	0.004:1

Other Investments

For Other Investments, the disclosure guidelines also require the authority to provide relevant indicators only where these investments are funded by borrowing – again to allow for assessment against the associated additional debt servicing costs taken on. As such, for any ‘Other Investments’ held by Walsall that are funded in this way, relevant indicators are provided below.

i. Investment Property – Saddlers Centre

Indicator	Description	Ratio (2021/22 Actual)	Ratio (2022/23 Forecast)
Operating costs	The trend in operating costs of the non-financial investment portfolio over time, as the portfolio of non-financial investments expands.	£1.484m	£2.262m
Vacancy levels and Tenant exposures for non-financial investments	Monitoring vacancy levels (voids) ensure the property portfolio is being managed (including marketing and tenant relations) to ensure the portfolio is productive as possible.	10 Units	13 Units

4. Security, Liquidity and Yield

4.1 Prudent investments will consider security, liquidity and yield in that order with the underlying objectives being:

- **Security** – protecting the capital sum invested from loss
- **Liquidity** – ensuring the funds invested are available when needed
- **Yield** – once security and liquidity are determined it is then reasonable to consider what yield can be obtained

4.2 When entering into '**Investments held for treasury management purposes**' local authorities always consider security, liquidity and yield (in that order) and the authorities Treasury Management Policies clearly set out and support this requirement.

4.3 When entering into '**Other Investments**' local authorities should consider the balance between security, liquidity and yield based on their risk appetite and the contribution that the investment will make toward service delivery objectives and / or the place making role of the local authority.

4.4 Security

Investments held for treasury management purposes

All investments that the authority currently holds for treasury management purposes are defined as financial investments, and the authorities Treasury Management policies clearly define how credit worthiness and high credit quality will be determined. The policies also set out procedures for determining which categories of investment may be used, those which have already been defined as suitable for use, and the upper limits for investment with each counterparty / investment area.

Other Investments

All 'Other Investments' that the authority currently holds are defined as non-financial investments, which are non-financial assets that the authority holds primarily or

partially to generate a profit.

Where a local authority holds a non-financial investment, it will normally have a physical asset that can be realised to recoup the capital invested. As such the disclosure guidelines require authorities to consider whether the asset retains sufficient value to provide security of investment.

Therefore details for each of the 'Other Investments' held by the authority are set out below:

- i. Investment Property – Saddlers Centre
A fair value assessment has been obtained within the past twelve months. This asset is now part of the Town Centre Master Plan.
- ii. Investment Property – Primark / Co-Op Shopping Units Development
A fair value assessment has been obtained within the past twelve months. This shows that the underlying assets provide security for capital investment.

Risk Assessment of Investments

Investments held for treasury management purposes

The authorities Treasury Management policies clearly define how risk for these types of investment will be assessed, including details of external advisors that may be used, the use of credit ratings and how often these are reviewed and additional sources of information that will support the underlying assessment of risk that may be attributable to the investment.

Other Investments

The way in which the Council manages other investments, including investment property and commercial activity is set out in detail within the Capital & Investment Strategy.

4.5 Liquidity

Investments held for treasury management purposes

For the Treasury Management investments held by the authority, the Treasury Management policies set out how the authority will determine the periods for which funds may be prudently committed and the maximum periods that will be utilised.

Other Investments

For the Other Investments held by the authority, these are all currently Investment Properties. The Council recognises that if it requires access to its investment these assets can take a considerable period to sell in certain market conditions. Therefore these investments are all considered to be medium to long term, with a fair value assessment undertaken on an annual basis which is used to inform the point at which it may be prudent for the authority to consider selling assets and repaying any associated borrowing.

5. Proportionality

- 5.1 The scale of the 'Other Investments' currently, or planned to be, held by the authority, and any assumed associated profit to be generated by these investments does not place the authority in a position where it is dependent on this activity to achieve a balanced revenue budget.

6. Borrowing In Advance of Need

- 6.1 The councils Treasury management Strategy clearly sets out that it will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved 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.

7. Capacity, Skills and Culture

Knowledge & Skills

- 7.1 The authorities Treasury Management activity is managed by a team of professionally qualified accountants, who actively undertake Continuous Professional Development (CPD) on an ongoing basis to keep abreast of new developments and develop additional skills. They also have extensive Local Government finance experience between them.
- 7.2 The Council's Section 151 Officer is the officer with overall responsibility for Treasury activities. They too are a professionally qualified accountant undertaking an ongoing CPD programme.
- 7.3 Any commercial projects that the council seek to enter into will also be supported by teams from all required professional disciplines from across the Council, and external professional advice will also be sought if needed.
- 7.4 Internal and external training is offered to members on an ongoing basis to ensure they have up to date skills to make commercial investment and treasury decisions.
- 7.5 The Council's Treasury Management Panel meet regularly to discuss treasury management performance, development of policy and identification of potential new investment products and the detail relating to them.
- 7.6 The knowledge and skills of officers and members are commensurate with the Council's risk appetite.

Commercial Activity and Governance

- 7.7 The Council has a strong governance framework that goes beyond the regulatory codes. This includes a Treasury Management Panel (TMP) in addition to the Audit Committee and reporting to Cabinet and Council. The TMP is made up of senior council finance officers who meet to discuss treasury management performance, development of policy and identification of potential new investment products and the detail relating to them.
- 7.8 Due diligence is of paramount importance. All of the Councils commercial investments have individual business cases that are subject to thorough risk assessment. Where appropriate to the size and scale of the project independent technical and legal reviews will also be considered.

- 7.9 Ongoing performance monitoring for all commercial schemes is also undertaken and reported to relevant members and senior officers on a regular basis.
- 7.10 The Council also seeks to ensure that all commercial schemes are fully aligned with priority outcomes set out within the Corporate Plan.
- 7.11 Any decisions taken on commercial investments are supported by the approach to non-financial investments and risk assessment process set out within this Treasury Management and Investment Strategy, with any individuals involved in negotiation of commercial deals being made aware of these principles and the prudential and regulatory regime within which local authorities operate.

Other Useful Information

8. Links to other documents that provide useful information in relation to the disclosures set out within this annex are set out below:

Walsall Council 2021/22 Statement of Accounts

Walsall Council 2023/24 Budget Plan with a summary of the 2023/24 capital programme outlined in **Part 1 section 3** of this budget plan. The summary of the draft capital programme over the plan period 2023/24 to 2026/27 is outlined at **Part 1 section 4**, with full details by scheme at **Part 1 Annex 9**.

Walsall Council 2023/24 Capital Strategy (see **Part 1 Annex 8** of this Budget Plan)

Part 2 Annex 4 – Economic Background

This Economic Commentary is based upon information provided by our Treasury Management Advisors – Link Group.

Against a backdrop of stubborn inflationary pressures, the easing of Covid restrictions in most developed economies, the Russian invasion of Ukraine, and a range of different UK government policies, it is no surprise that UK interest rates have been volatile right across the curve, from Bank Rate through to 50-year gilt yields, for all of 2022.

Market commentators' misplaced optimism around inflation has been the root cause of the rout in the bond markets with, for example, UK, Euro Zone and US 10-year yields all rising by over 200 basis points since the turn of the year. The table below provides a snapshot of the conundrum facing central banks: inflation is elevated but labour markets are extraordinarily tight, making it an issue of fine judgment as to how far monetary policy needs to tighten.

	UK	Eurozone	US
Bank Rate	3.5%	2.0%	4.25%-4.50%
GDP	-0.2%q/q Q3 (2.4%/y/y)	+0.2%q/q Q3 (2.1%/y/y)	2.6% Q3 Annualised
Inflation	10.7%/y/y (Nov)	10.1%/y/y (Nov)	7.1%/y/y (Nov)
Unemployment Rate	3.7% (Oct)	6.5% (Oct)	3.7% (Nov)

Quarter 2 of 2022 saw UK GDP revised upwards to +0.2% quarter/quarter, but this was quickly reversed in the third quarter, albeit some of the fall in GDP can be placed at the foot of the extra Bank Holiday in the wake of the Queen's passing. Nevertheless, Consumer Price Index (CPI) inflation has picked up to what should be a peak reading of 11.1% in October, although with further increases in the gas and electricity price caps pencilled in for April 2023, and the cap potentially rising from an average of £2,500 to £3,000 per household, there is still a possibility that inflation will spike higher again before dropping back slowly through 2023.

The UK unemployment rate fell to a 48-year low of 3.6%, and this despite a net migration increase of c500k. The fact is that with many economic participants registered as long-term sick, the UK labour force actually shrunk by c500k in the year to June. Without an increase in the labour force participation rate, it is hard to see how the UK economy will be able to grow its way to prosperity, and with average wage increases running at over 6% the MPC will be concerned that wage inflation will prove just as sticky as major supply-side shocks to food and energy that have endured since Russia's invasion of Ukraine on 22nd February 2022.

Throughout Quarter 3 Bank Rate increased, finishing the quarter at 2.25% (an increase of 1%). Q4 has seen rates rise to 3.5% in December and the market expects Bank Rate to hit 4.5% by May 2023.

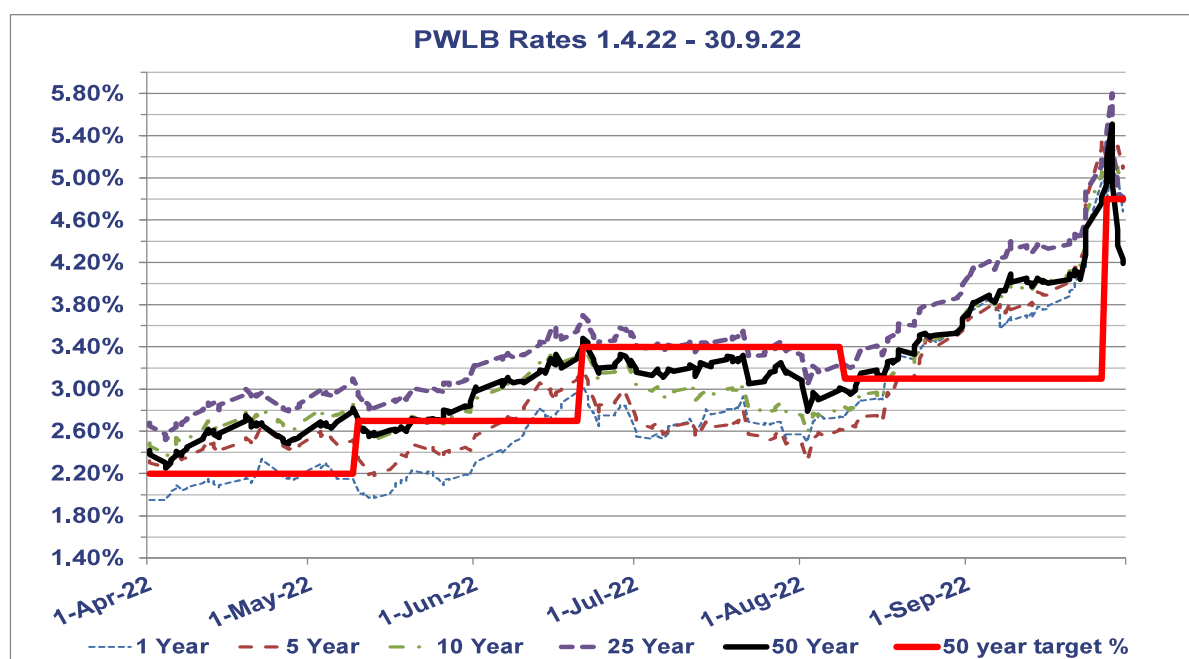
Following a Conservative Party leadership contest, Liz Truss became Prime Minister for a tumultuous seven weeks that ran through September and October. Put simply, the markets did not like the unfunded tax-cutting and heavy spending policies put forward by her Chancellor, Kwasi Kwarteng, and their reign lasted barely seven weeks before being

replaced by Prime Minister Rishi Sunak and Chancellor Jeremy Hunt. Their Autumn Statement of 17th November gave rise to a net £55bn fiscal tightening, although much of the “heavy lifting” has been left for the next Parliament to deliver. However, the markets liked what they heard, and UK gilt yields have almost completely reversed the increases seen under the previous tenants of No10/11 Downing Street.

Globally, though, all the major economies are expected to struggle in the near term. The fall below 50 in the composite Purchasing Manager Indices for the UK, US, EZ and China all point to at least one, if not more, quarters of GDP contraction. In November, the MPC projected eight quarters of negative growth for the UK lasting throughout 2023 and 2024, but with Bank Rate set to peak at lower levels than previously priced in by the markets and the fiscal tightening deferred to some extent, it is not clear that things will be as bad as first anticipated by the Bank.

The £ has strengthened of late, recovering from a record low of \$1.035, on the Monday following the Truss government’s “fiscal event”, to \$1.22. Notwithstanding the £’s better run of late, 2023 is likely to see a housing correction of some magnitude as fixed-rate mortgages have moved above 5% and affordability has been squeezed despite proposed Stamp Duty cuts remaining in place.

In the table below, the rise in gilt yields, and therein PWLB rates, through the first half of 2022/23 is clear to see.



However, the peak in rates on 28th September as illustrated in the table covering April to September 2022 below, has been followed by the whole curve shifting lower. PWLB rates at the front end of the curve are generally over 1% lower now whilst the 50 years is over 1.75% lower.

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	1.95%	2.18%	2.36%	2.52%	2.25%
Date	01/04/2022	13/05/2022	04/04/2022	04/04/2022	04/04/2022
High	5.11%	5.44%	5.35%	5.80%	5.51%
Date	28/09/2022	28/09/2022	28/09/2022	28/09/2022	28/09/2022
Average	2.81%	2.92%	3.13%	3.44%	3.17%
Spread	3.16%	3.26%	2.99%	3.28%	3.26%

After a shaky start to the year, the S&P 500 and FTSE 100 have climbed in recent weeks, albeit the former is still 17% down and the FTSE 2% up. The German DAX is 9% down for the year.

CENTRAL BANK CONCERNS – DECEMBER 2022

In December, the US Federal Bank decided to push up US rates by 0.5% to a range of 4.25% to 4.5%, whilst the MPC followed by raising Bank Rate from 3% to 3.5%, in line with market expectations. EZ rates have also increased to 2% with further tightening in the pipeline.

Having said that, the sentiment expressed in the press conferences in the US and the UK were very different. In the US, Federal Bank Chair, Jerome Powell, stated that rates will be elevated and stay higher for longer than markets had expected. Governor Bailey, here in the UK, said the opposite and explained that the two economies are positioned very differently so you should not, therefore, expect the same policy or messaging.

Regarding UK market expectations, although they now expect Bank Rate to peak within a lower range of 4.5% - 4.75%, caution is advised as the Bank of England Quarterly Monetary Policy Reports have carried a dovish message over the course of the last year, only for the Bank to have to play catch-up as the inflationary data has proven stronger than expected.

In addition, the Bank's central message that GDP will fall for eight quarters starting with Q3 2022 may prove to be a little pessimistic. Will the £160bn excess savings accumulated by households through the Covid lockdowns provide a spending buffer for the economy – at least to a degree? Ultimately, however, it will not only be inflation data but also employment data that will mostly impact the decision-making process, although any softening in the interest rate outlook in the US may also have an effect (just as, conversely, greater tightening may also).

Part 2 Annex 5 – Glossary of Terms

TERM	DEFINITION
Authorised Limit	Level of debt set by the council that must not be exceeded.
Bond	A government or public company's document undertaking to repay borrowed money usually with a fixed rate of interest.
Borrowing	Obtaining money for temporary use that has to be repaid.
Capital expenditure	Expenditure on major items e.g. land and buildings, which adds to and not merely maintains the value of existing fixed assets.
Capital grants	Specific targeted grants to cover capital expenditure.
Capital receipts	The proceeds from the disposal of land or other assets. Capital receipts can be used to fund new capital expenditure but cannot be used to finance revenue expenditure
Cash flow Management	The management of the authority's receipts and payments to ensure the authority can meet its financial obligations.
CIPFA	The chartered institute of public finance and accountancy
Counter party limits	Maximum amount that the council may lend to other institutions will vary according to size and credit rating of other intuitions.
Dividends	Sum to be payable as interest on loan.
DLUHC	Department of Levelling Up, Housing and Communities (DLUHC)
ECB	European Central Bank
EU	European Union
GDP	Gross Domestic Product – the total market value of all final goods and services produced in a country in a given year, equal to total consumer investment and government spending, plus the value of exports minus the value of imports.
Investments	The employment of money with the aim of receiving a return.
Liquidity	How easily an asset including investments may be converted to cash.
Long Term Borrowing	Borrowing of money for a term greater than one year.
Long Term Liabilities	Amounts owed by the council greater than 12 months old.
Market convention	The rules and regulations by which all brokers and dealers should abide by. It includes standards of practice and calculation conventions for interest. They are defined in the London Code of Conduct ("The London Code") published by the Bank of England.

TERM	DEFINITION
MPC	Monetary Policy Committee – group that sets the bank base rate for the Bank of England
OLA	Other Local Authorities
Temporary borrowing	Borrowing of money for a term of up to 365 days.
Treasury management	The management of the local authority’s cash flows, its borrowings and its investments, the management of associated risks, and the pursuit of the optimum performance or return consistent with those risks.
Treasury Policy Statement	A statement of key policies that an organisation follows in pursuit of effective treasury management, including borrowing limits and strategy.
Variable debt	This is money that has been borrowed at a variable interest rate, and as such is subject to interest rate changes.
Unsupported borrowing	Borrowing taken through the remit of the Prudential Code for which the council will not receive any government funding and will fund from own resources.

Section B - Part 2 – Treasury Management

B: Treasury Management Policy Statement

The CIPFA Code recommends that authorities should:

- i. Put in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management and control of their treasury management activities.
- ii. Policies and practices should make clear that the effective management of risk, having regard to return, is a prime objective of the treasury management activities.
- iii. Acknowledge that the pursuit of best value in treasury management, and the use of suitable performance measures, are valid and important tools for responsible organisations to employ in support of their business and service objectives; and that within the context of effective risk management, the treasury management policies and practices should reflect this.

In order to do this, the Council should once again adopt a treasury management policy statement as shown below and create and adopt treasury management practices (TMPs):

- A treasury management policy statement, stating policies and objectives of its treasury management activities.
- Suitable TMPs, setting out the manner in which the council will seek to achieve those policies and objectives, prescribing how the council will manage and control those activities.
- The contents of the policy statement and TMPs will follow the recommendations contained in section 6 and 7 of the Code, subject only to amendment where necessary to reflect this council's particular circumstances.

There are amendments to the responsible posts under delegated powers which reflect changes to the staffing structure of the finance service.

THE TREASURY MANAGEMENT PRACTICES 2022/23 & 2023/24 ONWARDS

Walsall Council defines its treasury management activities as:

“The management of the organisation’s 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.”

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

Walsall Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principle of achieving best value in treasury management, and to employing suitable performance measurement techniques, within the context of effective risk management.

TREASURY MANAGEMENT FUNCTION

The approved activities of the treasury management function are as follows:

Activities:

- Borrowing
- Investment of temporary surplus funds and other balances
- Setting and reviewing the treasury management strategy
- Cash flow management
- Management of schools investments
- Management of debt and investments, including rescheduling, management of interest rate exposure and maturity profile management

High Level Policies for Borrowing and Investment

The Treasury Management Strategy sets out the detailed policies that the organisation will follow in operating its treasury management function. The high level policies set out within the strategy that relate to borrowing (section 4.4 of the strategy) and investments (section 5.5 of the strategy) are as follows:

Borrowing Strategy Objectives

Walsall Councils borrowing objectives are:

- To minimise the revenue costs of debt whilst maintaining a balanced loan portfolio
- To manage the council's debt maturity profile, ensuring no single future year has a disproportionate level of repayments
- To maintain a view on current and possible future interest rate movements and borrow accordingly
- To monitor and review the balance between fixed and variable rate loans against the background of interest rate levels and prudential indicators.

Investment Strategy Objectives

The underlying policy objective for Walsall Council is for the prudent investment of its treasury balances. The council's investment priorities are:

- The security of capital
- Liquidity of its investments
- All investments will be in sterling
- The council will aim to achieve the optimum return on its investments commensurate with the proper levels of security and liquidity.

TREASURY MANAGEMENT PRACTICES

TMP 1 – TREASURY RISK MANAGEMENT

The S151 Officer shall:

- Ensure that appropriate arrangements are in place for the design; implementation and monitoring of all arrangements related to the identification, management and control of treasury management risk.
- Report at least annually on the adequacy/suitability thereof, and report as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the council's objectives in this respect.
- In respect of each of the following risks, the arrangements which seek to ensure compliance with these objectives will be set out in schedules.

Liquidity

Objective: Adequate but not excessive cash resources, borrowing arrangements, overdraft or standby facilities to enable the council at all times to have the level of funds available which are necessary for the achievement of its service objectives.

Interest Rates

Objective: Management of the council's exposure to fluctuations in interest rates with a view to containment of its net interest costs.

Exchange Rates

Objective: Management of the council's exposure to fluctuations in exchange rates so as to minimise any detrimental impact on its budgeted income/expenditure levels.

Inflation

Objective: Control of exposure to the effects of inflation, in so far as they can be identified as impacting on treasury management activities.

Credit and Counterparties

Objective: To secure the principal sums invested over the period of the investment. A counterparty list will be maintained and the named organisations and limits will reflect a prudent attitude towards organisations with whom funds may be deposited.

Rescheduling and refinancing of Debt

Objective: All borrowing, private financing and partnership arrangements will be negotiated, structured and documented. The maturity profile of debt will be managed with a view to obtaining terms for renewal or 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.

Relationships with counterparties in these transactions will be managed in such a manner as to secure this objective, and will avoid over reliance on any one source of funding if this might jeopardise achievement of the above.

Legal and Regulatory

Objective: Compliance with statutory powers and regulatory requirements for all treasury management activities. The council will demonstrate such compliance, if required to do so, to all parties with whom it deals in such activities.

In framing its credit and counterparty policy under TMP1 - *Credit and Counterparty risk management*, the council will ensure that there is evidence of counterparties powers, authority and compliance in respect of the transactions they may affect with the organisation, particularly with regard to duty of care and fees charged.

The council will seek to minimise the impact of future legislative or regulatory changes on its treasury management activities so far as it is reasonably able to do so.

Fraud, Error and Corruption, and Contingency Management

Objective: Identification of circumstances which may expose the council to the risk of loss through fraud, corruption or other eventualities in its treasury management dealings. Employ suitable systems and procedures and maintain effective contingency management arrangements.

Market Risk

Objective: Protection from adverse market fluctuations in the value of the principal sums invested over the period of the investment.

Additional Level Risk / Reward

Objective: to ensure that the risk/ reward balance is appropriate and consistent with the risk appetite of the council the following aims are managed;

- to have a large proportion of debt on fixed rates to provide stability.
- to have investments over a range of period lengths
- to use UK highly rated banks or strong building societies
- to obtain a fair return without any undue risk.

Environmental, Social and Governance Risk Management (ESG)

The revised CIPFA Treasury Management Code and Prudential Code issued in December 2021 require that authority's credit and counterparty policies reflect any corporate ESG policies. The authority has not yet set out a corporate ESG policy and Treasury Management Policies will be further reviewed and updated at the time that any corporate ESG policy is developed, to ensure that they are reflective of that.

Credit and Counterparty Risk Management

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

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

This organisation regards a key objective of its treasury management activities to be the security of the principal sums it invests over the period of the investment. Accordingly, it will ensure that its counterparty lists and limits reflect a prudent attitude towards organisations with whom funds may be deposited, and will limit its investment activities to the instruments, methods and techniques referred to in TMP4 - Approved Instruments Methods and Techniques. It also recognises the need to have, and will therefore maintain, a formal counterparty policy in respect of those organisations from which it may borrow, or with whom it may enter into other financing arrangements.

Policy on the use of credit risk analysis techniques

- a. The council will use credit criteria in order to select creditworthy counterparties for placing investments with.
- b. Credit ratings will be used as supplied from rating agencies – Fitch, Moody's and S&P.
- c. Treasury management advisors will provide regular updates of changes to all ratings relevant to the council.
- d. The Head of Finance – Technical & Transactional and Finance Manager – Technical Accounting, Treasury Management & Education, as responsible officers, will formulate suitable criteria for assessing and monitoring the credit risk of investment counterparties and shall construct a lending list comprising maturity periods, type, group, sector, country and counterparty limits.

The primary credit rating agencies Primary Credit Rating Scales, which are used, are shown below.

	Moody's			S&P				Fitch			
	Long Term	Short Term		Long Term	Short Term			Long Term	Short Term		
Investment Grade	Aaa			AAA				AAA			
	Aa1			AA+				AA+			
	Aa2			AA				AA			
	Aa3			AA-				AA-			
	A1			A+	A-1+			A+	F1+		
	A2			A				A			
	A3	P1		A-		A-1		A-		F1	
	Baa1			BBB+				BBB+			
	Baa2		P2	BBB			A-2	BBB			
	Baa3			BBB-			A-3	BBB-			F2 F3
Non-Investment Grade	Ba1			BB+				BB+			
	Ba2			BB				BB			
	Ba3			BB-		B		BB-			
	B1			B+				B+			
	B2			B				B			
	B3			B-				B-		B	
	Caa			CCC				CCC			
	Ca			CC				CC			
	C			C		C		C		C	
			Not Prime			D		D		D	
				D		D		D		D	

The minimum credit ratings within these scales that the authority would expect for individual counterparties are set out below.

Minimum ratings	Moody's	S&P	Fitch
Short term	P3	A-3	F2
Long term	A3	A-	A-

Credit ratings for individual counterparties can change at any time. The Head of Finance – Technical & Transactional and the Finance Manager – Technical Accounting, Treasury Management & Education are responsible for applying approved credit rating criteria for selecting approved counterparties. Treasury management staff will add or delete counterparties to/from the approved counterparty list in line with the policy on the criteria for selection of counterparties, and with the approval of either the Head of Finance – Technical & Transactional or Finance Manager – Technical Accounting, Treasury Management & Education.

- e. This organisation will not rely solely on credit ratings in order to select and monitor the creditworthiness of counterparties. In addition to credit ratings it will therefore use other sources of information including;
- The quality financial press
 - Market data
 - Information on government support for banks and the credit ratings of that government support
 - The maximum maturity periods and investment amounts relating to Approved Investment Counterparties are set out below:

Organisation	Criteria	Max Amount	Max Period
Banks and Nationwide Building Society	Minimum Ratings as defined above in paragraph d.	£25m in total with fixed term not exceeding £15m	3 years
Building Societies	Following an individual financial assessment must have a minimum Free Capital Ratio above that set out by Common Equity Tier 1 (CET1) and have at least one credit rating as defined above in paragraph d.	£10m	3 years
	Following an individual financial assessment must have a minimum Free Capital Ratio no lower than that set out by Common Equity Tier 1 (CET1)	£7m	3 years
Challenger Banks	Following an individual financial assessment must have a minimum Free Capital Ratio no lower than that set out by Common Equity Tier 1 (CET1), and must be a retail bank.	£15m	3 years
Money Market Funds	AAA long-term rating backed	£15m	3 years
Property Funds	Subject to individual financial assessment of each fund to identify the underlying financial strength	£30m	Review every 5 years
Multi-Asset Investment Funds	Subject to individual financial assessment of each fund to identify the underlying financial strength	£20m	5 years
Non UK Banks	Minimum Ratings as defined above in paragraph d.	£10m	1 year
Local Authorities	Subject to individual financial assessment of each fund to identify the underlying financial strength	£15m	3 years

Housing Associations	Subject to individual financial assessment of each fund to identify the underlying financial strength and credit ratings where available	£15m	3 years
Other	Subject to appropriate case by case review	£10m	N/A

- f. In defining the level and term of deposits significant regard is given to the proportion of the institution in government ownership.
- g. Following the changes to the Banking Regulation the council will consider when assessing the financial resilience of an institution key ratios e.g. common equity tier 1, leverage capital / exposure, liquidity coverage, net stable funding.

Notes:

- The definition of ‘high credit quality’ is also used to determine what are specified investments as opposed to non-specified investments. Specified investments are those that require minimum procedural formalities in terms of the placing of the investment by the treasury management team. Minimal procedural formalities means that the team is well experienced and knowledgeable in using these types of instruments and they pose minimal risk in their use.
- Other i.e. non-specified investments may be undertaken on the approval of the S151 Officer e.g. loans to other organisations and bond issues by other public sector projects and will be supported with appropriate rationale and due diligence to support investment security considerations. These may be for a duration longer than 3 years.
- For a credit rated bank to be on the council’s counter party list the criteria must be passed for at least 2 of the credit ratings agencies.
- Full Individual Listings of Counterparties and Counterparty Limits are available on request and reported regularly to the Treasury Management Panel.

Local Authority Mortgage Scheme (LAMS)

Cabinet agreed to adopt the LAMS scheme on 24 October 2012. It involved the Council placing a matching five year deposit to the life of the indemnity. As of 31 July 2016 the LAMS scheme was closed to new applications following a slowdown in national activity, partly due to the introduction of the Help to Buy Guarantee scheme.

The LAMS deposit was repaid in February 2018, however there remains a residual risk of liability for the authority for a period of up to 5 years from the point of the last mortgage being taken out. Therefore any remaining risk will end by February 2023 allowing the scheme to be fully closed, and any reference removed from the Treasury Management Strategy following that point.

Authorisation of Payments

In order to support and maintain strong controls for the release of payments. A payment releasers register is maintained. It includes the names and post titles of officers authorised to sign financial documents releasing payments including cheques requiring manual signature and bank mandates. The payments releasers register is reviewed regularly and is approved by the S151 Officer or the Director of Finance, Corporate Landlord and

Performance.

The Invoice / Payments Authorisation process is regulated by the financial and contract rules. Limits and authorised officers are maintained in the authorised signatory's data base.

TMP 2 – BEST VALUE AND PERFORMANCE MEASUREMENT

The council actively works to promote value for money and best value in its treasury management activities. The treasury management function will be the subject of regular reviews to identify scope for improvement. In addition annual benchmarking is undertaken to measure performance and to ensure that relative to other councils the council is achieving a fair investment return without any undue risk.

TMP 3 – DECISION MAKING AND ANALYSIS

Full records will be maintained of treasury management decisions, and of the processes and practices applied in reaching those decisions, to demonstrate that reasonable steps have been taken to ensure that all issues relevant to those decisions were taken into account.

TMP 4 – APPROVED INSTRUMENTS, METHODS AND TECHNIQUES

Only approved instruments, methods and techniques will be used, within the limits defined in TMP1 – Risk Management.

Sources of Borrowing

There shall be no restriction in principle on sources or methods of borrowing other than those imposed by law. The sources or methods of borrowing at any time will be determined by the current approved treasury management strategy.

Other Sources of Finance

The S151 Officer shall arrange operating leases and similar arrangements for items of equipment, vehicles, etc. where the acquisition or use of such items has been approved in line with the council's contract and rules.

Approved Organisations for Investments

The S151 Officer shall approve and revise from time to time, a list of organisations within the statutory definitions of approved investments, which would be eligible to receive investments from the council. Apart from the Government, and, in any emergency, the council's own bank, the maximum limit for investment with any single organisation shall be £25 million and the maximum period for investment shall be 3 years in accordance with each individual institution's credibility. The only exceptions to this are the approved investment in the LAMS scheme where the planned period of the investment was 7 years, and any investment in a Property Fund maximum limit shall be £30 million and will be reviewed on 5 year intervals. This should be reviewed at least monthly and incorporate any changes in ratings of counter parties.

Interest Rate Exposure

The limits on temporary borrowing and the proportion of interest at variable rates are set by Council, in accordance with Section 45 of the Local Government & Housing Act 1989.

TMP 5 – ORGANISATION, CLARITY AND SEGREGATION OF RESPONSIBILITIES AND DEALING ARRANGEMENTS

Treasury management activities will be properly structured in a clear and open fashion and a rigorous discipline of segregation of duties will be enforced to ensure 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.

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 audit of the treasury management function.

If and when the council intends, due to a lack of resources or other circumstance, to depart from these principles, the S151 Officer will ensure that the reasons are properly reported in accordance with **TMP6** - Reporting Requirements and Management Information Arrangements and the implications properly considered and evaluated.

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

The delegations to the S151 Officer in respect of treasury management are set out in the Constitution. The S151 Officer will fulfil all such responsibilities in accordance with the Policy Statement and TMP's and the Standard of Professional Practice on Treasury Management. This includes, but not exclusively, the following activity.

Activity	Prepared by	Delegation / Accountability
Approval of Treasury Management and Investment Strategy	Director of Finance, Corporate Landlord and Performance / S151 Officer	Cabinet Council
Approval of Treasury Management Policies	Director of Finance, Corporate Landlord and Performance /S151 Officer	Cabinet Council
Amendments to authorised officers and officer limits set out within the treasury management practices	Head of Finance – Technical & Transactional / Finance Manager – Technical Accounting, Treasury Management & Education	S151 Officer
Review the debt portfolio and reschedule loans when considered appropriate	Finance Manager – Technical Accounting, Treasury Management & Education	S151 Officer
Updates to TM Practices	Head of Finance – Technical & Transactional / Finance Manager – Technical Accounting, Treasury Management & Education	S151 Officer
Undertake budget monitoring and initiate actions when necessary	Finance Manager – Technical Accounting, Treasury Management & Education	Head of Finance – Technical & Transactional

Authorisation of loan interest payments	Treasury Management Accountancy Assistant	Finance Business Partner - Treasury
Approval of overnight investments	Treasury Management Accountancy Assistant	Finance Business Partner - Treasury
Preparation of borrowings documentation	Treasury Management Accountancy Assistant	Finance Business Partner - Treasury
To arrange borrowing from time to time for the council's purposes. Sources of funds will comprise temporary loans, loans from PWLB, other mortgages and bonds, money bills, bank overdraft and internal funds of the council, subject to any restrictions which may be made by statute, Council or Cabinet	Finance Manager – Technical Accounting, Treasury Management & Education	S151 Officer or Director of Finance, Corporate Landlord and Performance
Maintain Payment Releasers Register	Finance Business Partner - Treasury	S151 Officer or Director of Finance, Corporate Landlord and Performance
To arrange finance and operating leases as required in accordance with council's capital programme	Finance Manager – Technical Accounting, Treasury Management & Education	S151 Officer or Director of Finance, Corporate Landlord and Performance
To invest council funds temporarily not required in accordance with the statutory provisions regulating approved investments as defined in Section 66 of the Local Government and Housing Act 1989, subject to any restrictions which may be made by statute, by Council or by Cabinet	Treasury Management Accountancy Assistant	Finance Business Partner - Treasury
To maintain a counter party list of approved organisations eligible to receive council investments, this involves; <ul style="list-style-type: none"> - ongoing monitoring of ratings on investment products and institutions. - Investigation and appraisal of free capital ratio measures - signing off by the treasury manager as evidence of a monthly review and mid-month changes if necessary. if ratings change for an investment product or institution currently held then actions for a	Finance Business Partner - Treasury	Head of Finance – Technical & Transactional / Finance Manager – Technical Accounting, Treasury Management & Education or S151 Officer dependent on limits set by TMP on exit strategy

possible exit of that strategy are undertaken as approved by the Treasury Management Panel		
Daily cash flow forecast	Treasury Management Accountancy Assistant	Finance Business Partner - Treasury
Update loan records	Treasury Management Accountancy Assistant	Finance Business Partner - Treasury
Operational Cash Flow	Finance Business Partner - Treasury	Head of Finance – Technical & Transactional / Finance Manager – Technical Accounting, Treasury Management & Education / Finance Business Partner - Treasury
Audit and control review and improvements Recommendations implementations	Internal Audit / All	Finance Business Partner - Treasury
Annual MRP Policy review	Senior Accountancy Officer – Financial Reporting	Head of Finance – Technical & Transactional / Finance Manager – Technical Accounting, Treasury Management & Education / Finance Business Partner - Treasury
Maintain accurate up to date information on Treasury Management	Treasury Management Accountancy Assistant	Finance Business Partner - Treasury

TMP 6 – REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION ARRANGEMENTS

Regular reports will be prepared for consideration by Council on:

- Annual report on treasury management activities for the preceding year
- Treasury management strategy for the year, reviewed at least once during the year
- Regular monitoring reports on prudential and local indicators are prepared for the Treasury Management Panel.

Report	Frequency	When	Prepared by	To
Review of Treasury Management Strategy (TMS) and Treasury Management Policies	Annual	February/ March	Head of Finance – Technical & Transactional	Cabinet and Council

TMS – material changes	Immediately	As required	Head of Finance – Technical & Transactional / Finance Manager – Technical Accounting, Treasury Management & Education	Cabinet and Council
Treasury Management Annual Report	Annual	September	Head of Finance – Technical & Transactional	Cabinet and Council
Mid-Year Report	Annual	December	Head of Finance – Technical & Transactional	Cabinet and Council
TM budget monitoring	Quarterly Monthly	Jul, Oct, Jan, Apr	Finance Business Partner – Treasury (reviewed by Finance Manager – Technical Accounting, Treasury Management & Education)	S151 Officer, Treasury Management Panel, Director of Finance, Corporate Landlord and Performance for inclusion in overall corporate financial monitoring reports to CMT and Cabinet which are first reviewed by the S151 Officer
TM performance indicators	Quarterly Monthly	Jul, Oct, Jan, Apr	Finance Business Partner – Treasury (reviewed by Finance Manager – Technical Accounting, Treasury Management & Education)	S151 Officer, Treasury Management Panel, Director of Finance, Corporate Landlord and Performance for inclusion in overall corporate financial monitoring reports to CMT and Cabinet which are first reviewed by the S151 Officer

Cashflow summary	Monthly		Finance Business Partner – Treasury	Finance Manager – Technical Accounting, Treasury Management & Education
Borrowing transactions	Monthly		Finance Business Partner – Treasury	Finance Manager – Technical Accounting, Treasury Management & Education
Payment Releasers Register	Quarterly		Finance Business Partner – Treasury	S151 Officer, Director of Finance, Corporate Landlord and Performance
Operational Investment Strategy	Quarterly		Finance Business Partner – Treasury	Finance Manager – Technical Accounting, Treasury Management & Education
12 monthly cashflow	Quarterly		Finance Business Partner – Treasury	Finance Manager – Technical Accounting, Treasury Management & Education
Government statistical returns	Monthly		Finance Manager – Technical Accounting, Treasury Management & Education / Finance Business Partner – Treasury	Department for Communities and Local Government
Daily cash balance forecast	Daily		Treasury Management Accountancy Assistant	Finance Business Partner – Treasury

TMP 7 – BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS

The S151 Officer will prepare an annual treasury management budget which will bring together all costs involved in running the treasury management function and associated income. This will be presented to Cabinet and Council and is approved as part of the Treasury Management and Investment Strategy.

The council will account for its treasury management activities in accordance with appropriate accounting practices, standards and statutory and regulatory requirements.

The council will ensure that its auditors, and those charged with regulatory review, have access to all information and papers supporting the activities of the treasury management function as are necessary for the proper fulfilment of their roles, and that such information and papers demonstrate compliance with external and internal policies and approved practices.

In line with market convention loans office staff, when dealing, are required to commit the council to terms of borrowing and investment transactions by telephone. Although these transactions are not legally binding until confirmed in writing, if subsequently dishonoured, this may damage the council's reputation. Electronic funds transfer requires the involvement of three officers, at least one of whom shall be on the payment releasers register.

TMP 8 – CASH AND CASH FLOW MANAGEMENT

All council monies will be under the control of the S151 Officer. Funds that are available within all council monies to support treasury management purposes are identified and Cash flow projections in relation to these funds are prepared on a regular and timely basis and the S151 Officer will ensure that these are adequate for the purposes of monitoring compliance with **TMP1** Liquidity risk management.

TMP 9 – MONEY LAUNDERING

Procedures will be enforced for verifying and recording the identity of counterparties and reporting suspicions and will ensure that staffs involved in this area are properly trained.

As a responsible public body, they should employ policies and procedures which reflect the essence of the UK's anti-terrorist financing, and anti-money laundering, regimes. Accordingly the council undertakes a number of safeguards including the following;

- a. evaluates the prospect of laundered monies being handled by them
- b. determine the appropriate safeguards to be put in place
- c. require every person engaged in treasury management to make themselves aware of their personal and legal responsibilities for money laundering awareness
- d. make all its staff aware of their responsibilities under Proceeds of Crime Act (POCA) 2002

In respect of treasury management transactions, there is a need for due diligence. The Council will only invest with those counterparties that are on its approved lending list. These will be local authorities, the PWLB, Bank of England and authorised deposit takers under the Financial Services and Markets Act 2000. The register can be accessed through the Financial Conduct Authority website.

All transactions will be carried out by BACS or Chaps for making deposits or repaying loans.

All loans are obtained from the PWLB, other local authorities or from authorised institutions under the Financial Services and Markets Act 2000.

TMP 10 – MONEY LAUNDERING

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. An annual review of treasury staff capacity, training needs and experience will be undertaken and reported to the Treasury Management Panel along with a register of all training completed by Council Officers involved in treasury management processes of the Council. Specific training for councillors will be provided and undertaken as required.

TMP 11 – USE OF EXTERNAL SERVICE PROVIDERS

When external service providers are employed, the S151 Officer will ensure it does so for reasons which have been subjected to a full evaluation of the costs and benefits. The terms of appointment and the methods by which service providers' value will be assessed will be properly agreed and documented.

The council does not currently require external investment managers, but recognises it may do so in the future for general or specific advice on a range of matters. These future services would be procured using the council's prevailing regulations relating to obtaining supplies and services. The council employs external treasury advisors to provide economic outlooks and information relevant to making robust investment and borrowing decisions.

TMP 12 – CORPORATE GOVERNANCE

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

The council has adopted and has implemented the key recommendations of the CIPFA Code. The S151 Officer will monitor and when necessary, report upon the effectiveness of these arrangements to Cabinet.

A forum for the monitoring of Governance arrangements is the Treasury Management Panel. The Treasury Management Panel meets quarterly chaired by the S151 Officer or (in the absence of the S151 Officer) the Director of Finance, Corporate Landlord and Performance (deputy S151 Officer). It will receive reports on the monitoring of Prudential and Local Indicators and approve drafts of strategy and policy cabinet/council reports. It will also initiate work and projects to further ensure strong compliance of internal controls and effective treasury performance.

Sherbourne Recycling Limited (SRL)

Sherbourne Recycling Ltd, which will provide a regional mixed recycling facility, was incorporated on 1 April 2021 as a company limited by shares. The shareholders of this company are eight local authorities including Walsall Council. The council has a shareholding of 19.66% of the company and is the second largest shareholder. The other shareholders are Coventry City Council, Solihull Metropolitan Borough Council, Stratford on Avon District Council, Warwick District Council, Rugby Borough Council, Nuneaton &

Bedworth Borough Council and North Warwickshire Borough Council.

The regional materials recycling facility is currently within the build phase of the project and is due to become operational during 2023. To obtain governance during the build phase the Council holds a director post within the company which sits on the Board. In addition to meetings of the board, there is a Finance Sub-Group which meets twice a year to feedback timescales, issues and updates on the projected timeframe for opening the facility.

There is an approved loan facility of £11.264m between Sherbourne Recycling Limited and the council and whenever SRL require funds they send a loan drawdown notice requesting funds which gets approved and then paid.

The Regional Materials Recycling Facility Capital Project is monitored monthly and reported to the following:

- EE&C Capital Programme/Projects Board meeting which meets quarterly and is chaired by Director, Place & Environment with the other Directors and Heads of Service within EEC attending
- Overview and Scrutiny Committee Corporate Financial Performance - Quarterly
- Head of Finance Meetings - Monthly
- Cabinet Corporate Financial Reporting - Quarterly

As the project is currently in the implementation phase the post go live governance processes are currently being developed to ensure appropriate oversight and reporting to partners once in operation (and this TMP will be updated to reflect that once approved).

Birmingham Airport Holdings Limited (BAH)

The seven West Midlands local authorities own 49% of BAH's 320 million ordinary shares of £0.01 each. The council owns 4.88% of these shares. The other shareholders are Airport Group Investments Limited (48.35%) and an employee share trust (2.75%). In addition the seven West Midlands authorities own all of BAH's 6.31% preference shares, of which Walsall Council owns 9.95%. These are cumulative and irredeemable.

The Council monitors its investment and governance processes through its membership on the West Midlands Airport Shareholder Committee, by its nominated Councillor. The Leader of the Council is also a Director of Birmingham Airport Holdings Ltd.