



<b>Title of Report</b>	Treasury Management Strategy 2024/25
<b>For Consideration By</b>	Audit Committee
<b>Meeting Date</b>	31st January 2024
<b>Classification</b>	Open
<b><u>Ward(s) Affected</u></b>	All Wards
<b><u>Group Director</u></b>	Jackie Moylan - Group Director, Finance

## **1. Introduction**

- 1.1 This report introduces the draft Treasury Management Strategy for 2024/25 for the Audit Committee, setting out the expected treasury operations for the 2024/25 financial year, ahead of it being submitted to Cabinet and Council as part of the annual budget setting process, for formal adoption.

## **2. Recommendations**

- 2.1 The Audit Committee is recommended to:

- Approve the draft Treasury Management Strategy 2024/25 to 2026/27 for submission to Council, subject to Capital programme that is being finalised ahead of budget report, with delegation to the Group Director Finance to approve the final Treasury Management Strategy for submission to Council.

## **3. Reason(s) for decision**

- 3.1 The Treasury Management Strategy is required under the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2021 Edition (the CIPFA Code) which requires the Authority to approve a treasury management strategy before the start of each financial year. This report fulfils the Authority's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.

#### **4. Background**

##### Policy Context

- 4.1 The Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2021 Edition (the CIPFA Code) and the Prudential Code require local authorities to determine the Treasury Management Strategy Statement (TMSS) and Prudential Indicators on an annual basis.

##### Equality impact assessment

- 4.2 There are no equality impact issues arising from this report.

##### Sustainability and climate change

- 4.3 There are no sustainability and climate changes issues arising from this report.

##### Consultations

- 4.4 No consultations are required in respect of this report.

##### Risk assessment

- 4.5 There are no risks arising from this report as it is setting the strategy for the future. Clearly though the treasury management function is a significant area of potential risk for the Council if the function was not properly carried out and monitored by those charged with responsibility for oversight. Regular reporting on treasury management ensures that the Committee is kept informed.

## **5. Comments of the Group Director Finance**

- 5.1 The Treasury Management Strategy sets out how the Council's cash flow will be managed during the financial year 2024/25. The actual cost of borrowing and interest on investments will depend on market conditions and timing will be an important factor in decisions to be taken on the debt portfolio. The prudential indicators are still to be finalised as part of the annual budget setting process relating to the capital programme.
- 5.2 The impact on the UK from higher interest rates and inflation, a weakening economic outlook, an uncertain political climate due to an upcoming general election, together with war in Ukraine and the Middle East, will be major influences on the Authority's treasury management strategy for 2024/25.
- 5.3 In our ongoing efforts to diversify our borrowing portfolio and enhance the resilience and flexibility of our funding strategy, two new sources for long term and short term borrowing have been added: retail investors through regulated peer-to-peer (P2P) lending platforms and the UK Infrastructure Bank.

## **6. Comments of the Director of Legal, Democratic and Electoral Services**

- 6.1 The Accounts and Audit Regulations 2015 place obligations on the Council to ensure that its financial management is adequate and effective and that it has a sound system of internal controls which includes arrangements for management of risk. In addition the Council's Constitution and Financial Procedure Rules require the production of an Annual Treasury Management Strategy, which shall be carried out in compliance with the CIPFA Code of Practice on Treasury Management. This report demonstrates that Treasury Management is meeting these requirements and adapting to changes as and when they arise.
- 6.2 There are no immediate legal implications arising from the report.

## **7. BACKGROUND**

- 7.1 The Treasury Strategy set out below is set in the context of the current macro-economic environment and continuation of increase in interest rates.
- 7.2 The Council has an increasing Capital Financing Requirement (CFR) due to its capital programme and therefore may need to borrow in future years, depending on the actual level of reserves and capital receipts and other resources available to it.

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## **TREASURY MANAGEMENT STRATEGY 2024/25 TO 2026/27**

### **SUMMARY**

- 1.1 The Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2021 Edition (the CIPFA Code) and the Prudential Code require local authorities to determine the Treasury Management Strategy Statement (TMSS) and Prudential Indicators on an annual basis.

### **BACKGROUND**

- 2.1 The Council adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2021 Edition (the CIPFA Code) which requires the Council to approve a treasury management strategy before the start of each financial year.
- 2.2 This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.
- 2.3 The Council invests large sums of money and therefore, potentially, has exposure to certain financial risks concerning the capital sums invested and the effect of changing interest rates. The successful identification, monitoring and control of risk, is therefore central to the Council's treasury management strategy.

### **3 ECONOMIC BACKGROUND**

- 3.1 The impact on the UK from higher interest rates and inflation, a weakening economic outlook, an uncertain political climate due to an upcoming general election, together with war in Ukraine and the Middle East, will be major influences on the Authority's treasury management strategy for 2024/25.
- 3.2 The Bank of England (BoE) increased the Bank Rate to 5.25% in August 2023, before maintaining this level for the rest of 2023. In December 2023, members of the BoE's Monetary Policy Committee voted 6-3 in favour of keeping the Bank Rate at 5.25%. The three dissenters wanted to increase rates by another 0.25%. The November quarterly Monetary Policy Report (MPR) forecast a prolonged period of weak Gross Domestic Product (GDP) growth with the potential for a mild contraction due to ongoing weak economic activity. The outlook for CPI inflation was deemed to be highly uncertain, with upside risks to CPI falling to the 2% target coming from potential energy price increases, strong domestic wage growth and persistence in price-setting.
- 3.3 Office for National Statistics (ONS) figures showed CPI inflation was 3.9% in November 2023, down from a 4.6% rate in the previous month and, in line with the recent trend, lower than expected. The core CPI inflation rate declined to 5.1% from the previous month's 5.7%, again lower than predictions. Looking ahead, using the interest rate path implied by financial markets the BoE expects CPI inflation to continue falling slowly, but taking

until early 2025 to reach the 2% target before dropping below target during the second half 2025 and into 2026. ONS figures showed the UK economy contracted by 0.1% between July and September 2023. The BoE forecasts GDP will likely stagnate through 2024. The BoE forecasts that higher interest rates will constrain GDP growth, which will remain weak over the entire forecast horizon.

- 3.4 Having increased its key interest rate to a target range of 5.25-5.50% in August 2023, the US Federal Reserve appears now to have concluded the hiking cycle. It is likely this level represents the peak in US rates following a more dovish meeting outcome in December 2023. US GDP grew at an annualised rate of 4.9% between July and September 2023, ahead of expectations for a 4.3% expansion and the 2.1% reading for Q2. But the impact from higher rates has started to feed into economic activity and growth will weaken in 2024. Annual CPI inflation was 3.1% in November.
- 3.5 Eurozone inflation has declined steadily since the start of 2023, falling to an annual rate of 2.4% in November 2023. Economic growth has been weak and GDP contracted by 0.1% in the three months to September 2023. In line with other central banks, the European Central Bank has increased rates, taking its deposit facility, fixed rate tender, and marginal lending rates to 3.75%, 4.25% and 4.50% respectively.

## 4 INTEREST RATE FORECAST

- 4.1 Although UK inflation and wage growth remain elevated, the Authority's treasury management adviser Arlingclose forecasts that Bank Rate has peaked at 5.25%. The Bank of England's Monetary Policy Committee will start reducing rates in 2024 to stimulate the UK economy but will be reluctant to do so until it is sure there will be no lingering second-round effects. Arlingclose sees rate cuts from Q3 2024 to a low of around 3% by early-mid 2026.
- 4.2 Arlingclose expects long-term gilt yields to be broadly stable at current levels (amid continued volatility), following the decline in yields towards the end of 2023, which reflects the expected lower medium-term path for Bank Rate. Yields will remain relatively higher than in the past, due to quantitative tightening and significant bond supply. As ever, there will undoubtedly be short-term volatility due to economic and political uncertainty and events.
- 4.3 A more detailed economic and interest rate forecast provided by Arlingclose is attached at **Appendix A**.

## 5 CREDIT OUTLOOK

- 5.1 Credit Default Swap (CDS) prices were volatile during 2023, spiking in March on the back of banking sector contagion concerns following the major events of Silicon Valley Bank becoming insolvent and the takeover of Credit Suisse by UBS. After then falling back in Q2 of calendar 2023, in the second half of

the year, higher interest rates and inflation, the ongoing war in Ukraine, and now the Middle East, have led to CDS prices increasing steadily. On an annual basis, CDS price volatility has so far been lower in 2023 compared to 2022, but this year has seen more of a divergence in prices between ring fenced (retail) and non-ring fenced (investment) banking entities once again.

- 5.2 Moody's revised its outlook on the UK sovereign to stable from negative to reflect its view of restored political predictability following the volatility after the 2022 mini-budget. Moody's also affirmed the Aa3 rating in recognition of the UK's economic resilience and strong institutional framework. Following its rating action on the UK sovereign, Moody's revised the outlook on five UK banks to stable from negative and then followed this by the same action on five rated local authorities. However, within the same update the long-term ratings of those five local authorities were downgraded.
- 5.3 There remain competing tensions in the banking sector, on one side from higher interest rates boosting net income and profitability against another of a weakening economic outlook and likely recessions that increase the possibility of a deterioration in the quality of banks' assets.
- 5.4 However, the institutions on our adviser Arlingclose's counterparty list remain well-capitalised and their counterparty advice on both recommended institutions and maximum duration remain under constant review and will continue to reflect economic conditions and the credit outlook.

## 6 CURRENT POSITION AND BALANCE SHEET SUMMARY

- 6.1 The Council currently (as at 31.12.23) has outstanding external borrowing of £63.85m. Total investments as of the date were £92.5m.

**Table 1: Existing Investment & Debt Portfolio Position as at 31/12/23**

	<b>Portfolio outstanding as at 31/12/2023 £m</b>	<b>Average Rate %</b>
<b>External Borrowing:</b>		
Market – Fixed Rate	63.850	1.92
<b>Total External Borrowing</b>	<b>63.850</b>	
<b>Other Long Term Liabilities:</b>		
PFI	9.676	
Finance Leases	0.023	
<b>Total Gross External Debt</b>	<b>73.526</b>	
<b>Investments:</b>		
Short-term monies - Deposits/ monies on call/MMFs	92,300	5.31
Long-term investments	200	
<b>Total Investments</b>	<b>92,500</b>	

6.2 The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while balance sheet resources are the underlying sums available for investment. The Authority's current strategy is to maintain borrowing and investments below their underlying levels, otherwise known as internal borrowing. The figures below are subject to change pending finalisation of the capital programme for the budget report. Forecast changes in these sums are shown in the balance sheet analysis in table 2 below.

**Table 2: Balance Sheet Summary and Forecast**

	<b>31/03/23 Actuals £m</b>	<b>31/03/24 Estimated £m</b>	<b>31/03/25 Estimated £m</b>	<b>31/03/26 Estimated £m</b>	<b>31/03/27 Estimated £m</b>
General Fund CFR	343	377	499	497	413
HRA CFR	121	162	229	436	776
<b>Total CFR</b>	<b>464</b>	<b>539</b>	<b>728</b>	<b>933</b>	<b>1,189</b>
Less: Other long-term liabilities *	10	9	7	6	5
<b>Loan CFR</b>	<b>454</b>	<b>530</b>	<b>721</b>	<b>927</b>	<b>1,184</b>
Less: External borrowing	67	63	59	55	51
<b>Cumulative Maximum External Borrowing Requirement</b>	<b>387</b>	<b>467</b>	<b>662</b>	<b>872</b>	<b>1,133</b>
Less: Balance Sheet Resources	418	388	358	328	298
<b>Cumulative Net Borrowing Requirement /(Investments)</b>	<b>-31</b>	<b>79</b>	<b>304</b>	<b>544</b>	<b>835</b>

\* finance leases and PFI liabilities that form part of the Authority's debt

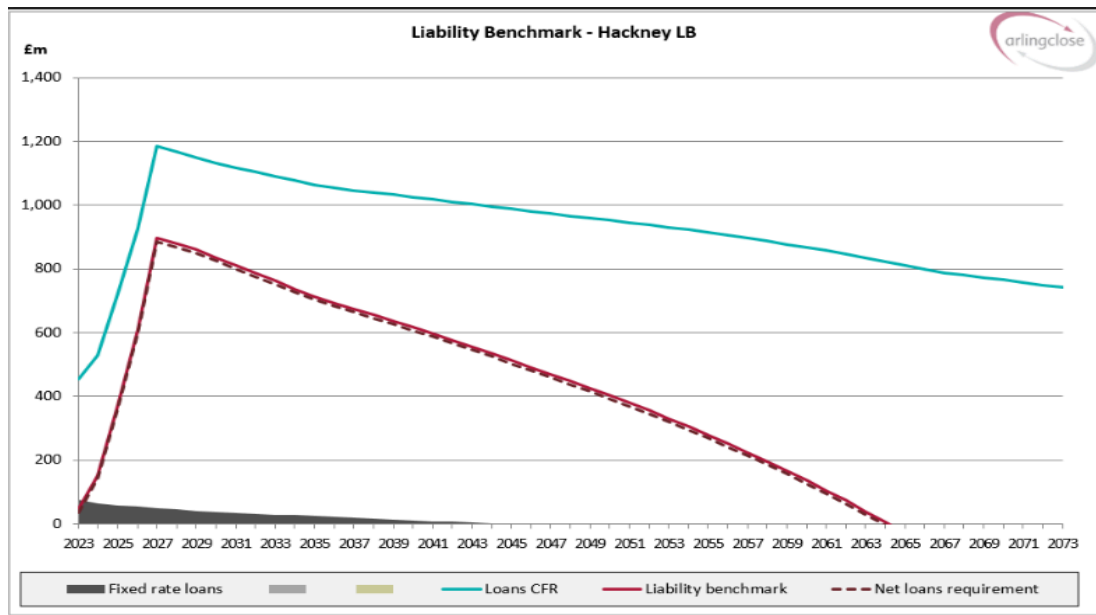
6.3 To compare the Council's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes the same forecasts as table 2 above, but that cash and investment balances are kept to a minimum level of £10m at each year-end to maintain sufficient liquidity but minimise credit risk.



**Table 3: Liability benchmark**

	31/03/23 Actuals £m	31/03/24 Estimated £m	31/03/25 Estimated £m	31/03/26 Estimated £m	31/03/27 Estimated £m
Loan CFR	454	530	721	927	1184
Less: Balance Sheet Resources	418	388	358	328	298
Net loans requirement	36	142	363	599	886
Plus: Liquidity allowance	10	10	10	10	10
Liability benchmark	46	152	373	609	896

Liability Benchmark Chart: The Council's liability benchmark is projected to rise to around £896m by 2026/27 due to a rise in the CFR and fall in usable reserves. This compares with the Council's projected debt portfolio of £51m at end 2026/27 in Table 2, suggesting a cumulative borrowing requirement over this and the next two financial years of around £835m.



6.4 The Authority currently has £63.85m in external borrowing. This is made up of a single £0.8m London Energy Efficiency Fund (LEEF) loan from the European Investment Bank to fund housing regeneration, along with £63.05m long term used to finance part of the borrowing requirement within the Housing Revenue Account associated with the delivery of the housing capital programme, particularly in respect of regeneration.

- 6.5 Furthermore, the Council has an increasing CFR due to the delivery of its capital programme with many regeneration schemes requiring borrowing upfront ahead of the realisation of capital receipts. It is therefore likely that the Council will need to borrow over the forecast period, the actual amount depending on the actual level of reserves and other cash balances available.
- 6.6 CIPFA's Prudential Code for Capital Finance in Local Authorities recommends that the Authority's total debt should be lower than its highest forecast CFR over the next three years. Table 2 shows that the Authority expects to comply with this recommendation during 2024/25.
- 6.7 Table 4 sets out the operational boundary and authorised limit for the Authority for the coming years. The numbers for 2024/25 to 2025/26 are provisional, ahead of February's annual budget report, and as such may be subject to change.

**Table 4: Operational Boundary and Authorised Limit**

	2023/24	2024/25	2025/26	2026/27
	Approved	Estimate	Estimate	Estimate
	£m	£m	£m	£m
<b>Operational Boundary for External Debt</b>	747	762	966	1,221
<b>Authorised Limit for External Debt</b>	777	792	996	1,251

## 7 BORROWING STRATEGY

- 7.1 The balance sheet forecast in Table 2 shows that the Authority has a borrowing requirement of £662 million in 2024/25. The Authority may also borrow additional sums to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing of £778 million in 2024/25.
- 7.2 The Authority's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required. The flexibility to renegotiate loans should the Authority's long-term plans change is a secondary objective.
- 7.3 Given the significant cuts to public expenditure and in particular to local government funding, the Authority's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. Short-term interest rates are currently at a 15-year high but are expected to fall in the coming years and it is therefore likely to be more cost effective over the medium-term to either use internal resources, or to borrow short-term loans instead.
- 7.4 By doing so, the Authority is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of

internal borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. Arlingclose will assist the Authority with this 'cost of carry' and breakeven analysis. Its output may determine whether the Authority borrows additional sums at long-term fixed rates in 2024/25 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

- 7.5 The Authority has previously raised the majority of its long-term borrowing from the PWLB but will consider long-term loans from other sources including banks, pensions and local authorities, and will investigate the possibility of issuing bonds, and similar instruments, in order to lower interest costs and reduce over-reliance on one source of funding in line with the CIPFA Code. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield; the Authority intends to avoid this activity in order to retain its access to PWLB loans.
- 7.6 Alternatively, the Authority may arrange forward starting loans, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.
- 7.7 In addition, the Authority may borrow further short-term loans to cover unplanned cash flow shortages.

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

- HM Treasury's PWLB lending facility (formerly the Public Works Loan Board)
- UK Infrastructure Bank Ltd
- UK local authorities
- Any other UK public sector body
- Any institution approved for investments (see below)
- Any other bank or building society authorised to operate in the UK
- UK public and private sector pension funds (except London Borough of Hackney Pension Fund)
- Capital market bond investors
- Special purpose companies created to enable joint local authority bond issues.
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues
- Retail investors via a regulated peer-to-peer platform
- Private Placements and Loan

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

- operating and finance leases

- hire purchase
  - Private Finance Initiative
  - sale and leaseback
  - similar asset based finance
- 7.8 UK Municipal Bonds Agency plc was established in 2014 by the Local Government Association as an alternative to the PWLB. It issues bonds on the capital markets and lends the proceeds to local authorities. This is a more complicated source of finance than the PWLB for two reasons: borrowing authorities will be required to provide bond investors with a guarantee to refund their investment in the event that the agency is unable to for any reason; and there will be a lead time of several months between committing to borrow and knowing the interest rate payable. Any decision to borrow from the Agency will therefore be the subject of a separate report to the full Council.
- 7.9 The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The Authority may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk. The recent rise in interest rates means that more favourable debt rescheduling opportunities should arise than in previous years.
- 7.10 Short-term and variable rate loans leave the Council exposed to the risk of short-term interest rate rises and are therefore subject to the limit on the net exposure to variable interest rates in the treasury management indicators in point 10.4 below.

## **8 INVESTMENT RISK MANAGEMENT**

- 8.1 The CIPFA Code requires the Authority to invest its treasury funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the Authority will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested. The Authority aims to be a responsible investor and will consider environmental, social and governance (ESG) issues when investing.
- 8.2 As a result of the 2008 financial crisis, there has been a major effort by governments and regulators to make legislative and regulatory changes to the banking environment. These changes were undertaken with the aim of preventing the future failures of banks and to move away from taxpayer funded bailouts, as was the case for Lloyds and RBS, and move towards a bail-in scenario.

- 8.3 Bail in is whereby a levy on deposits within banks would be made to lower the amount of external bailout needed. It would take place before a bankruptcy with regulators imposing losses on shareholders, bond holders and unsecured deposits.
- 8.4 Bail in was first introduced during the Cypriot financial crisis in March 2013, when the Cypriot government was able to refinance its banks and the EU did not provide the finance to bail the banks out. Subsequently, the Cypriot banks were bailed-in via a levy on all unsecured depositors of more than £100,000.
- 8.5 The Banking Reform Act (2013) delivered significant reform to the UK banking sector and introduced into law the bail-in process as a pre-emptive measure to stop failing banks. This means that unsecured depositors, such as Local Authorities, would be subject to a levy on their deposits if that counterparty was bailed in.
- 8.6 To reduce and manage this risk, it is recommended that the Council continues with its current investment strategy for high diversification and hold some investments in more secured instruments (those instruments excluded from bail in risk) such as Covered Bonds and Tri-party Repos, as well as looking at non-financial counterparties such as corporations. For unsecured deposits, the Council will continue to ensure high diversification amongst the Banks and Building Societies which will help to reduce single exposure to one organisation and increase diversification.

## 9 INVESTMENT STRATEGY

- 9.1 The Authority holds varying levels of invested funds at varying lengths of duration. These investments represent income received in advance of expenditure plus balances and reserves held.
- 9.2 For the 2023/24 financial year the Council had an investment balance of £92.5m as of 31.12.23. It is expected that investment levels will decrease in forthcoming years as balances are used to finance the capital programme.
- 9.3 Given the investment risk as detailed in *section 8*, the Authority aims to further diversify into more secure asset classes during 2024/25. The majority of the Authorities surplus cash is currently invested in money market funds, deposits.
- 9.4 The Council may invest its surplus funds with any of the counterparty types in table below, subject to the limits shown.

Treasury investment counterparties and limits:

Sector	Time limit	Counterparty limit	Sector limit
The UK Government	50 years	Unlimited	n/a

Local authorities & other government entities	25 years	£10m	Unlimited
Secured investments *	25 years	£10m	Unlimited
Banks (unsecured)*	13 months	£5m	Unlimited
Building societies (unsecured)*	13 months	£5m	£10m
Registered providers (unsecured)*	5 years	£5m	£25m
Money market funds*	n/a	£10m	Unlimited
Strategic pooled funds	n/a	£10m	£50m
Real estate investment trusts	n/a	£10m	£25m
Other investments*	5 years	£5m	£10m

9.5 Treasury investments in the sectors marked with an asterisk will only be made with entities whose lowest published long-term credit rating is no lower than A-. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

For entities without published credit ratings, investments may be made either (a) where external advice indicates the entity to be of similar credit quality; or (b) to a maximum of £5m per counterparty as part of a diversified pool e.g. via a peer-to-peer platform.

9.6 Credit ratings are obtained and monitored by the Authority's treasury advisers, who will notify changes in ratings as they occur. The credit rating agencies in current use are listed in the Treasury Management Practices document. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

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

Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "negative watch") so that it may fall below the approved rating criteria, then only investments that can be withdrawn on

the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

- 9.7 The maximum that will be lent to any one organisation (other than the UK Government) will be £10 million to reduce the chance of a credit event placing the council under undue financial pressure. A group of entities under the same ownership will be treated as a single organisation for limit purposes.

Limits are also placed on fund managers, investments in brokers' nominee accounts and foreign countries as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

**Additional investment limits**

	<b>Cash limit</b>
Any group of pooled funds under the same management	£25m per manager
Negotiable instruments held in a broker's nominee account	£25m per broker
Foreign countries	£10m per country

- 9.8 The Council understands that credit ratings are a good predictor of investment default but are rating agencies' expressed opinions and not a perfect indicator. Therefore, Officers will use other sources of information; including credit default swap ratings and equity prices, to determine the credit quality of an organisation. These are detailed in Appendix B.
- 9.9 No investments will be made with an organisation if there are doubts about its credit quality even though it may meet the Lending Policy criteria. This means the Lending Policy applied operationally may at times be more restrictive than it formally allows.
- 9.10 When deteriorating financial market conditions affect the creditworthiness of all organisations but these are not generally reflected in credit ratings, then the Council will restrict its investments in those organisations to maintain the required level of security. These restrictions may mean that insufficient commercial organisations of high credit quality are available for investment and so any cash surplus will be deposited with the government's Debt Management Office or with other local authorities. This may result in a reduction in the level of investment income earned but will protect the principal sums invested.
- 9.11 The proposed 2024/25 Treasury Management Strategy has considered a full range of risks and Officers will apply the strategy to ensure that security of deposits is the prime consideration. However, in agreeing the proposed strategy, Members should be aware that there is always a risk of default of

counterparties other than the Debt Management Office which is guaranteed by the government.

- 9.12 The Authority uses cash flow forecasting to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a pessimistic basis, with receipts under-estimated and payments over-estimated to minimise the risk of the Authority being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Authority's medium term financial plan and cash flow forecast.
- 9.13 Environmental, social and governance (ESG) considerations are increasingly a factor in global investors' decision making, but the framework for evaluating investment opportunities is still developing and therefore the Authority's ESG policy does not currently include ESG scoring or other real-time ESG criteria at an individual investment level. When investing in banks and funds, the Authority will prioritise banks that are signatories to the UN Principles for Responsible Banking and funds operated by managers that are signatories to the UN Principles for Responsible Investment, the Net Zero Asset Managers Alliance and/or the UK Stewardship Code. The Authority recognises it can further enhance its efforts through its investment decisions and activity. The Authority will consider options for investments with institutions who ring fence the use of such funds for ESG related matters.

## 10 TREASURY MANAGEMENT INDICATORS

- 10.1 The Authority measures and manages its exposures to treasury management risks using the following indicators.
- 10.2 **Security:** The Authority has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

	Target
Portfolio average credit rating	A-

- 10.3 **Liquidity:** The Authority has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount it can borrow each quarter without giving prior notice.

	Target
Total sum borrowed in past 3 months without prior notice	£20m



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

	2024/25
Upper limit on one-year revenue impact of a 1% rise in interest rates	£0.8m
Upper limit on one-year revenue impact of a 1% fall in interest rates	£0.8m

1% rise in interest rate - It is unlikely that the borrowing to this extent will be done on a short term basis but if borrowing takes place on a short term basis then the impact of 1% increase in interest rates will be funded from reserves.

1% fall in interest rate exposure is calculated based on the current investment portfolio of the council. In the event of a fall in interest rate investment strategy will be revisited to identify measures to be put in place to nullify the impact of fall in interest rate.

10.5 **Maturity Structure of Borrowing:** This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing will be:

	Upper	Lower
Under 12 months	100%	0%
12 months and within 24 months	100%	0%
24 months and within 2 years	100%	0%
2 years and within 10 years	100%	0%
10 years and above	100%	0%

This indicator highlights the existence of any large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates and is designed to protect against excessive exposures to interest rate changes in any one period. No limits have been put in place as the current debt portfolio is relatively small and no limit gives us more flexibility in restructuring the borrowing as and when required. Limits will be put in place if the debt portfolio is likely to increase.

10.6 **Principal Sums Invested for Periods Longer than a year:** The purpose of this indicator is to control the Authority's exposure to the risk of incurring

losses by seeking early repayment of its investments. The limits on the total principal sum invested to final maturities beyond the period end will be:

	2024/25	2025/26	2026/27	No Fixed Date
Limit on principal invested beyond 364 days	20	20	20	10

## 11 Related Matters

- 11.1 The CIPFA Code requires the Authority to include the following in its treasury management strategy.
- 11.2 **Policy on Use of Financial Derivatives:** Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in section 1 of the Localism Act 2011 removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).
- 11.3 The Authority will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Authority is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.
- 11.4 Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria, assessed using the appropriate credit rating for derivative exposures. An allowance for credit risk calculated using the methodology in the Treasury Management Practices document will count against the counterparty credit limit and the relevant foreign country limit.
- 11.5 In line with the CIPFA Code, the Authority will seek external advice and will consider that advice before entering into financial derivatives to ensure that it fully understands the implications.
- 11.6 **Policy on Apportioning Interest to the HRA:** The Council has adopted a two pooled approach following the self-financing settlement in March 2012. In the future, new long-term loans borrowed will be assigned in their entirety to one pool or the other. Interest payable and other costs/income arising from

long-term loans (e.g. premiums and discounts on early redemption) will be charged/ credited to the respective revenue account. Differences between the value of the HRA loans pool and the HRA's underlying need to borrow (adjusted for HRA balance sheet resources available for investment) will result in a notional cash balance which may be positive or negative. Where the HRA needs to borrow from the General Fund to meet its remaining borrowing requirement the General Fund is compensated based on what the Council would have to borrow from the PWLB, with rates based on a best decision from a treasury management perspective and the current interest rate outlook. This will be determined annually following advice from the Council's treasury advisers and the interest transferred between the General Fund and the HRA at the year end.

- 11.7 **Markets in Financial Instruments Directive:** The Authority has opted up to professional client status with its providers of financial services, including advisers, banks, brokers and fund managers, allowing it access to a greater range of services but without the greater regulatory protections afforded to individuals and small companies. Given the size and range of the Authority's treasury management activities, the Chief Financial Officer believes this to be the most appropriate status.
- 11.8 **Investment Training:** The needs of the Authority's treasury management staff for training in investment management are assessed as part of individual staff appraisal processes, and additionally when the responsibilities of individual members of staff change. Training will be arranged as required for members of the Audit Committee who are charged with reviewing and monitoring the Council's treasury management policies.
- 11.9 Staff regularly attend training courses, seminars and conferences provided by Arlingclose and CIPFA. Relevant staff are also encouraged to study professional qualifications from CIPFA, the Association of Corporate Treasurers and other appropriate organisations.
- 11.10 **Investment Advisers:** The Council has appointed Arlingclose Limited as treasury management advisers and receives specific advice on investment, debt and capital finance issues. Arlingclose is an independent treasury advisory company providing unbiased financial advice and capital financing expertise for the public sector. They provide advice on investment trends, developments and opportunities consistent with the Council's chosen strategy relating to investments, debt repayment and restructuring, and also for economic information and data interpretation.
- 11.11 Although the Council uses the expertise of an external provider for treasury management advice relating to investing, borrowing and restructuring of the portfolios, the Council remains fully accountable for any decisions made.
- 11.12 Regular communications are received in relation to economic data releases, interest rate forecasts and debt structuring opportunities with, sometimes, daily communications in respect of counterparties. Officers also attend

training sessions facilitated by Arlingclose relating to Prudential Code, Treasury Management Code of Practice and Accounting.

- 11.13 Meetings are held on a quarterly basis with Officers of the Council, including the Director Financial Management, to discuss treasury management strategies, which may, from time to time, include discussions in regard to enhancement of the service provision if required. Additional ad-hoc meetings are arranged as required if specific issues arise during the course of the year outside of scheduled quarterly meetings.

## 12 Other Options Considered

- 12.1 The CIPFA Code does not prescribe any particular treasury management strategy for local authorities to adopt. The Group Director Finance believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

<b>Alternative</b>	<b>Impact on income and expenditure</b>	<b>Impact on risk management</b>
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses may be greater
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses may be smaller
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs may be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long-term costs may be less certain
Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs may be less certain

## Appendix A – Arlingclose Economic & Interest Rate Forecast December 2023

### Underlying assumptions:

- UK inflation and wage growth remain elevated but have eased over the past two months fuelling rate cuts expectations. Near-term rate cuts remain unlikely, although downside risks will increase as the UK economy likely slides into recession.
- The MPC's message remains unchanged as the Committee seeks to maintain tighter financial conditions. Monetary policy will remain tight as inflation is expected to moderate to target slowly, although some wage and inflation measures are below the Bank's last forecasts.
- Despite some deterioration in activity data, the UK economy remains resilient in the face of tighter monetary policy. Recent data has been soft but mixed; the more timely PMI figures suggest that the services sector is recovering from a weak Q3. Tighter policy will however bear down on domestic and external activity as interest rates bite.
- Employment demand is easing. Anecdotal evidence suggests slowing recruitment and pay growth, and we expect unemployment to rise further. As unemployment rises and interest rates remain high, consumer sentiment will deteriorate. Household and business spending will therefore be weak.
- Inflation will fall over the next 12 months. The path to the target will not be smooth, with higher energy prices and base effects interrupting the downtrend at times. The MPC's attention will remain on underlying inflation measures and wage data. We believe policy rates will remain at the peak for another 10 months, or until the MPC is comfortable the risk of further 'second-round' effects has diminished.
- Maintaining monetary policy in restrictive territory for so long, when the economy is already struggling, will require significant loosening in the future to boost activity.
- Global bond yields will remain volatile. Markets are currently running with expectations of near-term US rate cuts, fuelled somewhat unexpectedly by US policymakers themselves. Term premia and bond yields have experienced a marked decline. It would not be a surprise to see a reversal if data points do not support the narrative, but the current 10-year yield appears broadly reflective of a lower medium-term level for Bank Rate.
- There is a heightened risk of fiscal policy and/or geo-political events causing substantial volatility in yields.

### Forecast:

- The MPC held Bank Rate at 5.25% in December. We believe this is the peak for Bank Rate.
- The MPC will cut rates in the medium term to stimulate the UK economy but will be reluctant to do so until it is sure there will be no lingering second-round effects. We see rate cuts from Q3 2024 to a low of around 3% by early-mid 2026.

- The immediate risks around Bank Rate have become more balanced, due to the weakening UK economy and dampening effects on inflation. This shifts to the downside in the short term as the economy weakens.
- Long-term gilt yields are now substantially lower. Arlingclose expects yields to be flat from here over the short-term reflecting medium term Bank Rate forecasts. Periodic volatility is likely.

	Current	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26
<b>Official Bank Rate</b>													
Upside risk	0.00	0.00	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.75	0.75	1.00	1.00
Central Case	5.25	5.25	5.25	5.25	5.00	4.75	4.25	4.00	3.75	3.50	3.25	3.00	3.00
Downside risk	0.00	0.00	-0.25	-0.50	-0.75	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
<b>3-month money market rate</b>													
Upside risk	0.00	0.00	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.75	0.75	1.00	1.00
Central Case	5.40	5.40	5.40	5.30	5.15	4.80	4.30	4.10	3.80	3.50	3.25	3.05	3.05
Downside risk	0.00	0.00	-0.25	-0.50	-0.75	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
<b>5yr gilt yield</b>													
Upside risk	0.00	0.25	0.75	0.85	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Central Case	3.77	3.75	3.75	3.75	3.70	3.60	3.50	3.50	3.40	3.30	3.30	3.30	3.35
Downside risk	0.00	-0.25	-0.75	-0.85	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
<b>10yr gilt yield</b>													
Upside risk	0.00	0.25	0.75	0.85	0.85	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Central Case	3.72	3.75	3.80	3.80	3.80	3.80	3.80	3.80	3.75	3.65	3.60	3.65	3.70
Downside risk	0.00	-0.25	-0.75	-0.85	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
<b>20yr gilt yield</b>													
Upside risk	0.00	0.25	0.75	0.85	0.85	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Central Case	4.16	4.20	4.20	4.20	4.20	4.20	4.20	4.20	4.20	4.20	4.20	4.20	4.25
Downside risk	0.00	-0.25	-0.75	-0.85	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
<b>50yr gilt yield</b>													
Upside risk	0.00	0.25	0.75	0.85	0.85	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Central Case	3.76	3.80	3.85	3.90	3.90	3.90	3.90	3.90	3.90	3.90	3.95	3.95	3.95
Downside risk	0.00	-0.25	-0.75	-0.85	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00

PWLB Standard Rate = Gilt yield + 1.00%

PWLB Certainty Rate = Gilt yield + 0.80%

PWLB HRA Rate = Gilt yield + 0.40%

UK Infrastructure Bank Rate = Gilt yield + 0.40%

## Appendix B - London Borough of Hackney's Investment Policy

### 1. Institutions and instruments included:

1.1 The Council will invest in the following types of institutions;

- UK Central Government
- UK Local Authorities
- Other government entities
- Secured investments
- Banks (unsecured)
- Building societies (unsecured)
- Registered providers (unsecured)
- Money market funds
- Strategic pooled funds
- Real estate investment trusts
- Other investments

1.2 The Council will invest using the following types of instruments

- Call and Notice Account
- Fixed Term deposits
- Treasury bills
- Bonds
- Certificate of deposits
- Money Market Funds
- Commercial Papers
- Pooled Funds
- Revolving Credit Facility
- Repurchasing agreements
- Alternatives

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

1.4 For secured investments, where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used. The combined secured and unsecured investments

with any one counterparty will not exceed the cash limit for secured investments.

1.5 Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

1.6 As well as assessing credit rating as an indicator of risk, the Council will also analyse the following sources of information:

- Credit default Swap
- Equity Prices
- Economic output
- Counterparty's financial Statements and financial ratios
- News



## Appendix C - Glossary of Terms

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

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

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

**Registered providers (unsecured):** Loans to, and bonds issued or guaranteed by, registered providers of social housing or registered social landlords, formerly known as housing associations. These bodies are regulated by the Regulator of Social Housing (in England), the Scottish Housing Regulator, the Welsh Government and the Department for Communities (in Northern Ireland). As providers of public services, they retain the likelihood of receiving government support if needed.

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

**Strategic pooled funds:** Bond, equity and property funds that offer enhanced returns over the longer term but are more volatile in the short term. These allow the Authority to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and

continued suitability in meeting the Authority's investment objectives will be monitored regularly.

**Real estate investment trusts:** Shares in companies that invest mainly in real estate and pay the majority of their rental income to investors in a similar manner to pooled property funds. As with property funds, REITs offer enhanced returns over the longer term, but are more volatile especially as the share price reflects changing demand for the shares as well as changes in the value of the underlying properties.

**Other investments:** This category covers treasury investments not listed above, for example unsecured corporate bonds and company loans. Non-bank companies cannot be bailed-in but can become insolvent placing the Authority's investment at risk.

## Appendix D

### **TREASURY MANAGEMENT POLICY STATEMENT**

#### **1. Approved Activities**

In accordance with the Council's Constitution and Delegated Powers, the Group Director Finance and Corporate Resources and Officers authorised by the Group Director, may arrange all investments, borrowing, repayment of debt outstanding and leasing required and permitted by the Local Government Act 2003.

Borrowing must be contained within the limit determined under the Authorised Limit of the Prudential Code and used solely for the purpose of the Council's statutory functions. Treasury management operations will comply with the CIPFA Code of Practice.

#### **2. Treasury Management Policy Objectives**

The Council defines its treasury management activities as:

*"The management of the Council'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."*

The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.

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

The treasury management activities of the Council will be conducted to achieve the following policy objectives: -

- (a) To ensure that risk to the Council's financial position is minimised by the adoption of sound debt management and investment practices;
- (b) The Council's borrowing will be affordable, sustainable and prudent and consideration will be given to the management of interest rate risk and refinancing risk. The source from which the borrowing is taken and the

type of borrowing should allow the Council transparency and control over its debt.

- (c) The overall average rate of interest on short-term investments to be greater than the average seven-day SONIA rate, whilst having regard to the security of funds and the minimisation of risk;
- (d) To have a policy to repay debt, take opportunities to make premature debt repayments, and restructuring of debt when and where it is advantageous to the Council to do so.

### **3 Adoption of the CIPFA Code of Practice**

The Council has adopted the key recommendations of CIPFA Treasury Management in the Public Services: Code of Practice (the Code), as described in Section 2 of that Code.

Accordingly, this organisation will create and maintain, as the cornerstones for effective treasury management:

- A Treasury Management Policy Statement, stating policies and objectives of its treasury management activities.
- Suitable Treasury Management Practices (TMPs), setting out the manner in which the organisation 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 Sections 6 and 7 of the Code, subject only to amendment where necessary to reflect the particular circumstances of the Council. Such amendments will not result in the Council materially deviating from the Code's key recommendations.

- The Council will receive reports on its treasury management policies practices and activities, including, as a minimum, an annual strategy and plan in advance of the year.
- The Council delegates responsibility for the implementation, monitoring of its treasury management policies and practices to Audit Committee, and for the execution and administration of treasury management decisions to the Group Director Finance, who will act in accordance with the policy statement, TMPs and CIPFA's Standard of Professional Practice on Treasury Management.

### **4 Investment of Cash Balances**

Investment of all balances arising from day to day cash flows, capital receipts, minimum revenue provisions and other financial reserves and provisions will be in

accordance with Government regulations or guidelines to produce a maximum return having regard to the security of funds and the minimisation of risk.

The Council's primary objective in relation to investments remains the security of capital. The liquidity or accessibility of the Authority's investments followed by the yield earned on investments remain important but are secondary considerations.

The spread of risk will be controlled by reference to the approved criteria and financial limits. Investment liquidity will be structured with regard to cash flow projections maintained under the authority of the Group Director Finance.

## **5 Investment Names/Financial Limits**

Investments are to be made only to those institutions, which meet the approved criteria for lending, and within the current maximum financial limits as approved, by the Cabinet and Council. Where investments in any of these institutions were made at a time where a higher maximum limit applied, the new maximum limit will be applied as existing investments mature.

Between reports to the Cabinet/Council, the Group Director Finance and Corporate Resources, under delegated powers, is authorised to revise, and further restrict or relax, the investment names/limits to reflect changes in market sentiment, information and credit ratings.

## **6 Risk Appetite Statement**

The Council's objectives in relation to debt and investment is to assist the achievement of the Council's service objectives by obtaining funding and managing the potential debt and investments at a net cost which is as low as possible , consistent with a degree of interest cost stability and a very low risk to sums invested.

This means that the Council takes a low risk position but is not totally risk averse. Treasury management staff have the capability to actively manage treasury risk within the scope of the council's treasury management policy and strategy.

## **7 Legal Issues**

Borrowing and investment will be arranged efficiently through a range of brokers practising in the money markets and, in addition, the Director of Finance is authorised to deal directly with counterparties where it is advantageous to do so. The requirements of the Bank of England Non-Investment Products Code (NIPS) (November 2011) will be met in all the above arrangements.

## **8 Use of Bankers**

Approved agreements are currently in place with the Lloyds Bank and the RBS/Natwest Bank for the conduct of banking business for the Council and schools respectively.

The Group Director Finance is authorised to negotiate appropriate changes to the mandates which may be needed to cover any exceptional market circumstances to protect the Council's finances.

## **9 Review**

The Group Director Finance will report to the appropriate committee on the Treasury Management performance as follows:

- **TM Outturn Report –**

Frequency - once a year against the TM Strategy and Prudential Indicators approved for the previous financial year, no later than September of the current financial year

To – Cabinet via the OFP (Overall Financial Position) and Audit Committee

- **TM Half-Year Activity and Performance Report –**

Frequency – a report on its treasury activity and performance, it is anticipated to be no later than January of the current financial year

To – Cabinet via OFP and Audit Committee

- **TM Quarterly Activity Report –**

Frequency - report to be submitted on treasury activity for the previous quarter

To – Audit Committee

- **Ad-hoc –**

Additional reports will be submitted to the appropriate committee as required, in order to react to extreme fluctuations in market conditions and/or increased levels of treasury activity

The Group Director Finance will make such arrangements as are necessary for monitoring daily activities in the treasury functions.