Brentwood Borough Council

REPORT ON THE TREASURY MANAGEMENT OF BRENTWOOD BOROUGH COUNCIL

June 2023

Contents

Notes

Brentwood Borough Council (BBC) were asked to provide replies to various questions that were raised in undertaking this review.

1. Introduction

Treasury management in local authorities is a high profile area, this has been brought into further focus following the world financial crisis in 2008, [with a particular emphasis on improving the safety of local authority investing with creditworthy counterparties and adequate identification and management of risk] and more recently with the introduction of the revised Treasury Management and Prudential Codes for 2023-24 which makes it clear Local Authorities must not borrow to invest in assets primarily for financial return.

At the same time, local authorities are having to deal with many pressures to cut costs in an environment of increased budget pressures. Many local authorities have also had difficulties with replacing key staff who, when they leave the authority, take with them a wealth of experience and expertise which, sometimes, may prove difficult to replace. *(Please note that Brentwood Borough Council (BBC) has undergone a significant restructure and experienced difficulties in recruiting permanent members of staff, including S151 (see the section on Staffing resource for the treasury management team.)* Such staffing difficulties can cause issues in the following areas of treasury management:

- **The level of compliance** with all professional, statutory and legal requirements, but especially the **two codes** issued by the Chartered Institute of Public Finance and Accountancy's (CIPFA) - the Treasury Management Code of Practice and the Prudential Code, and with other statutory and legal requirements.
- Treasury management **performance** in terms of the effect on the bottom line of how much an authority pays in interest borrowing costs and on investment earnings on cash balances.
- The level of **risk exposures** in investing and borrowing portfolios.

The purpose of this report is to undertake an independent examination of the following: -

- **Compliance:** do your policies / procedures comply with the CIPFA Code of Practice on Treasury Management, the CIPFA Prudential Code, DLUHC investment guidance and other areas of compliance?
- **Evidence:** can you provide evidence to internal / external scrutiny that the above is the case?
- **Delivery:** how do your policies, procedures and level of staffing impact on the delivery of your treasury function?
- **Review:** following the outcomes of this health check will you review your processes and approach to how you do treasury management?

This report is therefore intended to help those involved in monitoring the treasury management function, whether senior management, members, external auditors or internal auditors to gain insight into the way in which treasury management is carried out in the organisation.

It is also intended to help in identifying areas where the treasury management function could be improved and strengthened and in most local authorities, it is likely that a health check of this nature will find such areas which, at the least, would be worth reviewing.

What are the areas covered by treasury management?

CIPFA has adopted the following as its definition of treasury management activities:

The management of the organisation’s: -

- borrowing, investments and cash flows,
- its banking, money market and capital market transactions;
- the effective control of the risks associated with those activities;
- and the pursuit *of optimum performance consistent with those risks.*

Executive Summary

Link Treasury Service (LTS) have been commissioned by Brentwood Borough Council (BBC) to undertake several pieces of work resulting in a 'health check of the Councils Treasury and Capital Strategies. These areas include a review of the Councils Minimum Revenue Provision (MRP) Policy, It's Capital Strategy, its Commercial Assets (Business Case Review) and its Treasury Management Strategy. Each of the above areas will be distinct pieces of work consisting of a detailed report with their own findings. The focus of this report will be the Councils Treasury Management Strategy approach with significant focus on the Councils recent Borrowing activity. There may be some natural overlap into the other commissioned pieces of work however any comment in this report in relation to those areas will be limited.

It should be noted that HM Treasury published its revised lending terms for PWLB borrowing on 25th November 2020, this included a requirement for authorities to confirm that they do not intend to buy investment assets primarily for yield. This was effective from 9am on 26th November 2020. (See Appendix 1.0 for Newsflash issued to Clients by LTS).

The Prudential Code and Treasury Management Code were subsequently revised in December 2021 with full implementation for the 2023/24 financial year. The revised Prudential Code now specifically states that an authority must not borrow to invest primarily for financial return (an amendment to para 51 of the Code) which was applicable with immediate effect following the change in lending terms set out by HM Treasury with effect from 26th November 2020.

Whilst the focus of this report will be on BBC's current 2023/24 treasury strategy, it will be necessary to review treasury strategies and decisions taken by BBC prior to this *(primarily from 2020 onwards).* As such, certain decisions/reports will pre-date the updated TM/Prudential Code changes and revised PWLB lending terms. Activity/decisions predating this guidance will be viewed within the context of the applicable guidance at that time.

This report has reviewed the following areas:

- (i) Compliance with the CIPFA Codes of Practice on Treasury Management
- (ii) Compliance with Statutory Investment Guidance
- (iii) The Annual Treasury Strategy report – Borrowing: Including a detailed timeline with analysis/ context around long term borrowing decisions undertaken from 2020 to date *(Note 2020 is the most relevant starting point given long term borrowing prior to this was March 2012)*
- (iv) Benchmarking of Borrowing Performance
- (v) The Annual Treasury Strategy Report – Investing
- (vi) Benchmarking of Investment Performance

(vii) Staffing

The key findings form this report are as follows:

1. BBC has **not fully complied with the Cipfa's Code of Practice on Treasury Management**.
2. The required **twelve treasury management practices** are not up to date and will require a significant refresh. As a follow-up to this review, Link Treasury Services will support the Council in this piece of work.
3. BBC has work to do to **demonstrate proportionality** in relation to BBC's non-treasury activities and ensure compliance with the spirit of the 2018 Statutory Investment guidance. Non-treasury activities are not currently supported by adequate Investment Management Practices (IMP's).
4. In January 2021 and February 2021 BBC presented two separate reports to Council seeking approval of the purchase of strategic assets. These reports included requests to raise the Authorised Limit to accommodate the uplift in the CFR to ensure that levels were not breached. The starting point for the limit as reported in the 2020/21 Capital and Investment Strategy was £157,729k. The Authorised limit was initially increased to £185,000k [per the 20.01.2021 Ordinary Council Report- Investment proposal – acquisition of Baytree shopping Centre and Academy Place Brentwood]. BBC took a further report to Extraordinary Council on 16-02-2021. [Acquisition of Childeric Industrial Park]. This report was seeking approval to raise the Authorised Limit further to £247,500k. Actual external borrowing had risen significantly during this time to a peak of £233,224k.
5. **BBC's Capital Financing Requirement has increased at a significant rate** during the period 31st March 2020 (£118.2m) to 31st March 2023 (£259.8m) a total of £141.6m (120% increase) with forecasts for the CFR to reach over £320m by 31st March 2024 (further increase of 23% in 2023/24 and a total increase over this 4 year period of 171%). Such rapid increase in CFR levels during this relatively short space of time can adversely impact on treasury planning, (i.e. ability to adopt a proportionate and effective borrowing strategy). (As detailed in the forward balance sheet iterations within section 4.5 of this report). The pace of growth can also adversely impact the effective monitoring and scrutiny of treasury strategy. This has been borne out to some extent by point 3 noted above.
6. As detailed in Section 4.8 Table 5, and linked to point 5 above, the **ratio of financing costs to net revenue stream has risen rapidly from an already elevated position** (12% in 2021 to 48% in 2022/23) and is forecast to increase to 69% by 2024/25. Such elevated levels bring into question affordability and sustainability and would be a risk area for BBC to closely monitor with a view to reduce this ratio in the near future if possible.
7. BBC has clearly had a detailed and thorough approach to its **borrowing strategy**, however whilst this has achieved a level of budgetary certainty and reduction in exposure to

refinancing risk, significant exposure still remains. This is despite BBC externalising £178m worth of borrowing *in just 15 months* from Sept 2020 to Dec 2021 *[included deferred drawdown loans of £45m agreed in Dec 2021].* This links back to the rapidly rising CFR as noted in point 5 above.

8. As detailed in section 6, Table 8, there is significant reliance (arguably over-reliance) on commercial and Service income. The ratio of gross income to net revenue stream is forecast to increase from an already elevated position of 80% in 2022/23 to 86% by 2024/25.
9. **Benchmarking of Borrowing** performance with neighbouring Authorities ranks BBC as 1st in terms of the lowest average rate being achieved. This undoubtedly has been driven by the scale of borrowing in a historically low interest rate environment.
10. **Benchmarking of Investment** performance against a peer group places BBC close to the upper band in terms of expected return achieved on a risk adjusted weighted average rate of return.
11. **Monitoring and Approval processes** require strengthening. Whilst there is regular monitoring of Prudential Indicators, further Scrutiny of TM reports from Members prior to presentation to Full Council could provide a more suitable mechanism, particularly in this time where significant TM work is being undertaken.
12. **Organisational Change** has potentially exacerbated existing resource issues within the TM team. Additional staff resources would be advisable to support with best practice and compliance (particularly in relation to segregation of duties).

A Summary table of compliance is included at Section 13 of this report.

2. Basic compliance with the CIPFA code of practice on treasury management

2.1 FOUR REQUIREMENTS

The main area of compliance that a local authority treasury management team has to comply with is the above code. **The Code sets out four main requirements** referred to as "Clauses to be formally adopted"(page 13):

1. This organisation will create and maintain, as the cornerstones for effective treasury and investment management:

- suitable treasury management practices (TMPs) setting out the manner in which the organisation will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities
- investment management practices (IMPs) for investments that are not for treasury management purposes.

The content of the policy statement, TMPs and IMPs will follow the recommendations contained in Sections 6, 7 and 8 of the TM Code, subject only to amendment where necessary to reflect the particular circumstances of this organisation. Such amendments will not result in the organisation materially deviating from the TM Code's key principles.

2. This organisation (i.e. full board/council) will receive reports on its treasury and investment management policies, practices and activities, including, as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close in the form prescribed in its TMPs and IMPs.

3. This organisation delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to [note 1], and for the execution and administration of treasury management decisions to [note 2], who will act in accordance with the organisation's policy statement, TMPs and IMPs, and if they are a CIPFA member, CIPFA's Standard of Professional Practice on treasury management.

4. This organisation nominates [note 3] to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

Note 1: name of responsible body (for example, committee, board or council) or nominated group of individuals or relevant committee such as cabinet or executive. Where a capital strategy is produced by a local authority, this may include the setting of detailed treasury management policies, while being clear that overall responsibility remains with full council.

Note 2: title of responsible officer (for the purposes of this Code, the term 'responsible officer' has been used, although it is recognised that, in practice, many different terms exist). For example, in higher education, the vice chancellor/principal or equivalent is the 'designated officer', who will ensure that the governing body complies with all terms and conditions of funding provided by the funding body. However, it is usual for day-to-day financial management to be delegated to a director of finance, who will take professional responsibility for such areas of an institution's work, and this is the officer who is referred to here.

Note 3: name of responsible body (for example, committee, board or council) or nominated group of individuals or relevant committee such as audit committee or relevant scrutiny committee.

Findings

BBC has not fully complied with these four prime requirements as detailed:

13. The policies, objectives and approach to risk management of its treasury management activities are set out in its **Treasury Management Strategy Statement** (**TMSS)/ Annual Investment Strategy (AIS),** (this is termed the **Capital and Investment Strategy** report at BBC), which is revised and updated each year before the start of each new year. The Council has however failed to adequately update the required **twelve treasury management practices** to provide the operational detail in support of each member of the treasury management team when undertaking treasury management activities. The Council does not have adequate **Investment Management Practices** (IMP's) detailed in support of reporting of its non-treasury activities.
14. The full council receives the following **reports** on its treasury management policies, practices and activities:
    a. an annual strategy and plan in advance of the year (the TMSS/AIS)
    b. a mid-year review
    c. an annual review report after the end of each financial year
15. BBC has **delegated responsibility** for treasury management to the Interim Director of Finance and S151 officer, Tim Willis.

16. The **Audit and Scrutiny Committee do not** undertake prior scrutiny of Treasury reports before they are submitted to the Full Council, the reports go direct to Full Council for approval.

Note: Whilst it is not a statutory requirement for Treasury Management Reports to be subject to prior Scrutiny before presentation to Full Council for approval, *the CIPFA code considers it "vital that the treasury management decisions of organisations in the public services should be subjected to* ***prior scrutiny".*** **it would be good practice for BBC to incorporate this to enhance current governance arrangements.**

Action: BBC to Review Treasury Management Practice Templates provided by Link to all clients and incorporate BBC practices in line with best practice. Link will work with BBC in support of this as part of ongoing Treasury Strategy work.

2.2 THREE KEY PRINCIPLES

The Code also requires local authorities to comply with three key principles:

KEY PRINCIPLE 1

Public service organisations should 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****.*

KEY PRINCIPLE 2

Their policies and practices should make clear that the ***effective management and control of risk*** *are prime objectives of their treasury management activities and that responsibility for these lies clearly within their organisations. Their appetite for risk should form part of their annual strategy, including any use of financial instruments for the prudent management of those risks, and should ensure that* ***priority is given to security and portfolio liquidity when investing treasury management funds****.*

KEY PRINCIPLE 3

They should acknowledge that the ***pursuit of value for money*** *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****, their treasury management policies and practices should reflect this.*

The rest of this CEDR report will look in detail at how well BBC has implemented these four requirements and three key principles. Inevitably, a thorough examination into every corner of how treasury management is being conducted will turn up some areas for improvement.

3. Compliance with statutory investment guidance

3.1 THREE EDITIONS OF STATUTORY GUIDANCE

There have been **three editions of statutory investment guidance issued by DLUHC** *(formally MHCLG)* in 2004, 2010 and 2018: each edition replaced the previous one. Reference is made below, and elsewhere, to the third edition of 2018 which was the guidance applicable when investments were made. However, the essential principles of security, liquidity and risk are unchanged between the 2010 and 2018 editions.

The second edition of the guidance followed in the aftermath of the financial crisis of 2008 and the failure of Icelandic banks, which many local authorities had placed investments with. This raised fundamental questions as to whether local authorities were managing **risk exposure** in an appropriate manner as they appeared to have prioritised earning a higher rate of interest more highly than security, (and also liquidity – as it took several years for local authorities to get nearly all their cash returned to them).

The 2010 edition therefore majored on some **key fundamental principles** to guide all local authority investing as set out in sections 6 and 7 below:

> *6. The preparation each year of an investment Strategy is central to the guidance **[4.1]**. It encourages the formulation of policies for the **prudent** investment of the funds that authorities hold on behalf of their communities. In addition, the need for the Strategy to be approved by the full council ensures that these policies are subject to the scrutiny of elected Members: this is particularly important, given that central Government in 2004 ceased its close regulation of local government investment.*
>
> *7. The guidance defines a prudent investment policy as having two objectives:*
>
> *achieving first of all **security** (protecting the capital sum from loss) and then **liquidity** (keeping the money readily available for expenditure when needed) **[4.2]**. The generation of investment income is distinct from these prudential objectives and is accordingly not a matter for the guidance. However, that does not mean that authorities are recommended to ignore such potential revenues. Once proper levels of security and liquidity are determined, it will then be reasonable to consider what **yield** can be obtained consistent with those priorities. This widely-recognised investment policy is sometimes more informally and memorably expressed as follows:*
>
> ***Security - Liquidity -Yield …in that order!***

The 2018 edition retained and repeated the above principles. So, in summary, all local authority investing is required to be:

- **Prudent**
- **To put security before liquidity and yield**

3.2 SCRUTINY BY MEMBERS

In addition, the 2010 edition introduced a new concept of member scrutiny. In this edition the government relinquished exercising detailed control over local authority investing and handed responsibility to members to ensure that effective scrutiny of officer management of the treasury management function.

Each local authority was therefore required to set up a committee which would exercise this scrutiny function before treasury management reports were submitted to full council for approval. Scrutiny members are therefore expected to have a higher level of understanding of treasury management and to challenge officers if they feel uncomfortable with any aspect of the conduct of treasury management or proposed strategies.

Along with this new role of scrutiny, the guidance placed responsibility on officers to arrange appropriate training for members so that they were equipped to be able to carry out this scrutiny role in an effective way.

Inherent in this development, was also the responsibility of members to attend training sessions as they are now personally responsible for carrying out this scrutiny role.

Link has been informed that no evaluation has been done of scrutiny members to establish what TM experience or expertise such members have. As part of the revised TM Code of Practice updated 2021 (for full implementation from 2023/24); TMP 10 is now to include a Knowledge and Skills schedule supported by appropriate training for both officers and members. CIPFA have provided a 'learning needs analysis template' to help Members identify any training gaps.

Note: BBC is aware of the new requirement for a 'Knowledge and Skills' schedule however this is not in place at present and will be picked up as an action as part of this review (built into the revised TMPs which will be produced as an output of this report.

Note: BBC should review this whole area of member training with a view to conducting training courses which require members to attend. Providing training courses for Members is a service that Link Treasury Services can assist with and will provide as a follow up to this review.

3.3 SPECIFIED AND NON-SPECIFIED INVESTMENTS

The 2004 edition of the statutory guidance introduced a new concept, (which was retained in the 2010 and 2018 editions), which was not previously found in the CIPFA TM Code prior to the 2021 updates – the need to split all investments by a local authority between **specified and non-specified investments:**

(2010 guidance): INVESTMENT SECURITY [5.1 - 5.3]

*13. The idea of **specified investments [5.1]** is to identify options with relatively high security and high liquidity, **to which authorities need make only minimal reference in their Strategies.** All such investments must be in sterling and with a maturity of no more than a year. Such investments with the UK Government, a local authority or parish council will count as specified investments, as will those with bodies or in investment schemes of "high credit quality". The meaning given by the authority to the latter term is to be stated in the Strategy **[5.2]** and it is expected that authorities will adopt rigorous standards of definition. If the criteria here refer to credit ratings, the recommendations in paragraph **[6.1]** of the guidance should be followed.*

*14. **The Strategy should deal in more detail with non-specified investments [5.3], given the different levels of potential risk.** There is no intention of discouraging authorities from pursuing these options, but the aim is to ensure that proper procedures are in place for assessing and mitigating risk. Therefore, the Strategy should identify the types of such investments that may be used during the course of the year and should set a limit to the amounts that may be held in such investments at any time in the year. The limit may be a sum of money or a percentage of total investments or both. The Strategy should also lay down guidelines for making decisions on such investments, for example, on the circumstances in which professional advice is to be sought. Again, if the criteria mentioned refer to credit ratings, the recommendations in paragraph **[6.1]** of the guidance should be followed.*

(2) DEFINITIONS OF TERMS

*2.4. A **long-term investment** is any investment other than (a) one which is due to be repaid within 12 months of the date on which the investment was made or (b) one which the local authority may require to be repaid within that period.*

Non-specified investments

*5.3 With regard to **non-specified investments** (i.e. those not meeting the definition in paragraph 5.1), the Secretary of State recommends that the Strategy should:*

(a) set out procedures for determining which categories of such investments may prudently be used (and where these procedures involves the use of credit ratings, paragraph 6.1 is relevant);

(b) identify which categories of such investments have so far been identified as prudent for use during the financial year; and

(c) <u>state the upper limits for the amounts which, at any time during the financial year, may be held in each identified category and for the overall amount which may be held in non-specified investments</u> (the limits being defined by reference to a sum of money or a percentage of the authority's overall investments or both).

Section 8 of the code has since been updated (as part of the 2021 edition changes adopted for 2023-24 TM Strategies) in relation to non-treasury investments and CIPFA have incorporated a definition of treasury management which states that it **includes all the investments made by the organisation, meaning service investments and commercial investments as well as the 'regular' treasury investments.**

Section 8 of the TM Code describes **Investments for commercial purposes** (or commercial investments) as those which:

Are taken or held primarily for financial return and are not linked to treasury management activity or directly part of delivering services.

• This includes non-financial assets such as commercial property, where they are held primarily for financial return.

• For local authorities, investments of this type will usually constitute capital expenditure.

• 'Commercial' in this context refers to the purpose of the investment. Commercial investments are not taken to meet treasury management cash flow needs and do not result from treasury risk management activity to prudently manage the risks, costs or income from existing or forecast debt or treasury investments. They are additional investments voluntarily taken primarily to generate net financial return or profit.

Investments for **service purposes (or service investments)** are described as those which:

Are taken or held primarily for the provision and for the purposes of delivering public services including housing, regeneration and local infrastructure), or in support of joint working with others to deliver such services.

• Service investments may or may not involve commercial returns; however, obtaining those returns will not be the primary purpose of the investment.

• *For local authorities, service investments will normally constitute capital expenditure, and it may be appropriate to borrow to finance service investments.*

For investments that are not for TM purposes, classified as commercial or service investments, these should be clearly identified and reported in appropriate categories, to reflect their service or commercial purpose. It should also be noted that for each investment, an investment management Practice (IMP) should set out a range of criteria such as the investment objectives, risk management arrangements and reporting arrangements.

Note: Outside of this CEDR TM Review there are separate reports being produced in relation to the Councils Commercial Investment Portfolio, Primarily Seven Archers Investment Ltd (SAIL) as well as a separate report solely focusing on the Councils Capital Strategy, as such, this review will not major on these areas and will only make reference to these areas within the scope of this Treasury Management Strategy Review.

The following should be noted from the above guidance: -

1. Investments initially made for under one year, or have only one year left to run to maturity, are defined in the 2018 statutory guidance as being specified investments; therefore all investments, regardless of the type of investment instrument, with over one year to run to maturity are, by definition, **non-specified.**
2. The authority must **set an upper limit** for how much can be held in each type of non-specified investments and an upper limit for the **total of non-specified investments**.
3. Specified investments with high credit quality bodies need only **minimal reference** in annual strategy reports.
4. **Non-specified investments** should be dealt with in more detail in annual strategy reports as they involve a **higher level of risk** than specified investments. It is therefore very important that members' attention should be drawn to the need to understand those risks when approving different types of non-specified investments and when setting upper limits for each one and a total upper limit for all non-specified investments. *(Please see appendix 2.0 containing the TMSS template report provided by Link Treasury Services to all clients, which sets out what types of investments fall into each of the specified and non-specified categories.)*

This is the relevant paragraph of the Capital and Investment Strategy 2023/24 report for your authority, appendix, page 40, para 153:

Non-specified investments *are any other type of investments; in addition, any investment with a duration of over one year is classified as a non-specified investment. In previous years the Council has not used non-specified investments. For 2023/24, investments of up to three years with other local authorities will be allowed, up to a total value of £5m. This is to enable the Council to access higher returns through investing for longer periods.*

Note: BBC confirmed that longer term resources had been identified and set aside which could potentially be utilised for longer term investments, thus benefiting from higher returns (and locking in those returns) to support its investment income target. Having said this, the Council still has a modest income target of £150k for 2023/24 and as of yet has not utilised any longer term investments with other Local Authorities.

THE TRADE-OFF BETWEEN SECURITY AND RISK

The over-riding principal that Officers and Members need to firmly take hold of is the rule in investing, that generally, and usually, a higher yield or rate of interest can only be achieved by taking on a higher level of risk by accepting less security and / or liquidity. The proper identification and management of risk is what the statutory guidance and CIPFA codes are focused on.

3.4 COMPLIANCE WITH STATUTORY INVESTMENT GUIDANCE: NON-SPECIFIED INVESTMENTS

The Capital and Investment Strategy 2023/24 incorporating the Investment and Treasury Management Strategy (the Strategy), complies with statutory guidance as detailed:

a) **The 2010 statutory guidance stated that the key requirement of a specified investment** (besides being for under one year), is that it should require ***'minimal reference in their Strategies'*****,** i.e. such types of investments should be straight forward for all members approving the strategy to understand the risks and rewards associated with using that type of investment. *(The 2018 statutory guidance omits this phrase of* ***'minimal reference in their Strategies'****: however, it is clear in statutory guidance that specified investments are high credit worthiness / low risk, i.e. they would require minimal scrutiny by members. Conversely, non-specified investments would therefore require greater scrutiny and understanding from members: this places responsibility on officers to ensure that TM reports clearly explain the risk characteristics of non-specified investments so that members can form a judgement.)*

3.5 MEMBER SCRUTINY

Scrutiny members are required by statutory guidance and the TM code to give careful consideration to approving the TM strategy and approved investment instruments. As high credit worthiness / low risk specified types of investment require little consideration, their scrutiny focus should fall on **non-specified investments** which have higher risk.

Action: Non-treasury investments should be clearly identified and reported in appropriate categories reflecting their service or commercial purposes. For each, the various purposes and management arrangements should be described. The level of risk and the arrangements for managing it should be set out. A Set of Investment Management Practices should be developed to support Members ability for effective Scrutiny as well as ensure appropriate compliance with the revised TM Code of Practice.

The scrutiny role of members is given high profile in the CIPFA TM Code and in statutory investment guidance:

CIPFA TM Code

1.3 DECISION MAKING AND ANALYSIS IN THE PUBLIC SERVICES

CIPFA considers it vital that the treasury management decisions of organisations in the public services should be subjected to ***prior scrutiny.*** *The treasury management strategy is approved annually by full board/council, which is a strength. The treasury management strategy should be supplemented by the provision of monitoring information and regular review by board members/councillors in both executive and scrutiny functions.*

1.12

The procedures for monitoring treasury management activities through audit, ***scrutiny*** *and inspection should be sound and rigorously applied, with an openness of access to information and well-defined arrangements for the review and implementation of recommendations for change.*

Investment guidance 2010

INVESTMENT STRATEGY [4.1 - 4.7]

6. The preparation each year of an investment Strategy is central to the guidance [4.1].

It encourages the formulation of policies for the prudent investment of the funds that authorities hold on behalf of their communities. In addition, the need for the Strategy to be approved by the full council ensures that these policies are subject to the ***scrutiny of elected Members:*** *this is particularly important, given that central Government in 2004 ceased its close regulation of local government investment.*

(The 2018 statutory guidance omitted to comment on the scrutiny role of members and so has left this area to CIPFA to provide guidance on. However, members should note the above paragraph from the 2010 guidance which clearly states the importance that the Government places on the role of members in local authorities.)

Action: In view of the lack of an appropriate level of Member Scrutiny of the Capital & Investment Strategy and the proposed amendments resulting from this report, it is suggested that a new Capital & Investment Strategy should be submitted for approval.

4. The annual TM strategy report: borrowing

4.1 COMPLIANCE REQUIREMENTS FOR BORROWING

The CIPFA Prudential Code 2021 states the following: -

E16. *In order to ensure that over the medium-term net debt will only be for a capital purpose, the local authority should ensure that gross external debt does not, except in the short term, exceed the total of the capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years.*

E17. *Local authorities are reminded that they should a**void exposing public funds to inappropriate or unquantified risk**. The prime policy objective of their treasury management investment activities is the security of funds, and authorities should consider a balance between security, liquidity and yield that reflects their own risk appetite but that prioritises security and liquidity over yield. **Investments for 'commercial purposes', which are taken primarily for financial return, are likely to be higher risk, and local authorities must not borrow to invest primarily for financial return**. It is therefore important that the **risks of commercial investments are proportionate to an authority's overall capacity** – i.e. that plausible losses could be absorbed in budgets or reserves without unmanageable detriment to local services and the level of resources available to the organisation. Authorities that have an expected need to borrow should review options for exiting their financial investments for commercial purposes in their annual treasury management or investment strategies.*

As this report deals with borrowing going back to 2020, reference is made initially to statutory guidance issued pre the 2021 Code of Practice and Pre changes to PWLB guidance effective from 26th November 2020.

In addition **the statutory guidance 2010** states the following, (the DLUHC will never give a definitive legal opinion as it would be inappropriate for civil servants to give such):

> ***Investment of money borrowed in advance of need [6.4]***
>
> *19. Section 12 of the 2003 Act gives a local authority power to invest for "any purpose relevant to its functions under any enactment, or for the purposes of the prudent management of its financial affairs". CLG cannot offer an authoritative interpretation of the law, but takes the informal view that, while **the speculative procedure of borrowing purely to invest at a profit is unlawful,** there appears to be no legal obstacle to the temporary investment of funds borrowed for the purpose of expenditure in the reasonably near future. CIPFA's Prudential Code for Capital Finance in Local Authorities (2nd edition 2009) makes recommendations about this procedure in the context of prudent borrowing practice. **To complement that, the***

CLG guidance recommends that the Strategy reports the authority's policies relating to the investment of any sums borrowed in advance. *The Government considers that elected Members should have an opportunity to scrutinise this aspect of their authorities' investment practices, given that it may expose more money than is strictly necessary to investment risk.*

The statutory guidance 2018 repeats the same principles as the 2010 guidance: -

Borrowing in advance of need

46. Authorities must not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed.

47. Where a local authority chooses to disregard the Prudential Code and this Guidance and borrows or has borrowed purely to profit from the investment of the extra sums borrowed the Strategy should explain:

• Why the local authority has decided not to have regard to this Guidance or to the Prudential Code in this instance; and

• The local authority's policies in investing the money borrowed, including management of the risks, for example, of not achieving the desired profit or borrowing costs increasing.

To summarise our understanding is as follows: -

- As noted in 4.1 above, per the Prudential Code, it would be ultra vires to borrow in advance of a local authority's needs, (to finance capital expenditure or to replace maturing debt) purely to invest at a profit. Forward projections of CFR levels (usually over a 3 year time horizon) however enables borrowing to take place at the most opportune time in support of planned capital programme works.
- It would be intra vires to borrow in advance of need provided it is within the increase in the capital financing requirement estimates in the strategy and a sound business case can be made which demonstrated e.g. that borrowing rates are expected to go up so it would save money to borrow soon, rather than later.
- Investment activities must put first and foremost the security of funds and not exposing the authority's funds to inappropriate risk.
- Authorities are expected to include in their TM strategy report what their policy is on the investment of any sums borrowed in advance of need.
- Members must be given the opportunity to scrutinise any borrowing in advance, both as a policy in the strategy report and of actual borrowing in advance of need undertaken in the annual review report.

- The CIPFA Code and statutory guidance explicitly prohibit local authorities from borrowing to funding assets primarily for investment return, as the more of such investments an authority has, **the more risk exposure an authority is taking on. Furthermore,** where an authority has large cash balances over and above what it needs to manage day to day cash flows, the expectation would be that that surplus should be the first source for financing capital expenditure rather than going to the PWLB or to financial markets to increase external borrowing so as to maintain those large in house cash balances. That is a prudent policy as borrowing is generally always more expensive than the returns achievable on investments unless investments take on a greater degree of risk and / or are invested for longer periods.

4.2 TEMPLATE TM STRATEGY REPORTS PROVIDED BY LINK TO BBC

Link provides template annual strategy and annual review reports to all clients which contain suggested paragraphs dealing with borrowing, the reports have been fully updated to reflect the revised TM/Prudential Code Guidance for implementation in 2023/24.

1. **Extracts from a template annual review report supplied by Link to all clients**

   Borrowing strategy

(Please amend for local circumstances) The Authority is currently maintaining an under-borrowed position. This means that the capital borrowing need, (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Authority's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as medium and longer dated borrowing rates are expected to fall from their current levels once prevailing inflation concerns are addressed by tighter near-term monetary policy. That is, Bank Rate increases over the remainder of 2023 before falling in 2024 through 2025.

Against this background and the risks within the economic forecast, caution will be adopted with the 2023/24 treasury operations. The Director of Finance will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- *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 decisions will be reported to the appropriate decision-making body at the next available opportunity.

Each authority will now need to state its own particular preferences and strategy…

Policy on Borrowing in Advance of Need

The Authority 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 Capital Financing Requirement estimates and will be considered carefully to ensure that value for money can be demonstrated and that the Authority can ensure the security of such funds.

(If desired) Borrowing in advance will be made within the constraints that:

- It will be limited to no more than XX% of the expected increase in borrowing need (CFR) over the three-year planning period; and
- The Authority would not look to borrow more than XX months in advance of need.

Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

4.3 WHAT POLICY ON BORROWING IN ADVANCE HAVE MEMBERS APPROVED EACH YEAR IN THE TM STRATEGY REPORT?

BBC does not make any reference in its Capital and Investment Strategy in relation to its policy on borrowing in advance of need. The Council does clearly undertake detailed forecasting for its CFR and future borrowing requirements however it would be good practice to include some of the above detailed template information provided by Link, within its own Capital and Investment Strategy.

Action: Update Capital and Investment Strategy to include further detail on policy of borrowing in advance of need as provided in templates from Link Treasury Services.

Extract from BBC 2023/24 TMSS:

	2021/22 Actual £000	2022/23 Estimated outturn £000	2023/24 Estimate £000	2024/25 Estimate £000	2025/26 Estimate £000
Total external borrowing	228,197	217,191	267,688	297,685	308,182
Capital financing requirement	240,596	259,779	303,964	332,894	342,439
Under borrowing	(12,399)	(42,588)	(36,276)	(35,209)	(34,317)

Note: the Capital Financing Requirement in the 2021-22 Statement of Accounts was actually £248,673k and thus £8,077k more than the actual reported in the 2023/24 TMSS. It should also be note that BBC Operational Boundary was set at £245,000k for 2021/22, it would typically be set at a margin above forecast CFR levels to allow for variations in expected cashflows. It was noted by the client that the operational boundary was in fact breached for a month in November that year where debt levels reached £247m. The Authorised Limit was set at a level comfortably above expected Borrowing levels (£293,000k). As noted in the TMSS for BBC, The Local Government Act 2003 stipulates that it must not be breached at any time.

Action: A Revised Capital and Investment Strategy Report should include updated CFR actuals for 2021/22 with existing projections reviewed for accuracy.

4.4 ACTUAL BORROWING FIGURES FOR BBC

Table 1 shows Link figures for the level of under borrowing each year 2019/20 – 2022/23:

Table 1

	31.03.2020 (£m)	31.03.2021 (£m)	31.03.2022 (£m)	31.03.2023 (£m)
BS Balance available for investment	21.6	23.5	25.0	Awaiting
Actual external investments	2.2	21.2	13.9	Awaiting
Surplus monies	**19.4**	**2.3**	**11.1**	Awaiting
Source of Surplus monies				
Working Capital (creditors, debtors etc.)	3.4	5.0	9.0	
Under Borrowing	**22.8**	**7.3**	**20.1**	
BBC Estimate CFR per Capital and Investment Strategy				
Capital Financing Requirement	118.2	149.7	250.3	259.8
Actual external borrowing	96.4	233.2	228.4	
Under Borrowing	**21.8**	**83.5**	**21.9**	
Actual external borrowing	96.4	233.2	228.4	
Actual external investment	2.2	21.2	13.9	
Net borrowing	94.2	212	214.5	

Note: BBC has been consistently under-borrowed every year for the years reviewed from 2019/20 to date however during this time the anticipated CFR level has increased significantly year on year and the 2022/23 Forecast CFR is more than double the 2019/20 forecast position. Actual external borrowing has more than doubled during this time.

Table 2 shows the CFR compared to external debt and investments.

Table 2

Comparison of CFR to External Borrowing and Investment Portfolios:				
	31.03.2020 (£m)	**31.03.2021 (£m)**	**31.03.2022 (£m)**	**31.03.2023 (£m)**
Actual external borrowing	96.4	233.2	228.4	
Actual external investment	2.2	21.2	13.9	
Net borrowing	94.2	212	214.5	
Capital Financing Requirement				
Capital Strategy 2023/24	118.2	149.7	250.3	259.8
Actuals from year-end figures	**119.2**	**240.5**	**248.6**	
Authorised Limit reported in Capital & Investment Strategy	**£126m**	**£157.7**	**£293m**	**330m**

Note: There has been a material expansion of both CFR levels and debt . It was reported in the 2020/21 Capital Strategy that the anticipated CFR level would be £149.7m however the actual position per the SOA was £240.5m a significant (£90.8m) variance. External borrowing had also increased significantly during this period.

The Authorised Limit for External Debt is the limit placed by the Council on the absolute level of its gross debt at any time. (The Local Government Act 2003 stipulates that it must not be breached at any time.) The Limit was reported in the 2020/21 Capital and Investment Strategy as £157,729k whilst actual external borrowing was £233,224k. It has been subsequently clarified that further reports were presented to Members to seek authorisation for increases limits.

Table 3: Borrowing in the last three treasury management strategy reports

TM Report 2020/21	2019/20 estimate (£m)	2020/21 estimate (£m)	2021/22 estimate (£m)	2022/23 estimate (£m)
Debt as at 1st April	97.934	131.380	128.175	130.080
Expected change in debt	33.446	-3.205	1.905	
Actual gross debt at 31st March	131.38	128.175	130.080	242.688
CFR	**118.076**	**149.729**	**151.054**	**152.439**
Under/(over) borrowed	**13.304**	**-21.554**	**-20.974**	**-90.249**
Actual over borrowing				
TM Report 2021/22	**2019/20 Actual (£m)**	**2020/21 estimates (£m)**	**2021/22 estimates (£m)**	**2022/23 estimates (£m)**
Debt as at 1st April	96.351	213.847	237.599	248.087
Expected change in debt	117.496	23.752	10.488	8.053
Actual gross debt at 31st March	213.847	237.599	248.087	256.140
CFR	**119.238**	**240.382**	**262.394**	**271.292**
Under/(over) borrowed	**94.609**	**-2.783**	**-14.307**	**-15.152**
TM Report 2022/23	**2019/20 Actual (£m)**	**2020/21 Actual (£m)**	**2021/22 estimates (£m)**	**2022/23 estimates (£m)**
Debt as at 1st April	96.351	232.847	233.338	279.835
Expected change in debt	136.496	0.491	46.497	29.997
Actual gross debt at 31st March	232.847	233.338	279.835	309.832
CFR	**240.596**	**250.289**	**295.648**	**320.706**
Under/(over) borrowed	**-7.749**	**-16.951**	**-15.813**	**-10.874**

Note: There are many questions raised by the above table, notably the seemingly continuous under forecasting of CFR and subsequent expected debt levels. This suggests a lack of capital planning with implications around effective monitoring and scrutiny of the Capital and Investment Strategy.

4.5 TIMELINE OF LONG-TERM NORROWING DECISIONS TAKEN FROM 2020 TO 20223:

The below table details the long-term PWLB Maturity loans taken out by BBC between the 2019/20 Financial year to date:

Table 4: BBC Long term Maturity PWLB borrowing 2020-2023

Maturity PWLB Borrowing					
Ref:	**Start date:**	**Maturity date:**	**Principal:**	**Interest rate (%):**	**Interest p.a. (£000s)**
247841	16/09/2020	16/09/2050	£7,000,000.00	2.57	179.9
272452	27/11/2020	27/11/2030	£10,000,000	2.16	216
272454	27/11/2020	27/11/2050	£10,000,000	2.71	271
324302	26/03/2021	26/03/2071	£20,000,000	1.89	378
340223	27/04/2021	27/04/2071	£30,0000,00	1.87	561
378361	19/07/2021	19/07/2031	£7,000,000	1.48	103.6
378527	22/07/2021	22/07/2034	£10,000,000	1.55	155
378529	22/07/2021	22/01/2068	£9,000,000	1.67	150.3
378263	22/07/2021	22/07/2069	£10,000,000	1.65	165
431961	04/11/2021	04/11/2062	£20,000,000	1.72	344
494800	14/03/2022	14/03/2042	£2,853,000	2.31	65.90
Total:			**£135,853,000**		**£2,589.7**

This section of the report will provide a detailed commentary and timeline on the lead up to all long-term borrowing decisions and the strategy undertaken by BBC since 2020 *(including key discussions/meetings which have taken place with LTS in relation to the ongoing borrowing strategy):* The Forward Balance Sheet Projections and Interest rate forecasts will also be detailed to further contextualise decision making:

28th Jul 2020: Areas identified by LTS for discussion at Strategy Meeting on 11th Aug:

- Significantly under-borrowed at present (£88m if client doesn't renew the £35m st borrowing maturing in year).
- Loans to SAIL *[wholly owned subsidiary classed as commercial activities]* forecast to increase by £27.5m in year – implications for new borrowing with PWLB.

- MTFS only forecasts to 2022/23 – not long enough, need more detailed projections to 2024/25.
- Capital Strategy – Lacking detail and again not projected beyond 2022/23 – and the borrowing identified against spend is minimal.
- HRA is fully funded with £61m LT loans so any borrowing would be GF related.
- Commercial arm SAIL (Seven Arches Investment Ltd) has made the following purchases [Sept 2018 One Curo Park Hertfordshire (Residential development cost £4.965m) and March 2019 44 East Street, Chichester (Former TK Max cost £7.075m). All out of Borough.

11th Aug 2020 Strategy Meeting with BBC:

The below Projected Forward /Balance Sheet agreed in advance with the Council:

2019/20 (£'000)	CAPITAL FINANCING REQUIREMENT	2020/21 (£'000)	2021/22 (£'000)	2022/23 (£'000)	*2023/24 (£'000)*	*2024/25 (£'000)*
23,910	GF	36,494	36,219	39,204	39,204	39,204
62,829	HRA	64,671	64,671	64,671	*64,671*	*64,671*
32,500	Commercial Activities	60,000	60,000	60,000	*60,000*	*60,000*
119,239	CFR	161,165	160,890	163,875	*163,875*	*163,875*
	PFI Liabilities					
-	Finance Lease Liabilities	-	-	-	-	-
119,239	Underlying Borrowing Requirement	161,165	160,890	163,875	*163,875*	*163,875*
(96,412)	External Borrowing c/fwd	(96,412)	(61,347)	(56,347)	*(56,347)*	*(56,347)*
-	Loan Maturities	35,065	5,000	-	-	-
-	New Loans		-	-	-	-
(96,412)	External Borrowing	(61,347)	(56,347)	(56,347)	*(56,347)*	*(56,347)*
22,827	Under / (Over) Borrowing	99,818	104,543	107,528	*107,528*	*107,528*
19%	*Underborrowing as a % of Underlying Borrowing Requirement*	*62%*	*65%*	*66%*	*66%*	*66%*
	RESERVES / BALANCES, INVESTMENTS & WORKING CAPITAL (£'000)					
3,117	General Fund Balance	2,578	2,178	2,178	*2,178*	*2,178*
7,416	Housing Revenue Account Balance (inc MRA)	2,616	2,616	2,616	*2,616*	*2,616*
(449)	Collection Fund Adjustment Account	(449)	(449)	(449)	*(449)*	*(449)*
6,804	Earmarked reserves	3,579	3,276	2,974	*2,672*	*2,672*
2,065	Capital Receipts Reserve	2,065	2,065	2,065	*2,065*	*2,065*
1,968	Provisions (exc. any accumulating absences)	1,968	1,968	1,968	*1,968*	*1,968*
751	Capital Grants Unapplied	751	751	751	*751*	*751*
21,672	Amount Available for Investment	13,108	12,405	12,103	*11,801*	*11,801*
2,221	External Investments	(83,334)	(88,762)	(92,049)	*(92,351)*	*(92,351)*
3,376	Working Capital (Deficit) / Surplus	3,376	3,376	3,376	*3,376*	*3,376*
	INTERNAL BORROWING / OVER BORROWING (£'000)					

For context, the below interest rate view was in place at this time:

Link Group Interest Rate View 11.8.20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Bank Rate View	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3 Month average earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	-	-	-	-
6 Month LIBID	0.10	0.10	0.10	0.10	0.10	0.10	0.10	-	-	-	-
12 Month LIBID	0.20	0.20	0.20	0.20	0.20	0.20	0.20	-	-	-	-
5yr PWLB Rate	1.90	1.90	2.00	2.00	2.00	2.00	2.00	2.10	2.10	2.10	2.10
10yr PWLB Rate	2.10	2.10	2.10	2.10	2.10	2.20	2.20	2.20	2.30	2.30	2.30
25yr PWLB Rate	2.50	2.50	2.50	2.50	2.60	2.60	2.60	2.70	2.70	2.70	2.70
50yr PWLB Rate	2.30	2.30	2.30	2.30	2.40	2.40	2.40	2.50	2.50	2.50	2.50

Borrowing Strategy agreed:

In light of the interest rate forecast (note there was a 180bps margin on non HRA PWLB borrowing at this time) and risks highlighted around current commercial programme, a borrowing requirement of c£72.5m was identified by the Council, in-day rate monitoring was put in place by link to optimise timings of new borrowing, the following strategy was agreed with Link and noted in the minutes:

- ***HRA CFR increasing by circa £1.8m*** *this year [2020-21] so consider borrowing from* ***PWLB Gilts + 80bps*** *for this borrowing requirement – (asap)*
- ***Additional SAIL Loans of £27.5m*** *– consider borrowing from* ***PWLB at Gilts + 180bps.*** *[De-risks this financing need as market borrowing for this type of expenditure would be more expensive* ***and PWLB have indicated in the Consultation Paper issued earlier this financial year that they will not fund this type of activity at some date in the near future] – arrange asap.***
- *Remaining c.****£43m consider funding via the market from institutional lenders in agreed tranches which tie in with the dates that the cash is actually needed*** *(future drawdown periods to be agreed) but importantly the interest rate is fixed on the loan now. This scheduled drawdown facility is not available from the PWLB. It is also anticipated that these loans will be materially cheaper than the current PWLB lending rate for General Fund purposes of Gilts plus 180bps.* ***The purpose of this deferred drawdown loan will be to refinance temporary borrowing and general capex as part of the capital programme****.*

Note: Even with the benefit of hindsight the above borrowing strategy which was set out during the Strategy meeting on 11th Aug 2020 seems sound. The long-term view on interest rates was to remain low at 0.1% for the forecast period to March 2023 however there was still a Gilts +180bps margin on new non HRA PWLB borrowing making any cost of carry for new PWLB loans significantly material in terms of revenue budget impact. Through this backdrop the sound strategy was to utilise short term borrowing and seek to replace with deferred market loans, thus securing budgetary certainty (minimising refinancing risk), avoiding significant cost of carry/increased counterpart exposure . The requirement for SAIL was to funded through PWLB at an opportune time (but as soon as possible) to ensure compliance with PWLB requirements prior to any potential change in regulations.

14th Sep 2020 £7m from PWLB (in relation to SAIL) Application submitted for advance at the morning Fix rate; drawn down on 16th Sep:

Ref:	Start date:	Maturity date:	Principal:	Interest rate (%):
247841	16/09/2020	16/09/2050	£7,000,000.00	2.57

Note: Following the above drawdown, the Council still had a further c£20m requirement for SAIL and The Council carries this risk should mooted PWLB regulation changes be announced

12th Oct 2020 *an update from the client was requested on the Councils borrowing by LTS and it was noted by the Council that "At some stage we will be looking to take some more PWLB borrowing but not until the rate drops closer to 2.5%. Last week it was around the 2.7% level, so no phone call updates needed just at the moment. We can touch base again as and when the rates start to move in the right direction".*

19th Nov 2020 The Council was notified of a chance that the Chancellor may take the opportunity to release the new terms on PWLB borrowing***.***

25th Nov 2020: the Council was notified by Link as follows:

With reference to our recent discussion, you will be aware that we have advised the Authority in the past to borrow PWLB to finance capex as the PWLB Consultation paper was threatening to withdraw the PWLB borrowing facility for any local authority planning to purchase assets for yield in the future. Today the HM Treasury have confirmed that the PWLB lending arrangement will be changing from 9am tomorrow morning. The language used in their communication is not very clear so you may need to seek further clarification from the PWLB, but it would appear that If you are planning to incur capex on investment assets in the next 3 years, for yield, the PWLB facility will not be available to the Authority from 9am tomorrow morning. If this interpretation is confirmed by the PWLB, and your intentions regarding your future capex plans remain unchanged in relation to your intention to purchase commercial assets for yield, then you may wish to consider borrowing today from the PWLB.

Following this correspondence the client confirmed the below borrowing in relation to SAIL:

"Many thanks for this briefing. We have proceeded today with borrowing £20m from PWLB today. £10m for 10 years and £10m for 30 years. The combined interest rates equate to 2.43%, which is just under our target rate of 2.5%.We are unlikely to take any further PLWB borrowing in the foreseeable future, so could you unsubscribe our treasury.management@brentwood.gov.uk *account from the PWLB alerts that we currently receive. I can always go into Passport and take a look at the rates if I need to check them".*

Ref:	Start date:	Maturity date:	Principal:	Interest rate (%):
272452	27/11/2020	27/11/2030	£10,000,000	2.16
272454	27/11/2020	27/11/2050	£10,000,000	2.71

For context, the below interest rate view was in place at this time:

Link Group Interest Rate View	9.11.20													
	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
BANK RATE	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
6 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
12 month ave earnings	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20
5 yr PWLB	1.80	1.80	1.80	1.80	1.80	1.90	1.90	1.90	1.90	1.90	2.00	2.00	2.00	2.00
10 yr PWLB	2.10	2.10	2.10	2.10	2.20	2.20	2.20	2.30	2.30	2.30	2.30	2.30	2.30	2.30
25 yr PWLB	2.50	2.50	2.60	2.60	2.60	2.60	2.70	2.70	2.70	2.70	2.80	2.80	2.80	2.80
50 yr PWLB	2.30	2.30	2.40	2.40	2.40	2.40	2.50	2.50	2.50	2.50	2.60	2.60	2.60	2.60

Note: Following the above £20m drawdown, the Council had fully funded its Commercial programme (SAIL) prior to the regulation changes and therefore avoided placing its future access to the PWLB at Risk. This decision had to betaken despite it being known that the +180BPS margin above Gilts was to be reduced the following day to +80BPS as this scheme would not have been allowable. As such this was a sound decision (albeit a decision that could have been taken earlier).

2nd Feb 2021: The Council notifies LTS of the potential for a large in-borough purchase and potential requirement to borrow £62m at the end of February. The Council updated that they are in the process of purchasing another asset in Brentwood Town Centre, likely to complete at the end of February, supported by £17m borrowing. Initially borrow short-term, then refinance with PWLB borrowings.

12th Feb 2021: The previously discussed deferred drawdown borrowing option (as set out at the Aug Strategy Meeting) was presented to the Council. At the time, there was an anticipated c£1m saving over 2 years by not borrowing today and locking in a deferred drawdown private placement. It was noted that naturally the private placement rate was higher than current PWLB but does offer the certainty of locking in an interest rate for money in the future and forgoing the cost of carry £1m.

19th Feb 2021 The Council outlined their preferred approach as follows:

a) *Borrow £30m from PWLB at the prevailing rate next week (1.86%)*

b) *Borrow £60m short-term from other local authorities, with a view to replacing, say, £30m with PWLB funding over the next few months if rates start to drop towards the target level of 1.70%, or if they start to rise.*

c) *Over the next few months, explore in more detail the deferred draw-down option for the remaining £30m, so that we fully understand the options and the risk factors.*

22nd Feb 2021 Strategy Meeting with BBC:

The below Projected Forward /Balance Sheet agreed in advance with the Council:

2019/20 (£'000)	CAPITAL FINANCING REQUIREMENT	2020/21 (£'000)	2021/22 (£'000)	2022/23 (£'000)	2023/24 (£'000)	2024/25 (£'000)
56,409	GF	176,791	193,108	193,479	193,779	193,779
62,829	HRA	63,591	69,286	77,813	88,340	88,340
119,238	CFR	240,382	262,394	271,292	282,119	282,119
	PFI Liabilities					
-	Finance Lease Liabilities	-	-	-	-	-
119,238	Underlying Borrowing Requirement	240,382	262,394	271,292	282,119	282,119
(96,412)	External Borrowing c/fwd	(96,412)	(123,412)	(63,912)	(63,912)	(63,912)
-	Loan Maturities		59,500	-	-	-
-	New Loans	(27,000)				-
(96,412)	External Borrowing	(123,412)	(63,912)	(63,912)	(63,912)	(63,912)
22,826	Under / (Over) Borrowing	116,970	198,482	207,380	218,207	218,207
19%	*Underborrowing as a % of Underlying Borrowing Requirement*	*49%*	*76%*	*76%*	*77%*	*77%*
	RESERVES / BALANCES, INVESTMENTS & WORKING CAPITAL (£'000)					
3,117	General Fund Balance	2,578	2,996	3,200	3,200	3,200
1,071	Housing Revenue Account Balance	1,133	1,567	1,585	1,612	1,612
6,345	Major Repairs Reserve	5,684	1,056	866	676	3,576
(449)	Collection Fund Adjustment Account	(449)	(449)	(449)	(449)	(449)
4,404	Earmarked reserves - GF	4,404	7,039	8,824	10,330	10,330
2,400	Earmarked reserves - HRA	2,400	2,400	2,400	2,400	2,400
2,065	Capital Receipts Reserve	2,065	2,065	2,065	2,065	2,065
1,968	Provisions (exc. any accumulating absences)	1,968	1,968	1,968	1,968	1,968
751	Capital Grants Unapplied	751	751	751	751	751
21,672	Amount Available for Investment	20,534	19,393	21,210	22,553	25,453
2,222	External Investments	(93,060)	(175,713)	(182,794)	(192,278)	(189,378)
3,376	Working Capital (Deficit) / Surplus	3,376	3,376	3,376	3,376	3,376

For context, the below Interest rate view was in place at this time:

Link Group Interest Rate View	8.2.21												
	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
BANK RATE	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
6 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
12 month ave earnings	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20
5 yr PWLB	0.90	0.90	0.90	0.90	1.00	1.00	1.10	1.10	1.10	1.20	1.20	1.20	1.20
10 yr PWLB	1.30	1.30	1.30	1.30	1.40	1.40	1.50	1.50	1.50	1.60	1.60	1.60	1.60
25 yr PWLB	1.90	1.90	1.90	1.90	2.00	2.00	2.10	2.10	2.10	2.20	2.20	2.20	2.20
50 yr PWLB	1.70	1.70	1.70	1.70	1.80	1.80	1.90	1.90	1.90	2.00	2.00	2.00	2.00

The meeting noted that the Council was looking for a 'blended' approach to its borrowing with a view to de-risk its current position limiting cost of carry and achieving a greater element of budget certainty through:

(i) Utilising further short-term borrowing (Circa £60m) from other Local Authorities

(ii) Borrowing Circa £30m from PWLB to fund immediate capital programme requirement.

(iii) Securing an element of budget certainty through the possibility of arranging a forward starting market loan with a deferred drawdown which would replace £30m of the temporary loans

Prior to the meeting, an illustrative example for the deferred drawdown based on £30m principal for a 40 year annuity PWLB loan at 1.99% was provided:

40 year annuity	PWLB Cost (NPV @ 3.5%)	Market Loan Cost (NPV @ 3.5%)	NPV Saving/(Cost)	Cost of Carry
1 year forward (indicative rate of 2.36%)	£23.476m	£24.204m	(£0.728m)	£0.56m
2 year forward (indicative rate of 2.41%)	£23.448m	£23.584m	(£0.136m)	£1.12m
3 year forward (indicative rate of 2.45%)	£23.422m	£22.941m	(£0.481m)	£1.665m

The meeting minutes note the that the Council will maintain dialogue with LTS over imminent borrowing requirement and look to optimise the point of borrowing from PWLB through monitoring of in-day expected movements, *(it was acknowledged that the short-time frame available limits the ability to achieve this due to imminent capital spend requirement)*.

1st Mar 2021 An update was requested by LTS in relation to progression on Borrowing

2nd Mar 2021 The Council confirmed as follows: *"Borrowed £55m last week to fund the first in-borough acquisition, which completed at the end of last week. We borrowed all of this short-term – a package of borrowings from other local authorities. The second acquisition is due to complete on Friday 12 March, and we will need to borrow £25m by that date to fund this acquisition. Ideally, we will borrow from PWLB to fund this acquisition to reduce our exposure to the risk associated with short-term borrowings. The timing of any PWLB borrowing, however, is critical with 50 year rates still at the 2% level".*

9th Mar 2021 LTS *notified the Council that updated target rate (1.90 for 50 year maturity) rates are in this area at the moment so we will monitor closely with you. Please make sure that all the admin / paperwork is in place so you are able to undertake borrowing to act at short notice should you be notified of a favourable move.*

Updated forecast also issued direct to the Council:

Link Group Interest Rate View	8.3.21												
	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
BANK RATE	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
6 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
12 month ave earnings	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20
5 yr PWLB	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.30	1.30	1.40	1.40	1.40	1.40
10 yr PWLB	1.60	1.60	1.60	1.60	1.70	1.70	1.70	1.80	1.80	1.90	1.90	1.90	1.90
25 yr PWLB	2.10	2.10	2.10	2.20	2.30	2.30	2.30	2.40	2.40	2.50	2.50	2.50	2.50
50 yr PWLB	1.90	1.90	1.90	2.00	2.10	2.10	2.10	2.20	2.20	2.30	2.30	2.30	2.30

24th Mar 2021: Link notify BBC of PWLB rates being below their Target Rate:

You may have seen that 50 yr. PWLB is now just below your target rate at 1.89%? How is everything going your side? Also, are you still looking to progress with the deferred drawdown or do we need to look at an alternative approach?

Client confirms application for borrowing submitted:

Ref:	Start date:	Maturity date:	Principal:	Interest rate (%):
324302	26/03/2021	26/03/2071	£20,000,000	1.89

Note: £20m of identified borrowing allocation drawn down from PWLB at an excellent rate. It should be noted however that since the initial borrowing strategy was set-out by the Council in conjunction with LTS (Aug 2020), the Councils CFR has shifted upwards significantly and late notification of purchases through short term borrowing (see note on 22nd March) results in increased refinancing risk through additional short term borrowing of £55m; therefore outpaces initial borrowing strategy for replacing short term loans with longer term PWLB. The £20m loan above only partly offsets this increasing short term position.

8th Apr 2021: LTS requests meeting to update eon borrowing position

23rd Apr 2021: Update meeting held with Brentwood to update on debt strategy, a signed mandate was received by LTS to progress with the deferred drawdown through the market. The below Updated Forward Balance Sheet Projection was agreed with the Council:

2019/20 (£'000)	CAPITAL FINANCING REQUIREMENT	2020/21 (£'000)	2021/22 (£'000)	2022/23 (£'000)	2023/24 (£'000)	2024/25 (£'000)
56,409	GF	176,791	193,108	193,479	193,779	193,779
62,829	HRA	63,591	69,286	77,813	88,340	88,340
119,238	CFR	240,382	262,394	271,292	282,119	282,119
	PFI Liabilities					
-	Finance Lease Liabilities	-	-	-	-	-
119,238	Underlying Borrowing Requirement	240,382	262,394	271,292	282,119	282,119
(96,412)	External Borrowing c/fwd	(96,412)	(178,412)	(103,912)	(63,912)	(63,912)
-	Loan Maturities		74,500	40,000	-	-
-	New Loans	(82,000)				-
(96,412)	External Borrowing	(178,412)	(103,912)	(63,912)	(63,912)	(63,912)
22,826	Under / (Over) Borrowing	61,970	158,482	207,380	218,207	218,207
19%	*Underborrowing as a % of Underlying Borrowing Requirement*	*26%*	*60%*	*76%*	*77%*	*77%*
	RESERVES / BALANCES, INVESTMENTS & WORKING CAPITAL (£'000)					
3,117	General Fund Balance	2,578	2,996	3,200	3,200	3,200
1,071	Housing Revenue Account Balance	1,133	1,567	1,585	1,612	1,612
6,345	Major Repairs Reserve	5,684	1,056	866	676	3,576
(449)	Collection Fund Adjustment Account	(449)	(449)	(449)	(449)	(449)
4,404	Earmarked reserves - GF	4,404	7,039	8,824	10,330	10,330
2,400	Earmarked reserves - HRA	2,400	2,400	2,400	2,400	2,400
2,065	Capital Receipts Reserve	2,065	2,065	2,065	2,065	2,065
1,968	Provisions (exc. any accumulating absences)	1,968	1,968	1,968	1,968	1,968
751	Capital Grants Unapplied	751	751	751	751	751
21,672	Amount Available for Investment	20,534	19,393	21,210	22,553	25,453
2,222	External Investments	(38,060)	(135,713)	(182,794)	(192,278)	(189,378)
3,376	Working Capital (Deficit) / Surplus	3,376	3,376	3,376	3,376	3,376

For context, the below Interest rate view was in place at this time:

Link Group Interest Rate View 8.3.21	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
BANK RATE	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
6 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
12 month ave earnings	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20
5 yr PWLB	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.30	1.30	1.40	1.40	1.40	1.40
10 yr PWLB	1.60	1.60	1.60	1.60	1.70	1.70	1.70	1.80	1.80	1.90	1.90	1.90	1.90
25 yr PWLB	2.10	2.10	2.10	2.20	2.30	2.30	2.30	2.40	2.40	2.50	2.50	2.50	2.50
50 yr PWLB	1.90	1.90	1.90	2.00	2.10	2.10	2.10	2.20	2.20	2.30	2.30	2.30	2.30

Ref:	Start date:	Maturity date:	Principal:	Interest rate (%):
340223	27/04/2021	27/04/2071	£30,000,000	1.87

Note: The further £30m PWLB maturity loan above helped to further secure capital financing requirements at an excellent rate. The Council however still held a significant short-term position as at 30th April (£84.5m) exposing itself to significant refinancing risk (all be it, at a time when the long term out-look for rates was low, enabling the Council to fund at extremely low rates between 0.01% and 0.47%. The strategy remained to replace this short-term funding with a combination of PWLB maturity and deferred drawdown loans.

Short Term Borrowing held by BBC at 30 April 2021:

Counterparty Name	Start Date	Maturity Date	Principal	Coupon
Western Isles Council	11/01/2021	11/05/2021	£2,000,000	0.0500%
Lincolnshire County Council	02/11/2020	04/05/2021	£2,000,000	0.1000%
Western Isles Council	02/11/2020	04/05/2021	£3,000,000	0.1000%
Warwick District Council	05/11/2020	05/05/2021	£2,500,000	0.1300%
Hyndburn Borough Council	05/01/2021	05/05/2021	£2,000,000	0.0500%
Barnsley Metropolitan Borough Council	14/01/2021	14/05/2021	£8,000,000	0.0500%
Tyne & Wear Pension Fund	25/02/2021	25/05/2021	£5,000,000	0.1000%
Oxfordshire County Council	16/09/2020	16/06/2021	£5,000,000	0.4700%
Lincolnshire County Council	16/09/2020	16/06/2021	£5,000,000	0.4500%
London Borough of Newham	09/09/2020	28/07/2021	£7,000,000	0.3500%
Somerset County Council	01/04/2021	01/12/2021	£5,000,000	0.1500%
Trafford Council	07/04/2021	07/01/2022	£5,000,000	0.160%
West Midlands Combined Authority	31/03/2021	07/01/2022	£10,000,000	0.1000%
Devon County Council	06/04/2021	07/01/2022	£5,000,000	0.1500%
Vale of Glamorgan Council	01/04/2021	14/01/2022	£5,000,000	0.1500%
Hampshire County Council	29/04/2021	28/01/2022	£6,000,000	0.1500%
Hyndburn Borough Council	05/05/2021	07/02/2022	£2,000,000	0.050%
Darlington Borough Council	28/04/2021	27/04/2022	£5,000,000	0.0100%

18th Jun 2021: LTs held a Meeting with BBC to review Investor presentation in advance of pitch to proposed market lenders for deferred drawdown funding.

13th Jul 2021: The below updated Forward Balance Sheet projection was provided for inclusion in investor presentations:

2020/21 (£'000)	CAPITAL FINANCING REQUIREMENT	2021/22 (£'000)	2022/23 (£'000)	2023/24 (£'000)	2024/25 (£'000)	2025/26 (£'000)
176,921	GF	193,108	193,479	193,479	193,779	193,779
63,437	HRA	69,286	77,813	88,340	88,340	88,340
240,358	CFR	262,394	271,292	281,819	282,119	282,119
	PFI Liabilities					
-	Finance Lease Liabilities	-	-	-	-	-
240,358	Underlying Borrowing Requirement	262,394	271,292	281,819	282,119	282,119
(96,953)	External Borrowing c/fwd	(233,223)	(263,223)	(218,223)	(243,223)	(253,723)
35,065	Loan Maturities	75,000	75,000		-	-
(171,335)	New Loans	(105,000)	(30,000)	(25,000)	(10,500)	-
(233,223)	External Borrowing	(263,223)	(218,223)	(243,223)	(253,723)	(253,723)
7,135	Under / (Over) Borrowing	(829)	53,069	38,596	28,396	28,396
3%	*Underborrowing as a % of Underlying Borrowing Requirement*	*0%*	*20%*	*14%*	*10%*	*10%*
	RESERVES / BALANCES, INVESTMENTS & WORKING CAPITAL (£'000)					
2,875	General Fund Balance	3,114	3,318	3,318	3,318	3,318
1,480	Housing Revenue Account Balance	1,914	1,932	1,932	1,932	1,932
6,473	Major Repairs Reserve	1,954	1,800	1,800	1,800	1,800
(5,675)	Collection Fund Adjustment Account	(2,000)	(500)	(500)	(500)	(500)
10,781	Earmarked reserves - GF	10,781	10,781	10,781	10,781	10,781
2,400	Earmarked reserves - HRA	2,609	3,435	3,435	3,435	3,435
2,604	Capital Receipts Reserve	2,604	2,604	2,604	2,604	2,604
1,527	Provisions (exc. any accumulating absences)	1,527	1,527	1,527	1,527	1,527
896	Capital Grants Unapplied	896	896	896	896	896
23,361	Amount Available for Investment	23,399	25,793	25,793	25,793	25,793
21,223	External Investments	29,228	(22,276)	(7,803)	2,397	2,397
4,997	Working Capital (Deficit) / Surplus	5,000	5,000	5,000	5,000	5,000

19th to 22nd Jul 2021: Further long term PWLB funding was taken in conjunction with the deferred drawdown process (which is ongoing at this time)

For context, the forecast as of 10th May was still in place at this time and includes potential increases in Bank rate from Sep 2023 (to 0.25%) but no significant amends to long term PWLB rates:

Link Group Interest Rate View	10.5.21											
	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
BANK RATE	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.25	0.25	0.25
3 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.30	0.30	0.30
6 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.20	0.30	0.40	0.40	0.40
12 month ave earnings	0.20	0.20	0.20	0.20	0.20	0.20	0.30	0.30	0.40	0.50	0.50	0.50
5 yr PWLB	1.20	1.20	1.30	1.30	1.30	1.40	1.40	1.40	1.40	1.50	1.50	1.50
10 yr PWLB	1.70	1.70	1.70	1.80	1.80	1.90	1.90	1.90	2.00	2.00	2.00	2.00
25 yr PWLB	2.20	2.20	2.30	2.40	2.40	2.40	2.50	2.50	2.50	2.50	2.50	2.60
50 yr PWLB	2.00	2.00	2.10	2.20	2.20	2.20	2.30	2.30	2.30	2.30	2.30	2.40

Ref:	Start date:	Maturity date:	Principal:	Interest rate (%):
378361	19/07/2021	19/07/2031	£7,000,0000	1.48
378527	22/07/2021	22/07/2034	£10,000,000	1.55
378529	22/07/2021	27/01/2068	£9,000,000	1.67
378263	22/07/2021	27/07/2069	£10,000,000	1.65

Note: The above £36m of PWLB Maturity tranche of long term PWLB supported the ongoing capital programme and the allocation was secured at very low rates. At this time, the long-term interest rate outlook was still low. LTS forecasted 2.4% as the highest point in its 50 year PWLB forecast *(still in place from 10th May).*

10th Sep 2021: Further meeting re investor drawdown

Updated Forward Balance Sheet Projection:

2020/21 (£'000)	CAPITAL FINANCING REQUIREMENT	2021/22 (£'000)	2022/23 (£'000)	2023/24 (£'000)	2024/25 (£'000)	2025/26 (£'000)
177,036	GF	193,108	193,479	193,479	193,779	193,779
63,437	HRA	69,286	77,813	88,340	88,340	88,340
240,473	CFR	262,394	271,292	281,819	282,119	282,119
	PFI Liabilities					
-	Finance Lease Liabilities	-	-	-	-	-
240,473	Underlying Borrowing Requirement	262,394	271,292	281,819	282,119	282,119
(96,593)	External Borrowing c/fwd	(233,223)	(255,723)	(266,223)	(278,723)	(278,723)
35,000	Loan Maturities	129,500	17,000	7,500	-	-
(171,630)	New Loans	(152,000)	(27,500)	(20,000)		-
(233,223)	External Borrowing	(255,723)	(266,223)	(278,723)	(278,723)	(278,723)
7,250	Under / (Over) Borrowing	6,671	5,069	3,096	3,396	3,396
3%	*Underborrowing as a % of Underlying Borrowing Requirement*	3%	2%	1%	1%	1%
	RESERVES / BALANCES, INVESTMENTS & WORKING CAPITAL (£'000)					
2,874	General Fund Balance	3,114	3,318	3,318	3,318	3,318
1,480	Housing Revenue Account Balance	1,914	1,932	1,932	1,932	1,932
6,473	Major Repairs Reserve	1,954	1,800	1,800	1,800	1,800
(5,678)	Collection Fund Adjustment Account	(2,000)	(500)	(500)	(500)	(500)
10,783	Earmarked reserves - GF	7,678	9,250	9,250	9,250	9,250
2,400	Earmarked reserves - HRA	2,609	3,435	3,435	3,435	3,435
2,604	Capital Receipts Reserve	2,604	457	-	-	-
1,527	Provisions (exc. any accumulating absences)	1,527	1,527	1,527	1,527	1,527
1,011	Capital Grants Unapplied	1,011	1,011	1,011	1,011	1,011
23,474	Amount Available for Investment	20,411	22,230	21,773	21,773	21,773
21,223	External Investments	18,740	22,161	23,677	23,377	23,377
4,999	Working Capital (Deficit) / Surplus	5,000	5,000	5,000	5,000	5,000

28th Sept 2021: BBC updates LTS on borrowing position and review options:

We currently have £68m of short-term borrowing with other local authorities, of which we will need to refinance around £40m (the balance will be covered by long-term borrowing taken out over the Summer). The £40m matures at different times between January and April 2022.We are considering our options – whether to continue to finance it short-term from other local authorities, or to lock into long-term financing from PWLB. In the light of the current upward trend in PWLB rates, I'd like to get your thought on what our approach could be. It would be useful to get your views on rates short-term borrowing rates and whether the current low rates are going to continue.

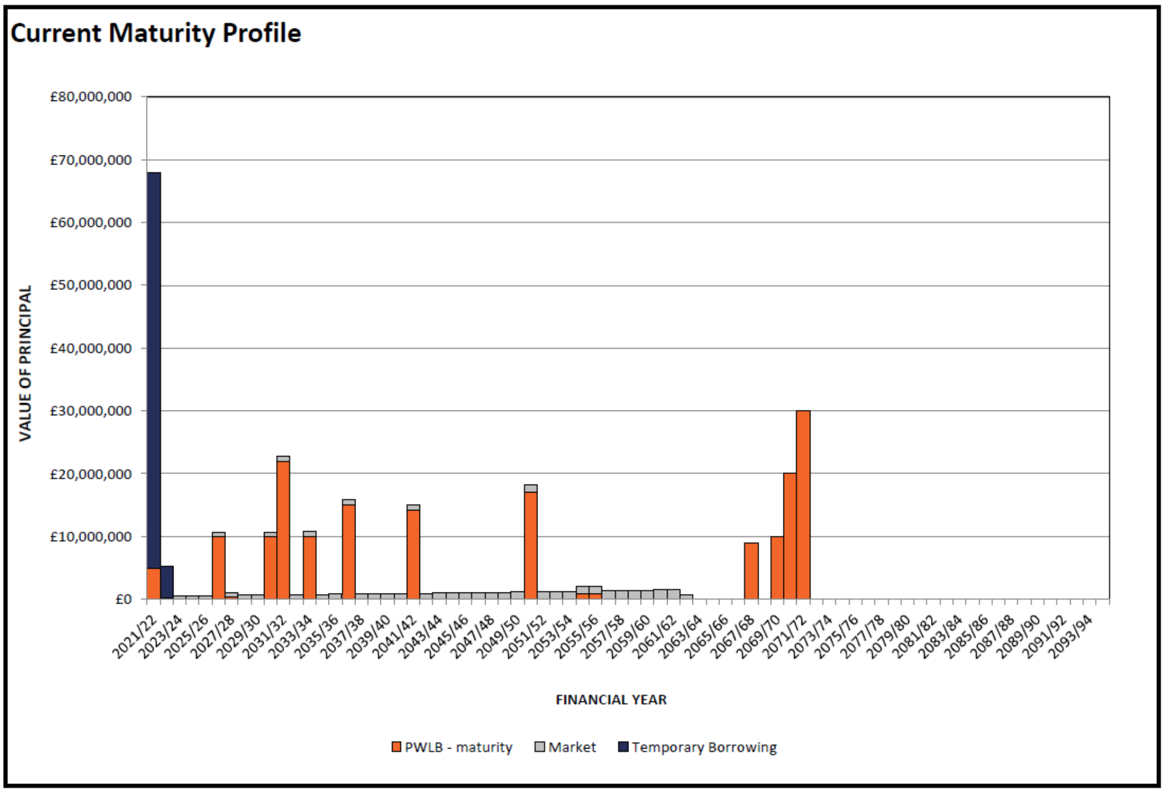
29th Sep 2021: Summary of approach for deferred drawdown option highlighted with BBC per below:

- have a premium over PWLB in terms of the interest rate and the amount of interest paid,
- provide a hedge against unexpected future PWLB interest rate increases or movements,
- provide certainty regarding the future interest rates payable, and
- provides a cost of carry saving by not borrowing today and in turn minimises credit risk by not having surplus cash that needs to be invested with a counterparty in a low interest rate environment.

Updated Interest rate view provided for context below which now shows a gradual increase in bank rate to a peak of 0.75% by March 2025 and 50 year PWLB still unchanged at 2.4%:

Link Group Interest Rate View	29.9.21									
	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
BANK RATE	0.10	0.10	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.75
3 month ave earnings	0.10	0.10	0.20	0.20	0.30	0.40	0.50	0.50	0.60	0.70
6 month ave earnings	0.20	0.20	0.30	0.30	0.40	0.50	0.60	0.60	0.70	0.80
12 month ave earnings	0.30	0.40	0.50	0.50	0.50	0.60	0.70	0.80	0.90	1.00
5 yr PWLB	1.40	1.40	1.50	1.50	1.60	1.60	1.60	1.70	1.70	1.70
10 yr PWLB	1.80	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.10
25 yr PWLB	2.20	2.20	2.30	2.30	2.40	2.40	2.40	2.50	2.50	2.60
50 yr PWLB	2.00	2.00	2.10	2.20	2.20	2.20	2.20	2.30	2.30	2.40

22nd Oct: A Debt profile illustration was provided by LTS to BBC which includes deferred loans a mocked up debt maturity profile is included to show "*the £40m of annuity loans (£20m in 2years and £20m in 3 years overlayed with BBC current loans. The profile shows a smooth fall out of loans until maturity which complements BBC current debt portfolio in terms of having a staggered fallout of loans"*



29th Oct 2021: BBC notifies LTS of further PWLB Borrowing as follows:

"We applied yesterday for £20m of PWLB borrowing. The loan will start from next Thursday, assuming no queries from HMT. This borrowing is intended for refinancing some of the existing short-term term borrowing. Just to say, be assured that we remain keen to pursue the deferred market loan, which we are looking to align with our new borrowing requirements over the next 3-4 years. We've taken the £20m over 41 years @ 1.72%. With the drop in rates this week on the back of the market reaction to the scaling back of QE

Ref:	Start date:	Maturity date:	Principal:	Interest rate (%):
431961	04/11/2021	04/11/2062	£20,000,000	1.72

Note: The above £20m of PWLB borrowing takes total fixed long-term maturity PWLB borrowing to £133m (from 16th September 2020 to 4th November 2021. Whilst this is a significant amount of borrowing for a period of just over one year, there has been a coherent strategy in place (including the planned deferred drawdown of c£45m). The financing of the projected CFR (updated 10th Sep 2021 detailed above) is at this point fully funded and therefore de-risked with long term low interest rate PWLB loans secured. The proposed deferred drawdown (set-up to replace outstanding short term funding, ensured budgetary certainty of funding whilst avoiding cost of carry).

12th Dec 2021: Forward Borrowing agreed:

Total £45m Annuity loans on a deferred drawdown basis: £25m 40yr annuity loan for settlement 14/8/2023 at a rate of 2.058% and a £20m 40yr annuity loan for settlement 13/6/2024 at a rate of 2.059%.

Note: The above £45m deferred drawdown loans agreed with private lender Phoenix were secured after 8 months from the signed mandate. This was a rigorous process involving numerous presentations by BBC to prospective lenders. LTS supported in the projection of the presentation packs and ongoing investor queries. As detailed in the below (most recent forecast from LTS): The strategy to undertake these loans at the time seemed to be good risk management for the debt portfolio and the decision when viewed in hindsight further emphasises this point.

Link Group Interest Rate View	20.12.21													
	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25
BANK RATE	0.25	0.25	0.50	0.50	0.50	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.25
3 month ave earnings	0.20	0.30	0.50	0.50	0.60	0.70	0.80	0.90	0.90	1.00	1.00	1.00	1.00	1.00
6 month ave earnings	0.40	0.50	0.60	0.60	0.70	0.80	0.90	1.00	1.00	1.10	1.10	1.10	1.10	1.10
12 month ave earnings	0.70	0.70	0.70	0.70	0.80	0.90	1.00	1.10	1.10	1.20	1.20	1.20	1.20	1.20
5 yr PWLB	1.40	1.50	1.50	1.60	1.60	1.70	1.80	1.80	1.80	1.90	1.90	1.90	2.00	2.00
10 yr PWLB	1.60	1.70	1.80	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.10	2.20	2.30
25 yr PWLB	1.80	1.90	2.00	2.10	2.10	2.20	2.20	2.20	2.30	2.30	2.40	2.40	2.50	2.50
50 yr PWLB	1.50	1.70	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.20	2.20	2.30	2.30

03rd Mar 2022 Strategy Meeting

Link Group Interest Rate View	7.2.22												
	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25
BANK RATE	0.75	1.00	1.00	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25
3 month av. earnings	0.80	1.00	1.00	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20
6 month av. earnings	1.00	1.10	1.20	1.30	1.30	1.30	1.30	1.30	1.30	1.30	1.30	1.30	1.30
12 month av. earnings	1.40	1.50	1.60	1.70	1.70	1.60	1.60	1.50	1.40	1.40	1.40	1.40	1.40
5 yr PWLB	2.20	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30
10 yr PWLB	2.30	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40
25 yr PWLB	2.40	2.50	2.50	2.60	2.60	2.60	2.60	2.60	2.60	2.60	2.60	2.60	2.60
50 yr PWLB	2.20	2.30	2.30	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40

08th Mar 2022: Updated Forward Balance Sheet following Strategy Meeting:

The draft Forward Balance Sheet Review was presented which showed the CFR continuing to increase from £250m in 2021/22 to £326m in 2024/25. The draft FBS position includes the deferred borrowing scheduled *(£25m in 2023/24 and £20m in 2024/25).*

The meeting minutes also noted*: The* ***Council is anticipating a further £102m spend on capital over the next 3 financial years to 2024/25.*** *This includes a new Regeneration Fund initiative which represents £20m of this value (although this could increase up to £100m). The initiative involves loans to SME's to support their development plans. It was noted that a full appraisal should be undertaken to assess the risks and particular attention should be given to the potential impact of proposed changes to MRP guidance via the DLUHC consultation on changes to the Capital Framework. The proposal is to stop the exclusion of MRP relating to an investment asset or capital loan with implemented from 1st April 2023, (no retrospective application). It is however not yet clear how the changes will be implemented, if it would be applied to loans already in place or only applied to new loans provided once the revised regulations are adopted. This would also impact on the Councils SAIL investments.*

2020/21 (£'000)	CAPITAL FINANCING REQUIREMENT	2021/22 (£'000)	2022/23 (£'000)	2023/24 (£'000)	2024/25 (£'000)	2025/26 (£'000)
177,036	GF	185,802	217,180	217,180	216,670	216,670
63,437	HRA	64,487	78,468	103,268	109,460	109,460
240,473	CFR	250,289	295,648	320,448	326,130	326,130
	PFI Liabilities					
-	Finance Lease Liabilities	-	-	-	-	-
240,473	Underlying Borrowing Requirement	250,289	295,648	320,448	326,130	326,130
(96,593)	External Borrowing c/fwd	(233,089)	(228,261)	(279,261)	(309,261)	(313,261)
35,000	Loan Maturities	149,681	41,000	49,000	16,000	-
(171,496)	New Loans	(144,853)	(92,000)	(79,000)	(20,000)	-
(233,089)	External Borrowing	(228,261)	(279,261)	(309,261)	(313,261)	(313,261)
7,384	Under / (Over) Borrowing	22,028	16,387	11,187	12,869	12,869
3%	*Underborrowing as a % of Underlying Borrowing Requirement*	9%	6%	3%	4%	4%
	RESERVES / BALANCES, INVESTMENTS & WORKING CAPITAL (£'000)					
2,874	General Fund Balance	2,874	2,874	2,874	1,470	(356)
1,480	Housing Revenue Account Balance	1,480	1,514	1,997	2,457	2,457
6,473	Major Repairs Reserve	1,954	1,800	1,800	1,800	1,800
(5,678)	Collection Fund Adjustment Account	(2,000)	(500)	(500)	(500)	(500)
10,783	Earmarked reserves - GF	6,472	7,315	8,302	9,324	9,324
2,400	Earmarked reserves - HRA	2,400	2,327	2,327	2,327	2,327
2,604	Capital Receipts Reserve	2,604	457	-	-	-
1,527	Provisions (exc. any accumulating absences)	1,527	1,527	1,527	1,527	1,527
1,011	Capital Grants Unapplied	1,011	1,011	1,011	1,011	1,011
23,474	Amount Available for Investment	18,322	18,325	19,338	19,416	17,590
21,089	External Investments	1,294	6,938	13,151	11,547	9,721
4,999	Working Capital (Deficit) / Surplus	5,000	5,000	5,000	5,000	5,000

Updated Short Term Borrowing Position Presented at the 08th March 2022 Meeting:

Brentwood Borough Council - Temporary Borrowing						
Loan Reference Number	Counterparty Name	Start Date	Maturity Date	Principal	Coupon	Years to Maturity
	Darlington Borough Council	28/04/2021	27/04/2022	£5,000,000	0.1000%	0.15yrs
	Winchester City Council	27/01/2022	27/04/2022	£1,500,000	0.1200%	0.15yrs
	New Forest District Council	27/01/2022	27/04/2022	£1,500,000	0.1200%	0.15yrs
	Western Isles Council	28/02/2022	28/04/2022	£5,000,000	0.3000%	0.15yrs
	West Yorkshire Combined Authority	28/01/2022	29/11/2022	£5,000,000	0.2000%	0.74yrs
	West Yorkshire Combined Authority	14/01/2022	15/12/2022	£5,000,000	0.2000%	0.78yrs
	Warwickshire County Council	26/01/2022	25/01/2023	£5,000,000	0.3000%	0.9yrs
	Hampshire County Council	28/01/2022	27/01/2023	£6,000,000	0.3000%	0.9yrs
	Hyndburn Borough Council	07/02/2022	06/02/2023	£2,000,000	0.2000%	0.93yrs

14th March, final tranche (to date) of PWLB borrowing taken:

Ref:	Start date:	Maturity date:	Principal:	Interest rate (%):
494800	14/03/2022	14/03/2042	£2,853,000	2.31

Note: The updated March 2022 Forward Balance Sheet projections above shows £80m of net new borrowing (£35m after deferred drawdown loans secured) over the forecast period. This contrasts with the Sep 2021 projection detailed previously above which shows £54.5m of net new borrowing (£9.5m after deferred drawdown loans secured.) This increasing borrowing need is reflective of the continuing ambitions of BBC's capital programme as detailed in the strategy meeting note above; *(despite BBC having already secured £178m of long-term borrowing via PWLB and through its deferred drawdown loans.*

Subsequently, a further £2.853m of PWLB Maturity borrowing was secured on 14th March. The Council held £36m of short-term borrowing. These short loans are to be covered by the deferred drawdown market loans of £45m, however due to the ongoing steeping in the CFR, the Council will still have significant exposure to increased borrowing costs.

04th Oct 2022 Strategy Meeting:

Link Group Interest Rate View	27.09.22											
	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25
BANK RATE	4.00	5.00	5.00	5.00	4.50	4.00	3.75	3.25	3.00	2.75	2.75	2.50
3 month ave earnings	4.50	5.00	5.00	5.00	4.50	4.00	3.80	3.30	3.00	2.80	2.80	2.50
6 month ave earnings	4.70	5.20	5.10	5.00	4.60	4.10	3.90	3.40	3.10	3.00	2.90	2.60
12 month ave earnings	5.30	5.30	5.20	5.00	4.70	4.20	4.00	3.50	3.20	3.10	3.00	2.70
5 yr PWLB	5.00	4.90	4.70	4.50	4.20	3.90	3.70	3.50	3.40	3.30	3.20	3.20
10 yr PWLB	4.90	4.70	4.60	4.30	4.10	3.80	3.60	3.50	3.40	3.30	3.20	3.20
25 yr PWLB	5.10	4.90	4.80	4.50	4.30	4.10	3.90	3.70	3.60	3.60	3.50	3.40
50 yr PWLB	4.80	4.60	4.50	4.20	4.00	3.80	3.60	3.40	3.30	3.30	3.20	3.10

2021/22 (£'000)	CAPITAL FINANCING REQUIREMENT	2022/23 (£'000)	2023/24 (£'000)	2024/25 (£'000)	2025/26 (£'000)	2026/27 (£'000)
184,054	GF	188,524	211,432	210,664	216,670	216,670
64,487	HRA	75,267	100,067	106,259	109,460	109,460
248,541	CFR	263,791	311,499	316,923	326,130	326,130
	PFI Liabilities					
-	Finance Lease Liabilities	-	-	-	-	-
248,541	Underlying Borrowing Requirement	263,791	311,499	316,923	326,130	326,130
(233,224)	External Borrowing c/fwd	(228,402)	(205,402)	(215,402)	(235,402)	(235,402)
4,822	Loan Maturities	38,000	15,000			10,000
	New Loans	(15,000)	(25,000)	(20,000)		-
(228,402)	External Borrowing	(205,402)	(215,402)	(235,402)	(235,402)	(225,402)
20,139	Under / (Over) Borrowing	58,389	96,097	81,521	90,728	100,728
8%	*Underborrowing as a % of Underlying Borrowing Requirement*	*22%*	*31%*	*26%*	*28%*	*31%*
RESERVES / BALANCES, INVESTMENTS & WORKING CAPITAL (£'000)						
2,874	General Fund Balance	2,874	2,874	1,470	356	356
1,927	Housing Revenue Account Balance	1,480	1,514	1,997	1,997	1,997
5,153	Major Repairs Reserve	1,800	1,800	1,800	1,800	1,800
(4,461)	Collection Fund Adjustment Account	(500)	(500)	(500)	(500)	(500)
12,619	Earmarked reserves - GF	7,315	8,302	9,324	9,324	9,324
2,327	Earmarked reserves - HRA	2,327	2,327	2,327	2,327	2,327
2,337	Capital Receipts Reserve	457	-	-	-	-
1,191	Provisions (exc. any accumulating absences)	1,191	1,191	1,191	1,191	1,191
1,095	Capital Grants Unapplied	1,095	1,095	1,095	1,095	1,095
25,062	Amount Available for Investment	18,039	18,603	18,704	17,590	17,590
13,946	External Investments	(35,350)	(72,494)	(57,817)	(68,138)	(78,138)
9,023	Working Capital (Deficit) / Surplus	5,000	5,000	5,000	5,000	5,000

The meeting noted that *"The Updated Forward Balance Sheet included revised CFR forecasts provided by the Council, which although shows the CFR increasing to £264m (up c£15m) in 2022-23, this was still a reduction based on the original TMSS forecasts. The forecasts were revised due to capital programme slippage. Whilst it was acknowledged that a revised reserves schedule is required, the projected cash position is still negative and will therefore require the continued approach of short term borrowing which exposes the Council to refinancing risk".*

It was also noted that *"the Councils affordable housing programme has been delayed (still to be procured) and this project will likely require further viability assessment as a result. The Councils regeneration fund has also stalled due to current market conditions. There are two additional capital schemes which are not yet profiled into the CFR. These include the industrial estate at Childerditch (storage unit/depot) – Cost c£5.5m) and the £21.5m shopping centre development. Both Schemes are provisionally set for January 2024. Target levels of borrowing for these schemes is set at 3.5%".*

The Council updated on its borrowing strategy and it was noted that *"The Council held £230m of External debt at the time of this meeting. (£192m Fixed PWLB) and £38m in short term loans from other local authorities. The average rate was 2.063%. (PWLB Maturity debt average life was 29.3 years). The Council has also secured two deferred drawdown loans from Phoenix as Follows: £25m 40yr annuity loan for settlement 14-8-2023 at a rate of 2.058% and £20m 40yr annuity loan for settlement 13-6-2024, with a rate of 2.059%. These rates were achieved based on a margin of 110bp over the relevant forward gilt and are profiled into the forward Balance sheet projection. The Council has also agreed a further £15m of forward dated short term loans from other LA's.*

It was noted that the Council will be exposed to the current volatile interest rates for its short-term funding requirements. An element of this risk has however been offset through the forward/deferred deals and the view is to fix into longer term PWLB funding in a couple of years once rates fall back from current levels (per current forecast). Furthermore, Capital Programme slippage and internal borrowing will help to further defer some external borrowing requirements".

Note: It is clear from the above meeting minutes that BBC has continued with its ambitious capital plans, with further schemes of £27m sitting outside of the projections detailed above. The meeting note identifies the significant change in the interest rate environment since the last tranche of long term PWLB borrowing was undertaken. Further capital schemes were placed on hold with a view to delay any long term borrowing requirement until a point when rates return to levels in line with the Councils target borrowing rate (noted to be 3.5%). At this meeting time, the latest forecast did not anticipate 50 year PWLB maturity loans to be within this range until September 2024. *(At the time of writing, the updated forecast of 24th May 2023 sees this level not being reached until Sep 2025).*

4.6 SUMMARY OF DEBT POSITION AT MAY 2023

FIXED DEBT						
		Principal Outstanding	Discount	Premium	Average Rate	Average Life
PWLB	Maturity	£192,019,000	(£55,987,571)	£1,279,424	2.374%	28.69 yr
	Annuity	-	-	-	-	-
	EIP	-	-	-	-	-
Total PWLB (fixed)		**£192,019,000**	**(£55,987,571)**	**£1,279,424**	**2.374%**	**28.69 yr**
Market	Maturity	£0			-	-
	Annuity	£45,000,000			2.058%	40.59 yr
	Stock	£0			-	-
Total MARKET (fixed)		**£45,000,000**			**2.058%**	**40.59 yr**
EIB	Maturity	£0			-	
	Annuity					-
Total EIB (fixed)		**£0**			**0.000%**	**0.00 yr**
Total FIXED debt		**£237,019,000**	**(£55,987,571)**	**£1,279,424**	**2.314%**	**30.95 yr**

Note: The above table details BBC latest Summary Borrowing position. As can be seen, the average rate of fixed borrowing is at just 2.314% (average life 30,95 years). This is a very low rate by any standards. Even if the additional £44m of short-term borrowing is added, the average rate increases just slightly to 2.485% and as previously noted, this short-term debt will be replace by the deferred loans at low coupon rates.

4.7 CFR AND EXTERNAL DEBT COMPARISONS FROM 2020/21 TO 2021/22

	2020/21 £bn	2021/22 £bn	% change y/y
CFR	**72.48**	**75.35**	**4%**
PFI and finance leases	**(8.54)**	**(8.31)**	**-3%**
Underlying Borrowing Requirement (UBR)	**63.94**	**67.04**	**5%**
External borrowing	**52.48**	**54.30**	**3%**
Internal Borrowing	**11.45**	**12.74**	**11%**
% Internally Borrowed	**17.9%**	**19.0%**	

Note: The above table shows the 31st March 2021 to 31st March 2022 movement CFR requirement (UBR) and external borrowing positions across 224 clients whom submit their y/e information to LTS. BBC fits within the Non-metro district category where CFR's increased by 4% and external borrowing 3%. BBC CFR increased by 3.35% with external borrowing reducing by 2% during the same period. By 2025/26 however there is a significant 31.2% increase in CFR forecast to 2025/26 from 2021/22 levels. This follows on from CFR levels more than doubling between 2019/20 (£119,238k) to 2020/2021 (£240,473K).

Type	2021 Internal Borrowing £bn	2021 UBR £bn	2021 %	2022 Internal Borrowing £bn	2022 UBR £bn	2022 %
Welsh Unitary	0.30	3.11	9.8%	0.31	3.15	9.9%
Scottish Unitary	0.97	13.05	7.5%	1.37	13.79	9.9%
London Boroughs	1.94	6.09	31.8%	1.84	6.54	28.1%
Metropolitan Districts	3.00	14.44	20.8%	3.49	14.96	23.3%
Unitary Authorities	1.89	10.06	18.8%	2.22	10.66	20.8%
Counties	1.31	7.34	17.8%	1.46	7.52	19.4%
Non-Metropolitan Districts	1.56	8.63	18.1%	1.79	9.01	19.8%
Other Authorities	0.13	0.75	17.1%	0.17	0.84	20.1%
Combined Authorities	0.35	0.47	73.4%	0.10	0.56	18.1%
Total	11.45	63.94	17.9%	12.74	67.04	19.0%

Note: The above table shows the 31st March 2021 to 31st March 2022 movement in underlying borrowing requirement (UBR) and internal borrowing positions across 224 clients whom submitted their y/e information. BBC fits within the Non-metro district category where UBR increased on average from 18.1% to 19.8%. BBC UBR increased from 3% March 2021 to 8% March 2022.

4.8 DEBT RATIOS

The following table shows the revenue costs to the general fund of financing capital expenditure (made up of interest charges and provision of debt repayment) as a ratio of general fund net revenue:

Table 5: Ratio of Financing Costs to Net revenue Stream (Per 2023/24 TMSS):

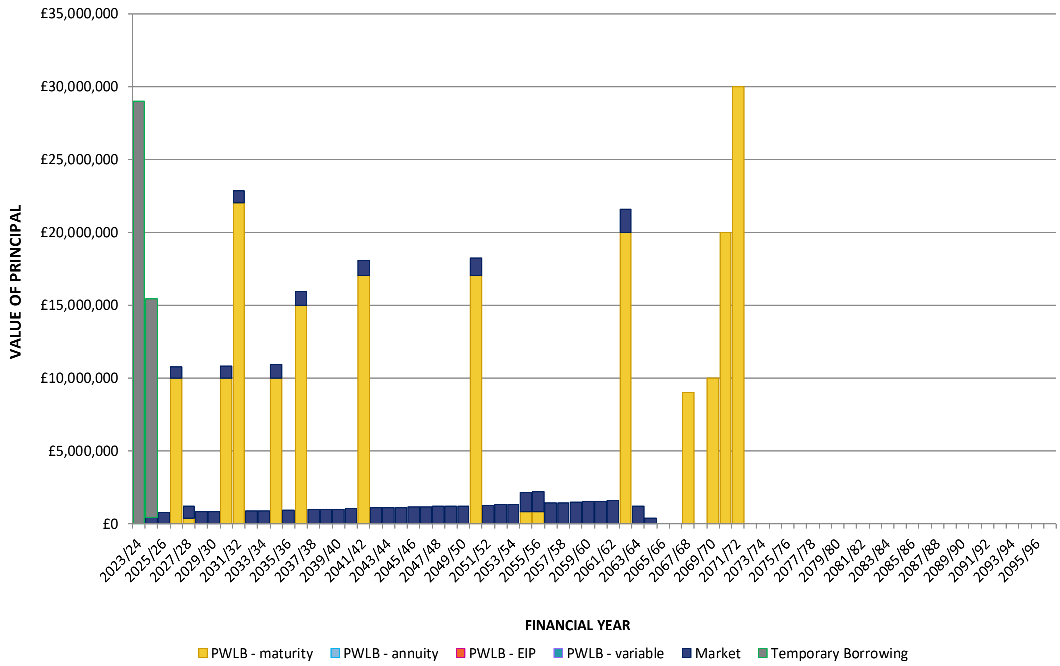
General Fund	2020/21	2021/22	2022/23	2023/24	2024/25
Financing Costs (£000's)	1,109	3,431	4,300	4,998	5,938
Net Revenue Stream (£000's)	9,245	9,061	9,027	8,477	8,647
Ratio (%)	**12**	**38**	**48**	**59**	**69**

Note: The above table shows a significant increase in the proportion of financing costs to net revenue stream borne by the general fund through years 2020/21 to 2024/25.

Action: It may be appropriate to add debt exposure to the Council's risk register with assessment of impact in relation to forecast rising debt levels, exposure to rising interest rates, affordability and mitigating actions including deferring/re-appraising planned capital programmes.

4.9 DEBT MATRUITY PROFILE AT 23.05.2023

The maturity graph below shows how BBC is still heavily exposed to rising longer term borrowing rates through its outstanding short term local Authority borrowing. BBC however does have a good spread of long term maturity profiles for its PWLB debt and a significant portion of BBC long term funding has been de-risked through long term low rate PWLB loans.



4.10 BORROWING BENCHMARK PERFORMANCE

10 of the 12 Councils in Essex held outstanding PWLB borrowing at year end 31st March 2023. (Including Brentwood BC). *[The data has been sourced direct from PWLB Website].* The below table shows that BBC ranks 1st as the top performer when looking at the average rate of secured for its

external PWLB borrowing portfolio, with a rate of 2.37% being achieved. Furthermore BBC has a 28.8 average years to maturity for its debt which is 2nd on the list just behind Colchester City at 29.85. Granted that these figures do not include any short term borrowing outside of PWLB however this still indicates that BBC has secured this low rate of borrowing for a significant time period compared to its peers.

Table 6: Essex Authority PWLB Borrowing at 31st March 2023:

Local Authority	No. of PWLB Loans	Total Principal	Weighted Average Rate %	Weighted average Years to Maturity	Rank
Brentwood BC	**18**	**£192,019,000**	**2.37**	**28.8**	**1**
Braintree DC	1	£5,800,000	2.59	14.16	2
Castle Point DC	**6**	£33,300,000	2.73	6.05	3
Colchester City	**37**	£132,094,000	3.28	29.85	4
Epping Forest DC	**17**	£261,639,333	3.3	15.49	5
Harlow DC	**6**	£211,837,000	3.31	11.19	6
Basildon BC	**69**	£314,300,967	3.34	17.43	7
Tendring DC	**20**	£34,699,167	3.57	19.88	8
Uttlesford DC	**22**	£158,314,827	3.76	16.89	9
Bassetlaw DC	**13**	£65,363,000	3.90	14.61	10

Note: Brentwood compare favourably (ranking 1st) in comparison to the other Essex based Authorities when looking at weighted average rate paid on its outstanding PWLB debt. Furthermore, with a weighted average time to maturity of 28.8 years in existing PWLB debt, this low rate has been secured for the long term.

4.11 CONCLUSIONS TO SECTION 4 ON BORROWING

- TM Staff have maintained an ongoing dialogue with its Treasury Advisors and there is clear rationale detailed prior to each borrowing decision. *[Evidenced through ongoing iterations of forward balance sheet projections, rate tracking and detailed minutes/email exchanges between BBC and its treasury advisors].*
- The clear borrowing strategy has been borne out through the total current long term debt portfolio for BBC being at a very low average rate of 2.31%.
- Furthermore, the total PWLB portfolio at 31st March 2023 had an average rate of 2.37% which was the lowest amongst its Essex Authority peer group.
- Despite BBC having demonstrated a clear and detailed borrowing strategy, capital programme ambitions and the pace of these capital plans have led to an ongoing and significant increase in CFR levels *(BBC's CFR has doubled between 2019/20 and 20202/21*); therefore, BBC is still exposed to a rising interest rate environment for future borrowing needs.
- This exposure to refinancing risk comes despite the fact over £180m of long-term borrowing was externalised in the relatively short period between September 2020 to March 2022. (£135.8m of PWLB maturity loans and a further £45m deferred drawdown Market loans)
- The CFR is forecast to increase yet further by 31% through to 2025/26.
- The £45m deferred drawdown market loans secured in December 2021 have further supported the borrowing strategy and helped to de-risk this element of the portfolio's exposure to rising interest rate.
- The main question in relation to BBC borrowing strategy is in terms of affordability. The Financing Costs to Net Revenue Stream have seen a significantly material increase *(as reported in BBC 2023/24 TMSS)* with an increase from 12% in 2020/21 to a forecast position of 69% by 2024/25.
- As noted, it may be appropriate for BBC to add debt exposure to the Councils risk register with assessment of impact in relation to forecast rising debt levels, exposure to rising interest rates, affordability and mitigating actions including deferring/re-appraising planned capital programmes.
- BBC borrowing strategy can only be optimised with an appropriate long term capital strategy. A sperate review of BBC Capital Strategy is underway and falls outside the scope of this Treasury Strategy Health Check however findings from this report will naturally build on the findings of the Capital Strategy Review, further strengthening

Governance and compliance around the treasury Management Borrowing Strategy, planning and approach taken by BBC.

5. The annual TM strategy report: investing

5.1 INTRODUCTION

- Statutory guidance requires local authorities to prepare an **Annual Investment Strategy (AIS).**
- The CIPFA TM code requires local authorities to prepare an annual **Treasury Management Strategy**; this is commonly referred to as the **TMSS** (the Treasury Management Strategy Statement), and it can incorporate the AIS as above.
- The CIPFA prudential code which deals with capital finance, requires local authorities to prepare a **Capital Strategy report**. BBC has chosen to roll all three reports into one report termed the **Capital and Investment Strategy report 2023/24 incorporating the Investment and Treasury Management Strategy.**

The most important part of an investment strategy report is setting out what creditworthiness parameters will apply to all investments made by the authority.

As already explained in section 2, statutory guidance requires local authorities to apply and comply with three key principles in selecting creditworthy counterparties and suitable types of investment instrument to use.

All local authority investing is required to be:

- **Prudent**
- **To put security before liquidity and yield**
- ***Security - Liquidity -Yield …in that order!***

In addition, all investments in each local authority's investment portfolio have to be split between specified and non-specified.

The 2004 edition of the statutory guidance introduced a new concept which is not found in the CIPFA TM Code – the need to split all investments by a local authority between **specified and non-specified investments: -**

> ***INVESTMENT SECURITY [5.1 - 5.3]***
>
> *13. The idea of **specified investments [5.1]** is to identify options with relatively high security and high liquidity, **<u>to which authorities need make only minimal reference in their Strategies.</u>***

The 2010 and 2018 editions of the statutory guidance retained this distinction between specified and non-specified investments.

5.2 CREDITWORTHINESS LIMITS

Para 154 of the Councils 2023/24 TMSS detsils the Council's proposed minimum acceptable credit as follows:

Agency	Short term	Long term
Fitch	F1	A-
Moody	P-1	A3
S&P	A1	A-

The following is an extract from the 2023/24 strategy report para162*: The table below details the Councils Investment Instruments that it will utilise, and the associated limits:*

<table>
<tr><th>Instrument</th><th>Minimum short term credit rating</th><th>Minimum long term credit rating</th><th>Maximum value of investment per counterparty</th><th>Maximum duration of investment</th></tr>
<tr><td>Term Deposits with UK Local Authorities</td><td>N/a</td><td>N/a</td><td></td><td>3 years</td></tr>
<tr><td>Term deposits or notice accounts with UK banks and building societies</td><td>Fitch F1
Moodys P-1
S&P A-1</td><td>Fitch A-
Moodys A3
S&P A-</td><td>£5m</td><td>1 year</td></tr>
<tr><td>Term deposits with banks part nationalised</td><td colspan="2">Minimum credit ratings not required as long as these banks continue to be part nationalised</td><td>£5m</td><td>1 year</td></tr>
<tr><td rowspan="2">Term deposits or notice accounts with non UK banks accessible via the Link Group Agency Treasury Service</td><td>Fitch F1
Moodys P-1
S&P A-1</td><td>Fitch A-
Moodys A3
S&P A-</td><td rowspan="2">£5m</td><td rowspan="2">1 year</td></tr>
<tr><td colspan="2">Sovereign rating AA-</td></tr>
</table>

Debt Management Account Deposit Facility (DMADF)	N/a	N/a	Unlimited	6 months (DMADF time limit)
Ultra-Short/Short Dated Bond Funds	Selection process	Selection process		
Treasury Bills issued by the UK Government	N/a	N/a	Unlimited	1 year
Money Market Funds CNAV	N/a	AAA	£5m	Liquid
Money Market Funds LVNAV	N/a	AAA	£5m	Liquid
Money Market Funds VNAV	N/a	AAA	£5m	Liquid
Certificates of Deposit issued by UK institutions	Fitch F1 Moodys P-1 S&P A-1	Fitch A- Moodys A3 S&P A-	£5m	1 year

The Council has made the below amendment for its 2023/24 Investment Strategy:

For 2023/24, investments of up to three years with other local authorities will be allowed, up to a total value of £5m. This is to enable the Council to access higher returns through investing for longer periods.

It is further noted in para 159 that "*In 2022/23, the country limits were expanded to include the non-UK banks that are accessible via the Agency Treasury Service provided by Link Group.*"

The following diagram illustrates the suggested time horizon "buckets" that individual counterparties are assigned to by Link Treasury Services, dependent on a calculation that incorporates both credit ratings and the CDS price of an entity. The colour of a counterparty is also shown on a Council's Monthly Investment Report. Link Treasury Service's Approved Counterparty List is found at Appendix 3.0 and the Council's credit list is shown for comparison in Appendix 4.0.

1	1.25	1.5	2	3	4	5	6	7
60 mths	60 mths	60 mths	24 mths	12 mths	12 mths	6 mths	100 Days	0 mths

1	Highest credit ratings e.g Gilts, T-Bills, MMFs
1.25	Enhanced Cash Funds
1.5	Enhanced Cash Funds
2	High credit rated institutions
3	Part Nationalised Banks e.g RBS Group
4	
5	
6	
7	Weaker credit rated institutions

Although BBC treasury advisors Link Treasury Services have their own suggested counterparty approach as outlined above, it is up to each authority to determine their own risk appetite and therefore they may choose to take greater or less risk than the approach set out by Link Treasury Services. As noted, prior to 2022/23 the Council took a more risk averse approach to investment strategy with the exclusion of non-UK banks from its approved counterparty list (despite some of those banks meeting the minimum acceptable credit score set-out in Link Treasury Services approved Counterparty methodology). From 2022/23 BBC moved to include non-UK Banks which are accessible to BBC via Agency Treasury Services.

The only non-specified investments approved by BBC are Ultra Short and Short dated bond funds, as well as the 2023/24 amended allowance for investments up to three years with other Local Authorities. Yet, the Council has non undertaken any of these such investments. In this regard, the Councils investment strategy could be described as low risk however in terms of BBC standard approved Counterparty approach, it does not follow Link Treasury Serviced approved methodology.

Note: A key differential between BBC approved counterparty list and Link Treasury Services suggested list is the deposit duration period. BBC 'approved investment instrument' table (detailed above), has a maximum 1 year duration across all of its approved *counterparties (exception of DMADF as they have their own maximum term of 6 months and exc. LA's)*

An alternative approach provided by Link Treasury Services, as part of its client services, is a credit worthiness service which blends together the use of both long and short term ratings, viability and support ratings and rating outlooks, and then overlays them with analysis of CDS prices, (it was CDS prices which gave early warning that the Icelandic banks were heading towards default).

This is a complex approach which is beyond the capability of any local authority to replicate and therefore provides a higher level of credit analysis than any individual local authority can achieve on its own. LTS also has access to other market information which could provide early warning of concerns for an individual counterparty. It is doubtful that any local authority would have a similar level of access to market information and to process it in a usable form.

IMPORTANTLY: following challenge of this approach as part of this review process, it has been confirmed that it is the intention of BBC to apply Links methodology (duration of suggested deposit terms).

Action: BBC to amend Capital & Investment Strategy to reflect intended Counterparty Approach in line with Link Treasury Service suggested methodology.

5.3 FORECASTS OF EXPECTED INVESTMENT BALANCES

The following table appears in para 128 of BBC's Capital & Investment Strategy:

	31 March 2022 £000	31 March 2023 £000	31 March 2024 £000	31 March 2025 £000	31 March 2026 £000
Borrowing					
- PWLB	192,019	192,019	211,019	219,019	241,019
- Market Lender	0		25,000	45,000	45,000
- Other Local Authorities	36,000	25,000	31,500	33,500	22,000
- Transferred Debt	178	172	169	166	163
Total Borrowing	**228,197**	**217,191**	**267,688**	**297,685**	**308,182**
Investments	-11,000	-1,000	-5,000	-5,000	-5,000
Net Borrowing	**217,197**	**216,191**	**262,688**	**292,685**	**303,182**

Note: Investment Balances are clearly to be maintained at minimum levels for the medium term whilst the Council utilises short term and internal borrowing in support if its capital programme. As noted in the section on Borrowing, this is where the main risks to the current treasury strategy lie.

5.4 INVESTMENT PERFORMANCE

The benchmarking report detailed below compares the return that BBC's portfolio of specified investments actually earned during the period against the return that the portfolio would have been forecast to earn, given the three main risks inherent in it. It does this by comparing:

(a) the actual weighted average rate of return (WARoR) earned by a portfolio, derived from the returns and portfolio holdings provided by each authority.

(b) a forecast, or model, WARoR, which estimates what the portfolio would have been forecast to earn, given its exposure to maturity risk, credit risk and the risk of changes in the shape of the yield curve.

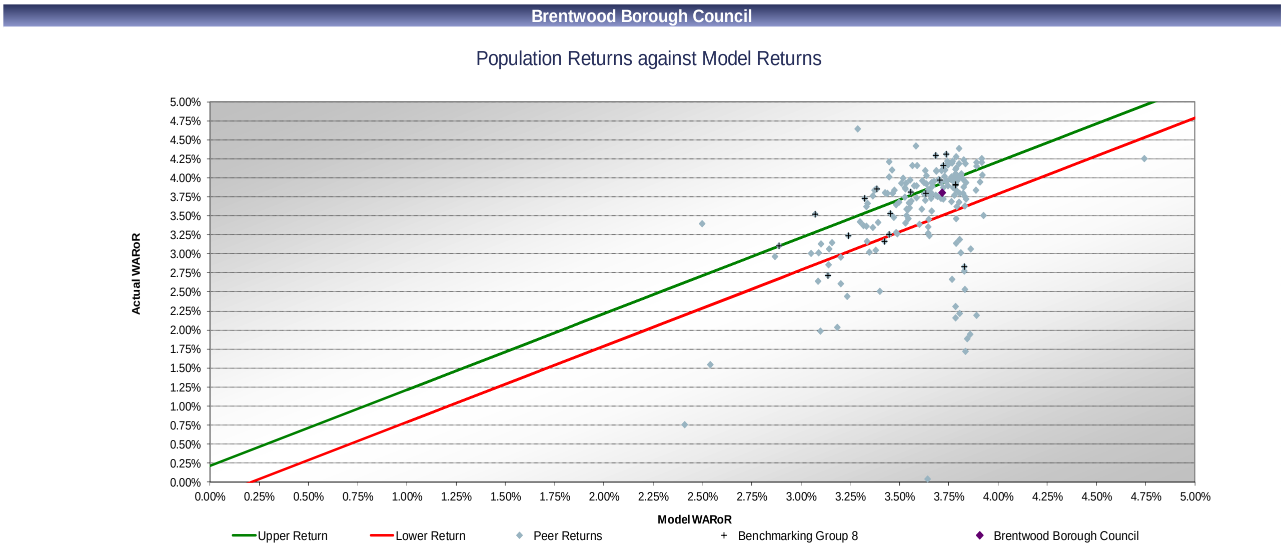
We measure a portfolio's exposure to maturity risk by calculating the length of time during which the investments in the portfolio have been held (since we want to forecast what the portfolio's return should have been during this time). We measure it's exposure to credit risk by it's weighted average credit risk score. This score is arrived at after using Link's methodology (which takes into account variables such as credit ratings and CDS spreads) to measure a portfolio's exposure to credit risk on a scale of 1-7. Lastly, we measure a portfolio's exposure to changes in the shape of the yield curve by examining the spread of maturity dates in the portfolio (since the greater the dispersion in the maturity dates of a portfolio's investments, the greater is the risk of the portfolio being affected by a change in the shape of the yield curve.)

Although we use the above framework to forecast what a portfolio's return would have been given it's exposure to risk, we recognise that other variables might also influence it's return during any given time period. These other influences include, but are not limited to, diversification, the impact of timing, or the tilt of a portfolio towards a particular asset type or institution type that is extraordinarily paying an above market rate (e.g. special tranche rates). As such, we recognise that there is some uncertainty attached to our forecast WARoR.

We account for this uncertainty by using standard mathematical techniques to create a confidence interval within which we would expect the forecast WARoR should lie. (Another way of saying the same thing, given that we plot a portfolio's actual return on the vertical axis of the regression chart in the benchmarking report, is that it allows us to establish a range within which we would expect a portfolio's actual WARoR to have been, given the risks to which the portfolio was exposed, as they are reflected in the portfolio's forecast, or model, WARoR.) This enables us to plot on the regression chart in our benchmarking report: (i) a dot reflecting how each authority's actual WARoR (on the vertical axis) compared to it's forecast (or model) WARoR (on the horizontal axis) and (ii) upper and lower bands (or bounds) which reflect where we would expect each authority's actual return to have been, given (a) their portfolio's exposure to maturity, credit and yield curve risk and (b) the uncertainty attached to making a forecast portfolio return.

If an authority's actual WARoR lies above the upper band then we would say that the their return is "above" on a risk-adjusted basis, given the risks inherent in the portfolio. In other words, we would say that the portfolio actually earned a greater return than would be expected during the period, given the maturity, credit, and yield curve risks to which it was exposed. By contrast, if the portfolio's actual WARoR is below the lower bound, then we would say the client's return is "below" on a risk-adjusted basis, given the risks inherent in the portfolio. I.e. the portfolio actually earned a smaller return than would be expected during the period, given the maturity, credit and yield curve risks to which it was exposed. On the other hand, if the authority's actual return laid within the bands, *(as is the case for BBC at 31st March 2023),* then we would say that the return was "in line" on a risk adjusted basis, given the risks inherent in the portfolio. i.e. We would say that the portfolio earned a return commensurate with the maturity, credit and yield curve risks to which it was exposed. Once again, the bands are used to help identify whether performance was "above", "below" or "in line", given the uncertainty of precisely forecasting what a portfolio would have been expected to earn, given the risks to which it was exposed.

5.6 BENCHMARK REPORT AS AT 31ST MARCH 2023



	Actual WARoR	Model WARoR	Difference	Lower Bound	Upper Bound	Performance
Brentwood Borough Council	3.80%	3.71%	0.09%	3.50%	3.93%	Inline

Note: Given the inherent limitations within BBC's investment strategy (due to liquidity needs), the Council has performed well with its investment strategy, placing towards the upper returns band (green line). BBC achieved an actual Weighted Average Rate of Return (WARoR) of 3.8% which was above the model WARoR of 3.71%.

5.7 BBC INVESTMENT POSITION 31ST MARCH 2023

Totals	
Total	**£7,000,000**
exc. Calls & MMFs & USDBFs	£7,000,000
exc. Struct. Prods.	£7,000,000
Fixed Deposits	£7,000,000
Calls & O/N	£0
MMFs	£0
USDBFs	£0
Struct. Prods.	£0
Bonds	£0
CDs	£0

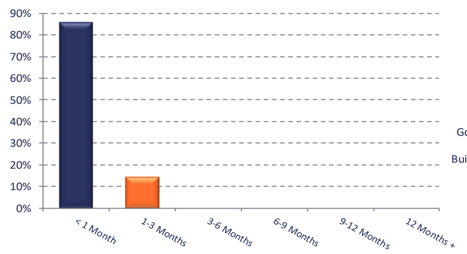
Portfolio Breakdown	
Fixed Deposits	100.0%
Calls & O/N	0.0%
MMFs	0.0%
USDBFs	0.0%
Struct. Prods.	0.0%
Bonds	0.0%
CDs	0.0%

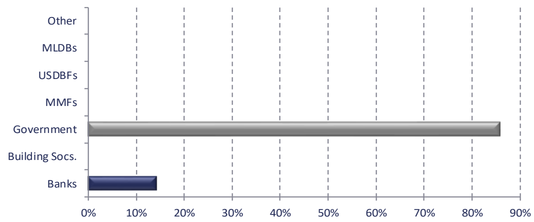
Portfolio Characteristics		Score	%	Days Limit
WARoR	3.80%	1	86%	1825
WAM	7	1.25	0%	1825
WA Tot. Time	33	1.5	0%	1825
Maturity Std. Dev.	15	2	0%	730
WA Risk	1.6	3	0%	365
		4	0%	365
		5	14%	180
		6	0%	100
		7	0%	0

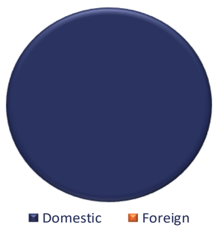
Maturity Structure	
< 1 Month	86%
1-3 Months	14%
3-6 Months	0%
6-9 Months	0%
9-12 Months	0%
12 Months +	0%

Institution Type	
Banks	14%
Building Socs.	0%
Government	86%
MMFs	0%
USDBFs	0%
MLDBs	0%
Other	0%

Country	
Domestic	100%
Foreign	0%
*Excludes MMFs & USDBFs	







Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest LT / Fund Rating
DMO	3,000,000	4.05%	31/03/2023	03/04/2023	AA-
DMO	2,000,000	4.05%	31/03/2023	03/04/2023	AA-
Thurrock Borough Council	1,000,000	2.15%	05/10/2022	05/04/2023	AA-
National Bank of Kuwait (International) PLC	1,000,000	4.22%	28/03/2023	02/05/2023	A
Total Investments	**£7,000,000**	**3.80%**			

As can be seen by the above Investment summary, BBC has maintained a liquid portfolio with all investments sub 3 months. As such the investment portfolio is exposed to any fall in the yield curve. At this time however the yield curve has been steepening and thus the Council has seen investment returns increase as maturities are reinvested at higher rates.

5.7 ESG INVESTMENT POLICY

Page 3 of the Council's Capital and Investment Strategy notes the new requirements under TMP for an ESG Policy however the Council does not have any TMP's and therefore **does not meet this new requirement in relation to having an appropriate ESG investment approach**. Link Treasury Services provide an example template approach to support in this regard.

Link note: this is a suggested draft for clients to amend as appropriate.

ESG is an area that CIPFA is still working on after the 2022 revised codes. In particular, work will be needed to coordinate the priority which needs to be given to issues of security, liquidity and yield (SLY) while also accommodating ESG principles as a fourth priority and principle to apply.

The assessment and implementation of ESG considerations are better developed in equity and bond markets than for short-term cash deposits, primarily due to the wider scope of potential investment opportunities. Furthermore, there is a diversity of market approaches to ESG classification, analysis and integration. This means that a consistent and developed approach to ESG for public service organisations, focussed on more typical Treasury-type investments, is currently difficult to achieve. CIPFA, therefore, recommends authorities to consider their credit and counterparty policies in light of ESG information and develop their own ESG investment policies and treasury management practices consistent with their organisation's own relevant policies, such as environmental and climate change policies.

CIPFA does not expect that the organisation's ESG policy will currently include ESG scoring or other real-time ESG criteria at individual investment level.

When drafting an ESG "policy", Councils will need to understand that anything too "broad" in its approach could have a material impact on potential counterparties, which could then limit diversification and / or security considerations in investment processes. Furthermore, Councils will also need to be clear that when choosing between two counterparties that pass all relevant "security" tests, that the additional implementation of an ESG policy may mean that a lower investment rate is achieved by choosing the counterparty that passes the council's ESG requirements.

Typical ESG considerations are shown below. Please note that these are examples of ESG factors that are considered by Credit Rating Agencies, such as Fitch, Moody's and Standard & Poor's when assigning credit ratings to counterparties. The credit ratings provided by these agencies are also used as the basis for selecting suitable counterparties by Councils.

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

Suggestions for possible wording…….

This Council is supportive of the Principles for Responsible Investment (www.unpri.org) and will seek to bring ESG (environmental, social and governance) factors into the decision-making process for investments. Within this, the Council is also appreciative of the Statement on ESG in Credit Risk and

Ratings which commits signatories to incorporating ESG into credit ratings and analysis in a systemic and transparent way. The Council uses ratings from Fitch, Moody's and Standard & Poor's to support its assessment of suitable counterparties. Each of these rating agencies is a signatory to the ESG in credit risk and ratings statement, which is as follows:

> *"We, the undersigned, recognise that environmental, social and governance (ESG) factors can affect borrowers' cash flows and the likelihood that they will default on their debt obligations. ESG factors are therefore important elements in assessing the creditworthiness of borrowers. For corporates, concerns such as stranded assets linked to climate change, labour relations challenges or lack of transparency around accounting practices can cause unexpected losses, expenditure, inefficiencies, litigation, regulatory pressure and reputational impacts.*
>
> *At a sovereign level, risks related to, inter alia, natural resource management, public health standards and corruption can all affect tax revenues, trade balance and foreign investment. The same is true for local governments and special purpose vehicles issuing project bonds. Such events can result in bond price volatility and increase the risk of defaults.*
>
> *In order to more fully address major market and idiosyncratic risk in debt capital markets, underwriters, credit rating agencies and investors should consider the potential financial materiality of ESG factors in a strategic and systematic way. Transparency on which ESG factors are considered, how these are integrated, and the extent to which they are deemed material in credit assessments will enable better alignment of key stakeholders.*
>
> *In doing this the stakeholders should recognise that credit ratings reflect exclusively an assessment of an issuer's creditworthiness. Credit rating agencies must be allowed to maintain full independence in determining which criteria may be material to their ratings. While issuer ESG analysis may be considered an important part of a credit rating, the two assessments should not be confused or seen as interchangeable.*
>
> *With this in mind, we share a common vision* ***to enhance systematic and transparent consideration of ESG factors in the assessment of creditworthiness****."*

For short term investments with counterparties, this Council utilises the ratings provided by Fitch, Moody's and Standard & Poor's to assess creditworthiness, which do include analysis of ESG factors when assigning ratings. The Council will continue to evaluate additional ESG-related metrics and assessment processes that it could incorporate into its investment process and will update accordingly.

For those Councils who use external fund managers to manage part of their investment portfolio, you should ask these managers to provide details of how ESG factors are incorporated into their investment process and provide the relevant details here.

For councils investing in shares or corporate bonds, the following is an example of what could be included.…

This Council will not invest in companies whose core activities pose a risk of serious harm to individuals or groups, or whose activities are inconsistent with the Council's mission and values e.g.:

a. Human rights abuse (e.g., slave or child labour, political oppression)

b. Activities that damage the environment by extraction of fossil fuels, destruction of habitat, or creation of pollutants

c. Socially harmful activities (e.g., tobacco, gambling)

d. Manufacture of weapons

Action: As part of the TMP review, TMP 1 will be updated to include BBC ESG investment approach utilising LTS ESG Template wording as a starting point for this work.

5.8 CONCLUSIONS TO SECTION 5 ON INVESTING

- It is clear that the main focus and risk area for BBC treasury Management strategy lies with borrowing rather than its investment strategy *[by investment strategy in this instance we are referring to 'regular' Treasury investments and not service/commercial investments].*
- A key finding here has been the requirement for BBC to update its approved investment instruments table under para 162 of its Capital & Investment Strategy. This needs to reflect the intention of the Council to have its maturity limits for deposits in line with Links suggested approach.
- As noted, BBC will also need to include an ESG approach within its Capital & Investment Strategy, this will be picked up as part of the TMP work to be undertaken by the Council.
- It is for each authority to determine its own risk appetite. BBC has increased its risk appetite slightly through the inclusion of non-UK Banks *[which have been approved by its Treasury Advisors and are accessible through Agency Treasury Services]* from 2022-23 as well as approving investments with other Local Authorities for up to three years *[previously one year prior to 2023-24].* The rationale for BBC increasing its maturity term for investments

with other LA's, is to utilise long term monies set aside in reserve, however from a practical sense this will have little impact on the Councils current investment activity as it requires liquidity to support its internal borrowing/ cashflow position. The Council in all likeliness will not utilise this investment option in the near future. The addition of Non-UK banks (from ATS platform) has however proved useful to the Council in expanding its counterparty options and increasing opportunities for greater yield without taking undue risk.

- The investment benchmarking information detailed in this report evidences that BBC has performed well compared to its peer group based on the weighted average rate of return being achieved. This is a welcome finding, particularly given the limitations on the current investment parameters due to the liquidity needs of BBC in support of its internal borrowing needs.
- BBC has the option to join one of LTS Investment Benchmark Groups if it wishes to have access to ongoing Investment benchmark meetings with peer Authorities.

6. Non-treasury management investments

The 2023/24 strategy report includes the following paragraph under Commercial Investments:

These are investments held primarily for financial return with no treasury management or direct service provision purpose. The investments held by the Council that come within this category are:

- *the loans totalling £60m made by the Council to its subsidiary company, SAIL, to fund the purchase of commercial properties*
- *the residential flats and the commercial office space in the Town Hall*
- *the neighbourhood shops that were formerly part of the HRA (these can be considered as legacy assets)*

Table 7 below shows the Movement in Fair Value of Investment Property 2021/22. Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's length. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Table 7: Movement in Fair Value of Investment Properties:

Investment Properties	£000's
Balance at 1st April 2021	16,714
Enhancements	70
Transfer to Surplus Assets	(256)
Net gains/(losses) from fair value adjustments	1,269
Balance at 31st March 2022	**17,797**

Table 8: Ratio of Gross Income to Net revenue Stream (Per 2023/24 TMSS):

Investments	2022/23	2023/24	2024/25
Service Delivery (%)	45	52	50
Commercial Investments (%)	35	36	36
Total (%)	***80***	***88***	***86***

Note: The above table shows significant reliance on non-treasury investment income in support of delivery of Council services.

Note: BBC has confirmed there are no further plans to invest directly in purchases of assets with the sole focus of generating yield. BBC should ensure that there is a process of ongoing monitoring, reporting and performance review of existing Commercial assets with appropriate risk management measures in place. It is noted that BBC does include the following risk on its Corporate Risk Register:

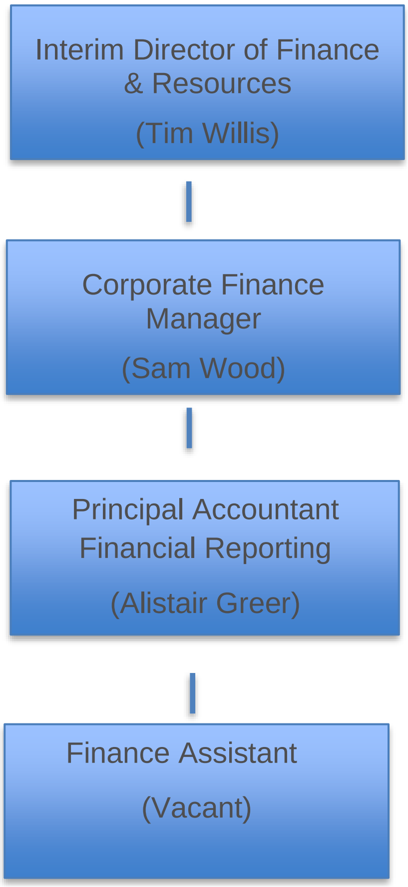
"If the commercial income target from the Joint Venture and other activities are not achieved." This risk is scored 16 out of 25 and is ranked a very high risk by the Council. The mitigating measures detailed are:

- *Consultants have been engaged to advise and assist in delivery of projects*
- *Appropriate governance arrangements have been set up for the Council's Wholly owned company - Seven Arches Investment Ltd*
- *Progress reports to Committee. Robust business modelling and financial projections.*
- *Monthly SLT & Leader meetings to monitor finances*
- *Financial Initiatives working group established*

Whilst it is good to see BBC has high visibility of this area, it may be advisable to undertake sensitivity analysis and impact assessment around reductions in service income as well as establishing exit strategies. Councils engaging in non-treasury investment activity *(more specifically in relation to investing in assets primarily for financial return)*, has seen some high-profile negative coverage. Failure to ensure appropriate financial controls within this area therefore not only brings financial risk but reputational risk which can be damaging to the Council and lead to a lack of trust/confidence in Leadership amongst for example taxpayers, other market participants and other Councils.

A separate review of BBC Commercial Assets and Capital Strategy is being undertaken and is outside the scope of this TMSS Health Check.

7. Staffing resource for the treasury management team



The Corporate Finance team of BBC underwent a restructure in 2022. This coincided with the S151 Officer leaving the Council. The Corporate Finance Manager (who was also involved with Treasury Management) transferred to another department. A new Corporate Finance Manager (Sam Wood) was appointed during this period and since this time has had responsibility for Treasury Management as part of their remit. Principal Accountant Alistair Greer has remained the constant within treasury and has significant expertise and experience in this area.

A new post has been created – (Capital & Treasury) however, the Council confirmed that recruitment there are no plans to recruit to this post at this time.

The Corporate Finance team is currently undergoing a service review as part of the wider ‘One Team’ programme involving Brentwood Council and Rochford Council. The outcome of this review has not yet been determined.

This Treasury Strategy Health Check report has been requested by Tim Willis, the Interim Director of Finance.

Tim started the end of November 2022. As noted, the previous S151 left in December 2022. Furthermore, Phoebe Barnes (Corporate Finance Manager) was promoted to Director of Assets and Investments role on November 1st 2022 and is no longer directly involved in Treasury Management Strategy going forward. Sam Wood joined the treasury team to replace Phoebe.

7.1 RESPONSIBLITIES OF TREASURY MANAGEMENT STAFF

Corporate Finance Manager – Sam Wood

Responsibility for:

- Co-ordinating annual budget setting process
- Development of MTFS
- Co-ordinating Budget Monitoring process
- Overseeing Treasury Management Operations

Principal Accountant (Financial Reporting) – Alistair Greer

Responsibility for:

- Production of Annual Statement of Accounts
- Support with delivery of Capital Strategy / MTFS
- Co-ordination / liaison with External Audits in delivery of Annual Audit
- Maintaining the Councils Fixed Asset Register
- Daily Treasury Management activity
- Collection Fund

7.2 POSTS INVOLVED IN TREASURY MANAGEMENT DUTIES

(i) Dealing in the Market

- Placing the deals - Principal Accountant: Alistair Greer (daily requirement)
- Approval of deal – Corporate finance Manage: Sam Wood

Whenever possible the recording/checking of the details of deals is kept separate from the negotiating and closing of them however it was noted that the Principal Accountant has the autonomy to place deals with DMADF without additional authorisation

(ii) Authorisation process for bank payments

- Creating payment via online banking - Finance Assistant: Vacant

- Authorising release of payment - Principal Accountant: Alistair Greer (daily requirement)

(iii) Cash forecast (Cash book)

- Finance Assistant: Vacant (Temporary staffing measures in place)

Note: For the authorisation and release of payments, BBC does not currently have appropriate segregation of duties or seniority from sign-off on deals or release of payments. Processes have seemingly failed to keep pace with the expansion / growth and increased complexities of the treasury function. As a result, BBC is failing to meet the requirements of the Treasury Management Code of Practice.

The Treasury Team at BBC has seen a significant change in staff resource over the past 12 months which has exacerbated some of the resource issues which already existed within the tm function. This has adversely impacted the ability of the team to maintain/develop appropriate treasury management practices/ policies and processes. Ad hoc arrangements for daily treasury management have been in place even prior to the restructure. This will inevitably have had an adverse effect on the amount and quality of time dedicated to treasury management. BBC has been highly dependent on the TM expertise and experience of one person, the Principal Treasury Accountant (Alistair Greer), to manage TM operations in addition to the other duties as part of his main post.

Note: It is important for BCC to maintain a level of continuity within the Treasury Management function.

8. Treasury Management Practices (TMPs)

The below is an extract from BBC's 2023/24 Capital and Investment Strategy para 109:

This Council has adopted the CIPFA Code of Practice on Treasury Management in the Public Services and, as required by the Code, has an approved Treasury Management Policy Statement ***and associated Treasury Management Practice Statements (TMPs).***

It has been confirmed as part of this review that the TMPs, for BBC have not been updated for some years, possibly several years.

Link Treasury Services supplies templates for each of the 12 TMP's to all clients. In the context of the repeated questions around the level of compliance with statutory guidance in this report, this is a serious omission.

Please see Appendix 5.0 for the templates that Link supplies to all clients for each of the TMP's

It is suggested that an annual review date is set for management to check that the TMPs have been fully updated for any changes during the year. It should be noted that the whole point of the TMPs is to ensure that all staff have the same understanding of how to operate the treasury management function by ensuring that a full description has been documented of all policies and procedures required to operate TM. This documentation should include a full set of all forms etc. in daily or other periodic use.

It is also important that the TMPs are taken seriously, and kept up to date, in order to build resilience into the TM function at BBC; if the authority were to lose key TM staff unexpectedly, the TMPs should be of sufficient quality that an outsider could pick up the TMPs and be able to operate TM at BBC i.e. this should not just be a tick box exercise to put a poor quality document into a file, never to see the light of day again. A detailed Operations Manual should be maintained.

It is suggested that a three-monthly check is made to ensure that names of staff, including backup staff, are up to date. As there is a major question in terms of how up to date the current TMPs are, it should be a priority to carry out a full review and update.

Note: As previously detailed in this report, BBC does not currently have any Treasury Management Practices in place. To comply with the CIPFA Code of Practice, BBC must produce a full set of TMP's for approval by Council.

Action: BBC to produce a full suite of TMPS using Link Treasury Services Template information as a base to produce practices specific to BBC needs.

Action: BBC should maintain a three-monthly check to ensure that names of staff, including backup staff, are up to date detailed and detailed within an Operations Manual. An annual review date should be agreed for management to check that the TMPs have been fully updated for any changes during the year.

9. Overall Conclusions

The findings and proposed actions from this Treasury Management Strategy Health Check will build on the additional findings from the separately commissioned pieces of work in relation the BBC Capital Strategy, Commercial Assets and MRP Strategy. A key output of this report will be to provide an action plan to enable BBC to strengthen its tm framework, providing Officers and Members with greater confidence and oversight of ongoing treasury activities.

Whilst credit needs to be given to the treasury management team, in particular Alistair Greer for the work undertaken to deliver BBC's treasury management function, (most notably the execution of the long term borrowing rates secured); the investigations undertaken in writing this report has revealed numerous instances of lack of compliance/best practice, or questions around the level of compliance, with statutory guidance, the CIPFA treasury management code of practice and the CIPFA prudential code. The report has highlighted several instances here, particularly in relation to the absence of Treasury Management Practices. By developing a suite of TMP's specific to BBC needs, this will by default rectify many of the compliance issues raised here, whilst also installing best practice, e.g. segregation of duties, Operations Manual, Member approval processes, monitoring, training requirements and so on.

The overall conclusion from the examination of how treasury management has been carried out at Brentwood Borough Council, is that it has suffered from a lack of adequate resourcing in recent years. A more junior finance assistant has been in post to support with the more administrative function of the daily treasury management responsibilities, however at the time of writing, this post is vacant.

Furthermore, an experienced Senior Manager, previously involved in treasury, moved posts last year and will not be involved in treasury management going forward. Although this post has been filled, the replacement will naturally need time to develop experience within this often-complex area.

Several key recommendations have been identified as part of this review for BBC to follow-up on. Link Treasury Services will work with the Council in support of implementing these recommendations.

9.1 OTHER MAIN RECOMMENDATIONS REQUIRING FURTHER ATTENTION

1. There is a need for improvement in the level of **compliance** with statutory guidance, the CIPFA TM and Prudential Codes, Member approved TM limits and policies. These are all requirements which are applicable to a local authority.

2. A **new Capital and Investment Strategy Should be submitted for approval**. The amended Capital & Investment Strategy should also reflect the intended **counterparty approach** of the Council in line with Link Treasury Service suggested methodology. The report should also **include updated (accurate) CFR actuals** for 2021/22 with **existing projections reviewed for accuracy.**

3. Further detail on the Councils policy of **borrowing in advance of need should be included** within its revised Capital and Investment Strategy.

4. A **full set of Treasury Management Practices** should be developed (This will also include the required detail within **TMP1 in relation to the Councils ESG policy on investments**. Link Treasury Service Templates should be used as a staring point for this exercise.

5. A set of **investment management Practice (IMP)** should set out a range of criteria such as the investment objectives, risk management arrangements and reporting arrangements. For each, the various purposes and management arrangements should be described. The level of risk and the arrangements for managing it should be clearly set out. This detail will support Members ability for effective Scrutiny as well as ensure appropriate compliance with the revised TM Code of Practice.

6. Annual **review date set for TMP's and Operations Manual** with a three monthly check on the **Operations Manual maintained** to ensure Treasury Operational details are up to date (i.e. designated staff responsibilities)

7. A wider **Internal Audit of Treasury Management** would be advisable following implementation of the recommendations of this report.

8. In view of the number of instances of non-compliance in BBC's treasury management, it is suggested that there should be a **review of the level of training and expertise of Members** to help them to be able to carry out more effective scrutiny of all treasury management

policies. As part of this process, a **knowledge and skills schedule should be produced** as required under the revised CIPFA TM Code of Practice 2021 (TMP10).

9. **Additional Overview & Scrutiny of TM Reporting** should take place prior to approval of reports by Full Council.

10. Major work needs to be done to improve the Capital Strategy with **a time horizon beyond 3 years**, in accordance with CIPFA Capital Strategy Guidance. A separate piece of work commissioned by BBC will provide detailed recommendations in relation to this area.

11. **Elective Professional Client Assessment** to be undertaken in line with FCA requirements (as notified through client questionnaire). Link Treasury Services will action this with the client.

12. An appropriate level of **segregation of treasury duties** and hierarchical levels of sign-off should be introduced as practicable.

13. It may be appropriate for BBC to **add debt exposure to the Council's risk register** with an assessment of impact in relation to forecast rising debt levels, **exposure to rising interest rates, affordability and mitigating actions including deferring/re-appraising planned capital programmes.**

10. Summary tables of levels of compliance

Treasury management area	Fully compliant	Part compliant	Non-compliant	Notes
1. CAPITAL, INVESTMENT AND TM STRATEGY REPORT 2023/24 – overall compliance			✗	No TMPs
1a. Capital strategy				
Does the report contain tables of estimates for three financial years on capital expenditure, financing of capital expenditure, movements in the CFR and debt portfolio and commentary on the proposed capital strategy.	√			
IMPS and supporting commentary		✗		
1b. Borrowing strategy				
Does the report set limits for three financial years for the operational boundary, authorised limit, maturity structure of fixed rate borrowing, forecasts for PWLB rates and economic commentary.	√			
1c. Investing strategy				
Does the report contain tables of estimates for three financial years on an analysis of year end cash resources and expected total investments, forecasts for Bank Rate and economic commentary?		√		Forecast of BBC own resources to be included
1d. Creditworthiness policy				
Does the report contain a table to how various credit ratings will be used to determine credit limits for counterparties and different types of investment instruments and time and cash		√		Forecast of BBC own resources to be included

limits, investment tables of estimates for three financial years of an analysis of year end cash resources and expected total investments, forecasts for Bank Rate and economic commentary?				
Does the report provide a full explanation of the different types of investment instruments approved for use and the risks around each type so that the average member would be able to fully understand the risk exposure for all types?		√		Further detail around risk / exposure for non-specified investments
Is the table on how various credit ratings will be used to determine credit limits for counterparties and different types of investment instruments and time and cash limits, clear, unambiguous, and unlikely to have the potential for different interpretations?			✕	An amendment to the Policy is required here. As noted, as part of the report, the review discovered that it is BBC intention to follow Links recommended methodology for deposit durations however the table within the TMSS states that investments with such institutions can be placed for up to 1 year regardless of what Links recommended maximum duration is
1e.Non-Treasury Investments				
Has the rationale for change in non-specified investments (e.g. longer term deposits with other Local Authorities) been clearly reported, with rationale for change for approval by Members?		√		Was included within the TMSS as an amendment, noting higher returns...no comment on increased risk (mainly impact on liquidity)
Has the report correctly defined specified and non-specified investments in accordance with statutory investment guidance?	√			
Does the report set a limit for the total that can be invested by TM officers in each type of non-specified investment and a total			✕	BBC notes that investments in LA's for up to 3 years are applicable but there should

limit for investments in all non-specified investments?				perhaps be a more explicit reference to the fact that no other Non-specified investments are approved.
Are current levels of non-commercial income deemed proportionate?			✗	Significantly high ratio of commercial income vs non-commercial income
1f. Other areas				
Does the report cover commercial property investing, shares, loans and financial guarantees?		√		Further detail required
Did BBC propose a policy to comply with DLUHC guidance that investment in commercial property solely to achieve yield is not an appropriate policy for local authorities?	√			Strategy was *(prior to changes in PWLB borrowing requirements Nov 20)* overtly seeking Commercial Investments primarily for yield. A shift away from this approach has been required however the SAIL project is a key part of the Councils Investment strategy.
Does BBC have an up-to-date operations manual?			✗	Not in place
Has BBC updated its Investment strategy to include its policy on ESG investing (inline with TMP1)			✗	
2. ANNUAL REVIEW REPORT 2022/23				
Has a template provided by Link been utilised		√		
Provision of annual review report – overall compliance	√			
Does the report contain tables of comparisons of actuals to estimates on capital expenditure, financing of capital expenditure, movements in the CFR and debt and investment portfolios and commentary on these areas.	√			Further commentary would be appropriate and no benchmarking within the report

Does the report contain tables showing the maturity structure of borrowing, average rates of interest paid on borrowing and earned on investments, plus benchmark investment rates?			✗	Not included as we intentionally aim for brevity
Does the report contain commentary on how Bank Rate has changed during the year or not changed, plus economic commentary?			✗	BBC noted that it is not included as they intentionally aim for brevity
Provision of assurance to members of compliance with the CIPFA Prudential Code and statutory investment guidance	√			BBC includes a statement of compliance however as noted in the report, work needs to be done to ensure compliance
Provision of assurance to members that TM has been carried out during the past year has complied with the authority's TM policies and TMPs	n/a	n/a	n/a	No investments over one year
Does the report contain a table showing the breakdown of the investment portfolio by different types of investment instrument so that members can review risk exposures?				Not included as the only investment instrument is fixed term deposits
Provision of a table on the amount of investments invested for over 1 year				N/A
Provision of a report on under borrowing at the year end, comparison to the original strategy and explanation of any deviation from that strategy.		√		Just a table: no narrative
Provision of report on how borrowing and investment interest rates have moved in the year and how that has impacted TM.			✗	Not currently included
Reporting of all breaches of credit limits during the year.	√			None to report

Has an internal Audit of TM been undertaken in the last 3 years?	√			June 2022
Internal audit reports: Have any red flags been highlighted, if so, has remedial action been subsequently taken to remedy this area?				Some process recommendations, but no red flags. Made recommendations for approval of borrowing. Note that the Audit report has not been shared with LTS as part of this review.
3. MID-YEAR REPORT 2022/2023				
Has the Template provided by Link been utilised?		√		
Provision of mid-year report – overall compliance	√			
Does the report contain tables of movements in total debt and investments in the first half year and the maturity structure of debt?	√			
Does the report contain commentary on how Bank Rate has changed during the half year or not changed, plus economic commentary? Also updated forecasts for Bank Rate and PWLB rates?	√			
Timing of report in the year - provision of report in autumn	√			2022/23 mid year report done Nov 2022
Provision of updates of prudential indicators or confirmation of no change	√			
Does BBC monitor its Prudential indicators Quarterly in line with the update Prudential Code Requirements 2021	√			The Council confirmed that it actually maintains a monthly monitoring sheet to ensure no breaches take place. This is good practice – particularly given the steep CFR increases which have occurred.

Provision of breakdown of the investment portfolio over different types of investment instruments?		√		Only had fixed term deposits so analysis over various investment instruments was not applicable.
Provision of report on how interest rates have moved in the year to date and how that has impacted TM?		√		Just included as narrative (no tables)
Increase in limit for investment over 365 days: was rationale clearly reported and approved.	√			
Provision of amount of investments invested for over 1 year (there is a table for investments invested beyond the end of the year).	√			N/a as no investments > 365 days
Provision of assurance that no approved limits were breached in the first half year or reporting of all breaches of those limits.	√			
4. MEMBERS				
What level of scrutiny (if any) is undertaken on TM Reports prior to submission to full Council?				None - as detailed in the report, this may be an action BBC wishes to follow up on
Have TM scrutiny members received training in TM?	✘			No – As detailed in this report, training is to be scheduled
Has a Knowledge and Skills schedule been provided to members in line with TMP10	✘			No – As detailed in this report, a schedule will be completed
Have records been kept of what training has been given and to who?	✘			No – This will be actioned as part of the TMP work.
Is it likely that members are fully aware that over the last four years there has been both a large increase in, and a major shift upwards in CFR levels and subsequent borrowing?	√			
Over the last four years, has the member approval process succeeded in giving sufficient priority to security and liquidity, over achieving yield, in line with		√		In terms of Treasury Investments it is fair to say this has succeeded however questions remain in relation to non-treasury activity

statutory guidance, in view of all of the above findings?				(Commercial / Service investments).
In view of non-compliance (particularly in relation to updated TMPS and IMPS) in this strategy committee report, was the member approval of this report valid? It is suggested that BBC should consider resubmitting a new report dealing with all areas of non-compliance to members for fresh approval for 23/24.			✗	This will be actioned as an output of this report.
5. TM OFFICERS				
Do internal TM staff have sufficient experience and technical understanding to be able to adequately challenge advice provided by brokers and external treasury advisers?	√			
Has there been stability within the TM Team/wider Finance Function?			✗	
Do the TMPs provide a fully comprehensive documentation of all TM processes and other areas?			✗	
Do the TMPs name the individual officers who carry out which roles in TM?			✗	
Are the TMPs up to date?			✗	
Would the TM operational manager inform the S151 officer if a breach was identified?	√			
Is there appropriate separation of duties between 1. officers who place investments and input investment deals into the financial records, and 2. officers who approve each deal and the sending of the investment transaction?			✗	
Is a monthly reconciliation of TM investment deals done by an		√		Monthly rec prepared by TM officer but reviewed by independent officer

officer independent of the TM team?				
Is there adequate backup cover to undertake investment deals when the regular TM officers are absent from work?			✗	Back up in place, but not adequate cover - would benefit from being strengthened
Do the TM team have a cash flow forecasting facility to identify the periods for which individual investments deals can be placed?	√			
Does this cash flow forecasting facility provide a rolling one year ahead view?		√		Forecast is set up to the end of the current financial year and then reviewed/extended towards the end of the financial year (therefore not done on a rolling basis)
Do the TM team provide a basic monthly summary monitoring report to officers and scrutiny members of borrowing and investments?			✗	Would be best practice but is not a specific issue of compliance. Council produces Quarterly Monitoring reports.
6. INVESTING OPERATIONS				
Are the Council's systems updated each day for changes in credit ratings before placing investments? (Use Link's Passport system)	√			
Is the credit worthiness of each bank and building society checked before placing each investment deal?	√			
Do officers have delegated authority to suspend/remove an institution from the counterparty list if they suspect that institution to no longer be a safe investment option?	√			
Do the TMPs fully document all criteria used in determining selection of counterparties to place investments with?			✗	
Do the TM team make use of external treasury advisers to provide expert advice on optimising investing and borrowing operations?	√			

Does the Council undertake benchmarking of the performance of the investment portfolio against investment benchmark rates and the performance of other local authorities so as to make an assessment of its relative performance on yield?			✗	Investment Benchmarking is available to the Council as detailed within this report.
Is there a disaster recovery plan in place in case the Council's premises are out of action?		√		No contingency manual in place – the Council does have a wider corporate disaster recovery plan which would cover elements of TM process.
Has this plan been reviewed and updated to reflect any recent changes?	✗			
Is this disaster recovery plan regularly tested on a periodic basis?	✗			
7. BORROWING				
Do you have a full schedule of when all TM borrowings mature so as to manage refinancing risk?	√			
Has the large expansion of debt increased the level of risk that BBC is exposed to?				Yes – as noted in the report, financing costs have increased significantly in the past 2 years.
Do you use balance sheet reviews, revenue budget plans for use of reserves and provisions, and cash flow forecasts to optimise timing and amounts of new external borrowing?	√			Council is very pro-active with BSR forecasting.
Has your total external borrowing been below your CFR (capital financing requirement) over the last 4 years?				It has however the annual CFR position has increased significantly in the past 3 financial years.
Does the Council undertake benchmarking of the performance of the external borrowing portfolio against the performance of other local authorities so as to make an			✗	This exercise has been undertaken as part of this report

assessment of its relative performance?				
Does the Council regularly monitor total external borrowing against its authorised limit and operational boundary to check that it does not exceed them?	√			
Leasing: Does the authority allow individual services to arrange their own leasing contracts? Central oversight of all leasing will be required for implementation of IFRS16 in 23/24.			. ✗	Would be best practice to have central over sight in order to achieve optimal value for money - but is not a specific issue of compliance
8. FCA REGULATION				
Has the Council complied with the FCA requirements of MIFID2 in order to conduct investing on the basis of being a professional investor?				As detailed at Appendix X the Council needs to complete the elective professional client assessment

The above check list has been produced from an examination of BBC Capital & Investment Strategy and other documents as well as the answers to a questionnaire completed by Alistair Greer.

TREASURY SERVICES

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